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)

VICENTE B. VILLARAMA, JR.	988-7400
Contact Person	Company Telephone Number

1 2	3 1	1 7 Q	0 7	0 7 14
Month	*Day*	FORM TYPE	*Month*	*Day*
Fiscal Year		**2nd Quarter Ending 30 June 2014**	Annual Meeting	

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

COVER SHEET

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
("PhilNaRe")
(Company's Full Name)

31st Floor, Ayala Life-FGU Centre, 6811 Ayala Avenue, Makati City, Philippines
(Company's Address)

(632) 988-7400
(Telephone Number)

December 31
(Fiscal Year Ending)

July 07 ,2014
(Annual Meeting)

SEC FORM 17-Q
Quarterly Report
2nd Quarter Ending 30 June 2014
(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 **30 June 2014**

2. Commission identification Number **80118**

3. BIR Tax Identification Number **000-480-869**

4. **NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES doing business under the name and style of Philippine National Reinsurance Company; PhilNaRe**
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. **31st FLOOR, AYALA LIFE-FGU CENTRE, 6811 AYALA AVENUE MAKATI CITY, PHILIPPINES** — **1227**
Address of registrant's principal office — Postal Code

8. **(632) 988-7400**
Registrant's telephone number, including area code

9. **18th Floor, Philippine AXA Life Center, Sen. Gil Puyat Avenue, corner Tindalo Street, Makati City**
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:

Title of Each Class	Number of Shares of Common Stock Outstanding
Common	**2,123,605,600**

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 42 of this report are filed as part of this Form 17-Q:

a. Statements of Financial Position as of 30 June 2014 and 31 December 2013

b. Statements of Income:
For the Quarters ended 30 June 2014 and 2013
For the Six months ended 30 June 2014 and 2013

c. Statements of Comprehensive Income for the six months ended 30 June 2014 and 2013

d. Statements of Changes in Equity as of 30 June 2014 and 2013

e. Statements of Cash Flows:
For the Quarters ended 30 June 2014 and 2013
For the six months ended 30 June 2014 and 2013

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, 2nd Quarter ending June 30, 2014

Results of Operations

For the six months ended June 30, 2014 and 2013

Reinsurance Premium Income

Reinsurance premiums for the 1st half of 2014 totaled P1.2 billion, 9.4% or P129.6 million lower than P1.4 billion in 2013. The decline was due to the decrease in non-life reinsurance premiums amounting to P33.8 million (non-life treaty business) and P138.8 million (non-life facultative business) respectively. These declines were not sufficiently offset by an increase in reinsurance premiums from the life business which increased by 20.1% or P43.0 million from P214.1 million in 2013 to P257.1 million in 2014.

Reinsurance premiums retained for the 1st half of 2014 amounted to P371.7 million, a decline of P51.7 million or 12.2% from P423.5 million in 1st half of 2013. The decline was due to the higher premiums paid by the Company for its catastrophe and risk excess of loss protection from P198.8 million in 2013 to P295.7 million in 2014. Consequently, retention ratio went down by 30% in 2014 vs. 31% in 2013.

The increase in the premium cost of the excess of loss protection mainly contributed to the decline in premiums earned from P419.0 million in 2013 to P352.6 million in 2014.

Underwriting Deductions

Share in claims and losses increased by P11.2 million or 3.6%, amounting to P321.4 million in 2014 compared to P310.2 million in 2013. The increase is mainly due to development of prior year's losses.

The increase in net commission of P5.8 million or 4.4% is consistent with the higher net retained premiums for non-life treaty business before deducting the excess of loss premiums.

Investment and Other Income (Charges)

Investment and other income dropped by P244.3 million or 53.5% from P456.8 million in 2013 to P212.5 million in 2014 mainly, due to lower interest rate and the narrow range pattern prevailing in the trading environment. However, the decline in interest income was partially offset by the increase in dividend income of P4 million. (P25 million in 2014 vs. P21 million in 2013).

General and Administrative Expenses

General and administrative expenses (GAE) decreased by P25.9 million or 21% to P97.8 million in 2014 from P123.7 million in 2013, essentially due to lower manpower cost, employee benefit cost (P11.8 million) and impairment loss provision of P11.4 million in 2013.

Tax expense

The Company's tax expense declined by P5.3 million or 17.6% to P24.7 million for the 1st half of 2014 compared to P29.9 million in 2013 due to the lower level of final taxes resulting from lower investment income for the period.

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Net Profit (Loss)

Due to lower premiums written, higher underwriting deductions and lower investment and other income, the Company ended up with a net loss of P16.9 million for the 1st half of 2014 compared to a net profit of P279.6 million in 2013.

For the Quarters ended June 30, 2014 and 2013

Reinsurance Premium Income

Reinsurance premiums generated in 2014 amounted to P705.8 million, 13.9% lower than the P819.5 million reinsurance premium booked in 2013. The decline mainly came from both non-life treaty (P273.8 million vs.P295.6 million) and non-life facultative (P307.2 million vs. P410.5 million) businesses. During the same period, premiums from the Company's life business increased by 10% from P113.4 million in 2nd Qtr. 2013 to P124.7 million in 2014.

Reinsurance premiums retained as well as premium earned went down by 36.2% and 34.9% respectively due to higher cost of excess of loss protection premium recorded during the 2nd Qtr. 2014 amounting to P199.3 million as against P91.0 million in 2nd Qtr. 2013.

Underwriting deductions

Despite the decline in share in claims and losses (36.4%) and commissions, net (5.4%) the Company still reported an underwriting loss for the 2nd Qtr 2014 of P69.4 million as against P77.9 underwriting loss for the 2nd Qtr. 2013.

Investment and Other Income (Charges)

Investment and other income decreased by 39.9% or P79.2 million from P198.6 million in 2nd Qtr. 2013 to P119.4 million in 2nd Qtr. 2014 principally due to lower interest rate and narrow range pattern prevailing in the trading environment. Increase in dividend income of P3.7 million and foreign exchange translation gain of P20.9 million partially offset the decline in trading gain of P92.1 million

General and Administrative Expenses

General and administrative expenses (GAE) decreased by P3.8 million or 7.5% to P46.6 million for the 2nd Qtr. 2014 from P50.4 million in 2013, principally due to lower manpower cost (P2.2 million), professional fees (P2.6 million), advertising (P.7 million) and utilities (P.2 million). The total decrease of P5.7 million more than offset the increase in repairs and maintenance cost of P1.9 million for the period.

Tax expense

The Company's tax expense declined by P2.2 million or 15.3% from P14.2 million in 2nd Qtr. 2013 to P12.0 million in 2nd Qtr. 2014, generally due to the lower level of tax-paid interest income.

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Net Profit (Loss)

Due to reasons stated above such as the Net Underwriting loss and the lower level of Investment Income realized, the Company ended up with a net loss of P8.6 million for the 2nd Qtr. 2014 compared to a net profit of P56.2 million in 2013.

Financial Condition

Total resources of the Company as of June 30, 2014 amounted to P13.7 billion, 6.2% or P898.5 million lower than the December 2013 ending level of P14.6 billion. Material changes in the Company's resources are described below.

- ***Cash and cash equivalents (P634.8M vs.P605.0M)***

  Cash and cash equivalents as of June 30, 2014 increased by P29.8 million or 4.9% resulting from the proceeds of matured available for sale financial assets shifted to time deposit placement.

- ***Reinsurance Balances Receivable-net (P5.7B vs. P6.5B)***

  Reinsurance balances receivable decreased by 12.6% to P5.7 billion as of June 30, 2014 from P6.5 billion as of December 31, 2013, principally due to settlement of claims (under reinsurance balances payable) with offsetting arrangement under this account (Reinsurance Recoverable on Paid Losses) amounting to P1.2 billion and also, the volume of premiums accepted during this period is lower.

- ***Available for Sale Financial Assets (P6.2B vs. P6.4B)***

  Available for sale (AFS) financial assets slightly decreased by P165.1 million or 2.6% to P6,226.6 million as of June 30, 2014 from P6,391.7 million as of December 31, 2013, principally due to matured AFS temporarily shifted to time deposit placement.

- ***<u>Loans and Receivables (P325.7M vs. P320.0M)</u>***

  Loans and receivables held as investments slightly increased by 1.8% or P5.7 million from P320.0 million as of 31 December 2013 to P325.7 million as of 2nd Qtr. 2014, mainly due to timing difference from the disposal of equity investment. The subject proceeds should have been debited to cash.

- ***<u>Property and Equipment, net (P100.0M vs. P102.8M)</u>***

  Property and equipment, net of accumulated depreciation amounted to P100.0 million as of June 30, 2014, a decrease of P2.8 million or 2.8% from December 31, 2013 mainly due to recorded depreciation of P6.0 million, compared to acquisitions made of about P3.2 million.

- ***<u>Deferred Acquisition Cost (P92.4M vs. P85.2M)</u>***

  The increase of P7.2 million or 8.4% in deferred acquisition cost relate to portions of reinsurance commissions that were deferred as of June 30, 2014 under the 24th method. Policy costs are deferred and charged to expense in proportion to reinsurance premium revenue.

- ***<u>Deferred Reinsurance Premiums (P256.3M vs.P218.9M)</u>***

  Deferred reinsurance premiums increased by P37.4 million or 17.1% as of June 30, 2014 due to recognition of a portion of reinsurance premiums ceded deferred as of June 30, 2014 under the 24th method of reinsurance accounting. Reinsurance premiums are deferred and charged to income over the life of the policies under the 24th method.

- ***<u>Other Assets (P342.1M vs. P330.0M)</u>***

  Other assets increased by P12.1 million or 3.7% to P342.1 million as of June 30, 2014 from P330.0 million as of 31 December 2013 million mainly due to increases in input VAT (P13.8 million) and creditable withholding tax (P9.2 million), partially offset by the decrease in intangible assets (P10.8 million).

<u>Liabilities (P8.0B vs. P8.9B)</u>

Total liabilities decreased by P951.2 million or 10.7% from P8.9 billion as of 31 December 2013 to P8.0 billion as of June 30, 2014. The decrease in total liabilities is explained below:

- ***<u>Reinsurance Balances Payable (P7.2B vs. P8.2B)</u>***

  Reinsurance balances payable decreased by P992.6 million or 12.1% from P8.2 billion as of December 31, 2013 to P7.2 billion as of 2nd Qtr. 2014 primarily due to settlement of claims and retrocession premiums mentioned above (refer to reinsurance balances receivable).

- ***<u>Accounts Payable and Accrued Expenses (P117.4M vs. P137.7M)</u>***

  Accounts payable and accrued expenses decreased by P20.4 million or 14.8% from P137.7 million as of 31 December 2013 to P117.4 million as of 2nd Qtr. 2014 principally due to settlement of accounts payable and other payables (P24.4

million) net of increase in accrued expenses and withholding taxes payable (P4.4 million).

- ***Reserve for Unearned Reinsurance Premiums (P598.5M vs. P541.9M)***

  Reserve for unearned reinsurance premium increased by P56.6 million or 10.4% principally due to increase in life reinsurance premium for the 1st half Of 2014.

- ***Deferred Reinsurance Commissions (P28.8 vs. P23.6M)***

  Deferred reinsurance commissions increased by P5.2 million or 22.0% reflecting major portion of commission income being subjected to 24th method. (Income and expense policy recognition).

- ***Equity (P5.7B)***

  Stockholders' equity stood at P5.7 billion as of June 30, 2014 and 2013 respectively. There was a slight increase in the balance of the Equity account in the amount of P52.7 million resulting from the favorable mark to market revaluation reserve of P69.6 while retained earnings was reduced due to the recorded net loss of P16.9 million during the current period.

Key Performance Indicators:

	2nd Quarter 2014	2nd Quarter 2013	% Inc.(Dec).
1. Net Income (Loss)	(P 16.9 million)	P 280 million	(106.0%)
2. Earnings per share (a)	(P 0 .01)	P 0.13	(106.0%)
3. Retention ratio (b)	30%	31%	
4. Combined ratio (c)	154%	134%	
5. Return on average equity	(0.30%)	4.7%	

(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 (91%/74%) commissions ratio (37% /31%) and expense ratio (26% /29%).

Net Income (NI) - The Company reported a net loss of P16.9 million for the 1st half of 2014 as compared to a net profit of P280 million in 2013.

Earnings per share (EPS) - The Company's EPS is (P0.01) and P0.13 as of 2nd Qtr. 2014 and 2013, respectively.

Retention ratio - Retention ratio decreased from 31% in 2013 to 30% in 2014.

Combined ratio—The combined ratio is 154% and 134% for 2014 and 2013 respectively.

Return on average equity (ROE) –ROE is (0.30%) as of 2nd Qtr. 2014 compared to 4.7% as of 2nd Qtr. 2013.

Financial Soundness Indicators

	As of June 30, 2014	As of Dec. 31, 2013
Current Ratio	1.76	1.66
Asset to Equity Ratio	2.39	2.57
Total Liabilities/Equity	1.39	1.57

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 the new Insurance Code, otherwise known as Republic Act (R.A.) 10607. 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 these investment reports and may require the immediate sale or disposal of any investment found to be risky.

A portion of the Company’s funds are invested in equities. Section 207 of the new Insurance Code provides that insurance companies may invest in listed equities of other financial institutions without need of prior approval by the Commissioner.

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 largely 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.

Other Disclosure

Pursuant to SEC Memorandum Circular No. 8 (Series of 2014), which provides guidance to non-bank financial institutions that are covered by Foreign Account Tax Compliance Act (FATCA) regulations, the Company is still evaluating/assessing the potential effects of FATCA to its business. Based on the regulation, the Company is a 'Non-financial foreign Entity' (NFFE) which may either be an "exempt NFFE" or "non-exempt NFFE".

PART 11. – OTHER INFORMATION

B. No other material information.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
(Registrant)

VICENTE B. VILLARAMA, JR.
VP-Head-Financial Control

AUGUSTO HIDALGO
President & Chief Executive Officer

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

BALANCE SHEET

June 30, 2014 and December 31, 2013

	Notes	June 2014 (Unaudited)	Dec. 2013 (Audited)	Changes
ASSETS				
CASH AND CASH EQUIVALENTS	3	634,837,012	605,045,799	29,791,213
REINSURANCE BALANCES RECEIVABLE-net	4	5,725,375,777	6,548,123,440	(822,747,663)
AVAILABLE-FOR-SALE FINANCIAL ASSETS	5	6,226,616,155	6,391,696,049	(165,079,894)
LOANS AND RECEIVABLES	6	325,704,026	320,047,429	5,656,597
PROPERTY AND EQUIPMENT-NET	7	99,928,941	102,753,246	(2,824,305)
DEFERRED ACQUISITION COST		92,369,390	85,207,534	7,161,856
DEFERRED REINSURANCE PREMIUMS	8	256,290,737	218,898,489	37,392,248
OTHER ASSETS	9	342,068,932	329,960,974	12,107,958
TOTAL ASSETS		**13,703,190,970**	**14,601,732,960**	**(898,541,990)**
REINSURANCE BALANCES PAYABLE	4	7,217,449,779	8,210,083,119	(992,633,340)
ACCOUNTS PAYABLE & ACCRUED EXPENSES	10	117,375,292	137,729,054	(20,353,762)
RESERVE FOR UNEARNED RI PREMIUMS	8	598,463,707	541,893,656	56,570,051
DEFERRED REINSURANCE COMMISSIONS		28,767,865	23,587,283	5,180,582
TOTAL LIABILITIES		**7,962,056,643**	**8,913,293,112**	**(951,236,469)**
EQUITY				
Capital Stock	15	2,181,954,600	2,181,954,600	-
Treasury Stock		(100,525,432)	(100,525,432)	-
Additional Paid in Capital		3,019,218,458	3,019,218,458	-
Remeasurement of the Defined Benefit Liability	14	(101,702,472)	(101,702,472)	-
Revaluation reserve		274,376,288	204,821,823	69,554,465
Retained Earnings		467,812,885	484,672,871	(16,859,986)
Total Equity		**5,741,134,327**	**5,688,439,848**	**52,694,479**
TOTAL LIABILITIES & EQUITY		**13,703,190,970**	**14,601,732,960**	**(898,541,990)**

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF INCOME (unaudited)
For the Quarters ended June 30, 2014 and 2013)

	Notes	2014	2013	Inc(Dec)	%
Reinsurance Premium Income					
Reinsurance premiums-net of returns		705,807,908	819,498,171	(113,690,263)	-13.87%
Retroceded premiums		558,766,367	589,143,560	(30,377,193)	-5.16%
Reinsurance premiums retained		147,041,541	230,354,611	(83,313,070)	-36.17%
Increase in reserve for unearned reinsurance premiums	8	(17,494,585)	(31,242,910)	13,748,325	44.00%
		129,546,956	199,111,701	(69,564,745)	-34.94%
Underwriting deductions					
Share in claims & losses		129,804,537	203,936,825	(74,132,288)	-36.35%
Commissions, net	12	69,126,535	73,066,673	(3,940,138)	-5.39%
		198,931,072	277,003,498	(78,072,426)	-28.18%
Net Underwriting Income (Loss)		(69,384,116)	(77,891,797)	8,507,681	10.92%
Investments and Other Income (Charges)					
Interest		63,637,864	77,902,428	(14,264,564)	-18.31%
Foreign currency gain (losses)		8,318,122	(12,599,385)	20,917,507	166.02%
Others		47,431,558	133,293,085	(85,861,527)	-64.42%
Investment and Other Income	11	119,387,544	198,596,128	(79,208,584)	-39.88%
Profit after Investment and Other Income		50,003,428	120,704,331	(70,700,903)	-58.57%
General and Administrative Expenses	13,14	46,604,457	50,371,293	(3,766,836)	-7.48%
Profit (Loss) Before Tax		3,398,971	70,333,038	(66,934,067)	-95.17%
Tax Expense		11,990,655	14,160,410	(2,169,755)	-15.32%
Net Profit (Loss)		(8,591,684)	56,172,628	(64,764,312)	-115.30%

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF INCOME (unaudited)
For the Six Months ended June 30, 2014 and 2013)

	Notes	2014	2013	Inc(Dec)	%
Reinsurance Premium Income					
Reinsurance premiums-net of returns		1,249,930,183	1,379,570,600	(129,640,417)	-9.40%
Retroceded premiums		878,192,403	956,116,820	(77,924,417)	-8.15%
Reinsurance premiums retained		371,737,780	423,453,780	(51,716,000)	-12.21%
Increase in reserve for unearned reinsurance premiums	8	(19,177,802)	(4,494,929)	(14,682,873)	-326.65%
		352,559,978	418,958,851	(66,398,873)	-15.85%
Underwriting deductions					
Share in claims & losses		321,439,698	310,235,512	11,204,186	3.61%
Commissions, net	12	138,058,041	132,274,210	5,783,831	4.37%
		459,497,739	442,509,722	16,988,017	3.84%
Net Underwriting Loss		(106,937,761)	(23,550,871)	(83,386,890)	-354.07%
Interest		129,858,638	160,125,226	(30,266,588)	-18.90%
Foreign currency gain (losses)		(1,327,136)	(20,573)	(1,306,563)	-6350.86%
Others		84,009,191	296,699,052	(212,689,861)	-71.69%
Investment and Other Income	11	212,540,693	456,803,705	(244,263,012)	-53.47%
Profit after Investment and Other Income		105,602,932	433,252,834	(327,649,902)	-75.63%
General and Administrative Expenses	13,14	97,771,657	123,677,793	(25,906,136)	-20.95%
Profit Before Tax		7,831,275	309,575,041	(301,743,766)	-97.47%
Tax Expense		24,691,261	29,946,085	(5,254,824)	-17.55%
Net Profit		(16,859,986)	279,628,956	(296,488,942)	-106.03%
Earnings (loss) per Share	17	(0.01)	0.13		

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF COMPREHENSIVE INCOME (unaudited)
For the Six Months ended June 30, 2014 and 2013)

	Notes	2014	2013	Inc(Dec)	%
NET PROFIT (LOSS)		(16,859,986)	279,628,956	(296,488,942)	-106.03%
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that will not be reclassified subsequently to profit or loss					
Remeasurement of defined benefit liability	14	-	9,834,494	(9,834,494)	-100.00%
Items that will be reclassified subsequently to profit or loss					
Fair valuation of available for sale (AFS) financial assets					
Fair value gains (loss) during the period		110,897,615	37,148,214		
Fair value gains on disposal of AFS financial assets reclassified to profit or loss		(41,343,150)	(137,793,489)		
	5	69,554,465	(100,645,275)	170,199,740	-169.11%
		69,554,465	(90,810,781)		
TOTAL COMPREHENSIVE INCOME		**52,694,479**	**188,818,175**	(136,123,696)	-72.09%

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CHANGES IN EQUITY
For the Six Months ended June 30, 2014 and 2013)

						Revaluation Reserves				
		Capital Stock		Additional	Treasury	Remeasurement of defined	Available for	Retained Earnings		Total
	Notes	No. of Shares	Amount	Paid-in Capital	Shares - At Cost	Benefit liability	sale securities	Appropriated	Unappropriated	Equity
Balance as of January 1, 2014		2,181,954,600	2,181,954,600	3,019,218,458	(100,525,432)	(101,702,472)	204,821,823	270,342,396	214,330,475	5,688,439,848
Appropriated for contingencies								-	-	-
Total comprehensive income (loss) for the period						-	69,554,465		(16,859,986)	52,694,479
Total equity as of June 30, 2014	15	**2,181,954,600**	**2,181,954,600**	**3,019,218,458**	**(100,525,432)**	**(101,702,472)**	**274,376,288**	**270,342,396**	**197,470,489**	**5,741,134,327**
Balance as of January 1, 2013										
As previously reported		2,181,954,600	2,181,954,600	3,019,218,457	(100,525,432)	-	399,020,095	268,469,546	237,889,027	6,006,026,293
Prior period adjustment						(82,734,152)			10,351,257	(72,382,895)
As restated		2,181,954,600	2,181,954,600	3,019,218,457	(100,525,432)	(82,734,152)	399,020,095	268,469,546	248,240,284	5,933,643,398
Cash Dividends									(42,472,112)	(42,472,112)
Appropriated for contingencies								27,962,896	(27,962,896)	-
Total comprehensive income (loss) for the period						9,834,494	(100,645,274)		279,628,955	188,818,175
Total equity as of June 30, 2013	15	**2,181,954,600**	**2,181,954,600**	**3,019,218,457**	**(100,525,432)**	**(72,899,658)**	**298,374,820**	**296,432,442**	**457,434,232**	**6,079,989,461**

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CASH FLOWS (unaudited)
For the Six Months ended June 30, 2014 and 2013)

	Notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax		P 7,831,275	P 309,575,041
Adjustments for:			
Increase in reserve for unearned RI Premiums	8	19,177,802	4,494,929
Unrealized foreign currency loss (gain)		(1,428,154)	10,327,389
Gain on sale of AFS financial assets	11	(59,580,895)	(278,768,863)
(Gain) loss on sale of property and equipment		12,944	-
Impairment loss	13	-	11,400,000
Depreciation	13	16,781,124	17,233,879
Interest income	11	(129,858,638)	(160,125,226)
Dividend income	11	(24,809,948)	(20,881,662)
Operating income before working capital changes		(171,874,490)	(106,744,513)
(Increase)Dec. in reinsurance balances receivable		741,227,208	1,227,883,257
Decrease (Increase) in deferred acquisition costs		(1,981,275)	(4,271,120)
(Increase) in other assets		(22,888,173)	(29,798,620)
(Increase) Decrease in loans and receivables		(10,490,528)	153,773,686
Increase (decrease) in reinsurance balances payable		(901,915,371)	(1,380,277,587)
Increase (decrease) in accounts payable and accrued exp.		(20,353,761)	(79,802,665)
Cash generated from (used in) operations		(388,276,390)	(219,237,562)
Cash paid for income taxes		(24,691,261)	(29,946,085)
Net Cash From (Used in) Operating Activities		**(412,967,651)**	**(249,183,647)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal/maturities of:			
Available-for-sale financial assets	5	3,535,497,828	5,974,418,561
Property and equipment	7	(12,944)	(509,032)
Interest received		134,692,569	169,454,998
Dividends received		24,809,948	20,881,662
Disposals (acquisitions) of:			
Available-for-sale financial assets		(3,246,478,917)	(5,874,840,498)
Intangible assets	9	-	(1,716,070)
Property and equipment		(3,176,602)	-
Net Cash From (Used in) Investing Activities		**445,331,882**	**287,689,621**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of dividends	15.4	-	(42,472,112)
Net Cash From (Used in) Financing Activities		**-**	**(42,472,112)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**32,364,231**	**(3,966,138)**
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS		(2,573,018)	4,673,958
CASH AND CASH EQUIVALENTS -January 1		**605,045,799**	**1,226,499,273**
CASH AND CASH EQUIVALENTS -June 30		**P 634,837,012**	**P 1,227,207,093**

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CASH FLOWS (unaudited)
For the three months period ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income(loss) before tax	P 3,398,970	P 70,333,038
Adjustments for:		
Increase (Decrease) in reserve for unearned RI Premiums	17,494,585	31,242,910
Unrealized foreign currency loss (gain)	(11,238,895)	11,004,066
Gain on sale of AFS financial assets	(28,396,478)	(120,500,995)
Impairment loss	-	-
Depreciation	8,427,376	8,576,574
Interest income	(63,637,864)	(77,902,428)
Dividend income	(18,079,017)	(14,403,002)
Operating income before working capital changes	(92,031,323)	(91,649,837)
(Increase)Dec. in reinsurance balances receivable	(511,934,638)	(313,795,315)
Decrease (Increase) in deferred acquisition costs	(1,456,149)	(5,635,148)
(Increase) in other assets	(11,582,430)	(18,422,146)
(Increase) Decrease in loans and receivables	(14,310,905)	147,825,699
Increase (decrease) in reinsurance balances payable	345,508,050	392,020,246
Increase (decrease) in accounts payable and accrued exp.	(4,999,871)	(187,396,374)
Cash generated from (used in) operations	(290,807,266)	(77,052,875)
Cash paid for income taxes	(11,990,655)	(14,160,410)
Net Cash From (Used in) Operating Activities	**(302,797,921)**	**(91,213,285)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal/maturities of:		
Available-for-sale financial assets	1,963,186,125	1,734,235,247
Property and equipment	-	(2,051,111)
Interest received	52,503,250	71,402,699
Dividends received	18,079,017	14,403,002
Disposals (acquisitions) of:		
Available-for-sale financial assets	(1,967,241,943)	(1,129,273,211)
Intangible assets	-	-
Property and equipment	(1,683,188)	-
Net Cash From (Used in) Investing Activities	**64,843,261**	**688,716,626**
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends	-	(42,472,112)
Net Cash From (Used in) Financing Activities	**-**	**(42,472,112)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(237,954,660)**	**555,031,229**
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS	(3,715,862)	5,532,087
CASH AND CASH EQUIVALENTS - March 31	**876,507,534**	**666,643,777**
CASH AND CASH EQUIVALENTS -June 30	**P 634,837,012**	**P 1,227,207,093**

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
Notes and Other Disclosures

1. CORPORATE INFORMATION

National Reinsurance Corporation of the Philippines (the Company) was incorporated on June 7, 1978 by virtue of Presidential Decree No. 1270 (the Decree), as a domestic professional reinsurance firm to provide life and non-life reinsurance capacity to the Philippines and neighboring insurance markets. Under the Decree, it became the vehicle for the Philippine insurance industry's participation in the Asian Reinsurance Corporation (Asian Re), a multi-government-initiated reinsurance entity, based in Bangkok, Thailand, which was established to foster regional cooperation among insurance companies doing business in Asia. The Company's shares are listed in the Philippine Stock Exchange (PSE).

The Company's registered office, which is also its principal place of business, is located at 31st Floor, Ayala Life-FGU Center, 6811 Ayala Avenue, Makati City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these interim financial statements are summarized below. These policies have been consistently applied to all the periods/ years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB). These interim financial statements do not include all the information required for a complete set of financial statements, and should be read in conjunction with the annual financial statements as of December 31, 2013.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Company presents the statement of comprehensive income in two statements: a statement of income and a statement of comprehensive income.

The Company presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

The Company's adoption of PAS 19 (Revised), *Employee Benefits*, resulted in material retrospective restatements on certain accounts in the comparative financial statements for December 31, 2012 and in the corresponding figures as of January 1, 2012 [see Note 2.2(a)(ii)]. Accordingly, the Company presents a third statement of financial position as of January 1, 2012 without the related notes, except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the entity operates.

2.2 Adoption of New and Amended PFRS

(a) *Effective in 2013 that are Relevant to the Company*

In 2013, the Company adopted the following new PFRS, revision, amendments and annual improvements thereto that are relevant to the Company and effective for financial statements for the annual period beginning on or after July 1, 2012 or January 1, 2013:

PAS 1 (Amendment)	:	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
PAS 19 (Revised)	:	Employee Benefits
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
PFRS 13	:	Fair Value Measurement
Annual Improvements to PFRS 2009-2011 Cycle		
PAS 1 (Amendment)	:	Presentation of Financial Statements – Clarification of the Requirements for Comparative Information
PAS 32 (Amendment)	:	Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments

Discussed below and in the succeeding pages are relevant information about these new, revised and amended standards.

(i) PAS 1 (Amendment), *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income (*effective from July 1, 2012). The amendment requires an entity to group items presented in other comprehensive income into those that, in accordance with other PFRS: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Company applied the amendment retrospectively, hence, the presentation of other comprehensive income has been modified to reflect the changes.

(ii) PAS 19 (Revised), *Employee Benefits* (effective from January 1, 2013). This revised standard made a number of changes to the accounting for employee benefits. The most significant changes relate to defined benefit plans as follows:

- eliminates the corridor approach and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;

- changes the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined liability or asset; and,

- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

(iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting of Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's statement of financial position. The details and outstanding balances of financial assets and financial liabilities that are subject to enforceable master netting agreements and similar arrangements are disclosed in Note 18.2.

(iv) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This new standard clarifies the definition of fair value and provides guidance and enhanced disclosures about fair value measurements. The requirements under this standard do not extend the use of fair value accounting but provide guidance on how it should be applied to both financial instrument items and non-financial items for which other PFRS require or permit fair value measurements or disclosures about fair value measurements, except in certain circumstances. This new standard applies prospectively from annual period beginning January 1, 2013, hence, disclosure requirements need not be presented in the comparative information in the first year of application.

Other than the additional disclosures presented in Note 18 and 19, the application of this new standard had no significant impact on the amounts recognized in the financial statements.

(v) 2009 – 2011 Annual Improvements to PFRS. Annual improvement to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following are relevant to the Company but has no material impact on the Company's financial statements.

(a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information.* The amendment clarifies that a statement of financial position as at the beginning of the preceding period (third statement of financial position) is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the third statement of financial position. The amendment specifies that other than disclosure of certain specified information in accordance with PAS 8, related notes to the third statement of financial position are not required to be presented.

Consequent to the Company's adoption of PAS 19 (Revised) in the current year and certain other restatement which resulted in retrospective restatement of the prior years' financial statements, the Company has presented a third statement of financial position as of January 1, 2012 without the related notes, except for the disclosure requirements of PAS 8.

(b) PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments.* The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12, *Income Taxes*. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity. This amendment had no effect on the Company's financial statements as it has been recognizing the effect of distributions to holders of equity instruments and transaction costs of an equity transaction in accordance with PAS 12.

(b) Effective in 2013 that are not Relevant to the Company

The following revisions, amendments, annual improvements, and interpretation to PFRS are mandatory for accounting periods beginning on or after January 1, 2013 but are not relevant to the Company's financial statements:

PFRS 1 (Amendment)	:	First-time Adoption of PFRS – Repeated Application of PFRS 1 and Borrowing Cost
PFRS 10	:	Consolidated Financial Statements
PFRS 11	:	Joint Arrangements
PFRS 12	:	Disclosure of Interest in Other Entities
PAS 27 (Revised)	:	Separate Financial Statements
PAS 28 (Revised)	:	Investments in Associate and Joint Venture
PFRS 10, 11 and 12 (Amendments)	:	Amendments to PFRS 10, 11 and 12 – Transition Guidance to PFRS 10, 11 and 12
Annual Improvements to PFRS 2009-2011 Cycle		
PAS 16 (Amendment)	:	Property, Plant and Equipment – Classification of Servicing Equipment.

PAS 34 (Amendment)	:	Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities
PPRS 1 (Amendment)	:	First-time Adoption of PFRS – Government Loans
Philippine Interpretation International Financial Reporting Interpretations Committee 20	:	Stripping Costs in the Production Phase of a Surface Mine

(c) *Effective Subsequent to 2013 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards that are effective for periods subsequent to 2013. Management has initially determined the following pronouncements, which the Company will apply in accordance with their transitional provisions, to be relevant to its financial statements:

(i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from January 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. Management has initially determined that this amendment will have no material impact on the Company's financial statements.

(ii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and includes an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement. The Company does not expect this amendment to have a significant impact on its financial statements.

(iii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less cost of disposal is determined using a present value technique. Management will reflect in its subsequent years' financial statements the changes arising from this relief on disclosure requirements, if the resulting impact of this amendment will be applicable.

(iv) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective January 1, 2014). The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Company neither enters into transactions involving derivative instruments nor it applies hedge accounting, the amendment will not have impact on the financial statements.

(v) PFRS 9, *Financial Instruments: Classification and Measurement*. This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The first phase of the standard was issued in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement, and recognition of financial assets and financial liabilities. It requires financial assets to be classified into two measurement categories: amortized cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows that represent solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt instruments and equity instruments are measured at fair value. In addition, PFRS 9 allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangement, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to the liability's credit risk is recognized in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

In November 2013, the IASB has published amendments to International Financial Reporting Standard (IFRS) 9 that contain new chapter and model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. The amendment also now requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather in profit or loss. It also includes the removal of the January 1, 2015 mandatory effective date of IFRS 9.

To date, the remaining chapter of IFRS 9 and PFRS 9 dealing with impairment methodology is still being completed. Further, the IASB is currently discussing some limited modifications to address certain application issues regarding classification of financial assets and to provide other considerations in determining business model.

The Company does not expect to implement and adopt PFRS 9 until its effective date. In addition, management is currently assessing the impact of PFRS 9 on the financial statements of the Company and evaluating the need to conduct a comprehensive study of the potential impact and changes that may result from the adoption of PFRS 9 when it becomes effective.

(vi) PFRS 10, 12 and PAS 27 (Amendments) - *Investment Entities* (effective from January 1, 2014). The amendments define the term "investment entities," provide supporting guidance, and require investment entities to measure investments in the form of controlling interest in another entity, at fair value through profit or loss.

Management does not anticipate these amendments to have a material impact on the Company's financial statements.

(vii) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after July 1, 2014. Among those improvements, the following amendments are relevant to the Company but management does not expect a material impact on the Company's financial statements:

Annual Improvements to PFRS (2010-2012 Cycle)

(a) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

(b) PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity should be disclosed in the financial statements and not the amounts of compensation paid or payable by the key management entity to its employees or directors.

(c) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvements to PFRS (2011-2013 Cycle)

(a) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in PAS 32.

(b) PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3, *Business Combinations*, and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset, or a business combination in reference to PFRS 3.

3. CASH AND CASH EQUIVALENTS

This account consists of:

		June 2014		December 2013
Short-term placements	**P**	**442,319,000**	P	526,193,501
Cash on hand and in banks		**192,518,012**		78,852,298
	P	**634,837,012**	P	605,045,799

Short-term placements include time deposits and special deposit accounts made for varying periods between one day and one month depending on the liquidity requirements of the Company. Peso short-term placements earn annual interest rates ranging from 0.25% to 1.625% in 2014 and from 0.48% to 1.38% in 2013 while dollar short-term placements earn annual interest rates ranging from 0.25% to 1.86% in 2014 and from 0.50% to 1.0% in 2013. 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$5,573,175 (or P243,993,600) as of June 30, 2014 and US$1,916,084 (or P85,100,933) as of December 31, 2013.

4. REINSURANCE BALANCES

The details of reinsurance balances are as follows:

		June 2014		December 2013
Reinsurance balances receivable:				
Reinsurance recoverable on unpaid losses	**P**	**4,482,013,496**	P	5,060,294,113
Due from ceding companies		**550,832,493**		1,072,506,104
Reinsurance recoverable on paid losses		**1,168,283,129**		833,040,221
Funds held by ceding companies		**96,809,557**		154,845,900
		6,297,938,675		7,120,686,338
Allowance for impairment		**(572,562,898)**		(572,562,898)
	P	**5,725,375,777**	P	6,548,123,440

		June 2014		December 2013
Reinsurance balances payable:				
Claims payable	**P**	**6,503,521,713**	P	7,271,270,522
Due to retrocessionaires		**638,089,164**		858,462,597
Funds held for retrocessionaires		**75,838,902**		80,350,000
	P	**7,217,449,779**	P	8,210,083,119

Reinsurance balances receivable pertains to the following:

- Reinsurance recoverable on unpaid losses represents amounts due from retrocessionaires under treaty and facultative agreements as their share in losses.
- Due from ceding companies refers to the premiums receivable from the cedants as a result of treaty and facultative acceptances.
- Funds held by ceding companies pertains to the portion of reinsurance premiums withheld by ceding companies in accordance with treaty and facultative agreements.

Reinsurance balances payable relates to the following:

- Claims payable are losses and claims due to ceding companies under treaty and facultative agreements.

- Due to retrocessionaires are unremitted share in premiums of retrocessionaires.
- Funds held for retrocessionaires represents portion of the reinsurance premium ceded to retrocessionaires which was withheld by the Company in accordance with treaty and facultative agreements.

All of the Company's reinsurance balances receivable have been reviewed for indicators of impairment. Certain reinsurance balances receivable were found to be impaired and provisions have been recorded accordingly.

A reconciliation of the allowance for impairment at the beginning and quarter end June 2014 and December 2013 is shown below.
The fair values of these short-term financial assets and liabilities are not individually determined as their carry amounts are reasonable approximation of their fair values.

		June 2014		December 2013
Balance at the beginning of year	**P**	**572,562,898**	P	335,629,959
Impairment losses during the year		**-**		236,932,939
Balance at the end	**P**	**572,562,898**	P	572,562,898

5. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The amounts in the statements of financial position comprise of the following financial assets:

		June 2014		December 2013
Bonds	**P**	**4,266,662,000**	P	4,601,588,981
Equity securities - net		**1,389,751,229**		1,318,680,165
Investment in Asian Re shares		**4,444,847**		4,444,847
Various funds		**565,758,079**		466,982,056
	P	**6,226,616,155**	P	6,391,696,049

Bonds include investments in corporate bonds, long-term negotiable instruments and government securities. This also includes government securities amounting 250,000,000 both June 2014 and December 2013, which are on deposit with the 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 2.125% to 15.00% both in June 2014 and December 2013. Interest incomes recognized are presented as part of Investment and Other Income in the statements of income (see Note 11).

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

		June 2014		December 2013
Due within one year	**P**	**298,958,857**	P	178,360,037
Due after one year through five years		**1,211,231,232**		1,396,331,798
Due after five years through ten years		**2,132,970,220**		2,277,689,961
Due after ten years		**623,501,691**		749,207,185
	P	**4,266,662,000**	P	4,601,588,981

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

		June 2014		December 2013
Cost:				
Quoted in the stock exchange	**P**	**1,249,710,868**	P	1,302,628,348
Not quoted in the stock exchange		**38,346,338**		40,636,735
	P	**1,288,057,206**	P	1,343,265,083
Fair value gains (losses):				
Quoted in the stock exchange	**P**	**120,651,231**	P	(4,413,687)
Not quoted in the stock exchange		**(18,957,208)**		(20,171,231)
	P	**101,694,023**	P	(24,584,918)
	P	**1,389,751,229**	P	1,318,680,165

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.

In 2013, the Company made retrospective adjustments to present the foreign exchange differences pertaining to investment in ARC as part of other comprehensive income [see Note 2.2 (a)(ii)]. These were previously presented in profit or loss. The fair value of investment in ARC shares amounted to P4,444,847, both June 30, 2014 and December 31, 2013, respectively.

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

		June 2014		December 2013
Balance at beginning of year	**P**	**6,391,696,050**	P	5,690,040,419
Additions		**3,246,478,917**		4,477,286,405
Disposals/maturities		**(3,475,916,932)**		(3,578,210,286)
Fair value gains(loss) - net		**69,554,464**		(211,065,818)
Foreign currency gains (losses)		**(5,196,344)**		13,645,329
Balance at end of year	**P**	**6,226,616,155**	P	6,391,696,049

Changes in fair value of available-for-sale financial assets, net of taxes, recognized as Fair Value Gains (Losses) account under Other Comprehensive Income (Loss) in the statements of comprehensive income amounted to P69,554,464 fair value gain and P211,065,818 fair value loss in June 2014 and December 2013 respectively.

The fair values of available-for-sale financial assets have been determined directly by reference to published prices in active market. For some investments where fair value is not reliably determinable either through reference of similar instruments or valuation techniques, these are carried at cost.

Various funds pertain to the Company's investment in mutual funds.

6. LOANS AND RECEIVABLES

This account includes the following:

		June 2014		December 2013
Current:				
Term loans	**P**	**-**	P	-
Accrued interest receivable		**56,355,300**		61,189,232
Others		**18,678,330**		4,591,915
	P	**75,033,630**	P	65,781,147
Non-current:				
Term loans	**P**	**245,000,000**	P	247,500,000
Loans receivable		**5,670,396**		6,766,282
	P	**250,670,396**	P	254,266,282
	P	**325,704,026**	P	320,047,429

7. 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	154,882,915	P	75,422,912	P	79,460,003
Office Improvement		15,029,692		9,220,384		5,809,308
Office Furniture/Equipment		10,217,760		9,195,478		1,022,282
Transportation Equipment		9,459,643		4,138,226		5,321,417
EDP Equipment		31,788,352		23,472,421		8,315,931
Total	**P**	**221,378,362**	**P**	**121,449,421**	**P**	**99,928,941**

8. DEFERRED REINSURANCE PREMIUMS AND RESERVE FOR UNEARNED REINSURANCE PREMIUMS

The movement of these accounts follows:

		Deferred Reinsurance Premiums			**Reserve for Unearned Reinsurance Premiums**		
		2014	2013		**2014**		2013
Balance at beginning of year	P	**218,898,489**	400,632,000	P	**541,893,656**	P	734,563,495
Inc (Dec) during the year		**37,392,248**	(181,733,511)		**56,570,051**		(192,669,839)
Balance at end of year	P	**256,290,737**	218,898,489	P	**598,463,707**		541,893,656

Deferred Reinsurance Premiums pertains to the portion of reinsurance premiums ceded out that relate to the unexpired periods of the policies at the end of each reporting period.

Reserve for Unearned Reinsurance Premiums is the portion of reinsurance premiums assumed that relate to the unexpired periods of the policies at the end of each reporting period.

The difference between the increase in Deferred Reinsurance Premiums and Reserve for Unearned Reinsurance Premiums for the year is presented as Decrease (Increase) in Reserve for Unearned Reinsurance Premiums in the statements of income.

9. OTHER ASSETS

The Other Assets account includes the following:

		June 2014		December 2013
Creditable withholding tax	**P**	**135,111,420**	P	126,131,327
Deferred input VAT		**73,145,637**		74,123,058
Input VAT		**82,358,876**		68,517,247
Intangible assets – net		**30,230,425**		41,008,141
Deferred withholding VAT		**9,200,181**		9,200,181
Prepayments		**4,118,482**		4,729,864
Investment property - net		**2,837,409**		2,839,909
Deposit		**786,268**		619,385
Security fund		**192,888**		192,888
Others		**4,087,346**		2,598,974
	P	**342,068,932**	P	329,960,974

Deferred input VAT relates to the value-added tax on unpaid commission to ceding companies.

Input VAT pertains to input VAT 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.

Intangible assets pertain to acquired computer software licenses used in production and administration. The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of June 30, 2014 and December 31, 2013 follows:

		June 2014		December 2013
Cost	**P**	**110,108,534**	P	110,108,534
Accumulated amortization		**(79,878,109)**		(69,100,393)
Balance at end of year	**P**	**30,230,425**	P	41,008,141

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

		June 2014		December 2013
Deferred output VAT	**P**	**34,567,005**	P	34,949,912
Accrued expenses		**9,407,909**		5,039,574
Defined benefit liability		**64,429,416**		64,429,415
Accounts payable and other liabilities		**6,995,412**		31,355,892
Withholding taxes payable		**1,975,550**		1,954,261
	P	**117,375,292**	P	137,729,054

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

11. INVESTMENT AND OTHER INCOME

The details of this account follow:

		June 2014		June 2013
Interest	**P**	**129,858,638**	P	160,125,226
Gain on sale of stocks		**24,690,257**		137,999,579
Dividend income		**24,809,948**		20,881,662
Foreign exchange gain(loss)		**(1,327,137)**		(20,573)
Trading gains		**34,890,639**		140,769,284
Gain on sale of property & equipment		**(12,944)**		-
Other income (charges)		**(368,708)**		(2,951,473)
	P	**212,540,693**	P	456,803,705

12. UNDERWRITING DEDUCTIONS

a. ***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.

b. ***Commissions** – net*

This account consists of the following:

		June 2014		June 2013
Commission expense	**P**	**206,033,749**	P	233,252,374
Reinsurance revenues		**(67,975,708)**		(100,978,164)
	P	**138,058,041**	P	132,274,210

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.

13. GENERAL AMD ADMINISTRATIVE EXPENSES

The details of this account follow:

		June 2014		June 2013
Salaries and employee benefits	P	**54,113,906**	P	65,934,574
Impairment loss		**-**		11,400,000
Depreciation and amortization		**16,781,124**		17,233,879
Professional fees		**5,785,569**		7,251,478
Repairs and maintenance		**4,859,176**		5,367,090
Taxes, licenses and fees		**2,327,796**		2,339,246
Transportation and traveling		**1,503,745**		1,311,696
Light and water		**1,222,759**		1,520,040
Representation and entertainment		**1,405,199**		998,515
Contract labor		**876,079**		577,697
Association and pool expense		**1,929,158**		2,182,100
Rental		**1,361,985**		269,261
Communication and postages		**1,001,032**		885,529
Printing and office supplies		**393,483**		550,597
Advertising and publicity		**230,032**		866,988
Insurance		**483,804**		540,329
Miscellaneous		**3,496,810**		4,448,774
	P	**97,771,657**	P	123,677,793

14. SALARIES AND EMPLOYEE BENEFITS

14.1 Salaries, Wages and Employee Benefit Expense

Expenses recognized for employee benefits are presented below.

		June 2014		June 2013
Short-term employee benefits	P	**44,699,671**	P	53,726,499
Post-employment defined benefit		**5,371,012**		7,234,375
Compensated absences		**4,043,223**		4,973,700
Separation Benefits		**-**		-
	P	**54,113,906**	P	65,934,574

14.2 Post-employment Defined Benefit

(a) Characteristics of the Defined Benefit Plan

The Company maintains a wholly-funded, tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions.

The normal retirement age is 60 with a minimum of 10 years of credited service. The plan also provides for an early retirement at age 50 with a minimum of 10 years of credited service. Normal retirement benefit is an amount equivalent to 175% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2013 including the comparative year which has been restated in line with the adoption of PAS 19 (Revised), see Note 2.2(a)(ii).

The amounts of defined benefit liability (presented as part of Accounts Payable and Accrued Expenses – see Note 10) recognized in the statements of financial position are determined as follows:

		June 2014		December 2013		2012 (As Restated- see Note 2.2)
Present value of the obligation	**P**	**144,762,543**	P	144,762,543	P	174,933,081
Fair value of plan assets		**(80,333,128)**		(80,333,128)		(80,951,387)
Defined benefit liability	**P**	**64,429,415**	P	64,429,415	P	93,981,694

The movements in the present value of the retirement benefit obligation are as follows:

		June 2014		December 2013		2012 (As Restated- see Note 2.2)
Balance at beginning of year	**P**	**174,933,081**	P	174,933,081	**P**	152,043,509
Current service cost		**9,581,702**		9,581,702		9,276,730
Interest Expenses		**9,096,520**		9,096,520		8,362,393
Remeasurement on actuarial losses (gains) arising from:						
Changes in financial assumptions		**11,708,682**		11,708,682		4,147,740
Changes in demographic assumptions		**25,294**		25,294		-
Experience adjustments		**921,633**		921,633		5,486,134
Benefits paid other than settlement		**(44,771,305)**		(44,771,305)		-
Settlement gain		**(164,971)**		(164,971)		-
Benefits paid by the plan		**(16,568,093)**		(16,568,093)		(4,383,425)
Balance at end of year	**P**	**144,762,543**	P	144,762,543	**P**	174,933,081

The movement in the fair value of plan assets is presented below.

		June 2014		December 2013		2012 (As Restated- see Note 2.2)
Balance at beginning of year	**P**	**80,951,387**	P	80,951,387	P	67,704,396
Interest income		**4,209,472**		4,209,472		3,723,742
Return on plan assets (excluding amounts included in net interest)		**2,261,487**		2,261,487		5,283,655
Contributions paid into the plan		**54,250,180**		54,250,180		8,623,019
Benefits paid by the plan		**(61,339,398)**		(61,339,398)		(4,383,425)
Balance at end of year	**P**	**80,333,128**	P	80,333,128	P	80,951,387

The plan assets as of June & December 31 consist of:

		June 2014		December 2013		2012 (As Restated- see Note 2.2)
Cash and cash equivalents	**P**	**4,798,403**	P	4,798,403	P	22,707,549
Equity securities		**26,137,227**		26,137,227		17,197,422
Government securities		**49,159,686**		49,159,686		39,631,244
Loans and receivables		**237,812**		237,812		1,415,172
Balance at end of year	**P**	**80,333,128**	P	**80,333,128**	P	**80,951,387**

The fair values of the equity and government bonds are determined based on quoted market prices in active markets.

The plan assets earned a return of P6.5 million in 2013, P9.0 million in 2012 and P2.9 million in 2011.

Plan assets do not comprise any of the Company's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

		June 2014		December 2013		2012 (As Restated- see Note 2.2)
Reported in profit or loss:						
Current service cost	P	**9,276,730**	P	9,276,730	P	9,276,730
Settlement gain		**4,638,651**		4,638,651		4,638,651
Net interest expense	**P**	**13,915,381**	P	13,915,381	P	13,915,381
Reported in other comprehensive loss (income):						
Actuarial losses arising from changes in:						
Financial assumptions	**P**	**11,708,682**	P	11,708,682	P	4,147,740
Experience adjustments		**921,633**		921,633		5,486,134
Demographic assumptions		**25,294.00**		25,294.00		-
Return on plan assets (excluding amounts included in net interest)		**(2,261,487)**		(2,261,487)		(5,283,655)
	P	**10,394,122**	P	10,394,122	P	4,350,219

Current service cost and settlement gain are presented as part of Salaries and employee benefits; while net interest expense is presented as Finance costs. These accounts are presented in the statements of income under General and administrative expenses (see Note 13).

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	June 2014	2013	2012
Discount rates	**5.20%**	5.20%	5.20%
Expected rate of salary increase	**5.00%**	5.00%	5.00%
Employee turn-over rate	**5.0% to 9.5%**	5.0% to 9.5%	5.0% to 9.5%

15. EQUITY

15.1 Capital Stock

Capital stock (net of Treasury Shares) consists of common shares with P1 par value per share with details as follows:

	Number of Shares		
	June 2014	2013	2012
Authorized – 3,000,000,000 shares			
Issued and outstanding			
Balance at beginning of year	**2,123,605,600**	2,123,605,600	2,159,677,600
Reacquired during the year	**-**	-	-
Balance at end of year	**2,123,605,600**	2,123,605,600	2,123,605,600

	Amount		
	June 2014	2013	2012
Authorized – 3,000,000,000 shares			
Issued and outstanding			
Balance at beginning of year	**P2,123,605,600**	P2,123,605,600	P 2,159,677,600
Reacquired during the year	**-**	-	-
Balance at end of year	**P2,123,605,600**	P2,123,605,600	P 2,123,605,600

On April 27, 2007, the SEC approved the listing of the Company's shares totalling 741,902,600. The shares were initially issued at an offer price of P3.80 per share. As of June 30, 2014 and December 31 2013, there are 282 & 281 holders of the listed shares, respectively. Such listed shares closed at P1.28 and P1.36 per share, as of those dates, respectively,

15.2 Treasury Shares

In 2011, the Company acquired 36,072,000 of its own shares at a total cost of P60,443,621. There are no treasury stock transactions in 2012 and 2013. As of December 31, 2013 and 2012, total shares in treasury is 58,349,000 amounting to P100,525,432.

15.3 Appropriation for Contingencies

On April 18, 1989, the Company's BOD approved the establishment of a special reserve which will serve as cushion to the paid-up capital in the event of extraordinarily high loss occurrences or severe catastrophic losses. As such, at December 31 of each year where there is profit, 10% of such profit is 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 P270,342,396, P270,342,396 and P268,469,546 as of June 30,2014, December 2013 and 2012, respectively.

15.4 Declaration of Cash Dividends

The BOD approved the declaration of cash dividends of P0.02 per share (or a total of P42,472,112) on May 16, 2013, P0.10 per share (or a total of P212,360,560) on May 17, 2012 and P0.02 per share (or a total of P43,193,552) on May 19, 2011, payable to stockholders of record as of June 14, 2013, June 1, 2012 and June 3, 2011, respectively. There were no outstanding dividends payable as of December 31, 2013 and 2012.

16. 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 as described below.

16.1 Reinsurance Contracts with Related Parties

The Company's related parties include its principal stockholders, related parties under common ownership, and the Company's key management personnel with which the Company had transactions as described below.

The Company accepts and cedes insurance business under various reinsurance contracts with related parties. The details of which follow:

	June 2014		December 2013	
	Stockholders	**Related Parties Under Common Ownership**	Stockholders	Related Parties Under Common Ownership
Premiums	**177,411,255**	**5,981,853**	P 365,120,220	P 4,074,436
Retrocessions	**406,613**	**849,776**	1,221,459	(1,343,046)
Commission income	**21,525**	**-**	59,360	-
Commission expenses	**48,986,223**	**-**	97,893,969	-
Losses incurred	**73,656,824**	**2,122,392**	352,657,903	5,304,356
Losses recoveries	**39**	**-**	8,262	122,875

As a result of the above transactions, reinsurance balances receivable from and payable to related parties are as follows (see Note 4):

	June 2014		December 2013	
	Stockholders	**Related Parties Under Common Ownership**	Stockholders	Related Parties Under Common Ownership
Due from ceding cos.	**280,421,506**	**8,982,296**	252,395,929	5,531,868
RI recoverable on losses	**102,830,642**	**30,953**	97,064,646	-
Funds held by ced. cos.	**34,619,609**	**-**	63,791,182	-
Claims payable	**1,269,492,309**	**8,327,349**	1,778,046,311	4,458,459
Due to Retrocessionaires	**7,428,423**	**287,509**	13,568,173	166,279
Funds held for retro	**164,032**	**-**	164,032	-

The balance of due from ceding companies pertaining to related parties is presented net of P30,703,336 andP30,700,236 allowance for impairment as of June 30, 2014 and December 31, 2013 respectively.

16.2 Other Transactions

The Company's other transactions with related parties follow:

		June 2014		December 2013	
		Amount of Transactions	**Outstanding Balance**	Amount of Transactions	Outstanding Balance
Stockholder:					
Cash & cash equivalent	(a)	**3,497,094**	**6,457,900**	(183,905)	2,960,806
AFS financial assets	(b)	**-**	**-**	-	-
Interest Income-Bank accounts	(a)	**13,405**	**-**	19,380	-
Interest Income-AFS Financial assets	(b)	**-**	**-**	**-**	-
Trading gain	(b)	**-**		(100,197)	
Service fees	(d)	**33,879**	**-**	31,526	-
Related Party Under Common Ownership					
Cash & Cash equivalent	(a)	**(91,801,112)**	**93,604,523**	(195,025,988)	185,405,635
AFS financial assets	(b)	**49,270,517**	**236,566,264**	(101,632,209)	187,295,747
Loans and receivables	(c)	**(1,214,570)**	**1,986,738**	(132,059,922)	3,201,308
Interest Income-Bank accounts	(a)	**1,014,204**	**-**	6,898,130	-
Interest Income-AFS Financial assets	(b)	**5,248,286**	**-**	16,528,796	-
Interest income-Loans and receivables	(c)	**-**	**-**	5,308,681	-
Trading gain	(b)	**-**		1,285,723	

(a) Cash and Cash Equivalent
The Company maintains several savings and current accounts with a stockholder and related party under common ownership. Interest income recognized is presented as part of interest income under Investment and Other Income in the statements of income (see Note 11).

(b) AFS Financial Assets
The Company has AFS financial assets with a stockholder and related party under common ownership. Relative to these transactions, the Company recognized interest income and trading gains which are presented as part of Investment and Other Income in the statements of income (see Note 11).

(c) Loans and Receivables
The Company has term loans with certain related parties under common ownership. Relative to this, the Company recognized interest income which are presented as part of interest income under Investment and Other Income in the statements of income (see Note 11). The term loan is unsecured and earns interest of 5.00% to 5.50% in June 2014, 2013 and 2012 and has matured in 2013. As of December 31, 2012, management assessed that these term loans are not impaired.
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(d) Investment Management and Custodianship
The Company has entered into agreements known as "Investment Management Agreement" and "Custodianship Agreement" with a stockholder and an affiliate bank for the management and custodianship of certain investible funds of the Company subject to terms and conditions in the said agreements. In consideration for the services rendered, the Company pays the stockholder and the affiliate bank service fees equivalent to a certain percentage of the market value of the investments. Total service fees paid is charged against Other income (charges) under Investment and Other Income account (see Note 11) in the statements of income. There are no outstanding liabilities from these transactions as of June 30, 2014 and December 31, 2013.

16.3 Retirement Fund Investment Management
In 2007, the Company entered into a "Retirement Fund Investment Management Agreement" with its stockholder for the management of the investments of the Company's retirement funds subject to the terms and conditions in the said agreement.

16.4 Transactions with Retirement Fund
As discussed in Note 16.2, the Company maintains a wholly-funded, tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees. The Company has no other transaction with its retirement fund in 2013 except for its contribution of P54,250,180.

16.5 Key Management Personnel Compensation

The compensation of key management personnel is broken down as follows:

	June 2014	June 2013
Short-term benefits	**P15,339,307**	P 22,097,607
Post-employment benefits	**1,403,392**	1,364,874
	P16,742,699	P 23,462,481

17. Earnings (loss) Per Share

The earnings per share amounts are as follows:

	June 2014	June 2013
Net income (loss) available to common shareholders	**(P 16,859,986)**	P 279,628,956
Divided by the average number of outstanding common shares	**2,123,605,600**	2,123,605,600
	(P 0.01)	P 0.13

18. Categories and offsetting of financial assets and liabilities

18.1. Comparison of Carrying Amounts and Fair Values

The carrying amounts and fair values of the categories of financial assets and liabilities presented in the statements of financial position are shown below.

		June 2014				December 2013			
	Notes		Carrying Values		Fair Values		Carrying Values		Fair Values
Financial assets									
Loans and receivables:									
Cash and cash equivalents		**P**	**634,837,012**	**P**	**634,837,012**	P	605,045,799	P	605,045,799
Reinsurance balances receivables			**5,725,375,776**		**5,725,375,776**		6,548,123,440		6,548,123,440
Loans and receivables			**325,704,025**		**325,704,025**		320,047,429		320,047,429
		P	**6,685,916,813**	**P**	**6,685,916,813**	P	7,473,216,668	P	7,473,216,668
AFS financial assets:									
Debt securities		**P**	**4,266,662,000**	**P**	**4,266,662,000**	P	4,601,588,981	P	4,601,588,981
Equity securities			**1,389,751,229**		**1,389,751,229**		1,318,680,165		1,318,680,165
Investment in ARC			**4,444,847**		**4,444,847**		4,444,847		4,444,847
Various funds			**565,758,080**		**565,758,080**		466,982,056		466,982,056
		P	**6,226,616,156**	**P**	**6,226,616,156**	P	6,391,696,049	P	6,391,696,049
Financial liabilities									
Financial liabilities at amortized cost									
Reinsurance balances payable		**P**	**7,217,449,779**	**P**	**7,217,449,779**	P	8,210,083,119	P	8,210,083,119
Accounts payable and other accrued expenses			**52,945,878**		**52,945,878**		36,395,466		36,395,466
		P	**7,270,395,657**	**P**	**7,270,395,657**	P	8,246,478,585	P	8,246,478,585

Due to the short-term duration, management considers the carrying values of the Company's financial assets and financial liabilities approximate their fair values as of the end of the reporting periods.

18.2 Offsetting of Financial Assets and Financial Liabilities

For financial assets and financial liabilities, particularly, reinsurance balances, subject to enforceable master netting agreements or similar arrangements, each agreement between the Company and counterparties, including related parties, allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis.

Reinsurance balances as at December 31 are as follows.

	Note		**June 2014**		June 2013
Reinsurance balances receivable	4	**P**	**5,725,375,777**	P	5,929,652,806
Reinsurance balances payable	4		**7,217,449,779**		7,410,367,404

19. Fair value measurement and disclosures

19.1 Fair Value Hierarchy

In accordance with PFRS 13, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

i. Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

ii. Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

iii. Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

19.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Company's financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis, as of June 30, 2014 and December 31, 2013 (amounts in thousand Philippine Peso).

	Level 1	Level 2	Level 3	Total
June 30, 2014				
AFS financial assets	**P 4,515,984**	**P 585,147**	**P 4,445**	**P 5,105,576**
December 31, 2013				
AFS financial assets	P 4,312,494	P 487,448	P 494,103	P 5,294,045

The Company's AFS financial assets includes certain investments measured at cost amounting to P1,121,040 and P1,097,652 (amounts in thousand Philippine Peso) as of June 30, 2014 and December 31, 2013, respectively.

The Company has no financial liabilities measured at fair value as of June 30, 2014 and December 31, 2013.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

Described below are the information about how the fair values of the Company's classes of financial assets are determined.

a) Equity securities

As of June 30, 2014 and December 31, 2013, instruments included in Level 1 comprise equity securities classified as AFS financial assets. These securities were valued based on their market prices quoted in the Philippine stock exchanges at the end of each reporting period.

Golf club shares classified as AFS financial assets are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period. Moreover, equity security held in a private company is included in Level 3 since its market value is not quoted in an active market, hence, measured by reference to the fair value of a comparable instrument adjusted for inputs internally developed by management to consider the differences in corporate profile and historical performance of the entity.

b) Debt securities

The fair value of the Company's debt securities which consist of government and corporate bonds is estimated by reference to quoted bid price in active market at the end of the reporting period and is categorized within Level 1.

19.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the June 2014 statement of financial position but for which fair value is disclosed.

	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	P 634,837,012	P -	P -	P 634,837,012
Reinsurance balances receivables	-	-	5,725,375,776	5,725,375,776
Loans and receivables	-	-	325,704,025	325,704,025
	P634,837,012	**P -**	**P6,051,079,801**	**P 6,685,916,813**
Financial liabilities:				
Reinsurance balances payable	P -	P -	P7,217,449,779	P 7,217,449,779
Accounts payable and other accrued expenses	-	-	16,403,323	16,403,323
	P -	**P -**	**P7,233,853,102**	**P 7,233,853,102**

For financial assets, other than AFS investments, with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

The fair values of the financial assets and financial liabilities included in Level 3 above which are not traded in an active market is determined by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

19.4 Fair Value Measurement for Non-financial Assets

The Company used market comparable approach as a valuation technique in measuring the fair values of its investment properties to arrive at fair values that are more representative of the investment properties' highest and best use. As of June 30, 2014 and December 31, 2013, the fair values of the investment properties is P5,880,000, respectively, and are classified as under Level 3 of the fair value hierarchy. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value.

20. 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:

• Explanatory comments about the seasonality or cyclicality of interim operations	• Nothing to report.
• 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	• Nothing to report.

• 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	• Nothing to report.
• Issuances, repurchases, and repayments of debt and equity securities	• Nothing to report.
• Dividends paid (aggregate or per share) separately for ordinary shares and other shares	• Nothing to report.
• 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)	• Nothing to report.
• Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period	• Nothing to report
• 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	• Nothing to report.
• Changes in contingent liabilities or contingent assets since the last annual balance sheet date	• Nothing to report.
• Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period.	• Nothing to report.

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AGING OF REINSURANCE BALANCES RECEIVABLE

As of June 30, 2014
(In million pesos)

	Total	Below 360 days	Over 360 days
Due from Ceding Companies	551	239	312
Reinsurance recoverable on paid losses	1,168	807	361
Reinsurance recoverable un unpaid losses	4,482	4,482	-
Funds Held by Ceding companies	97	97	-
	6,298	5,625	673
Allowance for impairment*	(573)		
	5,725		

*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.