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SECURITIES AND EXCHANGE COMMISSION

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Company Information

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Company Name NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES DOING BUSINESS UNDER THE NAME AND STYLE OF PHILIP
Industry Classification
Company Type Stock Corporation

Document Information

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COVER SHEET

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S.E.C. Registration Number

N A T I O N A L R E I N S U R A N C E
C O R P O R A T I O N
O F T H E P H I L I P P I N E S

(Company's Full Name)

3 1 S T F L O O R A Y A L A L I F E - F G U
C E N T E R 6 8 1 1 A Y A L A A V E N U E
M A K A T I C I T Y

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

REGINA S. RAMOS

Contact Person

988-7400

Company Telephone Number

1 2 3 1

Month Day
Fiscal Year

1 7 Q

FORM TYPE

2nd Quarter Ending 30 June 2015

0 7 1 3 15

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

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COVER SHEET

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
("PhilNaRe")

(Company's Full Name)

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

(632) 988-7400
(Telephone Number)

December 31
(Fiscal Year Ending)

July 13, 2015
(Annual Meeting)

SEC FORM 17-Q
Quarterly Report
2nd Quarter Ending 30 June 2015
(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 2015**
2. Commission identification Number **80118**
3. BIR Tax Identification Number **000-480-869**
4. **NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES doing business under the name and style of Philippine National Reinsurance Company; PhilNaRe**
Exact name of registrant as specified in its charter
5. **PHILIPPINES**
Province, country or other jurisdiction of incorporation or organization
6. Industry classification code (SEC Use Only)
7. **31st FLOOR, AYALA LIFE-FGU CENTRE, 6811 AYALA AVENUE** **1227**
MAKATI CITY, PHILIPPINES Postal Code
Address of registrant's principal office
8. **(632) 988-7400**
Registrant's telephone number, including area code
9. **N/A**
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 4 and 8 of the RSA as of quarter ended:
- | <u>Title of Each Class</u> | <u>Number of Shares of Common Stock Outstanding</u> |
|----------------------------|---|
| Common | 2,123,605,600 |
11. Are any or all of the securities listed on the Philippine Stock Exchange?
- Yes No
12. Indicate by check mark whether the registrant:
- (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period the registrant was required to file such report);
- Yes No
- (b) has been subject to such filing requirements for the past 90 days.
- Yes No

PART 1. - FINANCIAL INFORMATION

Item 1. Financial Statements

The financial statements listed below and covering pages 10 to 41 of this report are filed as part of this Form 17-Q:

- a. Statements of Financial Position as of 30 June 2015 and 31 December 2014
- b. Statements of Income:
 - For the Quarters ended 30 June 2015 and 2014.
 - For the Six months ended 30 June 2015 and 2014.
- c. Statements of Comprehensive Income for the six months ended 30 June 2015 and 2014.
- d. Statements of Changes in Equity as of 30 June 2015 and 2014.
- e. Statements of Cash Flows:
 - For the Quarters ended 30 June 2015 and 2014.
 - For the six months ended 30 June 2015 and 2014.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, 2nd Quarter, 2015

Results of Operations

Reinsurance Premium Income

Reinsurance premiums for the 2nd Quarter 2015 totaled P1,197.6 million, 4.2% or P52.3 million lower than P1,250.0 million in 2nd Quarter 2014. The decline was due to a decrease in non-life facultative reinsurance premiums (P168.7 million) which was partially offset by increases in both non-life reinsurance treaty premiums (increased by 14.0% or P71.6 million from P511.6 million in 2nd Quarter 2014 to P583.1 million in 2nd Quarter 2015) and life reinsurance premium (increased by 17.5% or P44.9 million from P257.1 million in 2nd Quarter 2014 to P301.9 million in 2nd Quarter 2015).

However, reinsurance premiums retained for the 2nd Quarter 2015 increased by P138.8 million or 37.3% from P371.7 million in 2nd Quarter 2014 to P510.5 million in 2nd Quarter 2015 principally due to higher premiums retained by the company on non-life treaty business which increased by 47.0% or P113.0 million from P240.5 million in 2nd Quarter 2014 to P353.4 million in 2nd Quarter 2015. Likewise, retention ratio improved from 29.7% in 2nd Quarter 2014 to 42.6% in 2nd Quarter 2015.

Consistent with the increase in net premiums retained, premiums earned also increased by 42.1% or P148.5 million from P352.6 million in 2nd Quarter 2014 to P501.0 million in 2nd Quarter 2015.

Underwriting Deductions

Share in claims and losses increased by P35.9 million or 11.2% mainly due to higher claims reported during the period net of outstanding loss reserves and IBNR (incurred but not reported losses) as of 2nd Quarter 2015.

However, Commission net, decreased by P8.4 million or 6.1% and this translates to a lower commission ratio of 25.4% in 2nd Quarter 2015 from 37.1% in 2nd Quarter 2014. The increase in underwriting deductions of P27.5 million resulted to a lower underwriting income of P14.0 million in 2nd Quarter 2015 compared to a net underwriting loss of P106.9 million in 2nd Quarter 2014.

Investment and Other Income (Charges)

Interest income net, decreased by P8.6 million or 6.6% from P129.9 million in 2nd quarter 2014 to P121.3 million in 2nd Quarter 2015 principally due to lower interest rate. However, this was offset by the increases in trading gains and other income net (P3.7 million), and foreign exchange translation gain (P8.6 million).

General and Administrative Expenses

General and administrative expenses (GAE) increased by P71.4 million or 73% to P169.2 million for the 2nd Qtr. 2015 from P97.8 million in 2nd 2015 primarily due to increase in impairment loss (P43.1 million), salaries and employee benefits (P5.3 million), taxes and licenses (P2.9 million), professional fees (P12.1 million) and contract labor (P7.1 million) relative to ongoing work process improvement which started in January 2015.

Tax expense

The Company's tax expense decreased slightly by 3.3% from P24.7 million in 2nd Quarter 2014 to P23.9 million in 2nd Quarter 2015 principally due to lower investment income subject to final tax.

Net Profit

The Company's net profit amounted to P37.3 million in 2nd Quarter 2015 compared to a net loss of P16.9 million in 2nd Quarter 2014 mainly due to posted underwriting profit of P14.0 million in 2nd Quarter 2015 compared to an underwriting loss of P107.0 million in 2nd Qtr. 2014.

For the Quarters ended June 30, 2015 and 2014

Reinsurance Premium Income

Reinsurance premiums generated for the quarter ended 30 June 2015 amounted to P691.6 million, 2.0% lower than the P705.8 million reinsurance premium generated for the quarter ended 30 June 2014. The decline was due to a decrease in non-life facultative reinsurance premiums (P101.5 million) which was partially offset by increases in both non-life reinsurance treaty premiums (increased by 12.8% or P35.2 million from P273.8 million for the Quarter ended 30 June 2014 to P309.0 million for the Quarter ended 30 June 2015) and life reinsurance premium (increased by 41.8% or P52.1 million from P124.7 million for the Quarter ended 30 June 2014 to P176.9 million for the Quarter ended 30 June 2015).

Reinsurance premiums retained as well as premium earned increased by 111.8% and 134.3% respectively due to higher reinsurance premiums retained both for life and non-life treaty businesses.

Underwriting deductions

Share in claims and losses increased by P123.2 million or 94.9% mainly due to higher claims reported during the period. Commissions, net also increased by 20.8% consistent with the increase in net premiums retained which resulted into an underwriting loss of P33.0 million for the quarter ended 30 June 2015 as against P69.4 underwriting loss for the quarter ended 30 June 2014.

Investment and Other Income (Charges)

Investment and other income decreased by 12.2% or P14.5 million from P119.4 million for the Quarter ended 30 June 2014 to P104.9 million for the Quarter ended 30 June 2015 principally due to lower interest rate, lack of trading opportunities and lower foreign exchange translation gain for the period.

General and Administrative Expenses

General and administrative expenses (GAE) increased by P64.6 million or 138.7% to P111.2 million for the quarter ended 30 June 2015 from P46.6 million for the quarter ended 30 June 2014, principally due to increase in manpower cost (P9.0 million), impairment loss (P43.1 million) professional fees (P5.6 million), taxes, licenses and fees (P2.8 million) and contract labor (P4.1 million).

Tax expense

The Company's tax expense slightly decreased by P0.37 million or 3.1% from P12.0 million for the quarter ended 30 June 2014 to P11.6 million for the quarter ended 30 June 2015, generally due to lower investment income subject to final tax.

Net Profit (Loss)

Due to the above-mentioned factors, the Company ended up with a net loss of P51.0 million for the quarter ended 30 June 2015 compared to a net loss of P8.6 million for the quarter ended 30 June 2014 mainly due to posted underwriting loss of P33.0 million for the quarter ended 30 June 2015 compared to underwriting loss of P69.4 million for the quarter ended 30 June 2014.

Financial Condition

Total resources of the Company as of June 30, 2015 amounted to P12.7 billion, 2.8% or P367.2 million lower than the December 2014 ending level of P13.1 billion. Material changes in the Company's resources are described below.

- **Cash and cash equivalents (P732.6M vs.P886.6M)**

Cash and cash equivalents as of June 30, 2015 decreased by P154.0 million or 17.4% resulting from the proceeds of matured time deposit which was shifted to available for sale financial assets.

- **Reinsurance Balances Receivable-net (P4.9B vs. P5.2B)**

Reinsurance balances receivable decreased by 6.0% to P4.9 billion as of June 30, 2015 from P5.2 billion as of December 31, 2014 principally due to declines in reinsurance recoverable on losses (P141.2 million), funds held by ceding companies (P39.6 million) due from ceding companies (P87.4) million and additional allowance for impairment loss (P43.1 million).

- **Available for Sale Financial Assets (P6.2B vs. P6.1B)**

Available for sale (AFS) financial assets slightly increased by P60.2 million or .99% to P6,167.9 million as of June 30, 2015 from P6,107.7 million as of December 31, 2014 principally due to matured time deposit placement shifted to available for sale financial assets less decline in investment fluctuation reserve.

- **Loans and Receivables (P306.3M vs. P322.3M)**

Loans and receivables held as investments decreased by 5.0% or P16.1 million from P322.3 million as of 31 December 2014 to P306.3 million as of June 30, 2015 mainly due to collection of accrued interest income and accounts receivable amounting to P14.6 million and partial maturity of term loans amounting to P2.5 million net of increase in car facility loan amounting to P1.0 million..

- **Property and Equipment, net (P74.6M vs. P76.3M)**

Property and equipment, net of accumulated depreciation amounted to P74.6 million as of June 30, 2015, a decrease of P1.7 million or 2.3% from December 31, 2014 mainly due to recorded depreciation of P6.1 million and disposals amounting to P0.6 million being higher than capital expenditures of P5.0 million.

- **Deferred Acquisition Cost (P47.7M vs. P49.3M)**

The decrease of P1.6 million or 3.3% in deferred acquisition cost relate to portions of reinsurance commissions that were deferred as of December 31, 2014 under the 24th method and eventually charged to expense in proportion to reinsurance premium revenue.

- **Deferred Reinsurance Premiums (P181.6M vs. P142.1M)**

Deferred reinsurance premiums increased by P39.5 million or 27.8% as of June 30, 2015 due to recognition of a portion of reinsurance premiums deferred as of December 31, 2014 as ceded under the 24th method of reinsurance accounting. Reinsurance premiums are deferred and charged to income over the life of the policies under the 24th method.

- **Other Assets (P362.0M vs. P344.4M)**

Other assets increased by P17.6 million or 5.1% to P362.0 million as of June 30, 2015 from P344.4 million as of 31 December 2014 million mainly due to increases in creditable withholding tax (P10.0 million) and input VAT (P11.8 million) less decreases in intangible asset net of other assets (P4.2 million).

Liabilities (P7.2B vs. P7.5B)

Total liabilities decreased by P398.0 million or 5.3% from P7.5 billion as of 31 December 2014 to P7.2 billion as of June 30, 2015. The increase in total liabilities is explained below:

- **Reinsurance Balances Payable (P6.6B vs. P7.0B)**

Reinsurance balances payable decreased by P353.7 million or 5.1% from P7.0 billion as of December 31, 2014 to P6.6 billion as of 2nd Qtr. 2015 primarily due to declines in both claims payable (P156.1 million) and due to reinsurers (P197.6 million).

- **Accounts Payable and Accrued Expenses (P52.3M vs. P151.6M)**

Accounts payable and accrued expenses decreased by P99.2 million or 65.5% from P151.6 million as of 31 December 2014 to P52.3 million as of 2nd Qtr. 2015 principally due to settlement of accounts payable, accrued expenses and other payables (P100.4 million) net of increase in deferred output VAT (P1.2 million).

- **Reserve for Unearned Reinsurance Premiums (P460.9M vs. P411.9M)**

Reserve for unearned reinsurance premium increased by P49.1 million or 11.9% principally due to increase in reinsurance premium income for the 2nd Qtr. 2015.

- **Deferred Reinsurance Commissions (P16.6M vs. P10.8M)**

Deferred reinsurance commissions increased by P5.9 million or 54.6% reflecting major portion of commission income being subjected to 24th method. (Income and expense policy recognition).

- **Equity (P5.6B)**

Stockholders' equity was flat at P5.6 billion as of June 30, 2015 and December 31, 2014. The slight increase in equity of P30.5 million was principally due to reported net income of P37.3 million for the six month ended June 30, 2015 less decline in revaluation reserve of P6.7 million as of 2nd Qtr. 2015.

Key Performance Indicators:

	2nd Quarter 2015	2nd Quarter 2014	% Inc.(Dec).
1. Net Income (Loss)	P37.3 million	(P16.9 million)	320.98%
2. Earnings per share (a)	P 0.02	(P 0.01)	320.98%
3. Retention ratio (b)	43%	30%	
4. Combined ratio (c)	129%	154%	
5. Return on average equity	.67%	(0.30%)	

(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 (71%/91%) commissions ratio (25% /37%) and expense ratio (33% /26%).

Net Income (NI) - The Company reported a net income of P37.3 million for the 1st semester of 2015 as compared to a net loss of P16.9 million for the 1st semester of 2014.

Earnings per share (EPS) - The Company's EPS was at P0.02 and (P0.01) as of 2nd Qtr. 2015 and 2014, respectively.

Retention ratio - Retention ratio improved from 30% in 2nd Qtr. 2014 to 43% in 2nd Qtr.2015

Combined ratio—The combined ratio was at 129% and 154% for the 2nd Qtr. 2015 and 2014 respectively.

Return on average equity (ROE) –ROE was at .67% as of 2nd Qtr. 2015 compared to ROE as of 2nd Qtr. 2014 of negative 0.30%.

Financial Soundness Indicators

	As of June 30, 2015	As of Dec. 31, 2014
Current Ratio	1.81	1.75
Asset to Equity Ratio	2.28	2.36
Total Liabilities/Equity	1.28	1.36

Discussion and Analysis of Material Events and Uncertainties:

NRCP has nothing to report on the following:

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

Financial Risk Disclosure

The Company's investments are regulated under the pertinent provisions of the new Insurance Code, otherwise known as Republic Act (R.A.) 10607. The Insurance Code generally requires all insurance companies to obtain prior approval of the Insurance Commission (IC) for any and all investments. The Company provides the IC with a monthly report on all investments made during the previous month. The IC reviews these investment reports and may require the immediate sale or disposal of any investment found to be risky.

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

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

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

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

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

Other Disclosure

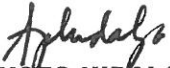
Pursuant to SEC Memorandum Circular No. 8 (Series of 2014), which provides guidance to non-bank financial institutions that are covered by Foreign Account Tax Compliance Act (FATCA) regulations, the Company is still evaluating/assessing the potential effects of FATCA to its business. Based on the regulation, the Company is a 'Non-financial foreign Entity' (NFFE) which may either be an "exempt NFFE" or "non-exempt NFFE". Under the regulations also, excepted NFFEs such as publicly traded corporations are generally exempt from FATCA withholding if a proper FATCA certification is provided to the payor.

PART 11. – OTHER INFORMATION

- B. No other material information.

**NATIONAL REINSURANCE CORPORATION
OF THE PHILIPPINES**
(Registrant)


REGINA S. RAMOS
Vice President & Controller


AUGUSTO HIDALGO
President & CEO

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and December 31, 2014

	<u>Notes</u>	<u>June 2015</u> <u>(Unaudited)</u>	<u>Dec. 2014</u> <u>(Audited)</u>	<u>Changes</u>
ASSETS				
CASH AND CASH EQUIVALENTS	3	732,617,226	886,643,838	(154,026,612)
REINSURANCE BALANCES RECEIVABLE-net	4	4,863,802,246	5,175,072,044	(311,269,798)
AVAILABLE-FOR-SALE FINANCIAL ASSETS	5	6,167,935,452	6,107,737,706	60,197,746
LOANS AND RECEIVABLES	6	306,275,563	322,338,295	(16,062,732)
PROPERTY AND EQUIPMENT-NET	7	74,603,068	76,346,345	(1,743,277)
DEFERRED ACQUISITION COST		47,703,424	49,322,031	(1,618,607)
DEFERRED REINSURANCE PREMIUMS	8	181,601,276	142,058,572	39,542,704
OTHER ASSETS	9	362,001,181	344,446,320	17,554,861
TOTAL ASSETS		12,736,539,436	13,103,965,151	(367,425,715)
LIABILITIES				
REINSURANCE BALANCES PAYABLE	4	6,621,175,008	6,974,870,479	(353,695,471)
ACCOUNTS PAYABLE & ACCRUED EXPENSES	10	52,347,230	151,554,847	(99,207,617)
RESERVE FOR UNEARNED RI PREMIUMS	8	460,907,222	411,855,614	49,051,608
DEFERRED REINSURANCE COMMISSIONS		16,647,599	10,767,573	5,880,026
TOTAL LIABILITIES		7,151,077,059	7,549,048,513	(397,971,454)
EQUITY				
Capital Stock	15	2,181,954,600	2,181,954,600	-
Treasury Stock		(100,525,432)	(100,525,432)	-
Additional Paid in Capital		3,019,218,458	3,019,218,458	-
Remeasurement of the Defined Benefit Liability	14	(73,800,095)	(73,800,095)	-
Revaluation reserve		323,574,998	330,285,833	(6,710,835)
Retained Earnings		235,039,848	197,783,274	37,256,574
Total Equity		5,585,462,377	5,554,916,638	30,545,739
TOTAL LIABILITIES & EQUITY		12,736,539,436	13,103,965,151	(367,425,715)

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

For the Six months ended June 30, 2015 and 2014)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>	<u>Inc(Dec)</u>	<u>%</u>
Reinsurance Premium Income					
Reinsurance premiums-net of returns		1,197,642,906	1,249,930,183	(52,287,277)	-4.18%
Retroceded premiums		687,093,785	878,192,403	(191,098,618)	-21.76%
Reinsurance premiums retained		510,549,121	371,737,780	138,811,341	37.34%
(Inc.) dec. in reserve for unearned reinsurance premiums	8	(9,508,904)	(19,177,802)	9,668,898	50.42%
		<u>501,040,217</u>	<u>352,559,978</u>	<u>148,480,239</u>	<u>42.11%</u>
Underwriting deductions					
Share in claims & losses		357,369,677	321,439,698	35,929,979	11.18%
Commissions, net	12	129,641,522	138,058,041	(8,416,519)	-6.10%
		<u>487,011,199</u>	<u>459,497,739</u>	<u>27,513,460</u>	<u>5.99%</u>
Net Underwriting Income (Loss)					
		<u>14,029,018</u>	<u>(106,937,761)</u>	<u>120,966,779</u>	<u>113.12%</u>
Interest		121,282,095	129,858,638	(8,576,543)	-6.60%
Foreign currency gain (losses)		7,265,741	(1,327,136)	8,592,877	647.48%
Others		87,726,026	84,009,191	3,716,835	4.42%
Investment and Other Income	11	<u>216,273,862</u>	<u>212,540,693</u>	<u>3,733,169</u>	<u>1.76%</u>
Profit after Investment and Other Income					
		230,302,880	105,602,932	124,699,948	118.08%
General and Administrative Expenses	13,14	<u>169,168,589</u>	<u>97,771,657</u>	<u>71,396,932</u>	<u>73.02%</u>
Profit Before Tax					
		61,134,291	7,831,275	53,303,016	680.64%
Tax Expense		<u>23,877,718</u>	<u>24,691,261</u>	<u>(813,543)</u>	<u>-3.29%</u>
Net Profit					
		<u>37,256,573</u>	<u>(16,859,986)</u>	<u>54,116,559</u>	<u>320.98%</u>
Earnings per Share					
	17	0.02	(0.01)		

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

For the Quarters ended June 30, 2015 and 2014)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>	<u>Inc(Dec)</u>	<u>%</u>
Reinsurance Premium Income					
Reinsurance premiums-net of returns		691,600,617	705,807,908	(14,207,291)	-2.01%
Retroceded premiums		380,197,148	558,766,367	(178,569,219)	-31.96%
Reinsurance premiums retained		311,403,469	147,041,541	164,361,928	111.78%
(Inc.) dec. in reserve for unearned reinsurance premiums	8	(7,879,160)	(17,494,585)	9,615,425	54.96%
		<u>303,524,309</u>	<u>129,546,956</u>	<u>173,977,353</u>	<u>134.30%</u>
Underwriting deductions					
Share in claims & losses		252,969,433	129,804,537	123,164,896	94.88%
Commissions, net	12	83,519,848	69,126,535	14,393,313	20.82%
		<u>336,489,281</u>	<u>198,931,072</u>	<u>137,558,209</u>	<u>69.15%</u>
Net Underwriting Income (Loss)		<u>(32,964,972)</u>	<u>(69,384,116)</u>	<u>36,419,144</u>	<u>52.49%</u>
Interest		60,040,968	63,637,864	(3,596,896)	-5.65%
Foreign currency gain (losses)		5,361,799	8,318,122	(2,956,323)	-35.54%
Others		39,447,830	47,431,558	(7,983,728)	-16.83%
Investment and Other Income	11	<u>104,850,597</u>	<u>119,387,544</u>	<u>(14,536,947)</u>	<u>-12.18%</u>
Profit after Investment and Other Income		71,885,625	50,003,428	21,882,197	43.76%
General and Administrative Expenses	13,14	<u>111,241,207</u>	<u>46,604,457</u>	<u>64,636,750</u>	<u>138.69%</u>
Profit Before Tax		(39,355,582)	3,398,971	(42,754,553)	-1257.87%
Tax Expense		<u>11,621,830</u>	<u>11,990,655</u>	<u>(368,825)</u>	<u>-3.08%</u>
Net Profit		<u>(50,977,412)</u>	<u>(8,591,684)</u>	<u>(42,385,728)</u>	<u>-493.33%</u>
Earnings per Share	17	(0.02)	(0.004)		

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

For the Six months ended June 30, 2015 and 2014)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>	<u>Inc(Dec)</u>	<u>%</u>
NET PROFIT (LOSS)		<u>37,256,573</u>	<u>(16,859,986)</u>	54,116,559	-320.98%
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that will not be reclassified subsequently to profit or loss					
Remeasurement of defined benefit liability	14	<u>-</u>	<u>-</u>	-	
Items that will be reclassified subsequently to profit or loss					
Fair valuation of available for sale (AFS) financial assets					
Fair value gains (loss) during the period		36,843,720	110,897,615		
Fair value gains on disposal of AFS financial assets reclassified to profit or loss		<u>(43,554,556)</u>	<u>(41,343,150)</u>		
	5	<u>(6,710,836)</u>	<u>69,554,465</u>	(76,265,301)	-109.65%
		<u>(6,710,836)</u>	<u>69,554,465</u>		
TOTAL COMPREHENSIVE INCOME		<u><u>30,545,737</u></u>	<u><u>52,694,479</u></u>	(22,148,742)	-42.03%

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CHANGES IN EQUITY
For the Six months ended June 30, 2015 and 2014)

<u>Notes</u>	<u>Capital Stock</u>		<u>Additional Paid-in Capital</u>	<u>Treasury Shares - At Cost</u>	<u>Revaluation Reserves</u>		<u>Retained Earnings</u>		<u>Total Equity</u>
	<u>No. of Shares</u>	<u>Amount</u>			<u>Remeasurement of defined Benefit liability</u>	<u>Available for sale securities</u>	<u>Appropriated</u>	<u>Unappropriated</u>	
Balance as of January 1, 2015	2,181,954,600	2,181,954,600	3,019,218,458	(100,525,432)	(73,800,095)	330,285,834	270,342,396	(72,559,122)	5,554,916,639
Appropriated for contingencies							3,725,657	(3,725,657)	-
Total comprehensive income (loss) for the period					-	(6,710,835)		37,256,573	30,545,738
Total equity as of June 30, 2015	2,181,954,600	2,181,954,600	3,019,218,458	(100,525,432)	(73,800,095)	323,574,999	274,068,053	(39,028,206)	5,585,462,377
Balance as of January 1, 2014	2,181,954,600	2,181,954,600	3,019,218,458	(100,525,432)	(101,702,472)	204,821,823	270,342,396	214,330,475	5,688,439,848
Appropriated for contingencies							-	-	-
Total comprehensive income (loss) for the period					-	69,554,465		(16,859,986)	52,694,479
Total equity as of June 30, 2014	2,181,954,600	2,181,954,600	3,019,218,458	(100,525,432)	(101,702,472)	274,376,288	270,342,396	197,470,489	5,741,134,327

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CASH FLOWS (unaudited)
For the Six months ended June 30, 2015 and 2014)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 61,134,291	P 7,831,275
Adjustments for:			
Increase in reserve for unearned RI Premiums	8	9,508,904	19,177,802
Unrealized foreign currency loss (gain)		(2,807,031)	(1,428,154)
Gain on sale of AFS financial assets	11	(61,817,878)	(59,580,895)
Gain on disposal of property and equipment		(140,264)	12,944
Impairment Loss		43,137,531	-
Depreciation	13	15,553,483	16,781,124
Interest income	11	(121,282,095)	(129,858,638)
Dividend income	11	(28,796,339)	(24,809,948)
Operating income before working capital changes		(85,509,398)	(171,874,490)
(Increase)Dec. in reinsurance balances receivable		276,411,131	741,227,208
Decrease (Increase) in deferred acquisition costs		7,498,633	(1,981,275)
(Increase) in other assets		(26,574,300)	(22,888,173)
(Increase) Decrease in loans and receivables		14,847,237	(10,490,528)
Increase (decrease) in reinsurance balances payable		(366,166,139)	(901,915,371)
Increase (decrease) in accounts payable and accrued exp.		(99,207,618)	(20,353,761)
Cash generated from (used in) operations		(278,700,454)	(388,276,390)
Cash paid for income taxes		(23,877,718)	(24,691,261)
Net Cash From (Used in) Operating Activities		<u>(302,578,172)</u>	<u>(412,967,651)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal/maturities of:			
Available-for-sale financial assets		1,658,643,806	3,535,497,828
Property and equipment		703,734	(12,944)
Interest received		122,497,590	134,692,569
Dividends received		28,796,338	24,809,948
Disposals (acquisitions) of:			
Available-for-sale financial assets		(1,660,214,840)	(3,246,478,917)
Intangible assets		(460,736)	-
Property and equipment		(4,893,500)	(3,176,602)
Net Cash From (Used in) Investing Activities		<u>145,072,392</u>	<u>445,331,882</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of dividends	15.4	-	-
Net Cash From (Used in) Financing Activities		<u>-</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		(157,505,780)	32,364,231
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS		3,479,168	(2,573,018)
CASH AND CASH EQUIVALENTS - January 1		<u>886,643,838</u>	<u>605,045,799</u>
CASH AND CASH EQUIVALENTS - June 30, 2015		<u>P 732,617,226</u>	<u>P 634,837,012</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CASH FLOWS (unaudited)
For the three months period ended June 30, 2015

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		(39,355,582)	P 4,432,305
Adjustments for:			
Increase in reserve for unearned RI Premiums	8	7,879,160	1,683,217
Unrealized foreign currency loss (gain)		3,924,404	9,810,741
Gain on sale of AFS financial assets	11	(22,434,052)	(31,184,417)
Gain on disposal of property and equipment		(140,264)	12,944
Impairment Loss		43,137,531	-
Depreciation	13	7,148,415	8,353,747
Interest income	11	(60,040,968)	(66,220,774)
Dividend income	11	(18,481,314)	(6,730,930)
Operating income before working capital changes		(78,362,670)	(79,843,167)
(Increase)Dec. in reinsurance balances receivable		(51,722,645)	1,253,161,846
Decrease (Increase) in deferred acquisition costs		(744,790)	(525,126)
(Increase) in other assets		(8,846,043)	(11,305,741)
(Increase) Decrease in loans and receivables		20,673,576	3,820,380
Increase (decrease) in reinsurance balances payable		(23,612,080)	(1,247,423,422)
Increase (decrease) in accounts payable and accrued exp.		(46,560,522)	(15,353,891)
Cash generated from (used in) operations		(189,175,174)	(97,469,121)
Cash paid for income taxes		(11,621,830)	(12,700,606)
Net Cash From (Used in) Operating Activities		<u>(200,797,004)</u>	<u>(110,169,727)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal/maturities of:			
Available-for-sale financial assets		490,462,914	1,572,311,703
Property and equipment		658,162	(12,944)
Interest received		46,834,901	82,189,319
Dividends received		18,481,313	6,730,931
Disposals (acquisitions) of:			
Available-for-sale financial assets		(355,220,404)	(1,279,236,975)
Intangible assets		(264,763)	-
Property and equipment		(3,626,815)	(1,493,414)
Net Cash From (Used in) Investing Activities		<u>197,325,308</u>	<u>380,488,620</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of dividends	15.4	-	-
Net Cash From (Used in) Financing Activities		<u>-</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		(3,471,696)	270,318,893
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS		(2,480,527)	1,142,842
CASH AND CASH EQUIVALENTS - March 31		738,569,449	605,045,799
CASH AND CASH EQUIVALENTS -June 30		<u>P 732,617,226</u>	<u>P 876,507,534</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
Notes and Other Disclosures

1. CORPORATE INFORMATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy (BOA). These interim financial statements do not include all the information required for a complete set of financial statements, and should be read in conjunction with the annual financial statements as of December 31, 2014.

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

(b) Presentation of Financial Statements

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

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

(c) *Functional and Presentation Currency*

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

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

2.2 Adoption of New and Amended PFRS(a) *Effective in 2014 that are Relevant to the Company*

In 2014, the Company adopted for the first time the following amendments and interpretation to PFRS that are relevant to the Company and effective for financial statements for the annual period beginning on or after January 1, 2014:

PAS 32 (Amendment)	:	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
PAS 36 (Amendment)	:	Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets
PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Novation of Financial Liabilities Derivatives and Continuation of Hedge Accounting
Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 21	:	Levies

Discussed below are the relevant information about these amended standards and interpretation.

- (i) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*. The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that an entity must currently have a right of set-off that is not contingent on a future event, and must be legally enforceable in the normal course of business; in the event of default; and, in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies that gross settlement mechanisms (such as through a clearing house) with features that both eliminate credit and liquidity risks and process receivables and payables in a single settlement process, will satisfy the criterion for net settlement. The Company's existing offsetting and settlement arrangements for its financial instruments with its counterparties are not affected by the amendment; hence, such did not have an impact on the presentation of financial assets and financial liabilities on the Company's financial statements for any periods presented.
- (ii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets*. The amendment clarifies that disclosure of information about the recoverable amount of individual asset (including goodwill) or a cash-generating unit is required only when an impairment loss has been recognized or reversed during the reporting period. If the recoverable amount is determined based on the asset's or cash-generating unit's fair value less cost of disposal, additional disclosures on fair value

measurement required under PFRS 13, *Fair Value Measurement*, such as but not limited to the fair value hierarchy, valuation technique used and key assumptions applied should be provided in the financial statements. This amendment did not result in additional disclosures in the financial statements since the recoverable amounts of the Company's non-financial assets where impairment losses have been recognized were determined based on value-in-use which have been adequately disclosed in accordance with PAS 36.

- (iii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*. The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Company neither enters into transactions involving derivative instruments nor does it apply hedge accounting, the amendment did not have any impact on the Company's financial statements.
- (iv) Philippine Interpretation IFRIC 21, *Levies*. This interpretation clarifies that the obligating event as one of the criteria under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, for the recognition of a liability for levy imposed by a government is the activity described in the relevant legislation that triggers the payment of the levy. Accordingly, the liability is recognized in the financial statements progressively if the obligating event occurs over a period of time and if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. This amendment had no significant impact on the Company's financial statements.

(b) *Effective in 2014 that are not Relevant to the Company*

Among the amendments to PFRS which are effective for annual period beginning on or after January 1, 2014, the Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*, in relation to the exception from consolidation for investment entities of their investment in subsidiaries is not relevant to the Company.

(c) *Effective Subsequent to 2014 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2014 which are issued by the FRSC, subject to the approval of the BOA. Management will adopt the following relevant pronouncements in accordance with their transitional provisions, and, unless otherwise stated, none of these are expected to have significant impact on the Company's financial statements:

- (i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from July 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit.
- (ii) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or

functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

- (iii) PAS 16 (Amendment), *Property, Plant and Equipment*, and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.
- (iv) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
 - an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
 - a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

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

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

The Company does not expect to implement and adopt PFRS 9 (2014) until its effective date. In addition, management is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Company and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

- (v) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) effective for annual periods beginning on or after July 1, 2014, and to PFRS (2012-2014 Cycle) effective for annual periods beginning on or after January 1, 2016, made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Company but management does not expect those to have material impact on the Company's financial statements:

Annual Improvements to PFRS (2010-2012 Cycle)

- (a) PAS 16 (Amendment), *Property, Plant and Equipment*, and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.
- (b) PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also clarifies that the information required to be disclosed in the financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and not the amounts of compensation paid or payable by the management entity to its employees or directors.
- (c) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment in the basis of conclusion of PFRS 13 clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvements to PFRS (2011-2013 Cycle)

- (a) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of and accounted for in accordance with PAS 39 or PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.
- (b) PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3 and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment

property is an acquisition of an asset or a group of asset in accordance with PAS 40, or a business combination in accordance with PFRS 3.

Annual Improvements to PFRS (2012-2014 Cycle)

- (a) PFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides additional guidance to help entities identify the circumstances under which a contract to “service” financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.
- (b) PAS 19 (Amendment), *Employee Benefits*. The amendment clarifies that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

3. CASH AND CASH EQUIVALENTS

This account consists of:

	<u>June 2015</u>		<u>December 2014</u>
Short-term placements	P 581,307,000	P	737,428,357
Cash on hand and in banks	151,310,226		149,215,481
	<u>P 732,617,226</u>	P	<u>886,643,838</u>

Short-term placements include time deposits and special deposit accounts made for varying periods between one day and one month depending on the liquidity requirements of the Company.

Peso short-term placements earn annual interest rates ranging from 0.25% to 2.5% in 2015 and from 0.25% to 1.88% in 2014 while dollar short-term placements earn annual interest rates ranging from 1.5% to 1.85% in 2015 and from 0.25% to 2.0% in 2014. Cash in banks generally earn interest at rates based on daily bank deposit rates. The Cash and Cash Equivalents account includes foreign currency denominated cash of US\$5,117,287 (or P231,301,354) as of June 30, 2015 and US\$7,845,611 (or P350,047,638) as of December 31, 2014.

4. REINSURANCE BALANCES

The details of reinsurance balances are as follows:

	<u>June 2015</u>	<u>December 2014</u>
Reinsurance balances receivable:		
Reinsurance recoverable on unpaid losses	P 3,378,828,130	P 3,482,729,371
Due from ceding companies	1,121,679,831	1,209,089,581
Reinsurance recoverable on paid losses	919,420,624	956,677,133
Funds held by ceding companies	90,696,922	130,261,689
	<u>5,510,625,507</u>	<u>5,778,757,774</u>
Allowance for impairment	(646,823,261)	(603,685,730)
	<u>P 4,863,802,246</u>	<u>P 5,175,072,044</u>
Reinsurance balances payable:	<u>June 2015</u>	<u>December 2014</u>
Claims payable	P 5,727,706,348	P 5,883,774,181
Due to retrocessionaires	819,985,009	1,016,675,866
Funds held for retrocessionaires	73,483,651	74,420,432
	<u>P 6,621,175,008</u>	<u>P 6,974,870,479</u>

Reinsurance balances receivable pertains to the following:

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

Reinsurance balances payable relates to the following:

- Claims payable are losses and claims due to ceding companies under treaty and facultative Agreements, inclusive of provision for IBNR losses.
- Due to retrocessionaires are unremitted share in premiums of retrocessionaires.
- Funds held for retrocessionaires represents portion of the reinsurance premium ceded to retrocessionaires which was withheld by the Company in accordance with treaty and facultative agreements.

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

A reconciliation of the allowance for impairment at the beginning and quarter end June 2015 and December 2014 is shown below.

	<u>June 2015</u>	<u>December 2014</u>
Balance at the beginning of year	P 603,685,730	P 572,562,898
Impairment losses during the year	43,137,531	31,122,832
Balance at the end	<u>P 646,823,261</u>	<u>P 603,685,730</u>

The fair values of these short-term financial assets and liabilities are not individually determined as their carrying amounts are reasonable approximation of their fair values.

5. AFS FINANCIAL ASSETS

This account is composed of the following:

	<u>June 2015</u>	<u>December 2014</u>
Bonds	P 4,084,445,705	P 4,049,823,361
Equity securities - net	2,060,679,884	1,574,372,297
Treasuri Bills	8,429,757	-
Investment in Asian Re shares	4,444,847	4,444,847
Various funds	9,935,259	479,097,201
	<u>P 6,167,935,452</u>	<u>P 6,107,737,706</u>

Bonds include investments in corporate bonds, long-term negotiable instruments and government securities. This also includes government securities amounting to P250,000,000 both in June 2015 and December 2014, 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.

Bonds earn interest at annual rates ranging from 2.125% to 15.00% both in June 2015 and December 2014. 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>June 2015</u>	<u>December 2014</u>
Due within one year	P 241,743,938	P 219,072,654
Due after one year through five years	1,312,640,834	1,442,173,049
Due after five years through ten years	1,889,563,772	1,921,891,112
Due after ten years	640,497,161	466,686,546
	<u>P 4,084,445,705</u>	<u>P 4,049,823,361</u>

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

	<u>June 2015</u>	<u>December 2014</u>
Cost:		
Quoted in the stock exchange	P 1,823,033,807	P 1,388,821,282
Not quoted in the stock exchange	38,346,335	38,346,335
	<u>P 1,861,380,142</u>	<u>P 1,427,167,617</u>
Fair value gains (losses):		
Quoted in the stock exchange	P 218,216,950	P 165,859,088
Not quoted in the stock exchange	(18,917,208)	(18,654,408)
	<u>P 199,299,742</u>	<u>P 147,204,680</u>
	<u>P 2,060,679,884</u>	<u>P 1,574,372,297</u>

Equity securities mainly consist of investments in companies listed in the PSE.

The shares of Asian Re have been issued in the name of the Government of the Philippines (GoP) as the Philippine government's participation in the joint undertaking of Asian countries to organize a reinsurance company that will service the needs of the region. The GoP assigned such shares, including any interest accruing thereon, to the Company. The GoP designated the Company as the national institution authorized to subscribe and pay for the said shares of stock. The shares of stock of Asian Re, while not for sale, were classified under this category since these do not qualify for inclusion in any other categories of financial assets.

The fair value of investment in ARC shares amounted to P4,444,847 both for June 30, 2015 and December 31, 2014.

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

	June 2015	December 2014
Balance at beginning of year	P 6,107,737,707	P 6,391,696,049
Additions	1,660,214,840	1,322,097,053
Disposals/maturities	(1,596,825,927)	(1,735,640,365)
Fair value gains(loss) - net	(6,710,836)	125,464,010
Foreign currency gains (losses)	3,519,668	4,120,959
Balance at end of period	P 6,167,935,452	P 6,107,737,706

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 P6,710,836 fair value losses and P125,464,010 fair value gain in June 2015 and December 2014 respectively.

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

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

6. LOANS AND RECEIVABLES

This account includes the following:

	June 2015	December 2014
Current:		
Accrued interest receivable	P 53,998,657	P 55,214,152
Others	4,742,268	18,121,292
	P 58,740,925	P 73,335,444
Non-current:		
Term loans	P 242,500,000	P 245,000,000
Loans receivable	5,034,638	4,002,851
	P 247,534,638	P 249,002,851
	P 306,275,563	P 322,338,295

7. PROPERTY AND EQUIPMENT

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

	Cost	Accumulated Depreciation	Net Carrying Amount
Condominium Units	P 101,310,361	P 52,906,522	P 48,403,839
Office Improvement	10,787,040	4,064,139	6,722,901
Office Furniture/Equipment	10,376,223	9,278,258	1,097,965
Transportation Equipment	9,042,857	3,862,238	5,180,619
EDP Equipment	39,824,608	26,626,864	13,197,744
Total	P 171,341,089	P 96,738,021	P 74,603,068

8. DEFERRED REINSURANCE PREMIUMS AND RESERVE FOR UNEARNED REINSURANCE PREMIUMS

The movement of these accounts follows:

	Deferred Reinsurance Premiums		Reserve for Unearned Reinsurance Premiums	
	2015	2014	2015	2014
Balance at beginning of year	P 142,058,572	218,898,489	P 411,855,614	P 541,893,656
Inc (Dec) during the year	39,542,704	(76,839,917)	49,051,608	(130,038,042)
Balance at end of period	P 181,601,276	142,058,572	P 460,907,222	411,855,614

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

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

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

9. OTHER ASSETS

The Other Assets account includes the following:

	June 2015	December 2014
Creditable withholding tax	P 151,704,607	P 144,083,852
Deferred input VAT	71,620,081	74,470,070
Input VAT	101,414,295	86,794,566
Intangible assets – net	11,566,049	20,582,988
Deferred withholding VAT	9,202,886	9,202,886
Prepayments	3,413,089	3,248,228
Investment property - net	2,832,409	2,834,909
Deposit	789,399	791,268
Security fund	192,888	192,888
Others	9,265,478	2,244,665
	P 362,001,181	P 344,446,320

Input VAT pertains to input VAT on commissions paid to ceding companies.

Deferred input VAT includes unapplied input taxes resulting from unpaid premiums on ceded out transaction, unpaid commission to ceding companies and unamortized input vat on capital asset acquisition.

Deferred withholding VAT represents unapplied input taxes resulting from unpaid premiums on ceded out transactions to the company from a certain government entity.

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.

Investment property consists mainly of land, with improvements, which are owned for capital appreciation. The changes to the carrying amounts of the investment property can be summarized as follows as of June 2015 and December 2014, respectively.

	<u>June 2015</u>	<u>December 2014</u>
Balance at beginning of year	P 2,834,909	P 2,839,909
Depreciation and amortization charges for the year	(2,500)	(5,000)
Balance at end of period	P <u>2,832,409</u>	P <u>2,834,909</u>

Intangible assets pertain to acquired computer software licenses used in production and administration. The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of June 30, 2015 and December 31, 2014 follows:

	<u>June 2015</u>	<u>December 2014</u>
Cost	P 111,706,410	P 111,245,674
Accumulated amortization	(100,140,361)	(90,662,686)
Balance at end of period	P <u>11,566,049</u>	P <u>20,582,988</u>

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

	<u>June 2015</u>	<u>December 2014</u>
Accounts payable	P 20,278,041	P 50,362,325
Deferred output VAT	34,324,784	33,087,669
Accrued expenses	16,739,203	30,857,886
Defined benefit liability	(21,472,856)	7,786,976
Withholding taxes payable	1,924,866	6,959,043
Other liabilities	553,192	22,500,948
	P <u>52,347,230</u>	P <u>151,554,847</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 2015</u>	<u>June 2014</u>
Interest	P 121,282,095	P 129,858,638
Gain on sale of stocks	37,280,236	24,690,257
Dividend income	28,796,338	24,809,948
Foreign exchange gain(loss)	7,265,741	(1,327,137)
Trading gains	24,537,641	34,890,639
Gain(loss) on sale of property & equipment	140,264.00	(12,944)
Other income (charges)	(3,028,453)	(368,708)
	P <u>216,273,862</u>	P <u>212,540,693</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 2015</u>	<u>June 2014</u>
Commission expense	P 177,872,421	P 206,033,749
Reinsurance revenues	(48,230,899)	(67,975,708)
	P <u>129,641,522</u>	P <u>138,058,041</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 2015</u>	<u>June 2014</u>
Salaries and employee benefits	P 59,405,849	P 54,113,906
Impairment loss	43,137,531	-
Depreciation and amortization	15,553,483	16,781,124
Professional fees	17,889,591	5,785,569
Repairs and maintenance	3,437,628	4,859,176
Taxes, licenses and fees	5,226,541	2,327,796
Transportation and traveling	1,221,600	1,503,745
Light and water	1,322,150	1,222,759
Representation and entertainment	303,483	1,405,199
Contract labor	7,926,282	876,079
Association and pool expense	1,389,439	1,929,158
Rental	1,915,498	1,361,985
Communication and postages	932,664	1,001,032
Printing and office supplies	623,436	393,483
Advertising and publicity	511,877	230,032
Insurance	444,412	483,804
Miscellaneous	7,927,125	3,496,810
	P <u>169,168,589</u>	P <u>97,771,657</u>

14. SALARIES AND EMPLOYEE BENEFITS

14.1 *Salaries, Wages and Employee Benefit Expense*

Expenses recognized for employee benefits are presented below.

	<u>June 2015</u>	<u>June 2014</u>
Short-term employee benefits	P 45,257,966	P 44,699,671
Post-employment defined benefit	2,881,466	5,371,012
Compensated absences	3,341,031	4,043,223
Separation benefits	7,925,386	-
	<u>P 59,405,849</u>	<u>P 54,113,906</u>

14.2 *Post-employment Defined Benefit*

(a) *Characteristics of the Defined Benefit Plan*

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

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

(b) *Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2014 and 2013.

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

	<u>December 2014</u>	<u>December 2013</u>
Present value of the obligation	P 90,007,834	P 144,762,543
Fair value of plan assets	(82,220,858)	(80,333,128)
Defined benefit liability	<u>P 7,786,976</u>	<u>P 64,429,415</u>

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

	<u>December 2014</u>	<u>December 2013</u>
Balance at beginning of year	P 144,762,543	P 174,933,081
Current service cost	8,222,834	9,581,702
Interest Expenses	5,660,215	9,096,520
Remeasurement on actuarial losses (gains) arising from:		
Changes in financial assumptions	(1,153,040)	11,708,682
Changes in demographic assumptions	-	25,294
Experience adjustments	(16,495,240)	921,633
Benefits paid by the plan	(64,761,977)	(61,339,398)
Settlement gain	13,772,499	(164,971)
Balance at end of period	P <u>90,007,834</u>	P <u>144,762,543</u>

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

	<u>December 2014</u>	<u>December 2013</u>
Balance at beginning of year	P 80,333,128	P 80,951,387
Interest income	3,141,025	4,209,472
Return on plan assets (excluding amounts included in net interest)	10,254,097	2,261,487
Contributions paid into the plan	53,254,585	54,250,180
Benefits paid by the plan	(64,761,977)	(61,339,398)
Balance at end of period	P <u>82,220,858</u>	P <u>80,333,128</u>

The plan assets as of December 2014 & December 2013 consist of:

	<u>December 2014</u>	<u>December 2013</u>
Cash and cash equivalents	P 19,798,028	P 4,798,403
Equity securities	24,152,947	26,137,227
Government securities	48,892,150	49,159,686
Loans and receivables	293,162	237,812
Benefits payable	(10,773,889)	-
Accounts payable	(141,540)	-
Balance at end of period	P <u>82,220,858</u>	P <u>80,333,128</u>

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

The plan assets earned a return of P13.4 million in 2014 and P6.5 million in 2013.

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

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

	<u>December 2014</u>	<u>December 2013</u>
<i>Reported in profit or loss:</i>		
Current service cost	P 8,222,834	P 9,581,702
Settlement gain	13,772,499	(164,971)
Net interest expense	<u>2,519,190</u>	<u>4,887,048</u>
	<u>P 24,514,523</u>	<u>P 14,303,779</u>
<i>Reported in other comprehensive loss (income):</i>		
Actuarial losses arising from changes in:		
Financial assumptions	P (1,153,040)	P 11,708,682
Experience adjustments	(16,495,240)	921,633
Demographic assumptions	-	25,294.00
Return on plan assets (excluding amounts included in net interest)	<u>(10,254,097)</u>	<u>(2,261,487)</u>
	<u>P (27,902,377)</u>	<u>P 10,394,122</u>

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

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

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

For determination of the retirement benefit obligation, the following actuarial assumptions were used:

	<u>2014</u>	<u>2013</u>
Discount rates	4.10%	5.20%
Expected rate of salary increase	5.0%	5.0%
Employee turn-over rate	10.0%	5.0% to 9.5%

15. EQUITY

15.1 Capital Stock

Capital stock (net of Treasury Shares—see Note 15.2) consists of common shares with P1 par value per share with details as follows:

	Number of Shares		
	June 2015	2014	2013
Authorized – 3,000,000,000 shares			
Issued and outstanding			
Balance at beginning of year	2,123,605,600	2,123,605,600	2,123,605,600
Reacquired during the year	<u>-</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>2,123,605,600</u>	<u>2,123,605,600</u>	<u>2,123,605,600</u>
	Amount		
	June 2015	2014	2013
Authorized – 3,000,000,000 shares			
Issued and outstanding			
Balance at beginning of year	P2,123,605,600	P2,123,605,600	P 2,123,605,600
Reacquired during the year	<u>-</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>P2,123,605,600</u>	<u>P2,123,605,600</u>	<u>P 2,123,605,600</u>

On April 27, 2007, the SEC approved the listing of the Company's shares totalling 741,902,600. The shares were initially issued at an offer price of P3.80 per share. As of June 30, 2015 and December 31 2014, there are 280 & 282 holders of the listed shares, respectively. Such listed shares closed at P0.99 and P0.90 per share, as of those dates, respectively,

15.2 Treasury Shares

In 2011, the Company acquired 36,072,000 of its own shares at a total cost of P60,443,621. There are no treasury stock transactions in June 2015 and 2014. As of December 31, 2014 and 2013, total shares in treasury is 58,349,000 amounting to P100,525,432.

15.3 Appropriation for Contingencies

On April 18, 1989, the Company's BOD approved the establishment of a special reserve which will serve as cushion to the paid-up capital in the event of extraordinarily high loss occurrences or severe catastrophic losses. As such, at December 31 of each year where there is profit, 10% of such profit is set aside as additional reserve for contingencies. The reserve balance, which is shown as Appropriated under Retained Earnings account in the statements of changes in equity, should not exceed, at any time, the amount of paid-up capital. The balance of appropriation for contingencies amounted to P281,094,912 as of June 30, 2015 and P270,342,396 as of December 2014 and 2013, respectively.

15.4 Declaration of Cash Dividends

The BOD approved the declaration of cash dividends of P0.02 per share (or a total of P42,472,112) on May 16, 2013 and P0.10 per share (or a total of P212,360,560) on May 17, 2012, payable to stockholders of record as of June 14, 2013, and June 1, 2012, respectively. The total outstanding dividends payable amounted to 2,542,536 both in June 30, 2015 and December 2014.

16. RELATED PARTY TRANSACTIONS

The Company's related parties include its principal stockholders, related parties under common ownership, retirement plan and the Company's key management personnel 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:

	June 2015				December 2014					
		Stockholders		Related Parties Under Common Ownership			Stockholders		Related Parties Under Common Ownership	
		P		P			P		P	
Premiums	P	192,572,246	P	23,428,509	P	353,442,391	P	49,545,015		
Retrocessions		921,964		(240,528)		908,118		811,770		
Commission income		59,794		-		31,626		-		
Commission expenses		50,772,067		-		108,042,840		-		
Losses incurred	P	203,939,369		-		150,150,352		3,950,722		
Losses recoveries		-		-		39		388,699		

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

	June 2015				December 2014					
		Stockholders		Related Parties Under Common Ownership			Stockholders		Related Parties Under Common Ownership	
		P		P			P		P	
Due from ceding cos.	P	219,755,676	P	32,962,753		217,855,945		48,406,620		
RI recoverable on losses		78,047,529		-		89,291,265		-		
Funds held by ced. cos.		38,171,097		-		64,021,845		-		
Claims payable		1,235,295,166		4,458,459		1,342,005,997		6,499,019		
Due to Retrocessionaires		8,685,805		1,549,398		7,192,935		1,895,203		
Funds held for retro	P	164,032	P	-		164,032		-		

The balance of due from ceding companies pertaining to related parties is presented net of P52.2 and P37.3 million allowance for impairment in June 30, 2015 and December 31, 2014, respectively. There are no other impairment losses recognized on other receivables.

16.2 Other Transactions

The Company's other transactions with related parties follow:

		June 2015		December 2014	
		Amount of	Outstanding	Amount of	Outstanding
		Transactions	Balance	Transactions	Balance
Stockholder:					
Cash & cash equivalent	(a)	2,027,055	6,749,063	1,761,206	4,722,008
AFS financial assets	(b)	1,228,500.00	1,228,500.00	-	-
Interest Income-					
Bank accounts	(a)	10,908	-	25,550	-
Interest Income-AFS					
Financial assets	(b)	-	-	-	-
Trading gain	(b)	-	-	-	-
Service fees	(d)	(6,685)	-	(64,655)	-
Related Party Under Common Ownership					
Cash & Cash equivalent	(a)	25,958,053	314,198,681	102,834,993	288,240,628
AFS financial assets	(b)	(76,910,690)	158,753,707	48,368,650	235,664,397
Loans and receivables	(c)	(1,425,709)	719,611	(1,055,988)	2,145,320
Interest Income-					
Bank accounts	(a)	1,780,801	-	2,452,830	-
Interest Income-AFS					
Financial assets	(b)	4,663,172	-	10,469,169	-
Interest income-Loans and receivables					
	(c)	-	-	-	-
Trading gain	(b)	-	-	-	-
Service fees	(d)	-	-	(1,168)	-

(a) Cash and Cash Equivalent

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

(b) AFS Financial Assets

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

(c) Loans and Receivables

The Company has term loans with certain related parties under common ownership. Relative to this, the Company recognized interest income which are presented as part of interest income under Investment and Other Income in the statements of income (see Note 11). The term loan is unsecured and earns interest of 5.00% to 5.50% in June 2015 and December 2014. As of June 30, 2015, management assessed that these term loans are not impaired.

(d) Investment Management and Custodianship

The Company has entered into agreements known as “Investment Management Agreement” and “Custodianship Agreement” with a stockholder and an affiliate bank for the management and custodianship of certain investible funds of the Company subject to terms and conditions in the said agreements. In consideration for the services rendered, the Company pays the stockholder and the affiliate bank service fees equivalent to a certain percentage of the market value of the investments. Total service fees paid is charged against Other income (charges) under Investment and Other Income account (see Note 11) in the statements of income. There are no outstanding liabilities from these transactions as of June 30, 2015 and December 31, 2014.

16.3 Retirement Fund Investment Management

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

16.4 Transactions with Retirement Fund

As discussed in Note 16.2, the Company maintains a wholly-funded, tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees. The Company has no other transaction with its retirement fund in 2014 and 2013 except for its contribution of P53,254,585 and P54,250,180, respectively.

16.5 Key Management Personnel Compensation

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

	<u>June 2015</u>	<u>June 2014</u>
Short-term benefits	P 19,471,440	P 15,339,307
Post-employment benefits	<u>2,225,982</u>	<u>1,403,392</u>
	<u>P 21,697,422</u>	<u>P 16,742,699</u>

17. Earnings (loss) Per Share

The earnings per share amounts are as follows:

	<u>June 2015</u>	<u>June 2014</u>
Net income (loss) available to common shareholders	P 37,256,573	(P 16,859,986)
Divided by the average number of outstanding common shares	<u>2,123,605,600</u>	<u>2,123,605,600</u>
	<u>P 0.02</u>	<u>(P 0.01)</u>

18. Categories and offsetting of financial assets and liabilities

18.1. Comparison of Carrying Amounts and Fair Values

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

	June 2015		December 2014		
	Notes	Carrying Values	Fair Values	Carrying Values	Fair Values
Financial assets					
Loans and receivables:					
Cash and cash equivalents	P	732,617,226	P 732,617,226	P 886,643,838	P 886,643,838
Reinsurance balances receivables		4,863,802,246	4,863,802,246	5,175,072,044	5,175,072,044
Loans and receivables		306,275,563	306,275,563	322,338,295	322,338,295
	P	<u>5,902,695,035</u>	P <u>5,902,695,035</u>	P <u>6,384,054,177</u>	P <u>6,384,054,177</u>
AFS financial assets:					
Debt securities	P	4,084,445,705	P 4,084,445,705	P 4,049,823,361	P 4,049,823,361
Equity securities		2,060,679,884	2,060,679,884	1,574,372,297	1,574,372,297
Treasury Bills		8,429,757	8,429,757	-	-
Investment in ARC		4,444,847	4,444,847	4,444,847	4,444,847
Various funds		9,935,259	9,935,259	479,097,201	479,097,201
	P	<u>6,167,935,452</u>	P <u>6,167,935,452</u>	P <u>6,107,737,706</u>	P <u>6,107,737,706</u>
Financial liabilities					
Financial liabilities at amortized cost					
Reinsurance balances payable	P	6,621,175,008	P 6,621,175,008	P 6,974,870,479	P 6,974,870,479
Accounts payable and other accrued expenses		17,292,395	17,292,395	83,221,159	83,221,159
	P	<u>6,638,467,403</u>	P <u>6,638,467,403</u>	P <u>7,058,091,638</u>	P <u>7,058,091,638</u>

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

18.2 Offsetting of Financial Assets and Financial Liabilities

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

Reinsurance balances as at June 2015 and December 2014 are as follows.

	Note	June 2015	December 2014
Reinsurance balances receivable	4	P <u>4,863,802,246</u>	P 5,175,072,044
Reinsurance balances payable	4	<u>6,621,175,008</u>	6,974,870,479

19. Fair value measurement and disclosures

19.1 Fair Value Hierarchy

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

- i. Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- ii. Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- iii. Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

19.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Company's financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis, as of June 30, 2015 and December 31, 2014 (amounts in thousand Philippine Peso).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2015				
AFS financial assets	<u>P 4,437,661</u>	<u>P 29,365</u>	<u>P 777,018</u>	<u>P 5,244,614</u>
December 31, 2014				
AFS financial assets	<u>P 3,980,728</u>	<u>P 498,789</u>	<u>P 590,796</u>	<u>P 5,070,313</u>

The Company's AFS financial assets includes certain investments measured at cost amounting to P923,892 and P1,037,425 (amounts in thousand Philippine Peso) as of June 30, 2015 and December 31, 2014, respectively.

The Company has no financial liabilities measured at fair value as of June 30, 2015 and December 31, 2014.

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

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

a) Equity securities

As of June 30, 2015 and December 31, 2014, instruments included in Level 1 comprise equity securities classified as AFS financial assets. These securities were valued based on their market prices quoted in the Philippine stock exchanges at the end of each reporting period.

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

b) Debt securities

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

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

The table below summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the June 2015 statement of financial position but for which fair value is disclosed.

		<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>		<u>Total</u>
Financial assets:								
Cash and cash equivalents	P	732,617,226	P	-	P	-	P	732,617,226
Reinsurance balances receivables						4,863,802,246		4,863,802,246
Loans and receivables						306,275,563		306,275,563
	P	<u>732,617,226</u>	P	<u>-</u>	P	<u>5,170,077,809</u>	P	<u>5,902,695,035</u>
Financial liabilities:								
Reinsurance balances payable	P	-	P	-	P	6,621,175,008	P	6,621,175,008
Accounts payable and other accrued expenses						17,292,395		17,292,395
	P	<u>-</u>	P	<u>-</u>	P	<u>6,638,467,403</u>	P	<u>6,638,467,403</u>

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

The fair values of the financial assets and financial liabilities included in Level 3 above which are not traded in an active market is determined by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of

counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

19.4 Fair Value Measurement for Non-financial Assets

The Company used market comparable approach as a valuation technique in measuring the fair values of its investment properties to arrive at fair values that are more representative of the investment properties' highest and best use. As of June 30, 2015 and December 31, 2014, the fair values of the investment properties is P5,880,000, respectively, and are classified as under Level 3 of the fair value hierarchy. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value.

20. Other SEC requirements

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

<ul style="list-style-type: none"> • Explanatory comments about the seasonality or cyclicity of interim operations 	<ul style="list-style-type: none"> • Nothing to report.
<ul style="list-style-type: none"> • The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents 	<ul style="list-style-type: none"> • Nothing to report.
<ul style="list-style-type: none"> • The nature and amount of changes in estimates of amounts reported in prior interim periods of the current fiscal year or changes in estimates of amounts reported prior financial years, if those changes have a material effect in the current interim period 	<ul style="list-style-type: none"> • Nothing to report.
<ul style="list-style-type: none"> • Issuances, repurchases, and repayments of debt and equity securities 	<ul style="list-style-type: none"> • Nothing to report.
<ul style="list-style-type: none"> • Dividends paid (aggregate or per share) separately for ordinary shares and other shares 	<ul style="list-style-type: none"> • Nothing to report.
<ul style="list-style-type: none"> • Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting. (This shall be provided only if the issuer is required to disclose segment information in its annual financial statements) 	<ul style="list-style-type: none"> • Nothing to report.

<ul style="list-style-type: none"> • Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period 	<ul style="list-style-type: none"> • Nothing to report
<ul style="list-style-type: none"> • The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisitions or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations 	<ul style="list-style-type: none"> • Nothing to report.
<ul style="list-style-type: none"> • Changes in contingent liabilities or contingent assets since the last annual balance sheet date 	<ul style="list-style-type: none"> • Nothing to report.
<ul style="list-style-type: none"> • Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period. 	<ul style="list-style-type: none"> • Nothing to report.

AGING OF REINSURANCE BALANCES RECEIVABLE

As of June 30, 2015

(In million pesos)

	<u>Total</u>	<u>Below 360 days</u>	<u>Over 360 days</u>
Due from Ceding Companies	1,122	935	187
Reinsurance recoverable on paid losses	919	200	719
Reinsurance recoverable un unpaid losses	3,378	3,378	-
Funds Held by Ceding companies	91	91	-
	<u>5,510</u>	<u>4,604</u>	<u>906</u>
Allowance for impairment*	<u>(647)</u>		
	<u><u>4,863</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.