

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 2008

0 7 2 3 08

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)

June 23, 2008
(Annual Meeting)

SEC FORM 17-Q
Quarterly Report
2nd Quarter Ending 30 June 2008
(Form Type)

Amendment Designation (If applicable)

(Secondary License Type and File Number)

Cashier

LCU

DTU

80118

S.E.C. REG. No.

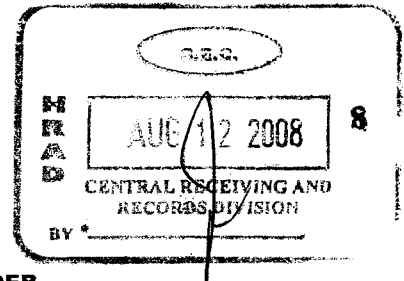
Central Receiving Unit

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 2008
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	2,181,954,600
11. Are any or all of the securities listed on the Philippine Stock Exchange?

Yes No
12. Indicate by check mark whether the registrant:
 - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period the registrant was required to file such report);

Yes No
 - (b) has been subject to such filing requirements for the past 90 days.

Yes No

PART 1. - FINANCIAL INFORMATION

Item 1. Financial Statements

The financial statements listed below and covering pages 9 to 22 of this report are filed as part of this Form 17-Q:

- a. Balance Sheet as of 30 June 2008 and December 31, 2007.
- b. Income Statements:
 For the Quarters ended 30 June 2008 and 2007
 For the Six Months ended 30 June 2008 and 2007
- c. Statement of Changes in Stockholders Equity as of 30 June 2008 and 2007
- d. Statement of Cash Flows:
 For the Quarters ended 30 June 2008 and 2007
 For the Six months ended 30 June 2008 and 2007

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, 2008 and 2007

Reinsurance Premium Income

Reinsurance premiums for the first half of 2008 declined by 20.2% to P1.6 billion from P2.0 billion for the corresponding period in 2007. The decrease was brought about by lower cessions received during the first semester of 2008. However, net premiums retained increased by 20.6% to P647.5 million from P537 million in the first half of 2007. Consequently, retention ratio increased to 40% for the first semester of 2008 compared to 26.4% during the first half of 2007. The higher retention ratio is consistent with the Company's efforts towards retaining more risk (and therefore more premiums) for its own account. At the same time, the drop in gross premiums was largely the result of a decrease in facultative business involving large risks, in which the Company's retention is generally lower.

Premiums earned also increased by 21.6%, to P619.5 million from P509.4 million in line with the increase in net premiums retained even after taking into account a slight increase in reserve for unexpired risks of P28 million.

Underwriting Deductions

Share in claims and losses totaled P382.8 million for the six months ended June 30, 2008 as against P300.7 million for the same period last year, an increase of P82.2 million or 27.32% due to higher incidence of catastrophe-related (i.e., typhoon) losses.

Net commissions were at 19% of the net premiums retained, higher than the 17% of the same period last year, due to higher commission rates on new business generated by the Life Division.

Investment and Other Income (Charges)

Investment and other income declined by 21.1% to P231 million in the first half of 2008 from P293 million in the first half of 2007. The drop was largely due to the absence of trading gains during the period resulting from lower equity prices and higher interest rates, which significantly affected the performance of the Company's investment portfolio.

Interest income posted a growth of P48.9 million to P194.7 million in the first six months of 2008 from P145.8 million in the first six months of 2007 as a result of the deployment of additional funds raised from the Company's IPO, which was completed in 2nd Qtr. 2007. While the Company realized trading loss of P37 million in equity securities in the first semester of 2008, this was offset by currency translation gains of P58.2 million (compared to a loss of P70.2 million in the first half of 2007).

General and Administrative Expenses

General and administrative expenses rose by P20.1 million, or 33.5%, to P80.3 million from P60.1 million for the same period last year mainly due to manpower related expenses including salary and employee benefits, anniversary and performance bonus and payments to employees' retirement fund.

Provision for Income Tax

Deferred income tax (DIT) and current income tax were up by P18.2 million or 209% and P19.6 million or 88.3%, respectively. The increase in DIT was due to unrealized foreign exchange gains and deferred commission expenses, while the increase in current income tax was due to a higher taxable income base.

Net Income

Net income for the first half of 2008 decreased to P192 million from P322 million in 2007 due to lower investment and other income as well as underwriting income.

For the Quarters ended June 30, 2008 and 2007

Reinsurance Premium Income

Reinsurance premiums in 2nd Qtr. 2008 dropped by 31.6% to P895 million from P1.3 billion in 2nd Qtr. 2007 due to lower premiums assumed during the period. The drop was largely due to declines in both non-life treaty and facultative business. Despite the decrease in gross premiums, net premiums retained grew by P47.4 million or 18.7% from P254 million in 2nd Qtr. 2007 to P301 million in 2nd Qtr. 2008, due to higher retention rates on the Company's remaining business.

Premiums earned increased by 14.7% from P261.2 million to P299.6 million, due to increase in net premiums retained during the period.

Underwriting Deductions

Share in claims and losses were at P222.6 million and P153.2 million for the 2nd Qtr. 2008 and 2007, respectively, an increase of P69.5 million or 45.4%. Claims incurred include

large marine losses, including among others, Carlos Gothong Lines, Negros Navigation and George & Peter Lines.

Net commissions increased by P51 million in 2nd Qtr. 2008 from P26.4 million in 2nd Qtr. 2007, in line with the increase in net premiums retained.

Investment and Other Income (Charges)

Investment and other income grew by 36.5% from P106 million in 2nd Qtr. 2007 to P145 million in 2nd Qtr. 2008. The increase came from interest income on investment in fixed income securities and foreign currency translation gain of P50 million, which offset realized trading losses incurred by the Company during the 2nd quarter of P14 million.

General and Administrative Expenses

General and administrative expenses increased by 50% to P46 million in 2nd Qtr. 2008 from P31 million in 2nd Qtr. 2007 due to payment manpower related expenses. (employee benefits, anniversary and performance bonus).

Provision for Income Tax

Provision for income tax was up by P7.2 million or 84.3% from P8.5 million in 2nd Qtr 2007 to P15.6 million in 2nd Qtr. 2008 due to higher taxable income base.

Net Income

Net income for the 2nd Qtr. 2008 amounted to P81.9 million, down by 45% from net income of P148.2 million in 2nd Qtr. 2007 due to a net underwriting loss incurred during the quarter.

Financial Condition

Total resources as of the end of June 2008 stood at P10.7 billion, P838 million lower than the level of P11.5 billion as of December 31, 2007. Material changes in the company's resources are described below:

• **Cash and cash equivalents (965M vs. 1,347M)**

Cash and cash equivalents went down from P1.3 billion as of December 31, 2007 to P964.6 million as of June 30, 2008 (a decrease of P382.3 million or 28.4%) mainly due to payment of P.20 per share cash dividend to stockholders (record date, April 10, 2008) on May 6, 2008 for a total amount of P436 million.

• **Reinsurance Balances Receivable-net (3,125M vs. 2,909M)**

Reinsurance balances receivable increased by P215.7 million or 7.4% due to increase in reinsurance recoverable on losses. This represents the amount recoverable from the Company's retrocessionaires as their share in unpaid losses and loss adjustment expense recognized in the Company's books.

• **Available-for Sale Financial Assets (5,050M vs. 5,218M)**

Mark-to-market adjustments contributed to the 3.2% decline in available for sale financial assets from P5.2 billion in 2007 to P5 billion in 2008.

- **Loans and Receivables (178M vs. 194M)**

Loans and receivables held as investments decreased by P15.9 million or 8.2% mainly due to collection of term loans (P10 million) and accrued interest income.

- **Property and Equipment, net (88.477M vs. 91,328M)**

Property and equipment, net of accumulated depreciation, amounted to P88 million, a decrease of P2.9 million or 3.1%, mainly due to recorded depreciation (P5.3 million) being higher than capital expenditures of P1.3 million.

- **Deferred Acquisition Cost (201M vs. 207M) and Deferred Reinsurance Premium (870M vs. 1,348M)**

Following the 24th method of revenue recognition, deferred acquisition cost and deferred reinsurance premium decreased by P6.2 million or 3% and P478 million or 35.5% respectively, reflecting portions of reinsurance premiums written as of December 31, 2007 that were earned as of June 30, 2008.

- **Deferred Input Value Added Tax (70M vs. 82M)**

Deferred input value added tax decreased by P11.8 million or 14.5% to P69.7million, reflecting the continued runoff of this account because of discontinuance of VAT on reinsurance premiums effective April 6, 2007 (BIR Rev. Regulations 4-2007).

- **Other Assets (133M vs. 123M)**

Other assets increased by P10 million or 8.71% from P123 million in 2007 to P133 million as of 2nd Qtr. 2008. The increase was mainly due to prepayments of P15 million on manpower related expenses (employee benefits and performance bonus).

Liabilities (4,696M vs. 4,841M)

Total liabilities decreased by P144.6 million or 2.99% from P4.8 billion in 2007 to P4,696 million as of 2nd Qtr. 2008. The decline in total liabilities are explained below:

- **Reinsurance Balances Payable (3,001M vs. 2,671M)**

Reinsurance balances payable increased by 12.3% from P2,671 million at year end 2007 to P3,001 as of end 2nd Qtr. 2008. The increase came from the additional provisions for claims payable and the restatement of foreign currency-denominated payables as of 2nd Qtr. 2008. (from P41.868 to P44.756 per 1 US\$.)

- **Accounts Payable and Accrued Expenses (45M vs. 43M)**

The increase in accounts payable and accrued expenses of P1.8 million or 4.1% represents largely withholding tax payable which due on or before July 15, 2008.

- **Reserve for Unexpired Risks (1,395M vs. 1,846M)**

Reserve for unexpired risk decreased by P450 million or 24.4% due to current year's gross premium income being lower by 20.2%.

- **Deferred Reinsurance Commissions (100M vs. 123M)**

Deferred reinsurance commissions decreased by P22.9 million or 18.6%, reflecting the portion of commissions on retrocessions booked as of December 31, 2007 that were credited to income as of 2nd Qtr. 2008.

- **Income Tax Payable – (P.215M vs. P0)**

Income tax due as of 2nd Quarter 2008 was P.215. (P5.3 million less creditable expanded withholding tax of P5.1 million)

- **Deferred Output Value Added Tax (125M vs. 156M)**

Deferred output value added tax decreased by P31.8 million or 20.4% to P125 million in 1st half of 2008 from P156 million at year end 2007, reflecting the continued run-off (VAT for unpaid premium income) of this account because reinsurance premiums are no longer subject to VAT (Rev. Reg. 4-2007).

- **Deferred Tax Liabilities (30.8M vs. 1.6M)**

Deferred tax liabilities rose by P29.2 million due to increase in deferred taxes for reserves and unrealized foreign currency exchange gains.

- **Equity (5,983M vs. 6,677M)**

Stockholders equity declined by P694 million mainly due to payment of P.20 cash dividend to stockholders (record date April 10, 2008) on May 6, 2008 amounting to P436 million and lower revaluation reserve.

Key Performance Indicators:

	1 st Semester 2008	1 st Semester 2007	% Incr.(Dec).
1. Net Income	₱ 192 million	₱ 322 million	(40.4%)
2. Earnings per share (a)	₱ 0.09	₱ 0.19	(52.63%)
3. Retention ratio (b)	40%	26%	
4. Combined ratio (c)	93%	87%	
5. Return on average equity	6.1%	12.4%	

(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 (62% / 59%) commissions ratio (19% / 17%) and expense ratio (12% / 11%).

Net Income (NI)—Net income for the 1st half of 2008 went down by P130 million or 40% from P322 million in 1st half of 2007.

Earnings per share (EPS)—The Company's EPS was at P.09 and P.19 as of 1st half 2008 and 2007 respectively.

Retention ratio—The retention ratio was at 40% in 2008, fourteen percentages point higher compared to 26% in 1st half of 2007.

Combined ratio—The combined ratio of 93% is still below 100% in 2008 indicating continuing profitability of insurance operations.

Return on average equity (ROE) —ROE were at 6.1% and 12.4% for the 1st half of 2008 and 2007, respectively.

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, 2008 and December 31, 2007

	<u>Notes</u>	<u>June 2008</u> <u>(Unaudited)</u>	<u>Dec. 2007</u> <u>(Audited)</u>	<u>Changes</u>
ASSETS				
CASH AND CASH EQUIVALENTS	2	964,612,850	1,346,912,651	(382,299,801)
REINSURANCE BALANCES RECEIVABLE-net	3	3,124,540,285	2,908,836,020	215,704,265
AVAILABLE-FOR-SALE FINANCIAL ASSETS	4	5,049,897,540	5,217,539,378	(167,641,838)
LOANS AND RECEIVABLES	5	178,057,690	193,990,002	(15,932,312)
PROPERTY AND EQUIPMENT-NET	6	88,477,024	91,328,046	(2,851,022)
DEFERRED ACQUISITION COST		200,512,047	206,688,943	(6,176,896)
DEFERRED REINSURANCE PREMIUMS	7	869,721,346	1,348,262,605	(478,541,259)
DEFERRED INPUT VALUE ADDED TAX		69,749,322	81,554,300	(11,804,978)
OTHER ASSETS	8	133,301,213	122,623,373	10,677,840
TOTAL ASSETS		10,678,869,317	11,517,735,318	(838,866,001)
LIABILITIES AND EQUITY				
REINSURANCE BALANCES PAYABLE	3	3,000,786,674	2,671,190,453	329,596,221
ACCOUNTS PAYABLE & ACCRUED EXPENSES	9	44,648,567	42,890,121	1,758,446
RESERVE FOR UNEXPIRED RISKS	7	1,394,979,406	1,845,503,599	(450,524,193)
DEFERRED REINSURANCE COMMISSIONS		100,185,346	123,145,081	(22,959,735)
INCOME TAX PAYABLE		214,566	-	214,566
DEFERRED OUTPUT VALUE ADDED TAX		124,505,935	156,326,449	(31,820,514)
DEFERRED TAX LIABILITIES		30,774,411	1,610,803	29,163,608
TOTAL LIABILITIES		4,696,094,905	4,840,666,506	(144,571,601)
EQUITY				
Capital Stock	14	2,181,954,600	2,181,954,600	-
Additional Paid in Capital		3,019,218,458	3,019,218,458	-
Revaluation reserve		(274,402,897)	175,513,508	(449,916,405)
Retained Earnings		1,056,004,251	1,300,382,246	(244,377,995)
Total Equity		5,982,774,412	6,677,068,812	(694,294,400)
TOTAL LIABILITIES & EQUITY		10,678,869,317	11,517,735,318	(838,866,001)

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
INCOME STATEMENTS (unaudited)
For the Quarters ended June 30, 2008 and 2007)

	<u>2008</u>	<u>2007</u>	<u>Inc(Dec)</u>	<u>%</u>
Reinsurance Premium Income				
Reinsurance premiums	894,970,330	1,309,296,239	(414,325,909)	-31.64%
Retroceded premiums	593,600,470	1,055,330,173	(461,729,703)	-43.75%
Net Premiums retained	301,369,860	253,966,066	47,403,794	18.67%
Inc. in reserve for unexpired risk	(1,781,520)	7,247,670	(9,029,190)	-124.58%
Premiums Earned	299,588,340	261,213,736	38,374,604	14.69%
Underwriting deductions				
Share in claims & losses	222,652,955	153,157,608	69,495,347	45.38%
Commissions, net	77,657,001	26,366,713	51,290,288	194.53%
	300,309,956	179,524,321	120,785,635	67.28%
Net Underwriting Income	(721,616)	81,689,415	(82,411,031)	-100.88%
Investments and Other Income (Charges)				
Interest	99,024,877	79,098,384	19,926,493	25.19%
Foreign currency gain (losses)	50,048,747	(43,386,872)	93,435,619	-215.35%
Others	(4,477,062)	70,240,726	(74,717,788)	-106.37%
Investment and Other Income	144,596,562	105,952,238	38,644,324	36.47%
Income after Investment Income	143,874,946	187,641,653	(43,766,707)	-23.32%
General and Administrative Expenses	46,368,789	30,933,110	15,435,679	49.90%
Income Before Tax	97,506,157	156,708,543	(59,202,386)	-37.78%
Tax Expense	15,638,384	8,485,480	7,152,904	84.30%
Net Income	81,867,773	148,223,063	(66,355,290)	-44.77%

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
INCOME STATEMENTS (unaudited)
For the Six Months ended June 30, 2008 and 2007)

	<u>Notes</u>	<u>2008</u>	<u>2007</u>	<u>Inc(Dec)</u>	<u>%</u>
Reinsurance Premium Income					
Reinsurance premiums		1,620,663,985	2,032,016,447	(411,352,462)	-20.24%
Retroceded premiums		973,169,689	1,495,016,437	(521,846,748)	-34.91%
Net Premiums retained		<u>647,494,296</u>	<u>537,000,010</u>	<u>110,494,286</u>	20.58%
Inc. in reserve for unexpired risk	7	<u>(28,017,067)</u>	<u>(27,645,303)</u>	<u>(371,764)</u>	1.34%
Premiums Earned		<u>619,477,229</u>	<u>509,354,707</u>	<u>110,122,522</u>	21.62%
Underwriting deductions					
Share in claims & losses		382,836,927	300,677,415	82,159,512	27.32%
Commissions, net		<u>126,682,791</u>	<u>88,735,293</u>	<u>37,947,498</u>	42.76%
	11	<u>509,519,718</u>	<u>389,412,708</u>	<u>120,107,010</u>	30.84%
Net Underwriting Income		<u>109,957,511</u>	<u>119,941,999</u>	<u>(9,984,488)</u>	-8.32%
Investments and Other Income (Charges)					
Interest		194,680,811	145,796,081	48,884,730	33.53%
Foreign currency gain (losses)		58,187,615	(70,217,213)	128,404,828	-182.87%
Gain on acquisition		-	-	-	
Others		<u>(21,821,547)</u>	<u>217,418,542</u>	<u>(239,240,089)</u>	-110.04%
Investment and Other Income	10	<u>231,046,879</u>	<u>292,997,410</u>	<u>(61,950,531)</u>	-21.14%
Income after Investment Income		341,004,390	412,939,409	(71,935,019)	-17.42%
General and Administrative Expenses	12, 13	<u>80,252,700</u>	<u>60,112,957</u>	<u>20,139,743</u>	33.50%
Income Before Tax		260,751,690	352,826,452	(92,074,762)	-26.10%
Tax Expense		<u>68,738,766</u>	<u>30,900,338</u>	<u>37,838,428</u>	122.45%
Net Income		<u>192,012,924</u>	<u>321,926,114</u>	<u>(129,913,190)</u>	-40.35%
Earnings per Share	16	0.09	0.19		

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENT OF CHANGES IN EQUITY (unaudited)
As of June 30, 2008 and 2007

	<u>Notes</u>	<u>June 2008</u>	<u>June 2007</u>
CAPITAL STOCK - P1 par value			
Authorized - 3,000,000,000 shares			
Issued -2,181,954,600 shares in 2008 and 2007	14	<u>2,181,954,600</u>	<u>2,181,954,600</u>
ADDITIONAL PAID IN CAPITAL		<u>3,019,218,457</u>	<u>3,024,472,224</u>
REVALUATION RESERVE			
Balance at beginning of the year		175,513,508	378,444,968
Changes during the period		<u>(449,916,404)</u>	<u>(188,367,818)</u>
		<u>(274,402,896)</u>	<u>190,077,150</u>
RETAINED EARNINGS			
Appropriated for contingencies			
Balance at beginning of the year		211,890,435	150,949,100
Additional appropriations		<u>19,201,292</u>	<u>32,192,611</u>
	14	<u>231,091,727</u>	<u>183,141,711</u>
Unappropriated			
Balance at beginning of the year		1,088,491,813	692,756,614
Net Income		192,012,923	321,926,112
Cash Dividend		<u>(436,390,920)</u>	
Appropriated for contingencies		<u>(19,201,292)</u>	<u>(32,192,611)</u>
		<u>824,912,524</u>	<u>982,490,115</u>
		<u>5,982,774,412</u>	<u>6,562,135,800</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
CASH FLOW STATEMENTS (unaudited)
For the six months period ended June 30, 2008 and June 30, 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before tax	P 260,751,690	P 352,826,452
Adjustments for:		
Increase in reserve for unexpired risks	28,017,067	27,645,303
Unrealized foreign currency loss	(60,232,025)	32,931,472
Depreciation	5,349,319	4,776,956
Gain on acquisition	-	-
Interest income	(194,680,811)	(145,796,081)
Dividend income	(13,349,983)	(5,911,992)
Operating income before working capital changes	<u>25,855,257</u>	<u>266,472,110</u>
(Increase)Dec. in reinsurance balances receivable	(163,092,365)	(89,443,556)
(ncrease) Dec. in deferred input value added tax	11,804,978	79,230,386
Decrease (increase) in deferred acquisition costs	(16,782,838)	(15,565,511)
(Increase) in other assets	(11,842,863)	(19,949,516)
(Increase) Decrease in loans and receivables	10,368,956	(13,572,901)
Increase (decrease) in reinsurance balances payable	288,224,201	(2,114,509)
Increase (Dec.) in deferred output value added tax	(31,820,515)	(59,425,706)
Increase (decrease) in accounts payable and accrued exp.	1,973,011	(8,123,353)
Cash generated from (used in) operations	<u>114,687,822</u>	<u>137,507,444</u>
Cash paid for income taxes	<u>(41,783,564)</u>	<u>(22,189,087)</u>
 Net Cash From (Used in) Operating Activities	 <u>72,904,258</u>	 <u>115,318,357</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposals (acquisitions) of:		
Available-for-sale financial assets	(241,677,532)	(544,381,233)
Property and equipment	(1,333,273)	(6,272,372)
Interest received	200,244,166	133,246,512
Dividends received	13,349,983	5,911,992
 Net Cash From (Used in) Investing Activities	 <u>(29,416,656)</u>	 <u>(411,495,101)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends	(436,390,920)	-
Proceeds from Initial Public Offering (IPO)	-	2,597,571,619
 Net Cash From (Used in) Financing Activities	 <u>(436,390,920)</u>	 <u>2,597,571,619</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 (392,903,318)	 2,301,394,875
 EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS	 10,603,517	 (7,161,625)
 CASH AND CASH EQUIVALENTS -January 1	 <u>1,346,912,651</u>	 <u>446,834,344</u>
 CASH AND CASH EQUIVALENTS -June 30	 <u>P 964,612,850</u>	 <u>P 2,741,067,594</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
CASH FLOW STATEMENTS (unaudited)
For the Quarters ended June 30, 2008 and June 30, 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before tax	P 97,506,157	P 156,708,543
Adjustments for:		
Increase in reserve for unexpired risks	1,781,519	(7,247,670)
Unrealized foreign currency loss	(50,225,201)	7,236,363
Depreciation	2,659,154	2,969,089
Interest income	(99,024,876)	(79,098,384)
Dividend income	(8,194,571)	(4,698,495)
Operating income before working capital changes	(55,497,818)	75,869,446
(Increase)Dec. in reinsurance balances receivable	(75,021,950)	(149,656,970)
(ncrease) Dec. in deferred input value added tax	(1,618,937)	47,059,624
Decrease (increase) in deferred acquisition costs	(6,073,053)	(39,481,954)
(Increase) in other assets	(11,944,400)	15,999,133
(Increase) Decrease in loans and receivables	(517,024)	(20,451,828)
Increase (decrease) in reinsurance balances payable	274,983,950	200,114,281
Increase (Dec.) in deferred output value added tax	(1,592,114)	(44,622,254)
Increase (decrease) in accounts payable and accrued exp.	5,657,781	(12,734,566)
Cash generated from (used in) operations	128,376,435	72,094,912
Cash paid for income taxes	(21,538,169)	(13,662,862)
Net Cash From (Used in) Operating Activities	106,838,266	58,432,050
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposals (acquisitions) of:		
Available-for-sale financial assets	526,556,730	(430,595,247)
Property and equipment	(66,661)	(4,360,238)
Interest received	67,029,661	39,940,508
Dividends received	8,194,571	4,698,495
Net Cash From (Used in) Investing Activities	601,714,301	(390,316,482)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Cash Dividends	(436,390,920)	-
Proceeds from reissuance of Treasury shares	-	103,430,976
Proceeds from Initial Public Offering (IPO)	-	2,597,571,619
Net Cash From (Used in) Financing Activities	(436,390,920)	2,701,002,595
NET INCREASE IN CASH AND CASH EQUIVALENTS	272,161,647	2,369,118,163
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS	10,138,584	(4,122,404)
CASH AND CASH EQUIVALENTS -March 31	682,312,619	376,071,835
CASH AND CASH EQUIVALENTS -June 30	P 964,612,850	P 2,741,067,594

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). PFRS are adopted by the Financial Reporting Standards Council from the pronouncements issued by the International Accounting Standards Board.

The Financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. These financial statements have been prepared on historical cost basis, except for the revaluation of certain financial assets.

2. Cash and Cash Equivalents

This account consists of:

	June 2008	December 2007
Time Deposits/Short-Term Investment	P 750,787,798	P 1,283,627,639
Cash on hand and in banks	213,825,052	63,285,012
	P 964,612,850	P 1,346,912,651

3. Reinsurance Balances

The details of reinsurance balances are as follows:

	June 2008	December 2007
Reinsurance balances receivable:		
Due from ceding companies	P 1,662,138,408	P 1,630,803,800
Reinsurance recoverable on losses	1,471,902,139	1,297,757,239
Funds held by ceding companies	97,299,209	87,074,452
	3,231,339,755	3,015,635,491
Allowance for impairment	(106,799,471)	(106,799,471)
	P 3,124,540,285	P 2,908,836,020

Reinsurance balances payable:
 Due to retrocessionaires
 Claims payable
 Funds held for retrocessionaires

	P 1,050,829,094	P 981,270,895
	1,884,295,352	1,628,313,780
	65,662,228	61,605,778
	P 3,000,786,674	P 2,671,190,453

4. Available-for-Sale Financial Assets

The amounts in the balance sheets are composed of the following financial assets:

	June 2008	December 2007
Bonds	P 4,389,037,410	P 4,479,540,250
Equity securities	481,506,648	581,920,970
Investment in Asian Re shares	77,397,685	69,410,454
Various funds	101,955,797	86,667,704
	P 5,049,897,540	P 5,217,539,378

5. Loans and Receivables

This account includes the following:

	<u>June 2008</u>	<u>December 2007</u>
Current:		
Accrued interest receivable	P 84,798,666	P 90,362,021
Term Loans		
Others	1,841,357	715,769
Non-current		
Term Loans	80,000,000	90,000,000
Loans receivable	11,417,667	12,912,212
	P 178,057,690	P 193,990,002

6. Property and Equipment

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

	Cost	Accumulated Depreciation	Net Carrying Amount
Condominium units	P 104,227,734	P 32,493,737	P 71,733,997
Office improvement	14,284,102	10,426,163	3,857,939
Office furniture/equipt.	9,524,897	8,695,613	829,284
Transportation equipt.	12,594,705	5,167,105	7,427,600
EDP equipment	16,017,496	11,389,292	4,628,204
	P 156,648,934	P 68,171,910	P 88,477,024

7. Deferred Reinsurance Premiums and Reserve for Unexpired Risks

The movements in these accounts are as follows:

	Deferred Reinsurance Premiums	Reserve for Unexpired risk
Balance at beg. Of year-January 1, 2008	P 1,348,262,605	P 1,845,503,599
Increase (decrease) during the period	(478,541,259)	(450,524,193)
Balance at end of quarter-June 30, 2008	P 869,721,346	P 1,394,979,406

Deferred Reinsurance Premiums pertain 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 2008	December 2007
Investment property	P 39,740,033	P 40,905,056
Deferred withholding VAT	38,947,044	39,308,468
Input VAT	25,924,305	29,638,591
Creditable expanded withholding tax	5,303,811	5,297,029
Prepayments	16,740,892	1,515,877
Deposit	580,007	690,392
Security fund	192,888	192,888
Others	5,872,233	5,075,072
	P 133,301,213	P 122,623,373

Investment properties consist of condominium units and improvements which are owned for investment purposes only.

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 Insurance Commission (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 2008	December 2007
Defined benefit liability	P 33,347,718	P 34,507,695
Withholding taxes payable	6,631,548	3,496,719
Accrued expenses payable	3,365,923	3,557,009
Accounts payable and other liabilities	1,303,378	1,328,698
	P 44,648,567	P 42,890,121

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 2008	June 2007
Interest	P 194,680,811	P 145,796,081
Trading gain	2,121,968	101,256,465
Dividend income	13,349,983	5,911,992
Gain(loss) on sale of stocks	(36,962,634)	91,107,042
Foreign exchange (loss) gain	58,187,615	(70,217,213)
Miscellaneous	(330,864)	19,143,043
	P 231,046,879	P 292,997,410

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 2008	June 2007
Commission expense	P 255,487,541	P 198,672,862
Reinsurance revenue	128,804,750	109,937,569
	P 126,682,791	P 88,735,293

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 2008	June 2007
Salaries and employee benefits	P 48,109,240	P 35,530,236
Retirement	2,998,149	921,044
Depreciation	5,349,319	4,776,957
Representation and entertainment	1,301,363	1,664,476
Professional fees	3,618,688	2,127,246
Transportation & traveling	1,173,300	1,451,892
Repairs and maintenance	272,652	389,686
Taxes, licenses and fees	2,916,280	1,569,684
Light and water	1,153,774	1,314,676
Printing and office supplies	601,225	786,342
Communication and postages	828,780	830,271
Insurance	493,569	478,663
Donations and contributions	28,850	91,000
Bank charges	71,307	627,306
Professional and technical development	183,522	209,959
Miscellaneous	11,152,682	7,343,519
	P 80,252,700	P 60,112,957

13. Employee Benefits

Short-term Benefits

Expenses recognized for employee benefits are presented below:

	June 2008	June 2007
Salaries and wages	P 33,309,288	P 25,876,405
Allowances and bonus	8,767,594	4,153,381
Compensated absences	2,156,062	1,908,882
Separation benefits	1,680,914	1,809,073
Social security costs	853,746	780,095
Others	1,341,636	1,002,400
	P 48,109,240	P 35,530,236

14. Equity

14.1 Capital Stock

Capital Stock consists of:

Common shares-P1 par value

Issued:

	June 2008	June 2007
Number of shares	2,181,954,600	2,181,954,600
Amount	P 2,181,954,600	P 2,181,954,600

14.2 Appropriation for Contingencies

On April 18, 1989, the Company's Board of Directors 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 P231,091,728 and P183,141,711 as of June 30, 2008 and 2007, 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 2008	December 2007
Due from ceding companies	P 564,433,812	P286,602,592
Reinsurance recoverable on losses	31,461,900	44,021,458
Funds held by ceding companies	48,476,837	41,624,688
Due to retrocessionaires	(2,945,591)	33,711,667
Funds held for retrocessionaires	472,076	494,191

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 2008	December 2007
Time Deposits	P 7,178,862	P 44,801,350
Savings and current accounts	1,280,060	2,643,745
	P 8,458,922	P 47,445,095

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 some 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 2008 amounted to P 1,340,265

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 2008	June 2007
Net income available to common shareholders	P 192,012,924	P 321,926,114
Divided by the average number of outstanding common shares	2,181,954,600	1,702,804,267
	P .09	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 cyclical nature 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 P0.20/share cash dividend payable to stockholders of record as of April 10, 2008 (record date). Payment of said cash dividend was on May 6, 2008.

<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, 2008

(In million pesos)

	<u>Total</u>	<u>Below 360 days</u>	<u>Over 360 days</u>
Due from Ceding Companies	1,662	1,060	602
Reinsurance recoverable on paid losses	275	15	260
Reinsurance recoverable un unpaid losses	1,197	1,197	-
Funds Held by Ceding companies	97	97	-
	<u>3,231</u>	<u>2,369</u>	<u>862</u>
Allowance for impairment*	<u>(107)</u>		
	<u>3,124</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.