

# COVER SHEET

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S.E.C. Registration Number

NATIONAL REINSURANCE  
CORPORATION  
OF THE PHILIPPINES

(Company's Full Name)

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

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

**JOHN E. HUANG**

Contact Person

**759-58-01**

Company Telephone Number

1 2    3 1

Month    Day  
Fiscal Year

1 7 Q

FORM TYPE

2nd Quarter Ending 30 June 2011

0 6    2 9 11

Month    Day  
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

**COVER SHEET**

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**("PhilNaRe")**

\_\_\_\_\_  
(Company's Full Name)

**18<sup>th</sup> Floor, Philippine AXA Life Centre Sen. Gil J. Puyat Avenue**  
**corner Tindalo St., Makati City, Philippines 1200**  
\_\_\_\_\_  
(Company's Address)

**(632) 759-5801 to 06**  
(Telephone Number)

**December 31**  
(Fiscal Year Ending)

**June 30, 2011**  
(Annual Meeting)

**SEC FORM 17-Q**  
**Quarterly Report**  
**2nd Quarter Ending 30 June 2011**  
(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 2011
2. Commission identification Number 80118
3. BIR Tax Identification Number 000-480-869
4. NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
Exact name of registrant as specified in its charter
5. PHILIPPINES  
Province, country or other jurisdiction of incorporation or organization
6. Industry classification code  (SEC Use Only)
7. 18/F PHILIPPINE AXA LIFE CENTRE, SEN. GIL J. PUYAT AVE. 1200  
CORNER TINDALO STREET, MAKATI CITY Postal Code  
Address of registrant's principal office
8. (632) 759-5801 to 06  
Registrant's telephone number, including area code
9. Not applicable  
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 4 and 8 of the RSA as of quarter ended:
- | <u>Title of Each Class</u> | <u>Number of Shares of Common Stock Outstanding</u> |
|----------------------------|---|
| <b>Common</b>              | <b>2,159,677,600</b>                                |
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 2011 and December 31, 2010.
- b. Statements of Income:  
For the Quarters ended 30 June 2011 and 2010  
For the Six Months ended 30 June 2011 and 2010
- c. Statements of Comprehensive Income for the Quarters ended 30 June 2011 and 30 June 2010
- d. Statement of Changes in Stockholders Equity as of 30 June 2011 and 2010
- e. Statement of Cash Flows:  
For the Quarters ended 30 June 2011 and 2010  
For the Six months ended 30 June 2011 and 2010

**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, 2011 and 2010*

**Reinsurance Premium Income**

Reinsurance premiums declined by P281.6 million (13.34%) to P1,700 million for the six months ended 30 June 2011 compared to P1,961 million for the six months ended 30 June 2010. The decrease was largely attributable to a drop in reinsurance premiums from the Company's Non-Life business. The drop, in turn, resulted from more selective underwriting of risk as well as the non-renewal last December of a number of unprofitable foreign treaties.

Reinsurance premiums retained declined by P213.9 million (27.7%) to P559.3 million for the six months ended 30 June 2011 compared to P773.2 million for the six months ended 30 June 2010. The percentage decline in net premiums during the period was greater than the percentage decline in gross premiums due to a lower level of retention—33% in 2011 as against 39% in 2010.

In line with the decline in premiums retained, premiums earned decreased by P160 million (21.3%) to P591 million for the six months ended 30 June 2011 compared to P750.8 million for the six months ended 30 June 2010.

**Underwriting Deductions**

Share in claims and losses for the six-month period ended 30 June 2011 was down by P306.7 million or 34.4% compared to share in claims and losses of P893 million for the six months ended 30 June 2010, resulting in a loss ratio of 99% through the first six months of

2011 as against 119% for the corresponding period in 2010. The improvement in loss ratio reflects lower catastrophe losses and claims received/advised during the current period.

Net commission expense for the six months ended 30 June 2011 amounted to P172.5 million, 23% lower than net commission expense of P224.1 million for the six months ended 30 June 2010. The decline corresponds to the decline in earned premiums for the period.

#### **Investment and Other Income (Charges)**

For the six-month period ended 30 June 2011, investment and other income increased by P147.9 million or 61% to P390.6 million from P242.7 million for the six-month period ended 30 June 2010.

Interest income was relatively flat at P187 million for the first six months of 2011 and the first six months of 2010. However, the Company booked significant gains in other aspects of its investment portfolio. Foreign currency translation gains amounted to P1.1 million for the six months ended 30 June 2011 as against P0.3 million for the six months ended 30 June 2010. More importantly, realized gains from the Company's equity and fixed income securities totaled P181.4 million for the first six months of 2011 compared to 34.6 million for the first six months of 2010.

#### **General and Administrative Expenses**

General and administrative expenses (GAE) were P92.7 million for the six months ended 30 June 2011, as compared to P87.6 million for the six months ended 30 June 2010, an increase of P5.1 million or 5.8%. The increase was principally due to depreciation and amortization of capitalized cost of the Company's Project IRIS (Integrated Reinsurance System).

#### **Tax expense**

The Company's tax expense was flat at P38 million for the six months ended 30 June 2011 and for the six months ended 30 June 2010. Tax expense is largely represents the final tax on interest from the Company's fixed-income investments.

#### **Net Profit (loss)**

As a result of the above-mentioned factors, the Company's net income amounted to P94.6 million for the six-month period ended 30 June 2011 as compared to a net loss of P246.9 million for the six-month ended 30 June 2010.

### **For the Quarters ended June 30, 2011 and 2010**

#### **Reinsurance Premium Income**

Reinsurance premiums for the quarter ended 30 June 2011 decreased by 22.3% or P285 million to P991.5 million from P1,276.5 million for the quarter ended 30 June 2010. The decline was due to the non-renewal in late 2010 of certain unprofitable Non-Life treaties with cedants in Non-Asean countries, resulting in the loss of premium income in the current year from said treaties.

Reinsurance premiums retained for the quarter ended 30 June 2011 decreased by 43.4% or P207 million to P271 million from P478.2 million for the quarter ended 30 June 2010. The percentage decline in net premiums during the quarter was greater than the

percentage decline in gross premiums due to a lower retention ratio. The lower retention ratio was, in turn, the result of a larger proportion of Non-Life Facultative business, where the Company's underlying retention is generally lower.

The drop in reinsurance premium volume for the quarter ended 30 June 2011 led to a decline in unearned premium reserve (UPR). This release in UPR generated technical income amounting to P14.1 million, which reduced the decline in earned premiums relative to net premiums. Premiums earned for the quarter ended 30 June 2011 decreased by 32.8% to P284.9 million compared to P423.9 million for the quarter ended 30 June 2010.

#### **Underwriting Deductions**

Share in claims and losses decreased by P423.3 million (62.2%) to P257.8 million for the quarter ended 30 June 2011 from P681.1 million for the quarter ended 30 June 2010 principally due to lower claims received/reported during the quarter and the absence of any major catastrophe-related claims which had resulted in the high level of claims and losses in 2010.

Net commission expense for the quarter ended 30 June 2011 amounted to P81.2 million, 33.9% lower than net commission expense of P122.8 million for the quarter ended 30 June 2010. This is consistent with the decline in earned premiums for the periods being compared.

#### **Investment and Other Income (Charges)**

Investment and other income increased by 28.8% or P45.4 million to P203.4 million in 2<sup>nd</sup> Qtr. 2011 from P158 million in 2<sup>nd</sup> Qtr. 2010. A decline in interest income and foreign currency translation gains was more than offset by increases in trading gains during the period.

#### **General and Administrative Expenses**

General and administrative expenses (GAE) decreased by 3.3% or P1.6 million to P47.6 million in the quarter ended 30 June 2011 from P49.2 million in the quarter ended 30 June 2010 principally due to lower manpower costs during the period.

#### **Tax expense**

Tax expense was flat at P18 million for the quarters ended 30 June 2011 and 2010, as most of the Company's tax expense relate to final tax on interest income, which was relatively stable.

#### **Net Profit (loss)**

Net profit for the 2<sup>nd</sup> quarter 2011 was P83.9 million compared to a net loss for 2<sup>nd</sup> Qtr. 2010 of P289.2 principally due to lower underwriting loss and higher investment income..

#### **Financial Condition**

Total resources of the Company as of 30 June 2011 amounted to P11.9 billion, a slight decline from total resources as of 31 December 2010 of P12.6 billion. Material changes in the Company's resources are explained below.

- **Cash and cash equivalents (P2.3B vs.P613M)**

Cash and cash equivalents increased by 271.4% or P1.7 billion as funds were shifted to short-term investments from longer-dated fixed income securities.

- **Reinsurance Balances Receivable-net (P3.6B vs. 4.2B)**

Reinsurance balances receivable decreased by 15.4% to P3.6 billion as of 30 June 2011 from P4.2 billion as of December 31, 2010 largely as a result of the collection of receivables. Amounts due from ceding companies was reduced from P1.2 billion as of 31 December 2010 to P0.6 billion as of 30 June 2011.

- **Available-for Sale Financial Assets (P4,685M vs. 6,297M)**

Available for sale (AFS) financial assets declined by P1.6 billion (25.6%) to P4.7 billion as of 30 June 30 from P6.3 billion as of December 31, 2010 due to the sale of AFS securities, the proceeds of which were transferred temporarily to cash and short-term investments.

- **Loans and Receivables (P266M vs. P361M)**

Loans and receivables held as investments decreased by P94.2 million or 26.1% mainly due to collection of accrued interest (P64 million) and maturity of various loans (P30 million).

- **Property and Equipment, net (P152M vs. P123M)**

Property and equipment (PPE), net of accumulated depreciation, amounted to P151.6 million, as of 30 June 2011, an increase of P29 million or 23.7% from P122.6 million as of 31 December 2010. The increase was the result of a reclassification of certain condominium units owned by the Company from investment properties to PPE. These units, located at Ayala Life FGU Center were, until March of this year, being leased to an unrelated party. The lease has since been cancelled and the property will be used by the Company for its own purposes.

- **Intangible Assets (P31M vs. P32M)**

Intangible assets are composed of computer software licenses totaling P31 million as of 30 June 2011. This account was reclassified from PPE to intangible assets in June 2011. Accordingly, intangible assets as of 31 December 2010 were set up for comparative purposes.

- **Deferred Acquisition Cost (P140 vs. P198M)**

The decrease of P58.1 million in deferred acquisition cost relate to portions of reinsurance commissions as of December 31, 2010 that were expensed as of 30 June 2011 under the 24<sup>th</sup> method.

- **Deferred Reinsurance Premiums (P626M vs.P514M)**

Deferred reinsurance premiums increased by P111 million or 21.6% as of 30 June 2011. This is consistent with the increase in reserve for unearned reinsurance premiums, which is a liability account.

- **Other Assets (P187M vs. P204M)**

Other assets decreased by 8.4% or P17.1 million from P204.4 million as of 31 December 2010 to P187.3 million as of 30 June 2011 due to the reclassification property no longer intended for rental.

**Liabilities (P6,127M vs. P6,605M)**

Total liabilities decreased by P478 million or 7.2% from P6.6 billion as of 31 December 2010 to P6.1 billion as of 30 June 2011. The changes in individual liability accounts is explained below:

- **Reinsurance Balances Payable (P5.0B vs. P5.5B)**

Reinsurance balances payable decreased by P457 million or 8.3% from P5.5 billion as of December 31, 2010 to P5.0 billion as of 2<sup>nd</sup> Qtr. 2011 primarily due to settlement of reinsurance balances due to the Company's retrocessionaires.

- **Accounts Payable and Accrued Expenses (P58M vs. P109M)**

Payment of withholding taxes and accrued expenses, as well as settlement of liabilities to certain retired employees reduced the balance of accounts payable and accrued expenses by P50.2 million or 46.2% between 31 December 2010 and 30 June 2011.

- **Reserve for Unearned Reinsurance Premiums (P983M vs. P903M)**

Reserve for unearned reinsurance premiums increased by P79.6 million or 8.8% mainly due to high volume of reinsurance contracts with inception dates at or close to the end of 2<sup>nd</sup> Qtr. 2011. This resulted in a larger volume of deferred (unearned) premiums as the 24<sup>th</sup> method requires premium recognition over the life of the contract.

- **Deferred Reinsurance Commissions (P81M vs. P130M)**

Deferred reinsurance commissions decreased by P49.9 million or 38.3%, consistent with the decline in deferred acquisition cost for the period.

- **Equity (P5,8B vs. P5,9B)**

Stockholders equity declined by P146.2 million mainly due to payment of cash dividends to stockholders on June 21, 2011 amounting to P43.2 million and lower revaluation reserve due to the impact of mark-to-market adjustments in the Company's investment portfolio.



**Key Performance Indicators:**

	2nd Quarter 2011	2nd Quarter 2010	% Inc. ( Dec).
1. Net Income (Loss)	P 95 million	(P 247 million)	138.3%
2. Earnings per share (a)	P 0.04	(P 0.11)	136.4%
3. Retention ratio (b)	33%	39%	
4. Combined ratio (c)	147%	159%	
5. Return on average equity	1.6%	( 4.1%)	

- (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 (99% / 119%) commissions ratio (31% / 29%) and expense ratio (17% / 11%).

Net Income (NI)- The Company's net income was P95 million as of 2<sup>nd</sup> Qtr. 2011 compared to a net loss of P247 million as of 2<sup>nd</sup> Qtr. 2010.

Earnings per share (EPS) - The Company's EPS was at P.04 and negative P.11 as of 2<sup>nd</sup> Qtr. 2011 and 2010, respectively.

Retention ratio - The retention ratio was at 33% and 39% for the six month ended 30 June 2011 and 2010, respectively.

Combined ratio—The combined ratio improved to 147% for the six month period ended 30 June 2011 from 159% for the same period last year.

Return on average equity (ROE) –ROE for the 2<sup>nd</sup> Qtr. 2011 was at 1.6% compared to ROE in 2<sup>nd</sup> Qtr. 2010 of negative 4.1%.

**Discussion and Analysis of Material Events and Uncertainties:**

NRCP has nothing to report on the following:

- Any known trends, demands, commitments, events or uncertainties that will have a material impact on its liquidity.
- Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.
- 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.
- 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**

In line with SEC Memorandum Circular No. 3 (Series of 2011) re: Guidelines on the Implementation of PFRS 9 (Financial Instruments: Recognition and Measurement), the Company, as of the date of this report, has not yet decided on early adoption of PFRS 9 (2009) or PFRS 9 (2010) for its financial reporting; therefore, the interim financial statements as of June 30, 2011 do not reflect the impact of said standard.

The Company is currently evaluating the impact of the possible early adoption of either PFRS 9 (2009) or PFRS 9 (2010) on its financial statements.

**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, 2011 and December 31, 2010

	<u>Notes</u>	<u>June 2011</u> <u>(Unaudited)</u>	<u>Dec. 2010</u> <u>(Audited)</u>	<u>Changes</u>
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS	2	2,277,792,928	613,287,054	1,664,505,874
REINSURANCE BALANCES RECEIVABLE-net	3	3,563,931,291	4,210,444,502	(646,513,211)
AVAILABLE-FOR-SALE FINANCIAL ASSETS	4	4,685,042,160	6,297,135,567	(1,612,093,407)
LOANS AND RECEIVABLES	5	266,472,702	360,688,116	(94,215,414)
PROPERTY AND EQUIPMENT-NET	6	151,621,669	122,605,833	29,015,836
INTANGIBLE ASSETS	7	31,395,608	31,801,235	(405,627)
DEFERRED ACQUISITION COST		140,271,632	198,420,037	(58,148,405)
DEFERRED REINSURANCE PREMIUMS	8	625,508,057	514,257,825	111,250,232
OTHER ASSETS	9	187,297,582	204,444,163	(17,146,581)
<b>TOTAL ASSETS</b>		<b>11,929,333,629</b>	<b>12,553,084,332</b>	<b>(623,750,703)</b>
<b>LIABILITIES</b>				
REINSURANCE BALANCES PAYABLE	3	5,005,666,709	5,462,712,883	(457,046,174)
ACCOUNTS PAYABLE & ACCRUED EXPENSES	10	58,415,871	108,631,841	(50,215,970)
RESERVE FOR UNEARNED RI PREMIUMS	8	982,518,675	902,887,425	79,631,250
DEFERRED REINSURANCE COMMISSIONS		80,581,399	130,486,488	(49,905,089)
<b>TOTAL LIABILITIES</b>		<b>6,127,182,654</b>	<b>6,604,718,637</b>	<b>(477,535,983)</b>
<b>EQUITY</b>				
Capital Stock	15	2,181,954,600	2,181,954,600	-
Treasury Stock		(40,081,811)	(40,081,811)	-
Additional Paid in Capital		3,019,218,457	3,019,218,457	-
Revaluation reserve		196,006,987	393,670,096	(197,663,109)
Retained Earnings		445,052,742	393,604,353	51,448,389
<b>Total Equity</b>		<b>5,802,150,975</b>	<b>5,948,365,695</b>	<b>(146,214,720)</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<b>11,929,333,629</b>	<b>12,553,084,332</b>	<b>(623,750,703)</b>

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**STATEMENTS OF INCOME (unaudited)**  
For the Quarters ended June 30, 2011 and 2010)

	<u>Notes</u>	<u>2011</u>	<u>2010</u>	<u>Inc(Dec)</u>	<u>%</u>
<b>Reinsurance Premium Income</b>					
Reinsurance premiums-net of returns		991,495,187	1,276,511,609	(285,016,422)	-22.33%
Retroceded premiums		720,641,886	798,331,359	(77,689,473)	-9.73%
Reinsurance premiums retained		270,853,301	478,180,250	(207,326,949)	-43.36%
Decrease (Increase) in reserve for unearned premiums	8	14,093,056	(54,261,038)	68,354,094	-125.97%
		<u>284,946,357</u>	<u>423,919,212</u>	<u>(138,972,855)</u>	-32.78%
<b>Underwriting deductions</b>					
Share in claims & losses		257,847,185	681,147,362	(423,300,177)	-62.15%
Commissions, net		81,212,266	122,804,153	(41,591,887)	-33.87%
	12	<u>339,059,451</u>	<u>803,951,515</u>	<u>(464,892,064)</u>	-57.83%
<b>Net Underwriting Loss</b>		<u>(54,113,094)</u>	<u>(380,032,303)</u>	<u>325,919,209</u>	-85.76%
<b>Investments and Other Income (Charges)</b>					
Interest		93,414,828	95,906,759	(2,491,931)	-2.60%
Foreign currency gain (losses)		1,599,392	18,088,886	(16,489,494)	91.16%
Others		108,398,052	43,977,939	64,420,113	146.48%
<b>Investment and Other Income</b>	11	<u>203,412,272</u>	<u>157,973,584</u>	<u>45,438,688</u>	28.76%
<b>Profit after Investment and Other Income</b>		149,299,179	(222,058,719)	371,357,898	-167.23%
<b>General and Administrative Expenses</b>	13, 14	<u>47,602,588</u>	<u>49,239,926</u>	<u>(1,637,338)</u>	-3.33%
<b>Profit Before Tax</b>		101,696,591	(271,298,645)	372,995,236	-137.49%
<b>Tax Expense</b>		<u>17,783,464</u>	<u>17,938,181</u>	<u>(154,717)</u>	-0.86%
<b>Net Profit</b>		<u>83,913,126</u>	<u>(289,236,826)</u>	<u>373,149,952</u>	-129.01%

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**STATEMENTS OF INCOME (unaudited)**  
For the six Months ended June 30, 2011 and 2010)

	<u>Notes</u>	<u>2011</u>	<u>2010</u>	<u>Inc(Dec)</u>	<u>%</u>
<b>Reinsurance Premium Income</b>					
Reinsurance premiums-net of returns		1,699,544,577	1,961,121,351	(261,576,774)	-13.34%
Retroceded premiums		1,140,194,971	1,187,914,836	(47,719,865)	-4.02%
Reinsurance premiums retained		559,349,606	773,206,515	(213,856,909)	-27.66%
Decrease (Increase) in reserve for unearned premiums	8	31,618,982	(22,387,313)	54,006,295	-241.24%
		<u>590,968,588</u>	<u>750,819,202</u>	<u>(159,850,614)</u>	-21.29%
<b>Underwriting deductions</b>					
Share in claims & losses		586,238,786	892,957,520	(306,718,734)	-34.35%
Commissions, net		172,512,358	224,067,438	(51,555,080)	-23.01%
		<u>758,751,144</u>	<u>1,117,024,958</u>	<u>(358,273,814)</u>	-32.07%
<b>Net Underwriting Loss</b>		<u>(167,782,556)</u>	<u>(366,205,756)</u>	<u>198,423,200</u>	-54.18%
Interest		186,846,671	187,898,553	(1,051,882)	-0.56%
Foreign currency gain (losses)		1,109,254	258,980	850,274	328.32%
Others		202,629,941	54,504,446	148,125,495	271.77%
<b>Investment and Other Income</b>	11	<u>390,585,866</u>	<u>242,661,979</u>	<u>147,923,887</u>	60.96%
<b>Profit after Investment and Other Income</b>		222,803,310	(123,543,777)	346,347,087	-280.34%
<b>General and Administrative Expenses</b>	13,14	<u>92,666,418</u>	<u>87,558,337</u>	<u>5,108,081</u>	5.83%
<b>Profit Before Tax</b>		130,136,893	(211,102,114)	341,239,006	-161.65%
<b>Tax Expense</b>		<u>35,494,953</u>	<u>35,787,940</u>	<u>(292,987)</u>	-0.82%
<b>Net Profit</b>		<u>94,641,940</u>	<u>(246,890,054)</u>	<u>341,531,993</u>	-138.33%

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**STATEMENTS OF COMPREHENSIVE INCOME (unaudited)**  
For the six months ended June 30, 2011 and 2010)

	<u>Notes</u>	<u>2011</u>	<u>2010</u>	<u>Inc(Dec)</u>	<u>%</u>
NET PROFIT		94,641,940	(246,890,054)	341,531,994	138.33%
OTHER COMPREHENSIVE INCOME (LOSS)					
Fair value gains (losses)-net of taxes	4	<u>(197,663,108)</u>	<u>105,343,669</u>	<u>(303,006,777)</u>	287.64%
TOTAL COMPREHENSIVE INCOME (LOSS)		<u>(103,021,168)</u>	<u>(141,546,385)</u>	<u>(14,371,406)</u>	-10.15%

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**STATEMENTS OF CHANGES IN EQUITY (unaudited)**  
**As of June 30, 2011 and 2010**

	<u>Notes</u>	<u>June 30 , 2011</u>	<u>June 30 , 2010</u>
<b>CAPITAL STOCK - P1 par value</b>			
Authorized - 3,000,000,000 shares			
Issued -2,181,954,600 shares in 2010 and 2009			
	15	<u>2,181,954,600</u>	<u>2,181,954,600</u>
<b>ADDITIONAL PAID IN CAPITAL</b>			
		<u>3,019,218,457</u>	<u>3,019,218,457</u>
<b>TREASURY SHARES (at cost)</b>			
		<u>(40,081,811)</u>	<u>(40,081,811)</u>
<b>REVALUATION RESERVE</b>			
Balance at beginning of the year		393,670,095	18,443,858
Changes during the period		<u>(197,663,108)</u>	<u>105,343,669</u>
		<u>196,006,987</u>	<u>123,787,527</u>
<b>RETAINED EARNINGS</b>			
Appropriated for contingencies			
Balance at beginning of the year		231,638,712	231,638,712
Additional appropriations		9,464,194	
	15	<u>241,102,906</u>	<u>231,638,712</u>
Unappropriated			
Balance at beginning of the year		161,965,642	743,448,289
Net Income		94,641,940	(246,890,053)
Cash Dividend		(43,193,552)	(101,504,847)
Appropriated for contingencies		<u>(9,464,194)</u>	-
		<u>203,949,835</u>	<u>395,053,389</u>
		<u>5,802,150,975</u>	<u>5,911,570,874</u>



**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**STATEMENTS OF CASH FLOWS (unaudited)**  
For the six months period ended June 30, 2011 and June 30, 2010

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before tax	P 130,136,893	( P 211,102,113 )
Adjustments for:		
Increase in reserve for unearned RI Premiums	(31,618,982)	22,387,313
Unrealized foreign currency loss (gain)	3,252,956	(11,659,048)
Depreciation	13,625,007	6,353,156
Interest income	(186,846,671)	(187,898,553)
Dividend income	(22,405,741)	(18,257,797)
Operating income before working capital changes	(93,856,538)	(400,177,042)
(Increase)Dec. in reinsurance balances receivable	845,284,513	(575,994,468)
(Increase) Dec. in deferred acquisition costs	8,243,316	(1,911,664)
(Increase) in other assets	(14,656,116)	(11,036,143)
(Increase) Decrease in loans and receivables	49,635,626	(43,912,732)
Increase (decrease) in reinsurance balances payable	(456,740,590)	826,620,097
Increase (decrease) in accounts payable and accrued exp.	(50,488,968)	(12,585,775)
Cash generated from (used in) operations	87,401,243	(218,997,727)
Cash paid for income taxes	(35,494,953)	(35,787,940)
<b>Net Cash From (Used in) Operating Activities</b>	<b>51,906,290</b>	<b>(254,785,667)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Disposals (acquisitions) of:		
Available-for-sale financial assets	1,412,944,500	192,849,933
Property and equipment/Intangible asset	(10,432,520)	(40,179,755)
Interest received	231,426,459	200,757,769
Dividends received	22,405,741	18,257,797
<b>Net Cash From (Used in) Investing Activities</b>	<b>1,656,344,180</b>	<b>371,685,744</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of dividends	(43,193,552)	(101,504,847)
<b>Net Cash From (Used in) Financing Activities</b>	<b>(43,193,552)</b>	<b>(101,504,847)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,665,056,917</b>	<b>15,395,230</b>
<b>EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS</b>	<b>(551,043)</b>	<b>914,335</b>
<b>CASH AND CASH EQUIVALENTS -January 1</b>	<b>613,287,054</b>	<b>683,659,159</b>
<b>CASH AND CASH EQUIVALENTS -June 30</b>	<b>P 2,277,792,928</b>	<b>P 699,968,724</b>

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**STATEMENTS OF CASH FLOWS (unaudited)**

For the three months period ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before tax	P 101,696,591	( P 271,298,645 )
Adjustments for:		
Increase in reserve for unearned RI Premiums	(14,093,056)	54,261,038
Unrealized foreign currency loss (gain)	1,820,073	(29,560,814)
Depreciation	6,745,146	3,904,744
Interest income	(93,414,828)	(95,906,759)
Dividend income	(15,947,014)	(14,371,406)
Operating income before working capital changes	(13,193,089)	(352,971,842)
(Increase)Dec. in reinsurance balances receivable	150,012,736	(420,102,635)
(Increase) Dec. in deferred acquisition costs	3,146,043	(6,376,998)
(Increase) in other assets	(2,794,615)	(12,287,514)
(Increase) Decrease in loans and receivables	10,054,439	(52,657,601)
Increase (decrease) in reinsurance balances payable	(106,331,377)	672,013,279
Increase (decrease) in accounts payable and accrued exp.	(12,858,627)	3,877,155
Cash generated from (used in) operations	28,035,510	(168,506,156)
Cash paid for income taxes	(17,783,464)	(17,938,181)
<b>Net Cash From (Used in) Operating Activities</b>	<b>10,252,046</b>	<b>(186,444,337)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Disposals (acquisitions) of:		
Available-for-sale financial assets	1,057,163,910	223,817,467
Property and equipment/Intangible asset	(9,908,685)	(12,917,813)
Interest received	80,858,886	62,725,569
Dividends received	15,947,014	14,371,406
<b>Net Cash From (Used in) Investing Activities</b>	<b>1,144,061,126</b>	<b>287,996,629</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of dividends	(43,193,552)	(101,504,847)
<b>Net Cash From (Used in) Financing Activities</b>	<b>(43,193,552)</b>	<b>(101,504,847)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,111,119,619</b>	<b>47,445</b>
<b>EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS</b>	<b>973,241</b>	<b>9,924,951</b>
<b>CASH AND CASH EQUIVALENTS -March 31</b>	<b>1,165,700,068</b>	<b>689,996,328</b>
<b>CASH AND CASH EQUIVALENTS -June 30</b>	<b>P 2,277,792,928</b>	<b>P 699,968,724</b>

**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 2011</u>	<u>December 2010</u>
Time deposits	P 2,185,619,833	P 582,571,993
Cash on hand and in banks	<u>92,173,095</u>	<u>30,715,061</u>
	<u>P 2,277,792,928</u>	<u>P 613,287,054</u>

Time deposits were made for varying periods of between one day and one month depending on the liquidity requirements of the Company. Peso time deposits earn annual interest rates ranging from 2.75% to 4.63% in June 2011 and 1.25% to 4.25% in 2010 while dollar time deposits earn annual interest rates ranging from 1.0% to 1.5% in June 2011 and 0.20% to 1.63% in 2010. Cash in banks generally earn interest at rates based on daily bank deposit rates. The Cash and Cash Equivalents account includes foreign currency denominated cash of US\$1,150,634 (or P50,045,675) as of June 30, 2011 and of US\$3,824,365 (or P167,832,271) as of December 31, 2010.

**3. REINSURANCE BALANCES**

The details of reinsurance balances are as follows:

	<u>June 2011</u>	<u>December 2010</u>
Reinsurance balances receivable:		
Reinsurance recoverable on unpaid losses	P 2,703,979,149	P 2,725,681,141
Due from ceding companies	564,136,295	1,180,189,544
Reinsurance recoverable on paid losses	438,197,949	454,499,264
Funds held by ceding companies	<u>140,747,857</u>	<u>133,204,512</u>
	<u>3,847,061,250</u>	<u>4,493,574,461</u>
Allowance for impairment	( <u>283,129,959</u> )	( <u>283,129,959</u> )
	<u>P 3,563,931,291</u>	<u>P 4,210,444,502</u>
Reinsurance balances payable:		
Claims payable	P 4,790,719,811	P 4,664,381,653
Due to retrocessionaires	122,289,510	706,510,346
Funds held for retrocessionaires	<u>92,657,388</u>	<u>91,820,884</u>
	<u>P 5,005,666,709</u>	<u>P 5,462,712,883</u>

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 2011</u>	<u>December 2010</u>
Bonds	P 3,700,822,093	P 5,293,842,809
Equity securities - net	795,439,719	860,523,387
Investment in Asian Re shares	72,210,374	72,859,527
Various funds	<u>116,569,974</u>	<u>69,909,844</u>
	<u>P 4,685,042,160</u>	<u>P 6,297,135,567</u>

Bonds include investments in corporate bonds, long-term negotiable instruments and government securities. This also includes government securities amounting P190,000,000 both in 2011 and 2010, 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 3.75% to 15.00% both in 2011 and 2010. Interest income 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:

	<u>June 2011</u>	<u>December 2010</u>
Due within one year	P 250,000,000	P 321,292
Due after one year through five years	2,317,897,766	2,954,923,197
Due after five years through ten years	1,014,272,501	2,216,792,651
Due after ten years	<u>118,651,826</u>	<u>121,805,669</u>
	<u>P 3,700,822,093</u>	<u>P 5,293,842,809</u>

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

	<u>June 2011</u>	<u>December 2010</u>
Cost:		
Quoted in the stock exchange	P 622,441,183	P 572,025,999
Not quoted in the stock exchange	<u>141,936,735</u>	<u>192,195,157</u>
	<u>764,377,918</u>	<u>764,221,156</u>
Fair value gains (losses):		
Quoted in the stock exchange	51,827,006	117,160,265
Not quoted in the stock exchange	( 20,765,205 )	( 20,858,034 )
	<u>31,061,801</u>	<u>96,302,231</u>
	<u>P 795,439,719</u>	<u>P 860,523,387</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. These shares of stock are measured at fair value and changes in the fair values are recognized under Other Comprehensive Income (Loss) in the statement of comprehensive income. The fair value of investment in Asian Re shares amounted to P72,210,374 and P72,859,527, as of June 30, 2011 and December 2010, respectively.

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

	<u>June 2011</u>	<u>December 2010</u>
Balance at beginning of year	P 6,297,135,567	P 6,048,736,164
Additions	2,583,417,018	1,698,465,088
Disposals/maturities	( 3,996,050,201)	( 1,809,273,516)
Fair value gains(loss) - net	( 197,663,108)	375,226,237
Foreign currency gains (losses)	( 1,797,116)	( 9,621,256)
Impairment losses	-	( 6,397,150)
Balance at end of year	<u>P 4,685,042,160</u>	<u>P 6,297,135,567</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 P197,663,108 fair value loss in 2011 and P375,226,237 fair value gain in 2010.

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 2011</u>	<u>December 2010</u>
Current:		
Term loans	P 150,000,000	P 150,000,000
Accrued interest receivable	47,946,240	92,526,029
Others	<u>9,995,421</u>	<u>30,593,197</u>
	<u>207,941,661</u>	<u>273,119,226</u>
Non-current:		
Term loans	50,000,000	80,000,000
Loans receivable	<u>8,531,041</u>	<u>7,568,890</u>
	<u>58,531,041</u>	<u>87,568,890</u>
	<u>P 266,472,702</u>	<u>P 360,688,116</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	61,273,935	93,608,980
Office Improvement	7,918,239	6,284,491	1,633,748
Office Furniture and Equipment	9,748,181	9,438,296	309,885
Transportation Equipment.	11,232,566	5,644,254	5,588,312
EDP Equipment	<u>77,895,280</u>	<u>27,414,536</u>	<u>50,480,744</u>
Total	<u>261,677,181</u>	<u>110,055,512</u>	<u>151,621,669</u>

## 7. INTANGIBLE ASSETS

Acquired computer software licenses are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These cost are amortized on a straight line basis over its useful lives. Presented below are the gross carrying amounts and accumulated amortization of intangible assets which was reclassified from property and equipment to intangible assets in June 2011, accordingly, December 2010 account was also reclassified for comparative purposes.

	<u>June 2011</u>	<u>December 2010</u>
Cost	P39,241,313	P36,210,943
Accumulated amortization	<u>7,845,705</u>	<u>4,409,708</u>
Net carrying amount	<u>P31,395,608</u>	<u>P31,801,235</u>

## 8. 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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Balance at beginning of year	P514,257,825	P 771,688,546	P 902,887,425	P1,179,075,555
Inc (Dec) during the year	<u>111,250,232</u>	( 257,430,721)	<u>79,631,250</u>	( 276,188,130)
Balance at end of year	<u>P 625,508,057</u>	<u>P514,257,825</u>	<u>P 982,518,675</u>	<u>P 902,887,425</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.

## 9. OTHER ASSETS

The Other Assets account includes the following:

	<u>June 2011</u>	<u>December 2010</u>
Deferred input VAT	P 72,852,403	P 72,128,569
Creditable withholding tax	67,955,605	58,147,770
Investment property - net	2,852,409	34,655,106
Input VAT	26,499,659	24,095,334
Deferred withholding VAT	9,113,038	9,113,038
Prepayments	4,383,415	2,847,332
Deposit	617,820	575,200
Security fund	192,888	192,888
Others	2,830,345	2,688,926
	<u>P 187,297,582</u>	<u>P 204,444,163</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.

## 10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

	<u>June 2011</u>	<u>December 2010</u>
Deferred output VAT	P 39,350,386	P 41,793,329
Accrued expenses	4,861,116	36,204,807
Defined benefit liability	-	13,273,056
Accounts payable and other liabilities	10,332,666	10,311,445
Withholding taxes payable	3,871,703	7,049,204
	<u>P 58,415,871</u>	<u>P 108,631,841</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.

**11. INVESTMENT AND OTHER INCOME**

The details of this account follow:

	<u>June 2011</u>	<u>June 2010</u>
Interest	P 186,846,671	P 187,898,553
Gain (loss) on sale of stocks	54,430,489	32,509,304
Dividend income	22,405,741	18,257,797
Foreign exchange gains (losses)	1,109,254	258,980
Trading gain	127,006,140	2,103,435
Other income (charges)	<u>( 1,212,429 )</u>	<u>1,633,910</u>
	<u>P 390,585,866</u>	<u>P 242,661,979</u>

**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:

	<u>June 2011</u>	<u>June 2010</u>
Commission expense	P 306,678,148	P 383,899,039
Reinsurance revenues	<u>( 134,165,790 )</u>	<u>( 159,831,601 )</u>
	<u>P 172,512,358</u>	<u>P 224,067,438</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.



**13. GENERAL AND ADMINISTRATIVE EXPENSES**

The details of this account follow:

	<u>June 2011</u>	<u>June 2010</u>
Salaries and employee benefits	<b>P 57,461,637</b>	P 57,891,077
Depreciation and amortization	<b>13,625,007</b>	6,353,156
Professional fees	<b>2,433,870</b>	3,956,873
Repairs and maintenance	<b>464,864</b>	630,005
Taxes, licenses and fees	<b>3,160,271</b>	2,984,699
Transportation and traveling	<b>2,023,064</b>	2,401,223
Light and water	<b>2,583,104</b>	2,038,005
Representation and entertainment	<b>2,017,328</b>	1,928,881
Contract labor	<b>1,238,970</b>	1,146,560
Association and pool expense	<b>2,074,991</b>	1,614,918
Rental	<b>633,290</b>	1,911,132
Communication and postages	<b>987,722</b>	867,632
Printing and office supplies	<b>549,392</b>	648,561
Advertising and publicity	<b>586,772</b>	644,338
Insurance	<b>584,095</b>	547,724
Miscellaneous	<b>2,242,041</b>	1,993,553
	<b><u>P 92,666,418</u></b>	<b><u>P 87,558,337</u></b>

**14. SALARIES AND EMPLOYEE BENEFITS****a. Salaries and Employee Benefits**

Expenses recognized for employee benefits are presented below.

	<u>June 2011</u>	<u>June 2010</u>
Salaries and wages	<b>P 38,328,805</b>	P 39,221,953
Retirement	<b>5,047,532</b>	3,611,173
Allowances and bonus	<b>8,454,292</b>	8,948,400
Compensated absences	<b>3,793,006</b>	3,683,821
Social security costs	<b>849,859</b>	893,109
Others	<b>988,143</b>	1,532,621
	<b><u>P 57,461,637</u></b>	<b><u>P 57,891,077</u></b>

## 15. EQUITY

### a. Capital Stock

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

	<u>June 2011</u>	<u>June 2010</u>
Issued	2,181,954,600	2,181,954,600

### b. Treasury Shares

In August 2008, the BOD approved the implementation of the Company's Buy-Back Program in order to enhance overall shareholder value and show that it has a strong financial position. In October 2008, the Company reacquired 22,277,000 shares at a total cost of P40,081,811.

### c. 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 P241,102,906 as of June 30, 2011, and P231,638,712 as of June 30, 2010 respectively

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

Reinsurance balances receivable from and payable to related parties are as follows

	<u>June 2011</u>	<u>December 2010</u>
Due from ceding companies	P 46,746,504	P 383,122,276
Reinsurance recoverable on losses	41,015,353	42,822,100
Funds held by ceding companies	51,352,487	51,166,242
Due to retrocessionaires	( 36,560,283)	( 42,822,100)
Funds held for retrocessionaires	( 895,144)	( 895,144)

### 16.2 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 2011</u>	<u>December 2010</u>
Time deposits	P -	P 84,000,000
Savings and current accounts	<u>907,754</u>	<u>2,838,884</u>
	<u>P 907,754</u>	<u>P 86,838,884</u>

### 16.3 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 2011</u>	<u>December 2010</u>
Cash and cash equivalents	P 85,001,300	P 359
Available-for-sale financial assets	1,470,376,802	1,509,452,819
Loans and receivables	<u>66,881,696</u>	<u>100,626,261</u>
	<u>P1,622,259,798</u>	<u>P1,610,079,439</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, 2011 and 2010 amounted to P1,624,105 and P1,380,430 respectively, and is charged against Other Income (Charges) under Investment and Other Income account (see Note 11) in the statements of income.

### 16.4 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.

## 17. Earnings (loss) Per Share

The earnings per share amounts are as follows:

	<u>June 2011</u>	<u>June 2010</u>
Net income (loss) available to common shareholders	P 94,641,940	(P 246,890,054 )
Divided by the average number of outstanding common shares	<u>2,159,677,600</u>	<u>2,159,677,600</u>
	<u>P 0.04</u>	<u>(P 0.11 )</u>

### 18. Other SEC requirements

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

<ul style="list-style-type: none"> <li>• Explanatory comments about the seasonality or cyclical nature of interim operations</li> </ul>	<ul style="list-style-type: none"> <li>• Nothing to report.</li> </ul>
<ul style="list-style-type: none"> <li>• The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents</li> </ul>	<ul style="list-style-type: none"> <li>• Nothing to report.</li> </ul>
<ul style="list-style-type: none"> <li>• The nature and amount of changes in estimates of amounts reported in prior interim periods of the current fiscal year or changes in estimates of amounts reported prior financial years, if those changes have a material effect in the current interim period</li> </ul>	<ul style="list-style-type: none"> <li>• Nothing to report.</li> </ul>
<ul style="list-style-type: none"> <li>• Issuances, repurchases, and repayments of debt and equity securities</li> </ul>	<ul style="list-style-type: none"> <li>• Nothing to report.</li> </ul>
<ul style="list-style-type: none"> <li>• Dividends paid (aggregate or per share) separately for ordinary shares and other shares</li> </ul>	<ul style="list-style-type: none"> <li>• The Board of Directors approved the declaration of P0.02/share cash dividend payable to stockholders of record as of June 03, 2011. Payment of said cash dividend shall be on June 21, 2011.</li> </ul>
<ul style="list-style-type: none"> <li>• Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting. ( This shall be provided only if the issuer is required to disclose segment information in its annual financial statements)</li> </ul>	<ul style="list-style-type: none"> <li>• Nothing to report.</li> </ul>
<ul style="list-style-type: none"> <li>• Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period</li> </ul>	<ul style="list-style-type: none"> <li>• Nothing to report</li> </ul>
<ul style="list-style-type: none"> <li>• The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisitions or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations</li> </ul>	<ul style="list-style-type: none"> <li>• Nothing to report.</li> </ul>

<ul style="list-style-type: none"><li>• <b>Changes in contingent liabilities or contingent assets since the last annual balance sheet date</b></li></ul>	<ul style="list-style-type: none"><li>• <b>Nothing to report.</b></li></ul>
<ul style="list-style-type: none"><li>• <b>Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period.</b></li></ul>	<ul style="list-style-type: none"><li>• <b>Nothing to report.</b></li></ul>

**AGING OF REINSURANCE BALANCES RECEIVABLE**

As of June 30, 2011

(In million pesos)

	<u>Total</u>	<u>Below 360 days</u>	<u>Over 360 days</u>
Due from Ceding Companies	564	322	242
Reinsurance recoverable on paid losses	438	51	387
Reinsurance recoverable un unpaid losses	2,704	2,704	-
Funds Held by Ceding companies	141	141	-
	<u>3,847</u>	<u>3,218</u>	<u>629</u>
Allowance for impairment*	<u>(283)</u>		
	<u><u>3,564</u></u>		

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