

COVER SHEET

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S.E.C. Registration Number

NATIONAL REINSURANCE
CORPORATION
OF THE PHILIPPINES

(Company's Full Name)

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

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

JOHN E. HUANG

Contact Person

759-58-01

Company Telephone Number

1 2 3 1
Month Day
Fiscal Year

1 7 Q
FORM TYPE

2nd Quarter Ending 30 June 2007

0 7 2 3 07
Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings
Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

COVER SHEET

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

("PhilNaRe")

(Company's Full Name)

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

(Company's Address)

(632) 759-5801 to 06

(Telephone Number)

December 31
(Fiscal Year Ending)

July 23, 2007
(Annual Meeting)

SEC FORM 17-Q
Quarterly Report
2nd Quarter Ending 30 June 2007
(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 2007
2. Commission identification Number 80118
3. BIR Tax Identification Number 000-480-869
4. **NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**
Exact name of registrant as specified in its charter
5. **PHILIPPINES**
Province, country or other jurisdiction of incorporation or organization
6. Industry classification code (SEC Use Only)
7. **18/F PHILIPPINE AXA LIFE CENTRE, SEN. GIL J. PUYAT AVE.** 1200
CORNER TINDALO STREET, MAKATI CITY Postal Code
Address of registrant's principal office
8. **(632) 759-5801 to 06**
Registrant's telephone number, including area code
9. **Not applicable**
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 4 and 8 of the RSA as of quarter ended:
- | <u>Title of Each Class</u> | <u>Number of Shares of Common Stock Outstanding</u> |
|----------------------------|---|
| Common | 741,902,600 |
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

- a. Balance Sheet as of 30 June 2007 and December 31, 2006.
- b. Income Statements:
 For the Quarters ended 30 June 2007 and 2006
 For the Six Months ended 30 June 2007 and 2006
- c. Statement of Changes in Stockholders Equity as of 30 June 2007 and 2006
- d. Statement of Cash Flows:
 For the Quarters ended 30 June 2007 and 2006
 For the Six months ended 30 June 2007 and 2006

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

Results of Operations

For the Six months ended June 30, 2007 and 2006

Reinsurance Premium Income

Reinsurance premiums for the first half of 2007 increased by 41.2% to P2.03 billion from P1.4 billion for the same period last year. The increase resulted mainly from new reinsurance treaties and facultative acceptances. Net premiums retained amounted to P537 million, 22.7% higher than the first half of 2006 figure of P437.7 million. Retention ratio decreased to 26.4% from 30.4% for the same period last year mainly because of additional premiums for excess of loss protection which was booked during the semester. (Excess of loss coverage aims to protect the company from exposure to catastrophes.)

Premiums earned increased by 22.8%, from P414.7 million to P509.4 million, due to increase in net premiums retained despite an increase in reserve for unexpired risks of P27.6 million.

Underwriting Deductions

Share in claims and losses totaled P300.7 million for the six months ended June 30, 2007 as against P241.8 million, respectively for the same period last year, an increase of P58.9 million or 24.4%. Losses incurred during the period were largely losses from prior years (e.g. Samsung Electronics, Globe Coco Products, Seaload Shipping, etc.). Loss ratio slightly increased to 59.03% from 58.3%.

Net commission increased slightly by .59% to P88.7 million from last year's P88.2 million. However, commission ratio decreased from 20.2% in 2006 to 16.5% in 2007.

Investment and Other Income (Charges)

Investment and other income grew by 57.04% to P293 million in the first half of 2007 from P186.6 million in 2006 largely because of realized trading gains from equity and fixed income securities in the Company's investment portfolio. Currency translation loss to date of P70 million (compared to a gain P2.4 million in 2006) was offset by increase in other

investment income of P202.6 million. Included in last year's investment and other income is a one-time gain of P51.3 million arising from the merger between the Company and Universal Malayan Reinsurance Corporation, which was completed in March 6, 2006.

General and Administrative Expenses

General and administrative expenses decreased by P26.5 million, or 30.6%, to P60.1 million from P86.6 million for the same period last year. The decline was due to non-recurring expenses of P31 million in 2006 which included separation benefits and other merger-related expenses.

Provision for Income Tax

Provision for income tax for the first half of 2007 was P30.9 million, 30.5% higher than last year's P23.7 million and consistent with the increase in income before tax

Net Income

Net income for the first half of 2007 totaled P321.9 million, a 100% increase from last year's P161 million.

For the Quarters ended June 30, 2007 and 2006

Reinsurance Premium Income

Reinsurance premiums in 2nd Qtr. 2007 increased by 61.2% to P1.3 million from P812 million in 2nd Qtr. 2006. This growth came mainly from new facultative accounts accepted during the quarter. Net premiums retained decreased by P22.5 million from P276 million in 2nd Qtr. 2006 to P254.0 million in 2nd Qtr. 2007 or by 8.2%. The decrease was due to booking of additional excess of loss premium protection which is included as part of premiums retroceded.

Premiums earned increased by 2% from P256.1 million to 261.2 million, due to decrease in reserve for unexpired risk of P7.2 million.

Underwriting Deductions

Share in claims and losses were at P153.1 million and P146.4M, respectively for the 2nd Qtr. 2007 and 2006, an increase of P6.8 million or 4.6%. Large losses paid for the 2nd Qtr. 2007 include, among others, Samsung Electronics and Globe Coco Products. Likewise, loss ratio rose from 57.2% in 2nd Qtr. 2006 to 58.6% in 2nd Qtr. 2007.

Net commissions went down to P26.4 million in 2nd Qtr. 2007 from P52.6 million in 2nd Qtr. 2006 or by 49.9% due to lower commission rate for facultative business.

Investment and Other Income (Charges)

Investment and other income increased by 44.9% from P73.1 million in 2nd Qtr. 2006 to P106 million in 2nd Qtr. 2007. The increase was brought about by capital gains realized from the sale of PLDT shares during the period and better yields on investments in fixed income securities. Foreign currency translation loss of P43.4 million in 2nd Qtr. 2007 (compared to a gain of P1.6 million in 2nd Qtr. 2006) was offset by overall investment and other income of P149.3 million for the period.

General and Administrative Expenses

General and administrative expenses decreased by 49% to P31 million in 2nd Qtr. 2007 from P61 million in 2nd Qtr. 2006 due to non-recurring payments made last year.

Provision for Income Tax

Provision for income tax dropped by P2.3 million or 21.2% due to application of lower income tax rate on investment income which was booked during the quarter.

Net Income

As a result of the above-mentioned factors, net income for the 2nd Qtr. 2007 increased by P89.4 million or 151.8% from P58.9 million in 2nd Qtr. 2006 to P148.2 million.

Financial Condition

Total resources as of the end of June 2007 was P11.9 billion, P2.8 billion higher than the level of P9.1 billion as of December 31, 2007. Material changes in the company's resources are described below:

- **Cash and cash equivalents (2,741M vs. 447M)**

Cash and cash equivalents increased from P447 million as of December 31, 2006 to P2.7 billion as of June 30, 2007 (an increase of P2.3 billion or 513%) mainly because of capital raised during the Company's IPO on April 27, 2007.

- **Reinsurance Balances Receivable-net (3,036M vs. 2,956M)**

Reinsurance balances increased by P81 million or 2.7% due to increase in production for the 1st half of 2007.

- **Deferred Acquisition Cost (215M vs. 275M)**

Deferred acquisition cost decreased by P60.5 million or 22%, reflecting portions of reinsurance commissions booked as of December 31, 2006 that were charged to commission expense as of 2nd Qtr. 2007.

- **Investments (3,786M vs. 3,445M)**

The proceeds from the listing of PhilNaRe shares on the PSE also resulted in an increase in investments by 10% to P3,785.6 million from P3,445.5 million for the same period last year.

- **Loans and Receivables (181M vs. 155M)**

Loans and receivables increased by P26.1 million or 16.9% mainly due to increase in term loans (among the Company's investment outlets) and accrued interest on available-for-sale (AFS) investments.

- **Property and Equipment, net (91.483M vs. 89.987M)**

Property and equipment, net of accumulated depreciation increased by P1.5 million or 1.7% due to new acquisition of various computers and peripherals.

- **Deferred Reinsurance Premiums (1,521M vs. 1,371M)**

Deferred reinsurance premium posted an increase of P150 million or 11% due to increase in production.

- **Deferred Input Value Added Tax (135M vs. 214M)**

Deferred input value added tax decreased by P79.2 million or 37% to P135 million in first half of 2007 from P214 million at the end of 2006 largely because of discontinuance of VAT on reinsurance premiums effective April 6, 2007 (BIR Revenue Reg. 4-2007)

- **Deferred Tax Assets (16.8M vs. 28.20M)**

Deferred tax assets decreased by P11.4 million or 40.4% from P28 million to P16.8 million in first half of 2007 due to the impact of deferred income tax arising from the difference in accounting for reserve for unexpired risk as prescribed by generally accepted accounting practices (GAAP) versus regulatory accounting practices (RAP), which is the basis for the Company's payment of income tax, and the realization of certain foreign exchange translation losses for the period.

- **Other Assets (99M vs. 79M)**

Other assets increased by P19.9 million or 25% from P79.5 million in 2006 to P99 million as of 2nd Qtr. 2007. The increase was due to excess of input VAT over output VAT between the last quarter of 2006 and first half of 2007. Unapplied creditable expanded withholding tax of P5.1 million and prepayments of P5.5 million also contributed to the increase.

Liabilities (5,314M vs. 5,285M)

Total liabilities increased by P28.9 million or .55% from P5,285 million in 2006 to P5,314 million as of 2nd Qtr. 2007. The increases in total liabilities are explained below:

- **Reinsurance Balances Payable (2,859M vs. 2,864M)**

Reinsurance balances payable decreased slightly from P2,864 million at year end 2006 to P2,859 as of end 2nd Qtr. 2007. There was a decrease of P4.8 million despite the increase in production because recoverable on losses pertaining to excess of loss were also charged/debited to this account.

- **Reserve for Unexpired Risks (1,994M vs. 1,816M)**

Reserve for unexpired risk increased by P177 million or 9.8%, consistent with the increase of production during the period.

- **Deferred reinsurance commissions (145M vs. 221M)**

Deferred reinsurance commissions decreased by P76 million or 34%, reflecting the portion of commissions on retrocessions booked as of December 31, 2006 that were credited to income as of 2nd Qtr. 2007.

- **Deferred Output Value Added Tax (265M vs. 325M)**

Deferred value added tax decreased by P59 million or 18.3% to P265.5 million in 1st half of 2007 from P325 million at year end 2006 because reinsurance premiums are no longer subject to VAT, as explained earlier.

- **Accounts Payable and Accrued Expenses (51M vs. 59M)**

Payment of taxes and expenses brought down the balances of accounts payable and accrued expenses by P8 million or 13.7% as of 1st half of 2007..

- **Equity (6,562M vs. 3,831M)**

Stockholders equity rose by P2.7 billion largely due to proceeds of PhilNaRe's initial public offering of 741,902,600 shares at a price of P3.80 per share on April 27, 2007. Capital stock net of treasury shares in 2006 grew by 63.6% or P848 million and additional paid in capital expanded from P1.3 billion to P3 billion or by 137%. Revaluation reserve dropped by 49.8% due to realization of gains from some of the Company's fixed income and equity investments.

Key Performance Indicators:

	1 st Semester 2007	1 st Semester 2006	% Incr./ Decr.
1. Net Income	P 322 million	P 161million	100.00%
2. Earnings per share (a)	P 0.19	P 0.19	-
3. Retention ratio (b)	26%	30%	
4. Combined ratio (c)	87%	91%*	
5. Return on average equity	12.4%	11.4%	

(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 (59% / 58%) commissions ratio (17% / 20%) and expense ratio (11% / 13%).

***(exclusive of non-recurring expenses in 2006)**

Net Income (NI)--Net income for the 1st half of 2007 went up to P322 million from P161 million in 1st half of 2006.

Earnings per share (EPS)--The Company's EPS was flat at P.19 from the same period last year due to the increase in number of shares as a result of the IPO.

Retention ratio--The retention ratio was at 26% and 30% for the 1st half of 2007 and 2006 , respectively.

Combined ratio--The increase in combined ratio to 87% in 1st half of 2007 vs. 91% in 1st half of 2006, indicates continuing profitability of insurance operations.

Return on average equity (ROE) --ROE improved by 1% to 12.4% in 1st half of 2007 from 11.4% in 1st half of 2006.

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.

PART 11. - OTHER INFORMATION

B. No other material information.

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


JOHN E. HUANG
Chief Finance Officer


WILFRIDO C. BANTAYAN
President & Chief Executive

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
BALANCE SHEET

June 30, 2007 and December 31, 2006

	Notes	June 2007 (Unaudited)	Dec. 2006 (Audited)	Changes
ASSETS				
CASH AND CASH EQUIVALENTS	2, 15	2,741,067,594	446,834,344	2,294,233,250
REINSURANCE BALANCES RECEIVABLE-net	3, 15	3,036,450,892	2,955,711,652	80,739,240
DEFERRED ACQUISITION COST		214,609,082	275,114,923	(60,505,841)
INVESTMENTS				
Available for sale	4	3,785,590,257	3,445,458,733	340,131,524
Others	4	54,138,182	55,303,206	(1,165,024)
LOANS AND RECEIVABLES	5	181,023,314	154,900,847	26,122,467
PROPERTY AND EQUIPMENT-NET	6	91,482,985	89,987,570	1,495,415
DEFERRED REINSURANCE PREMIUMS	7	1,520,843,369	1,371,157,013	149,686,356
DEFERRED INPUT VALUE ADDED TAX		134,952,593	214,182,979	(79,230,386)
DEFERRED TAX ASSETS		16,795,599	28,198,157	(11,402,558)
OTHER ASSETS	8	99,444,438	79,494,921	19,949,517
TOTAL ASSETS		11,876,398,305	9,116,344,345	2,760,053,960
LIABILITIES AND EQUITY				
REINSURANCE BALANCES PAYABLE	3, 15	2,859,117,031	2,863,904,231	(4,787,200)
RESERVE FOR UNEXPIRED RISKS	7	1,993,631,146	1,816,299,487	177,331,659
DEFERRED REINSURANCE COMMISSIONS		144,979,703	221,051,056	(76,071,353)
DEFERRED OUTPUT VALUE ADDED TAX		265,476,186	324,901,892	(59,425,706)
ACCOUNTS PAYABLE & ACCRUED EXPENSES	9	51,058,439	59,181,794	(8,123,355)
TOTAL LIABILITIES		5,314,262,505	5,285,338,460	28,924,045
EQUITY				
Capital Stock	14	2,181,954,600	1,588,558,300	593,396,300
Treasury shares	14		(254,639,635)	254,639,635
Additional Paid in Capital		3,024,472,224	1,274,936,540	1,749,535,684
Revaluation reserve		190,077,150	378,444,968	(188,367,818)
Retained Earnings		1,165,631,826	843,705,712	321,926,114
Total Equity		6,562,135,800	3,831,005,885	2,731,129,915
TOTAL LIABILITIES & EQUITY		11,876,398,305	9,116,344,345	2,760,053,960

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
INCOME STATEMENTS (unaudited)

For the Quarters ended June 30, 2007 and 2006)

	<u>2007</u>	<u>2006</u>	<u>Inc(Dec)</u>	<u>%</u>
Reinsurance Premium Income				
Reinsurance premiums	1,309,296,239	812,064,395	497,231,844	61.23%
Retroceded premiums	1,055,330,173	535,560,797	519,769,376	97.05%
Net Premiums retained	<u>253,966,066</u>	<u>276,503,598</u>	<u>(22,537,532)</u>	-8.15%
Inc. in reserve for unexpired risk	7,247,670	(20,410,257)	27,657,927	-135.51%
Premiums Earned	<u>261,213,736</u>	<u>256,093,341</u>	<u>5,120,395</u>	2.00%
Underwriting deductions				
Share in claims & losses	153,157,608	146,359,948	6,797,660	4.64%
Commissions, net	<u>26,366,713</u>	<u>52,588,292</u>	<u>(26,221,579)</u>	-49.86%
	<u>179,524,321</u>	<u>198,948,240</u>	<u>(19,423,919)</u>	-9.76%
Net Underwriting Income	<u>81,689,415</u>	<u>57,145,101</u>	<u>24,544,314</u>	42.95%
Investments and Other Income (Charges)				
Interest	79,098,384	67,659,005	11,439,379	16.91%
Foreign currency gain (losses)	(43,386,872)	1,557,294	(44,944,166)	-2886.04%
Others	<u>70,240,726</u>	<u>3,909,294</u>	<u>66,331,432</u>	1696.76%
Investment and Other Income	<u>105,952,238</u>	<u>73,125,593</u>	<u>32,826,645</u>	44.89%
Income after Investment Income	187,641,653	130,270,694	57,370,959	44.04%
General and Administrative Expenses	<u>30,933,110</u>	<u>60,631,727</u>	<u>(29,698,617)</u>	-48.98%
Income Before Tax	156,708,543	69,638,967	87,069,576	125.03%
Tax Expense	<u>8,485,480</u>	<u>10,767,266</u>	<u>(2,281,786)</u>	-21.19%
Net Income	<u>148,223,063</u>	<u>58,871,701</u>	<u>89,351,362</u>	151.77%

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
INCOME STATEMENTS (unaudited)

For the Six Months ended June 30, 2007 and 2006)

	<u>Notes</u>	<u>2007</u>	<u>2006</u>	<u>Inc(Dec)</u>	<u>%</u>
Reinsurance Premium Income					
Reinsurance premiums		2,032,016,447	1,439,592,589	592,423,858	41.15%
Retroceded premiums		1,495,016,437	1,001,872,558	493,143,879	49.22%
Net Premiums retained		<u>537,000,010</u>	<u>437,720,031</u>	<u>99,279,979</u>	22.68%
Inc. in reserve for unexpired risk	7	<u>(27,645,303)</u>	<u>(22,985,822)</u>	<u>(4,659,481)</u>	20.27%
Premiums Earned		<u>509,354,707</u>	<u>414,734,209</u>	<u>94,620,498</u>	22.81%
Underwriting deductions					
Share in claims & losses		300,677,415	241,782,430	58,894,985	24.36%
Commissions, net		88,735,293	88,216,672	518,621	0.59%
	11	<u>389,412,708</u>	<u>329,999,102</u>	<u>59,413,606</u>	18.00%
Net Underwriting Income		<u>119,941,999</u>	<u>84,735,107</u>	<u>35,206,892</u>	41.55%
Investments and Other Income (Charges)					
Interest		145,796,081	118,089,641	27,706,440	23.46%
Foreign currency gain (losses)		(70,217,213)	2,354,051	(72,571,264)	-3082.82%
Gain on acquisition		-	51,295,702	(51,295,702)	
Others		217,418,542	14,830,391	202,588,151	1366.03%
Investment and Other Income	10	<u>292,997,410</u>	<u>186,569,785</u>	<u>106,427,625</u>	57.04%
Income after Investment Income		412,939,409	271,304,892	141,634,517	52.20%
General and Administrative Expenses	12, 13	<u>60,112,957</u>	<u>86,631,224</u>	<u>(26,518,267)</u>	-30.61%
Income Before Tax		352,826,452	184,673,668	168,152,784	91.05%
Tax Expense		<u>30,900,338</u>	<u>23,674,124</u>	<u>7,226,214</u>	30.52%
Net Income		<u>321,926,114</u>	<u>160,999,544</u>	<u>160,926,570</u>	99.95%
Earnings per Share	16	0.19	0.19		

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENT OF CHANGES IN EQUITY (unaudited)
As of June 30, 2007 and 2006

	<u>Notes</u>	<u>June 2007</u>	<u>June 2006</u>
CAPITAL STOCK - P1 par value			
Authorized - 3,000,000,000 shares			
Issued -2,181,954,600 shares in 2007 and 1,588,558,300 in 2006			
	14	<u>2,181,954,600</u>	<u>1,588,558,300</u>
ADDITIONAL PAID IN CAPITAL		<u>3,024,472,224</u>	<u>1,274,936,540</u>
TREASURY SHARES (at cost)	14	<u>-</u>	<u>(244,029,466)</u>
REVALUATION RESERVE			
Balance at beginning of the year		378,444,968	176,890,913
Changes during the period		<u>(188,367,818)</u>	<u>-</u>
		<u>190,077,150</u>	<u>176,890,913</u>
RETAINED EARNINGS			
Appropriated for contingencies			
Balance at beginning of the year		150,949,100	123,455,961
Additional appropriations		<u>32,192,611</u>	<u>16,099,954</u>
	14	<u>183,141,711</u>	<u>139,555,915</u>
Unappropriated			
Balance at beginning of the year		692,756,614	445,318,371
Net Income		321,926,112	160,999,545
Appropriated for contingencies		<u>(32,192,611)</u>	<u>(16,099,954)</u>
		<u>982,490,115</u>	<u>590,217,962</u>
		<u>6,562,135,800</u>	<u>3,526,130,164</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
CASH FLOW STATEMENTS (unaudited)
For the six months period ended June 30, 2007 and June 30, 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before tax	P 352,826,452	P 184,673,668
Adjustments for:		
Increase in reserve for unexpired risks	27,645,303	22,985,822
Unrealized foreign currency loss	32,931,472	-
Depreciation	4,776,956	3,567,476
Gain on acquisition	-	(51,295,702)
Interest income	(145,796,081)	(121,259,771)
Dividend income	(5,911,992)	(881,340)
Operating income before working capital changes	<u>266,472,110</u>	<u>37,790,153</u>
(Increase)Dec. in reinsurance balances receivable	(89,443,556)	(181,592,717)
(ncrease) Dec. in deferred input value added tax	79,230,386	(21,974,523)
Decrease (increase) in deferred acquisition costs	(15,565,511)	-
(Increase) in other assets	(19,949,516)	(57,873,501)
(Increase) Decrease in loans and receivables	(13,572,901)	5,013,022
Increase (decrease) in reinsurance balances payable	(2,114,509)	56,723,532
Increase (Dec.) in deferred output value added tax	(59,425,706)	94,114,977
Increase (decrease) in accounts payable and accrued exp.	(8,123,353)	8,478,087
Cash generated from (used in) operations	<u>137,507,444</u>	<u>(59,320,970)</u>
Cash paid for income taxes	<u>(22,189,087)</u>	<u>(23,674,124)</u>
Net Cash From (Used in) Operating Activities	<u>115,318,357</u>	<u>(82,995,094)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposals (acquisitions) of:		
Available-for-sale financial assets	(544,381,233)	97,291,854
Property and equipment	(6,272,372)	1,334,176
Interest received	133,246,512	121,420,561
Dividends received	5,911,992	881,340
Net Cash From (Used in) Investing Activities	<u>(411,495,101)</u>	<u>220,927,931</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance/reissuance of common shares	-	196,158,513
Proceeds from Initial Public Offering (IPO)	2,597,571,619	-
Net Cash From (Used in) Financing Activities	<u>2,597,571,619</u>	<u>196,158,513</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,301,394,875	334,091,350
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS	(7,161,625)	-
CASH AND CASH EQUIVALENTS -January 1	<u>446,834,344</u>	<u>141,980,545</u>
CASH AND CASH EQUIVALENTS -June 30	<u>P 2,741,067,594</u>	<u>P 476,071,895</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
CASH FLOW STATEMENTS (unaudited)
For the Quarters ended June 30, 2007 and June 30, 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before tax	P 156,708,543	P 69,638,967
Adjustments for:		
Increase in reserve for unexpired risks	(7,247,670)	20,410,257
Unrealized foreign currency loss	7,236,363	-
Depreciation	2,969,089	1,954,366
Interest income	(79,098,384)	(70,829,135)
Dividend income	(4,698,495)	(684,350)
Operating income before working capital changes	<u>75,869,446</u>	<u>20,490,105</u>
(Increase)Dec. in reinsurance balances receivable	(149,656,970)	(55,016,591)
(ncrease) Dec. in deferred input value added tax	47,059,624	(7,047,484)
Decrease (increase) in deferred acquisition costs	(39,481,954)	(2,300,186)
(Increase) in other assets	15,999,133	(53,342,977)
(Increase) Decrease in loans and receivables	(20,451,828)	4,419,325
Increase (decrease) in reinsurance balances payable	200,114,281	15,035,240
Increase (Dec.) in deferred output value added tax	(44,622,254)	65,272,551
Increase (decrease) in accounts payable and accrued exp.	(12,734,566)	13,615,173
Cash generated from (used in) operations	<u>72,094,912</u>	<u>1,125,156</u>
Cash paid for income taxes	<u>(13,662,862)</u>	<u>(10,767,265)</u>
 Net Cash From (Used in) Operating Activities	 <u>58,432,050</u>	 <u>(9,642,109)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposals (acquisitions) of:		
Available-for-sale financial assets	(430,595,247)	(2,986,345)
Property and equipment	(4,360,238)	1,334,176
Interest received	39,940,508	60,861,861
Dividends received	<u>4,698,495</u>	<u>684,440</u>
 Net Cash From (Used in) Investing Activities	 <u>(390,316,482)</u>	 <u>59,894,132</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from reissuance of Treasury shares	103,430,976	-
Proceeds from Initial Public Offering (IPO)	<u>2,597,571,619</u>	<u>-</u>
 Net Cash From (Used in) Financing Activities	 <u>2,701,002,595</u>	 <u>-</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 2,369,118,163	 50,252,023
 EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS	 (4,122,404)	 -
 CASH AND CASH EQUIVALENTS -March 31	 <u>376,071,835</u>	 <u>425,819,872</u>
 CASH AND CASH EQUIVALENTS -June 30	 <u>P 2,741,067,594</u>	 <u>P 476,071,895</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
Notes and Other Disclosures

1. The financial statements of the Company had been prepared in accordance with Philippine Financial Reporting Standards (PFRS) and have been prepared consistent with its most recent annual financial statements as of December 31, 2006. PFRS are adopted by the Financial Reporting Standards Council (FRSC), formerly Accounting Standards Council, from the pronouncements issued by the International Accounting Standards Board (IASB). PFRS consist of:

- (i) PFRS- corresponding to International Financial Reporting Standards;
- (ii) Philippine Accounting Standards (PASs)-corresponding to International Accounting Standards; and
- (iii) Interpretations to existing standards-representing interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), of the IASB which are adopted by the FRSC.

2. Cash and cash equivalents

This account consists of:

	June 2007	December 2006
Time Deposits/Short-Term Investment	P 2,588,313,944	P 384,673,854
Cash on hand and in banks	152,753,650	62,160,490
	P 2,741,067,594	P 446,834,344

3. Reinsurance Balances

The details of reinsurance balances are as follows:

	June 2007	December 2006
Reinsurance balances receivable:		
Due from ceding companies	P 2,154,354,823	P 2,072,946,667
Reinsurance recoverable on losses	900,797,684	906,797,090
Funds held by ceding companies	88,097,856	82,767,366
	3,143,250,363	3,062,511,123
Allowance for impairment	(106,799,471)	(106,799,471)
	P 3,036,450,892	2,955,711,652

	June 2007	December 2006
Reinsurance balances payable:		
Due to retrocessionaires	P 1,513,251,423	P 1,537,298,404
Claims payable	1,282,807,474	1,270,902,819
Funds held for retrocessionaires	63,058,134	55,703,008
	P 2,859,117,031	P 2,863,904,231

4. Investments

4.1 Available-for-sale financial Assets

This account is composed of:

	June 2007	December 2006
Bonds	P 3,020,261,876	P 2,903,086,959
Equity securities	392,755,109	437,785,083
Investment in Asian Re shares	73,275,892	66,987,944
Various funds	299,297,380	37,598,747
	P 3,785,590,257	P 3,445,458,733

4.2 Others

Other investment pertain to investment properties consisting of a piece of land and building and improvements which are owned for investment purposes only.

	June 2007	December 2006
Cost	P 72,384,818	P 72,384,818
Accumulated depreciation	(18,246,636)	(17,081,612)
Net carrying amount	P 54,138,182	P 55,303,206

5. Loans and receivables

This account includes the following:

	June 2007	December 2006
Current:		
Accrued interest receivable	P 75,270,251	P 62,701,350
Term Loans	-	30,000,000
Others	1,411,440	4,517,086
Non-current		
Term Loans	90,000,000	40,000,000
Loans receivable	14,341,623	17,682,411
	P 181,023,314	P 154,900,847

6. Property and equipment

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

	Cost	Accumulated Depreciation	Net Carrying Amount
Condominium units	P 104,227,734	P 29,463,418	P 74,764,316
Office improvement	13,070,375	9,151,067	3,919,308
Office furniture/equipt.	8,677,279	8,425,285	251,994
Transportation equipt.	11,803,108	3,248,613	8,554,495
EDP equipment	14,003,179	10,010,307	3,992,872
	P 151,781,675	P 60,298,690	P 91,482,985

7. Deferred reinsurance premiums and Reserve for unexpired risks

The movement of these accounts is as follows:

	Deferred Reinsurance Premiums	Reserve for Unexpired risk
Balance at beg. Of year-January 1, 2007	P1,371,157,013	P1,816,299,487
Increase (decrease) during the period	149,686,356	177,331,659
Balance at end of quarter-June 30, 2007	P1,520,843,369	P1,993,631,146

Deferred Reinsurance Premiums pertains to the portion of reinsurance premiums ceded out that relate to the unexpired periods of the policies at balance sheet date.

Reserve for Unexpired Risks is the portion of reinsurance premiums assumed that relate to the unexpired periods of the policies at balance sheet date.

The difference between the increase in Deferred Reinsurance Premiums and Reserve for Unexpired Risks for the year is presented as Increase in Reserve for Unexpired Risks in the income statements.

8. Other Assets

The Other Assets account includes the following:

	June 2007	December 2006
Deferred withholding VAT	P 33,096,482	P 43,554,265
Input VAT	39,567,962	23,553,408
Creditable expanded withholding tax	11,364,419	6,282,710
Prepayments	7,156,567	1,416,025
Deposit	587,892	358,147
Security fund	192,888	192,888
Others	7,478,228	4,137,478
	P 99,444,438	P 79,494,921

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. The fund was created under Section 367 of Presidential Decree No. 612, as amended under Presidential Decree No. 1640, 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.

9. Accounts payable and accrued expenses

This account includes the following:

	June 2007	December 2006
Defined benefit liability	P 33,803,697	P 33,803,697
Withholding taxes payable	1,291,347	15,584,497
Accrued expenses payable	10,737,864	8,564,879
Accounts payable and other liabilities	5,225,531	1,228,721
	P 51,058,439	P 59,181,794

The fair values of accounts payable and accrued expenses have not been disclosed as, due to their short duration, management considers the carrying amounts recognized in the balance sheets to be a reasonable approximation of their fair values.

10. Investment and other income

The details of this account follow:

	June 2007	June 2006
Interest	P 145,796,081	P 118,089,641
Trading gain	101,256,465	7,513,252
Gain on acquisition	-	51,295,702
Dividend income	5,911,992	881,340
Gain on sale of stocks	91,107,042	3,710,319
Foreign exchange (loss) gain	(70,217,213)	2,354,051
Miscellaneous	19,143,043	2,725,480
	P 292,997,410	P 186,569,785

11. Underwriting Deductions

11.1 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.

11.2 Commissions-net

This account consists of the following:

	June 2007	June 2006
Commission expense	P 198,672,862	P 224,542,946
Reinsurance revenue	109,937,569	136,326,274
	P 88,735,293	P 88,216,672

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:

	June 2007	June 2006
Salaries and employee benefits	P 35,530,237	P 61,630,914
Retirement	921,044	772,885
Depreciation	4,776,957	3,567,476
Representation and entertainment	1,664,477	3,324,718
Professional fees	2,127,246	2,819,146
Transportation & traveling	1,451,892	1,408,234
Repairs and maintenance	1,434,856	962,026
Taxes, licenses and fees	1,412,151	1,475,121
Documentary stamps	3,523,881	2,943,237
Light and water	1,314,676	1,021,412
Printing and office supplies	786,342	861,204
Communication and postages	830,270	834,199
Insurance	478,663	259,631
Donations and contributions	91,000	672,324
Bank charges	627,306	142,088
Professional and technical development	168,685	77,227
Miscellaneous	2,973,274	3,859,382
	P 60,112,957	P 86,631,224

13. Employee benefits**Short-term Benefits**

Expenses recognized for employee benefits are presented below:

	June 2007	June 2006
Salaries and wages	P 25,876,406	P 22,014,567
Allowances and bonus	4,153,381	5,077,051
Compensated absences	1,908,882	3,177,848
Separation benefits	1,809,073	30,077,159
Social security costs	780,095	771,901
Others	1,002,400	512,388
	P 35,530,237	P 61,630,914

14.1 Capital Stock

Capital Stock consists of:

Common shares-P1 par value

Issued:

Number of shares
Amount

	June 2007	June 2006
Number of shares	2,181,954,600	1,588,558,300
Amount	P 2,181,954,600	P 1,588,558,300

14.2 Treasury Shares

Treasury shares pertain to the Company's shares of stock held by the following:

	June 2006	
	No. of shares	Amount
Universal Malayan Reinsurance Corp.	97,083,900	P 243,855,340
First Quezon City Insurance Co., Inc.	86,900	174,126
	97,170,800	P 244,029,466

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, ten percent (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 P183,141,711 and P139,555,915 as of June 30, 2007 and 2006, 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 carried out on an arm's length basis.

15.1 Reinsurance accounts with related parties

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

	June 2007	December 2006
Due from ceding companies	P 884,337,862	P 760,626,683
Reinsurance recoverable on losses	23,361,654	54,624,018
Funds held by ceding companies	42,728,279	40,449,783
Due to retrocessionaires	617,464,104	558,356,875
Funds held for retrocessionaires	164,499	198,182

15.2 Bank accounts

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

	June 2007	December 2006
Time Deposits	P 108,803,400	P 19,133,027
Savings and current accounts	9,789,901	8,187,161
	P 118,593,301	P 27,320,188

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 substantially all investments of the Company subject to terms and conditions in the said agreements. For the services rendered, the Company pays BPI service fees equivalent to 0.175% of the market value of the investments. Total Service fees paid as of 2nd Quarter 2007 amounted to P 1,113,461

15.4 Retirement Fund Investment Management

The Company has 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 per share

The earnings per share amounts are as follows:

	June 2007	June 2006
Net income available to common shareholders	P 321,926,114	P 160,999,544
Divided by the average number of outstanding common shares	1,702,804,267	830,433,533
	P .19	P .19

17. Other SEC requirements

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

<ul style="list-style-type: none"> • Explanatory comments about the seasonality or cyclicity of interim operations 	<ul style="list-style-type: none"> • Nothing to report.
<ul style="list-style-type: none"> • The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents 	<ul style="list-style-type: none"> • Nothing to report.
<ul style="list-style-type: none"> • The nature and amount of changes in estimates of amounts reported in prior interim periods of the current fiscal year or changes in estimates of amounts reported prior financial years, if those changes have a material effect in the current interim period 	<ul style="list-style-type: none"> • Nothing to report.
<ul style="list-style-type: none"> • Issuances, repurchases, and repayments of debt and equity securities 	<ul style="list-style-type: none"> • Nothing to report.
<ul style="list-style-type: none"> • Dividends paid (aggregate or per share) separately for ordinary shares and other shares 	<ul style="list-style-type: none"> • The Board of Directors approved the declaration of P0.07/share cash dividend payable to stockholders of record as of July 16, 2007 (record date). Payment of said cash dividend shall be on August 6, 2007.
<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, 2007

(In million pesos)

	<u>Total</u>	<u>Below 360 days</u>	<u>Over 360 days</u>
Due from Ceding Companies	2,154	1,770	384
Reinsurance recoverable on paid losses	245	29	216
Reinsurance recoverable un unpaid losses	656	656	-
Funds Held by Ceding companies	88	88	-
	<u>3,143</u>	<u>2,543</u>	<u>600</u>
Allowance for impairment	<u>(107)</u>		
	<u>3,036</u>		