108142018003779

SECURITIES AND EXCHANGE COMMISSION

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Company Information

SEC Registration No.	0000080118
Company Name	NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES DOING BUSINESS UNDER THE NAME AND STYLE OF PHILIF
Industry Classification	
Company Type	Stock Corporation

Document Information

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SEC Registration Number

N A T I O N A L   R E I N S U R A N C E

C O R P O R A T I O N   O F   T H E   P H I L I P P I N E S

(Company's Full Name)

3 1 F   B P I - P H I L A M   L I F E   M A K A T I

6 8 1 1   A Y A L A   A V E N U E   M A K A T I

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

Regina S. Ramos
Contact Person

(02) 988-7400
Company Telephone Number

1 2	3 1
Month	Day

Fiscal Year

SEC Form 17-Q
2nd Quarter ending June 30, 2018

FORM TYPE

4th Wednesday of June

Month Day

Annual Meeting

Secondary License Type, If Applicable

Dept Requiring this Doc

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

SECURITIES AND EXCHANGE COMMISSION

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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 **June 30, 2018**

2. Commission identification Number **80118**

3. BIR Tax Identification Number **000-480-869-000**

4. **NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES** doing business **under the name and style of Nat Re; Philippine National Reinsurance Company; PhilNaRe**
   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. **31st FLOOR, BPI-PHILAM (FORMERLY AYALA LIFE-FGU CENTRE), 6811 AYALA AVENUE MAKATI CITY, PHILIPPINES** 1227
   Address of registrant's principal office Postal Code

8. **(632) 988-7400**
   Registrant's telephone number, including area code

9. **N/A**
   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 at quarter ended:

Title of Each Class	Number of Shares of Common Stock Outstanding
Common	**2,123,605,600**

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 I. - FINANCIAL INFORMATION

Item 1. Financial Statements

The financial statements listed below and covering pages 13 to 70 of this report are filed as part of this Form 17-Q:

a. Statements of Financial Position as at June 30, 2018 and December 31 2017.

b. Statements of Income:
   i. For the three-month ended June 30, 2018 and 2017.
   ii. For the six-month ended June 30, 2018 and 2017.

c. Statements of Comprehensive:
   i. For the three-month ended June 30, 2018 and 2017.
   ii. For the six-month ended June 30, 2018 and 2017.

d. Statements of Changes in Equity for the six-month ended June 30, 2018 and 2017.

e. Statements of Cash Flow:
   i. For the three-month ended June 30, 2018 and 2017.
   ii. For the six-month ended June 30, 2018 and 2017.

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

I. RESULTS OF OPERATIONS

a. For the six-month ended June 30, 2018 and 2017

	For the six-month ended		Inc(dec)	
In Million PhP	June 30, 2018	June 30, 2017	Amount	%
REINSURANCE PREMIUM INCOME				
Gross premiums written – net of returns	1,748.5	1,669.5	79.0	5%
Retroceded premiums	(628.0)	(340.6)	287.4	84%
Net premiums written	1,120.5	1,328.9	(208.4)	-16%
Increase in premium reserves – net	(13.8)	(350.9)	(337.1)	-96%
	1,106.7	978.0	128.7	13%
UNDERWRITING DEDUCTIONS				
Share in claims and losses – net	818.6	732.2	86.4	12%
Commissions – net	334.2	274.6	59.6	22%
	1,152.8	1,006.8	146.0	15%
NET UNDERWRITING LOSS	(46.1)	(28.8)	17.3	60%
INVESTMENT AND OTHER INCOME AND EXPENSES – Net	324.2	162.5	161.7	100%
PROFIT AFTER INVESTMENT AND OTHER INCOME AND EXPENSES	278.1	133.7	144.4	108%
GENERAL AND ADMINISTRATIVE EXPENSES	157.6	117.9	39.7	34%
PROFIT BEFORE TAX	120.5	15.8	104.7	663%
TAX EXPENSE	67.4	31.3	36.1	115%
NET PROFIT (LOSS)	53.1	(15.5)	68.6	443%

Underwriting Results

Net premiums earned for the first half of the year amounted to P1,106.7 million, P128.7 million or 13% higher than the first half of 2017. Higher premiums earned in the first half of 2018 primarily resulted from the release of premium reserves related to contracts written in 2017 which was partially negated by the impact of lower net premiums written in 2018 by P208.4 million or 16% from P1,328.9 million in 2017 to P1,120.5 million in 2018. Lower net premiums written in 2018 resulted mainly from the Company's decision to reduce its exposure on certain types of risks reinsured by the Company.

Share in claims and losses amounted to P818.6 million, higher by P86.4 million or 12% lower compared to the first half of 2017 which amounted to P732.2 million. Higher share in claims and losses resulted mainly from large domestic fire losses and higher foreign motor claims incurred during the first half of the year.

Commission expense, net amounted to P334.2 million, P59.6 million or 22% higher than the first half of 2017 which amounted to P274.6 million, resulting mainly from assuming contracts with higher acquisition cost.

Net underwriting loss amounted to P46.1 million, P17.3 million higher than the first half of 2017 resulting mainly from higher share in claims and losses and acquisition cost discussed above.

Investment and other income and expenses amounted to P324.2 million, P161.7 million or 100% higher than the first half of 2017 which amounted to P162.5 million. Higher investment and other income and expenses resulted mainly from the gain on sale of available for sale securities and foreign exchange gain.

General and administrative expenses amounted to P157.6 million, P39.7 million or 34% higher than the first half of 2017 which amounted to P117.9 million. General and administrative expenses was higher in 2018 as a result of higher manpower cost as the Company filled some of its vacancies during the latter part of 2017 and higher impairment loss based on its assessment on the recoverability of certain receivables.

Tax expense amounted to P67.4 million, higher by P36.1 million or 115% than the first half of 2017 which amounted to P31.3 million. Tax expense was higher mainly because income before income tax was higher by P104.7 million or 663%.

b. For the three-month ended June 30, 2018 and 2017

In Million PhP	for the three-month ended June 30, 2018	June 30, 2017	Inc(dec) Amount	%
REINSURANCE PREMIUM INCOME				
Gross premiums written , net of returns	991.0	841.4	149.6	18%
Retroceded premiums	(429.6)	(132.5)	297.1	224%
Net premiums written	561.4	708.9	(147.5)	-21%
Increase in premium reserves - net	(12.4)	(90.5)	(78.1)	-86%
	549.0	618.4	(69.4)	-11%
UNDERWRITING DEDUCTIONS				
Share in claims and losses - net	350.3	486.7	(136.4)	-28%
Commissions – net	173.2	159.5	13.7	9%
	523.5	646.2	(122.7)	-19%
NET UNDERWRITING PROFIT/(LOSS)	25.5	(27.8)	53.3	192%
INVESTMENT AND OTHER INCOME AND EXPENSES – Net	131.4	95.5	35.9	38%
PROFIT AFTER INVESTMENT AND OTHER INCOME AND EXPENSES	156.9	67.7	89.2	132%
GENERAL AND ADMINISTRATIVE EXPENSES	90.4	59.6	30.8	52%
PROFIT BEFORE TAX	66.5	8.1	58.4	721%
TAX EXPENSE (SAVINGS)	36.3	(15.5)	51.8	334%
NET PROFIT (LOSS)	30.2	23.6	6.6	28%

Underwriting Results

Gross premiums written for the second quarter of 2018 amounted to P991 million, P149.6 million or 18% higher than the same period of 2017. Higher gross premiums written resulted mainly from higher premiums written from the life and foreign non-life business by P163.8 million. This was partially negated by lower premiums written from the domestic non-life business by P14.3 million.

Reinsurance premiums retained amounted to P561.4 million for the second quarter of 2018, P147.5 million or 21% lower than the same period of 2017. Lower retention of premiums written resulted mainly from the decision reduce accumulation on certain risks and maintain a sufficient level of diversification.

Premiums earned for the second quarter of 2018 amounted to P549.0 million, P69.4 million or 11% lower than the same period of 2017. The decline in premiums earned resulted mainly retaining less premiums compared to the same period of 2017.

Underwriting deductions, which is composed of the Claims and losses and Commissions, amounted to P523.5 million. The balance was lower by P122.7 million as Claims and losses was lower by P136.4 million while Commissions was higher by P13.7 million for the second quarter of 2018.

Investment and other income and expenses amounted to P131.4 million for the second quarter of 2018, which is P35.9 million or 38% higher than the same period of 2017 resulting mainly from higher foreign exchange gain and interest income amounting to P42.3 million and P7.5 million, respectively. The increase was partially negated by lower gain on sale of AFS financial assets by 14.7 million.

General and administrative expenses amounted to P90.4 million for the second quarter of 2018, which is P30.8 million or 52% higher than the same period of 2017. Higher general and administrative expenses is a result of higher manpower cost as the Company filled some of its vacancies during the latter part of 2017 and higher impairment loss based on its assessment on the recoverability of certain receivables.

Tax expense amounted to P36.3 million for the second quarter of 2018, higher by P51.8 million or 334% mainly due to higher profit before tax in the second quarter by P58.4 million or 721% than the same period of 2017.

II. FINANCIAL CONDITIONS

-	Unaudited	Audited	Inc(dec)	
In Million PhP	June 30, 2018	December 2017	Amount	%
CASH AND CASH EQUIVALENTS	1,475.7	1,310.5	165.2	13%
REINSURANCE BALANCES RECEIVABLE - Net	2,186.8	1,949.9	236.9	12%
AVAILABLE-FOR-SALE FINANCIAL ASSETS	4,983.9	5,527.1	(543.2)	-10%
HELD-TO-MATURITY INVESTMENTS	1,224.1	1,034.7	189.4	18%
LOANS AND RECEIVABLES	132.6	201.9	(69.3)	-34%
PROPERTY AND EQUIPMENT - Net	78.8	80.0	(1.2)	-2%
REINSURANCE RECOVERABLE ON UNPAID LOSSES	3,252.0	3,360.7	(108.7)	-3%
DEFERRED ACQUISITION COSTS	335.8	280.9	54.9	20%
DEFERRED REINSURANCE PREMIUMS	375.0	202.9	172.1	85%
OTHER ASSETS	301.2	339.0	(37.8)	-11%
TOTAL ASSETS	14,345.9	14,287.6	58.3	0%
LIABILITIES AND EQUITY				
REINSURANCE BALANCES PAYABLE	1,475.3	1,269.6	205.7	16%
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	93.4	75.3	18.1	24%
LOSSES AND CLAIMS PAYABLE	6,543.8	6,343.6	200.2	3%
PREMIUM RESERVES	1,525.7	1,339.8	185.9	14%
DEFERRED REINSURANCE COMMISSIONS	1.6	5.5	(3.9)	-71%
TOTAL LIABILITIES	9,639.8	9,033.8	606.0	7%
EQUITY	4,706.1	5,253.8	(547.7)	10%
TOTAL LIABILITIES AND EQUITY	14,345.9	14,287.6	58.3	0%

Cash and cash equivalents amounting to P1,475.7 million increased by P165.2 million or 13% from the balance as at December 31, 2017 of P1,310.5 million due mainly from generating positive cash flows from operations and investing activities amounting to P81.7million and P71.3 million, respectively.

Reinsurance balances receivable amounting to P2,186.8 million increased by P236.9 million or 12% from the balance as at December 31, 2017 of P1,949.9 million. The increase resulted mainly from assuming certain foreign contracts that had longer settlement periods.

Investments in Available for sale financial assets amounting to P4,983.9 million decreased by P543.2 million or 10% from the balance as at December 31, 2017 of P5,527.1 million. The decline in the balance resulted mainly from the drop experienced by the local equity and bond markets during the first half of 2018.

Held to maturity investments amounting to P1,224.1 million increased by P189.4 million or 18% from the balance as at December 31, 2017 of P1,034.7 million as the Company invested in corporate bonds to take advantage of the rising interest rates experienced in the fixed income market.

Loans and Receivables amounting to P132.6 million decreased by P69.3 million or 34% from the balance as at December 31, 2017 of P201.9 million as certain loans matured in the first half of 2018 and the collection of receivables arising from investing activities.

Deferred Acquisition Costs amounting to P335.8 million increased by P54.9 million or 20% from the balance as at December 31, 2017 of P280.9 million. The increase in the balance is consistent with the increase in commissions.

Deferred Reinsurance Premiums amounting to P375.0 million increased by P172.1 million or 85% from the balance as at December 31, 2017 of P202.9 million. The increase in the balance is consistent with the increase in retroceded premiums.

Other Assets amounting to P301.2 million decreased by P37.8 million or 11% from the balance as at December 31, 2017 of P339.0 million due to utilization of creditable withholding tax amounting to P60.8 million, release of prepayments by P4.9 million and decline of defined benefit asset by P3.9 million. Other factors that affected Other Assets were increase in revaluation adjustment of P13.4 million, increase in intangible assets by P3.5 million and recognition of deferred tax asset of P10.9 million.

Reinsurance balances payable amounting to P1,475.3 million increased by P205.7 million or 16% from the balance as at December 31, 2017 of P1,269.6 million due mainly to increase in retroceded premiums in 2018.

Accounts Payable and Accrued Expenses amounting to P93.4 million increased by P18.1 million or 24% from the balance as at December 31, 2017 of P75.3 million. The increase resulted mainly from the handling of funds for a particular event of another entity and increase in accrued expenses due to our service providers.

Premium Reserves amounting to P1,525.7 million increased by P185.9 million or 14% from the balance as at December 31, 2017 of P1,339.8 million. The increase is consistent with the increase in gross written premiums in 2018.

III. KEY PERFORMANCE INDICATORS:

	For the six-month ended June 30, 2018	For the six-month ended June 30, 2017	% Inc.(Dec).
1. Net profit/ (loss)	**P53.1 million**	(P15.5) million	443%
2. Earnings Per Share (EPS) [a]	**P 0.02**	(P 0.01)	300%
3. Retention Ratio[b]	**64%**	80%	(20%)
4. Combined Ratio[c]	**118%**	104%	13%
5. Return on Average Equity (ROE)	**1.07%**	(0.30%)	257%

(a) Net income divided by weighted average number of shares issued.
(b) Net Premium written (NPW) divided by gross premiums written (GPW).
(c) Sum of following:

	2018	2017
Loss Ratio	**74%**	75%
Commission Ratio	**30%**	20%
Expense Ratio	**14%**	9%
Total	**118%**	104%

IV. FINANCIAL SOUNDNESS INDICATORS

	As at June 30, 2018	As at Dec. 31, 2017
Asset to Equity Ratio	**3.05 : 1.00**	2.72 : 1.00
Total Liabilities/Equity	**2.05 : 1.00**	1.72 : 1.00

V. MATERIAL EVENT/S AND UNCERTAINTIES:

Other than the disclosure described in the preceding sections, the Company has nothing to report on the following:

1. Any known trends, demands, commitments, events or uncertainties that will have a material impact on its liquidity.

2. Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

3. 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.

4. Any material commitments for capital expenditures.

5. 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.

6. Any significant elements of income or loss that did not arise from the issuer's continuing operations.

7. Any seasonal aspects that had a material effect on the financial condition or results of operations.

VI. FINANCIAL RISK DISCLOSURE

The Company's investments are regulated under the pertinent provisions of the new Insurance Code, otherwise known as Republic Act (R.A.) 10607. 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 these investment reports and may require the immediate sale or disposal of any investment found to be risky.

A portion of the Company's funds is invested in equities. Section 207 of the new Insurance Code provides that insurance companies may invest in listed equities of other financial institutions without need of prior approval by the Commissioner. 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 is 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.

VII. OTHER DISCLOSURE

Pursuant to SEC Memorandum Circular No. 8 (Series of 2016), which provides guidance to non-bank financial institutions that are covered by Foreign Account Tax Compliance Act (FATCA) regulations, the Company is still evaluating/assessing the potential effects of FATCA to its business. Based on the regulation, the Company is a 'Non-financial foreign Entity' (NFFE), which may either be an "exempt NFFE" or "non-exempt NFFE". Under the regulations also, excepted NFFEs such as publicly traded corporations are generally exempt from withholding tax as required by FATCA if a proper FATCA certification is provided to the payor.

The Bureau of Internal Revenue (BIR) advised all concerned Philippine Financial Institutions to take necessary steps to prepare for full implementation of the Inter-Governmental Agreement (IGA) on FATCA between the Philippines and the United States of America, which was signed on July 13, 2015. On December 01, 2016 President Duterte ratified the FATCA agreement and its transmitted to the Senate on December 06, 2016 for concurrence.

II. – OTHER INFORMATION

B. No other material information.

NATIONAL REINSURANCE CORPORATION
OF THE PHILIPPINES
(Registrant)

SANTINO U. SONTILLANO
Senior Assistant Vice President
& Head of Finance

AUGUSTO P. HIDALGO
President & Chief Executive Officer

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and December 31, 2017

(Amounts in Philippine peso)

	Notes	June 30, 2018	December 31, 2017 Audited
ASSETS			
Cash and cash equivalents	*4*	**P1,475,678,376**	P1,310,540,587
Reinsurance balances receivable – net	*5*	**2,186,784,654**	1,949,930,671
Available-for-sale (AFS) financial assets	*6*	**4,983,860,575**	5,527,119,969
Held-to-maturity (HTM) investments	*7*	**1,224,112,284**	1,034,687,360
Loans and receivables	*8*	**132,685,617**	201,888,184
Deferred acquisition costs	*9*	**335,754,843**	280,946,282
Deferred reinsurance premiums	*10*	**374,996,899**	202,935,270
Reinsurance recoverable on unpaid losses – net	*11*	**3,252,046,128**	3,360,623,519
Property and equipment – net	*12*	**78,796,123**	80,010,993
Other assets – net	*13*	**301,234,371**	338,880,378
TOTAL ASSETS		**P14,345,949,870**	P14,287,563,213

LIABILITIES AND EQUITY			
Liabilities			
Reinsurance balances payable	*14*	**P1,475,302,907**	P1,269,638,118
Accounts payable and accrued expenses	*15*	**93,446,546**	75,291,612
Premium reserves	*16*	**1,525,680,793**	1,339,837,217
Deferred reinsurance commissions	*17*	**1,557,098**	5,435,218
Losses and claims payable	*18*	**6,543,833,016**	6,343,569,632
Total Liabilities		**9,639,820,360**	9,033,771,797
Equity	*22*	**4,706,129,510**	5,253,791,416
TOTAL LIABILITIES AND EQUITY		**P14,345,949,870**	P14,287,563,213

See Notes to the Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF INCOME
For the six months ended June 30, 2018 and 2017
(Amounts in Philippine peso)

	Notes	June 30, 2018	June 30, 2017
Reinsurance premium income			
Reinsurance premiums – net of returns		**P1,748,562,752**	P1,669,693,304
Retroceded premiums		**(628,024,456)**	(340,610,259)
Net premiums retained		**1,120,538,296**	1,329,083,045
Increase in premium reserves – net		**(13,781,947)**	(350,907,137)
		1,106,756,349	978,175,908
Underwriting deductions			
Share in claims and losses – net	*20.1*	**818,636,585**	732,398,669
Commissions – net	*20.2*	**334,219,791**	274,765,227
		1,152,856,376	1,007,163,896
Net underwriting loss		**(46,100,027)**	(28,987,988)
Investment and Other income and expenses – net	*19*	**324,182,210**	162,636,575
Profit after Investment and Other income and expenses		**278,082,183**	133,648,587
General and administrative expenses	*21*	**157,610,030**	117,873,557
Profit before tax		**120,472,153**	15,775,030
Tax expense		**67,405,412**	31,310,779
Net profit (loss)		**P53,066,741**	(P15,535,749)
Earnings Per Share - Basic and Diluted	*25*	**P0.02**	(P 0.01)

See Notes to the Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF INCOME
For the three months ended June 30, 2018 and 2017
(Amounts in Philippine peso)

	June 30, 2018	June 30, 2017
Reinsurance premium income		
Reinsurance premiums – net of returns	**P990,993,747**	P841,459,739
Retroceded premiums	**(429,599,887)**	(132,521,769)
Net premiums retained	**561,393,860**	708,937,970
Increase in premium reserves – net	**(12,445,408)**	(90,539,589)
	548,948,452	618,398,381
Underwriting deductions		
Share in claims and losses – net	**350,339,574**	486,690,529
Commissions – net	**173,067,613**	159,467,584
	523,407,187	646,158,113
Net underwriting income (loss)	**25,541,265**	(27,759,732)
Investment and Other income and expenses – net	**131,422,715**	95,473,416
Profit after Investment and Other income and expenses	**156,963,980**	67,713,684
General and administrative expenses	**90,385,187**	59,568,953
Profit before tax	**66,578,793**	8,144,731
Tax expense (savings)	**36,348,632**	(15,456,634)
Net profit	**P30,230,161**	P23,601,365
Earnings Per Share - Basic and Diluted	**P0.01**	P0.01

See Notes to the Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF COMPREHENSIVE INCOME
For the six months ended June 30, 2018 and 2017

(Amounts in Philippine peso)

	Notes	**June 30, 2018**	June 30, 2017
Net profit (loss)		**P53,066,741**	(P15,535,749)
Other comprehensive income (loss)			
Items that are and will be reclassified subsequently to profit or loss			
Fair value gains (losses) during the period	*6*	**(477,814,918)**	276,396,289
Amortization of unrealized gains on reclassified HTM investments to profit or loss		**(776,640)**	(409,482)
Unrealized gains on reclassified HTM investments		**-**	4,775,605
Fair value gains on disposal of AFS financial assets reclassified to profit or loss	*6*	**(121,724,251)**	(34,585,230)
Income tax effect		**(412,838)**	-
Total other comprehensive income (loss)		**(600,728,647)**	246,177,182
Total comprehensive income (loss)		**(P547,661,906)**	P230,641,433

See Notes to the Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF COMPREHENSIVE INCOME
For the three months ended June 30, 2018 and 2017
(Amounts in Philippine peso)

	June 30, 2018	June 30, 2017
Net profit	**P30,230,161**	P23,601,365
Other comprehensive income (loss)		
Items that are and will be reclassified subsequently to profit or loss		
Fair value gains (losses) during the period	**(244,560,858)**	171,866,707
Amortization of unrealized gains on reclassified HTM investments to profit or loss	**(387,496)**	(409,482)
Unrealized gains on reclassified HTM investments	**-**	4,775,605
Fair value gains on disposal of AFS financial assets reclassified to profit or loss	**(15,498,697)**	(30,227,346)
Income tax effect	**(308,720)**	-
Total other comprehensive income (loss)	**(260,755,771)**	146,005,484
Total comprehensive income (loss)	**(P230,525,610)**	P169,606,849

See Notes to the Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CHANGES IN EQUITY
For the six months ended June, 2018 and 2017

(Amounts in Philippine peso)

		Capital Stock				Revaluation Reserves			Retained Earnings (Deficit)		
	Notes	No. of shares	Amount	Additional Paid-in Capital	Treasury Shares at Cost	AFS Financial Assets	HTM Investments	Defined Benefit Liability	Appropriated	Unappropriated	Total Equity
Balance at January 1, 2018		**2,181,954,600**	**P2,181,954,600**	**P3,019,218,458**	**(P100,525,432)**	**P157,671,040**	**P3,256,279**	**(P71,534,202)**	**P12,815,297**	**P50,935,376**	**P5,253,791,416**
Net income		-	-	-	-	-	-	-	-	**53,066,741**	**53,066,741**
Other comprehensive loss		-	-	-	-	**(599,952,007)**	**(776,640)**	-	-	-	**(600,728,647)**
Total comprehensive loss	*6*	-	-	-	-	**(599,952,007)**	**(776,640)**	-	-	**53,066,741**	**(547,661,906)**
Balance at June 30, 2018		**2,181,954,600**	**P2,181,954,600**	**P3,019,218,458**	**(P100,525,432)**	**(P442,280,967)**	**P2,479,639**	**(P71,534,202)**	**P12,815,297**	**P104,002,117**	**P4,706,129,510**
Balance at January 1, 2017		2,181,954,600	P2,181,954,600	P3,019,218,458	(P100,525,432)	(P186,392,779)	P -	(P75,147,148)	P -	P13,651,659	P4,852,759,358
Net loss		-	-	-	-	-	-	-	-	(15,535,749)	(15,535,749)
Other comprehensive income		-	-	-	-	241,811,059	4,366,123	-	-	-	246,177,182
Total comprehensive income	*6*	-	-	-	-	241,811,059	4,366,123	-	-	(15,535,749)	230,641,433
Balance at June 30, 2017		2,181,954,600	P2,181,954,600	P3,019,218,458	(P100,525,432)	P55,418,280	P4,366,123	(P75,147,148)	P -	(P1,884,090)	P5,083,400,791

See Notes to the Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CASH FLOWS
For the six months ended June 30, 2018 and 2017
(Amounts in Philippine peso)

	Notes	June 30, 2018	June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**P120,472,153**	P15,775,030
Adjustments for:			
Increase in incurred but not reported losses – net		**320,692,731**	146,781,943
Impairment losses – net	*21*	**32,824,318**	-
Increase in premium reserves – net		**13,781,947**	350,907,137
Depreciation and amortization	*21*	**6,985,683**	6,878,798
Gain on sale of non-financial assets	*19*	**(10,631)**	(34,176)
Decrease in outstanding loss reserves – net		**(98,924,139)**	(1,848,122)
Dividend income	*19*	**(29,888,208)**	(33,453,787)
Unrealized foreign currency gains		**(48,435,123)**	(1,351,292)
Increase in deferred acquisition costs – net		**(58,686,681)**	(3,060,412)
Interest income	*19*	**(106,338,395)**	(94,148,439)
Gain on sale of AFS financial assets	*19*	**(121,724,251)**	(34,585,231)
Operating income before working capital changes		**30,749,404**	351,861,449
Increase in reinsurance balances receivable		**(231,343,693)**	(301,836,028)
(Increase) decrease in loans and receivable		**19,324,788**	(26,657,265)
(Increase) decrease in reinsurance recoverable on unpaid losses		**(34,954,715)**	162,112,788
(Increase) decrease in other assets		**12,971,979**	(33,163,638)
Increase (decrease) in reinsurance balances payable		**203,392,103**	(21,996,351)
Increase in accounts payable and accrued expenses		**17,704,445**	905,894
Increase (decrease) in losses and claims payable		**88,752,777**	(171,145,198)
Cash generated from (used in) operations		**106,597,088**	(39,918,349)
Cash paid for income taxes		**(24,853,103)**	(17,948,002)
Net Cash From (Used in) Operating Activities		**81,743,985**	(57,866,351)

Forward

	Notes	**June 30, 2018**	June 30, 2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal/maturities of:			
AFS financial assets	*6*	**P1,380,467,011**	P1,307,880,223
Property and equipment	*12*	**10,631**	2,860,816
Loans and receivables	*8*	**50,000,000**	290,045,827
Interest received		**105,679,588**	96,030,150
Dividends received		**28,905,150**	31,589,653
Acquisitions of:			
AFS financial assets	*6*	**(1,293,723,023)**	(965,649,361)
HTM investments	*7*	**(190,724,073)**	-
Intangible assets	*13*	**(5,322,313)**	(14,531,234)
Property and equipment	*12*	**(4,029,580)**	(1,132,000)
Net Cash From Investing Activities		**71,263,391**	747,094,074
NET INCREASE IN CASH AND CASH EQUIVALENTS		**153,007,376**	689,227,723
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS		**12,130,413**	2,333,798
CASH AND CASH EQUIVALENTS - **January 1**		**1,310,540,587**	920,425,229
CASH AND CASH EQUIVALENTS - **June 30**		**P1,475,678,376**	P1,611,986,750

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CASH FLOWS
For the three months ended June 30, 2018 and 2017
(Amounts in Philippine peso)

	June 30, 2018	June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**P66,578,794**	P8,144,730
Adjustments for:		
Increase in incurred but not reported losses – net	**146,660,733**	23,044,583
Impairment losses – net	**25,925,905**	-
Decrease in outstanding loss reserves – net	**(103,435,284)**	(3,026,096)
Depreciation and amortization	**3,650,249**	3,212,871
Increase in premium reserves – net	**12,445,408**	90,539,590
Gain (loss) on sale of non-financial assets	**(5,430)**	327,117
Unrealized foreign currency gains	**(40,788,575)**	(7,003,540)
(Increase) decrease in deferred acquisition costs – net	**(50,517,324)**	32,202,763
Dividend income	**(15,378,890)**	(15,738,051)
Interest income	**(54,138,821)**	(46,583,988)
Gain on sale of AFS financial assets	**(15,498,697)**	(30,227,347)
Operating income (loss) before working capital changes	**(24,501,932)**	54,892,632
Increase in reinsurance balances receivable	**(92,579,301)**	(91,128,908)
Increase in loans and receivable	**(12,724,413)**	(23,743,042)
Increase (decrease) in reinsurance recoverable on unpaid losses	**(27,556,344)**	20,340,557
Increase in other assets	**(10,356,775)**	(28,973,586)
Increase in reinsurance balances payable	**262,065,668**	63,822,486
Increase (decrease) in accounts payable and accrued expenses	**7,826,226**	(5,090,877)
Increase (decrease) in losses and claims payable	**40,793,316**	(44,584,414)
Cash generated from (used in) operations	**142,966,445**	(54,465,152)
Cash paid for income taxes	**6,203,677**	(8,771,309)
Net Cash From (Used in) Operating Activities	**149,170,122**	(63,236,461)

Forward

	June 30, 2018	June 30, 2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal/maturities of:		
AFS financial assets	**P481,849,002**	P1,035,619,727
Loans and receivables	**50,000,000**	98,000,783
Property and equipment	**5,430**	2,499,523
Interest received	**42,300,889**	32,959,034
Dividends received	**17,754,774**	19,353,885
Acquisitions of:		
AFS financial assets	**(317,214,987)**	(579,209,157)
HTM investments	**(110,000,000)**	-
Intangible assets	**(4,391,995)**	-
Property and equipment	**(1,948,969)**	(13,457,639)
Net Cash From Investing Activities	**158,354,144**	595,766,156
NET INCREASE IN CASH AND CASH EQUIVALENTS	**307,524,266**	532,529,695
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS	**5,780,228**	2,848,787
CASH AND CASH EQUIVALENTS - March 31	**1,162,373,882**	1,076,608,268
CASH AND CASH EQUIVALENTS - June 30	**P1,475,678,376**	P1,611,986,750

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
NOTES TO FINANCIAL STATEMENTS
(Amounts in Philippine Peso)

1. CORPORATE INFORMATION

National Reinsurance Corporation of the Philippines (the Company) was incorporated on June 7, 1978 by virtue of Presidential Decree No. 1270 (the Decree), as a domestic professional reinsurance firm to provide life and non-life reinsurance capacity to the Philippines and neighboring insurance markets. Under the Decree, it became the vehicle for the Philippine insurance industry's participation in the Asian Reinsurance Corporation (ARC), a multi-government-initiated reinsurance entity, based in Bangkok, Thailand, which was established to foster regional cooperation among insurance companies doing business in Asia. The Company's shares are listed in the Philippine Stock Exchange (PSE).

The Company's registered office and principal place of business is located at 31st floor BPI-Philam Life Makati (formerly: Ayala Life FGU Center), 6811 Ayala Avenue, Makati City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these interim condensed financial statements are consistent with those followed in the preparation of the Company's audited financial statements as at and for the year ended December 31, 2017, and are summarized below and in the succeeding pages.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The accompanying interim condensed financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting.* Accordingly, the interim condensed financial statements do not include all of the information and disclosures required in the December 31, 2017 audited financial statements, and should be read in conjunction with the Company's audited financial statements as at and for the year ended December 31, 2017.

(b) Basis of Measurement

The interim condensed financial statements have been prepared using the measurement bases specified by Philippine Financial Reporting Standards (PFRS) for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(c) Functional and Presentation Currency

These interim condensed financial statements are presented in Philippine peso, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the interim condensed financial statements of the Company are measured using their functional currency. Functional currency is the currency of the primary economic environment in which the Company operates.

2.2 *Adoption of New and Amended PFRS*

(a) Effective in 2018 that are Relevant to the Company

The Company has adopted the following amendments to standards starting January 1, 2018. The adoption of these amendments to standards did not have any significant impact on the Company's interim condensed financial statements.

- PFRS 4 (Amendments), *Insurance Contracts* (effective from January 1, 2018). The amendments address the temporary accounting consequences of the different effective dates of PFRS 9, *Financial Instruments*, and the anticipated new insurance contracts standard by introducing the following options:
(a) overlay approach, which is an option for all entities that issue insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise as a result of PFRS 9; or,
(b) an optional temporary exemption from applying PFRS 9 for entities whose activities are predominantly connected with insurance. These entities will be permitted to continue to apply the existing financial instrument requirements of PAS 39, *Financial Instruments: Recognition and Measurement.* The Company plans to apply the second option as allowed by this amendment.

- IFRIC 22, *Foreign Currency Transactions and Advance Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018). The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Management has initially assessed that this interpretation has no material impact on the Company's interim condensed financial statements.

- PFRS 9 (2014) (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

    - three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
    - an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
    - a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Management exercised its option to defer the adoption of PFRS 9 (2014) to January 1, 2021 as the Company's liabilities arising from insurance contracts accounts for 99% of the total liabilities as at December 31, 2015. Consequently, the Company will continue to follow its existing accounting policy on financial instruments.

As at June 30, 2018, the fair value of financial assets with contractual terms that give rise to cash flows that are solely for payments of principal and interest on the principal amounted to P8.73 billion with decrease in fair value amounting to P172.68 million. Fair value of other financial assets amounted to P2.06 billion with decrease in fair value amounting to P342.42 million.

The table below provides information regarding the credit risk exposure of the Company's financial assets as at June 30, 2018 by classifying assets according to the Company's credit grading of counterparties.

	Neither Past Due nor Impaired				
	Investment High Grade	Non-investment Grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents	P1,475,645,417	P -	P -	P -	P1,475,645,417
Reinsurance balances receivable	1,078,958,004	870,176,884	237,649,766	671,749,193	2,858,533,847
AFS financial assets - debt securities	2,920,794,246	-	-	-	2,920,794,246
HTM investments	1,224,112,284	-	-	-	1,224,112,284
Loans and receivables	79,419,877	6,094,462	-	-	85,514,339
Funds at Lloyds*	199,531,929	-	-	-	199,531,929
	P6,978,461,757	P876,271,346	P237,649,766	P671,749,193	P8,764,132,062

**under Other assets account.*

The Company uses a credit grading system based on the borrowers and counterparties overall credit worthiness, as described below:

Investment High grade – This pertains to accounts with a very low probability of default as demonstrated by the borrower's strong financial position and reputation. The borrower has the ability to raise substantial amounts of funds through credit facilities with financial institutions. The borrower has a strong debt service record and a moderate use of leverage.

Non-investment Grade - Satisfactory – This pertains to current accounts with no history of default or which may have defaulted in the past, but the conditions and circumstances directly affecting the borrower's ability to pay has abated already. The borrower is expected to be able to adjust to the cyclical downturns in its operations. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues. The use of leverage may be above industry or credit standards but remains stable.

Past Due but not Impaired – Rating given to borrowers and counterparties where outstanding obligation is already past due without impairment indicator.

Impaired – This pertains to accounts with impairment indicator and uncertain collectability. Allowance for impairment losses were recognized by the Company for these accounts.

(b) Effective subsequent to 2018 but not Adopted Early

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2018, which were adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions:

(i) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to a financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

Management is currently assessing the impact of this new standard on the Company's interim condensed financial statements.

(ii) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

Management is currently assessing the impact of this interpretation on the Company's interim condensed financial statements.

(iii) PFRS 17, *Insurance Contracts (*effective January 1, 2021). The new standard will solve the comparison problems created by International Financial Reporting Standards (IFRS) 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investor and insurance companies. Insurance obligations will be accounted for using current values instead of historical cost, ending the practice of using data from when a policy was taken out.

The standard introduces insurance contract measurement principles requiring current, explicit and unbiased estimates of future cash flows, discount rates that reflect the characteristics of the contracts' cash flows, and explicit adjustment for non-financial risk.

Management is currently assessing the impact of this new standard on the Company's interim condensed financial statements.

2.3 Reinsurance Contracts

Product Classification

Reinsurance contracts are those contracts under which the Company (the reinsurer) has accepted significant insurance risk from another party (the cedants) by agreeing to compensate the cedants if a specified uncertain future event (the insured event) adversely affects the cedants. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid when an insured event occurs with benefits payable if the insured event did not occur. Reinsurance contracts can also transfer financial risks.

Once a contract has been classified as reinsurance contract, it remains reinsurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period, unless all rights and obligations are extinguished or expired.

Retrocession Contracts Held

Contracts entered into by the Company with retrocessionaires under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for reinsurance contracts above are classified as retroceded contracts held. Contracts that do not meet those classification requirements are classified as financial assets.

The Company retrocedes insurance risk in the normal course of business. Reinsurance recoverable on unpaid losses represents balances due from retrocessionaires for its share on the unpaid losses incurred by the Company. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the retroceded contract. Reinsurance recoverable on paid losses are included as part of Reinsurance balances receivable.

Reinsurance receivables are reviewed for impairment at the end of each reporting period or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the cedants and retrocessionaires can be measured reliably.

The impairment loss is recorded as part of General and administrative expenses in the statements of income.

Ceded insurance risk does not relieve the Company from its obligations to ceding companies.

The Company also assumes insurance risks in the normal course of business for reinsurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to ceding companies and retrocessionaires. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

2.4 Financial Assets

Financial assets are recognized when the Company becomes a party to an agreement and agrees to sell goods or services for a fixed amount of money. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date, i.e., the date that the Company commits to purchase the asset.

For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation.* All other non-derivative financial instruments are treated as debt instruments.

(a) Classification and Measurement of Financial Assets

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, HTM investments and AFS financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Financial assets are recognized initially at fair value of the consideration given. Except for financial assets at FVTPL, the initial measurement of financial assets includes transaction costs.

As at June 30, 2018 and December 31, 2017, the Company has no financial assets classified as FVTPL.

(i) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the Company provides money or services directly to a debtor with no intention of trading the receivables.

The Company's financial assets categorized as loans and receivables are presented as cash and cash equivalents, reinsurance balances receivable, loans and receivables, and funds at Lloyd's (presented under Other assets - net account in the statements of financial position). Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three (3) months or less, readily convertible to known amount of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method subject to any impairment loss.

(j) HTM Investments

This category includes non-derivative financial assets with fixed or determinable payments and fixed maturity, and that the Company has the intention and ability to hold to maturity other than: (a) those that the Company designates as financial assets at FVTPL upon initial recognition; (b) those that the Company designates as AFS; and, (c) those that meet the definition of loans and receivables. This category includes corporate bonds which the Company has the intent and ability to hold until maturity.

HTM investments are subsequently measured at amortized cost using the effective interest method subject to any impairment loss.

(k) AFS Financial Assets

This category includes non-derivative financial assets that are designated as AFS financial assets or are not classified as loans and receivables, HTM investments or financial assets at FVTPL. The Company's AFS financial assets include listed and unlisted equity securities, and government and corporate bonds.

All financial assets within this category are subsequently measured at fair value, except for certain equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost less any impairment loss. Fair value gains and losses are recognized in other comprehensive income, and are reported as part of the Revaluation reserves account in statements of changes in equity except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in the statements of income.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value losses recognized in other comprehensive income is reclassified from equity to statements of income and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

(b) Impairment of Financial Assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The Company recognizes impairment loss based on the category of financial assets as follows:

(i) *Carried at Amortized Cost – Loans and Receivables and HTM Investments*

If there is objective evidence that an impairment loss on financial assets carried at cost has been incurred, the amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in the statements of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed.

The amount of the reversal is recognized in the statements of income.

(ii) *Carried at Fair Value – AFS Financial Assets*

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in statements of income – is reclassified from Revaluation reserves to statements of income even though the financial asset has not been derecognized.

Impairment losses recognized in statements of income on equity instruments are not reversed through profit or loss. Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(c) *Items of Income and Expense Related to Financial Assets*

All income and expenses, except for impairment losses and reversal of reinsurance balance receivable, relating to financial assets that are recognized in the statements of income are presented as part of Investment and Other income and expenses account. Provision for and reversal of impairment losses on reinsurance balances receivable are presented at net as part of Impairment losses under General and administrative expenses account in the statements of income.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in the statements of income when earned, regardless of how the related carrying amount of financial assets is measured.

(d) *Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.5 Deferred Acquisition Costs

Commissions are recognized as expense over the period of the policy using the 24th method [see Note 2.16 (a)]. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as Deferred acquisition costs and is presented in the Assets section of the statements of financial position. The net change in the account between each end of reporting periods are recognized as Increase (decrease) in Deferred acquisition costs under Commissions – net account in the statements of income.

2.6 Deferred Reinsurance Premiums

The ceded reinsurance premiums that pertain to the unexpired period of the policies at end of the reporting period are accounted for as Deferred reinsurance premiums and presented in the Assets section of the statements of financial position. Subsequent to initial recognition, the amount is amortized using the 24th method [see Note 2.16 (a)]. The net change in the account between each end of reporting periods are recognized as Increase (decrease) in Deferred reinsurance premiums under Increase in premium reserves – net in the statements of income.

2.7 Reinsurance Recoverable on Unpaid Losses

Reinsurance recoverable on unpaid losses represents the amount recoverable from retrocessionaires under retroceded contracts as their share on unpaid losses, including unreported losses and loss adjustment expenses, net of salvage of recoveries.

2.8 Property and Equipment

Property and equipment represents tangible items that are held for use in the Company's business operations or for administrative purposes and are expected to be used more than one (1) year. An item of property and equipment that qualifies for recognition as an asset shall be measured at its cost less any accumulated depreciation, and any accumulated impairment losses.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized, while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Condominium unit	40 years
Office improvements	10 years
Office furniture and equipment	5 years
Transportation equipment	5 years
Electronic data processing (EDP) equipment	5 years

Fully depreciated assets are retained in the accounts until these are no longer in use. No further charge of depreciation is made in respect of those assets.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.20).

The residual values, estimated useful lives and method of depreciation of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment, including the related accumulated depreciation and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included as part of Investment and Other income and expenses in the statements of income in the period the item is derecognized.

2.9 Other Assets

Other assets pertain to other resources controlled by the Company as a result of past events. These are recognized in the interim condensed financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. These may include the following accounts:

(a) Investment Properties

Investment properties are property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes.

Except for land, investment properties are stated at cost less accumulated depreciation and any impairment in value. Land is stated at cost less any impairment in value. The cost of the investment properties comprise their purchase price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

Depreciation is computed using the straight-line basis over the estimated useful life of the property which is 10 years.

The carrying amount of investment properties is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.20).

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of the investment properties are recognized in the statements of income in the period of retirement or disposal.

(b) Intangible Assets

Intangible assets include acquired software licenses which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire the asset at the time of its acquisition. Capitalized costs are amortized on a straight-line basis over five (5) years as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.20.

Acquired computer software licenses are capitalized on the cost incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in the statements of income as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in the statements of income.

(c) Creditable Withholding Tax

Creditable withholding tax (CWT) mainly arises from taxes withheld by the ceding companies upon payment of reinsurance premiums to the Company.

CWT is recorded at cost. It can either be used to offset against future income tax liabilities or be claimed as a tax refund from the Bureau of Internal Revenue (BIR).

(d) Input Value-added Tax

The input value-added tax (VAT) pertains to the 12% tax paid by the Company on commissions and local purchase of goods or services.

The input VAT is recorded at cost. It is used to offset against output VAT due to the BIR. Excess input VAT is recorded under the Other assets – net account in the statements of financial position.

(e) Deferred Input VAT

Deferred input VAT pertains to the 12% tax arising from acquisition of capital assets exceeding P1.00 million. Deferred input VAT arising from capital assets is amortized to input VAT over the useful lives of the capital assets or 60 months, whichever is shorter.

(f) Deferred Withholding VAT

Deferred withholding VAT pertains to the unapplied input VAT on unpaid premiums from a certain government entity.

(g) Prepayments

Prepayments pertain to expenditure paid for in one (1) accounting period, but for which the underlying asset will not be consumed until a future period. When the asset is eventually consumed, it is charged to expense. If consumed over multiple periods, there may be a series of corresponding charges to expense.

2.10 Financial Liabilities

Financial liabilities, which include Reinsurance balances payable and Accounts payable and accrued expenses (excluding deferred output VAT and other taxes payable), are recognized when the Company becomes a party to an agreement and agrees to purchase goods or services for a fixed amount of money. All interest-related charges are recognized as an expense in the statements of income.

Reinsurance balances payable and Accounts payable and accrued expenses are initially recognized at their fair value and subsequently measured at amortized cost, using the effective interest method for those with maturities beyond one (1) year, less settlements.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Company.

Financial liabilities are derecognized from the statements of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in the statements of income.

2.11 Losses and Claims Payable

Losses and claims payable is the present value of the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduced for the expected value of salvage and other recoveries. This includes outstanding claim reserves, estimate for incurred but not reported (IBNR) losses, loss adjustment expenses payable plus a Margin for Adverse Deviation (MfAD) based on a certain percentage of the total outstanding claim reserves, IBNR losses and loss adjustment expenses payable to allow for inherent uncertainty of the best estimate of the policy reserves.

2.12 Premium Reserves

Premium reserves refer unearned premium reserves (UPR) plus any deficiency resulting from the liability adequacy test.

UPR refer to the portion of the premiums attributable to the unexpired risks at the balance sheet date and is recognized as revenue over the period of the policy using the 24^{th} method [see Note 2.16 (a)].

Liability Adequacy Test

Liability adequacy tests are performed at end of each reporting period, to ensure the adequacy of premium reserves. The test is performed by comparing the UPR, net of related deferred acquisition costs, and the present value of the current best estimates of future cash flows including claims handling and policy administration expenses. Any deficiency is charged to the statements of income and is recognized as premium reserves.

2.13 Deferred Reinsurance Commissions

Commissions earned from reinsurance contracts are recognized as revenue over the period of the policy using the 24th method [see Note 2.16 (a)]. The portion of the commissions that relates to the unexpired periods of the policies at end of the reporting period is accounted for as Deferred reinsurance commissions and is presented in the liabilities section of the statements of financial position. The net change in the account between each end of reporting periods are recognized as Increase (decrease) in Deferred reinsurance commissions under Commissions – net in the statements of income.

2.14 Other Liabilities

These represent other liabilities which cannot be appropriately classified under the foregoing liability accounts. These comprise, among others, the following accounts:

(a) Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using pre-tax rate that reflects market assessments and the risks specific to the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the interim condensed financial statements. Similarly, possible inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the interim condensed financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

(b) *Deferred Output VAT*

Deferred output VAT, presented as part of Accounts payable and accrued expenses, represents the 12% tax due on commission income on retroceded premiums and other goods based on amounts still to be collected from counterparties. Such amounts are still not due for remittance to the BIR until the receivables are collected.

2.15 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right to offset must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.16 Revenue Recognition

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Company; and, the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria as described below must also be met before revenue is recognized:

(a) *Reinsurance premiums* – Premiums are recognized over the period of the contracts using the 24^{th} method. The 24^{th} method assumes that the average date of issue of all policies written during any one month is the middle of that month. Accordingly, $1/24^{th}$ of the net premiums are considered earned in the month the reinsurance contracts are issued and $2/24^{th}$ for every month thereafter (or $1/24^{th}$ for every 15-day period after the issue month). The portion of the gross reinsurance premiums that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as Premium reserves and is presented in the liabilities section of the statements of financial position while the portion of the retroceded reinsurance premiums that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as Deferred reinsurance premiums and is presented in the Assets section of the statements of financial position.

The net changes in the Unearned premium reserves and Deferred reinsurance premiums accounts between the end of the reporting periods are recognized in the statements of income.

(b) *Commission on retrocession* – Commission is deferred and is subjected to the same amortization as the retroceded reinsurance premiums. Deferred portion is presented in the statements of financial position as Deferred reinsurance commissions.

(c) *Interest income* – Interest income for all interest-bearing financial instruments are recognized using the effective interest rate method.

(d) *Dividend income* – Revenue is recognized when the Company's right to receive the dividend is established.

(e) *Gain on sale of assets* – Revenue is recognized when the risks and rewards of ownership of the investments and non-financial assets have passed to the buyer.

2.17 *Expense Recognition*

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distribution to equity participants.

(a) *Claims and Losses Recognition*

Share in claims and losses relating to insurance contracts are accrued when insured events occur. These arise from events that have occurred up to reporting date even if these have not yet been reported to the Company. The share in claims (including those for IBNR losses) are based on the present value of the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claims and losses resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense in the period in which the estimates are changed or payments are made.

Share in recoveries on claims are evaluated in terms of the present value of the aggregate share of the retrocessionaire on the claims and losses and adjustment expenses of the Company on business ceded under reinsurance arrangements. Recoveries on paid and unpaid claims are recognized in statements of income in the period the claims are made. Uncollected balances are presented as part of Reinsurance balances receivable account in the statements of financial position.

(b) *Acquisition Costs*

Costs that vary with and are primarily related to the acquisition of new and renewal reinsurance contracts such as commissions and certain underwriting costs, are recognized as expense over the period of the contracts using the 24^{th} method. Unamortized acquisition costs are presented in the statements of financial position as Deferred acquisition costs (see Note 2.5).

(c) *General and Administrative Expenses*

Costs and expenses are recognized in the statements of income upon utilization of goods or services at the date they are incurred.

2.18 *Leases – Company as Lessee*

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statements of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Company determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.19 *Foreign Currency Transactions and Translation*

The accounting records of the Company are maintained in Philippine peso. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at closing exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of income as part of Investment and Other income and expenses (see Note 19).

2.20 Impairment of Non-financial Assets

The Company's property and equipment, investment properties, intangible assets and other non-financial assets are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in the statements of income for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount which is the higher of its fair value less costs to sell and its value-in-use. In determining value-in-use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.21 Employee Benefits

The Company provides post-employment benefits to employees through a defined benefit plan.

(a) Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Company's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The asset recognized in the statements of financial position for a defined benefit plan is the fair value of plan assets less the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation (asset) is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero coupon government bond as published by Philippine Dealing & Exchange Corp., that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest), are reflected immediately in the statements of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance costs under General and administrative expenses in the statements of income.

Past service costs are recognized immediately in the statements of income in the period of plan amendment and curtailment.

(b) Compensated Absences

Compensated absences are recognized for the number of paid leave days remaining at the end of the reporting period. These are included in the Accounts payable and accrued expenses account in the statements of financial position at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

2.22 Income Taxes

Tax expense recognized in the statements of income comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period. All changes to current tax assets or liabilities are recognized as a component of Tax expense in the statements of income.

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the statements of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.23 Related Party Relationships and Transactions

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close member of the family of any such individual; and, (d) the Company's funded retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.24 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Company's holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves comprise gains and losses due to the revaluation of AFS financial assets, unamortized fair value gains and losses from HTM investments, and remeasurements of defined benefit plan.

Retained earnings (deficit) represent all current and prior period results of operations as reported in the statements of income, reduced by the amounts of dividends declared. The appropriated portion of the retained earnings is intended as additional reserve for contingencies (see Note 22.2).

2.25 Earnings Per Share

Basic earnings per share is determined by dividing net profit by the weighted average number of shares issued, adjusted for stock dividends and stock split, less shares held in treasury during the period.

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares.

2.26 Segment Reporting

For purposes of segment reporting, the Company does not have other reportable segments. The Company has one reportable business segment which is the reinsurance market. The financial information about the sole business segment is presented in the interim condensed financial statements.

The management monitors the operating results of its business segment for the purpose of making decisions about resource allocation and performance assessment. The segment performance is evaluated based on operating profit or loss and is measured consistently with the income before income tax in the interim condensed financial statements.

2.27 Events After the End of the Reporting Period

Any event subsequent to the balance sheet date that provides additional information about the Company's financial position at the end of the reporting period (adjusting event) is reflected in the interim condensed financial statements. Events subsequent to the balance sheet date that are not adjusting events, if any, are disclosed when material to the interim condensed financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Company's interim condensed financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the interim condensed financial statements and related notes.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Company's accounting policies, management has made the judgments as presented in the succeeding pages, apart from those involving estimation, which have the most significant effect on the amounts recognized in the interim condensed financial statements.

(a) Impairment of Financial Assets

Financial Assets at Fair Value

The Company considers that investments are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share/market price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Based on the recent evaluation of information and circumstance affecting the Company's AFS financial assets, management concluded that decline in fair value of certain AFS financial assets amounting to nil and P64.87 million are impaired for the period ended June 30, 2018 and December 31, 2017, respectively (see Note 6). Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

Financial Assets at Amortized Cost
The Company reviews its financial assets at amortized cost to assess impairment at least on an annual basis, or as the need arises due to significant movements on certain accounts. These financial assets that are individually significant are assessed to determine whether objective evidence of impairment exists on an individual basis, while those that are not individually significant are assessed for objective evidence of impairment either on an individual or on collective basis.

In determining whether an impairment loss should be recorded in the statements of income, the Company makes judgment as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets before the decrease can be identified with an individual financial asset in that portfolio.

As at June 30, 2018 and December 31, 2017, the Company has recognized allowance for impairment loss amounting to P671.75 million and P630.34 million, respectively (see Note 5).

(b) *Classification of Financial Instruments*

The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position. In addition, the Company classifies assets by evaluating among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

As at June 30, 2018 and December 31, 2017, the Company classified its financial instruments as AFS financial assets, HTM investments, loans and receivables, and other financial liabilities.

(c) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and contingencies are discussed in Note 2.14(a) and relevant disclosures are presented in Note 26.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next reporting period:

(a) Impairment of Financial Assets

Management uses estimates based on historical loss experience for assets with credit risk characteristics. Adequate amount of allowance for impairment is made for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates the amount of allowance for impairment based on available facts and circumstances, including, but not limited to, the length of the Company's relationship with the counterparties, the counterparties' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying value of reinsurance balances receivable and the analysis of allowance for impairment on such financial assets are shown in Note 5.

The carrying values of HTM investments and loans and receivables are shown in Notes 7 and 8, respectively.

(b) Fair Value Measurement of AFS Financial Assets

The Company carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ if the Company utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit or loss and other comprehensive income.

The carrying value of the Company's AFS financial assets and the amounts of fair value changes recognized are disclosed in Note 6.

(c) Estimation of Useful Lives of Property and Equipment, Investment Properties and Intangible Assets

The Company estimates the useful lives of property and equipment, investment properties and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment, investment properties and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amount of property and equipment is analyzed in Note 12, and of investment properties and intangible assets in Note 13. Based on management's assessment as at June 30, 2018, and December 31, 2017, there is no change in the estimated useful lives of those assets during these years. Actual results, however, may vary due to changes in estimates brought about by the changes in factors mentioned above.

(d) *Impairment of Non-financial Assets*

The Company's policy on estimating the impairment of non-financial assets is discussed in Note 2.20. Though management believes that the assumptions used in the estimation of fair value reflected in the interim condensed financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

(e) *Determination of Realizable Amount of Deferred Tax Assets*

The Company reviews its deferred tax assets at each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Any deferred tax asset will be re-measured if it might result to derecognition where the expected tax law to be enacted has a possible risk on the realization.

As at June 30, 2018 and December 31, 2017, the Company recognized deferred tax assets amounting to P31.25 million and P7.30 million, respectively. However, unrecognized deferred tax assets amounted to P655.20 million and P545.90 million as at June 30, 2018 and December 31, 2017, respectively.

(f) *Valuation of Post-employment Defined Benefit Obligation*

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by an independent actuary in calculating such amounts. Those assumptions include, among others, discount rates, salary rate increase and employee turnover rate.

A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

(g) *Valuation of Reinsurance Contract Liabilities*

The Company's Reinsurance contract liabilities are composed of premium liabilities and claim liabilities. Premium liabilities are the premium reserves while claims liabilities are equal to the Losses and claims payable account in the statements of financial position which include outstanding losses, IBNR losses, loss adjustment expenses payable plus the MfAD.

The Company estimates the present value of future cash flows, used in performing the liability adequacy test and in determining claims liabilities, through the use of historical claims experience and claims settlement patterns.

The principal assumption underlying the claim liability estimates is that the Company's future claims development will depend on the estimate of the ultimate loss during a period of time for a particular risk exposure and then estimate the percentage of this ultimate loss that was not reported as of the reporting date.

The Company's claims liability estimates, as ascertained by an independent actuary, are determined by calculating the estimated ultimate losses as the sum of reported losses plus IBNR losses. Ultimate losses were estimated using generally accepted actuarial methods such as the Incurred Claim Development Method and the Expected Loss Ratio Method. The Company also included MfAD as a percentage of the total outstanding losses, IBNR best estimate and loss adjustment expenses payable, to allow for inherent uncertainty of the best estimate of the policy reserves.

Additional qualitative judgments are used by the independent actuary to assess the extent to which the full tail of the claims development is influenced by the different factors, for example, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix and policy conditions. Judgment is further used to assess the extent to which external factors such as juridical decisions and government legislation affect the estimates.

The following table reflects the development of cumulative claims paid and claims liabilities, including estimates for IBNR, gross of retrocession, as at June 30, 2018 and December 31, 2017, net of foreign revaluation of P126.61 million and P70.38 million, respectively.

Underwriting Year	Claims Paid	Claims Liabilities	Premiums Earned	Total
2018	**P42,869,945**	**P365,703,514**	**P -**	**P408,573,459**
2017	**359,440,357**	**1,329,326,072**	**(1,652,009,124)**	**36,757,305**
2016 and prior	**6,030,802,306**	**4,722,197,818**	**(46,471,610)**	**10,706,528,514**
June 30, 2018	**6,390,242,663**	**6,051,523,890**	**(1,698,480,734)**	**10,743,285,819**
2017	P62,855,615	1,093,687,921	-	1,156,543,536
2016 and prior	5,746,984,402	5,179,503,831	-	10,926,488,233
December 31, 2017	5,809,840,017	6,273,191,752	-	12,083,031,769
Development	**P580,402,646**	**(P221,667,862)**	**(P1,698,480,734)**	**(P1,339,745,950)**

The following table reflects the development of cumulative claims paid and claims liabilities, including estimates for IBNR, net of retrocession, as at June 30, 2018 and December 31, 2017, net of foreign revaluation of P70.28 million and P37.84 million, respectively.

Underwriting Year	Claims Paid	Claims Liabilities	Premiums Earned	Total
2018	**P23,431,629**	**P299,320,407**	**P -**	**P322,752,036**
2017	**340,631,924**	**1,214,211,466**	**(1,169,721,402)**	**385,121,988**
2016 and prior	**2,323,970,983**	**1,707,144,938**	**(45,113,310)**	**3,986,002,611**
June 30, 2018	**2,664,602,907**	**2,921,356,404**	**(1,214,834,712)**	**4,371,124,599**
2017	62,855,615	1,015,450,778	-	1,078,306,393
2016 and prior	2,082,108,988	1,929,659,380	-	4,011,768,368
December 31, 2017	2,144,964,603	2,945,110,158	-	5,090,074,761
Development	**P519,638,304**	**(P23,753,754)**	**(P1,214,834,712)**	**(P718,950,162)**

As at June 30, 2018 and December 31, 2017, the carrying value of provision for claims reported and IBNR losses are recognized as Losses and claims payable account in the statements of financial position (see Note 18).

4. CASH AND CASH EQUIVALENTS

This account consists of:

	June 30, 2018	December 31, 2017
Short-term placements	**P1,289,627,508**	P982,032,832
Cash on hand and in banks	**186,050,868**	328,507,755
	P1,475,678,376	P1,310,540,587

Cash in banks generally earn interest at rates based on daily bank deposit rates. Interest income recognized is presented as part of the Investment and Other income and expenses account in the statements of income (see Note 19).

Short-term placements include time deposits and special deposit accounts made for varying periods of up to three months depending on the liquidity requirements of the Company.

Peso short-term placements earn annual interest ranging from 0.125% to 4.375% in 2018 and 2017, while dollar short-term placements earn annual interest ranging from 0.125% to 1.995% in 2018 and 2017.

The Cash and cash equivalents account includes cash denominated in U.S. Dollar amounting to $9.42 million or P504.08 million and $6.79 million or P338.96 million as at June 30, 2018 and December 31, 2017, respectively.

5. REINSURANCE BALANCES RECEIVABLE

The details of this account are as follows:

	June 30, 2018	December 31, 2017
Due from ceding companies	**P2,312,403,637**	P1,998,131,699
Reinsurance recoverable on paid losses	**441,604,733**	477,897,636
Funds held by ceding companies	**104,525,477**	104,245,200
	2,858,533,847	2,580,274,535
Allowance for impairment	**(671,749,193)**	(630,343,864)
	P2,186,784,654	P1,949,930,671

The movements in these accounts are as follows:

	June 30, 2018			
	Due from ceding companies	**Reinsurance recoverable on paid losses**	**Funds held by ceding companies**	**Total**
Balance at beginning of period	**P1,998,131,699**	**P477,897,636**	**P104,245,200**	**P2,580,274,535**
Loss recoveries during the period	**-**	**80,202,659**	**-**	**80,202,659**
Premiums written net of funds held during the period	**1,722,424,772**	**-**	**-**	**1,722,424,772**
Funds held during the period	**-**	**-**	**26,137,980**	**26,137,980**
Funds released during the period	**28,978,206**	**-**	**(28,978,206)**	**-**
Collections during the period	**(1,475,598,611)**	**(121,743,849)**	**-**	**(1,597,342,460)**
Revaluation adjustment	**38,467,571**	**5,248,287**	**3,120,503**	**46,836,361**
	2,312,403,637	**441,604,733**	**104,525,477**	**2,858,533,847**
Allowance for impairment	**(301,071,104)**	**(339,157,620)**	**(31,520,469)**	**(671,749,193)**
Balance at end of period	**P2,011,332,533**	**P102,447,113**	**P73,005,008**	**P2,186,784,654**

	December 31, 2017			
	Due from ceding companies	Reinsurance recoverable on paid losses	Funds held by ceding Companies	Total
Balance at beginning of year	P1,524,450,006	P535,884,884	P114,758,276	P2,175,093,166
Loss recoveries during the year	-	211,492,400	-	211,492,400
Premiums written net of funds held during the year	3,143,451,232	-	-	3,143,451,232
Funds held during the year	-	-	61,662,285	61,662,285
Reclassified to due from ceding companies	73,106,554	-	(73,106,554)	-
Collections during the year	(2,735,254,746)	(227,084,587)	-	(2,962,339,333)
Write-off during the year	(1,684,237)	(40,570,282)	-	(42,254,519)
Revaluation adjustment	(5,937,110)	(1,824,779)	931,193	(6,830,696)
	1,998,131,699	477,897,636	104,245,200	2,580,274,535
Allowance for impairment	(303,313,903)	(301,999,593)	(25,030,368)	(630,343,864)
Balance at end of year	P1,694,817,796	P175,898,043	P79,214,832	P1,949,930,671

The Company's collections on these reinsurance receivables include collections equivalent to underwriting costs and claims deducted by cedants from their statement of accounts.

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

A reconciliation of the allowance for impairment at the beginning and end of June 30, 2018 and December 31, 2017 is shown below.

	June 30, 2018			
	Due from ceding companies	**Reinsurance recoverable on paid losses**	**Funds held by ceding companies**	**Total**
Balance at beginning of period	**P303,313,903**	**P301,999,593**	**P25,030,368**	**P630,343,864**
Impairment loss during the period	2,181,093	25,098,281	4,717,321	31,996,695
Reclassification	(10,051,970)	10,051,970	-	-
Revaluation	5,628,078	2,007,776	1,772,780	9,408,634
Balance at end of period	**P301,071,104**	**P339,157,620**	**P31,520,469**	**P671,749,193**

	December 31, 2017			
	Due from ceding companies	Reinsurance recoverable on paid losses	Funds held by ceding companies	Total
Balance at beginning of year	P314,314,943	P390,840,600	P23,998,300	P729,153,843
Write-off during the year	(1,684,237)	(40,570,282)	-	(42,254,519)
Reversal during the year	(15,883,577)	(45,166,967)	(2,584,751)	(63,635,295)
Revaluation	6,566,774	(3,103,758)	3,616,819	7,079,835
Balance at end of year	P303,313,903	P301,999,593	P25,030,368	P630,343,864

The fair value of these short-term financial assets are not individually determined as their carrying amounts are reasonable approximation of their fair value.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account is composed of the following:

	June 30, 2018	December 31, 2017
Bonds	P2,920,794,246	P3,124,823,394
Equity securities - net	2,027,343,138	2,369,749,019
Investment in ARC shares	35,723,191	32,547,556
	P4,983,860,575	P5,527,119,969

Bonds include investments in corporate bonds and government securities. These also include government securities amounting to P562.50 million in 2018 and 2017, which are earmarked as security for the benefit of cedants and creditors of the Company in accordance with the provisions of the Insurance Code.

Bonds earn interest at annual rates ranging from 2.13% to 8.00% in 2018 and 2017. Interest income is presented as part of Investment and Other income and expenses account in the statements of income (see Note 19).

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

	June 30, 2018	December 31, 2017
Due within one year	P129,969,245	P319,342,442
Due after one year through five years	1,287,744,299	1,014,187,260
Due after five years through ten years	1,268,717,542	1,528,447,790
Due after ten years	234,363,160	262,845,902
	P2,920,794,246	P3,124,823,394

The balance of equity securities classified as AFS financial assets consists of:

	June 30, 2018	December 31, 2017
Cost:		
Quoted in the stock exchange	P2,191,086,890	P2,132,927,548
Not quoted in the stock exchange	33,416,008	34,296,008
	2,224,502,898	2,167,223,556
Unrealized foreign currency gains (losses)	789,250	(110,500)
Fair value gains (losses):		
Quoted in the stock exchange	(181,578,304)	219,046,669
Not quoted in the stock exchange	(16,370,706)	(16,410,706)
	(197,949,010)	202,635,963
	P2,027,343,138	P2,369,749,019

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

Dividend income from these equity securities is presented under the Investment and Other income and expenses account in the statements of income (see Note 19).

The shares of ARC 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 ARC, while not for sale, were classified under this category since these do not qualify for inclusion in any other categories of financial assets. The fair value of investment in ARC shares amounted to P35.72 million and P32.55 million as at June 30, 2018 and December 31, 2017, respectively.

The reconciliation of the carrying amounts of AFS financial assets is as follows:

	June 30, 2018	December 31, 2017
Cost		
Balance at beginning of period	**P5,367,173,108**	P6,043,963,879
Acquisitions	**1,293,723,023**	2,789,781,764
Reclassification	**(880,000)**	(1,090,076,980)
Disposals/maturities	**(1,258,742,760)**	(2,307,726,969)
Impairment losses	-	(64,873,264)
Unrealized foreign currency gains (losses)	**22,179,512**	(3,895,322)
	5,423,452,883	5,367,173,108
Fair value adjustment		
Balance at beginning of period	**159,946,861**	(186,392,779)
Changes in fair value	**(477,814,918)**	407,024,769
Fair value gains on disposal	**(121,724,251)**	(120,782,788)
Impairment losses	-	64,873,264
Reclassification	-	(4,775,605)
	(439,592,308)	159,946,861
Balance at end of period	**P4,983,860,575**	P5,527,119,969

Fair value gains or losses recognized in the statements of comprehensive income amounted to fair value losses of P477.81 million in 2018 and fair value gains of P276.40 million in 2017. In 2018, the Company reclassified certain investments classified under AFS financial assets to the Other assets account amounting to P0.88 million.

In 2017, the Company reclassified certain investments classified under AFS financial assets to HTM investments and Other assets - net amounting to P1.09 billion and P0.14 million, respectively.

The Company recognized an impairment loss amounting to P64.87 million in 2017, which pertains to certain investments in equity securities with significant or prolonged decline in fair value. These were recorded as part of Investment and Other income and expenses account in the statements of income after transferring the same amount of fair value losses on AFS financial assets from the Other comprehensive income account. No impairment was recognized for the six months ended June 30, 2018 and 2017 (see Note 19).

The Company sold AFS financial assets with carrying amount of P1.00 billion and P1.27 billion in the six months ended June 30, 2018 and 2017, respectively. Accordingly, the Company recognized gain on sale of AFS financial assets amounting to P121.72 million and P34.59 million in 2018 and 2017, respectively. These are presented as part of Investment and Other income and expenses account in the statements of income (see Note 19).

Fair value gains reclassified to profit or loss, as presented in the statements of comprehensive income, amounted to P121.72 million and P34.59 million in 2018 and 2017, respectively.

The fair value of majority of the AFS financial assets has been determined directly by reference to published prices in active market (see Note 28.2).

7. HELD-TO-MATURITY INVESTMENTS

In May 2017, the Company's BOD approved the reclassification of certain investment in corporate bonds amounting to P1.09 billion previously classified as AFS financial assets to HTM investments as these investments were purchased with the intention of collecting interest coupons until maturity. New effective interest rates at the date of reclassification range from 2.36% to 6.24%.

The Company recognized interest income of P28.87 million (see Note 19). If the reclassification had not been made, interest income (calculated using the original effective interest rate) amounting to P29.09 million would have been recognized in the statements of income, and a decrease of P34.80 million on the fair value of the bonds would have been recognized directly in other comprehensive income.

The reconciliation of the carrying amount of HTM investment is as follows:

	June 30, 2018	December 31, 2017
Balance at beginning of period	**P1,034,687,360**	P -
Reclassification	-	1,094,714,573
Additions	**190,724,073**	15,100,199
Maturities	-	(73,000,000)
Amortization	**(1,299,149)**	(2,127,412)
Balance at end of period	**P1,224,112,284**	P1,034,687,360

The following presents the carrying value of corporate bonds by contractual maturity dates:

	June 30, 2018	December 31, 2017
Due within one year	**P70,400,168**	P -
Due after one year through five years	**833,072,463**	824,321,240
Due after five years through ten years	**320,639,653**	210,366,120
	P1,224,112,284	P1,034,687,360

8. LOANS AND RECEIVABLES

This account is comprised of the following:

	June 30, 2018	December 31, 2017
Current:		
Loans and notes receivable	**P29,625,793**	P50,635,865
Time deposits	-	50,000,000
Dividend & interest receivable	**47,171,278**	45,006,904
	76,797,071	145,642,769
Non-current:		
Loans and notes receivable	**55,888,546**	56,245,415
	P132,685,617	P201,888,184

Loans and notes receivable mainly pertain to bank notes with original maturities of 10 years and an effective interest rate of 5.38%.

Loans and notes receivable also include car loans extended to certain officers as part of their benefits. These loans are collected through salary deductions for a period of five years with an annual effective interest rate of 8.00%.

Time deposits are not subject to any restrictions or covenants and have original maturity dates of five years and annual interest rate of these deposits is 5.00%.

Interest income on Time deposits and Loans and notes receivable are presented as part of Investment and Other income and expenses account in the statements of income (see Note 19).

The carrying value of these financial assets approximate their fair value as the interest rates approximate the prevailing market interest rates. No impairment loss was recorded for loans and receivables in 2018 and 2017.

9. DEFERRED ACQUISITION COSTS

The movements in Deferred acquisition costs follow:

	June 30, 2018	December 31, 2017
Balance at beginning of period	**P280,946,282**	P258,617,319
Cost deferred	**391,652,940**	674,044,408
Cost recognized	**(336,844,379)**	(651,715,445)
Balance at end of period	**P335,754,843**	P280,946,282

The increase or decrease in Deferred acquisition costs for the period is presented as part of Commissions – net under Underwriting deductions in the statements of income (see Note 20.2).

10. DEFERRED REINSURANCE PREMIUMS

The movements in Deferred reinsurance premiums follow:

	June 30, 2018	December 31, 2017
Balance at beginning of period	**P202,935,270**	P394,816,767
Premiums retroceded during the period	**628,024,456**	841,428,489
Premiums amortized during the period	**(455,962,827)**	(1,033,309,986)
Balance at end of period	**P374,996,899**	P202,935,270

The increase or decrease in Deferred reinsurance premiums for the period is presented as part of Increase in premium reserves-net account in the statements of income.

11. REINSURANCE RECOVERABLE ON UNPAID LOSSES

The details of this account are as follows:

	June 30, 2018	December 31, 2017
Reinsurance recoverable on outstanding loss reserves	**P2,736,526,639**	P2,833,592,882
Retrocessionaire's share on IBNR losses	**516,347,113**	527,030,637
	3,252,873,752	3,360,623,519
Allowance for impairment	**(827,624)**	-
Balance at the end of period	**P3,252,046,128**	P3,360,623,519

The movements in reinsurance recoverable on unpaid losses are as follows:

	Reinsurance recoverable on outstanding loss reserves	**Retrocessionaire's share on IBNR losses**	**Total**
June 30, 2018			
Balance at beginning of period	**P2,833,592,882**	**P527,030,637**	**P3,360,623,519**
Claims reported and loss adjustments – net	**(40,644,819)**	**-**	**(40,644,819)**
Transferred to paid losses	**(80,202,659)**	**-**	**(80,202,659)**
Claims incurred but not reported, net of adjustments	**-**	**(10,683,524)**	**(10,683,524)**
Impairment loss during the period	**(827,624)**	**-**	**(827,624)**
Revaluation adjustment	**23,781,235**	**-**	**23,781,235**
Balance at end of period	**P2,735,699,015**	**P516,347,113**	**P3,252,046,128**
December 31, 2017			
Balance at beginning of year	P3,682,008,078	P518,396,499	P4,200,404,577
Claims reported and loss adjustments – net	(587,403,975)	-	(587,403,975)
Transferred to paid losses	(211,492,400)	-	(211,492,400)
Claims incurred but not reported, net of adjustments	-	8,634,138	8,634,138
Revaluation adjustment	(49,518,821)	-	(49,518,821)
Balance at end of year	P2,833,592,882	P527,030,637	P3,360,623,519

12. PROPERTY AND EQUIPMENT

A reconciliation of the carrying amount at the beginning and end of 2018 and 2017 of property and equipment is shown below.

	June 30, 2018					
	Condominium Unit	**Office Improvements**	**Office Furniture and Equipment**	**Transportation Equipment**	**EDP Equipment**	**Total**
Cost						
Balance at beginning of period	**P101,310,361**	**P25,154,222**	**P10,940,150**	**P9,515,641**	**P11,729,551**	**P158,649,925**
Additions	**-**	**79,361**	**307,796**	**1,678,571**	**1,963,852**	**4,029,580**
Disposals/retirement	**-**	**-**	**(64,719)**	**-**	**-**	**(64,719)**
Balance at end of period	**101,310,361**	**25,233,583**	**11,183,227**	**11,194,212**	**13,693,403**	**162,614,786**
Accumulated Depreciation						
Balance at beginning of year	**61,349,052**	**226,759**	**4,126,471**	**3,819,500**	**9,117,150**	**78,638,932**
Depreciation	**1,688,506**	**1,144,818**	**739,175**	**1,021,749**	**650,202**	**5,244,450**
Disposals/retirement	**-**	**-**	**(64,719)**	**-**	**-**	**(64,719)**
Balance at end of year	**63,037,558**	**1,371,577**	**4,800,927**	**4,841,249**	**9,767,352**	**83,818,663**
Net Book Value	**P38,272,803**	**P23,862,006**	**P6,382,300**	**P6,352,963**	**P3,926,051**	**P78,796,123**

	December 31, 2017					
	Condominium Unit	Office Improvements	Office Furniture and Equipment	Transportation Equipment	EDP Equipment	Total
Cost						
Balance at beginning of year	P101,310,361	P10,027,229	P9,038,741	P10,472,603	P41,620,695	P172,469,629
Additions	-	25,135,863	6,707,229	2,809,970	393,459	35,046,521
Reclassification	-	-	-	-	(20,693,728)	(20,693,728)
Disposals/retirement	-	(10,008,870)	(4,805,820)	(3,766,932)	(9,590,875)	(28,172,497)
Balance at end of year	101,310,361	25,154,222	10,940,150	9,515,641	11,729,551	158,649,925
Accumulated Depreciation						
Balance at beginning of year	57,972,040	5,161,641	8,540,690	2,761,543	32,055,590	106,491,504
Depreciation	3,377,012	972,723	363,070	2,001,587	2,686,783	9,401,175
Reclassification	-	-	-	-	(16,035,349)	(16,035,349)
Disposals/retirement	-	(5,907,605)	(4,777,289)	(943,630)	(9,589,874)	(21,218,398)
Balance at end of year	61,349,052	226,759	4,126,471	3,819,500	9,117,150	78,638,932
Net Book Value	P39,961,309	P24,927,463	P6,813,679	P5,696,141	P2,612,401	P80,010,993

In 2017, the Company reclassified certain software application from EDP equipment under Property and equipment account to Intangible assets (see Note 13).

The Company sold certain fully depreciated assets and recognized gains amounting to P10,631 and P34,176 in 2018 and 2017, respectively, and is presented as part of Gain on sale of non-financial assets under Investment and Other income and expenses account in the statements of income (see Note 19).

The original cost of fully depreciated property and equipment that are still in use amounted to P10.27 million and P23.03 million as at June 30, 2018 and December 31, 2017, respectively.

13. OTHER ASSETS

This account is composed of the following:

	June 30, 2018	December 31, 2017
Input VAT	**P213,902,373**	P215,233,061
Funds at Lloyd's	**199,531,929**	186,114,728
Creditable withholding tax	**46,538,939**	102,771,246
Intangible assets – net	**13,462,896**	9,881,816
Deferred tax assets	**10,991,343**	-
Deferred withholding VAT	**9,202,886**	9,202,886
Deferred creditable tax	**7,515,014**	7,666,232
Defined benefit asset	**5,260,108**	9,239,837
Prepayments	**4,127,690**	9,107,318
Investment properties – net	**3,704,909**	2,824,909
Deposit	**890,861**	842,861
Security fund	**643,925**	643,925
Deferred input VAT	**556,548**	446,607
Others	**138,011**	138,013
	516,467,432	554,113,439
Allowance for impairment	**(215,233,061)**	(215,233,061)
	P301,234,371	P338,880,378

Input VAT

There was no movement in the allowance for impairment of Input VAT in 2018.

Funds at Lloyd's

In December 2016, the Company entered into a quota share reinsurance treaty contract with a member of the Lloyd's effective January 1, 2017, whereby the Company was required to establish its share of the Funds at Lloyd's. As at June 30, 2018 and December 31, 2017, Funds at Lloyd's amounted to U.S. $3.73 million.

Intangible Assets

Intangible assets pertain to acquired computer software licenses used in operation and administration. The gross carrying amount and accumulated amortization of intangible assets as at June 30, 2018 and December 31, 2017 are as follows:

	June 30, 2018	December 31, 2017
Cost	**P143,978,008**	P138,655,695
Accumulated amortization	**(130,515,112)**	(128,773,879)
Balance at end of period	**P13,462,896**	P9,881,816

A reconciliation of the carrying amount of intangible assets is shown below.

	June 30, 2018	December 31, 2017
Balance at beginning of period, net of accumulated amortization	**P9,881,816**	P6,228,834
Additions	**5,322,313**	5,785,626
Reclassification	**-**	4,658,379
Retirement	**-**	(4,053,546)
Amortization	**(1,741,233)**	(2,737,477)
Balance at end of period, net of accumulated amortization	**P13,462,896**	P9,881,816

Prepayments

Prepayments are mostly software licenses and support maintenance costs and prepaid health and group life insurance premiums of the Company.

Investment Properties

Investment properties consist mainly of land, with improvements, which are owned for capital appreciation. In 2018, the Company reclassified certain investments from AFS financial assets to investment properties (see Note 6).

The carrying amount of the investment properties amounted to P3.70 million and P2.82 million as at June 30, 2018 and December 31, 2017, respectively.

These properties are classified as Level 3 in the fair value hierarchy. The total estimated fair value based on the latest available selling price of the properties obtained by the Company amounted to P11.08 million and P7.20 million as at June 30, 2018 and December 31, 2017, respectively.

Security Fund

Security fund represents amount deposited with the IC, as required by the IC, and in instances of the Company becoming insolvent, can be used as payment for valid claims against the Company. The balance of the fund earns interest at rates determined by the IC annually.

14. REINSURANCE BALANCES PAYABLE

The details of this account are as follows:

	June 30, 2018	December 31, 2017
Due to retrocessionaires	**P1,445,013,463**	P1,235,347,278
Funds held for retrocessionaires	**30,289,444**	34,290,840
	P1,475,302,907	P1,269,638,118

Due to retrocessionaires are unpaid retroceded premiums to retrocessionaires. Funds held for retrocessionaires represent portion of the reinsurance premium ceded to retrocessionaires, which were withheld by the Company in accordance with reinsurance agreements. The Company's payments of these reinsurance liabilities are netted by the retrocessionaires' share in underwriting costs and losses paid.

The movements in these accounts are shown below.

	Due to retrocessionaires	Funds held for retrocessionaires	Total
June 30, 2018			
Balance at beginning of period	**P1,235,347,278**	**P34,290,840**	**P1,269,638,118**
Retroceded premiums net of funds held during the period	**628,035,006**	**-**	**628,035,006**
Funds held during the period	**-**	**(10,550)**	**(10,550)**
Funds released during the period	**4,357,022**	**(4,357,022)**	**-**
Payments made during the period	**(424,632,354)**	**-**	**(424,632,354)**
Revaluation adjustment	**1,906,511**	**366,176**	**2,272,687**
Balance at end of period	**P1,445,013,463**	**P30,289,444**	**P1,475,302,907**
December 31, 2017			
Balance at beginning of year	P1,029,493,913	P57,437,019	P1,086,930,932
Retroceded premiums net of funds held during the year	828,267,777	-	828,267,777
Funds held during the year	-	13,160,712	13,160,712
Funds released during the year	36,306,891	(36,306,891)	-
Payments made during the year	(655,318,199)	-	(655,318,199)
Revaluation adjustment	(3,403,104)	-	(3,403,104)
Balance at end of year	P1,235,347,278	P34,290,840	P1,269,638,118

15. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

	June 30, 2018	December 31, 2017
Accounts payable	**P31,427,083**	P15,287,274
Deferred output VAT	**29,021,523**	30,723,427
Accrued expenses	**25,688,706**	17,711,075
Withholding taxes payable	**4,766,699**	6,751,480
Deferred tax liability	**-**	2,275,821
Dividends payable	**2,542,535**	2,542,535
	P93,446,546	P75,291,612

Accounts payable includes non-interest bearing amounts that are already due to suppliers and advances received for services to be rendered in the future.

Deferred output VAT pertains to VAT from the sale of goods and services that are still outstanding as at balance sheet date. These amounts are not due for remittance to the BIR until the receivables are collected.

Accrued expenses include amounts pertaining to accruals of outside services, utilities, uniforms, membership dues and meeting expenses.

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

16. PREMIUM RESERVES

The movements in Premium reserves are as follows:

	June 30, 2018	December 31, 2017
Balance at beginning of period	**P1,339,837,217**	P1,337,254,844
Reinsurance premiums written	**1,748,562,752**	3,205,113,517
Reinsurance premiums earned	**(1,562,719,176)**	(3,202,531,144)
Balance at end of period	**P1,525,680,793**	P1,339,837,217

The increase or decrease in Premium reserves for the period is included as part of Increase in premium reserves - net in the statements of income.

17. DEFERRED REINSURANCE COMMISSIONS

The movements in Deferred reinsurance commissions are as follows:

	June 30, 2018	December 31, 2017
Balance at beginning of period	**P5,435,218**	P41,201,206
Income deferred during the period	**(1,253,532)**	32,621,731
Income earned during the period	**(2,624,588)**	(68,387,719)
Balance at end of period	**P1,557,098**	P5,435,218

The increase or decrease in Deferred reinsurance commissions for the period is presented as part of Commissions – net under Underwriting deductions in the statements of income (see Note 20.2).

18. LOSSES AND CLAIMS PAYABLE

The details of this account are as follows:

	June 30, 2018	December 31, 2017
Outstanding loss reserves	**P4,855,212,539**	P4,964,958,362
Reserves for IBNR losses	**1,688,620,477**	1,378,611,270
	P6,543,833,016	P6,343,569,632

Losses and claims payable are losses due to ceding companies under reinsurance agreements inclusive of reserves for IBNR losses, loss adjustment expenses payable and MfAD as shown below.

	Outstanding loss reserves	Reserves for IBNR losses	Total
June 30, 2018			
Balance at beginning of period	**P4,964,958,362**	**P1,378,611,270**	**P6,343,569,632**
Increase in outstanding loss reserves during the period, net	**457,299,035**	**-**	**457,299,035**
Increase in IBNR losses during the period, net	**-**	**310,009,207**	**310,009,207**
Claims paid during the period	**(623,272,591)**	**-**	**(623,272,591)**
Revaluation adjustment	**56,227,733**	**-**	**56,227,733**
Balance at end of period	**P4,855,212,539**	**P1,688,620,477**	**P6,543,833,016**
December 31, 2017			
Balance at beginning of year	P5,685,539,491	P1,043,265,750	P6,728,805,241
Increase in outstanding loss reserves during the year, net	468,098,875	-	468,098,875
Increase in IBNR losses during the year, net	-	335,345,520	335,345,520
Claims paid during the year	(1,159,241,566)	-	(1,159,241,566)
Revaluation adjustment	(29,438,438)	-	(29,438,438)
Balance at end of year	P4,964,958,362	P1,378,611,270	P6,343,569,632

19. INVESTMENT AND OTHER INCOME AND EXPENSES

The details of this account follow:

	June 30, 2018	June 30, 2017
Gain on sale of AFS financial assets	**P121,724,251**	P34,585,231
Interest income	**106,338,395**	94,148,439
Foreign exchange gain (loss)	**69,088,975**	4,223,931
Dividend income	**29,888,208**	33,453,787
Gain on sale of property & equipment	**10,631**	34,176
Other charges	**(2,868,250)**	(3,808,989)
	P324,182,210	P162,636,575

20. UNDERWRITING DEDUCTIONS

20.1 Share in Claims and Losses – net

This account represents the aggregate amount of the Company's share in net claims and losses relative to its reinsurance agreements.

	June 30, 2018	June 30, 2017
Claims paid	**P623,272,591**	P698,033,292
Retrocessionaires' share in claims paid	**(80,202,659)**	(101,536,033)
Change in provision for claims reported	**(165,973,556)**	(189,204,599)
Retrocessionaires' share in change in provision for claims reported	**120,847,478**	178,324,066
Change in provision for IBNR losses	**310,009,207**	220,288,206
Retrocessionaires' share in change in provision for IBNR losses	**10,683,524**	(73,506,263)
	P818,636,585	P732,398,669

20.2 Commissions – net

This account consists of the following:

	June 30, 2018	June 30, 2017
Commission expense	**P336,844,379**	P305,839,650
Commission income	**(2,624,588)**	(31,074,423)
	P334,219,791	P274,765,227

Commission expense refers to fees charged by ceding companies and brokers in relation to reinsurance agreements assumed by the Company, while commission income pertains to fees charged by the Company related to reinsurance premiums retroceded under retrocession agreements.

21. GENERAL AND ADMINISTRATIVE EXPENSES

The details of this account follow:

	June 30, 2018	June 30, 2017
Salaries and employee benefits	**P71,374,858**	P59,480,684
Impairment losses	**32,824,318**	-
Taxes, licenses and fees	**11,486,165**	5,604,055
Professional fees	**9,196,072**	18,815,991
Data, licenses and subscriptions	**7,367,357**	3,735,158
Depreciation and amortization	**6,985,683**	6,878,798
Communication and postages	**3,620,131**	3,512,273
Repairs and maintenance	**3,092,997**	3,871,808
Outsourced functions	**2,746,145**	7,736,965
Dues and fees	**2,497,340**	1,520,087
Meetings, conferences and conventions	**1,238,843**	667,317
Light and water	**1,103,422**	1,072,947
Advertising and marketing	**985,976**	647,117
Insurance	**587,243**	1,206,935
Rent	**542,599**	1,064,773
Printing and office supplies	**401,173**	290,556
Representation and entertainment	**346,189**	281,167
Miscellaneous	**1,213,519**	1,486,926
	P157,610,030	P117,873,557

21.1 Salaries and Employee Benefits

Expenses recognized for salaries and employee benefits are presented below.

	June 30, 2018	June 30, 2017
Short-term employee benefits	**P67,168,291**	P52,602,249
Post-employment defined benefit	**4,206,567**	4,524,879
Compensated absences	**-**	2,353,556
	P71,374,858	**P59,480,684**

22. EQUITY

22.1 Capital Stock

As at June 30, 2018 and December 31, 2017, the Company has authorized shares of 3,000,000,000 and has issued and outstanding shares amounting to P2.12 billion net of treasury shares, which is divided into 2,123,605,600 shares with a par value of P1 per share.

On April 27, 2007, the Securities and Exchange Commission (SEC) approved the listing of the Company's shares totalling 741,902,600. The shares were initially issued at an offer price of P3.80 per share.

As at June 30, 2018 and December 31, 2017, there are 269 and 277 holders of the listed shares, that closed at P1.07 and P0.96 per share, respectively.

As at June 30, 2018 and December 31, 2017 total treasury shares amounted to P100.53 million representing 58,349,000 shares. There were no treasury stock transactions in 2018 and 2017.

22.2 Appropriation for Contingencies

In 1989, the BOD approved the establishment of a special reserve for extraordinarily high loss occurrences or severe catastrophic losses. As such, 10% of profit is set aside as special reserve provided there is no deficit. For the periods ended June 30, 2018 and December 31, 2017, the Company appropriated nil and P5.01 million, respectively, for special reserve.

22.3 Declaration of Cash Dividends

There was no declaration of cash dividends in 2018 and 2017. The total outstanding dividends payable amounted to P2.54 million as at June 30, 2018 and December 31, 2017. These are presented as Dividends payable under the Accounts payable and accrued expenses account in the statements of financial position (see Note 15).

23. RELATED PARTY TRANSACTIONS

The Company's related parties include its stockholders, related parties under common ownership, retirement plan and the Company's key management personnel with which the Company had transactions as described below and in the succeeding pages.

23.1 Reinsurance Contracts with Related Parties

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

	June 30, 2018		June 30, 2017	
	Stockholders	**Related Parties Under Common Ownership**	Stockholders	Related Parties Under Common Ownership
Premiums	**P337,009,889**	**P30,257,226**	P122,520,354	P66,448,130
Retrocessions	-	-	159,629	529,665
Commission income	-	-	866	-
Commission expense	**66,727,960**	**1,205,269**	26,955,607	-
Losses incurred	**281,328,767**	-	57,486,965	-
Loss recoveries	**36,794,534**	-	147,973	-

Reinsurance balances receivable from and payable to related parties arising from above transactions are presented as follows:

	June 30, 2018		December 31, 2017	
	Stockholders	**Related Parties Under Common Ownership**	Stockholders	Related Parties Under Common Ownership
Due from (to) ceding companies	**P266,681,889**	**P1,688,861**	P173,309,900	P61,798,900
Reinsurance recoverable on losses	**26,995,052**	**996,650**	54,851,174	980,970
Funds held by ceding companies	**31,623,851**	-	25,105,468	-
Outstanding loss reserves	**1,233,718,390**	**5,773,523**	1,138,127,115	99,184
Due to retrocessionaires	**24,916,065**	**3,151,640**	7,529,067	3,242,372
Funds held for retrocessionaires	**470,041**	-	1,059,176	-

The balance of Reinsurance balances receivable which is expected to be settled in cash, is presented net of P145.51 million and P145.61 million allowance for impairment as at June 30, 2018 and December 31, 2017, respectively.

23.2 Other Transactions

The Company's other transactions with related parties follow:

		June 30, 2018		December 31, 2017	
		Amount of Transactions	Outstanding Balance	Amount of Transactions	Outstanding Balance
Stockholder:					
Cash and cash equivalents	(a)	**P56,003,866**	**P116,186,237**	(P112,162,911)	P60,182,371
AFS financial assets	(b)	**(18,914,251)**	**103,936,967**	76,754,339	122,851,218
Loans and receivables	(c)	**(9,495)**	**129,426**	44,981	138,921
Interest income - cash and cash equivalents	(a)	**1,046,282**	**59,424**	1,533,091	12,146
Dividend income - AFS financial assets	(b)	**641,094**	**641,094**	1,131,605	1,082,807
Gain on sale of AFS financial assets	(b)	**-**	**-**	1,529,391	-
Service fees	(d)	**1,771,250**	**862,837**	4,376,891	926,140
Related Party Under Common Ownership:					
Cash and cash equivalent	(a)	**144,280,648**	**911,315,953**	(273,752,009)	767,035,305
AFS financial assets	(b)	**1,035,017**	**26,238,893**	(9,848,586)	25,203,876
Loans and receivables	(c)	**29,230**	**50,069,139**	(65,608,597)	50,039,909
Interest income - cash and cash equivalents	(a)	**7,393,925**	**916,744**	14,373,868	1,232,860
Interest income - loans and receivables	(c)	**23,889**	**-**	4,584,723	23,889
Interest income - AFS financial assets	(b)	**455,808**	**-**	919,318	141,136
Service fees	(d)	**512,886**	**194,868**	1,388,179	266,060

(a) Cash and Cash Equivalents

The Company maintains several savings and current accounts with a stockholder and related party under common ownership. Interest income recognized is presented as part of Interest income under Investment and Other income and expenses account in the statements of income (see Note 19).

(b) AFS Financial Assets

The Company has investment in shares of stock of a stockholder and fixed income securities of a related party under common ownership classified as AFS financial assets. Relative to these transactions, the Company recognized dividend income, interest income and trading gains which are presented as part of Investment and Other income and expenses account in the statements of income (see Note 19).

(c) Loans and Receivables

The Company has long-term negotiable certificate of deposit (LTNCD) and note receivables with certain related parties under common ownership. Relative to this, the Company recognized interest income which is presented as part of Interest income under Investment and Other income and expenses account in the statements of income (see Note 19). The LTNCD and notes receivable are unsecured and earn interest of 5% in 2018 and 2017. As at June 30, 2018 and December 31, 2017, management assessed that these receivables are not impaired.

(d) Investment Management and Custodianship

The Company has entered into an "Investment Management Agreement" and "Custodianship Agreement" with a stockholder and an entity under common ownership for the management and custodianship of certain investible funds of the Company subject to terms and conditions in the said agreements. In consideration for the services rendered, the Company pays the stockholder and the affiliate bank service fees equivalent to a certain percentage of the market value of the investments.

Total service fees paid is charged against Other charges under Investment and Other income and expenses account (see Note 19) in the statements of income.

As at June 30, 2018 and December 31, 2017, total amount of investment portfolio managed under these agreements amounted to P2.43 billion and P2.69 billion and outstanding management and custodian fees from these agreements amounted to P1.06 million and P1.19 million, respectively.

23.3 Retirement Fund Investment Management

In 2007, the Company entered into a "Retirement Fund Investment Management Agreement" with certain stockholder for the management of the investments of the Company's retirement funds subject to the terms and conditions in the said agreement.

23.4 Transactions with Retirement Fund

The Company maintains a wholly-funded, tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees. The Company has no transactions with its retirement fund in 2018 and 2017. The retirement fund does not hold any shares of stock of the Company as at June 30, 2018 and December 31, 2017.

23.5 Key Management Personnel Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including director, whether executive or otherwise, of the Company.

The compensation of key management personnel is broken down as follows:

	June 30, 2018	June 30, 2017
Short-term benefits	**P27,335,256**	P20,411,710
Post-employment benefits	**1,476,733**	1,058,153
	P28,811,989	P21,469,863

24. SOLVENCY

Under the New Insurance Code, an insurance company doing business in the Philippines shall at all times maintain the minimum paid-up capital, and net worth requirements as prescribed by the Commissioner. Such solvency requirements shall be based on internationally accepted solvency frameworks and adopted only after due consultation with the insurance industry associations.

Whenever the aforementioned requirement is found to be less than the required to be maintained, the Commissioner shall direct the Company to make good any such deficiency by cash, to be contributed by all stockholders of record in proportion with their respective interests, and paid to the treasurer of the Company, within 15 days from receipt of the order. Provided, that the Company in the interim shall not be permitted to take any new risk of any kind or character unless and until it makes good any such deficiency.

In case that a stockholder pays the contribution due from another stockholder by reason of failure or refusal of the latter to do so, shall have a lien on the certificates of stock of the Company appearing in its books in the name of the defaulting stockholder on the date of default, as well as on any interests or dividends that have accrued or will accrue to the said certificates of stocks, until the corresponding payment or reimbursement is made by the defaulting stockholder.

25. EARNINGS PER SHARE

The earnings per share amounts are as follows:

	June 30, 2018	June 30, 2017
Net income (loss) available to common shareholders	**P53,066,741**	(P15,535,749)
Divided by the average number of outstanding common shares	**2,123,605,600**	2,123,605,600
	P0.02	(P0.01)

Diluted earnings per share is not determined since the Company does not have dilutive shares as at June 30, 2018 and 2017.

26. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Company:

26.1 Operating Lease Commitments – Company as Lessee

The Company is a lessee under various operating leases covering warehouse and parking lots having a term of one year with renewal options. The future minimum rentals payable under this non-cancellable operating lease as at June 30, 2018 and December 31, 2017 is P1.17 million.

Rental expense recognized amounted to P0.54 million and P1.06 million in 2018 and 2017, respectively, and is presented in the statements of income as Rent under General and administrative expenses (see Note 21).

26.2 Legal Claims

The Company is currently involved in various legal proceedings. In consultation with the legal counsel, the related risk has been analyzed as to likelihood of occurrence and amount of future obligation. The Company believes that the outcome of these proceedings as at June 30, 2018 will not have a material adverse effect on the Company's financial position.

26.3 Deficiency Tax Assessments

The Company is in receipt of certain final deficiency tax assessment covering taxable year July 1, 2012 to December 31, 2012, pursuant to which the BIR has sought to investigate certain tax year against the Company and consequently examine certain books, records and accounts that relate to transactions in the ordinary course of business. Pursuant to the Company's policy of addressing such actions in line with prudent business practice, the Company has engaged tax counsel in relation to this matter.

As at June 30, 2018, the final deficiency tax assessment is still under protest. Management believes that the Company has enough basis in law and evidence to support their claim that the Company is not liable for any tax deficiency; hence, no provisions were recognized in the interim condensed financial statements.

26.4 Others

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities that are not given recognition in the accompanying interim condensed financial statements. Management believes that losses as at June 30, 2018, if any, that may arise from these commitments and contingencies will not have any material effect on the interim condensed financial statements.

27. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

27.1 Comparison of Carrying Amounts and Fair Values

The carrying amount and fair value of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

	June 30, 2018		December 31, 2017	
	Carrying Values	**Fair Values**	Carrying Values	Fair Values
Financial assets:				
Loans and receivables:				
Cash and cash equivalents	**P1,475,678,376**	**P1,475,678,376**	P1,310,540,587	P1,310,540,587
Reinsurance balances receivable	**2,186,784,654**	**2,186,784,654**	1,949,930,671	1,949,930,671
Funds at Lloyd's	**199,531,929**	**199,531,929**	186,114,728	186,114,728
Loans and receivables	**132,685,617**	**132,685,617**	201,888,184	201,888,184
	P3,994,680,576	**P3,994,680,576**	P3,648,474,170	P3,648,474,170
AFS financial assets:				
Debt securities	**P2,920,794,246**	**P2,920,794,246**	P3,124,823,394	P3,124,823,394
Equity securities	**2,027,343,138**	**2,027,343,138**	2,369,749,019	2,369,749,019
Investment in ARC	**35,723,191**	**35,723,191**	32,547,556	32,547,556
	P4,983,860,575	**P4,983,860,575**	P5,527,119,969	P5,527,119,969
HTM investments	**P1,224,112,284**	**P1,186,830,004**	P1,034,687,360	P1,027,030,391
Financial liabilities:				
Reinsurance balances payable	**P1,475,302,907**	**P1,475,302,907**	P1,269,638,118	P1,269,638,118
Accounts payable and other accrued expenses	**59,658,324**	**59,658,324**	35,540,889	35,540,889
	P1,534,961,231	**P1,534,961,231**	P1,305,179,007	P1,305,179,007

Due to the short-term duration, management considers the carrying value of the Company's financial assets and financial liabilities approximate their fair value as at the end of the reporting periods. See Notes 2.4 and 2.10 for a description of the accounting policies for each category of financial instrument including the determination of fair value.

28. FAIR VALUE MEASUREMENT AND DISCLOSURES

28.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

28.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Company's financial assets measured at fair value in the statements of financial position on a recurring basis (amounts in thousands Philippine Peso).

	Level 1	Level 2	Level 3	Total
June 30, 2018				
AFS financial assets	**P4,931,093**	**P17,045**	**P35,723**	**P4,983,861**
December 31, 2017				
AFS financial assets	5,476,687	17,885	32,548	5,527,120

The movements of the AFS financial assets classified under Level 3 in the fair value hierarchy is shown below (amounts in thousands Philippine Peso).

	June 30, 2018	December 31, 2017
Balance at beginning of period	**P32,548**	P31,336
Fair value gains	**1,375**	1,157
Foreign currency gains	**1,800**	55
Balance at end of period	**P35,723**	P32,548

The Company has no financial liabilities measured at fair value as at June 30, 2018 and December 31, 2017.

Described below are the information about how the fair value of the Company's classes of financial assets are determined.

a) Equity securities

As at June 30, 2018 and December 31, 2017, instruments included in Level 1 comprise equity securities classified as AFS financial assets. These securities were valued based on their market prices quoted in the PSE at the end of each reporting period.

Golf club shares classified as AFS financial assets are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period. Moreover, investment in equity securities held in a private company is included in Level 3 since its market value is not quoted in an active market, hence, measured by reference to the private company's book value using the most recent available financial data. The estimated fair value will increase (decrease) if the book value increases (decreases).

b) Debt securities

The fair value of the Company's debt securities which consist of government and corporate bonds is estimated by reference to quoted bid price in active market at the end of the reporting period and is categorized within Level 1.

28.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	Level 1	Level 2	Level 3	Total
June 30, 2018				
Financial assets:				
Cash and cash equivalents	P1,475,678,376	P -	P -	P1,475,678,376
Reinsurance balances receivable	-	-	2,186,784,654	2,186,784,654
HTM investments	1,186,830,004	-	-	1,186,830,004
Loans and receivables	-	-	132,685,617	132,685,617
Funds at Lloyd's	-	-	199,531,929	199,531,929
	P2,662,508,380	P -	**P2,519,002,200**	**P5,181,510,580**
Financial liabilities:				
Reinsurance balances payable	P -	P -	1,475,302,907	1,475,302,907
Accounts payable and other accrued expenses	-	-	59,658,324	59,658,324
	P -	**P -**	**P1,534,961,231**	**P1,534,961,231**

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Financial assets:				
Cash and cash equivalents	P1,310,540,587	P -	P -	P1,310,540,587
Reinsurance balances receivable	-	-	1,949,930,671	1,949,930,671
HTM investments	1,027,030,391	-	-	1,027,030,391
Loans and receivables	-	-	201,888,184	201,888,184
Funds at Lloyd's	-	-	186,114,728	186,114,728
	P2,337,570,978	P -	P2,337,933,583	P4,675,504,561
Financial liabilities:				
Reinsurance balances payable	P -	P -	P1,269,638,118	P1,269,638,118
Accounts payable and other accrued expenses	-	-	35,540,889	35,540,889
	P -	P -	P1,305,179,007	P1,305,179,007

For financial assets, other than AFS financial assets, with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

28.4 Fair Value Measurement for Non-financial Assets

The Company used market comparable approach as a valuation technique in measuring the fair value of its investment properties to arrive at fair value that is more representative of the investment properties' highest and best use. As at June 30, 2018 and December 31, 2017, the fair value of the investment properties is P11.08 million and P7.20 million, respectively, classified under Level 3 of the fair value hierarchy (see Note 13). The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value.

29. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objectives are (a) to ensure the Company's ability to continue as a going concern; and, (b) to provide an adequate return to shareholders by complying with the capital requirements and limitation enforced by the IC and by aligning the Company's operational strategy to its corporate goals. The capital requirements and limitations are as follows:

29.1 Minimum Capitalization

Under Section 289 of the RA 10607 (The New Insurance Code), any partnership, association, or corporation authorized to transact solely reinsurance business must have a capitalization of at least P3,000,000,000 paid in cash of which at least 50% is paid-up capital and the remaining portion thereof is contributed surplus, which in no case shall be less than P400,000,000 or such capitalization as may be determined by the Secretary of Finance, upon the recommendation of the Commissioner.

The IC issued Circular Letter No. 2015-02-A dated January 13, 2015, to clarify the minimum capitalization requirements under Sections 194, 197, 200 and 289 of RA 10607. Under the said circular letter, all existing reinsurance companies authorized to transact solely reinsurance business must have a networth of at least P2,250,000,000 by December 31, 2016. The minimum networth of the said companies shall remain unimpaired at all times and shall increase to the amounts as follows:

Minimum Networth	Compliance Date
P2,500,000,000	December 31, 2019
3,000,000,000	December 31, 2022

As at June 30, 2018, the Company has complied with the minimum capital requirements.

29.2 Risk-Based Capital Requirements

As per Insurance Memorandum Circular No. 7-2006, every non-life insurance company is annually required to maintain a minimum Risk-Based Capital (RBC) ratio of 100%. RBC ratio is computed by dividing the Company's net worth by an RBC requirement prescribed by the IC. The RBC requirement is determined after considering the admitted value of certain financial statement accounts whose final amounts can be determined only after the examination by the IC.

29.3 Limitation on Dividend Declaration

The Company's BOD is authorized to declare dividends. A cash dividend declaration does not require any further approval from the stockholders. However, a stock dividend declaration requires further approval of the stockholders holding or representing not less than two-thirds of the Company's outstanding capital stock. Dividends may be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as and at such times as the BOD may determine and in accordance with law.

Section 201 of the New Insurance Code provides that a domestic insurance company shall declare or distribute dividends on its outstanding stock unless it has met the minimum paid-up capital and net worth requirements under Section 194 and except from profits attested in a sworn statement to the Commissioner by the president or treasurer of the corporation to be remaining on hand after retaining unimpaired:

- the entire paid-up capital stock;
- the solvency requirements defined by Section 200;
- the legal reserve fund required by Section 219; and,
- a sum sufficient to pay all net losses reported or in the course of settlement and all liabilities for expenses and taxes.

The Company is required to report such dividend declaration or distribution to the IC within 30 days from the date of such declaration.

Moreover, the SEC, through its Memorandum Circular 11 dated December 5, 2008 has set guidelines in determining the appropriate amount of Retained Earnings available for dividend distribution. This shall be based on the net profit for the year based on the audited financial statements, adjusted for unrealized items which are considered not available for dividend declaration. These unrealized items consist of the following:

- share/equity in net income of the associate or joint venture;
- unrealized foreign currency gains, except those attributable to cash and cash equivalents;
- unrealized actuarial gains arising from the exercise of the option of recognizing actuarial gains or losses directly to the statement of comprehensive income;
- fair value adjustment arising only from marked-to-market valuation which are not yet realized;
- the amount of deferred tax asset that reduced the amount of income tax expense;
- adjustment due to deviation from PFRS/Generally Accepted Accounting Principles which results to gain; and,
- other unrealized gains or adjustments to the retained earnings.

30. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following basic ratios measure the financial performance of the Company:

	June 30, 2018	December 31, 2017
Asset-to-equity	3.05 : 1.00	2.72 : 1.00
Liability-to-equity	2.05 : 1.00	1.72 : 1.00

31. 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:

• Explanatory comments about the seasonality or cyclicality of interim operations	• Nothing to report.
• 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	• Nothing to report.
• The nature and amount of changes in estimates of amounts reported in prior interim years 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 year	• Please refer to Note 3 for the development of claims liabilities.
• Issuances, repurchases, and repayments of debt and equity securities	• Nothing to report.
• Dividends paid (aggregate or per share) separately for ordinary shares and other shares	• Nothing to report.
• 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)	• Nothing to report.
• Material events subsequent to the end of the interim year that have not been reflected in the financial statements for the interim year	• Nothing to report
• The effect of changes in the composition of the issuer during the interim year, including business combinations, acquisitions or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations	• Nothing to report.
• Changes in contingent liabilities or contingent assets since the last annual balance sheet date	• Nothing to report.
• Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim year.	• Nothing to report.

AGING OF REINSURANCE BALANCES RECEIVABLE

As at June 30, 2018
(In million pesos)

	Total	Below 360 days	Over 360 days	Not Due
Due from Ceding Companies	2,312	98	182	2,032
Reinsurance recoverable on paid losses	442	34	301	107
Funds Held by Ceding companies	105	105	-	-
	2,859	237	483	2,139
Allowance for impairment*	(672)			
	2,187			

*The company's policy on providing allowance for impairment is primarily based on specific identification of accounts, which are deemed uncollectible after taking into consideration the result of collection efforts, age of receivables and company status or perceived degree of financial capacity.