

# COVER SHEET

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S.E.C. Registration Number

NATIONAL REINSURANCE  
CORPORATION  
OF THE PHILIPPINES

(Company's Full Name)

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

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

JOHN E. HUANG

Contact Person

759-58-01

Company Telephone Number

1 2    3 1  
Month    Day  
Fiscal Year

1 7 Q  
FORM TYPE

3rd Quarter Ending 30 September 2011

0 6    3 0 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**

**3rd Quarter Ending 30 September 2011**

(Form Type)

\_\_\_\_\_  
Amendment Designation (If applicable)

\_\_\_\_\_  
(Secondary License Type and File Number)

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Cashier

\_\_\_\_\_  
LCU

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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 September 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 September 2011 and December 31, 2010.
- b. Statements of Income:  
For the Quarters ended 30 September 2011 and 2010  
For the Nine Months ended 30 September 2011 and 2010
- c. Statements of Comprehensive Income for the Quarters ended 30 September 2011 and 2010
- d. Statement of Changes in Stockholders Equity as of 30 September 2011 and 2010
- e. Statement of Cash Flows:  
For the Quarters ended 30 September 2011 and 2010  
For the Nine months ended 30 September 2011 and 2010

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, 3rd Quarter**

**Results of Operations**

*For the Nine months ended September 30, 2011 and 2010*

**Reinsurance Premium Income**

Reinsurance premiums decreased by P645.9 million (18.8%) to P2,782.7 million for the nine months ended 30 September 2011 compared to P3,428.5 million for the nine months ended 30 September 2010 reflecting actions taken by the Company to refocus on profitable underwriting. Declines were experienced across all sources. Premiums from non-life facultative business decreased by P416.5 million or 23.4% from P1,776.9 million to P1,360.4 million during the periods being compared. Similarly, non-life treaty premiums declined by P137.2 million or 11.1% from P1,233.2 million to P1,095.9 million; and life premiums decreased by P92.1 million or 22% from P418.4 million to P326.3 million.

Reinsurance premiums retained also declined, by P376.7 million (29.7%) to P892.9 million for the nine months ended 30 September 2011 from P1,269.6 million for the nine months ended 30 September 2010. The rate of decrease in retained premiums during the period was higher than the decline in gross premiums because the Company's overall retention ratio was down to 32.1% during the nine months ended September 30, 2011 compared to 37% during the nine months ended September 30, 2010.

In line with the decline in premiums retained, premiums earned decreased by P287.6 million (23%) to P961.7 million for the nine months ended 30 September 2011 compared to P1,249.3 million for the nine months ended 30 September 2010.

**Underwriting Deductions**

Share in claims and losses for the nine months ended 30 September 2011 decreased by P818.6 million or 53% from P1,544.6 million for the nine months ended September 30, 2010, resulting in an improved loss ratio of 75.5% in 2011 from 123.6% in 2010. The improvement in loss ratio reflects lower catastrophe losses and claims received/advised during the current period and provides support for the Company's tighter underwriting standards.

Consistent with the decline in reinsurance premiums retained, net commissions decreased by P63.2 million or 18.8% from P337 million for the nine months ended 30 September 2010 to P273.7 million for the nine months ended 30 September 2011. However, commission ratio (as a percentage of net premiums retained) increased from 26.5% in 2010 to 30.7% in 2011.

**Investment and Other Income (Charges)**

Investment and other income increased by P257.8 million or 67.7% from P380.9 million for the nine months ended 30 September 2010 to P638.8 million for the nine months ended 30 September 2011.

Realized gains from the Company's equities and fixed income investment portfolios were significant contributors to the Company's improved investment performance during the period under consideration. These gains more than offset a slight decline in interest income (P274.1 million vs. P284.1 million) resulting from a low interest rate environment. Dividend income increased slightly during the period, as did foreign exchange gains.

**General and Administrative Expenses**

General and administrative expenses (GAE) were P143.2 million for the nine months ended 30 September 2011, as compared to P155.8 million for the nine months ended 30 September 2010, a decrease of P12.6 million or 8.1%. The decrease was principally due to lower manpower cost (P84.9 million vs. P86.1 million), professional fees (P7.8 million vs. P10.9 million) and taxes & licenses (P4.5 million vs. P6.6 million).

**Tax expense**

The Company's tax expense slightly decreased by 1.9% or P1 million to P53 million for the nine month period ended 30 September 2011 from P54 million for the nine months ended 30 September 2010. Tax expense largely represents the final tax on interest income from the Company's fixed-income portfolio.

**Net Profit (loss)**

As a result of the above-mentioned factors, the Company's net income amounted to P404.5 million for the nine-month period ended 30 September 2011 as compared to a net loss of P461.2 million for the nine-month ended 30 September 2010.

**For the Quarters ended September 30, 2011 and 2010****Reinsurance Premium Income**

Reinsurance premiums for the quarter ended 30 September 2011 decreased by 26.2% or P384.3 million to P1,083.1 million from P1,467.4 million for the quarter ended 30

September 2010 due to the continuing effects of the non-renewal in late 2010 of certain unprofitable non-life treaties with cedants in non-Asean countries. This has caused a reduction in premium volume for the current year from said business, which reduction has not been offset by new treaty business.

Reinsurance premiums retained for the quarter ended 30 September 2011 decreased by 32.8% or P162.9 million to P333.6 million from P496.4 million for the quarter ended 30 September 2010. This was the result of the previously mentioned decline in gross premiums as well as a lower retention ratio due to a higher proportion of facultative business where the Company's retention rates are lower.

Despite the release of unearned premium reserves (UPR) of P37.1 million, premiums earned still decreased by 25.6% to P370.7 million for the quarter ended 30 September 2011 compared to P498.4 million for the quarter ended September 30, 2010. The release of UPR resulted from the lower volume of premiums booked for the period.

#### **Underwriting Deductions**

Share in claims and losses decreased by 79% to P140 million in the three months ended 30 September 2011 from P652 million in the three months ended 30 September 2010. Share in claims and losses as a percentage of premiums earned were 37.71% and 130.74% for the quarters ended 30 September 2011 and 2010, respectively, and reflects a significant improvement in the Company's underwriting performance, which was bolstered by the absence of any major calamities or large claims during the current quarter.

Net commission expense for the quarter ended 30 September 2011 also declined from the quarter ended 30 September 2010. However, commission ratio was at 30.34% for the quarter ended 30 September 2011 compared to 22.74% for the quarter ended 30 September 2010.

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

Investment and other income increased by 79.5% or P110 million to P248.2 million in 3<sup>rd</sup> Qtr. 2011 from P138.3 million in 3<sup>rd</sup> Qtr. 2010. This was brought about largely from realized trading gains from the Company's fixed income investment portfolio.

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

General and administrative expenses (GAE) decreased by 26% or P17.7 million to P50.6 million in the quarter ended 30 September 2011 from P68.3 million in the quarter ended 30 September 2010. The decrease can be attributed to: non-recurring expenses (provision for impairment loss) of P6.4 million in 2010, and lower manpower costs and repairs & maintenance costs in 2011.

#### **Tax expense**

Tax expense was flat at P18 million for the quarters ended 30 September 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 3<sup>rd</sup> quarter 2011 was P309.8 million compared to a net loss for 3<sup>rd</sup> Qtr. 2010 of P214.3, principally due to positive underwriting result and higher investment income.

## **Financial Condition**

Total resources of the Company as of 30 September 2011 amounted to P11.8 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 (P2.5B vs. P613M)**

Cash and cash equivalents increased by 309.4% or P1.9 billion as funds were shifted to short-term investments from longer-dated fixed income securities.

- **Reinsurance Balances Receivable-net (P3.2B vs. 4.2B)**

Reinsurance balances receivable decreased by 24.2% to P3.2 billion as of 30 September 2011 from P4.2 billion as of December 31, 2010 largely as a result of collections. Amounts due from ceding companies were reduced from P1.2 billion to P0.5 billion and amounts recoverable from retrocessionaires declined from P3.2 billion to P2.8 billion.

- **Available-for Sale Financial Assets (P4,640M vs. 6,297M)**

Available for sale (AFS) financial assets declined by P1.7 billion (26.3%) to P4.6 billion as of 30 September 2011 from P6.3 billion as of December 31, 2010 due to the sale of AFS securities, the proceeds of which were transferred to cash and short-term investments.

- **Loans and Receivables (P204M vs. P361M)**

Loans and receivables held as investments decreased by P156.5 million or 43.4% mainly due to collection of accrued interest and other receivables (P76 million) and maturity of various loans (P80 million).

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

Property and equipment (PPE), net of accumulated depreciation, amounted to P151.9 million, as of 30 September 2011, an increase of P29.3 million or 23.9% 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 (P29M vs. P32M)**

Intangible assets are composed of computer software licenses totaling P29 million (net of amortization) as of 30 September 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 (P141 vs. P198M)**

The decrease of P57 million in deferred acquisition cost relate to portions of reinsurance commissions as of December 31, 2010 that were expensed as of 30 September 2011 under the 24<sup>th</sup> method. Policy costs are deferred and charged to expense in proportion to reinsurance premium revenue.

- **Deferred Reinsurance Premiums (P664M vs.P514M)**

Deferred reinsurance premiums increased by P150 million or 29.2% as of 30 September 2011. Reinsurance premium are deferred and charged to income over the life of the policies under the 24<sup>th</sup> method.

- **Other Assets (P196M vs. P204M )**

Other assets decreased by 4.4% or P8.9 million from P204.4 million as of 31 December 2011 to P195.5 million as of 30 September 2011 due to the reclassification property no longer intended for rental.

**Liabilities (P5,708M vs. P6,605M)**

Total liabilities decreased by P897 million or 13.6% from P6.6 billion as of 31 December 2010 to P5.7 billion as of 30 September 2011. The changes in individual liability accounts is explained below:

- **Reinsurance Balances Payable (P4.6B vs. P5.5B)**

Reinsurance balances payable decreased by P878.6 million or 16.1% from P5.5 billion as of December 31, 2010 to P4.6 billion as of 3<sup>rd</sup> Qtr. 2011 primarily due to settlement of reinsurance balances due to the Company's retrocessionaires. Claims payable also decreased from P4.7 billion as of 31 December 2010 to P4.3 billion as 30 September 2011, representing payments made to ceding companies.

- **Accounts Payable and Accrued Expenses (P60M 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 P48.6 million or 44.7% between 31 December 2010 and 30 September 2011.

- **Reserve for Unearned Reinsurance Premiums (P984M vs. P903M)**

Reserve for unearned reinsurance premiums increased by P81.2 million or 9% mainly due to high volume of reinsurance contracts with inception dates at or close to the end of 3<sup>rd</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 (P79M vs. P130M)**

Deferred reinsurance commissions decreased by P51.1 million or 39.1%, consistent with the decline in deferred acquisition cost for the period.



- **Equity (P6.0B vs. P5.9B)**

Stockholders' equity expanded to P6.02 billion as of 3<sup>rd</sup> Qtr. 2011 from P5.9 billion as of 31 December 2010. Contributing to the increase of P71.8 million was the net income posted for the nine month period ended 30 September 2011 of P404.5 million less payment of cash dividends to stockholders on June 21, 2011 amounting to P43.2 million and a lower revaluation reserve due to the impact of mark-to-market adjustments amounting to P289.5 million on the value of Company's investment portfolio.

**Key Performance Indicators:**

	<b>3rd Quarter 2011</b>	<b>3rd Quarter 2010</b>	<b>% Inc.( Dec).</b>
1. Net Income (Loss)	P 404 million	(P 461 million)	187.7%
2. Earnings per share (a)	P 0.19	(P 0.21)	187.7%
3. Retention ratio (b)	32%	37%	
4. Combined ratio (c)	122%	163%	
5. Return on average equity	6.8%	( 7.6%)	

(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 (75% / 124%) commissions ratio (31% / 27%) and expense ratio (16% /12%).

Net Income (NI)- The Company's net income was P404 million as of 3<sup>rd</sup> Qtr. 2011 compared to a net loss of P461 million as of 3<sup>rd</sup> Qtr. 2010.

Earnings per share (EPS) - The Company's EPS was at P.19 and negative P.21 as of 3<sup>rd</sup> Qtr. 2011 and 2010, respectively.

Retention ratio - The retention ratio was at 32% and 37% for the nine month ended 30 Sept. 2011 and 2010, respectively.

Combined ratio—The combined ratio improved to 122% for the nine month period ended 30 September 2011 from 163% for the same period last year.

Return on average equity (ROE) –ROE for the 2<sup>nd</sup> Qtr. 2011 was at 6.8% compared to ROE in 2<sup>nd</sup> Qtr. 2010 of negative 7.6%.

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

The Company has business from Thailand in the form of treaty arrangements with 6 insurance companies and 1 reinsurer. The Company has communicated with these companies in order to determine exposures in the flood losses that have occurred in and around Bangkok during the past few months. As of the date of this report, details are still unavailable since loss adjusters are still waiting for the flood, particularly in the industrial areas, to subside. The Company, however, has Excess of Loss coverage of up to P3B pesos in excess of P30M which protects it against catastrophic losses. The Company bears the first P30M, and anything in excess of this, up to a limit of P3B, which the Company believes should be sufficient, is passed on to reinsurers.

### **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) on Guidelines on the Implementation of PFRS 9 (Financial Instruments: Recognition and Measurement), the Company, as of the date of this report, discloses the following:


- (i) After consideration of the result of its impact evaluation, the Company has decided not to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its 2011 financial reporting;
- (ii) It shall conduct in early 2012 another impact evaluation using the outstanding balances of financial statements as of 31 December 2011;
- (iii) The Company will disclose in its interim financial statements as of 31 March 2012 a statement on whether to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its 2012 financial reporting and reflect the application of the requirements under the said standard containing a qualitative and quantitative discussion of the result of impact evaluation should the Company opt to early adopt.

**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**

September 30, 2011 and December 31, 2010

	Notes	September 2011 (Unaudited)	Dec. 2010 (Audited)	Changes
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS	2	2,511,031,189	613,287,054	1,897,744,135
REINSURANCE BALANCES RECEIVABLE-net	3	3,190,164,576	4,210,444,502	(1,020,279,926)
AVAILABLE-FOR-SALE FINANCIAL ASSETS	4	4,639,953,647	6,297,135,567	(1,657,181,920)
LOANS AND RECEIVABLES	5	204,191,849	360,688,116	(156,496,267)
PROPERTY AND EQUIPMENT-NET	6	151,904,205	122,605,830	29,298,375
INTANGIBLE ASSET	7	29,433,543	31,801,235	(2,367,692)
DEFERRED ACQUISITION COST		141,374,504	198,420,037	(57,045,533)
DEFERRED REINSURANCE PREMIUMS	8	664,226,681	514,257,825	149,968,856
OTHER ASSETS	9	195,532,652	204,444,166	(8,911,514)
<b>TOTAL ASSETS</b>		<b>11,727,812,846</b>	<b>12,553,084,332</b>	<b>(825,271,486)</b>
<b>LIABILITIES</b>				
REINSURANCE BALANCES PAYABLE	3	4,584,065,928	5,462,712,883	(878,646,955)
ACCOUNTS PAYABLE & ACCRUED EXPENSES	10	60,057,106	108,631,841	(48,574,735)
RESERVE FOR UNEARNED RI PREMIUMS	8	984,101,032	902,887,425	81,213,607
DEFERRED REINSURANCE COMMISSIONS		79,433,563	130,486,488	(51,052,925)
<b>TOTAL LIABILITIES</b>		<b>5,707,657,629</b>	<b>6,604,718,637</b>	<b>(897,061,008)</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		104,166,089	393,670,096	(289,504,007)
Retained Earnings		754,897,882	393,604,353	361,293,529
<b>Total Equity</b>		<b>6,020,155,217</b>	<b>5,948,365,695</b>	<b>71,789,522</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<b>11,727,812,846</b>	<b>12,553,084,332</b>	<b>(825,271,486)</b>

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

For the Quarters ended September 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		1,083,108,631	1,467,399,553	(384,290,922)	-26.19%
Retroceded premiums		749,555,934	970,990,648	(221,434,714)	-22.81%
Reinsurance premiums retained		333,552,697	496,408,905	(162,856,208)	-32.81%
Decrease in reserve for unearned reinsurance premiums	8	37,136,267	2,030,632	35,105,635	
		<u>370,688,964</u>	<u>498,439,537</u>	<u>(127,750,573)</u>	-25.63%
<b>Underwriting deductions</b>					
Share in claims & losses		139,797,891	651,666,189	(511,868,298)	-78.55%
Commissions, net		101,200,200	112,887,668	(11,687,468)	-10.35%
	12	<u>240,998,091</u>	<u>764,553,857</u>	<u>(523,555,766)</u>	-68.48%
<b>Net Underwriting Income (Loss)</b>		<u>129,690,874</u>	<u>(266,114,320)</u>	<u>395,805,194</u>	148.74%
<b>Investment and Other Income (Charges)</b>					
Interest		87,271,699	96,239,405	(8,967,706)	-9.32%
Foreign currency gain (losses)		2,648,821	(18,116,298)	20,765,119	114.62%
Others		158,283,931	60,157,018	98,126,913	163.12%
	11	<u>248,204,451</u>	<u>138,280,125</u>	<u>109,924,326</u>	79.49%
<b>Profit (Loss) after Investment and Other Income</b>		377,895,325	(127,834,195)	505,729,520	395.61%
<b>General and Administrative Expenses</b>	13,14	<u>50,550,162</u>	<u>68,276,058</u>	<u>(17,725,896)</u>	-25.96%
<b>Profit (Loss) Before Tax</b>		327,345,163	(196,110,253)	523,455,416	266.92%
<b>Tax Expense</b>		<u>17,500,023</u>	<u>18,222,518</u>	<u>(722,495)</u>	-3.96%
<b>Net Profit (Loss)</b>		<u>309,845,140</u>	<u>(214,332,771)</u>	<u>524,177,911</u>	244.56%

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

For the nine Months ended September 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		2,782,653,207	3,428,520,903	(645,867,696)	-18.84%
Retroceded premiums		1,889,750,904	2,158,905,484	(269,154,580)	-12.47%
Reinsurance premiums retained		892,902,303	1,269,615,420	(376,713,116)	-29.67%
(Inc.) Dec. in reserve for unearned reinsurance premiums	8	68,755,249	(20,356,681)	89,111,930	
		<u>961,657,552</u>	<u>1,249,258,738</u>	<u>(287,601,186)</u>	-23.02%
<b>Underwriting deductions</b>					
Share in claims & losses		726,036,677	1,544,623,709	(818,587,032)	-53.00%
Commissions, net		273,712,558	336,955,106	(63,242,548)	-18.77%
	12	<u>999,749,234</u>	<u>1,881,578,814</u>	<u>(881,829,580)</u>	-46.87%
<b>Net Underwriting Income (Loss)</b>		<u>(38,091,682)</u>	<u>(632,320,076)</u>	<u>594,228,394</u>	-93.98%
<b>Investment and Other Income (Charges)</b>					
Interest		274,118,370	284,137,958	(10,019,588)	-3.53%
Foreign currency gain (losses)		3,758,075	(17,857,318)	21,615,393	121.05%
Others		360,913,872	114,661,465	246,252,408	214.76%
	11	<u>638,790,318</u>	<u>380,942,105</u>	<u>257,848,213</u>	67.69%
<b>Profit (loss) after investment and Other income</b>		600,698,635	(251,377,971)	852,076,606	338.96%
<b>General and Administrative Expenses</b>	13,14	<u>143,216,579</u>	<u>155,834,395</u>	<u>(12,617,816)</u>	-8.10%
<b>Profit (Loss) Before Tax</b>		457,482,056	(407,212,366)	864,694,422	212.34%
<b>Tax Expense</b>		<u>52,994,976</u>	<u>54,010,458</u>	<u>(1,015,482)</u>	-1.88%
<b>Net Profit (Loss)</b>		<u>404,487,080</u>	<u>(461,222,824)</u>	<u>865,709,904</u>	187.70%
 <b>Earnings (loss) per Share</b>	 17	 0.19	 (0.21)		

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

For the nine months ended September 30, 2011 and 2010)

	<u>Notes</u>	<u>2011</u>	<u>2010</u>	<u>Inc(Dec)</u>	<u>%</u>
NET PROFIT (LOSS)		404,487,080	(461,222,824)	865,709,904	187.70%
OTHER COMPREHENSIVE INCOME (LOSS)					
Fair value gains (losses)-net of taxes	4	<u>(289,504,006)</u>	<u>319,591,781</u>	<u>(609,095,787)</u>	190.59%
TOTAL COMPREHENSIVE INCOME (LOSS)		<u><b>114,983,074</b></u>	<u><b>(141,631,043)</b></u>	<u><b>256,614,117</b></u>	181.18%

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

	<u>Notes</u>	<u>Sept. 30 , 2011</u>	<u>Sept. 30 , 2010</u>
<b>CAPITAL STOCK - P1 par value</b>			
Authorized - 3,000,000,000 shares			
Issued -2,181,954,600 shares in 2011 and 2010	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>(289,504,006)</u>	<u>319,591,781</u>
		<u>104,166,089</u>	<u>338,035,639</u>
<b>RETAINED EARNINGS</b>			
Appropriated for contingencies			
Balance at beginning of the year		231,638,712	231,638,712
Additional appropriations		<u>40,448,708</u>	
	15	<u>272,087,420</u>	<u>231,638,712</u>
Unappropriated			
Balance at beginning of the year		161,965,642	743,448,289
Net Income		404,487,080	(461,222,824)
Cash Dividend		(43,193,552)	(101,504,847)
Appropriated for contingencies		<u>(40,448,708)</u>	-
		<u>482,810,462</u>	<u>180,720,618</u>
		<u><b>6,020,155,217</b></u>	<u><b>5,911,486,215</b></u>



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

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before tax	P 457,482,056	
Adjustments for:		
Increase (Decrease) in reserve for unearned RI Premiums	(68,755,249)	20,356,681
Unrealized foreign currency loss (gain)	2,579,858	5,019,117
Impairment loss	-	6,397,150
Depreciation	20,890,379	13,113,003
Interest income	(274,118,370)	(284,137,958)
Dividend income	(34,809,776)	(30,679,416)
Operating income before working capital changes	<u>103,268,898</u>	<u>(677,143,789)</u>
(Increase)Dec. in reinsurance balances receivable	1,020,416,419	(1,123,377,231)
(Increase) Dec. in deferred input value added tax	-	(16,334,938)
Decrease (Increase) in deferred acquisition costs	5,992,607	(2,898,740)
(Increase) in other assets	(22,892,436)	(19,858,165)
(Increase) Decrease in loans and receivables	105,773,542	(90,391,296)
Increase (decrease) in reinsurance balances payable	(882,020,630)	1,588,340,981
Increase(Dec.) in deferred output value added tax	(1,784,301)	(6,704,567)
Increase (decrease) in accounts payable and accrued exp.	<u>(46,790,432)</u>	<u>(8,480,597)</u>
Cash generated from (used in) operations	<u>281,963,667</u>	<u>(356,848,342)</u>
Cash paid for income taxes	<u>(52,994,976)</u>	<u>(54,010,458)</u>
 Net Cash From (Used in) Operating Activities	 <u><b>228,968,691</b></u>	 <u><b>(410,858,800)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Disposals (acquisitions) of:		
Available-for-sale financial assets	1,366,731,714	160,428,984
Property and equipment	(12,986,742)	(43,219,662)
Intangible asset	(3,030,370)	-
Interest received	324,169,095	336,850,514
Dividends received	<u>34,809,776</u>	<u>30,679,416</u>
 Net Cash From (Used in) Investing Activities	 <u><b>1,709,693,473</b></u>	 <u><b>484,739,252</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of dividends	<u>(43,193,552)</u>	<u>(101,504,847)</u>
 Net Cash From (Used in) Financing Activities	 <u><b>(43,193,552)</b></u>	 <u><b>(101,504,847)</b></u>
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	 <b>1,895,468,612</b>	 <b>(27,624,395)</b>
 <b>EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS</b>	 2,275,523	 (6,115,098)
 <b>CASH AND CASH EQUIVALENTS -January 1</b>	 <u><b>613,287,054</b></u>	 <u><b>683,659,159</b></u>
 <b>CASH AND CASH EQUIVALENTS -September 30</b>	 <u><b>P 2,511,031,189</b></u>	 <u><b>P 649,919,667</b></u>

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

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before tax	P 327,345,163	
Adjustments for:		
Decrease in reserve for unearned RI Premiums	(37,136,267)	(2,030,632)
Unrealized foreign currency loss (gain)	(673,098)	16,678,165
Impairment loss	-	6,397,150
Depreciation	7,265,372	6,759,847
Interest income	(87,271,699)	(96,239,405)
Dividend income	(12,404,035)	(12,421,619)
Operating income before working capital changes	<u>197,125,436</u>	<u>(276,966,747)</u>
(Increase)Dec. in reinsurance balances receivable	375,151,906	(547,382,762)
(Increase) Dec. in deferred input value added tax	-	(12,016,448)
Decrease (Increase) in deferred acquisition costs	(2,250,708)	(987,076)
(Increase) in other assets	(8,236,321)	(13,140,513)
(Increase) Decrease in loans and receivables	56,137,916	(46,478,564)
Increase (decrease) in reinsurance balances payable	(425,280,040)	761,720,885
Increase(Dec.) in deferred output value added tax	658,642	7,471,706
Increase (decrease) in accounts payable and accrued exp.	<u>1,255,592</u>	<u>(10,071,095)</u>
Cash generated from (used in) operations	<u>194,562,424</u>	<u>(137,850,614)</u>
Cash paid for income taxes	<u>(17,500,023)</u>	<u>(18,222,518)</u>
Net Cash From (Used in) Operating Activities	<u>177,062,401</u>	<u>(156,073,132)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Disposals (acquisitions) of:		
Available-for-sale financial assets	(46,212,785)	(32,420,949)
Property and equipment	(5,584,592)	(3,039,908)
Interest received	92,742,636	136,092,745
Dividends received	<u>12,404,035</u>	<u>12,421,619</u>
Net Cash From (Used in) Investing Activities	<u>53,349,293</u>	<u>113,053,507</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of dividends	-	-
Net Cash From (Used in) Financing Activities	-	-
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>230,411,695</b>	<b>(43,019,625)</b>
<b>EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS</b>	<b>2,826,566</b>	<b>(7,029,432)</b>
<b>CASH AND CASH EQUIVALENTS -June 30</b>	<b><u>2,277,792,928</u></b>	<b><u>699,968,724</u></b>
<b>CASH AND CASH EQUIVALENTS -September 30</b>	<b><u>P 2,511,031,189</u></b>	<b><u>P 649,919,667</u></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>September 2011</u>	<u>December 2010</u>
Time deposits	P 2,333,535,506	P 582,571,993
Cash on hand and in banks	<u>177,495,683</u>	<u>30,715,061</u>
	<u>P 2,511,031,189</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 September 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 September 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\$3,027,322 (or P132,100,223) as of September 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>September 2011</u>	<u>December 2010</u>
Reinsurance balances receivable:		
Reinsurance recoverable on unpaid losses	P 2,320,594,273	P 2,725,681,141
Due from ceding companies	537,622,326	1,180,189,544
Reinsurance recoverable on paid losses	471,997,189	454,499,264
Funds held by ceding companies	<u>143,080,747</u>	<u>133,204,512</u>
	3,473,294,535	4,493,574,461
Allowance for impairment	<u>( 283,129,959)</u>	<u>( 283,129,959)</u>
	<u>P 3,190,164,576</u>	<u>P 4,210,444,502</u>
Reinsurance balances payable:		
Claims payable	P 4,304,597,480	P 4,664,381,653
Due to retrocessionaires	184,978,697	706,510,346
Funds held for retrocessionaires	<u>94,489,751</u>	<u>91,820,884</u>
	<u>P 4,584,065,928</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>September 2011</u>	<u>December 2010</u>
Bonds	P 3,719,957,067	P 5,293,842,809
Equity securities - net	733,443,667	860,523,387
Investment in Asian Re shares	72,446,128	72,859,527
Various funds	<u>114,106,785</u>	<u>69,909,844</u>
	<u>P 4,639,953,647</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 P187,500,000 and P190,000,000 in September 2011 and December 2010 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 3.75% to 15.00% both in 2011 and 2010. Interest incomes recognized are presented as part of Investment and Other Income in the statements of income (see Note 11).

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

	<u>September 2011</u>	<u>December 2010</u>
Due within one year	P 250,151,119	P 321,292
Due after one year through five years	1,144,009,378	2,954,923,197
Due after five years through ten years	647,445,783	2,216,792,651
Due after ten years	<u>1,678,350,787</u>	<u>121,805,669</u>
	<u>P 3,719,957,067</u>	<u>P 5,293,842,809</u>

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

	<u>September 2011</u>	<u>December 2010</u>
Cost:		
Quoted in the stock exchange	P 661,868,963	P 572,025,999
Not quoted in the stock exchange	<u>106,073,477</u>	<u>192,195,157</u>
	<u>767,942,440</u>	<u>764,221,156</u>
Fair value gains (losses):		
Quoted in the stock exchange	( 12,746,826)	117,160,265
Not quoted in the stock exchange	<u>( 21,751,947)</u>	<u>( 20,858,034)</u>
	<u>( 34,498,773)</u>	<u>96,302,231</u>
	<u>P 733,443,667</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 P72,446,128 and P72,859,527, as of September 30, 2011 and December 2010, respectively.

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

	<u>September 2011</u>	<u>December 2010</u>
Balance at beginning of year	P 6,297,135,567	P 6,048,736,164
Additions	5,481,617,533	1,698,465,088
Disposals/maturities	( 6,848,349,247)	( 1,809,273,516)
Fair value gains(loss) - net	( 289,504,006)	375,226,237
Foreign currency gains (losses)	( 946,200)	( 9,621,256)
Impairment losses	-	( 6,397,150)
Balance at end of year	<u>P 4,639,953,647</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 P289,504,006 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>September 2011</u>	<u>December 2010</u>
Current:		
Term loans	P 150,000,000	P 150,000,000
Accrued interest receivable	42,475,304	92,526,029
Others	2,091,976	30,593,197
	<u>194,567,280</u>	<u>273,119,226</u>
Non-current:		
Term loans	-	80,000,000
Loans receivable	9,624,569	7,568,890
	<u>9,624,569</u>	<u>87,568,890</u>
	<u>P 204,191,849</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	62,453,016	92,429,899
Office Improvement	9,092,832	6,415,747	2,677,085
Office Furniture/Equipt.	9,752,199	9,501,871	250,328
Transportation equipt.	13,516,495	6,216,070	7,300,425
Edp equipment	<u>80,017,333</u>	<u>30,770,865</u>	<u>49,246,468</u>
Total	<u>267,261,774</u>	<u>115,357,569</u>	<u>151,904,205</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 costs 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>September 2011</u>	<u>December 2010</u>
Cost	39,241,313	36,210,943
Accumulated amortization	<u>( 9,807,770)</u>	<u>4,409,708</u>
Net Carrying amount	<u>29,433,543</u>	<u>31,801,235</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	P 14,257,825	P 771,688,546	P 902,887,425	P 1,179,075,555
Inc (Dec) during the year	<u>149,968,856</u>	<u>( 257,430,721)</u>	<u>81,213,607</u>	<u>( 276,188,130)</u>
Balance at end of year	<u>P 664,226,681</u>	<u>P 514,257,825</u>	<u>P 984,101,032</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>September 2011</u>	<u>December 2010</u>
Deferred input VAT	P 76,991,043	P 72,128,569
Creditable withholding tax	74,134,003	58,147,770
Investment property - net	2,851,159	34,655,106
Input VAT	25,119,001	24,095,334
Deferred withholding VAT	9,200,181	9,113,038
Prepayments	3,212,275	2,847,332
Deposit	612,309	575,200
Security fund	192,888	192,888
Others	3,219,793	2,688,929
	<u>P 195,532,652</u>	<u>P 204,444,166</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.

## 10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

	<u>September 2011</u>	<u>December 2010</u>
Deferred output VAT	P 40,009,028	P 41,793,329
Accrued expenses	4,878,353	36,204,807
Defined benefit liability	-	13,273,056
Accounts payable and other liabilities	13,005,591	10,311,445
Withholding taxes payable	<u>2,164,134</u>	<u>7,049,204</u>
	<u>P 60,057,106</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>September 2011</u>	<u>September 2010</u>
Interest	P 274,118,370	P 284,137,958
Gain (loss) on sale of stocks	66,133,351	72,160,196
Dividend income	34,809,776	30,679,416
Foreign exchange gains (losses)	3,758,075	( 17,857,318)
Trading gain	262,039,138	10,389,776
Other income (charges)	( 2,068,392)	1,432,077
	<u>P 638,790,318</u>	<u>P 380,942,105</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>September 2011</u>	<u>September 2010</u>
Commission expense	P 493,740,077	P 588,150,166
Reinsurance revenues	( 220,027,519 )	( 251,195,060 )
	<u>P 273,712,558</u>	<u>P 336,955,106</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>September 2011</u>	<u>September 2010</u>
Salaries and employee benefits	P 84,873,338	P 86,132,427
Depreciation and amortization	20,890,379	13,113,003
Professional fees	7,846,276	10,920,906
Repairs and maintenance	743,362	7,345,971
Taxes, licenses and fees	4,528,266	6,639,688
Impairment loss	-	6,397,150
Transportation and traveling	3,284,275	3,992,067
Light and water	3,833,900	3,526,690
Representation and entertainment	2,651,848	2,634,898
Contract labor	2,076,893	3,238,363
Association and pool expense	3,303,112	2,254,325
Rental	1,056,396	2,300,743
Communication and postages	1,608,259	1,477,378
Printing and office supplies	939,951	998,935
Advertising and publicity	1,671,850	1,269,685
Insurance	845,224	828,597
Miscellaneous	3,063,250	2,763,569
	<u>P 143,216,579</u>	<u>P 155,834,395</u>

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

Expenses recognized for employee benefits are presented below.

	<u>September 2011</u>	<u>September 2010</u>
Salaries and wages	P 59,251,636	P 59,769,399
Retirement	7,271,665	5,842,986
Allowances and bonus	9,758,830	10,451,866
Compensated absences	3,875,499	5,014,766
Social security costs	1,294,779	1,336,922
Others	3,420,929	3,716,488
	<u>P 84,873,338</u>	<u>P 86,132,427</u>

## 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>September 2011</u>	<u>September 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 P272,087,420 as of September 30, 2011, and P231,638,712 as of September 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>September 2011</u>	<u>December 2010</u>
Due from ceding companies	P 189,592,455	P 383,122,276
Reinsurance recoverable on losses	41,043,434	42,822,100
Funds held by ceding companies	51,285,260	51,166,242
Due to retrocessionaires	( 40,522,273)	( 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>September 2011</u>	<u>December 2010</u>
Time deposits	P -	P 84,000,000
Savings and current accounts	<u>3,530,931</u>	<u>2,838,884</u>
	<u>P 3,530,931</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>September 2011</u>	<u>December 2010</u>
Cash and cash equivalents	P 81,200,660	P 359
Available-for-sale financial assets	1,481,313,666	1,509,452,819
Loans and receivables	<u>60,243,842</u>	<u>100,626,261</u>
	<u>P 1,622,758,168</u>	<u>P 1,610,079,439</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 years quarter ended September 30, 2011 and 2010 amounted to P2,462,334 and P2,103,555 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>September 2011</u>	<u>September 2010</u>
Net income (loss) available to common shareholders	P 404,487,080	(P 461,222,824)
Divided by the average number of outstanding common shares	<u>2,159,677,600</u>	<u>2,159,677,600</u>
	<u>P 0.19</u>	<u>(P 0.21)</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 cyclicity of interim operations</li> </ul>	<ul style="list-style-type: none"> <li>• Nothing to report.</li> </ul>
<ul style="list-style-type: none"> <li>• The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents</li> </ul>	<ul style="list-style-type: none"> <li>• Nothing to report.</li> </ul>
<ul style="list-style-type: none"> <li>• The nature and amount of changes in estimates of amounts reported in prior interim periods of the current fiscal year or changes in estimates of amounts reported prior financial years, if those changes have a material effect in the current interim period</li> </ul>	<ul style="list-style-type: none"> <li>• Nothing to report.</li> </ul>
<ul style="list-style-type: none"> <li>• Issuances, repurchases, and repayments of debt and equity securities</li> </ul>	<ul style="list-style-type: none"> <li>• Nothing to report.</li> </ul>
<ul style="list-style-type: none"> <li>• Dividends paid (aggregate or per share) separately for ordinary shares and other shares</li> </ul>	<ul style="list-style-type: none"> <li>• The Board of Directors approved the declaration of 0.02/share cash dividend payable to stockholder of record 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>• Changes in contingent liabilities or contingent assets since the last annual balance sheet date</li></ul>	<ul style="list-style-type: none"><li>• Nothing to report.</li></ul>
<ul style="list-style-type: none"><li>• Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period.</li></ul>	<ul style="list-style-type: none"><li>• Nothing to report.</li></ul>

**AGING OF REINSURANCE BALANCES RECEIVABLE**

As of September 30, 2011

(In million pesos)

	<u>Total</u>	<u>Below 360 days</u>	<u>Over 360 days</u>
Due from Ceding Companies	538	206	332
Reinsurance recoverable on paid losses	472	81	391
Reinsurance recoverable un unpaid losses	2,320	2,320	-
Funds Held by Ceding companies	143	143	-
	<u>3,473</u>	<u>2,750</u>	<u>723</u>
Allowance for impairment*	<u>(283)</u>		
	<u><u>3,190</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.