

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 2010

0 6 2 9 10
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 29, 2010

(Annual Meeting)

SEC FORM 17-Q

Quarterly Report

2nd Quarter Ending 30 June 2010

(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 2010
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 | 2,159,677,600 |
11. Are any or all of the securities listed on the Philippine Stock Exchange?
- Yes No
12. Indicate by check mark whether the registrant:
- (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period the registrant was required to file such report);
- Yes No
- (b) has been subject to such filing requirements for the past 90 days.
- Yes No

PART 1. - FINANCIAL INFORMATION

Item 1. Financial Statements

The financial statements listed below and covering pages 10 to 26 of this report are filed as part of this Form 17-Q:

- a. Statements of Financial Position as of 30 June 2010 and December 31, 2009.
- b. Statements of Income:
 - For the Quarters ended 30 June 2010 and 2009
 - For the Six Months ended 30 June 2010 and 2009
- c. Statements of Comprehensive Income for the Quarters ended 30 June 2010 and 30 June 2009
- d. Statement of Changes in Stockholders Equity as of 30 June 2010 and 2009
- e. Statement of Cash Flows:
 - For the Quarters ended 30 June 2010 and 2009
 - For the Six months ended 30 June 2010 and 2009

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, 2010 and 2009

Reinsurance Premium Income

Reinsurance premiums increased by P197 million or 11.2% from P1,764.0 million for the six months ended 30 June 2009 to P1,961 million for the six months ended 30 June 2010. Growth was evenly distributed across all sources, including the Company's Life, Non-Life Facultative and Non-Life Treaty businesses, all of which saw premiums grow in excess of 10% during the period. Correspondingly, net premiums retained increased by 13% from P686 million for the six months ended 30 June 2009 to P773 for the six months ended 30 June 2010. Likewise, premiums earned increased by 15% from P651 million for the six months ended 30 June 2009 to P751 million for the six months ended 30 June 2010.

Underwriting Deductions

Share in claims and losses increased by P54 million or 6.4% from P839 million in the first semester of 2009 to P893 million in the first semester of 2010, resulting in a loss ratio of 119% as against 129% the year before. While the unfavorable claims in 2009 were largely from the Company's marine hull business, major contributors to the 2010 losses were *Typhoon Ondoy* claims, which were advised to the Company by treaty cedants in statements received in 2010, notwithstanding the fact that the typhoon occurred in late 2009.

Net commissions were at 29% of the net premiums retained, higher than the 24% commission ratio for the same period last year. The increase reflects the continuing decline in the volume of the Company's marine hull business, where commission rates tend to be lower.

Investment and Other Income (Charges)

Investment and other income increased by 5% from P231 million for the six months ended 30 June 2009 to P243 million for the six months ended 30 June 2010. During the period, a turnaround in the Company's trading income more than offset declines in interest income and foreign currency gains.

Interest income decreased by 3.4% from P194 million for the six months ended 30 June 2009 to P189 million for the six months ended 30 June 2010 mainly due to lower volume of funds on deposit coupled with lower Peso time deposit rates. Foreign currency translation gains decreased by P13 million or 98% due to the relative stability of the Philippine Peso in 2010 as against the first six months of 2009. A favorable stock market contributed to stock trading income of P33 million for the first six months of 2010 compared to P 2 million for the previous year.

General and Administrative Expenses

General and administrative expenses, at P87 million for the six months ended 30 June 2010 were P5.6 million higher than the previous year's P82 million essentially due to increases in employee costs (P3.5 million), transportation expenses (P1.2 million) and utility expense (P0.8 million). Employee costs were negatively affected by increases in premiums of employee life and health insurance.

Tax Expense

The Company's tax expense was flat at P36 million, given the continuing underwriting losses as well as the stable level of investment and other income.

Net Profit (Loss)

As a result of the foregoing, the Company sustained a net loss of P247 million for the six months ended 30 June 2010 compared to net loss of P241 million for the six months ended 30 June 2009.

For the Quarters ended June 30, 2010 and 2009**Reinsurance Premium Income**

Reinsurance premiums for the quarter ended 30 June 2010 totaled P1,277 million, 36% higher than the P940 million in reinsurance premiums for the same quarter in 2009. Reinsurance premiums retained and premiums earned saw corresponding increases of 37% and 45%, respectively. While the growth in premiums for the quarter reflects some degree of organic growth, a substantial portion of the increase arose from the delayed submission of some cedants' statements of account and reinsurance binders, resulting in the recognition of premiums in the current quarter which should have been booked in the preceding accounting period.

Underwriting Deductions

Share in claims and losses for the quarter ended 30 June 2010 amounted to P681 million or 80% more the P378 million for the comparable period in 2009 due to the aforementioned claims for *Typhoon Ondoy*. The Company also provided additional loss reserves of approximately P150 million during the quarter after reviewing its inventory of claims payable.

Net commission expense increased by 60% during the quarter ended 30 June 2010 compared with the quarter ended 30 June 2009. This is in line with the increase in reinsurance premiums during the quarter, but the commission ratio was also higher, 26% vs. 22%, as a result of the Company's changing mix of business.

Investment and Other Income (Charges)

Investment and other income increased by 48% or P51 million from P107 million in 2nd Qtr. 2009 to P158 million in 2nd Qtr. 2009. A slight decline in interest income was more than offset by increases in foreign exchange and trading gains during the period.

General and Administrative Expenses

General and administrative expenses (GAE) increased by 15.7% or P6.7 million from P43 million in 2nd Qtr. 2009 to P49 million in 2nd Qtr. 2010. Additional GAE arose largely from increases in manpower-related expenses and depreciation expenses related to the data migration phase of the Company's ongoing computerization project.

Tax expense

Tax expense declined by 5.9% or P1.1 million to P17.9 million in 2nd Qtr. 2010 from P19 million in 2nd Qtr. 2009 due to the lower taxable income base.

Net Profit (Loss)

Due to higher underwriting deductions, net loss of the Company increased from P116 million in 2nd Qtr. 2009 to P289 million in 2nd Qtr.2010.

Financial Condition

Total resources of the Company as of 30 June 2010 amounted to P11.6 billion compared to P11.1 billion as of 31 December 2009. Material changes in the Company's resources are explained below:

- **Cash and cash equivalents (P700M vs.P684M)**

Cash and cash equivalents increased slightly by 2.4% or P16.3 million. Cash generated from investment activities sufficiently offset the cash requirements of underwriting operations as well as the Company's annual dividend payment.

- **Reinsurance Balances Receivable-net (P3,466M vs.P 2,874M)**

Reinsurance balances receivable rose by 20.6% or P592 million largely due to increase in reinsurance recoverable on losses (representing the amount of claims that can be recovered from the Company's retrocessionaires) from P2.1 billion as of 31 December 2009 to P2.9 billion as of 30 June 2010.

- **Available-for Sale Financial Assets (P5,966M vs. 6,049M)**

Available for sale (AFS) financial assets decreased slightly by 1.4% from P6 billion in 2009 to P5.9 billion in 2010 reflecting the liquidation of some AFS financial assets in the normal course of business.

- **Loans and Receivables (P286M vs. P253M)**

Loans and receivables increased by P32.4 million or 12.8%. The increase is traceable to trading of certain AFS investments, the settlement dates for which crossed over the end of the quarter.

- **Property and Equipment, net (P165M vs. P130M)**

Property and equipment, net of accumulated depreciation, amounted to P165 million, as of 30 June 2010, an increase of P35 million or 26.7%, mainly due to capitalized cost of the Company's Project IRIS (Integrated Reinsurance System) which commenced in 4th Qtr. 2009.

- **Deferred Acquisition Cost (P155 vs.P166M) and Deferred Reinsurance Premium (P666M vs. P772M)**

Deferred acquisition cost and deferred reinsurance premium decreased by P11.2 million or 6.7% and P105.3 million or 13.7% respectively, reflecting portions of reinsurance commission/premiums as of December 31, 2009 that were deemed earned as of June 30, 2010 under the 24th method of accounting for reinsurance premiums.

- **Deferred Input Value Added Tax (P59M vs.P55M)**

Deferred input value added tax rose by P4.3 million or 8% to P59 million due to increase in assumed commissions subject to VAT for the first semester of 2010.

- **Other Assets (P119M vs.P113M)**

Other assets increased by 5.2% or P5.9 million from P113 million as of 31 December 2009 to P119 million as of 2nd Qtr. 2010 primarily due to increase in unutilized expanded withholding tax.

Liabilities (P5,670M vs.P4,941M)

Total liabilities increased by P729 million or 14.8% from P4.9 billion as of 31 December 2009 to P5.7 billion as at 2nd Qtr. 2010. The changes in individual liability accounts is explained below:

- **Reinsurance Balances Payable (P4,426M vs. P3,588M)**

Reinsurance balances payable increased by P838 million or 23.3% due largely to an increase in claims payable between 31 December 2009 and 30 June 2010 arising from unfavorable underwriting performance as well as incrementally established loss reserves.

- **Accounts Payable and Accrued Expenses (P36M vs. P34M)**

The increase in accounts payable of P1.6 million or 4.6% from P34 million in 2009 to P36 million as of 2nd qtr. 2010 essentially relate to additional withholding taxes due.

- ***Reserve for Unearned Reinsurance Premiums (P1,096M vs. P1,179M)***
Deferred Reinsurance Commissions (P84M vs P98M)

Reserve for unearned reinsurance premium and deferred reinsurance commission decreased by P83 million or 7% and P14 million or 13% respectively. As portions of deferred reinsurance premiums at year end 2009 are deemed earned under the 24th method revenue recognition, there is a corresponding reduction in the associated reserve for unearned reinsurance premium and deferred reinsurance commission.

- ***Deferred Output Value Added Tax (P28M vs. P42M)***

Deferred output value added tax decreased by P14 million or 33.5% to P28 million as of 30 June 2010 from P42.3 million at year end 2009 primarily due to lower ceded commission subject to VAT as of 30 June 2010 (P137 million in 2nd Qtr 2010 as against P147 million in 2nd qtr. 2009).

- ***Equity (P5,912M vs.P6,155M)***

Stockholders equity declined by P243 million mainly due to payment of P.047 per share cash dividend to stockholders (record date June 4, 2010) on June 22, 2010 amounting to P101.5 million and net loss of the Company of P247 million for the six month ended June 30, 2010, notwithstanding, revaluation reserve increase of P105 million.

Key Performance Indicators:

	2nd Quarter 2010	2nd Quarter 2009	% Inc.(Dec).
1. Net Income	(P 247 million)	(P 241 million)	2.6%
2. Earnings per share (a)	(P 0.11)	(P 0.11)	-
3. Retention ratio (b)	39%	39%	-
4. Combined ratio (c)	159%	165%	-
5. Return on average equity	(4.1%)	(4.1%)	-

(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% / 129%) commissions ratio (29% / 24%) and expense ratio (11% / 12%).

Net Income (NI)- The Company showed a net loss P247 million and P241 million for the first semester of 2010 and 2009 respectively.

Earnings per share (EPS)—The Company's EPS was flat at (P.11) for first semester 2010 and 2009 respectively.

Retention ratio - The retention ratio was 40% for first semester 2010 and 2009.

Combined ratio—The combined ratio was at 159% and 165% for the first semester 2010 and 2009 respectively.

Return on average equity (ROE)—ROE for the first semester 2010 and 2009 was also flat at 4.1%.

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 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.

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

STATEMENTS OF FINANCIAL POSITION

June 30, 2010 and December 31, 2009

	<u>Notes</u>	<u>June 2010</u> <u>(Unaudited)</u>	<u>Dec. 2009</u> <u>(Audited)</u>	<u>Changes</u>
ASSETS				
CASH AND CASH EQUIVALENTS	2	699,968,724	683,659,159	16,309,565
REINSURANCE BALANCES RECEIVABLE-net	3	3,466,192,037	2,874,413,754	591,778,283
AVAILABLE-FOR-SALE FINANCIAL ASSETS	4	5,966,089,890	6,048,736,164	(82,646,274)
LOANS AND RECEIVABLES	5	285,834,672	253,464,887	32,369,785
PROPERTY AND EQUIPMENT-NET	6	164,709,130	130,034,934	34,674,196
DEFERRED ACQUISITION COST		154,504,372	165,674,472	(11,170,100)
DEFERRED REINSURANCE PREMIUMS	7	666,377,553	771,688,546	(105,310,993)
DEFERRED INPUT VALUE ADDED TAX		59,274,653	54,956,162	4,318,491
OTHER ASSETS	8	119,104,535	113,234,480	5,870,055
TOTAL ASSETS		11,582,055,566	11,095,862,558	486,193,008
LIABILITIES AND EQUITY				
REINSURANCE BALANCES PAYABLE	3	4,425,717,453	3,587,881,996	837,835,457
ACCOUNTS PAYABLE & ACCRUED EXPENSES	9	36,016,310	34,425,812	1,590,498
RESERVE FOR UNEARNED RI PREMIUMS	7	1,096,151,875	1,179,075,555	(82,923,680)
DEFERRED REINSURANCE COMMISSIONS		84,460,002	97,541,765	(13,081,763)
DEFERRED OUTPUT VALUE ADDED TAX		28,139,052	42,315,325	(14,176,273)
TOTAL LIABILITIES		5,670,484,692	4,941,240,453	729,244,239
EQUITY				
Capital Stock	14	2,181,954,600	2,181,954,600	-
Treasury Stock		(40,081,811)	(40,081,811)	-
Additional Paid in Capital		3,019,218,457	3,019,218,457	-
Revaluation reserve		123,787,527	18,443,858	105,343,669
Retained Earnings		626,692,101	975,087,001	(348,394,900)
Total Equity		5,911,570,874	6,154,622,105	(243,051,231)
TOTAL LIABILITIES & EQUITY		11,582,055,566	11,095,862,558	486,193,008

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

For the Quarters ended June 30, 2010 and 2009

	<u>Notes</u>	<u>2010</u>	<u>2009</u>	<u>Inc(Dec)</u>	<u>%</u>
Reinsurance Premium Income					
Reinsurance premiums-net of returns		1,276,511,609	939,753,460	336,758,149	35.83%
Retroceded premiums		798,331,359	589,466,039	208,865,320	35.43%
Reinsurance premiums retained		478,180,250	350,287,421	127,892,829	36.51%
Increase in reserve for unearned reinsurance premiums	7	(54,261,038)	(57,124,390)	2,863,352	-5.01%
		<u>423,919,212</u>	<u>293,163,031</u>	<u>130,756,181</u>	44.60%
Underwriting deductions					
Share in claims & losses		681,147,362	377,657,505	303,489,857	80.36%
Commissions, net		122,804,153	76,991,417	45,812,736	59.50%
	11	<u>803,951,515</u>	<u>454,648,922</u>	<u>349,302,593</u>	76.83%
Net Underwriting Loss		<u>(380,032,303)</u>	<u>(161,485,891)</u>	<u>(218,546,412)</u>	135.33%
Investments and Other Income (Charges)					
Interest		95,906,759	97,165,517	(1,258,758)	-1.30%
Foreign currency gain (losses)		18,088,886	(1,747,630)	19,836,516	1135.05%
Others		43,977,939	11,235,435	32,742,504	291.42%
Investment and Other Income	10	<u>157,973,584</u>	<u>106,653,322</u>	<u>51,320,262</u>	48.12%
Profit after Investment and Other Income		<u>(222,058,719)</u>	<u>(54,832,569)</u>	<u>(167,226,150)</u>	304.98%
General and Administrative Expenses	12,13	<u>49,239,926</u>	<u>42,557,552</u>	<u>6,682,374</u>	15.70%
Profit Before Tax		<u>(271,298,645)</u>	<u>(97,390,121)</u>	<u>(173,908,524)</u>	178.57%
Tax Expense		<u>17,938,181</u>	<u>19,056,683</u>	<u>(1,118,502)</u>	-5.87%
Net Profit (Loss)		<u>(289,236,826)</u>	<u>(116,446,804)</u>	<u>(172,790,022)</u>	148.39%

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

For the six Months ended June 30, 2010 and 2009)

	<u>Notes</u>	<u>2010</u>	<u>2009</u>	<u>Inc(Dec)</u>	<u>%</u>
Reinsurance Premium Income					
Reinsurance premiums-net of returns		1,961,121,351	1,763,971,477	197,149,874	11.18%
Retroceded premiums		1,187,914,836	1,077,568,824	110,346,012	10.24%
Reinsurance premiums retained		773,206,515	686,402,653	86,803,862	12.65%
Increase in reserve for unearned reinsurance premiums	7	(22,387,313)	(35,873,015)	13,485,702	-37.59%
		<u>750,819,202</u>	<u>650,529,638</u>	<u>100,289,564</u>	<u>15.42%</u>
Underwriting deductions					
Share in claims & losses		892,957,520	839,289,954	53,667,566	6.39%
Commissions, net		224,067,438	164,891,815	59,175,623	35.89%
	11	<u>1,117,024,958</u>	<u>1,004,181,769</u>	<u>112,843,189</u>	<u>11.24%</u>
Net Underwriting Loss		<u>(366,205,756)</u>	<u>(353,652,131)</u>	<u>(12,553,625)</u>	<u>3.55%</u>
Investments and Other Income (Charges)					
Interest		187,898,553	194,444,253	(6,545,700)	-3.37%
Foreign currency gain (losses)		258,980	13,771,143	(13,512,163)	-98.12%
Others		54,504,446	22,528,265	31,976,181	141.94%
Investment and Other Income	10	<u>242,661,979</u>	<u>230,743,661</u>	<u>11,918,318</u>	<u>5.17%</u>
Profit after Investment and Other Income		<u>(123,543,777)</u>	<u>(122,908,470)</u>	<u>(635,307)</u>	<u>-0.52%</u>
General and Administrative Expenses	12,13	<u>87,558,337</u>	<u>81,957,640</u>	<u>5,600,697</u>	<u>6.83%</u>
Profit Before Tax		<u>(211,102,114)</u>	<u>(204,866,110)</u>	<u>(6,236,004)</u>	<u>3.04%</u>
Tax Expense		<u>35,787,940</u>	<u>35,884,374</u>	<u>(96,434)</u>	<u>-0.27%</u>
Net Profit (loss)		<u>(246,890,054)</u>	<u>(240,750,484)</u>	<u>(6,139,570)</u>	<u>2.55%</u>
Earnings (loss) per Share	16	(0.11)	(0.11)		

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

For the six months ended June 30, 2010 and 2009)

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
NET PROFIT (LOSS)		(246,890,054)	(240,750,484)
OTHER COMPREHENSIVE INCOME (LOSS)			
Fair value gains (losses)-net of taxes	4	<u>105,343,669</u>	<u>167,342,361</u>
TOTAL COMPREHENSIVE INCOME (LOSS)		<u>(141,546,385)</u>	<u>(73,408,123)</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CASH FLOWS (unaudited)
For the six months period ended June 30, 2010 and June 30, 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) before tax	(P 211,102,113)	(P 204,865,110)
Adjustments for:		
Increase in reserve for unearned RI Premiums	22,387,313	35,873,015
Unrealized foreign currency loss (gain)	(11,659,048)	(20,546,657)
Depreciation	6,353,156	5,272,764
Interest income	(187,898,553)	(194,444,253)
Dividend income	(18,257,797)	(13,218,936)
Operating income (loss) before working capital changes	(400,177,042)	(391,930,177)
(Increase)Dec. in reinsurance balances receivable	(575,994,468)	514,645,333
(ncrease) Dec. in deferred input value added tax	(4,318,491)	2,428,560
Decrease (increase) in deferred acquisition costs	(1,911,664)	(7,671,348)
(Increase) in other assets	(6,717,652)	(648,153)
(Increase) Decrease in loans and receivables	(43,912,732)	10,942,447
Increase (decrease) in reinsurance balances payable	826,620,097	(45,093,586)
Increase (Dec.) in deferred output value added tax	(14,176,273)	(48,388,241)
Increase (decrease) in accounts payable and accrued exp.	1,590,498	(11,370,020)
Cash generated from (used in) operations	(218,997,727)	22,914,815
Cash paid for income taxes	(35,787,940)	(34,515,251)
Net Cash From (Used in) Operating Activities	<u>(254,785,667)</u>	<u>(11,600,436)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposals (acquisitions) of:		
Available-for-sale financial assets	192,849,933	(300,446,819)
Property and equipment	(40,179,755)	(563,311)
Other investments	-	-
Interest received	200,757,769	181,390,676
Dividends received	18,257,797	13,218,936
Net Cash From (Used in) Investing Activities	<u>371,685,744</u>	<u>(106,400,518)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends	(101,504,847)	-
Net Cash From (Used in) Financing Activities	<u>(101,504,847)</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,395,230	(118,000,954)
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS	914,335	3,915,433
CASH AND CASH EQUIVALENTS ~January 1	683,659,159	1,149,558,287
CASH AND CASH EQUIVALENTS ~June 30	<u>P 699,968,724</u>	<u>P 1,035,472,766</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CASH FLOWS (unaudited)
For the three months period ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) before tax	(P 271,258,645)	(P 97,390,121)
Adjustments for:		
Increase in reserve for unearned RI Premiums	54,261,038	57,124,390
Unrealized foreign currency loss (gain)	(29,560,814)	(1,942,286)
Depreciation	3,904,744	2,657,170
Interest income	(95,906,759)	(97,165,517)
Dividend income	(14,371,406)	(10,101,508)
Operating income (loss) before working capital changes	(352,971,842)	(146,817,872)
(Increase)Dec. in reinsurance balances receivable	(420,102,635)	26,484,078
(Increase) Dec. in deferred input value added tax	(8,766,229)	(4,702,543)
Decrease (increase) in deferred acquisition costs	(6,376,998)	(12,230,777)
(Increase) in other assets	(3,521,285)	(1,563,230)
(Increase) Decrease in loans and receivables	(52,657,601)	1,018,824
Increase (decrease) in reinsurance balances payable	672,013,279	198,519,996
Increase (Dec.) in deferred output value added tax	(85,368)	(11,413,574)
Increase (decrease) in accounts payable and accrued exp.	3,962,523	117,193
Cash generated from (used in) operations	(168,506,156)	49,412,095
Cash paid for income taxes	(17,938,181)	(17,329,896)
Net Cash From (Used in) Operating Activities	<u>(186,444,337)</u>	<u>32,082,199</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposals (acquisitions) of:		
Available-for-sale financial assets	223,817,467	(166,945,720)
Property and equipment	(12,917,813)	(41,392)
Other investments	-	-
Interest received	62,725,569	37,627,405
Dividends received	14,371,406	10,101,508
Net Cash From (Used in) Investing Activities	<u>287,996,629</u>	<u>(119,258,199)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends	(101,504,847)	-
Net Cash From (Used in) Financing Activities	<u>(101,504,847)</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	47,445	(87,176,000)
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS	9,924,951	(2,789,200)
CASH AND CASH EQUIVALENTS -March 31	689,996,328	1,125,437,966
CASH AND CASH EQUIVALENTS -June 30	P 699,968,724	P 1,035,472,766

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 on the historical cost basis, except for the revaluation of certain financial assets.

2. Cash and Cash Equivalents

This account consists of:

	June 2010	December 2009
Time Deposits/Short-Term Investment	P 578,435,282	P 619,827,323
Cash on hand and in banks	121,533,442	63,831,836
	P 699,968,724	P 683,659,159

Time deposits were made for varying periods of between one day and one month depending on the liquidity requirements of the Company. Peso time deposits earn annual interest rates ranging from 2.75% to 4.06% in 2010 and 1.5% to 4.5% in 2009 while dollar time deposits earn interest rates with rates ranging from 1.0% to 1.5% in 2010 and 0.05% to 1.5% in 2009. 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\$798,942.34 (P36,999,020) as of June 30, 2010 and US\$6,300,936 (P292,086,185) as of December 31, 2009.

3. Reinsurance Balances

The details of reinsurance balances are as follows:

	June 2010	December 2009
Reinsurance balances receivable:		
RI recoverable on unpaid losses	P2,433,669,535	P 1,760,229,554
RI recoverable on paid losses	426,882,420	349,601,459
Due from ceding companies	753,297,248	912,656,154
Funds held by ceding companies	120,262,867	119,846,620
	3,734,112,070	3,142,333,787
Allowance for impairment	(267,920,033)	(267,920,033)
	P 3,466,192,037	P 2,874,413,754
Reinsurance balances payable:		
Due to retrocessionaires	P 325,163,353	P 468,815,645
Claims payable	4,032,310,126	3,048,097,371
Funds held for retrocessionaires	68,243,974	70,968,980
	P 4,425,717,453	P 3,587,881,996

4. Available-for-Sale Financial Assets

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

	June 2010	December 2009
Bonds	P 5,025,712,908	P 5,187,509,694
Equity securities	734,339,629	699,052,711
Investment in Asian Re shares	76,885,603	76,961,974
Various funds	129,151,750	85,211,785
	P 5,966,089,890	P 6,048,736,164

Bonds include investments in corporate bonds, long-term negotiable instruments and government securities. This also includes government securities amounting P190,000,000 and P159,000,000 in 2010 and 2009, respectively, which are on deposit with the Insurance Commission (IC) as security for the benefit of policyholders and creditors of the Company in accordance with the provisions of the Insurance Code of the Philippines.

Bonds earn interest at annual rates ranging from 3.5% to 15% and 5% to 15% in June 2010 and December 2009 respectively. Interest income recognized are presented as part of Investment and Other Income in the statements of income (see Notes 10).

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

	June 2010	December 2009
Due within one year	P 26,231,685	P 167,282,197
Due after 1 year through 5 years	2,887,934,115	2,855,765,781
Due after 5 years through 10 years	2,073,278,834	2,126,627,642
Due after ten years	38,268,274	37,834,074
	P 5,025,712,908	P 5,187,509,694

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

	June 2010	December 2009
Cost:		
Quoted in the stock exchange	P 528,505,580	P 530,478,088
Not quoted in the stock exchange	192,195,158	194,543,557
	720,700,738	725,021,645
Fair value gains (losses):		
Quoted in the stock exchange	31,165,853	(8,420,047)
Not quoted in the stock exchange	(17,526,962)	(17,548,887)
	P 734,339,629	P 699,052,711

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 values are recognized under Other Comprehensive Income(Loss) in the statement of comprehensive income. The fair value of investments in Asian Re shares amounted to P76,885,603 and P76,961,974, as of June 2010 and December 2009, respectively.

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

	June 2010	December 2009
Balance at beginning of year	P 6,048,736,164	P 5,284,585,889
Additions	928,282,708	4,327,663,119
Disposals	(1,115,884,586)	(3,747,134,327)
Fair value gains (losses)	105,343,669	188,255,431
Foreign currency gains (losses)	(388,065)	(4,633,948)
Balance at end of quarter/year	P 5,966,089,890	P 6,048,736,164

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 P105,343,669 and P9,380,160 in 2nd Qtr. 2010 and 2009, respectively.

The fair values of available-for-sale financial assets have been determined directly by reference to published prices in active market. For the equity securities without market values, book value per share, based on the audited financial statements of the investee company, were used as an alternative. 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:

	June 2010	December 2009
Current:		
Accrued interest receivable	P 89,764,689	P 102,623,905
Term Loans		
Others	57,573,892	11,508,018
Non-current		
Term Loans	130,000,000	130,000,000
Loans receivable	8,496,091	9,332,964
	P 285,834,672	P 253,464,887

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 38,546,878	P 65,680,856
Office improvement	14,284,101	12,230,350	2,053,751
Office furniture/equipt.	9,681,090	9,198,882	482,208
Transportation equipt.	13,261,772	7,882,498	5,379,274
EDP equipment	106,852,996	15,739,955	91,113,041
	P 248,307,693	P 83,598,563	P 164,709,130

7. Deferred Reinsurance Premiums and Reserve for Unearned Reinsurance Premiums

The movements in these accounts are as follows:

	Deferred Reinsurance Premiums	Reserve for Unearned reinsurance premiums
Balance at beg. of year-January 1, 2010	P 771,688,546	P 1,179,075,555
Increase (decrease) during the period	(105,310,993)	(82,923,680)
Balance at end of quarter- June 30, 2010	P 666,377,553	P 1,096,151,875

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 Unearned reinsurance premiums 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 Unearned reinsurance premiums for the year is presented as Increase in Reserve for Unearned Reinsurance Premiums in the income statements.

8. Other Assets

The Other Assets account includes the following:

	June 2010	December 2009
Investment property	P 35,501,859	P 36,349,456
Deferred withholding VAT	4,783,928	4,783,959
Input VAT	21,529,223	26,287,002
Creditable expanded withholding tax	49,842,089	40,668,400
Prepayments	4,211,510	2,023,359
Deposit	578,700	577,695
Security fund	192,888	192,888
Others	2,464,338	2,351,721
	P 119,104,535	P 113,234,480

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

Input VAT pertains to input valued-added taxes 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.

9. Accounts Payable and Accrued Expenses

This account includes the following:

	June 2010	December 2009
Defined benefit liability	P 22,016,459	P 22,016,459
Withholding taxes payable	5,926,674	3,210,598
Accrued expenses payable	4,959,885	6,028,049
Accounts payable and other liabilities	3,113,292	3,170,706
	P 36,016,310	P 34,425,812

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

10. Investment and Other Income

The details of this account follow:

	June 2010	June 2009
Interest	P 187,898,553	P 194,444,253
Trading gain	2,103,435	7,515,286
Gain (loss) on sale of stocks	32,509,304	2,126,473
Foreign exchange gain (loss)	258,980	13,771,143
Dividend and other income-net	19,891,707	12,886,506
	P 242,661,979	P 230,743,661

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 2010	June 2009
Commission expense	P 383,899,039	P 321,507,237
Reinsurance revenue	159,831,601	156,615,422
	P 224,067,438	P 164,891,815

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 2010		June 2009	
Salaries and employee benefits	P	57,891,077	P	54,403,490
Impairment loss				
Professional fees		3,956,873		5,215,634
Depreciation		6,353,156		5,272,764
Taxes, licenses and fees		2,984,699		2,562,518
Representation and entertainment		1,928,881		1,982,177
Transportation & traveling		2,401,223		1,178,121
Association & pool		1,614,918		1,668,452
Advertising and publicity		644,338		850,217
Light and water		2,038,005		1,152,813
Communication and postages		867,632		979,988
Contract labor		1,146,560		2,840,151
Printing and office supplies		648,561		833,779
Repairs and maintenance		630,005		635,000
Insurance		547,724		548,241
Miscellaneous		3,904,685		1,834,295
	P	87,558,337	P	81,957,640

13. Employee Benefits

Short-term Benefits

Expenses recognized for employee benefits are presented below (see Note 12):

	June 2010		June 2009	
Salaries and wages	P	42,905,775	P	39,307,222
Allowances and bonus		8,948,400		8,533,981
Retirement		3,611,173		3,858,610
Separation benefits		893,109		892,817
Social security costs		1,532,620		1,810,860
Others				
	P	57,891,077	P	54,403,490

14. Equity

14.1 Capital Stock

Capital Stock consists of:

Common shares-P1 par value

Issued:

	June 2010		June 2009	
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 P231,675,156 and P221,334,777 as of June 30, 2010 and 2009, 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 2010	December 2009
Due from ceding companies	P11,057,540	P 304,657,139
Reinsurance recoverable on losses	40,877,817	40,967,517
Funds held by ceding companies	45,997,802	41,293,832
Due to retrocessionaires	156,977,080	(35,594,833)
Funds held for retrocessionaires	(894,399)	(894,399)

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 2010	December 2009
Time Deposits	-	P 23,500,000
Savings and current accounts	2,719,533	2,332,565
P	2,719,533	P 25,832,565

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:

	June 2010	December 2009
Cash and cash equivalents	P 403	22,611,956
Available-for-sale financial assets	1,326,166,449	1,201,491,263
Loans and receivables	80,000,000	80,000,000
	P 1,406,166,852	P1,304,103,219

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 amounted to P1,380,430 and P2,451,664 in June 2010 and December 2009, respectively, and is charged against Dividend and Other Income-net under Investment and Other Income account (see Note 10) in the statements of income.

15.3 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.

In 2007, the Company also entered into a Trust Agreement whereby it designated Rizal Commercial Banking Corporation, another related party, as additional trustee of its employee's retirement plan.

16. Earnings (loss) Per Share

The earnings per share amounts are as follows:

	June 2010	June 2009
Net income (loss) available to common shareholders	(P 246,890,054)	(P 240,750,484)
Divided by the average number of outstanding common shares	2,159,677,600	2,159,677,600
	(P .11)	(P .11)

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 0.047/share cash dividend payable to stockholder of record as of June 04, 2010. Payment of said cash dividend shall be on June 22, 2010
<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 <i>material to an understanding of the current interim period.</i> 	<ul style="list-style-type: none"> Nothing to report.

AGING OF REINSURANCE BALANCES RECEIVABLE

As of June 30, 2010

(In million pesos)

	<u>Total</u>	<u>Below 360 days</u>	<u>Over 360 days</u>
Due from Ceding Companies	754	780	(26)
Reinsurance recoverable on paid losses	427	134	293
Reinsurance recoverable un unpaid losses	2,433	2,433	-
Funds Held by Ceding companies	120	120	-
	<u>3,734</u>	<u>3,467</u>	<u>267</u>
Allowance for impairment*	<u>(268)</u>		
	<u><u>3,466</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.