

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 2009

0 6 2 2 09

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 22, 2009
(Annual Meeting)

SEC FORM 17-Q
Quarterly Report
2nd Quarter Ending 30 June 2009
(Form Type)

Amendment Designation (If applicable)

(Secondary License Type and File Number)

Cashier

LCU *b*

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 2009
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 contained in pages 9 to 22 of this report are filed as part of this Form 17-Q:

- a. Balance Sheet as of 30 June 2009 and December 31, 2008.
- b. Income Statements:
 For the Quarters ended 30 June 2009 and 2008
 For the Six Months ended 30 June 2009 and 2008
- c. Statement of Changes in Stockholders Equity as of 30 June 2009 and 2008
- d. Statement of Cash Flows:
 For the Quarters ended 30 June 2009 and 2008
 For the Six months ended 30 June 2009 and 2008

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, 2009 and 2008

Reinsurance Premium Income

Reinsurance premiums for the first semester of 2009 increased by 8.8% to P1.8 billion from P 1.6 billion for the first semester of 2008. The growth was attributable to increases in non-life treaty business, which more than offset a decline in non-life facultative premiums. Net premiums retained increased at a smaller rate, by 6% to P686.4 million in the first semester of 2009 from P647.5 million in the first semester of 2008. Consequently, the Company's retention ratio declined slightly, to 39% in the first semester of 2009 from 40% in the first semester of 2008. Correspondingly, net premiums earned in the first semester of 2009 grew by 5% to P650.5 million from P619.5 million in the first semester of 2008.

Underwriting Deductions

Share in claims and losses more than doubled to P839 million for the first semester of 2009 compared to P383 million for the first semester of 2008. A substantial portion of these claims and losses were for loss events occurring in 2008 but for which advices were provided by cedants only in the current calendar year. The source of the losses pertaining to 2008 underwriting year was largely in the Company's non-life facultative business, particularly marine hull (foreign) and fire. In response to the negative underwriting results for marine hull, the Company has reduced underwriting of new business in this area.

Net commissions were at 24% of net premiums retained, higher than the 20% commission ratio for the same period last year. The increase in the net commission ratio can be traced to the lower level of marine hull business being underwritten (because of poor underwriting results). This type of business tends to have lower commission rates. Also, the commission rate on certain life business increased in 2009 from 2008 levels.

Investment and Other Income (Charges)

Investment and other income was flat at P231 million for the first half of 2009 and 2008.

Interest income was P194.4 million in the first six months of 2009, compared with P194.7 million for the corresponding period in 2008. Foreign currency gains decreased by P44.4 million in the first six months of 2009 from the same period in 2008, but this was offset by a P44.3 million turnaround in trading gains due to a favorable investment environment during the first six months of 2009.

General and Administrative Expenses

General and administrative expenses increased by only 2% from P80.3 million in the first semester of 2008 to P81.9 million in the first semester of 2009, specifically due to payments for professional/executive search services (P1.8 million). Sixty-six per cent (66%) of the Company's general and administrative expenses for 2009 and seventy-two per cent (72%) for 2008 relate to compensation or compensation-related costs.

Tax expense

The Company's tax expense was lower by 47.8% in the first semester of 2009 compared to 2008 due to the net underwriting loss for the period.

Net Income (Loss)

As a result of the above-mentioned factors, the Company sustained a net loss of P241 million for the 1st half of 2009 as against net income of P192 million in the 1st half of 2008.

For the Quarters ended June 30, 2009 and 2008**Reinsurance Premium Income**

Reinsurance premiums in 2nd Qtr. 2009 grew by 5% to P940 million from P895 million in 2nd Qtr. 2008. The growth came primarily from the Company's life and non-life treaty portfolios which offset declines in the Company's non-life facultative portfolio. Net retained premiums increased by 16% for 2nd Qtr. 2009 compared to 2nd Qtr. 2008 because of the higher retention level on life and non-life treaty business, which accounted for much of the increase in gross premiums. Premiums earned, however, was relatively flat for 2nd Qtr. 2009 compared to 2nd Qtr. 2008. This was the result of the application of the 24th method of recognizing insurance premiums, which resulted in a P57 million increase in reserve for unearned reinsurance premiums. The increase in turn resulted in premiums earned of P293.2 million in 2nd Qtr. 2009 as against P299.6 in 2nd Qtr. 2008, a decline of around 2%.

Underwriting Deductions

Share in claims and losses were at P377.7 million and P222.7 million, respectively for the 2nd Qtr. 2009 and 2008, an increase of P155 million or 69.6%. The escalation of claims was largely on marine hull business, the bulk of which relate to 2008 and prior underwriting years.

Net commissions were flat at P77 million for the 2nd Qtr. 2009 and 2008.

Investment and Other Income (Charges)

Investment and other income decreased by 26.2% from P144.6 million in 2nd Qtr. 2008 to P106.7 million in 2nd Qtr. 2009. The decline resulted from foreign exchange translation loss in 2nd Qtr 2009 of P1.8 million owing to the appreciation of the Philippine peso vis-à-vis the US dollar for the period under review. Interest income declined slightly by 1.9% or P1.8 million from P99 million in 2nd Qtr. 2008 to P97 million in 2nd Qtr. 2009.

General and Administrative Expenses

General and administrative expenses decreased by 8% to P43 million in 2nd Qtr. 2009 from P46 million in 2nd Qtr. 2008 due to a decline in manpower-related expenses.

Tax expense

Tax expense was higher in 2nd Qtr. 2009 as against 2nd Qtr. 2008 because of some deferred tax items in 2008. The tax expense of P19 million in 2nd Qtr. 2009 consists only of final tax on passive income, while the 2008 figure amounting to P15 million does not reflect deferred income tax of P5.9 million.

Net Income

As a result of the foregoing, the Company showed a net loss of P116 million in 2nd Quarter 2009 as compared to a net income of P82 million for the same period last year.

Financial Condition

Total resources as of June 30, 2009 totaled P12 billion, P225.6 million lower than the level of P12.3 billion as of December 31, 2008. Material changes in the company's resources are described below:

• **Cash and cash equivalents (1,035M vs. 1,150M)**

Cash and cash equivalents declined from P1.1 billion as of December 31, 2008 to P1.03 billion as of June 30, 2009 (a decrease of P114 million or 10%) mainly due to settlement of claims payable and acquisition of new investments (fixed income securities).

• **Reinsurance Balances Receivable-net (3,848M vs. 4,353M)**

Reinsurance balances receivable decreased by P505.5 million or 11.6% largely due to collection of premiums from ceding companies as well as recoveries from retrocessionaires.

• **Available-for Sale Financial Assets (5,761M vs. 5,285M)**

Mark-to-market adjustments, favorable market environment and improved collections contributed to the increase of the Company's available-for-sale financial assets (AFS) from P5.3 billion in 2008 to P5.8 billion in 2009 or 9%.

- **Loans and Receivables (198M vs. 196M)**

Loans and receivables increased slightly by P2 million or 1% mainly due to recognition of accrued interest income as at end of June 2009.

- **Property and Equipment, net (83M vs. 87M)**

Property and equipment, net of accumulated depreciation, amounted to P83 million, a decrease of P3.5 million or 4.1%, mainly due to recorded depreciation (P5.3 million) being higher than capital expenditures of P0.6 million.

- **Deferred Acquisition Cost (208 vs. 201M)**

Deferred acquisition cost increased by P7.2 million in line with the increase in reinsurance premiums and net premiums retained.

- **Deferred Reinsurance Premium (742M vs. 827M)**

Deferred reinsurance premiums decreased by P85 million or 10% as of June 30, 2009 due to recognition of a portion of deferred reinsurance premiums as of December 31, 2008 as earned under the 24th method of revenue recognition.

- **Deferred Input Value Added Tax (62M vs. 64M)**

Deferred input value added tax decreased by P2.4 million or 3.8% to P62 million due to payment of certain VAT payables during 2nd Qtr. 2009.

- **Other Assets (109M)**

Other assets were flat at P109 million as at end of June 2009 and 2008.

Liabilities (6,170M vs. 6,322M)

Total liabilities decreased by P152.1 million or 2.4% from P6.3 billion as of December 31, 2008 to P6.2 billion as of June 30, 2009. The decline in total liabilities is explained below:

- **Reinsurance Balances Payable (4,663M vs. 4,706M)**

Reinsurance balances payable decreased by P42.9 million or 1% as at end of 2nd Quarter 2009 primarily due to settlement of various premiums to retrocessionaires, both foreign and domestic.

- **Accounts Payable and Accrued Expenses (34M vs. 45M)**

The decrease in accounts payable and accrued expenses of P11.4 million or 25% resulted from payment of benefits to certain retired/resigned employees of the Company. These payments had been accrued as of December 31, 2008.

- **Reserve for Unearned Reinsurance Premiums (1,304M vs. 1,353M)**

The decrease in reserve for unearned premiums of P49 million or 3.6% was the resultant effect of premiums subject to reserve at the end of 2008 being higher than premiums subject to reserve as at end of June 2009.

- **Deferred Reinsurance Commissions (107.8M vs. 108.3M)**

Deferred reinsurance commissions slightly decreased by P.466 million or .43%, reflecting the slight decline in retroceded premiums during the first semester of 2009.

- **Deferred Output Value Added Tax (61M vs. 109M)**

Deferred output value added tax decreased by P48.4 million or 44.2% to P61 million in 1st half of 2009 from P109.4 million at year end 2008, reflecting payment of VAT payable as at end of June 2009.

- **Equity (5,876M vs. 5,950M)**

Total equity declined by P73.4 million, with the net loss of P240.8 million being partially offset by a P167.3 million improvement in the Company's revaluation reserve.

Key Performance Indicators:

	1 st Semester 2009	1 st Semester 2008	% Incr.(Dec).
1. Net Income (loss)	(P 241) million	P 192 million	(226%)
2. Earnings per share (a)	(P 0.11)	P 0.09	(222%)
3. Retention ratio (b)	39%	40%	
4. Combined ratio (c)	165%	94%	
5. Return on average equity	(4%)	3%	

(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 (129% / 62%) commissions ratio (24% / 20%) and expense ratio (12% / 12%).

Net Income (NI)—For the 1st half of 2009, the Company showed a net loss of P241 million as against a net income P192 million in 1st half of 2008.

Earnings per share (EPS)—The Company's EPS was at (P.11) and P.09 for the first half of 2009 and 2008, respectively.

Retention ratio—The retention ratio was at 39% for the first half 2009, one percentage point lower than 40% in first half of 2008.

Combined ratio—The combined ratio was at 165% and 94% for the first semester of 2009 and 2008 respectively.

Return on average equity (ROE) —ROE for the first half of 2009 was at (4%) compared to ROE for the first half of 2008 of 3%.

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.

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

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

secondary or resale markets to allow for transparent valuation and immediate liquidation in the event of market turmoil.

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

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

PART 11.- OTHER INFORMATION

B. No other material information.

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



JOHN E. HUANG
Chief Finance Officer



ROBERTO B. CRISOL
President & Chief Executive Officer

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
BALANCE SHEET

June 30, 2009 and December 31, 2008

	<u>Notes</u>	<u>June 2009</u> <u>(Unaudited)</u>	<u>Dec. 2008</u> <u>(Audited)</u>	<u>Changes</u>
ASSETS				
CASH AND CASH EQUIVALENTS	2	1,035,472,766	1,149,558,287	(114,085,521)
REINSURANCE BALANCES RECEIVABLE-net	3	3,847,878,329	4,353,404,620	(505,526,291)
AVAILABLE-FOR-SALE FINANCIAL ASSETS	4	5,760,748,523	5,284,585,889	476,162,634
LOANS AND RECEIVABLES	5	197,849,279	195,738,148	2,111,131
PROPERTY AND EQUIPMENT-NET	6	83,002,287	86,546,717	(3,544,430)
DEFERRED ACQUISITION COST		207,861,766	200,656,735	7,205,031
DEFERRED REINSURANCE PREMIUMS	7	742,275,999	827,251,651	(84,975,652)
DEFERRED INPUT VALUE ADDED TAX		62,027,343	64,455,903	(2,428,560)
OTHER ASSETS	8	108,927,215	109,444,086	(516,871)
TOTAL ASSETS		12,046,043,507	12,271,642,036	(225,598,529)
LIABILITIES AND EQUITY				
REINSURANCE BALANCES PAYABLE	3	4,662,772,346	4,705,635,537	(42,863,191)
ACCOUNTS PAYABLE & ACCRUED EXPENSES	9	34,093,867	45,463,886	(11,370,019)
RESERVE FOR UNEARNED REINSURANCE PREMIUMS	7	1,304,007,621	1,353,110,258	(49,102,637)
DEFERRED REINSURANCE COMMISSIONS		107,873,077	108,339,395	(466,318)
DEFERRED OUTPUT VALUE ADDED TAX		60,990,298	109,378,539	(48,388,241)
TOTAL LIABILITIES		6,169,737,209	6,321,927,615	(152,190,406)
EQUITY				
Capital Stock	14	2,181,954,600	2,181,954,600	-
Additional Paid in Capital		3,019,218,458	3,019,218,458	-
Treasury Stocks		(40,081,811)	(40,081,811)	-
Revaluation reserve		(2,469,213)	(169,811,574)	167,342,361
Retained Earnings		717,684,264	958,434,748	(240,750,484)
Total Equity		5,876,306,298	5,949,714,421	(73,408,123)
TOTAL LIABILITIES & EQUITY		12,046,043,507	12,271,642,036	(225,598,529)

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
INCOME STATEMENTS (unaudited)

For the Quarters ended June 30, 2009 and 2008

	<u>Notes</u>	<u>2009</u>	<u>2008</u>	<u>Inc(Dec)</u>	<u>%</u>
Reinsurance Premium Income					
Reinsurance premiums		939,753,460	894,970,330	44,783,130	5.00%
Retroceded premiums		589,466,039	593,600,470	(4,134,431)	-0.70%
Net Premiums retained		<u>350,287,421</u>	<u>301,369,860</u>	<u>48,917,561</u>	16.23%
(Increase) decrease in reserve for unearned reinsurance premiums	7	<u>(57,124,390)</u>	<u>(1,781,520)</u>	<u>(55,342,870)</u>	3106.50%
Premiums Earned		<u>293,163,031</u>	<u>299,588,340</u>	<u>(6,425,309)</u>	-2.14%
Underwriting deductions					
Share in claims & losses		377,657,505	222,652,955	155,004,550	69.62%
Commissions, net		76,991,417	77,657,001	(665,584)	-0.86%
	11	<u>454,648,922</u>	<u>300,309,956</u>	<u>154,338,966</u>	51.39%
Net Underwriting Income		<u>(161,485,891)</u>	<u>(721,616)</u>	<u>(160,764,275)</u>	22278.37%
Investments and Other Income (Charges)					
Interest		97,165,517	99,024,877	(1,859,360)	-1.88%
Foreign currency gain (losses)		(1,747,630)	50,048,747	(51,796,377)	-103.49%
Others		11,235,435	(4,477,062)	15,712,497	-350.96%
Investment and Other Income	10	<u>106,653,322</u>	<u>144,596,562</u>	<u>(37,943,240)</u>	-26.24%
Income after Investment Income		<u>(54,832,569)</u>	<u>143,874,946</u>	<u>(198,707,515)</u>	-138.11%
General and Administrative Expenses	12, 13	<u>42,557,552</u>	<u>46,368,789</u>	<u>(3,811,237)</u>	-8.22%
Income Before Tax		<u>(97,390,121)</u>	<u>97,506,157</u>	<u>(194,896,278)</u>	-199.88%
Tax Expense		<u>19,056,683</u>	<u>15,638,384</u>	<u>3,418,299</u>	21.86%
Net Income		<u>(116,446,804)</u>	<u>81,867,773</u>	<u>(198,314,577)</u>	-242.24%

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
INCOME STATEMENTS (unaudited)
For the Six Months ended June 30, 2009 and 2008

	<u>Notes</u>	<u>2009</u>	<u>2008</u>	<u>Inc(Dec)</u>	<u>%</u>
Reinsurance Premium Income					
Reinsurance premiums		1,763,971,477	1,620,663,985	143,307,492	8.84%
Retroceded premiums		1,077,568,824	973,169,689	104,399,135	10.73%
Net Premiums retained		<u>686,402,653</u>	<u>647,494,296</u>	<u>38,908,357</u>	6.01%
(Increase) decrease in reserve for unearned reinsurance premiums	7	<u>(35,873,015)</u>	<u>(28,017,067)</u>	<u>(7,855,948)</u>	28.04%
Premiums Earned		<u>650,529,638</u>	<u>619,477,229</u>	<u>31,052,409</u>	5.01%
Underwriting deductions					
Share in claims & losses		839,289,954	382,836,927	456,453,027	119.23%
Commissions, net		164,891,815	126,682,791	38,209,024	30.16%
	11	<u>1,004,181,769</u>	<u>509,519,718</u>	<u>494,662,051</u>	97.08%
Net Underwriting Income		<u>(353,652,131)</u>	<u>109,957,511</u>	<u>(463,609,642)</u>	-421.63%
Investments and Other Income (Charges)					
Interest		194,444,253	194,680,811	(236,558)	-0.12%
Foreign currency gain (losses)		13,771,143	58,187,615	(44,416,472)	-76.33%
Others		22,528,265	(21,821,547)	44,349,812	-203.24%
Investment and Other Income	10	<u>230,743,661</u>	<u>231,046,879</u>	<u>(303,218)</u>	-0.13%
Income after Investment Income		<u>(122,908,470)</u>	<u>341,004,390</u>	<u>(463,912,860)</u>	-136.04%
General and Administrative Expenses	12, 13	<u>81,957,640</u>	<u>80,252,700</u>	<u>1,704,940</u>	2.12%
Income Before Tax		<u>(204,866,110)</u>	<u>260,751,690</u>	<u>(465,617,800)</u>	-178.57%
Tax Expense		<u>35,884,374</u>	<u>68,738,766</u>	<u>(32,854,392)</u>	-47.80%
Net Income		<u>(240,750,484)</u>	<u>192,012,924</u>	<u>(432,763,408)</u>	-225.38%
Earnings (loss) per Share	16	<u>(0.11)</u>	<u>0.09</u>		

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENT OF CHANGES IN EQUITY (unaudited)
As of June 30, 2009 and 2008

	<u>Notes</u>	<u>June 2009</u>	<u>June 2008</u>
CAPITAL STOCK - P1 par value			
Authorized - 3,000,000,000 shares			
Issued -2,181,954,600 shares in 2009 and 2008	14	<u>2,181,954,600</u>	<u>2,181,954,600</u>
ADDITIONAL PAID IN CAPITAL		<u>3,019,218,458</u>	<u>3,019,218,458</u>
TREASURY SHARES (at cost)	14	<u>(40,081,811)</u>	<u>-</u>
REVALUATION RESERVE			
Balance at beginning of the year		(169,811,574)	175,513,508
Changes during the period		<u>167,342,361</u>	<u>(449,916,404)</u>
		<u>(2,469,213)</u>	<u>(274,402,896)</u>
RETAINED EARNINGS			
Appropriated for contingencies			
Balance at beginning of the year		221,334,777	211,890,435
Additional appropriations			<u>19,201,292</u>
	14	<u>221,334,777</u>	<u>231,091,727</u>
Unappropriated			
Balance at beginning of the year		737,099,971	1,088,491,813
Net Income (loss)		(240,750,484)	192,012,923
Cash Dividend			(436,390,920)
Appropriated for contingencies			<u>(19,201,292)</u>
		<u>496,349,487</u>	<u>824,912,524</u>
		<u>5,876,306,298</u>	<u>5,982,774,413</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
CASH FLOW STATEMENTS (unaudited)
For the six months period ended June 30, 2009 and June 30, 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before tax	(P 204,866,110)	P 260,751,690
Adjustments for:		
Inc. (Dec.) in reserve for unearned reinsurance premiums	35,873,015	28,017,067
Unrealized foreign currency loss (gain)	(20,546,657)	(60,232,025)
Depreciation	5,272,764	5,349,319
Interest income	(194,444,253)	(194,680,811)
Dividend income	(13,218,936)	(13,349,983)
Operating income before working capital changes	<u>(391,930,177)</u>	<u>25,855,257</u>
(Increase)Dec. in reinsurance balances receivable	514,645,333	(163,092,365)
(Increase) Dec. in deferred input value added tax	2,428,560	11,804,978
Decrease (increase) in deferred acquisition costs	(7,671,348)	(16,782,838)
(Increase) in other assets	(648,153)	(11,842,863)
(Increase) Decrease in loans and receivables	10,942,447	10,368,956
Increase (decrease) in reinsurance balances payable	(45,093,586)	288,224,201
Increase (Dec.) in deferred output value added tax	(48,388,241)	(31,820,515)
Increase (decrease) in accounts payable and accrued exp.	(11,370,020)	1,973,011
Cash generated from (used in) operations	<u>22,914,815</u>	<u>114,687,822</u>
Cash paid for income taxes	<u>(34,515,251)</u>	<u>(41,783,564)</u>
 Net Cash From (Used in) Operating Activities	 <u>(11,600,436)</u>	 <u>72,904,258</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposals (acquisitions) of:		
Available-for-sale financial assets	(300,446,819)	(241,677,532)
Property and equipment	(563,311)	(1,333,273)
Interest received	181,390,676	200,244,166
Dividends received	<u>13,218,936</u>	<u>13,349,983</u>
 Net Cash From (Used in) Investing Activities	 <u>(106,400,518)</u>	 <u>(29,416,656)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisitions/payments of:	-	-
Cash dividends	<u>-</u>	<u>(436,390,920)</u>
 Net Cash From (Used in) Financing Activities	 <u>-</u>	 <u>(436,390,920)</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 (118,000,954)	 (392,903,318)
 EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS	 3,915,433	 10,603,517
 CASH AND CASH EQUIVALENTS -January 1	 <u>1,149,558,287</u>	 <u>1,346,912,651</u>
 CASH AND CASH EQUIVALENTS -June 30	 <u>P 1,035,472,766</u>	 <u>P 964,612,850</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
CASH FLOW STATEMENTS (unaudited)
For the Quarters ended June 30, 2009 and June 30, 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before tax	(P 97,390,121)	P 97,506,157
Adjustments for:		
Inc. (Dec.) in reserve for unearned reinsurance premiums	57,124,390	1,781,519
Unrealized foreign currency (gain)	(1,942,285)	(50,225,201)
Depreciation	2,657,170	2,659,154
Interest income	(97,165,517)	(99,024,876)
Dividend income	(10,101,508)	(8,194,571)
Operating income before working capital changes	<u>(146,817,871)</u>	<u>(55,497,818)</u>
(Increase)Dec. in reinsurance balances receivable	26,484,078	(75,021,950)
(ncrease) Dec. in deferred input value added tax	(4,702,543)	(1,618,937)
Decrease (increase) in deferred acquisition costs	(12,230,777)	(6,073,053)
(Increase) in other assets	(1,563,230)	(11,944,400)
(Increase) Decrease in loans and receivables	1,018,824	(517,024)
Increase (decrease) in reinsurance balances payable	198,519,995	274,983,950
Increase (Dec.) in deferred output value added tax	(11,413,574)	(1,592,114)
Increase (decrease) in accounts payable and accrued exp.	117,193	5,657,781
Cash generated from (used in) operations	<u>49,412,095</u>	<u>128,376,435</u>
Cash paid for income taxes	<u>(17,329,896)</u>	<u>(21,538,169)</u>
Net Cash From (Used in) Operating Activities	<u>32,082,199</u>	<u>106,838,266</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposals (acquisitions) of:		
Available-for-sale financial assets	(166,945,720)	526,556,730
Property and equipment	(41,392)	(66,661)
Interest received	37,627,405	67,029,661
Dividends received	<u>10,101,508</u>	<u>8,194,571</u>
Net Cash From (Used in) Investing Activities	<u>(119,258,199)</u>	<u>601,714,301</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisitions/payments of:	-	-
Cash dividends	<u>-</u>	<u>(436,390,920)</u>
Net Cash From (Used in) Financing Activities	<u>-</u>	<u>(436,390,920)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(87,176,000)	272,161,647
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS	(2,789,200)	10,138,584
CASH AND CASH EQUIVALENTS - March 31	<u>1,125,437,966</u>	<u>682,312,619</u>
CASH AND CASH EQUIVALENTS - June 30	<u>P 1,035,472,766</u>	<u>P 964,612,850</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). 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 2009	December 2008
Time Deposits/Short-Term Investment	P 889,042,635	P 998,613,936
Cash on hand and in banks	146,430,131	150,944,351
	P 1,035,472,766	P 1,149,558,287

3. Reinsurance Balances

The details of reinsurance balances are as follows:

	June 2009	December 2008
Reinsurance balances receivable:		
Due from ceding companies	P 1,356,713,067	P 1,668,805,661
Reinsurance recoverable on losses	2,512,429,234	2,712,140,393
Funds held by ceding companies	118,330,654	112,053,192
	3,987,472,955	4,492,999,246
Allowance for impairment	(139,594,626)	(139,594,626)
	P 3,847,878,329	P 4,353,404,620

Reinsurance balances payable:		
Due to retrocessionaires	P 900,938,746	P 1,105,595,785
Claims payable	3,681,615,437	3,516,236,597
Funds held for retrocessionaires	80,218,163	83,803,155
	P 4,662,772,346	P 4,705,635,537

4. Available-for-Sale Financial Assets

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

	June 2009	December 2008
Bonds	P 5,070,689,488	P 4,720,548,819
Equity securities	516,997,103	424,397,280
Investment in Asian Re shares	80,202,758	84,355,004
Various funds	92,859,174	55,284,786
	P 5,760,748,523	P 5,284,585,889

Bonds include investments reclassified from held-to-maturity securities to available-for-sale financial assets in 2006, and government securities totaling P 139,000,000 and P105,996,443 in June 2009 and December 2008 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.

Interest income recognized are presented as part of Investment and Other Income in the income statements. (see Note 10)

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

	June 2009	December 2008
Due within one year	P 132,420,413	P 440,727,669
Due after 1 year through 5 years	2,691,663,173	3,280,497,907
Due after 5 years through 10 years	2,076,488,669	762,610,423
Due after ten years	170,117,233	236,712,820
	P 5,070,689,488	P 4,720,548,819

Bonds earn interest at annual rates ranging from 5% to 15% in June 2009 and December 2008. Changes in fair values of these bonds amounted to P58,417,587 (net increase), and P16,237,175 (net decrease) in June 2009 and December 2008, respectively, and are shown as part of Revaluation Reserves account in the statements of changes in equity.

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

	June 2009	December 2008
Cost:		
Quoted in the stock exchange	P 467,080,001	P 454,979,337
Not quoted in the stock exchange	135,608,314	135,608,314
	602,688,315	590,587,651
Fair value gains (losses):		
Quoted in the stock exchange	(78,676,748)	(159,205,907)
Not quoted in the stock exchange	(7,014,464)	(6,984,464)
	P 516,997,103	P 424,397,280

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 and the changes in the fair values are recognized in equity.

The fair value of investments in Asian Re shares amounted to P80,202,758 and P84,355,004, as of June, 2009 and December 2008, respectively. Changes in fair value recognized as part of Revaluation Reserves in the equity section of the balance sheets amounted to P39,234,131, net of deferred taxes amounting to P16,814,627 in June 2009 and P42,428,753, net of deferred taxes amounting to P 18,183,752 in December 2008. The deferred tax was based on the tax rate of 30% in June 2009 and December 2008.

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

	June 2009	December 2008
Balance at beginning of year	P 5,284,585,899	P 5,217,539,378
Additions	3,099,256,977	1,674,812,600
Disposals	(2,798,848,065)	(1,333,353,912)
Fair value gains (losses)	165,973,227	(344,189,814)
Foreign currency gains (losses)	9,780,485	69,777,637
Balance at end of quarter/year	P 5,760,748,523	P 5,284,585,889

The fair values of available-for-sale financial assets have been determined directly by reference to published prices in the active market.

5. Loans and Receivables

This account includes the following:

	June 2009	December 2008
Current:		
Accrued interest receivable	P 106,869,850	P 93,816,273
Term Loans		
Others	657,394	10,134,828
Non-current		
Term Loans	80,000,000	80,000,000
Loans receivable	10,322,035	11,787,047
	P 197,849,279	P 195,738,148

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 35,519,058	P 68,708,676
Office improvement	14,284,102	11,558,661	2,725,441
Office furniture/equipt.	9,554,378	8,959,934	594,444
Transportation equipt.	13,300,379	5,909,244	7,391,135
EDP equipment	16,202,952	12,620,361	3,582,591
	P 157,569,545	P 74,567,258	P 83,002,287

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, 2009	P 827,251,651	P 1,353,110,258
Increase (decrease) during the period	(84,975,652)	(49,102,637)
Balance at end of quarter-June 30, 2009	P 742,275,999	P 1,304,007,621

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 2009	December 2008
Investment property	P 37,409,986	P 38,575,009
Deferred withholding VAT	9,441,182	13,382,875
Input VAT	26,526,738	31,352,419
Creditable expanded withholding tax	18,787,680	16,774,651
Prepayments	9,220,451	3,196,500
Deposit	577,695	573,907
Security fund	192,888	192,888
Others	6,770,595	5,395,837
	P 108,927,215	P 109,444,086

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 2009	December 2008
Defined benefit liability	P 28,897,908	P 28,897,908
Withholding taxes payable	1,676,553	1,866,518
Accrued expenses payable	795,244	12,175,498
Accounts payable and other liabilities	2,724,162	2,523,962
	P 34,093,867	P 45,463,886

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 2009	June 2008
Interest	P 194,444,253	P 194,680,811
Trading gain	7,515,286	2,121,968
Dividend income	13,218,936	13,349,983
Gain (loss) on sale of stocks	2,126,473	(36,962,634)
Foreign exchange gain	13,771,143	58,187,615
Miscellaneous	(332,430)	(330,864)
	P 230,743,661	P 231,046,879

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 2009	June 2008
Commission expense	P 321,507,237	P 255,487,541
Reinsurance revenue	156,615,422	128,804,750
	P 164,891,815	P 126,682,791

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 2009		June 2008	
Salaries and employee benefits	P	54,403,490	P	58,018,577
Professional fees		5,215,634		3,618,688
Depreciation		5,272,764		5,349,319
Taxes, licenses and fees		2,562,518		2,917,780
Representation and entertainment		1,982,177		1,301,363
Transportation & traveling		1,178,121		1,173,300
Association & pool		1,668,451		1,913,160
Advertising and publicity		850,217		898,109
Light and water		1,152,813		1,153,774
Communication and postages		979,988		828,780
Contract labor		2,840,151		458,176
Printing and office supplies		833,779		601,225
Repairs and maintenance		635,000		345,598
Insurance		548,241		493,569
Miscellaneous		1,834,296		1,181,282
	P	81,957,640	P	80,252,700

13. Employee Benefits

Short-term Benefits

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

	June 2009		June 2008	
Salaries and wages	P	39,307,221	P	35,465,351
Allowances and bonus		8,533,982		15,678,783
Retirement		3,858,610		2,998,149
Separation benefits		-		1,680,914
Social security costs		892,817		853,746
Others		1,810,860		1,341,634
	P	54,403,490	P	58,018,577

14. Equity

14.1 Capital Stock

Capital Stock consists of:

Common shares-P1 par value

Issued:

	June 2009		June 2008	
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 P221,334,777 and P231,091,728 as of June 30, 2009 and 2008, 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 2009	December 2008
Due from ceding companies	P 452,921,331	P 554,211,494
Reinsurance recoverable on losses	39,185,218	33,196,941
Funds held by ceding companies	44,014,694	45,448,771
Due to retrocessionaires	(20,592,690)	(36,881,959)
Funds held for retrocessionaires	(171,196)	(112,727)

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 2009	December 2008
Time Deposits	P 32,963,120	P 205,056,480
Savings and current accounts	472,660	3,451,311
	P 33,435,780	P 208,507,791

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 2009 amounted to P 1,160,210..

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 (loss) Per Share

The earnings per share amounts are as follows:

	June 2009	June 2009
Net income (loss) available to common shareholders	(P 240,750,484)	P 192,012,924
Divided by the average number of outstanding common shares	2,159,677,600	2,181,954,600
	(P .11)	P .09 ²

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 P0.04/share cash dividend payable to stockholders of record as of July 03, 2009 (record date). Payment of said cash dividend shall be on July 24, 2009.

<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, 2009

(In million pesos)

	<u>Total</u>	<u>Below 360 days</u>	<u>Over 360 days</u>
Due from Ceding Companies	1,357	802	555
Reinsurance recoverable on paid losses	440	78	362
Reinsurance recoverable un unpaid losses	2,073	2,073	-
Funds Held by Ceding companies	118	118	-
	<u>3,988</u>	<u>3,071</u>	<u>917</u>
Allowance for impairment*	<u>(140)</u>		
	<u><u>3,848</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.