

COVER SHEET

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S.E.C. Registration Number

NATIONAL REINSURANCE
CORPORATION
OF THE PHILIPPINES

(Company's Full Name)

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

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

JOHN E. HUANG

Contact Person

988-7400

Company Telephone Number

1 2 3 1

Month Day
Fiscal Year

1 7 Q

FORM TYPE

2nd Quarter Ending 30 June 2012

0 6 2 7 12

Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

COVER SHEET

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

("PhilNaRe")

(Company's Full Name)

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

(Company's Address)

(632) 988-7400

(Telephone Number)

December 31

(Fiscal Year Ending)

June 27, 2012

(Annual Meeting)

SEC FORM 17-Q

Quarterly Report

2nd Quarter Ending 30 June 2012

(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 2012
2. Commission identification Number 80118
3. BIR Tax Identification Number 000-480-869
4. **NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**
Exact name of registrant as specified in its charter
5. **PHILIPPINES**
Province, country or other jurisdiction of incorporation or organization
6. Industry classification code (SEC Use Only)
7. **18/F PHILIPPINE AXA LIFE CENTRE, SEN. GIL J. PUYAT AVE.** 1200
CORNER TINDALO STREET, MAKATI CITY Postal Code
Address of registrant's principal office
8. **(632) 988-7400**
Registrant's telephone number, including area code
9. **Not applicable**
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 4 and 8 of the RSA as of quarter ended:
- | <u>Title of Each Class</u> | <u>Number of Shares of Common Stock Outstanding</u> |
|----------------------------|---|
| Common | 2,123,605,600 |
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 11 to 29 of this report are filed as part of this Form 17-Q:

- a. Statements of Financial Position as of 30 June 2012 and 31 December 2011
- b. Statements of Income:
 - For the Quarters ended 30 June 2012 and 2011
 - For the Six Months ended 30 June 2012 and 2011
- c. Statements of Comprehensive Income for the Quarters ended 30 June 2012 and 2011
- d. Statement of Changes in Stockholders Equity as of 30 June 2012 and 2011
- e. Statement of Cash Flows:
 - For the Quarters ended 30 June 2012 and 2011
 - For the Six months ended 30 June 2012 and 2011

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

Results of Operations

For the Six months ended June 30, 2012 and 2011

Reinsurance Premium Income

Reinsurance premiums decreased by P427.2 million or 25.1% to P1.3 billion for the six months ended 30 June 2012 compared to P1.7 billion for the six months ended 30 June 2011. A major portion of the decline in gross premiums came from the Company's non-life reinsurance business, which was hit by a decrease in volume of business from the GSIS. Reinsurance premiums for non-life facultative business decreased by P198.2 million or 25% from P793.2 million for the six months ended 30 June 2011 to P595 million for the six months ended 30 June 2012. Similarly, non-life treaty premiums decreased by P220.7 million or 33% from P664.5 million to P443.8 million during the periods being compared. The Company's life reinsurance business was essentially flat, with reinsurance premiums of P233.5 million for the first half of 2012, down 3.4% from reinsurance premiums of P241.8 million for the first half of 2011.

Reinsurance premiums retained declined by P290.1 million or 51.9% to P269.3 million for the six months ended 30 June 2012 compared to P559.3 million for the six months ended 30 June 2011. Correspondingly, retention ratio declined to 21% in 2012 compared to 33% in 2011. The drop in reinsurance premiums retained was significantly higher than the decline in gross premiums because of a premium adjustment of approximately P120 million related to the Company's excess of loss program for the period April 2011 to March 2012. This adjustment, booked in the second quarter of 2012 as additional retroceded premiums, represents additional premiums payable to the Company's excess of loss reinsurers on account of higher than estimated premium volume under the excess of loss program for the period covered. Retroceded premiums thus did not decrease proportionately to gross

premiums in the first half of 2012, resulting in a lower level of reinsurance premiums retained.

Consistent with the decline in premiums retained, premiums earned decreased by P308 million (52.1%) to P283 million for the six months ended 30 June 2012 compared to P591 million for the six months ended 30 June 2011.

Underwriting Deductions

Share in claims and losses for the six months ended 30 June 2012 decreased by P241.7 million or 41.2% from P586.2 million for the six months ended 30 June 2011. The number and size of claims were lower during the period, but loss ratio increased from 99% in the first half of 2011 to 122% in the first half of 2012 due to the lower level of premiums earned.

Consistent with the decline in reinsurance premiums, net commissions decreased by P41.8 million or 24.3% from P172.5 million for the six months ended 30 June 2012 to P130.7 million for the six months ended 30 June 2011. Nonetheless, commission ratio (as a percentage of net premiums retained) increased from 31% in 2011 to 49% in 2012 due to the lower level of reinsurance premiums retained.

Investment and Other Income (Charges)

Investment and other income increased by P56.3 million or 14.4% from P390.6 million for the six months ended 30 June 2011 to P446.9 million for the six months ended 30 June 2012.

With interest and dividend income relatively unchanged, the Company's investment income was driven by increases in trading gains from stocks and fixed income securities as well as foreign exchange. Interest Income was flat at P187 million for the first half of 2012 and 2011, while dividend income was down P4 million. But gains on the sale of stocks, foreign exchange gains and trading gains increased by over P60 million in the first half of 2012 compared to the first half of 2012.

General and Administrative Expenses

General and administrative expenses (GAE) were P149.4 million for the six months ended 30 June 2012, as compared to P92.7 million for the corresponding period last year. The increase was principally due to a provision for impairment amounting to P43 million against the Company's ownership stake in Asian Reinsurance Corporation (ARC). ARC, a Thailand-based regional reinsurer saw its capital significantly impaired as a result of losses from floods in Thailand during the last quarter of 2011. GAE was also affected by higher manpower costs amounting to P7 million, largely due to additional contributions to the Company's employee retirement fund. Professional fees also increased by P4 million largely on payments related to the Company's ongoing computerization program.

Tax expense

The Company's tax expense was flat at P35 million for the first half of 2012 and 2011. Tax expense largely represents the final tax on interest from the Company's fixed-income investments.

Net Profit

As a result of the above-mentioned factors, the Company's net income amounted to P70.4 million for the six months ended 30 June 2012 as compared to P94.6 million for the six months period ended 30 June 2011.

For the Quarters ended June 30, 2012 and 2011**Reinsurance Premium Income**

Reinsurance premiums for the quarter ended 30 June 2012 decreased by 35% or P347.2 million to P644.3 million from P991.5 million for the quarter ended 30 June 2011. The decline came largely from the Company's non-life reinsurance business. While the Company continues to turn down risks which do not meet its stricter underwriting standards, premium production was also negatively affected by lower volume of premiums ceded from certain large clients such as the GSIS.

Reinsurance premiums retained for the quarter ended 30 June 2012 decreased by 90.3% or P244.6 million to P26.3 million from P270.9 million for the quarter ended 30 June 2011 principally due to the booking of the previously mentioned premium adjustment (included as part of retroceded premiums) under the Company's excess of loss program. The Company's catastrophe and risk excess of loss programs essentially protect the Company from catastrophic losses as well as losses beyond the Company's retention limit of P40 million per risk.

Consistent with the decline in premiums retained, premiums earned also decreased by 92.5% or P263.4 million from P284.9 million for the quarter ended 30 June 2011 to P21.5 million for the quarter ended 30 June 2012.

Underwriting Deductions

Share in claims and losses decreased by P121.9 million or 47.3% to P136 million for the quarter ended 30 June 2012 from P257.8 million for the quarter ended 30 June 2011, in line with a declining volume of claims.

Consistent with the decrease in reinsurance premium, net commissions also declined by 26.8% or P21.7 million from P81.2 million for the quarter ended 30 June 2011 to P59.5 million for the quarter ended 30 June 2012.

Despite the decline in underwriting deductions, net underwriting loss for the quarter increased by over 200% due to the extremely low level of earned premiums.

Investment and Other Income (Charges)

Investment and other income decreased by 16.5% or P33.5 million to P170 million for the quarter ended 30 June 2012 as compared to P203.4 million for the quarter ended 30 June 2011 on the back of a P40 million decline in trading gains for current quarter relative to the previous year. The bulk of trading gains realized so far in 2012 were booked during the first quarter.

General and Administrative Expenses

General and administrative expenses (GAE) increased by 92.8% or P44.2 million to P91.8 million for the quarter ended 30 June 2012 from P47.6 million for the quarter ended 30 June 2011 primarily due to increase in allowance for impairment of P43 million relative to the Company's ownership stake in Asian Reinsurance Corporation.

Tax expense

Tax expense in 2012 declined slightly by P1.8 million or 10% from P17.8 million for the quarter ended 30 June 2011 to P16 million for the quarter ended 30 June 2012, reflecting a slightly lower level of tax-paid interest income.

Net Profit (loss)

Due to the significant underwriting loss, the Company ended the quarter 30 June 2012 with a net loss of P111.8 compared to net profit of P83.9 million for the corresponding quarter in 2011.

Financial Condition

Total resources of the Company as of 30 June 2012 amounted to P13 billion, P335 million higher than total resources of P12.6 billion as of 31 December 2011. Material changes in the Company's resources are described below.

- **Cash and cash equivalents (P1.3B vs.P1.7B)**

Cash and cash equivalents decreased by 20.8% or P353.3 million as funds were used for payment of P.10/share cash dividends amounting to P212 million on 22 June 2012 as well as for the purchase of other investments.

- **Reinsurance Balances Receivable-net (P4.5B vs. P3.9B)**

Reinsurance balances receivable increased by 16.1% to P4.5 billion as of 30 June 2012 from P3.9 billion as of December 31, 2011 largely due to increase in reinsurance recoverable on losses from P3.0 billion as of 31 December 2011 to P4.1 billion as of 30 June 2012. The Company booked losses in excess of P1 billion for the November-December 2011 Thai floods (see Claims Payable below) but, with the exception of the Company's underlying retention of P30 million, substantially all these claims are recoverable from the Company's excess of loss reinsurers.

- **Available-for Sale Financial Assets (P5,356M vs. P5,366M)**

Available for sale (AFS) financial assets declined slightly by P9.4 million (.18%) to P5,356 million as of 30 June 2012 from P5,366 million as of December 31, 2011 principally due to lower revaluation reserve of AFS financial assets.

- **Loans and Receivables (P741M vs. P585M)**

Loans and receivables held as investments decreased by P156.7 million or 26.8% mainly due to additional investment in various corporate notes amounting to P300 million less collections from the sale of equity securities (amounting to P140 million) which had been lodged to this account as of 31 December 2011.

- **Property and Equipment, net (P125M vs. P127M)**

Property and equipment, net of accumulated depreciation amounted to P125 million as of 30 June 2012, a decrease of P2.4 million or 1.9% from 31 December 2011 mainly due to recorded depreciation of P7.4 million being higher than capital expenditure of P4.9 million.

- **Deferred Acquisition Cost (P112 vs. P138M)**

The decrease of P26.2 million in deferred acquisition cost relate to portions of reinsurance commissions as of December 31, 2011 that were expensed as of 30 June 2012 under the 24th method. Policy costs are deferred and charged to expense in proportion to reinsurance premium revenue.

- **Deferred Reinsurance Premiums (P485M vs.P564M)**

Deferred reinsurance premiums decreased by P79.2 million or 14% as of 30 June 2012 due to recognition of a portion of reinsurance premiums deferred as of December 31, 2011 as ceded 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.

- **Other Assets (P290M vs. P266M)**

Other assets increased by P23.6 million or 8.9% to P289.7 million as of 30 June 2012 from P266.1 million as of 31 December 2011 mainly due to capitalized cost relative to computerization project of NRCP (P1.7 million), creditable withholding taxes (P10 million, input vat (P9.9 million) and prepayments (P2.3 million)

Liabilities (P7,072M vs. P6,512M)

Total liabilities increased by P560 million or 8.6% from P6.5 billion as of 31 December 2011 to P7.1 billion as of 30 June 2012. The increase in total liabilities is explained below:

- **Reinsurance Balances Payable (P6.1B vs. P5.4B)**

Reinsurance balances payable were up by P673.8 million or 2.5% from P5.4 billion as of December 31, 2011 to P6.1 billion as of 2nd Qtr. 2012 primarily due to increase in losses and claims payable from P4.6 billion as of 31 December 2011 to P5.7 billion as of 30 June 2012 which increase was largely related to the Thai floods mentioned above.

- **Accounts Payable and Accrued Expenses (P106M vs. P107M)**

Accounts payable and accrued expenses decreased by P1.8 million or 1.6% mainly due to decrease in total amount of unreleased checks (considered as accounts payable) amounting to P10.6 million offset by increases in withholding tax payable (P7.1 million) and other accrued expenses payable (P1.8 million).

- **Reserve for Unearned Reinsurance Premiums (P805M vs. P897M)**

Reserve for unearned reinsurance premiums decreased by P92.9 million or 10.4% principally due to decline in reinsurance premium income for the six month ended 30 June 2012.

- **Deferred Reinsurance Commissions (P60M vs. P79M)**

Deferred reinsurance commissions decreased by P19.4 million or 24.5%, consistent with the decline in deferred acquisition cost for the period.

- **Equity (P5,9B vs. P6,1B)**

Stockholders' equity declined by P224.2 million or 3.7% to P5.9 billion as of 2nd Qtr. 2012 from P6.1 billion as of 31 December 2011 principally due to lower net income posted during the period of P70.3 million less decrease in revaluation reserve due to the impact of mark-to-market adjustments in the Company's investment portfolio (P82.2 million) and payment of P.10 cash dividend (P212.4 million).

Key Performance Indicators:

	2nd Quarter 2012	2nd Quarter 2011	% Inc.(Dec).
1. Net Income (Loss)	P 70 million	P 95 million	(26%)
2. Earnings per share (a)	P 0.03	P 0.04	(25%)
3. Retention ratio (b)	21%	33%	
4. Combined ratio (c)	226%	147%	
5. Return on average equity	1.2%	1.6%	

(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 (122 / 99%) commissions ratio (49% / 31%) and expense ratio (55% / 17%).

Net Income (NI)- The Company's net income was P70 million as of 30 June 2012 compared to P95 million as of 30 June 2011.

Earnings per share (EPS) - The Company's EPS was at P.03 and P.04 as of 30 June 2012 and 2011, respectively.

Retention ratio - The retention ratio was at 21% and 33% for the six months ended 30 June 2012 and 2011, respectively.

Combined ratio—The combined ratio was at 226% and 147% for the six months ended 30 June 2012 and 2011, respectively.

Return on average equity (ROE) –ROE as of 30 June 2012 was at 1.2% compared to ROE as of 30 June 2011 of 1.6%.

Discussion and Analysis of Material Events and Uncertainties:

NRCP has nothing to report on the following:

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

Financial Risk Disclosure

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

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

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

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

secondary or resale markets to allow for transparent valuation and immediate liquidation in the event of market turmoil.

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

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

PFRS 9 Disclosure

Pursuant to SEC Memorandum Circular No. 3 (Series of 2012) on Revised Guidelines on the Implementation of PFRS 9 (Financial Instruments: Recognition and Measurement), the Company, as of the date of this report, discloses that it does not expect to implement and adopt PFRS 9 until the effective date of this standard or until all chapters of this new standard have been published.

In addition, management has conducted an evaluation of the impact of PFRS 9 on the interim financial statements of the Company ending June 30, 2012 and will continuously assess the potential impact of this standard until its mandatory implementation by January 1, 2015.

PART 11. - OTHER INFORMATION

B. No other material information.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

(Registrant)



JOHN E. HUANG
Chief Finance Officer



ROBERTO B. CRISOL
President & Chief Executive Officer

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

BALANCE SHEET

June 30, 2012 and December 31, 2011

	<u>Notes</u>	June 2012 <u>(Unaudited)</u>	Dec. 2011 <u>(Audited)</u>	<u>Changes</u>	<u>%</u>
ASSETS					
CASH AND CASH EQUIVALENTS	2	1,346,487,508	1,699,806,389	(353,318,881)	-20.79%
REINSURANCE BALANCES RECEIVABLE-net	3	4,517,985,198	3,892,173,173	625,812,025	16.08%
AVAILABLE-FOR-SALE FINANCIAL ASSETS	4	5,356,216,369	5,365,644,659	(9,428,290)	-0.18%
LOANS AND RECEIVABLES	5	741,317,569	584,623,402	156,694,167	26.80%
PROPERTY AND EQUIPMENT-NET	6	124,989,749	127,375,909	(2,386,160)	-1.87%
DEFERRED ACQUISITION COST		111,668,405	137,880,973	(26,212,568)	-19.01%
DEFERRED REINSURANCE PREMIUMS	7	485,255,131	564,483,447	(79,228,316)	-14.04%
OTHER ASSETS	8	289,650,532	266,094,166	23,556,366	8.85%
TOTAL ASSETS		12,973,570,461	12,638,082,118	335,488,343	2.65%
LIABILITIES					
REINSURANCE BALANCES PAYABLE	3	6,101,650,459	5,427,830,998	673,819,461	-2.53%
ACCOUNTS PAYABLE & ACCRUED EXPENSES	9	105,711,170	107,474,812	(1,763,642)	-1.64%
RESERVE FOR UNEARNED RI PREMIUMS	7	804,546,660	897,469,364	(92,922,704)	-10.35%
DEFERRED REINSURANCE COMMISSIONS		59,793,095	79,232,764	(19,439,669)	-24.53%
TOTAL LIABILITIES		7,071,701,384	6,512,007,938	559,693,446	8.59%
EQUITY					
Capital Stock	14	2,181,954,600	2,181,954,600	-	-
Treasury Stock		(100,525,432)	(100,525,432)	-	-
Additional Paid in Capital		3,019,218,457	3,019,218,457	-	-
Revaluation reserve		252,448,435	334,665,263	(82,216,828)	-24.57%
Retained Earnings		548,773,017	690,761,292	(141,988,275)	-20.56%
Total Equity		5,901,869,077	6,126,074,180	(224,205,103)	-3.66%
TOTAL LIABILITIES & EQUITY		12,973,570,461	12,638,082,118	335,488,343	2.65%

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

For the Quarters ended June 30, 2012 and 2011)

	<u>Notes</u>	<u>2012</u>	<u>2011</u>	<u>Inc(Dec)</u>	<u>%</u>
Reinsurance Premium Income					
Reinsurance premiums-net of returns		644,298,430	991,495,187	(347,196,757)	-35.02%
Retroceded premiums		618,014,075	720,641,886	(102,627,811)	-14.24%
Reinsurance premiums retained		26,284,355	270,853,301	(244,568,946)	-90.30%
Increase in reserve for unearned reinsurance premiums	7	(4,785,224)	14,093,056	(18,878,280)	-133.95%
		<u>21,499,131</u>	<u>284,946,357</u>	<u>(263,447,226)</u>	<u>-92.46%</u>
Underwriting deductions					
Share in claims & losses	11	135,978,403	257,847,185	(121,868,782)	-47.26%
Commissions, net	11	59,465,421	81,212,266	(21,746,845)	-26.78%
		<u>195,443,824</u>	<u>339,059,451</u>	<u>(143,615,627)</u>	<u>-42.36%</u>
Net Underwriting Loss		<u>(173,944,693)</u>	<u>(54,113,094)</u>	<u>(119,831,599)</u>	<u>221.45%</u>
Investments and Other Income (Charges)					
Interest		87,910,555	93,414,828	(5,504,273)	-5.89%
Foreign currency gain (losses)		13,964,628	1,599,392	12,365,236	773.12%
Others		68,069,299	108,398,052	(40,328,753)	-37.20%
Investment and Other Income	10	<u>169,944,482</u>	<u>203,412,272</u>	<u>(33,467,790)</u>	<u>-16.45%</u>
Profit after Investment and Other Income		(4,000,211)	149,299,178	(153,299,389)	-102.68%
General and Administrative Expenses	12,13	<u>91,794,548</u>	<u>47,602,588</u>	<u>44,191,960</u>	<u>92.84%</u>
Profit Before Tax		(95,794,759)	101,696,590	(197,491,349)	-194.20%
Tax Expense		<u>16,004,463</u>	<u>17,783,464</u>	<u>(1,779,001)</u>	<u>-10.00%</u>
Net Profit		<u>(111,799,222)</u>	<u>83,913,126</u>	<u>(195,712,348)</u>	<u>-233.23%</u>

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

For the six Months ended June 30, 2012 and 2011)

	<u>Notes</u>	<u>2012</u>	<u>2011</u>	<u>Inc(Dec)</u>	<u>%</u>
Reinsurance Premium Income					
Reinsurance premiums-net of returns		1,272,327,657	1,699,544,577	(427,216,920)	-25.14%
Retroceded premiums		1,003,036,975	1,140,194,971	(137,157,996)	-12.03%
Reinsurance premiums retained		269,290,682	559,349,606	(290,058,924)	-51.86%
Increase in reserve for unearned reinsurance premiums	7	13,694,388	31,618,982	(17,924,594)	-56.69%
		<u>282,985,070</u>	<u>590,968,588</u>	<u>(307,983,518)</u>	<u>-52.12%</u>
Underwriting deductions					
Share in claims & losses	11	344,482,414	586,238,786	(241,756,372)	-41.24%
Commissions, net	11	130,677,848	172,512,358	(41,834,510)	-24.25%
		475,160,262	758,751,144	(283,590,882)	-37.38%
Net Underwriting Loss					
		<u>(192,175,192)</u>	<u>(167,782,556)</u>	<u>(24,392,636)</u>	<u>14.54%</u>
Interest		186,571,445	186,846,671	(275,226)	-0.15%
Foreign currency gain (losses)		9,885,331	1,109,254	8,776,077	791.17%
Others		250,439,853	202,629,941	47,809,912	23.59%
Investment and Other Income	10	<u>446,896,629</u>	<u>390,585,866</u>	<u>56,310,763</u>	<u>14.42%</u>
Profit after Investment and Other Income					
		254,721,437	222,803,310	31,918,127	14.33%
General and Administrative Expenses					
	12,13	<u>149,415,810</u>	<u>92,666,418</u>	<u>56,749,392</u>	<u>61.24%</u>
Profit Before Tax					
		105,305,627	130,136,892	(24,831,265)	-19.08%
Tax Expense					
		34,933,342	35,494,953	(561,611)	-1.58%
Net Profit					
		<u>70,372,285</u>	<u>94,641,939</u>	<u>(24,269,654)</u>	<u>-25.64%</u>

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

For the six months ended June 30, 2012 and 2011)

	<u>Notes</u>	<u>2012</u>	<u>2011</u>	<u>Inc(Dec)</u>	<u>%</u>
NET PROFIT		70,372,285	94,641,940	(24,269,655)	25.64%
OTHER COMPREHENSIVE INCOME (LOSS)					
Fair value gains (losses)-net of taxes	4	<u>(82,216,828)</u>	<u>(197,663,108)</u>	<u>115,446,280</u>	58.41%
TOTAL COMPREHENSIVE INCOME (LOSS)		<u>(11,844,543)</u>	<u>(103,021,168)</u>	<u>91,176,625</u>	88.50%

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CHANGES IN EQUITY (unaudited)
As of June 30, 2012 and 2011

	<u>Notes</u>	<u>June 30 , 2012</u>	<u>June 30 , 2011</u>
CAPITAL STOCK - P1 par value			
Authorized - 3,000,000,000 shares			
Issued -2,181,954,600 shares in 2010 and 2009			
	14	<u>2,181,954,600</u>	<u>2,181,954,600</u>
ADDITIONAL PAID IN CAPITAL			
		<u>3,019,218,457</u>	<u>3,019,218,457</u>
TREASURY SHARES (at cost)			
	14	<u>(100,525,432)</u>	<u>(40,081,811)</u>
REVALUATION RESERVE			
Balance at beginning of the year		334,665,263	393,670,095
Changes during the period		<u>(82,216,828)</u>	<u>(197,663,108)</u>
		<u>252,448,435</u>	<u>196,006,987</u>
RETAINED EARNINGS			
Appropriated for contingencies			
Balance at beginning of the year		265,673,762	231,638,712
Additional appropriations		<u>7,037,229</u>	<u>9,464,194</u>
	14	<u>272,710,991</u>	<u>241,102,906</u>
Unappropriated			
Balance at beginning of the year		425,087,530	161,965,642
Net Income		70,372,285	94,641,940
Cash Dividend		<u>(212,360,560)</u>	<u>(43,193,552)</u>
Appropriated for contingencies		<u>(7,037,229)</u>	<u>(9,464,194)</u>
		<u>276,062,026</u>	<u>203,949,836</u>
		<u>5,901,869,077</u>	<u>5,802,150,975</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CASH FLOWS (unaudited)
For the three months period ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income(loss) before tax	(P 95,794,759)	P 101,696,591
Adjustments for:		
Increase (Decrease) in reserve for unearned RI Premiums	4,785,224	(14,093,056)
Unrealized foreign currency loss (gain)	(11,718,876)	1,820,073
Gain on sale of AFS financial assets	(28,916,280)	(28,038,784)
Impairment loss	43,000,000	
Depreciation	7,718,671	6,745,146
Interest income	(87,910,555)	(93,414,829)
Dividend income	(13,526,926)	(15,947,014)
Operating income before working capital changes	<u>(182,363,501)</u>	<u>(41,231,873)</u>
(Increase)Dec. in reinsurance balances receivable	216,743,071	150,012,736
Decrease (Increase) in deferred acquisition costs	2,237,353	3,146,043
(Increase) in other assets	(9,060,877)	(2,794,615)
(Increase) Decrease in loans and receivables	(109,817,767)	10,054,439
Increase (decrease) in reinsurance balances payable	(267,868,102)	(106,331,377)
Increase (decrease) in accounts payable and accrued exp.	(56,082,814)	(12,858,627)
Cash generated from (used in) operations	<u>(406,212,637)</u>	<u>(3,274)</u>
Cash paid for income taxes	<u>(16,004,463)</u>	<u>(17,783,464)</u>
Net Cash From (Used in) Operating Activities	<u>(422,217,100)</u>	<u>(17,786,738)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposals (acquisitions) of:		
Available-for-sale financial assets	151,793,955	1,085,202,694
Property and equipment	(500,975)	(9,908,685)
Other investments	-	
Intangible asset	-	
Interest received	68,693,100	80,858,886
Dividends received	<u>13,526,926</u>	<u>15,947,014</u>
Net Cash From (Used in) Investing Activities	<u>233,513,006</u>	<u>1,172,099,909</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends	(212,360,560)	(43,193,552)
Proceeds from Initial Public Offering (IPO)	-	-
Net Cash From (Used in) Financing Activities	<u>(212,360,560)</u>	<u>(43,193,552)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(401,064,654)	1,111,119,619
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS	(3,640,400)	973,241
CASH AND CASH EQUIVALENTS -March 31	<u>1,751,192,562</u>	<u>1,165,700,068</u>
CASH AND CASH EQUIVALENTS -June 30	<u>P 1,346,487,508</u>	<u>P 2,277,792,928</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CASH FLOWS (unaudited)
For the six months period ended June 30, 2012 and June 30, 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before tax	P 105,305,627	P 130,136,893
Adjustments for:		
Increase in reserve for unearned RI Premiums	(13,694,388)	(31,618,982)
Unrealized foreign currency loss (gain)	(9,388,546)	3,252,956
Gain on sale of AFS financial assets	(83,867,850)	(54,430,489)
Gain on sale of property and equipment	(10,000)	
Impairment loss	43,000,000	
Depreciation	16,054,006	13,625,007
Interest income	(186,571,445)	(186,846,671)
Dividend income	(18,294,337)	(22,405,741)
Operating income before working capital changes	<u>(147,466,933)</u>	<u>(148,287,027)</u>
(Increase)Dec. in reinsurance balances receivable	(669,932,911)	645,264,513
Decrease (Increase) in deferred acquisition costs	6,772,899	8,243,316
(Increase) in other assets	(21,812,421)	(14,656,116)
(Increase) Decrease in loans and receivables	(164,662,440)	49,635,626
Increase (decrease) in reinsurance balances payable	739,081,334	(456,740,590)
Increase (decrease) in accounts payable and accrued exp.	(1,763,642)	(50,488,968)
Cash generated from (used in) operations	<u>(259,784,114)</u>	<u>32,970,754</u>
Cash paid for income taxes	<u>(34,933,342)</u>	<u>(35,494,953)</u>
 Net Cash From (Used in) Operating Activities	 <u>(294,717,456)</u>	 <u>(2,524,199)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposals (acquisitions) of:		
Available-for-sale financial assets	(38,041,401)	1,467,374,989
Held-to-maturity investments	-	-
Property and equipment	(15,401,791)	(7,402,150)
Intangible asset	-	(3,030,370)
Interest received	194,539,718	231,426,459
Dividends received	<u>18,294,337</u>	<u>22,405,741</u>
 Net Cash From (Used in) Investing Activities	 <u>159,390,863</u>	 <u>1,710,774,669</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends	(212,360,560)	(43,193,552)
Proceeds from Initial Public Offering (IPO)	-	-
 Net Cash From (Used in) Financing Activities	 <u>(212,360,560)</u>	 <u>(43,193,552)</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 (347,687,153)	 1,665,056,918
 EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS	 (5,631,728)	 (551,043)
 CASH AND CASH EQUIVALENTS -January 1	 1,699,806,389	 613,287,054
 CASH AND CASH EQUIVALENTS -June 30	 <u>P 1,346,487,508</u>	 <u>P 2,277,792,928</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
Notes and Other Disclosures

1. 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).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of assets, liabilities, income and expense.

2. CASH AND CASH EQUIVALENTS

This account consists of:

	<u>June 2012</u>	<u>December 2011</u>
Short-term placements	P 1,268,125,584	P 1,663,869,249
Cash on hand and in banks	<u>78,361,924</u>	<u>35,937,140</u>
	<u>P 1,346,487,508</u>	<u>P 1,699,806,389</u>

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 3.5% to 4.30% in 2012 and from 1.25% to 4.75% in 2011 while dollar short-term placements earn annual interest rates ranging from 1.0% to 1.50% in 2012 and from 0.02% to 1.75% in 2011. 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\$3,040,911 (or P128,578,829) as of June 30, 2012 and US\$4,906,842 (or P215,547,761) as of December 31, 2011.

3. REINSURANCE BALANCES

The details of reinsurance balances are as follows:

	<u>June 2012</u>	<u>December 2011</u>
Reinsurance balances receivable:		
Reinsurance recoverable on unpaid losses	P 3,684,541,535	P 2,589,586,325
Due from ceding companies	555,997,851	1,076,598,889
Reinsurance recoverable on paid losses	447,721,943	396,607,866
Funds held by ceding companies	<u>145,353,828</u>	<u>145,010,052</u>
	4,833,615,157	4,207,803,132
Allowance for impairment	(<u>315,629,959</u>)	(<u>315,629,959</u>)
	<u>P 4,517,985,198</u>	<u>P 3,892,173,173</u>
Reinsurance balances payable:		
Claims payable	P 5,715,753,325	P 4,661,427,080
Due to retrocessionaires	300,742,142	677,808,010
Funds held for retrocessionaires	<u>85,154,992</u>	<u>88,595,908</u>
	<u>P 6,101,650,459</u>	<u>P 5,427,830,998</u>

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.

4. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>June 2012</u>	<u>December 2011</u>
Bonds	P 4,261,690,172	P 4,570,453,923
Equity securities - net	906,263,735	602,079,356
Investment in Asian Re shares	34,897,962	77,897,962
Various funds	<u>153,364,500</u>	<u>115,213,418</u>
	<u>P 5,356,216,369</u>	<u>P 5,365,644,659</u>

Bonds include investments in corporate bonds, long-term negotiable instruments and government securities. This also includes government securities amounting P428,500,000 and 187,500,000 in June 2012 and December 2011 respectively, 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 4.00% to 15.00% and 3.75% to 15.00% in 2012 and December 2011 respectively. Interest incomes recognized are presented as part of Investment and Other Income in the statements of income (see Note 10).

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

	<u>June 2012</u>	<u>December 2011</u>
Due within one year	P 151,628,223	P 332,831,836
Due after one year through five years	1,134,819,684	782,494,524
Due after five years through ten years	1,767,339,812	1,073,433,259
Due after ten years	<u>1,207,902,453</u>	<u>2,381,694,304</u>
	<u>P 4,261,690,172</u>	<u>P 4,570,453,923</u>

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

	<u>June 2012</u>	<u>December 2011</u>
Cost:		
Quoted in the stock exchange	P 830,666,897	P 539,093,950
Not quoted in the stock exchange	<u>40,636,735</u>	<u>40,636,735</u>
	<u>871,303,632</u>	<u>579,730,685</u>
Fair value gains (losses):		
Quoted in the stock exchange	52,942,593	43,803,877
Not quoted in the stock exchange	<u>(17,982,490)</u>	<u>(21,455,206)</u>
	<u>34,960,103</u>	<u>22,348,671</u>
	<u>P 906,263,735</u>	<u>P 602,079,356</u>

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. The Company's management has determined in 2012 that there is objective evidence that the decline in the value of these shares is permanent. Accordingly, impairment loss amounting to P43,000,000 were recognized in profit or loss as Impairment Loss under General and Administrative Expenses in the 2012 statement of income (see Note 12).

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

	<u>June 2012</u>	<u>December 2011</u>
Balance at beginning of year	P 5,365,644,659	P 6,297,135,567
Additions	3,696,128,630	7,213,870,663
Disposals/maturities	<u>(3,574,223,735)</u>	<u>(8,086,208,824)</u>
Fair value gains(loss) - net	<u>(82,216,828)</u>	<u>(59,004,832)</u>
Foreign currency gains (losses)	<u>(6,116,357)</u>	<u>(147,915)</u>
Impairment losses	<u>(43,000,000)</u>	<u>-</u>
Balance at end of year	<u>P 5,356,216,369</u>	<u>P 5,365,644,659</u>

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 P82,216,828 and P59,004,832 fair value losses in June 2012 and December 2011.

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.

5. LOANS AND RECEIVABLES

This account includes the following:

	<u>June 2012</u>	<u>December 2011</u>
Current:		
Term loans	P 200,000,000	P 150,000,000
Accrued interest receivable	67,839,506	75,807,780
Others	<u>12,035,793</u>	<u>146,395,665</u>
	<u>279,875,299</u>	<u>372,203,445</u>
Non-current:		
Term loans	450,000,000	200,000,000
Loans receivable	<u>11,442,270</u>	<u>12,419,957</u>
	<u>461,442,270</u>	<u>212,419,957</u>
	<u>P 741,317,569</u>	<u>P 584,623,402</u>

6. PROPERTY AND EQUIPMENT

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

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Carrying Amount</u>
Condominium Units	P 154,882,915	65,990,260	88,892,655
Office Improvement	14,384,789	7,187,931	7,196,858
Office Furniture/Equipment	11,391,354	9,787,663	1,603,691
Transportation Equipment	12,822,772	3,644,692	9,178,080
EDP Equipment	<u>39,395,378</u>	<u>21,276,913</u>	<u>18,118,465</u>
Total	<u>232,877,208</u>	<u>107,887,459</u>	<u>124,989,749</u>

7. DEFERRED REINSURANCE PREMIUMS AND RESERVE FOR UNEARNED REINSURANCE PREMIUMS

The movement of these accounts follows:

	<u>Deferred Reinsurance Premiums</u>		<u>Reserve for Unearned Reinsurance Premiums</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Balance at beginning of year	P 564,483,447	P 514,257,825	P 897,469,364	P 902,887,425
Inc (Dec) during the year	(<u>79,228,316</u>)	<u>50,225,622</u>	(<u>92,922,704</u>)	(<u>5,418,061</u>)
Balance at end of year	<u>P 485,255,131</u>	<u>P 564,483,447</u>	<u>P 804,546,660</u>	<u>P 897,469,364</u>

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.

8. OTHER ASSETS

The Other Assets account includes the following:

	<u>June 2012</u>	<u>December 2011</u>
Deferred input VAT	P 74,110,983	P 69,065,709
Creditable withholding tax	87,482,182	77,434,655
Intangible assets – net	64,060,730	62,314,284
Investment property - net	2,847,409	2,849,909
Input VAT	43,502,251	38,606,219
Deferred withholding VAT	9,200,181	9,200,181
Prepayments	4,087,231	2,500,391
Deposit	359,452	672,309
Security fund	192,888	192,888
Others	3,807,225	3,257,621
	<u>P 289,650,532</u>	<u>P 266,094,166</u>

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, 2012 and 2011 follows:

	<u>June 2012</u>	<u>December 2011</u>
Cost	P 100,100,403	P 89,629,802
Accumulated amortization	(36,039,673)	(27,315,518)
Balance at end of year	<u>P 64,060,730</u>	<u>P 62,314,284</u>

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

	<u>June 2012</u>	<u>December 2011</u>
Deferred output VAT	P 41,252,269	P 41,439,173
Accrued expenses	6,451,703	8,605,241
Defined benefit liability	15,718,541	11,537,344
Accounts payable and other liabilities	33,260,708	43,935,950
Withholding taxes payable	<u>9,027,949</u>	<u>1,957,104</u>
	<u>P 105,711,170</u>	<u>P 107,474,812</u>

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.

10. INVESTMENT AND OTHER INCOME

The details of this account follow:

	<u>June 2012</u>	<u>June 2011</u>
Interest	P 186,571,445	P 186,846,671
Gain on sale of stocks	83,867,850	54,430,489
Dividend income	18,294,337	22,405,741
Foreign exchange gain	9,885,331	1,109,254
Trading gains	150,326,407	127,006,140
Gain on sale of property & equipment	10,000	-
Other income (charges)	(2,058,741)	(1,212,429)
	<u>P 446,896,629</u>	<u>P 390,585,866</u>

11. 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:

	<u>June 2012</u>	<u>June 2011</u>
Commission expense	P 208,836,278	P 306,678,148
Reinsurance revenues	(78,158,430)	(134,165,790)
	<u>P 130,677,848</u>	<u>P 172,512,358</u>

Commission expense refers to fees deducted by ceding companies from reinsurance premiums assumed during the period under treaty and facultative agreements.

Reinsurance revenues pertain to fees charged by the Company related to reinsurance premiums retroceded during the period under treaty and facultative agreements.

12. GENERAL AND ADMINISTRATIVE EXPENSES

The details of this account follow:

	<u>June 2012</u>	<u>June 2011</u>
Salaries and employee benefits	P 64,302,191	P 57,461,637
Impairment loss	43,000,000	-
Depreciation and amortization	16,054,006	13,625,007
Professional fees	5,775,075	2,433,870
Repairs and maintenance	3,069,671	464,864
Taxes, licenses and fees	2,883,732	3,160,271
Transportation and traveling	1,298,067	2,023,064
Light and water	1,700,767	2,583,104
Representation and entertainment	1,395,286	2,017,328
Contract labor	1,078,155	1,238,970
Association and pool expense	2,210,662	2,074,991
Rental	354,195	633,290
Communication and postages	1,241,447	987,722
Printing and office supplies	718,671	549,392
Advertising and publicity	822,791	586,772
Insurance	503,484	584,095
Miscellaneous	3,007,610	2,242,041
	<u>P 149,415,810</u>	<u>P 92,666,418</u>

13. SALARIES AND EMPLOYEE BENEFITS

a. *Salaries and Employee Benefits*

Expenses recognized for employee benefits are presented below.

	<u>June 2012</u>	<u>June 2011</u>
Salaries and wages	P 38,819,362	P 38,328,805
Retirement	8,777,488	5,047,532
Allowances and bonus	9,082,320	8,454,292
Compensated absences	4,621,508	3,793,006
Social security costs	877,436	849,859
Others	2,124,077	988,143
	<u>P 64,302,191</u>	<u>P 57,461,637</u>

14. EQUITY

14.1 Capital Stock

The Company is authorized to issue 3,000,000,000 shares of common stock with a par value of P1 per share.

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, 2012, there are 283 holders of the listed shares. Such listed shares closed at P2.00 per share as of June 30, 2012

14.2 Treasury Shares

In 2011, the Company acquired 36,072,000 of its own shares at a total cost of P60,443,621. The total reacquired shares as of June 30, 2012 and December 31, 2011 is 58,349,000 at a total cost of P100,525,432.

14.3 Appropriation for Contingencies

On April 18, 1989, the Company's BOD approved the establishment of a special reserve which will serve as cushion to the paid-up capital in the event of extraordinarily high loss occurrences or severe catastrophic losses. The amount of P5,000,000 was initially appropriated from retained earnings for this purpose on April 30, 1989. Subsequently, at December 31 of each year where there is profit, 10% of such profit shall be set aside as additional reserve for contingencies. The reserve balance, which is shown as Appropriated under Retained Earnings account in the statements of changes in equity, should not exceed, at any time, the amount of paid-up capital. The balance of appropriation for contingencies amounted to P272,710,991 as of June 30, 2012, and P265,673,762 as of December 31, 2011 respectively.

15. RELATED PARTY TRANSACTIONS

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

15.1 Reinsurance Contracts with Related Parties

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

	<u>June 2012</u>	<u>December 2011</u>
Premiums	P 170,893,166	P 1,146,301,458
Retrocessions	3,566,937	78,331,370
Commission income	33,809	10,617,793
Commission expenses	38,199,374	190,804,367
Losses incurred	50,643,253	208,301,660
Loss recoveries	233,002	1,069,069

As a result of the above transactions, reinsurance balances receivable from and payable to related parties are as follows (see Note 3):

	<u>June 2012</u>	<u>December 2011</u>
Due from ceding companies	P 279,322,556	P 349,177,047
Reinsurance recoverable on losses	56,402,254	86,781,419
Funds held by ceding companies	56,135,506	51,280,665
Claims payable	993,005,227	933,975,767
Due to retrocessionaires	10,704,406	33,293,883
Funds held for retrocessionaires	164,032	164,032

The balance of due from ceding companies pertaining to related parties is presented net of P30,700,236 allowance for impairment as of June 30, 2012 and December 2011.

15.2 Bank Accounts

The Company maintains several savings and current accounts, and time deposits with Bank of the Philippine Islands (BPI), a stockholder. The details of which follow:

	<u>June 2012</u>	<u>December 2011</u>
Time deposits	P 200,900,000	P -
Savings and current accounts	2,527,460	4,457,906
	<u>P 203,427,460</u>	<u>P 4,457,906</u>

15.3 Investment Management and Custodianship

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

	<u>June 2012</u>	<u>December 2011</u>
Cash and cash equivalents	P 350	P 290,649,107
Available-for-sale financial assets	1,747,941,830	1,276,647,973
Loans and receivables	68,579,772	120,626,261
	<u>P 1,816,521,952</u>	<u>P 1,687,923,341</u>

In consideration for the services rendered, the Company pays BPI service fees equivalent to a certain percentage of the market value of the investments. Total service fees paid for the quarter ended June 30, 2012 and 2011 amounted to P1,890,782 and P1,624,105 respectively, and is charged against Other Income (Charges) under Investment and Other Income account (see Note 10) in the statements of income.

15.4 Retirement Fund Investment Management

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

16. Earnings (loss) Per Share

The earnings per share amounts are as follows:

	<u>June 2012</u>	<u>June 2011</u>
Net income (loss) available to common shareholders	P 70,372,285	P 94,641,940
Divided by the average number of outstanding common shares	<u>2,123,605,600</u>	<u>2,159,677,600</u>
	<u>P 0.03</u>	<u>P 0.04</u>

17. Other SEC requirements

The following information, as a minimum, should be disclosed in the notes to financial statements, if material and if not disclosed elsewhere in the interim financial report:

<ul style="list-style-type: none"> Explanatory comments about the seasonality or cyclicity of interim operations 	<ul style="list-style-type: none"> Nothing to report.
<ul style="list-style-type: none"> The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents 	<ul style="list-style-type: none"> Nothing to report.
<ul style="list-style-type: none"> The nature and amount of changes in estimates of amounts reported in prior interim periods of the current fiscal year or changes in estimates of amounts reported prior financial years, if those changes have a material effect in the current interim period 	<ul style="list-style-type: none"> Nothing to report.
<ul style="list-style-type: none"> Issuances, repurchases, and repayments of debt and equity securities 	<ul style="list-style-type: none"> Nothing to report.
<ul style="list-style-type: none"> Dividends paid (aggregate or per share) separately for ordinary shares and other shares 	<ul style="list-style-type: none"> The Board of Directors approved the declaration of P0.10/share cash dividend payable to stockholders of record as of June 01, 2012. Payment of said cash dividend shall be on June 22, 2012

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

AGING OF REINSURANCE BALANCES RECEIVABLE

As of June 30, 2012

(In million pesos)

	<u>Total</u>	<u>Below 360 days</u>	<u>Over 360 days</u>
Due from Ceding Companies	556	198	358
Reinsurance recoverable on paid losses	448	107	341
Reinsurance recoverable un unpaid losses	3,685	3,685	-
Funds Held by Ceding companies	145	145	-
	<u>4,834</u>	<u>4,135</u>	<u>699</u>
Allowance for impairment*	<u>(316)</u>		
	<u>4,518</u>		

*Our policy on providing provision on receivables of more than one year is by specific identification method and each account has been subjected to impairment test.