

# COVER SHEET

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S.E.C. Registration Number

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(Company's Full Name)

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

<b>JOHN E. HUANG</b>
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Contact Person

759-58-01
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Company Telephone Number

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**3rd Quarter Ending 30 September 2012**

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To be accomplished by SEC Personnel concerned

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Cashier

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**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) 988-7400**

(Telephone Number)

**December 31**  
(Fiscal Year Ending)

**June 27, 2012**  
(Annual Meeting)

**SEC FORM 17-Q**  
**Quarterly Report**  
**3rd Quarter Ending 30 September 2012**  
(Form Type)

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

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

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Cashier

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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 2012
2. Commission identification Number 80118
3. BIR Tax Identification Number 000-480-869
4. **NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
Exact name of registrant as specified in its charter
5. **PHILIPPINES**  
Province, country or other jurisdiction of incorporation or organization
6. Industry classification code  (SEC Use Only)
7. **18/F PHILIPPINE AXA LIFE CENTRE, SEN. GIL J. PUYAT AVE.** 1200  
**CORNER TINDALO STREET, MAKATI CITY** Postal Code  
Address of registrant's principal office
8. **(632) 988-7400**  
Registrant's telephone number, including area code
9. **Not applicable**  
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 4 and 8 of the RSA as of quarter ended:
- | <u>Title of Each Class</u> | <u>Number of Shares of Common Stock Outstanding</u> |
|----------------------------|---|
| <b>Common</b>              | <b>2,123,605,600</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 2012 and 31 December 2011
- b. Statements of Income:
  - For the Quarters ended 30 September 2012 and 2011
  - For the Nine Months ended 30 September 2012 and 2011
- c. Statements of Comprehensive Income for the Quarters ended 30 September 2012 and 2011
- d. Statement of Changes in Stockholders Equity as of 30 September 2012 and 2011
- e. Statement of Cash Flows:
  - For the Quarters ended 30 September 2012 and 2011
  - For the Nine months ended 30 September 2012 and 2011

### **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, 2012 and 2011*

#### **Reinsurance Premium Income**

Reinsurance premiums decreased by P684.1 million or 24.6% to P2.1 billion for the nine months ended 30 September 2012 compared to P2.8 billion for the nine months ended 30 September 2011. The decline in reinsurance premium income from 2011 was brought about mainly by lower volume of business coming from GSIS (P56M vs. P445), domestic treaty (P654M vs. P837M), foreign treaty (P148M vs. P259M) offset by increases in reinsurance premium income from non-life facultative (P858M vs. P832M) and life reinsurance premium income (P384M vs. P326M).

Reinsurance premiums retained declined by P421.8 million or 47.2% to P471.1 million for the nine months ended 30 September 2012 compared to P892.9 million for the nine months ended 30 September 2011. The drop in reinsurance premiums retained was significantly higher than the decline in gross premiums because of the cost of the Company's excess of loss program, which is accounted for as retroceded premiums. For the nine months ended 30 September 2012, the Company paid its excess of loss reinsurers a total of P461 million compared to P197 million for the nine months ended 30 September 2011. The added cost of excess of loss protection, which indemnifies the Company in the event of natural catastrophes such as earthquakes and floods, effectively lowered the Company's reinsurance premiums retained. The increase in excess of loss cost was attributable largely to the high level of claims from flood losses in Thailand, which claims the Company was able to recover from its excess of loss insurers.

Consistent with the decline in premiums retained, premiums earned decreased by P475.4 million (49.4%) to P486.2 million for the nine months ended 30 September 2012 compared to P961.7 million for the nine months ended 30 September 2011.

#### **Underwriting Deductions**

Share in claims and losses for the nine months ended 30 September 2012 decreased by P149.1 million or 20.5% to P576.9 from P726 million for the nine months ended 30 September 2011. The number and size of claims were lower during the period, but loss ratio increased from 76% in the nine months ended 30 September 2011 to 119% in the nine months ended 30 September 2012 due to the lower level of premiums earned.

In line with the decline in reinsurance premiums, net commissions decreased by P68 million or 24.8% from P273.7 million for the nine months ended 30 September 2011 to P205.8 million for the nine months ended 30 September 2012. Nonetheless, commission ratio (as a percentage of net premiums retained) increased from 31% in 2011 to 44% in 2012 due to the lower level of reinsurance premiums retained.

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

Investment and other income decreased by P63.7 million or 10% from P638.8 million for the nine months ended 30 September 2011 to P575.1 million for the nine months ended 30 September 2012.

Interest income dropped slightly by P6.2 million or 2.3% to P268 million for the nine months ended 30 September 2012 from P274 million for the nine months ended 30 September 2011 on account mainly of declining interest rates.

Other income, consisting primarily of trading gains (P267M vs. P328M) and dividend income (P27 million vs. P33 million) also declined due to lower volume of trading activity though the decrease was partially offset by increase in foreign currency translation gain of P13 million from P3.8 million for the nine months ended 30 September 2011 to P17.1 million for the nine months ended 30 September 2012.

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

General and administrative expenses (GAE) of P204.2 million for the nine months ended 30 September 2012 million showed a 42.6% (P60.9 million) increase as compared to GAE of P143.2 million from the corresponding period last year due to higher employee costs, depreciation and professional fees plus a one-time provision for impairment amounting to P43 million against the Company's ownership interest in Asian Reinsurance Corporation (ARC). ARC, a Thailand-based regional reinsurer saw its capital significantly impaired as a result of losses from floods in Thailand during the last quarter of 2011.

#### **Tax expense**

The Company's tax expense was relatively flat at P52 million for the nine months ended 30 September 2012 and 2011. Tax expense largely represents the final tax on interest from the Company's fixed-income investments.



**Net Profit**

As a result of the above-mentioned factors, the Company's net income amounted to P24 million for the nine months ended 30 September 2012 as compared to P404.5 million for the nine months ended 30 September 2011.

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

Reinsurance premiums for the quarter ended 30 September 2012 decreased by 23.7% or P256.9 million to P826.2 million from P1,083.1 million for the quarter ended 30 September 2011. The decline came largely from the Company's non-life treaty reinsurance business in addition to the loss of facultative business from certain large clients such as the GSIS.

Reinsurance premiums retained for the quarter ended 30 September 2012 decreased by 39.5% or P131.8 million to P201.7 million from P333.6 million for the quarter ended 30 September 2011 principally due to the booking of the previously mentioned costs (included as part of retroceded premiums) under the Company's excess of loss program. The Company's catastrophe and risk excess of loss programs essentially protect the Company from catastrophic loss events as well as losses beyond the Company's retention limit of P40 million per individual risk.

Consistent with the decline in premiums retained, premiums earned also decreased by 45.2% or P167.4 million from P370.7 million for the quarter ended 30 September 2011 to P203.2 million for the quarter ended 30 September 2012.

**Underwriting Deductions**

Share in claims and losses increased by P92.6 million or 66.3% to P232.4 million for the quarter ended 30 September 2012 from P139.8 million for the quarter ended 30 September 2011. The quarter's underwriting performance was negatively affected by the accumulation of certain losses which on an individual basis were not large enough to be covered by the Company's excess of loss program.

Consistent with the decrease in reinsurance premiums, net commissions also declined by 25.8% or P26.1 million from P101.2 million for the quarter ended 30 September 2011 to P75.1 million for the quarter ended 30 September 2012.

**Investment and Other Income (Charges)**

Investment and other income decreased by 48.34% or P120 million to P128.2 million for the quarter ended 30 September 2012 as compared to P248.2 million for the quarter ended 30 September 2011. This was traceable to lower trading gains (P32.4 vs. P146.8 million) realized during the quarter as the bulk of this year's trading gains were booked during the 1<sup>st</sup> Qtr. 2012.

### **General and Administrative Expenses**

General and administrative expenses (GAE) increased by 8.3% or P4.2 million to P54.7 million for the quarter ended 30 September 2012 from P50.6 million for the quarter ended 30 September 2011. The increase in GAE was attributable mostly to higher depreciation (P9.4 million vs. P7.32 million) and employee costs (P29 million vs. P27.4 million).

### **Tax expense**

Tax expense in 2012 declined slightly by P1.7 million or 10% from P17.5 million for the quarter ended 30 September 2011 to P15.8 million for the quarter ended 30 September 2012, reflecting a slightly lower level of tax-paid interest income.

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

Due to higher underwriting deductions, the Company ended the quarter 30 September 2012 with a net loss of P46.6 million compared to net profit of P309.8 million for the corresponding quarter in 2011.

### **Financial Condition**

Total resources of the Company as of 30 September 2012 reached P14 billion, 10.5% or P1.3 billion higher than end December 2011 level of P12.6 billion. Material changes in the Company's resources are described below.

- **Cash and cash equivalents (P1.6B vs.P1.7B)**

Cash and cash equivalents decreased by 7.8% or P132.4 million as funds were used for payment of P.10/share cash dividends amounting to P212.4 million on 22 June 2012 as well as for the purchase of other investments.

- **Reinsurance Balances Receivable-net (P5.4B vs. P3.9B)**

Reinsurance balances receivable increased by 38.8% to P5.4 billion as of 30 September 2012 from P3.9 billion as of December 31, 2011 largely due to increase in reinsurance recoverable on losses from P3.0 billion as of 31 December 2011 to P5 billion as of 30 September 2012. The Company booked losses in excess of P1 billion for the November-December 2011 Thai floods (see Claims Payable below) but, with the exception of the Company's underlying retention of P30 million, substantially all these claims are recoverable from the Company's excess of loss reinsurers.

- **Available-for Sale Financial Assets (P5,2B vs. P5,4B)**

Available for sale (AFS) financial assets declined by P139.6 million (2.6%) to P5,226 million as of 30 September 2012 from P5,366 million as of December 31, 2011 principally due to sale of investments to fund dividends, operations and investments in loans

- **Loans and Receivables (P732M vs. P585M)**

Loans and receivables held as investments increased by P147.1 million or 25.2% essentially due to additional investment in various corporate notes amounting to P280 million less collections from the sale of equity securities (amounting to P140 million) which had been lodged to this account as of 31 December 2011.

- **Property and Equipment, net (P118M vs. P127M)**

Property and equipment, net of accumulated depreciation amounted to P118.4 million as of 30 September 2012, a decrease of P9 million or 7% from 31 December 2011 mainly due to recorded depreciation (including intangible assets classified as other assets) of P25.5 million being higher than capital expenditure of P19.7 million.

- **Deferred Acquisition Cost (P98M vs. P138M)**

The decrease of P40 million in deferred acquisition cost relate to portions of reinsurance commissions as of December 31, 2011 that were expensed as of 30 September 2012 under the 24<sup>th</sup> method. Policy costs are deferred and charged to expense in proportion to reinsurance premium revenue.

- **Deferred Reinsurance Premiums (P525M vs. P564M)**

Deferred reinsurance premiums decreased by P39.1 million or 6.9% as of 30 September 2012 due to recognition of a portion of reinsurance premiums deferred as of December 31, 2011 under the 24<sup>th</sup> method of reinsurance accounting. Reinsurance premiums are deferred and charged to income over the life of the policies under the 24<sup>th</sup> method.

- **Other Assets (P301M vs. P266M)**

Other assets increased by P35.1 million or 13.2% to P301.2 million as of 30 September 2012 from P266.1 million as of 31 December 2011 mainly due to capitalized cost relative to computerization project of NRCP (P3 million), creditable withholding taxes (P17 million), deferred input VAT (P13 million) and prepayments (P2 million)

**Liabilities (P8,076M vs. P6,512M)**

Total liabilities increased by P1.6 billion or 24% from P6.5 billion as of 31 December 2011 to P8.1 billion as of 30 September 2012. The increase in total liabilities is explained below:

- **Reinsurance Balances Payable (P7.1B vs. P5.4B)**

Reinsurance balances payable were up by P1.7 billion or 30.8% from P5.4 billion as of December 31, 2011 to P7.1 billion as of 3<sup>rd</sup> Qtr. 2012 primarily due to increase in losses and claims payable from P4.7 billion as of 31 December 2011 to P6.5 billion as of 30 September 2012 which increase was largely related to the Thai floods mentioned above.

- **Accounts Payable and Accrued Expenses (P85M vs. P107M)**

Accounts payable and accrued expenses decreased by P22.5 million or 20.9% mainly due to payment of accrued expenses and other liabilities (P4.3 million) and reversal of unreleased checks (considered as accounts payable in December



2011) amounting to P24 million offset by increases in defined benefit liability of (P6.3 million).

- **Reserve for Unearned Reinsurance Premiums (P843M vs. P897M)**

Reserve for unearned reinsurance premiums decreased by P54.2 million or 6% principally due to decline in reinsurance premium income for the nine month ended 30 September 2012.

- **Deferred Reinsurance Commissions (P50M vs. P79M)**

Deferred reinsurance commissions decreased by P29.3 million or 37%, consistent with the decline in deferred acquisition cost for the period.

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

Stockholders' equity declined by P232 million or 3.8% to P5.9 billion as of 3rd Qtr. 2012 from P6.1 billion as of 31 December 2011 principally due to lower net income posted during the period, decrease in revaluation reserve due to the impact of mark-to-market adjustments on the Company's investment portfolio (P43.5 million) and payment of P.10 cash dividend (P212.4 million).

**Key Performance Indicators:**

	<b>3rd Quarter 2012</b>	<b>3rd Quarter 2011</b>	<b>% Inc.( Dec).</b>
1. Net Income (Loss)	P 24 million	P 404 million	(94%)
2. Earnings per share (a)	P 0.01	P 0.19	(95%)
3. Retention ratio (b)	22%	32%	
4. Combined ratio (c)	206%	122%	
5. Return on average equity	.40%	6.8%	

(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 (119 / 75%) commissions ratio (44% / 31%) and expense ratio (43% /16%).

Net Income (NI)- The Company's net income was P24 million as of 30 September 2012 compared to P404 million as of 30 September 2011.

Earnings per share (EPS) - The Company's EPS was at P.01 and P.19 as of 30 September 2012 and 2011, respectively.

Retention ratio - The retention ratio was at 22% and 32% for the nine months ended 30 September 2012 and 2011, respectively.

Combined ratio—The combined ratio was at 206% and 122% for the nine months ended 30 September 2012 and 2011, respectively.

Return on average equity (ROE) –ROE as of 30 September 2012 was at .40% compared to ROE as of 30 September 2011 of 6.8%.

### **Financial Soundness Indicators**

	As of Sept. 30, 2012	As of Dec. 31, 2011
Current Ratio	1.80	2.09
Asset to Equity Ratio	2.37	2.06
Total Liabilities/Equity	1.37	1.06

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

NRCP has nothing to report on the following:

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

### **Financial Risk Disclosure**

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

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

Beyond the provisions of the Insurance Code, the Company, through its Investment Committee, has established additional guidelines to control the risk inherent in equity investments. The Company's

own investment policy requires that the Company invest only in shares of common stock of companies that are listed on the Philippine Stock Exchange. Furthermore, these listed companies must have profitable business operations and market capitalization which are on a scale that would qualify them as blue chips.

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

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

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

#### **PFRS 9 Disclosure**

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

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

### **PART 11. - OTHER INFORMATION**

B. No other material information.

#### **NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**

(Registrant)

**JOHN E. HUANG**  
Chief Finance Officer

**ROBERTO B. CRISOL**

President & Chief Executive Officer

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**BALANCE SHEET**

September 30, 2012 and December 31, 2011

	<u>Notes</u>	<u>September 2012</u> <u>(Unaudited)</u>	<u>Dec. 2011</u> <u>(Audited)</u>	<u>Changes</u>
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS	2	1,567,364,661	1,699,806,389	(132,441,728)
REINSURANCE BALANCES RECEIVABLE-net	3	5,402,054,953	3,892,173,173	1,509,881,780
AVAILABLE-FOR-SALE FINANCIAL ASSETS	4	5,226,008,031	5,365,644,659	(139,636,628)
LOANS AND RECEIVABLES	5	731,673,844	584,623,402	147,050,442
PROPERTY AND EQUIPMENT-NET	6	118,412,142	127,375,909	(8,963,767)
DEFERRED ACQUISITION COST		97,882,086	137,880,973	(39,998,887)
DEFERRED REINSURANCE PREMIUMS	7	525,421,169	564,483,447	(39,062,278)
OTHER ASSETS	8	301,225,182	266,094,166	35,131,016
<b>TOTAL ASSETS</b>		<b>13,970,042,068</b>	<b>12,638,082,118</b>	<b>1,331,959,950</b>
<b>LIABILITIES</b>				
REINSURANCE BALANCES PAYABLE	3	7,097,892,025	5,427,830,998	1,670,061,027
ACCOUNTS PAYABLE & ACCRUED EXPENSES	9	84,976,524	107,474,812	(22,498,288)
RESERVE FOR UNEARNED RI PREMIUMS	7	843,236,235	897,469,364	(54,233,129)
DEFERRED REINSURANCE COMMISSIONS		49,896,696	79,232,764	(29,336,068)
<b>TOTAL LIABILITIES</b>		<b>8,076,001,480</b>	<b>6,512,007,938</b>	<b>1,563,993,542</b>
<b>EQUITY</b>				
Capital Stock	14	2,181,954,600	2,181,954,600	-
Treasury Stock		(100,525,432)	(100,525,432)	-
Additional Paid in Capital		3,019,218,457	3,019,218,457	-
Revaluation reserve		291,201,931	334,665,263	(43,463,332)
Retained Earnings		502,191,032	690,761,292	(188,570,260)
<b>Total Equity</b>		<b>5,894,040,588</b>	<b>6,126,074,180</b>	<b>(232,033,592)</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<b>13,970,042,068</b>	<b>12,638,082,118</b>	<b>1,331,959,950</b>



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

For the Quarters ended September 30, 2012 and 2011)

	<u>Notes</u>	<u>2012</u>	<u>2011</u>	<u>Inc(Dec)</u>	<u>%</u>
<b>Reinsurance Premium Income</b>					
Reinsurance premiums-net of returns		826,171,009	1,083,108,631	(256,937,622)	-23.72%
Retroceded premiums		624,399,423	749,555,934	(125,156,511)	-16.70%
Reinsurance premiums retained		201,771,586	333,552,697	(131,781,111)	-39.51%
Increase in reserve for unearned reinsurance premiums	7	1,476,462	37,136,267	(35,659,805)	-96.02%
		<u>203,248,047</u>	<u>370,688,964</u>	<u>(167,440,917)</u>	<u>-45.17%</u>
<b>Underwriting deductions</b>					
Share in claims & losses		232,419,624	139,797,890	92,621,734	66.25%
Commissions, net	11	75,076,372	101,200,200	(26,123,828)	-25.81%
		<u>307,495,997</u>	<u>240,998,090</u>	<u>66,497,907</u>	<u>27.59%</u>
<b>Net Underwriting Income (Loss)</b>		<u>(104,247,949)</u>	<u>129,690,874</u>	<u>(233,938,823)</u>	<u>-180.38%</u>
<b>Investments and Other Income (Charges)</b>					
Interest		81,342,290	87,271,699	(5,929,409)	-6.79%
Foreign currency gain (losses)		7,212,461	2,648,821	4,563,640	-172.29%
Others		39,664,028	158,283,931	(118,619,903)	-74.94%
<b>Investment and Other Income</b>	10	<u>128,218,778</u>	<u>248,204,451</u>	<u>(119,985,673)</u>	<u>-48.34%</u>
<b>Profit after Investment and Other Income</b>		23,970,829	377,895,325	(353,924,496)	-93.66%
<b>General and Administrative Expenses</b>	12,13	<u>54,738,128</u>	<u>50,550,162</u>	<u>4,187,966</u>	<u>8.28%</u>
<b>Profit (Loss) Before Tax</b>		(30,767,299)	327,345,163	(358,112,462)	-109.40%
<b>Tax Expense</b>		<u>15,814,686</u>	<u>17,500,023</u>	<u>(1,685,337)</u>	<u>-9.63%</u>
<b>Net Profit (Loss)</b>		<u>(46,581,985)</u>	<u>309,845,140</u>	<u>(356,427,125)</u>	<u>-115.03%</u>

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

For the nine Months ended September 30, 2012 and 2011)

	<u>Notes</u>	<u>2012</u>	<u>2011</u>	<u>Inc(Dec)</u>	<u>%</u>
<b>Reinsurance Premium Income</b>					
Reinsurance premiums-net of returns		2,098,498,666	2,782,653,207	(684,154,541)	-24.59%
Retroceded premiums		1,627,436,399	1,889,750,904	(262,314,505)	-13.88%
Reinsurance premiums retained		471,062,267	892,902,303	(421,840,036)	-47.24%
Increase in reserve for unearned reinsurance premiums	7	15,170,850	68,755,249	(53,584,399)	-77.93%
		<u>486,233,117</u>	<u>961,657,552</u>	<u>(475,424,435)</u>	<u>-49.44%</u>
<b>Underwriting deductions</b>					
Share in claims & losses		576,902,038	726,036,676	(149,134,638)	-20.54%
Commissions, net	11	205,754,220	273,712,558	(67,958,338)	-24.83%
		<u>782,656,258</u>	<u>999,749,234</u>	<u>(217,092,976)</u>	<u>-21.71%</u>
<b>Net Underwriting Loss</b>		<u>(296,423,141)</u>	<u>(38,091,682)</u>	<u>(258,331,459)</u>	<u>678.18%</u>
Interest		267,913,735	274,118,370	(6,204,635)	-2.26%
Foreign currency gain (losses)		17,097,791	3,758,075	13,339,716	354.96%
Others		290,103,881	360,913,872	(70,809,991)	-19.62%
<b>Investment and Other Income</b>	10	<u>575,115,407</u>	<u>638,790,317</u>	<u>(63,674,910)</u>	<u>-9.97%</u>
<b>Profit after Investment and Other Income</b>		278,692,266	600,698,635	(322,006,369)	-53.61%
<b>General and Administrative Expenses</b>	12,13	<u>204,153,937</u>	<u>143,216,579</u>	<u>60,937,358</u>	<u>42.55%</u>
<b>Profit Before Tax</b>		74,538,329	457,482,056	(382,943,727)	-83.71%
<b>Tax Expense</b>		<u>50,748,028</u>	<u>52,994,976</u>	<u>(2,246,948)</u>	<u>-4.24%</u>
<b>Net Profit</b>		<u>23,790,301</u>	<u>404,487,080</u>	<u>(380,696,779)</u>	<u>-94.12%</u>
<b>Earnings (loss) per Share</b>	16	0.01	0.19		

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

For the nine months ended September 30, 2012 and 2011)

	<u>Notes</u>	<u>2012</u>	<u>2011</u>	<u>Inc(Dec)</u>	<u>%</u>
NET PROFIT		23,790,300	404,487,080	(380,696,780)	-94.12%
OTHER COMPREHENSIVE INCOME (LOSS)					
Fair value gains (losses)-net of taxes	4	<u>(43,463,332)</u>	<u>(289,504,006)</u>	<u>246,040,674</u>	84.99%
TOTAL COMPREHENSIVE INCOME (LOSS)		<u><u>(19,673,032)</u></u>	<u><u>114,983,074</u></u>	<u><u>(134,656,106)</u></u>	-117.11%

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011**

	<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>Appropriated</u>	<u>Unappropriated</u>	
Balance as of January 1, 2012		2,181,954,600	2,181,954,600	3,019,218,458	(100,525,432)	334,665,263	265,673,762	425,087,529	6,126,074,180
Cash Dividends								(212,360,560)	(212,360,560)
Appropriated for contingencies							2,379,030	(2,379,030)	-
Total comprehensive income (loss) for the period						(43,463,332)		23,790,300	(19,673,032)
<b>Total equity as of September 30, 2012</b>	<b>14</b>	<b>2,181,954,600</b>	<b>2,181,954,600</b>	<b>3,019,218,458</b>	<b>(100,525,432)</b>	<b>291,201,931</b>	<b>268,052,792</b>	<b>234,138,239</b>	<b>5,894,040,588</b>
Balance as of January 1, 2011		2,181,954,600	2,181,954,600	3,019,218,458	(40,081,811)	393,670,095	231,638,713	161,965,640	5,948,365,695
Cash Dividends								(43,193,552)	(43,193,552)
Appropriated for contingencies							40,448,708	(40,448,708)	-
Total comprehensive income (loss) for the period						(289,504,006)		404,487,080	114,983,074
<b>Total equity as of September 30, 2011</b>	<b>14</b>	<b>2,181,954,600</b>	<b>2,181,954,600</b>	<b>3,019,218,458</b>	<b>(40,081,811)</b>	<b>104,166,089</b>	<b>272,087,421</b>	<b>482,810,460</b>	<b>6,020,155,217</b>



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

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before tax		P 74,538,328	P 457,482,056
Adjustments for:		-	
Increase in reserve for unearned RI Premiums	7	(15,170,850)	(68,755,249)
Unrealized foreign currency loss (gain)		(7,627,366)	2,579,858
Gain on sale of AFS financial assets	10	(79,206,895)	(66,133,351)
Gain on sale of property and equipment		(8,929)	(5,000)
Impairment loss	12	43,000,000	-
Depreciation	12	25,491,870	20,890,379
Interest income	10	(267,913,735)	(274,118,370)
Dividend income	10	(26,707,295)	(34,809,776)
Operating income before working capital changes		(253,604,872)	37,130,547
(Increase)Dec. in reinsurance balances receivable		(1,551,521,830)	1,020,416,419
Decrease (Increase) in deferred acquisition costs		10,662,819	5,992,607
(Increase) in other assets		(31,901,604)	(22,892,436)
(Increase) Decrease in loans and receivables		(176,474,961)	105,773,542
Increase (decrease) in reinsurance balances payable		1,728,050,746	(882,020,630)
Increase (decrease) in accounts payable and accrued exp.		(22,498,289)	(48,574,733)
Cash generated from (used in) operations		(297,287,991)	215,825,316
Cash paid for income taxes		(50,748,028)	(52,994,976)
Net Cash From (Used in) Operating Activities		<u>(348,036,019)</u>	<u>162,830,340</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Disposals (acquisitions) of:			
Available-for-sale financial assets	4	128,545,870	1,432,865,065
Property and equipment	6	(19,748,586)	(12,981,742)
Intangible asset		-	(3,030,370)
Interest received		296,899,481	324,169,095
Dividends received		26,707,295	34,809,776
Net Cash From (Used in) Investing Activities		<u>432,404,060</u>	<u>1,775,831,824</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of dividends	14.4	(212,360,560)	(43,193,552)
Net Cash From (Used in) Financing Activities		<u>(212,360,560)</u>	<u>(43,193,552)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(127,992,519)</b>	<b>1,895,468,612</b>
<b>EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS</b>		(4,449,209)	2,275,523
<b>CASH AND CASH EQUIVALENTS -January 1</b>		<u>1,699,806,389</u>	<u>613,287,054</u>
<b>CASH AND CASH EQUIVALENTS -September 30</b>		<u><b>P 1,567,364,661</b></u>	<u><b>P 2,511,031,189</b></u>

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

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income(loss) before tax	( P 30,767,299 )	P 327,345,163
Adjustments for:		
Increase (Decrease) in reserve for unearned RI Premiums	(1,476,462)	(37,136,267)
Unrealized foreign currency loss (gain)	1,761,180	(673,098)
Gain on sale of AFS financial assets	4,660,956	(11,702,862)
Gain on sale of property and equipment	1,071	(5,000)
Depreciation	9,437,863	7,265,372
Interest income	(81,342,290)	(87,271,699)
Dividend income	(8,412,958)	(12,404,035)
Operating income before working capital changes	(106,137,939)	185,417,574
(Increase)Dec. in reinsurance balances receivable	(881,588,919)	375,151,906
Decrease (Increase) in deferred acquisition costs	3,889,921	(2,250,708)
(Increase) in other assets	(10,089,183)	(8,236,321)
(Increase) Decrease in loans and receivables	(11,812,521)	56,137,916
Increase (decrease) in reinsurance balances payable	988,969,412	(425,280,040)
Increase (decrease) in accounts payable and accrued exp.	(20,734,647)	1,914,235
Cash generated from (used in) operations	(37,503,876)	182,854,562
Cash paid for income taxes	(15,814,686)	(17,500,023)
 Net Cash From (Used in) Operating Activities	 <u>(53,318,562)</u>	 <u>165,354,539</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Disposals (acquisitions) of:		
Available-for-sale financial assets	166,587,271	(34,509,923)
Property and equipment	(4,346,795)	(5,579,592)
Interest received	102,359,763	92,742,636
Dividends received	8,412,958	12,404,035
 Net Cash From (Used in) Investing Activities	 <u>273,013,197</u>	 <u>65,057,156</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of dividends	-	-
 Net Cash From (Used in) Financing Activities	 <u>-</u>	 <u>-</u>
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	 <b>219,694,635</b>	 <b>230,411,695</b>
 <b>EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS</b>	 1,182,518	 2,826,566
 <b>CASH AND CASH EQUIVALENTS -June 30</b>	 <u>1,346,487,508</u>	 <u>2,277,792,928</u>
 <b>CASH AND CASH EQUIVALENTS -September 30</b>	 <u><u>P 1,567,364,661</u></u>	 <u><u>P 2,511,031,189</u></u>

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**Notes and Other Disclosures**

1. The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB).

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

**2. CASH AND CASH EQUIVALENTS**

This account consists of:

	<u>September 2012</u>	<u>December 2011</u>
Short-term placements	P 1,256,650,342	P 1,663,869,249
Cash on hand and in banks	<u>310,714,319</u>	<u>35,937,140</u>
	<u>P 1,567,364,661</u>	<u>P 1,699,806,389</u>

Short-term placements include time deposits and special deposit accounts made for varying periods between one day and one month depending on the liquidity requirements of the Company. Peso short-term placements earn annual interest rates ranging from 3.25% to 3.91% in 2012 and from 1.25% to 4.75% in 2011 while dollar short-term placements earn annual interest rates ranging from 1.25% to 1.50% in 2012 and from 0.02% to 1.75% in 2011. Cash in banks generally earn interest at rates based on daily bank deposit rates. The Cash and Cash Equivalents account includes foreign currency denominated cash of US\$3,510,787 (or P147,031,765) as of September 30, 2012 and US\$4,906,842 (or P215,547,761) as of December 31, 2011.

**3. REINSURANCE BALANCES**

The details of reinsurance balances are as follows:

	<u>September 2012</u>	<u>December 2011</u>
Reinsurance balances receivable:		
Reinsurance recoverable on unpaid losses	P 4,366,445,862	P 2,589,586,325
Due from ceding companies	544,371,676	1,076,598,889
Reinsurance recoverable on paid losses	652,223,285	396,607,866
Funds held by ceding companies	<u>154,644,089</u>	<u>145,010,052</u>
	5,717,684,912	4,207,803,132
Allowance for impairment	<u>( 315,629,959)</u>	<u>( 315,629,959)</u>
	<u>P 5,402,054,953</u>	<u>P 3,892,173,173</u>
Reinsurance balances payable:		
Claims payable	P 6,450,241,387	P 4,661,427,080
Due to retrocessionaires	565,556,360	677,808,010
Funds held for retrocessionaires	<u>82,094,278</u>	<u>88,595,908</u>
	<u>P 7,097,892,025</u>	<u>P 5,427,830,998</u>

Reinsurance balances receivable pertains to the following:

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

Reinsurance balances payable relates to the following:

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

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

#### 4. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>September 2012</u>	<u>December 2011</u>
Bonds	P 3,979,353,320	P 4,570,453,923
Equity securities - net	913,719,174	602,079,356
Investment in Asian Re shares	34,897,962	77,897,962
Various funds	<u>298,037,575</u>	<u>115,213,418</u>
	<u>P 5,226,008,031</u>	<u>P 5,365,644,659</u>

Bonds include investments in corporate bonds, long-term negotiable instruments and government securities. This also includes government securities amounting P428,500,000 and 187,500,000 as of September 2012 and December 2011 respectively, which are on deposit with the IC as security for the benefit of policyholders and creditors of the Company in accordance with the provisions of the Insurance Code of the Philippines.

Bonds earn interest at annual rates ranging from 4.75% to 15.00% and 3.75% to 15.00% in 2012 and 2011 respectively. Interest incomes recognized are presented as part of Investment and Other Income in the statements of income (see Note 10).

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

	<u>September 2012</u>	<u>December 2011</u>
Due within one year	P 118,943,969	P 332,831,836
Due after one year through five years	1,149,327,391	782,494,524
Due after five years through ten years	1,842,692,567	1,073,433,259
Due after ten years	<u>868,389,393</u>	<u>2,381,694,304</u>
	<u>P 3,979,353,320</u>	<u>P 4,570,453,923</u>



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

	<u>September 2012</u>	<u>December 2011</u>
Cost:		
Quoted in the stock exchange	P 828,769,755	P 539,093,950
Not quoted in the stock exchange	<u>40,636,735</u>	<u>40,636,735</u>
	<u>869,406,490</u>	<u>579,730,685</u>
Fair value gains (losses):		
Quoted in the stock exchange	62,295,174	43,803,877
Not quoted in the stock exchange	<u>(17,982,490)</u>	<u>(21,455,206)</u>
	<u>44,312,684</u>	<u>22,348,671</u>
	<u>P 913,719,174</u>	<u>P 602,079,356</u>

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

The shares of Asian Re have been issued in the name of the Government of the Philippines (GoP) as the Philippine government's participation in the joint undertaking of Asian countries to organize a reinsurance company that will service the needs of the region. The GoP assigned such shares, including any interest accruing thereon, to the Company. The GoP designated the Company as the national institution authorized to subscribe and pay for the said shares of stock. The shares of stock of Asian Re, while not for sale, were classified under this category since these do not qualify for inclusion in any other categories of financial assets. 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 P34,897,962 and P77,897,962, as of September 30, 2012 and December 2011, respectively.

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

	<u>September 2012</u>	<u>December 2011</u>
Balance at beginning of year	P 5,365,644,659	P 6,297,135,567
Additions	4,590,162,665	7,213,870,663
Disposals/maturities	<u>(4,639,489,850)</u>	<u>(8,086,208,824)</u>
Fair value gains(loss) - net	<u>(43,463,332)</u>	<u>(59,004,832)</u>
Foreign currency gains (losses)	<u>(3,846,111)</u>	<u>(147,915)</u>
Impairment losses	<u>(43,000,000)</u>	<u>-</u>
Balance at end of year	<u>P 5,226,008,031</u>	<u>P 5,365,644,659</u>

Changes in fair value of available-for-sale financial assets, net of taxes, recognized as Fair Value Gains (Losses) account under Other Comprehensive Income (Loss) in the statements of comprehensive income amounted to P43,463,332 and P59,004,832 fair value losses in September 2012 and December 2011.

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

## 5. LOANS AND RECEIVABLES

This account includes the following:

	<u>September 2012</u>	<u>December 2011</u>
Current:		
Term loans	P 180,000,000	P 150,000,000
Accrued interest receivable	46,822,034	75,807,780
Others	<u>44,204,702</u>	<u>146,395,665</u>
	<u>271,026,736</u>	<u>372,203,445</u>
Non-current:		
Term loans	449,950,000	200,000,000
Loans receivable	<u>10,697,108</u>	<u>12,419,957</u>
	<u>460,647,108</u>	<u>212,419,957</u>
	<u>P 731,673,844</u>	<u>P 584,623,402</u>

## 6. PROPERTY AND EQUIPMENT

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

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Carrying Amount</u>
Condominium Units	P 154,882,915	67,169,342	87,713,573
Office Improvement	14,767,509	7,452,289	7,315,220
Office Furniture/Equipment	10,828,191	9,290,103	1,538,088
Transportation Equipment	12,822,772	4,399,557	8,423,215
EDP Equipment	<u>35,239,625</u>	<u>21,817,579</u>	<u>13,422,046</u>
Total	<u>228,541,012</u>	<u>110,128,870</u>	<u>118,412,142</u>

## 7. DEFERRED REINSURANCE PREMIUMS AND RESERVE FOR UNEARNED REINSURANCE PREMIUMS

The movement of these accounts follows:

	<u>Deferred Reinsurance Premiums</u>		<u>Reserve for Unearned Reinsurance Premiums</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Balance at beginning of year	P564,483,447	P 514,257,825	P897,469,364	P902,887,425
Inc (Dec) during the year	( <u>39,062,278</u> )	<u>50,225,622</u>	( <u>54,233,129</u> )	( <u>5,418,061</u> )
Balance at end of year	<u>P 525,421,169</u>	<u>P564,483,447</u>	<u>P 843,236,235</u>	<u>P897,469,364</u>

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

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

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

## 8. OTHER ASSETS

The Other Assets account includes the following:

	<u>September 2012</u>	<u>December 2011</u>
Deferred input VAT	P 75,354,990	P 69,065,709
Creditable withholding tax	94,559,121	77,434,655
Intangible assets – net	65,547,446	62,314,284
Investment property - net	2,846,159	2,849,909
Input VAT	45,204,482	38,606,219
Deferred withholding VAT	9,200,181	9,200,181
Prepayments	4,494,292	2,500,391
Deposit	353,952	672,309
Security fund	192,888	192,888
Others	3,471,671	3,257,621
	<u>P 301,225,182</u>	<u>P 266,094,166</u>

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

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

Deferred withholding VAT represents unapplied input taxes resulting from unpaid premiums on ceded out transactions.

Prepayments include substantially prepaid insurance on property and equipment and group life insurance.

Security fund represents amount deposited with the IC, as required by the Insurance Code, to be used for the payment of valid claims against insolvent insurance companies. The balance of the fund earns interest at rates determined by the IC annually.

Intangible assets pertain to acquired computer software licenses used in production and administration. The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of September 30, 2012 and 2011 follows:

	<u>September 2012</u>	<u>December 2011</u>
Cost	P 107,673,660	P 89,629,802
Accumulated amortization	( 42,126,214 )	( 27,315,518 )
Balance at end of year	<u>P 65,547,446</u>	<u>P 62,314,284</u>

## 9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

	<u>September 2012</u>	<u>December 2011</u>
Deferred output VAT	P 41,944,642	P 41,439,173
Accrued expenses	6,527,373	8,605,241
Defined benefit liability	17,809,139	11,537,344
Accounts payable and other liabilities	16,658,444	43,935,951
Withholding taxes payable	2,036,926	1,957,104
	<u>P 84,976,524</u>	<u>P 107,474,812</u>

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

## 10. INVESTMENT AND OTHER INCOME

The details of this account follow:

	<u>September 2012</u>	<u>September 2011</u>
Interest	P 267,913,735	P 274,118,370
Gain on sale of stocks	79,206,895	66,133,351
Dividend income	26,707,295	34,809,776
Foreign exchange gain(loss)	17,097,791	3,758,075
Trading gains	187,350,674	262,039,138
Gain on sale of property & equipment	8,929	-
Other income (charges)	( 3,169,912 )	( 2,068,393 )
	<u>P 575,115,407</u>	<u>P 638,790,317</u>

## 11. UNDERWRITING DEDUCTIONS

### a. *Share in Claims and Losses*

This account represents the aggregate amount of the Company's share in net losses and claims relative to its acceptances under treaty and facultative reinsurances.

### b. *Commissions – net*

This account consists of the following:

	<u>September 2012</u>	<u>September 2011</u>
Commission expense	P 339,632,259	P 493,740,077
Reinsurance revenues	( 133,878,039 )	( 220,027,519 )
	<u>P 205,754,220</u>	<u>P 273,712,558</u>

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



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

## 12. GENERAL AND ADMINISTRATIVE EXPENSES

The details of this account follow:

	<u>September 2012</u>	<u>September 2011</u>
Salaries and employee benefits	P 93,258,167	P 84,873,338
Impairment loss	43,000,000	-
Depreciation and amortization	25,491,870	20,890,379
Professional fees	11,271,638	7,846,276
Repairs and maintenance	3,999,236	743,362
Taxes, licenses and fees	4,050,425	4,528,266
Transportation and traveling	2,217,112	3,284,275
Light and water	2,889,407	3,833,900
Representation and entertainment	2,384,234	2,651,848
Contract labor	1,416,597	2,076,893
Association and pool expense	3,464,070	3,303,112
Rental	495,291	1,056,396
Communication and postages	1,847,266	1,608,259
Printing and office supplies	852,502	939,951
Advertising and publicity	1,112,632	1,671,850
Insurance	757,032	845,224
Miscellaneous	5,646,458	3,063,250
	<u>P 204,153,937</u>	<u>P 143,216,579</u>

## 13. SALARIES AND EMPLOYEE BENEFITS

### a. *Salaries and Employee Benefits*

Expenses recognized for employee benefits are presented below.

	<u>September 2012</u>	<u>September 2011</u>
Salaries and wages	P 60,527,222	P 59,251,636
Retirement	13,285,585	7,271,665
Allowances and bonus	10,580,789	9,758,830
Compensated absences	4,668,201	3,875,499
Social security costs	1,309,603	1,294,779
Others	2,886,767	3,420,929
	<u>P 93,258,167</u>	<u>P 84,873,338</u>

## 14. EQUITY

### **14.1 Capital Stock**

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

On April 27, 2007, the SEC approved the listing of the Company's shares totalling 741,902,600. The shares were initially issued at an offer price of P3.80 per share. As of September 30, 2012, there are 282 holders of the listed shares. Such listed shares closed at P1.94 per share as of September 30, 2012

### **14.2 Treasury Shares**

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

### **14.3 Appropriation for Contingencies**

On April 18, 1989, the Company's BOD approved the establishment of a special reserve which will serve as cushion to the paid-up capital in the event of extraordinarily high loss occurrences or severe catastrophic losses. The amount of P5,000,000 was initially appropriated from retained earnings for this purpose on April 30, 1989. Subsequently, at December 31 of each year where there is profit, 10% of such profit shall be set aside as additional reserve for contingencies. The reserve balance, which is shown as Appropriated under Retained Earnings account in the statements of changes in equity, should not exceed, at any time, the amount of paid-up capital. The balance of appropriation for contingencies amounted to P268,052,792 as of September 30, 2012, and P265,673,762 as of December 31, 2011 respectively.

### **14.4 Declaration of Cash Dividends**

The BOD approved the declaration of cash dividends of P0.10 per share (or a total of P212,360,560) on May 17, 2012 and P.02 per share (or a total of P43,193,552) on May 19, 2011, payable to stockholders of record as of June 1, 2012 on June 22, 2012 and June 3, 2011 on June 21, 2011, respectively.

## 15. RELATED PARTY TRANSACTIONS

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

### **15.1 Reinsurance Contracts with Related Parties**

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

	<u>September 2012</u>	<u>December 2011</u>
Premiums	P 371,184,435	P 1,146,301,458
Retrocessions	16,356,760	78,331,370
Commission income	1,750,812	10,617,793
Commission expenses	86,270,114	190,804,367
Losses incurred	70,155,094	208,301,660
Loss recoveries	-	1,069,069

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

	<u>September 2012</u>	<u>December 2011</u>
Due from ceding companies	P 365,410,899	P 349,177,047
Reinsurance recoverable on losses	212,965,659	86,781,419
Funds held by ceding companies	56,323,621	51,280,665
Claims payable	1,012,294,937	933,975,767
Due to retrocessionaires	13,477,116	33,293,883
Funds held for retrocessionaires	164,032	164,032

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

### 15.2 Bank Accounts

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

	<u>September 2012</u>	<u>December 2011</u>
Time deposits	P -	P -
Savings and current accounts	<u>3,337,035</u>	<u>4,457,906</u>
	<u>P 3,337,035</u>	<u>P 4,457,906</u>

### 15.3 Investment Management and Custodianship

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

	<u>September 2012</u>	<u>December 2011</u>
Cash and cash equivalents	P 960,613	P 290,649,107
Available-for-sale financial assets	1,817,247,382	1,276,647,973
Loans and receivables	<u>62,005,860</u>	<u>120,626,261</u>
	<u>P 1,880,213,855</u>	<u>P 1,687,923,341</u>

In consideration for the services rendered, the Company pays BPI service fees equivalent to a certain percentage of the market value of the investments. Total service fees paid for the quarters ended September 30, 2012 and 2011 amounted to P2,860,699 and P2,462,334 respectively, and is charged against Other Income (Charges) under Investment and Other Income account (see Note 10) in the statements of income.

#### **15.4 Retirement Fund Investment Management**

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

#### **16. Earnings (loss) Per Share**

The earnings per share amounts are as follows:

	<u>September 2012</u>	<u>September 2011</u>
Net income (loss) available to common shareholders	P 23,790,301	P 404,487,080
Divided by the average number of outstanding common shares	<u>2,123,605,600</u>	<u>2,159,677,600</u>
	<u>P 0.01</u>	<u>P 0.19</u>

#### **17. Other SEC requirements**

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

<ul style="list-style-type: none"> <li>Explanatory comments about the seasonality or cyclical nature of interim operations</li> </ul>	<ul style="list-style-type: none"> <li>Nothing to report.</li> </ul>
<ul style="list-style-type: none"> <li>The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents</li> </ul>	<ul style="list-style-type: none"> <li>Nothing to report.</li> </ul>
<ul style="list-style-type: none"> <li>The nature and amount of changes in estimates of amounts reported in prior interim periods of the current fiscal year or changes in estimates of amounts reported prior financial years, if those changes have a material effect in the current interim period</li> </ul>	<ul style="list-style-type: none"> <li>Nothing to report.</li> </ul>
<ul style="list-style-type: none"> <li>Issuances, repurchases, and repayments of debt and equity securities</li> </ul>	<ul style="list-style-type: none"> <li>Nothing to report.</li> </ul>



<ul style="list-style-type: none"> <li>• Dividends paid (aggregate or per share) separately for ordinary shares and other shares</li> </ul>	<ul style="list-style-type: none"> <li>• The Board of Directors approved the declaration of P0.10/share cash dividend payable to stockholders of record as of June 01, 2012. Payment of said cash dividend shall be on June 22, 2012</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, 2012

(In million pesos)

	<u>Total</u>	<u>Below 360 days</u>	<u>Over 360 days</u>
Due from Ceding Companies	544	176	368
Reinsurance recoverable on paid losses	652	314	338
Reinsurance recoverable un unpaid losses	4,367	4,367	-
Funds Held by Ceding companies	155	155	-
	<u>5,718</u>	<u>5,012</u>	<u>706</u>
Allowance for impairment*	<u>(316)</u>		
	<u><u>5,402</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.