



NAT Rē

NATIONAL  
REINSURANCE  
CORPORATION  
OF THE PHILIPPINES



2019 ANNUAL  
FINANCIAL AND  
SUSTAINABILITY  
REPORT

**With our knowledge of the local market stemming from more than four decades of on-the-ground presence, and our strong collaboration with insurance industry stakeholders, we will help you grow, manage risks, and thrive in the long term.**

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**The National Reinsurance Corporation of the Philippines or Nat Re** provides life and non-life reinsurance capacity, and, in relation to this, offers consultancy, technical, and advisory services to direct insurers. These services allow Nat Re’s clients to better manage their retentions and capital, to maximize their net premiums given their risk appetites, and to execute their roadmaps to competitiveness.

Nat Re also stimulates know-how transfer in the industry by helping build its clients’ capabilities in underwriting, product development, pricing, retention setting, and reinsurance program analysis. It continuously derives insights from experience and shares with its partners its knowledge of the Philippine insurance market, and curated global best practices in reinsurance.

Nat Re’s shares are listed on the Philippine Stock Exchange and are traded as the stock symbol NRCP.



# OUR VISION

Nat Re strives to be the champion of insurers in the Philippines and a recognized partner in other emerging markets in Asia.

# OUR MISSION

Nat Re exists to:

- Promote and develop a strong national insurance industry and support its integration in the country’s economic and social development
- Achieve a higher and sound national risk retention by developing a well-coordinated and efficient machinery in reinsurance
- Help maximize regional risk retention by participating in regional and international cooperation in insurance and reinsurance

We help:

- Insurers and reinsurers manage their retentions and capital, and support their growth objectives by providing reinsurance capacity, consulting and capacity-building services as well as sharing curated global best practices
- Our workforce to develop leaders and mentors in (re)insurance
- Governments to realize sustainable financial inclusion through (re)insurance public-private partnerships
- Our shareholders realize fair returns

# OUR VALUES



DEPENDABILITY

You can rely on us to deliver on our promises and take responsibility for our actions and results. We are here for you for the long term.



INTEGRITY

We hold ourselves to the highest standards of ethics, professionalism, trustworthiness, and honor. We are committed to protect you and safeguard the privacy of your information.



SERVICE EXCELLENCE

We are fast, responsive, reliable and empathetic in meeting your needs. We aspire for the best quality in all that we do.



COLLABORATION

We believe in the synergy in working with other stakeholders to achieve our goals.



EMPIRICISM

We make sound decisions and recommendations based on credible data or empirical evidence. We continuously derive knowledge and insights from experience.



SUSTAINABILITY

In all that we do, we consider not only the long-term impact on our business and the domestic insurance industry but also our shared responsibility to the larger society, national economy, and global environment.

# CHAIRMAN'S AND CEO'S MESSAGE TO SHAREHOLDERS

**"Our achievements in 2019 push us to sustain our positive results in the coming years."**



Wilfredo C. Maldia Chairman

## DEAR SHAREHOLDERS,

**W**e are pleased to present to you the achievements of your Company, Nat Re, for the year 2019. To put some context behind its performance, allow us first to report on developments in the Philippine national economy and the insurance industry.

The Philippines' GDP grew at 5.9% in 2019, dipping below the 6-percent mark for the first time in eight years. While services and industry continued to drive growth, the delayed passage of the 2019 government budget and the election ban on infrastructure projects dampened the national economy's expansion.

Operating performance of global reinsurers for 2019 was generally strong in the first three quarters due to growing premiums, lower natural catastrophe losses, and a favorable investment environment; however, it was diluted in the fourth quarter when catastrophic events hit.<sup>1</sup> Insured losses from major natural catastrophes amounted to around USD 53 billion with an estimated USD 15 billion caused by Typhoons Hagibis and Faxai.<sup>2</sup> As a result, the 2019 average reported combined ratio of global reinsurers inched up slightly from a year ago to 100.6%.<sup>3</sup>

In the Philippines, insurance industry premiums grew by 5% year-on-year, with the Non-life sector growing by 15.7% and Life sector by 2.3%.

These growth rates are on the back of an increase in the regulatory minimum net worth requirement for insurers from P550 million to P900 million which resulted in a few company mergers. A series of earthquakes from Batanes to Mindanao and several typhoons, such as Kammuri and Phanfone, also affected the industry. Aside from these natural disasters, a number of large fires caused billions of pesos in losses.



**Net income of P157 million**  
Sixth straight year of positive net income

However, we are pleased to report that Nat Re delivered its sixth straight year of favorable operating results, posting a net profit of P157 million and total comprehensive income of P533 million.



Allan R. Santos President and CEO

<sup>1</sup> Reinsurance Market Outlook 2020, Aon

<sup>2</sup> Willis Re Summary of Natural Catastrophe Events 2019

<sup>3</sup> Reinsurance Market Report, Results for Full-year 2019, Willis Re



**Awarded by  
The Asset as a Top  
Investment House**  
in Asian Local Currency  
Bonds in the Philippines

Underwriting income was P136 million, marking our fifth straight year of positive underwriting results. We also generated investment income of P349 million, owing to our timely action when the Philippine stock market index rallied to 8,200 levels and when peso interest rates were still high. We are honored to have been recognized by The Asset, a widely recognized global business news and research organization, in their 2019 Asset Benchmark Research Awards. We were awarded as one of the Top Investment Houses in Asian Local Currency Bonds in the Philippines.



**Gross written premiums  
breaching P4 billion.  
Net written premiums  
exceeding P3 billion.**

This was a record year for Nat Re in terms of gross written premiums (GWP) as we surpassed the P4-billion mark; net written premiums (NWP) meanwhile exceeded P3-billion. Both metrics grew at double digits—18% for GWP and 27% for NWP—which means we outpaced the growth of the Philippine insurance industry in 2019.

Our combined ratio improved by more than three percentage points to 104.1%, driven by a substantial decrease in expense ratio from 13.7% in 2018 to now just 8.4%. Our capital position also remains very strong. As of end-2019, our risk-based capital ratio was at 268% well beyond the 100% minimum set by the regulator.



**Launched reinsurance  
facilities** for sabotage &  
terrorism insurance, financial  
lines, and surety

In our Non-life Business, the year 2019 marks the launch of our first sabotage & terrorism, financial lines, and surety reinsurance facilities, where we pool the risks and share a significant proportion with the local industry. We also garnered the support of the Insurance Commission (IC) and the Philippine Insurers and Reinsurers Association (PIRA) to develop and implement a domestic catastrophe insurance facility, which will promote the sustainable growth of catastrophe insurance and strengthen disaster resilience in the country. We also re-established our participation in the reinsurance of the Government Service Insurance System (GSIS), as it started recognizing the mandatory 10% cession to Nat Re in its bidding process. These efforts helped our domestic Non-life business grow by 13% as we reduced our foreign business by 3%. Non-life underwriting income however was negative P171 million due to losses from the Japan typhoons and the large domestic fires.



**Expanded client base  
to include four new life  
cedants and several  
cooperatives**

Our Life reinsurance business had a stellar year in 2019. Gross written premiums from this line shot up 53% to P1.7 billion, while underwriting income increased by 48% to P307 million. We expanded our client base by acquiring four new cedants and covering cooperatives in provinces

outside of Metro Manila. We continued building capabilities of the technical professionals of our client Life companies. We provided a host of training tailor-fit to their needs such as individual medical underwriting, group insurance pricing, and claims evaluation. We also expanded the use of the Nat Re Online Risk Manual (NORM), Nat Re's very own Life underwriting online manual, to twenty-one ceding companies out of the twenty-eight total.

Our Annual Technical Forum this year was well-received by our Non-life and Life clients and the insurance regulator. Our discussions revolved around agriculture and catastrophe insurance, artificial intelligence and machine learning in Life insurance, and e-commerce.

Nat Re's support services once again helped prop up our business units' performance.



**Employee engagement  
score up 17 percentage  
points** compared to our  
2017 score

Our human resources initiatives resulted in an improved employee engagement score, which is up 17 percentage points from our 2017 score. We saw improvement in all categories measured which are leadership, purpose, relationships, attitude towards change, helpful mechanisms, rewards, structure, and job satisfaction.

Our investments and technology teams launched Trubanker, an investment management system that allows efficient recording and reporting of all investment trades and settlement activities

including automatic creation of data for our accounting system.

Our finance and claims units continued process improvement so we can serve our clients more efficiently, especially when it comes to claims settlements. Currently, our average turnaround time for processing claims payments with complete documentation is 5-7 days.



**Produced our first  
Business Continuity  
manual and passed the  
business continuity  
scenario tests**

We enhanced our corporate governance, operational controls and risk management. In 2019, we were ranked by the Institute of Corporate Directors as second among the top performers in corporate governance out of fifty-six Non-life insurance companies in the Philippines. We got our Business Continuity Management System off the ground by producing our first Business Continuity Manual, creating an Emergency Response Team, and passing the Business Continuity scenario tests. We established ownership of various risks within the Company and launched a risk control and assessment exercise with each risk owner.

Your Company stepped up its role further as the national reinsurer by participating in various insurance industry- and country-wide efforts to promote financial inclusion and disaster risk financing and insurance.



### Elevated our role as the Philippines' national reinsurer

This year, Nat Re became a member of the Climate Risk Insurance National Task Force and Working Group created under the Regulatory Framework Promotion of Pro-poor Insurance Markets (RFPI) project of the German development aid agency GIZ. This project aims to engage the Philippine government to support the private insurance industry in developing sustainable climate risk insurance solutions for low-income groups and micro, small and medium enterprises. We are also a member of the technical working group of the public-private crop insurance pilot project of the Philippine Crop

Insurance Corporation aimed at involving the private sector in crop insurance. We continued to manage the Oasis project and hosted two capacity-building workshops on climate input data and catastrophe modelling for over a hundred participants from the government, the academe, the insurance industry, and the non-profit sector.

Nat Re also participated in various regional (re)insurance initiatives.

Your CEO was elected as the chairman of the ASEAN Reinsurance Working Committee, created by the ASEAN Insurance Council. Nat Re also joined the Asia Guarantee and Credit Insurance Association, the first association for guarantee

and credit insurance insurers in Asia, as one of its founding members. To further build the capabilities of our Non-life underwriters, help us develop new products and services, and open doors to new business opportunities, we signed a memorandum of understanding with Taiping Re, an Asia-based reinsurance company.



### Renewed our commitment to a more sustainable economy, environment, and society

Nat Re has also made significant strides this year in proactively elevating its role in society and the environment.

Your Board of Directors established our Company's sustainability policy, which will be our guide in integrating a philosophy of sustainable development into our business. In line with this, we launched our maiden sustainability report which presents our assessment of the wider economic, environmental, and social impacts of our business as well as our corporate social responsibility efforts.

These achievements in 2019 push us to sustain our positive results in the coming years.

In the next year, we endeavor to deliver strong operating performance and further cultivate client intimacy. We will aim to sustain our profitable Life business and, on Non-life, maximize the GSIS opportunity and work with PIRA and the IC towards the launch of the catastrophe facility.

To allow us to better manage this expected growth in our business, we will further elevate technical and risk management capabilities and promote a fully engaged and high-performance culture. We will augment these risk management and human capital initiatives by continuing to invest in process improvement and technology.

Lastly, we will fulfill our sustainability commitment. In the next cycle, we'll begin putting our annual financial and sustainability reports in one publication to holistically present the steps we are taking towards a stronger economy, a cleaner environment, and a healthier society.

We thank you, our stockholders, for your continued trust in your Board of Directors, your management, and your workforce. As always, we look forward to your valuable support in our ongoing and future initiatives.

*Wilfredo C. Maldia*  
**WILFREDO C. MALDIA**  
Chairman

*Allan R. Santos*  
**ALLAN R. SANTOS**  
President and CEO

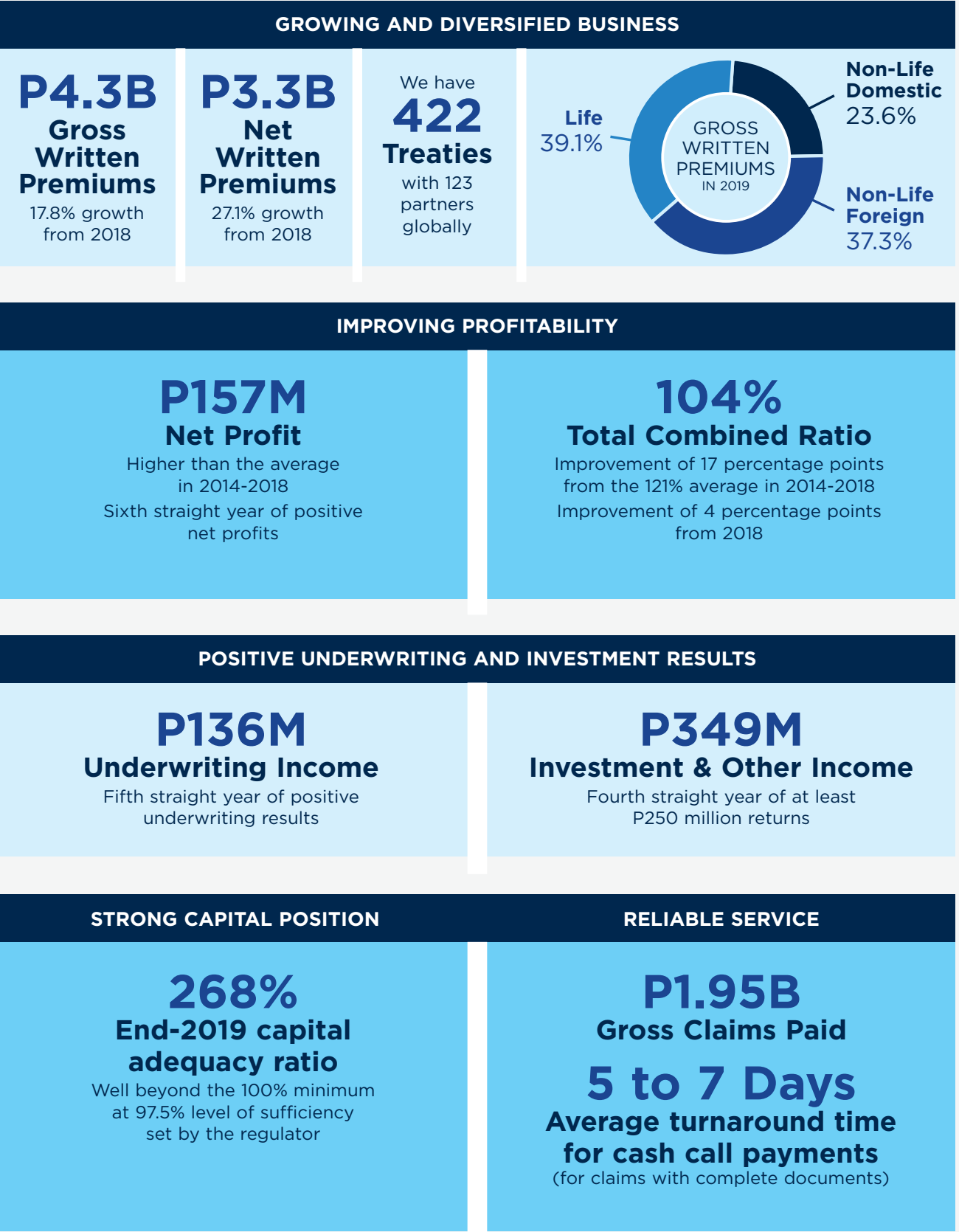
# FINANCIAL HIGHLIGHTS

## KEY METRICS

Amounts in million pesos unless otherwise specified

	2019	2018	2017	2016	2015	2014
Gross written premiums	4,339	3,683	3,205	3,384	2,183	2,747
Net written premiums	3,274	2,576	2,364	1,693	929	1,022
Underwriting income (loss)	136	153	237	119	230	(72)
Investment & other income	349	389	255	282	507	433
Net profit	157	149	83	27	179	8
Total assets	14,982	13,871	14,175	14,074	13,439	14,188
Stockholders' equity	5,360	4,827	5,288	4,854	4,907	5,114
Book value per share (in pesos)	2.52	2.27	2.49	2.29	2.31	2.41
Return on average equity	3.08%	3.00%	1.60%	0.60%	3.60%	0.16%
Expense ratio <sup>1</sup>	8%	14%	15%	27%	56%	36%
Commission ratio <sup>2</sup>	30%	30%	27%	30%	28%	35%
Loss ratio <sup>3</sup>	65%	64%	62%	60%	46%	74%
Combined ratio <sup>4</sup>	104%	108%	104%	117%	130%	145%

<sup>1</sup> Ratio of general and administrative expenses to net earned premiums  
<sup>2</sup> Ratio of commissions (net) to net earned premiums  
<sup>3</sup> Ratio of share in losses (net) to net earned premiums  
<sup>4</sup> Represents total combined ratio which is the ratio of share in losses (net), commission (net), and general and administrative expenses to net earned premiums



# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

REVIEW OF 2019 VERSUS 2018

## RESULTS OF OPERATIONS

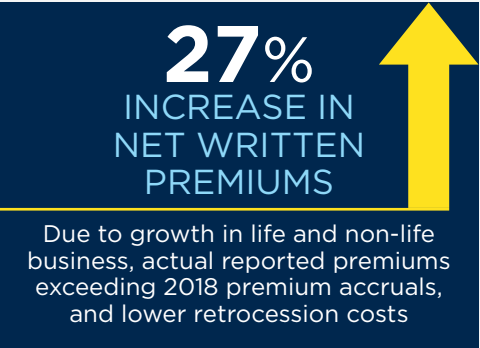
In Millions PhP	For the years ended		Inc(dec)	
	31 Dec 2019	31 Dec 2018	Amount	%
<b>REINSURANCE PREMIUM INCOME</b>				
Reinsurance premiums, net of returns	P4,338.5	P3,682.9	P655.6	17.8%
Retroceded premiums	(1,064.2)	(1,106.8)	42.6	-3.8%
Net written premiums	3,274.3	2,576.1	698.2	27.1%
Increase in premium reserves – net	(81.1)	(9.9)	(71.2)	719.2%
	<b>3,193.2</b>	<b>2,566.2</b>	<b>627.0</b>	<b>24.4%</b>
<b>UNDERWRITING DEDUCTIONS</b>				
Share in reported losses – net	1,806.6	1,051.5	755.1	71.8%
Share in unreported loss reserves – net	281.6	588.6	(307.0)	-52.2%
Commissions – net	968.6	773.4	195.2	25.2%
	<b>3,056.8</b>	<b>2,413.5</b>	<b>643.3</b>	<b>26.7%</b>
<b>NET UNDERWRITING INCOME</b>				
	<b>136.4</b>	<b>152.7</b>	<b>(16.3)</b>	<b>-10.7%</b>
Interest	314.8	224.7	90.1	40.1%
Gain on sale of AFS	79.8	131.1	(51.3)	-39.1%
Foreign currency gains (losses)	(26.2)	43.2	(69.4)	-160.6%
Others	(19.1)	(9.5)	(9.6)	101.1%
<b>INVESTMENT AND OTHER INCOME AND EXPENSES- Net</b>				
	<b>349.3</b>	<b>389.5</b>	<b>(40.2)</b>	<b>-10.3%</b>
<b>PROFIT AFTER INVESTMENT AND OTHER INCOME AND EXPENSES</b>				
	<b>485.7</b>	<b>542.2</b>	<b>(56.5)</b>	<b>-10.4%</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
	268.5	350.3	(81.8)	-23.4%
<b>PROFIT BEFORE TAX</b>				
	<b>217.2</b>	<b>191.9</b>	<b>25.3</b>	<b>13.2%</b>
<b>TAX EXPENSE</b>				
	60.5	42.7	17.8	41.7%
<b>NET PROFIT</b>				
	<b>156.7</b>	<b>149.2</b>	<b>7.5</b>	<b>5.0%</b>

The Company recorded a net profit of P156.7 million for the year ended December 31, 2019, P7.5 million or 5.0% higher than the net profit recognized in 2018. The Net Profit resulted from generating Net Underwriting Income of P136.4 million, and Investment and Other Income and Expenses of P349.3 million negated by General and Administrative Expenses of P268.5 million and Tax Expense of P60.5 million.

### Underwriting Results

Net underwriting income amounted to P136.4 million, lower by P16.3 million or 10.7% compared to 2018. Lower net underwriting income was mainly due to higher underwriting deductions by P643.3 million or 26.7% from P2.4 billion in 2018 to P3.1 billion in 2019 resulting mainly from higher share in reported losses and share in unreported loss reserves. This was partially negated by the increase in Earned premiums by P627.0 million or 24.4%. The increase in Earned premiums was mainly due to growth in reinsurance premiums written and higher retention ratio of premiums written in 2019 that resulted to higher net written premiums by P698.2 million or 27.1% from P2.6 billion in 2018 to P3.3 billion in 2019.

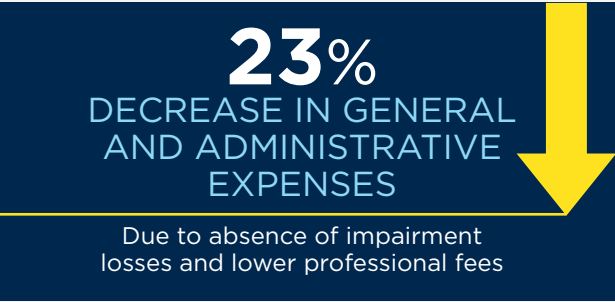
Higher net written premiums in 2019 primarily resulted from growth in both life and non-life businesses, actual reported premiums exceeding 2018 premium accruals, and lower retrocession costs in 2019.



**Share in reported losses, net and Share in unreported loss reserves, net** were higher by P448.1 million or 27.3% in 2019 resulting mainly from higher catastrophe losses, reserves strengthening due to the decline in discount rates and overall growth of our business.

**Commissions, net** amounted to P968.6 million, P195.2 million or 25.2% higher from P773.4 million in 2018, resulting mainly from higher premiums earned, partly negated by higher overriding commissions earned from our proportional retrocession facility.

**Investment and Other income and expenses, net** amounting to P349.3 million was lower by P40.2 million or 10.3% from 2018. This is mainly due to shift to foreign exchange loss of P26.2 million in 2019 from foreign exchange gain of P43.2 million in 2018, lower gain on sale of AFS by P51.3 million, and higher impairment losses recognized amounting to P57.5 million in 2019 compared to the P7.8 million in 2018. These were partially negated by higher interest income in 2019. Foreign exchange loss resulted mainly from strengthening of Peso against USD.



**General and administrative expenses** amounting to P268.5 million was lower by P81.8 million or 23.4% from 2018 mainly due to the absence of impairment losses in 2019 and lower professional fees. The decrease is partly offset by the increase in manpower costs amounting to P14.1 million.

**Tax expense** amounting to P60.5 million was higher by P17.8 million or 41.7% from P42.7 million in 2018 mainly due to higher final taxes brought by higher interest income in 2019.

FINANCIAL CONDITION

(includes explanation on material changes in the financial statements)

In Millions PhP	Audited	Audited	Inc(dec)	
	31 Dec 2019	31 Dec 2018	Amount	%
CASH AND CASH EQUIVALENTS	1,005.0	1,161.9	(156.9)	-13.5%
REINSURANCE BALANCES RECEIVABLE - Net	2,608.8	2,280.1	328.7	14.4%
AVAILABLE-FOR-SALE FINANCIAL ASSETS	4,945.8	4,580.0	365.8	8.0%
HELD-TO-MATURITY INVESTMENTS	2,227.9	1,848.7	379.2	20.5%
LOANS AND RECEIVABLES	80.0	112.5	(32.5)	-28.9%
PROPERTY AND EQUIPMENT - Net	70.4	76.6	(6.2)	-8.1%
REINSURANCE RECOVERABLE ON REPORTED LOSSES	2,288.4	2,374.5	(86.1)	-3.6%
REINSURANCE RECOVERABLE ON CLAIMS RESERVES	319.6	319.0	0.6	0.2%
DEFERRED ACQUISITION COSTS	595.5	405.1	190.4	47.0%
DEFERRED REINSURANCE PREMIUMS	454.0	331.6	122.4	36.9%
OTHER ASSETS	387.1	381.3	5.8	1.5%
TOTAL ASSETS	14,982.5	13,871.3	1,111.2	8.0%
LIABILITIES AND EQUITY				
REINSURANCE BALANCES PAYABLE	1,185.5	1,154.2	31.3	2.7%
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	110.9	90.7	20.2	22.3%
LOSSES AND CLAIMS PAYABLE	4,554.3	4,519.3	35.0	0.8%
CLAIMS RESERVES	1,997.6	1,715.5	282.1	16.4%
PREMIUM RESERVES	1,768.3	1,564.6	203.7	13.0%
DEFERRED REINSURANCE COMMISSIONS	6.3	0.5	5.8	1160.0%
TOTAL LIABILITIES	9,622.9	9,044.8	578.1	6.4%
CAPITAL STOCK	2,182.0	2,182.0	-	0.0%
TREASURY STOCK	(100.5)	(100.5)	-	0.0%
ADDITIONAL PAID-IN CAPITAL	3,019.2	3,019.2	-	0.0%
REMEASUREMENT OF DEFINED BENEFIT LIABILITY	(69.4)	(67.6)	(1.8)	-2.7%
REVALUATION RESERVES	(75.9)	(454.1)	378.2	83.3%
RETAINED EARNINGS	404.2	247.5	156.7	63.3%
TOTAL EQUITY	5,359.6	4,826.5	533.1	11.0%
TOTAL LIABILITIES AND EQUITY	14,982.5	13,871.3	1,111.2	8.0%

The Company’s shareholders’ equity as at December 31, 2019 increased by P533.1 million or 11.0% from P4.8 billion in 2018 to P5.4 billion in 2019. The 11.0% increase resulted mainly from the other comprehensive income brought by market value movements of our Available for Sale securities amounting to P376.4 million and the positive operating results of P156.7 million.

**Cash and cash equivalents** amounting to P1.0 billion was P156.9 million or 13.5% lower than the 2018 balance of P1.2 billion. The decrease in Cash and cash equivalents resulted mainly from the net cash used in operations amounting to P166.8 million, partly offset by the net cash generated from investing activities amounting to P10.7 million.

**Reinsurance balances receivables** amounting to P2.6 billion increased by P328.7 million or 14.4% from the 2018 balance of P2.3 billion. The increase in account is consistent with the growth of the Company’s underwriting operations as discussed in the Results of Operations.

**AFS financial assets** amounting to P4.9 billion as at December 31, 2019 increased by P365.8 million or 8.0% from P4.6 billion as at December 31, 2018. The increase was mainly due to the market value gains from bonds amounting to P390.7 million, acquisitions amounting to P2,848.5 million in both debt and equity securities, and fair value gains on disposal amounting to P79.8 million. These were partially offset by disposal of P2,783.0 million, and foreign exchange loss of P10.6 million.

**Held-to-maturity (HTM) investments** amounting to P2.2 billion as at December 31, 2019 increased by P379.2 million or 20.5% from P1.8 billion as at December 31, 2018. The increase in these investments mainly resulted from the purchase of corporate bonds amounting to P722.2 million, partly offset by maturities amounting to P338.7 million.

**Loans and receivables** amounting to P80.0 million as at December 31, 2019 decreased by P32.5 million or 28.9% mainly due to the maturity of certain bank notes amounting to P50 million, partly negated by the increase in dividend and interest receivable by P29.3 million.

**Property and Equipment - net** amounting to P70.4 million as at December 31, 2019 decreased by P6.2 million or 8.1% from P76.6 million as at December 31, 2018 mostly attributed to the depreciation expense amounting P13.9 million, partly offset by capital expenditures amounting to P7.9 million.

**Deferred acquisition costs** amounting to P595.5 million as at December 31, 2019 increased by P190.4 million from the balance as at December 31, 2018 of P405.1 million. The increase is consistent with the increase in commissions, net as discussed under Results of operations.

**Deferred reinsurance premiums** amounting to P454.0 million as at December 31, 2019 increased by P122.4 million or 36.9% from P331.6 million as at December 31, 2018. The increase in Deferred reinsurance premiums is consistent with the increase in retroceded premiums in 2019 as discussed under Results of operations.

**Accounts payable and accrued expenses** amounting to P110.9 million as at December 31, 2019 increased by P20.2 million or 22.3% from P90.7 million as at December 31, 2018 mainly due to the increase in income tax payable.

**Claims reserves** amounting to P2.0 billion increased by P282.1 million or 16.4% from the balance as at December 31, 2018 of P1.7 billion. The movement is due to the growth of the Company’s underwriting operations in 2019.

**Premium reserves** amounting to P1.8 billion increased by P203.7 million or 13.0% from the balance as at December 31, 2018 of P1.6 billion. The increase is consistent with the increase in gross written premiums in 2019.

**Deferred reinsurance commissions** amounting to P6.3 million increased by P5.8 million from the balance as at December 31, 2018 of P0.5 million. The increase resulted mainly from higher overriding commissions from our proportional retrocession facility as discussed under Results of operations.

# MILESTONES

## YEAR-ROUND

Nat Re re-establishes its participation in the reinsurance of risks of the Government Service Insurance System (GSIS) as the government-owned insurance agency starts recognizing the mandatory 10% cession to Nat Re in its bidding process.

Nat Re signs up four new life cedants, namely CLIMBS, FPG, UCPB Gen, and the Pag-asa ng Pinoy Mutual Benefit Association.

## MARCH

Non-profit organizations Fostering Education & Environment for Development (FEED) and the Haribon Foundation host learning sessions about the impacts of climate change for Nat Re employees. The sessions mark the launch of Nat Re's revamped corporate social responsibility program which advocates environmental sustainability and disaster resilience.

## MAY



Nat Re CEO Allan Santos, representing Nat Re and the Philippine Insurers and Reinsurers' Association (PIRA), joins the Climate Risk Insurance National Task Force, created under the RFPI Asia III project of the German development aid agency GIZ and headed by the Philippines' National Treasurer. Through this project, GIZ aims to engage the government to support the insurance industry in developing sustainable climate risk insurance solutions for low-income groups, the most-at-risk, and micro, small, and medium enterprises.

AM Best affirms Nat Re's B++ credit rating which reflects the company's balance sheet strength, adequate operating performance, neutral business profile, and appropriate enterprise risk management.

In partnership with AIR Worldwide, a catastrophe modeling company, Nat Re introduces a new service to clients which do not have access to commercial catastrophe models. The Analytics team provides them calculations of their 1-in-200-year return period Net Post-Cat modeled loss estimates. These calculations help determine the prescribed amount of capital needed for an insurer to remain solvent even when catastrophes occur.

## JUNE

The Institute of Corporate Directors ranks Nat Re as second best in corporate governance out of fifty-six non-life insurance companies in the Philippines. The firms are assessed on aspects such as rights and equitable treatment of shareholders, role of stakeholders in corporate governance, disclosure and transparency, and responsibilities of the Board.

Nat Re launches the Philippines' first-ever industry-backed reinsurance facilities for sabotage & terrorism and financial lines which will redistribute risks back to participating insurers, helping increase premiums retained domestically. These facilities also provide insurers with access to underwriting capacity, knowledge, and expertise; manage the volatility of their underwriting results; and reduce the cost of their Excess of Loss protection.

## JULY



The ASEAN Reinsurance Working Committee of the ASEAN Insurance Council holds its second meeting in Manila, Philippines. The discussions of the Committee, composed of executives from reinsurance companies in the ASEAN region, centered around reinsurance regulations and issues in the different member nations, non-life insurance and reinsurance taxes, reinsurance pooling, and reinsurance education and talent development. The Committee is chaired by Nat Re CEO Allan Santos.



The Board of Directors appoints Mr. Wilfredo Maldia as the Chairman of the Board of Nat Re. Mr. Maldia, a member of the Board of Trustees of the GSIS, brings with him forty years of experience in government, of which more than three decades were spent at the Land Bank of the Philippines.

## AUGUST



Nat Re partners with its corporate social responsibility partner FEED, Inc. and Habil Crafts in conducting a workshop on urban gardening for its employees. The CSR partners provide the workshop participants with planting tools and materials and guide them in making their own mossariums to be placed inside the Nat Re office.



Nat Re gets the support of the Insurance Commission (IC) and PIRA on its proposal to establish a catastrophe insurance facility for the Philippine non-life industry. Nat Re makes good progress on this initiative in January 2020 by presenting the proposal to the industry and signing a memorandum of understanding with key insurance stakeholders pledging to work towards the facility's launch.

## SEPTEMBER



Nat Re hosts its 5th Annual Technical Forum (ATF) for the CEOs, underwriters, actuaries, and marketing officers of its life and non-life ceding companies. The non-life session focuses on catastrophe and agriculture insurance while the life session covers the use of artificial intelligence, machine learning, and e-commerce strategies in the industry.

## OCTOBER



As part of its corporate social responsibility program, Nat Re donates its old but fully functional information technology equipment to the Technological University of the Philippines (TUP) Manila Campus and the Good Life Baptist Christian Academy (GLBCA). The equipment will be used by the TUP's engineering and technology students and technology and the GLBCA's young pupils.



Nat Re partners with its corporate social responsibility partner FEED, Inc. and the University of the Philippines Los Baños in hosting a tree-planting activity for Nat Re's employees. Almost half of the company's workforce planted three hundred and seventy native Philippine tropical forest trees to enhance the biodiversity, restore lost forest cover, and support community livelihood development at the over 9,000-hectare protected Laguna Quezon Land Grant.

# MILESTONES

## NOVEMBER

Nat Re gets its Business Continuity Management System (BCMS) off the ground by producing its first Business Continuity Manual, creating an Emergency Response Team (ERT), and passing the Business Continuity tabletop test. The tabletop test is a discussion-based exercise which aims to assess Nat Re's capability to support and continue its business processes during a disruptive event.

Nat Re launches its use of Trubanker, an investment management system that allows efficient recording and reporting of all investment trades and settlement activities including automatic creation of data for Nat Re's back-end accounting system.



Nat Re hosts two capacity-building workshops under the Oasis Project for select organizations from the government, the academe, and the private sector. The first is a three-day workshop on climate input data processing and analysis, conducted by scientists from the Potsdam Institute for Climate



Impact Research (PIK). The second is a two-day workshop on catastrophe modeling and project updates, conducted by Nat Re's Senior Catastrophe Risk Analyst and executives at the Oasis Loss Modelling Framework (LMF) and KatRisk. Nat Re is the local project manager for the Oasis Project which is formally called Catastrophe and Climate Change Risk Assessment for the Philippines. Over two years, the project aims to develop the first open-access catastrophe model for flood in the Philippines, and build long-term capacity among participants in the Philippines to develop, understand, sustain, and use catastrophe models for risk-informed decision-making.



Nat Re and Taiping Reinsurance Co. (TPRe) sign a memorandum of understanding that seeks to strengthen the two reinsurers' cooperation in providing reinsurance support, developing

new products and services, building the capabilities of their talent, and pursuing other opportunities beneficial to both parties. The agreement marks the first between the two reinsurance companies.



Nat Re is recognized by The Asset, a widely recognized global business news and research organization, in their 2019 Asset Benchmark Research Awards. Nat Re is awarded as a Top Investment House in Asian Local Currency Bonds in the Philippines, ranking fourth in the insurance industry. The top investment houses are chosen based on the number of votes won by their Astute Investors.

Nat Re, along with the Asian Development Bank, the IC, PIRA, and the Philippine Crop Insurance Corporation (PCIC), participates in a technical workshop on a public-private partnership arrangement for agriculture insurance. The workshop participants hold important initial discussions on the pilot test of an agriculture insurance program for cash crops.

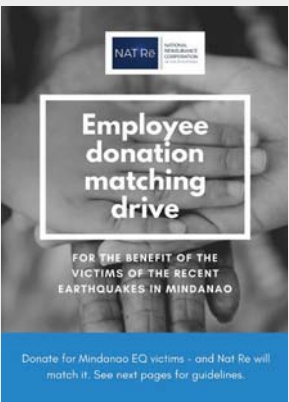


Nat Re President/CEO Allan Santos chairs the second ASEAN Reinsurance Working Committee (ARWC) meeting of the ASEAN Insurance Council. The Committee compiled and compared reinsurance regulations in the ASEAN countries, discussed reinsurance pooling opportunities as well as initiatives to further reinsurance education and talent development in the region.



Nat Re sponsors the Fellowship Night of the 60th Annual Convention of the Actuarial Society of the Philippines.

## DECEMBER



Nat Re launches its first employee donation matching drive for the benefit of the victims of the earthquakes in Mindanao. The drive doubles the contribution made by Nat Re employees in their personal capacity and donates the total amount to an organization which will provide emergency relief services to earthquake victims.



Nat Re joins the Asian Guarantee and Credit Insurance Association (AGCIA) as one of its founding members. The AGCIA, to be established in the Republic of Korea by the Seoul Guarantee Insurance Company, aims to serve as its members' information hub, build business networks in the region, provide new business opportunities, and help support the expansion of the guarantee industry.



Nat Re CEO Allan Santos delivers his annual report as PIRA Chairman to PIRA's general membership. Under Santos' leadership, PIRA has made great strides in terms of influencing regulation to support the industry; supporting the development of the industry; promoting insurance awareness and education to the public; advocating disaster resiliency and financial inclusion; strengthening PIRA's governance; and fostering unity and goodwill among PIRA members.

Nat Re's employee engagement survey score improves by 17 percentage points compared to its 2017 result. The Company sees improvement in all aspects of employee engagement measured which are relationship, leadership, purpose, attitude towards change, helpful mechanisms, rewards, structure, and job satisfaction.

# OUR BOARD OF DIRECTORS



**Wilfredo C. Maldia**  
Chairman



**Yvonne S. Yuchengco**  
Vice Chairman



**Allan R. Santos**  
President/CEO/Director



**Joli Co Wu**  
Director/Treasurer



**Antonio M. Rubin**  
Director



**Jocelyn DG Cabreza**  
Director



**Nora M. Malubay**  
Director



**Rafael G. Ayuste, Jr.**  
Director



**Maria Consuelo A. Lukban**  
Director



**Reginaldo Anthony B. Cariaso**  
Director



**Ermilando D. Napa**  
Lead Independent Director



**Medel T. Nera**  
Independent Director



**Rex Maria A. Mendoza**  
Independent Director

**Noel A. Laman**  
Corporate Secretary

**Ma. Pilar M. Pilares-Gutierrez**  
Assistant Corporate Secretary

**Punongbayan & Araullo**  
External Auditor

**Castillo Laman Tan Pantaleon & San Jose Law Offices**  
External Legal Counsel

# OUR MANAGEMENT TEAM

**From left:**  
Victor R. Tanjuakio, Regina Lourdes D. Papa, Daisy C. Salonga  
Allan R. Santos, Cherry Lou R. Lorenzo, Alexander L. Reyes  
Regina S. Ramos, Santino U. Sontillano, Tisha T. Darvin

**ALLAN R. SANTOS**  
President/CEO

## RISK & COMPLIANCE

**REGINA S. RAMOS**  
Vice President  
Head of Risk and Compliance

## INTERNAL AUDIT

**MARK QUINTIN G. NUÑEZ**  
Assistant Vice President  
Head of Internal Audit

## NON-LIFE REINSURANCE

**ALEXANDER L. REYES**  
Senior Vice President  
Head of Non-life Reinsurance

## LIFE REINSURANCE

**VICTOR R. TANJUAKIO**  
First Vice President  
Head of Life Reinsurance

**BLESILDA S. BESABE**  
Senior Assistant Vice President

**ANELISA TRINIDAD M. MERIDA**  
Assistant Vice President

**VON EDWARD M. EBRON**  
Assistant Vice President

## INVESTMENTS

**DAISY C. SALONGA**  
Vice President, Head of Investments

## ANALYTICS

**CHERRY LOU R. LORENZO**  
Senior Assistant Vice President  
Head of Catastrophe Risk Management

**TISHA T. DARVIN**  
Senior Consultant

## FINANCE

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

**HONORATA S. LUCOS**  
Assistant Vice President  
Head of Collections  
and Accounts Settlement

## HUMAN RESOURCES AND OFFICE SERVICES

**REGINA LOURDES D. PAPA**  
Senior Assistant Vice President  
Head of Human Resources  
and Office Services



## PROFILES OF THE BOARD OF DIRECTORS AND SENIOR LEADERS

### The Board of Directors

#### WILFREDO C. MALDIA Chairman

Director of Nat Re since December 2017. Mr. Maldia has been a member of the Government Service Insurance System (GSIS) Board of Trustees since December 2016. He sits as an independent director in the Board of the First Valley Development Bank and as member of the Board of ROTECO, Yamang Lupa't Dagat Corporation, and CEAM Corporation.

Prior to his appointment to the GSIS Board, he served as senior adviser to the Ropali Group of Companies, and as director of the Farmers Savings & Loan Bank, Inc. and Banco Alabang Inc. (A Rural Bank). He also worked as a consultant to the Asian Development Bank as financial & organizations specialist for Agricultural Development Bank of Nepal, Agricultural Credit Specialist for Bangladesh Krishi Bank, and as rural credit specialist of the Estanislao Lavin & Associates. He was likewise the financial specialist/expert of the Urban Integrated Consultants, Incorporated and Livestock Development Program Office (LDPO) & the Kilusang Kabuhayan at Kaunlaran (KKK). He also worked as Farm Manager at Universal Robina Corporation, a private company engaged in food manufacturing business. Mr. Maldia has also worked in the government sector for about 40 years, of which, 36 years were spent at the Land Bank of the Philippines (LANDBANK). He started his career at LANDBANK as a senior project analyst in 1976 (for 3 years), after a short stint working as an agronomist and researcher in the Bureau of Plant Industry and Bureau of Agricultural Economics, respectively, from 1971 to 1974. With his passion to work, he consistently rose from the ranks. In 2007, he became the Executive Vice President and head of the LANDBANK's Agrarian and Domestic Banking Sector (ADBS) covering the agrarian, banking and lending operations until his retirement in 2012.

With his leadership, Mr. Maldia has developed and introduced various innovative lending programs in the field of agriculture and finance. As ADBS head, he also chaired various committees, namely: Domestic Banking Loans Committee, Branch Operations Committee, Official Development Assistance Bids and Awards Committee, ADBS Sectoral Committee. He was likewise a member of the Board of LANDBANK subsidiaries (i.e. Masaganang Sakahan Incorporated and LANDBANK Insurance Brokerage Inc), and member of the Governing Board of the Agricultural Guarantee Fund Pool. In 2008, he was recognized as one of the most distinguished alumni of the University of the Philippines - Los Baños.

Mr. Maldia graduated with a Bachelor of Science degree in Agriculture, major in Agricultural Economics from the University of the Philippines Los Baños, Laguna in 1969. In 1979, he also completed his Bachelor's degree in Commerce major in Accounting from the Polytechnic University of the Philippines, and immediately obtained his license as a Certified Public Accountant (CPA). He earned his Master's degree in Business Administration from the Philippine Christian University in 1984.

#### YVONNE S. YUCHENGCO Vice Chairperson

Director of the Corporation since June 2006. Ms. Yvonne S. Yuchengco is the President and Director of Malayan Insurance Company, Inc. and MICO Equities, Inc. since 1995, Alto Pacific Corporation, and Philippine Integrated Advertising Agency, Inc. She is currently the Chairperson and Director of the RCBC Capital Corporation; Chairperson and President of Yuchengco Tower Office Condominium Corporation, Y Tower II Office Condominium Owners Asso. Inc. and Malayan Securities Corp; Chairperson of First Nationwide Assurance Corporation and XYZ Assets Corporation; Advisory Board Member of Rizal Commercial Banking Corporation; Director, Vice President and Treasurer of Pan Managers, Inc.;

Treasurer and Director of Pan Malayan Management & Investment Corporation, Honda Cars Kalookan, Inc, Mona Lisa Development Corp., Malayan High School of Science, Inc. and Petroenergy Resources Corporation; Director of Pan Malayan Realty Corporation, Malayan Insurance (H.K), Malayan International Insurance Corporation, Manila Memorial Park, Inc., La Funeraria Paz Sucat Inc., iPeople Inc., Seafront Resources Corporation, House of Investments, Inc., HYDee Management and Resource Corporation, Malayan Colleges, Inc. (operating under the name Mapua Institute of Technology, Luisita Industrial Park Corporation, Malayan Colleges Laguna, Inc., Asia-Pac Reinsurance Co., Ltd., AY Holdings, Inc., Pan Malayan Express, Inc., Pan Pacific Computer, Inc., Shayamala Corporation, and YGC Corporate Services, Inc.); Trustee of AY Foundation, and Philippine Asia Assistance Foundation, Inc.; Trustee and Chairperson of the Malayan Plaza Condominium Owners Asso., Inc.; Trustee and Vice Chairperson of Yuchengco Museum, Inc.; and Assistant Treasurer of Enrique T. Yuchengco Inc. She was also formerly President of the PIA/Phil-Asia Assistance Foundation, Inc. She graduated with a Bachelor of Arts degree from Ateneo de Manila University in 1977 and took up further studies in UAP under SBEP program.

#### JOLI CO WU Director/Treasurer

Treasurer of Nat Re since January 2017, Director from 2013 to 2014 and since July 2015. Ms. Joli Co Wu is the Chief Underwriting Officer of Paramount Life General Insurance Corporation. Prior to this, she was the President and CEO of QBE Seaboard Insurance Philippines, Inc. until its acquisition by Paramount. She started her insurance career with Seaboard Eastern Insurance where she eventually led the company as its President/CEO until March 2014. She has extensive experience in insurance operations and underwriting various insurance insurance lines. Throughout her career, she has attended various management, insurance and reinsurance courses, both local

and international. She is currently a Trustee of the Philippine Insurers and Reinsurers Association and the Insurance Institute for Asia and the Pacific. Ms. Wu obtained her Bachelor of Arts degree, Major in Financial Management at the Catholic University of America, Washington DC.

#### ANTONIO RUBIN Director

Director of Nat Re since January 2018. Prior to his retirement, Mr. Rubin was the Executive Vice President of Malayan Insurance Company, Chairman of the Board of Directors of Bankers Assurance Corporation (BAC), and President of the First Nationwide Assurance Corporation (FNAC). Mr. Rubin is a seasoned underwriter in the insurance industry, having been in the practice of insurance for more than twenty-five years. Mr. Rubin headed various divisions in Malayan Insurance, namely: the Risk Analysis Department, the Fire and Motor Car Underwriting Divisions, the Sales Division, and finally, the entire Underwriting Division. He was also the Chairman of the Board of Directors of the Philippine Insurance Rating Association (PIRA) and Philippine Machinery Management Services Corporation (MacPool), and Head of Risk Management Group of the National Steel Corporation. His expertise in the industry was further solidified and reinforced by the various specialized seminars, conventions and trainings he attended locally and abroad. Mr. Rubin went to Mindanao State University in 1974 for his degree in Bachelor of Science in Mechanical Engineering and Ateneo De Manila University for his MBA.

#### JOCelyn DG CABREZA Director

Director of Nat Re since December 2016. Ms. Cabreza is a member of the Board of Trustees of the Government Service Insurance System (GSIS) and chairs its Audit Committee. She is also a member of GSIS Board's Risk Oversight Committee, Corporate Governance Committee, Legal Oversight Committee and GSIS Provident Fund Committee of Trustees and is a director of Banco Laguna, Inc. Ms. Cabreza was a former Executive Vice President of Land Bank of the Philippines, Director of Land Bank

Resources Development Corp and Land Bank Countryside Development Foundation. She is a certified public accountant, a master's degree holder and a seasoned banker with 37 years of extensive experience in different areas of banking and finance, internal audit and operations and strategic policy formulation and implementation.

#### NORA M. MALUBAY Director

Director since January 2019, Atty. Nora M. Malubay graduated from the Pamantasan ng Lungsod ng Maynila with Bachelor of Science in Business Administration major in Accountancy, Magna cum laude in 1979. She passed the CPA board examination on that same year.

In 1979, she worked as Staff Auditor at Sycip, Gorres, Velayo & Co. Believing that it is time for her to step up and make a difference, she chose to serve in public office and entered Government Service Insurance System (GSIS) in 1981.

Year 1995 when she finished her Bachelor of Laws at San Beda College and passed the Bar Examination in September of same Year.

Rose from the ranks, she has been assigned to different Departments of GSIS from Internal Auditor I to Senior Vice President of National Capital Region (NCR) Operations Group.

In 2016, she was appointed by the GSIS Board of Trustees as the Officer-in-Charge President and General Manager of GSIS, until the President of the Philippines appointed a new PGM in November 2017.

Currently she is the Executive Vice President for Core Business Sector which covers the operations for Social Insurance, Housing, and General Insurance.

#### RAFAEL G. AYUSTE, JR. Director

Director of Nat Re since June 2012. Mr. Ayuste is a Senior Vice President and Group Head of Trust and Investments Group of BDO Unibank, Inc.. Prior to this, he was Senior Vice President and Group Head of the Wealth Advisory and Trust Group Head of BDO Private Bank, Inc. from July 2013 to April 2017; First Senior Vice President and Head of the

Trust Banking Group of Philippine National Bank from 2009 to 2013; Vice President and Head of Retail Branch Business, Citibank Savings of Citibank N.A. Philippines from August 2008 to November 2009; Senior Vice President/Deputy Group Head of Trust Banking of the Metropolitan Bank and Trust Company through merger with Global Business Bank from 2000 to 2008; Vice President/Head- Securities Distribution of the Banco Santander Philippines, Inc. from 1999 to 2000; Vice President/Head- Trust Division, Security Bank Corporation from 1996 to 1999; Assistant Vice President and Head of Peso and Dollar Trading Desks of Citibank, N.A., Citibank Global Asset Management (CGAM) from 1989 to 1996. He is also a four-term President of the Trust Officers Association of the Philippines (TOAP) and a former Director of the association for nine terms. He has attended various seminars such as Risk Management, Citibank Phils., 1995; Financial Risk Management, Pi Eta Singapore, 2004; Risk Management, BNP Paribas, 2006; Corporate Governance, Bankers Association of the Philippines (BAP), 2007. He obtained his Bachelor of Science degree major in Business Administration from the University of Sto. Tomas in 1986 and a nominee for both Executive Master in Business Economics from the University of the Asia & the Pacific and Masters in Business Administration from the De la Salle University.

#### MARIA CONSUELO A. LUKBAN Director

Director of Nat Re since October 2018. Ms. Lukban is the Head of the Strategic and Corporate Planning Department of Bank of the Philippine Islands (BPI). She is primarily responsible for financial planning and capital management, investor relations and enterprise development projects. She has over 30 years worth of banking experience, taking on various senior roles within BPI in its asset management and trust business, insurance business, corporate banking marketing and deposit product management. Ms. Lukban completed her MBA at the University of Chicago in 1992 and BS Management Engineering in 1986 at the Ateneo de Manila University.

**REGINALDO ANTHONY B. CARIASO**  
Director

Mr. Cariaso is Head of Strategy, Products and Support under Corporate Banking Group of the Bank of the Philippine Islands (BPI). He is also Chairman of BPI Securities, the brokerage arm of BPI. Mr. Cariaso joined BPI Capital, the investment banking subsidiary of BPI in 2013 and served as its President from January 2018 to April 2019.

Prior to joining BPI Capital, Mr. Cariaso worked in investment banking for JP Morgan and Nomura International based in Hong Kong covering Asia ex- Japan.

He has over 20 years of investment banking and extensive experience originating advisory and capital markets transactions, in a variety of industries, including financial institutions, across Asia and the Philippines. While at BPI Capital, Mr. Cariaso led a number of landmark transactions in the Philippines including some of the largest debt capital markets deals, innovative project and structured financing, complex advisory assignments, and brought some of the most familiar names to the public equity markets.

Mr. Cariaso was a Lieutenant in the United States Navy and received a B.A. degree from the University of Pennsylvania.

**ERMILANDO D. NAPA**  
Lead Independent Director

Independent Director of Nat Re since June 2011. Mr. Napa is the Founding CEO of Manila Consulting & Management Co., Inc., and Catanauan Resources and Development Corporation. Currently, He is also an independent director of House of Investments Inc. (HOI). He is the Chairman of the Audit Committee of Nat Re, Chairman of the Risk Oversight Committee of HOI, and Chairman of the Interim Governance Board of the National Life Insurance Company of the Philippines (NLIC). He is also the Chairman of the Court Appointed Board of Liquidators of Capitol Hills Golf and Country Club Inc. His previous

professional experience includes being a President and CEO, and Vice Chairman of the Board of Trade and Investment Development Corporation (Philippine Export-Import Credit Agency), Partner of SyCip Gorres & Velayo Company (Philippines), a Principal of Kassim Chan & Company in Kuala Lumpur, Malaysia (a former member firm of SGV Group and Deloitte Haskins & Sells International), and a Manager of Arthur Andersen in New York. In 2013, he was appointed as Conservator of the NLIC and spearheaded its rehabilitation. Mr. Napa has attended special trainings and various courses such as Strategic Management and IMPACT Productivity Improvement in Chicago and Corporate Finance in New York and various corporate governance courses. He holds a bachelor's degree in Business Management from Aquinas University (1970) and a master's degree in Management from the Asian Institute of Management (1980).

**MEDEL T. NERA**  
Independent Director

Independent Director of Nat Re since July 2011. Mr. Nera is a Director of House of Investments, Inc., iPeople inc., EEI Corp., Seafont Resources Corp and the Generika Group. Mr. Nera is currently Chairman of Greyhounds Security & Investigation Agency Corp and Namit Kag Sulit Corp. His past experiences include: President & CEO of House of Investments, Inc.; Director and President of RCBC Realty Corp.; Director and Chairman of the Risk Oversight Committee and Member of the Audit Committee of the Rizal Commercial Banking Corp.; Director and Treasurer of CRIBS Foundation, Inc., and Senior Partner at Sycip Gorres Velayo & Co where he served as Financial Services Practice Head. Mr. Nera obtained his Master of Business Administration degree from the Stern School of Business, New York University, USA and Bachelor of Science in Commerce from the Far Eastern University, Philippines, International Management Program from the Manchester Business School, UK, Pacific Rim Bankers Program from the University of Washington, USA.

**REX MARIA A. MENDOZA**  
Independent Director

Independent Director of Nat Re since June 2019. Mr. Mendoza is the President & CEO of Rampver Financials, a dynamic niche player in financial services specializing in investments, and the biggest distributor of mutual funds in the Philippines. He sits as an independent director of publicly-listed Globe Telecom and AyalaLand Logistics Holdings Corp. His directorships also include Esquire Financing, Inc., the Cullinan Group, TechnoMarine Philippines, Seven Tall Trees Events Company, Inc., and Mobile Group, Inc. He is also a member of Bro. Bo Sanchez' Mastermind Group and is cited by many as one of the best leadership and business speakers in the country. He is the author of the books "Trailblazing Success" and "Firing on all Cylinders", a certified national bestseller. He served as the President & CEO of Philam Life, one of the country's most trusted financial services conglomerates and was Chairman of its affiliates and subsidiaries. He was also Senior Adviser to the Chief Executive Officer of the AIA Group. Prior to this, he was previously Senior Vice President and Chief Marketing and Sales Officer of Ayala Land, Inc. He was also Chairman of Ayala Land International Sales, Inc., President of Ayala Land Sales, Inc., and Avida Sales Corporation.

He has a Master's Degree in Business Management with distinction from the Asian Institute of Management. He was one of the 10 Outstanding Graduates of his batch at the University of the Philippines where he obtained a BSBA degree with a double major in marketing and finance. He was awarded Most Distinguished Alumnus of the UP Cesar Virata School of Business. He is also a Fellow with Distinction at the Life Management Institute of Atlanta, Georgia, USA, a Registered Financial Planner (RFP) and a four-time member of the Million Dollar Round Table (MDRT). He was a professor of Marketing and Computational Finance at the De La Salle University Graduate School of Business. He taught strategic marketing, services marketing and services strategy. He has served as Chairman of the Marketing Department and was awarded as one of the University's most outstanding professors.

**Senior Leaders**

**ALLAN R. SANTOS**  
President/CEO

Mr. Allan R. Santos has over twenty-five years of experience in local and international insurance/reinsurance markets in the US, Asia and Europe. Prior to his current role, he was Nat Re's Chief Operating Officer, overseeing Finance, Investments, Data and Analytics, HR, and Technology. He has held various leadership positions in several companies including Chief Operating Officer for the Affiliate Companies of Philam Life, Regional Chief Financial Officer for Europe at Cigna, Global Head of Product Development at Cigna, and Chief Actuary for Asia at Allied World Assurance Company. He is also the current Chairman of the Philippine Insurers and Reinsurers Association (PIRA), and Chairman of the ASEAN Reinsurance Working Committee.

Mr. Santos holds a Master's Degree in Applied Math and Bachelor of Science in Math both from the University of the Philippines. He is a Fellow of both the Actuarial Society of Philippines and the Society of Actuaries (US), and is a Member of the American Academy of Actuaries.

**ALEXANDER L. REYES**  
Senior Vice President/  
Head of Non-Life Reinsurance

Mr. Alexander Reyes has held various senior management positions covering Marketing, Sales, Underwriting, and Claims operations in leading non-life insurance direct-writing companies in the Philippines. He graduated from the University of the Philippines, Diliman with a B.S. in Business Administration.

**VICTOR R. TANJUAKIO**  
First Vice President/  
Head of Life Reinsurance

Mr. Vic Tanjuakio is an actuary and a Fellow of the Actuarial Society of the Philippines (ASP). He worked as Chief Actuary of Maxicare Healthcare Corporation, Asian Life and General Assurance, and Great Pacific Life (now Sunlife Grepa). Before joining Nat Re in 2014, he was Head of Corporate Solutions of Philippine AXA Life. He specializes in Group and Health insurance and he serves as industry lecturer for actuaries wishing

to practice in HMO and medical insurance. He served as Technical Committee chairman of the Philippine Life Insurance Association (PLIA) in the early 2000s. He earned his B.S. Mathematics degree from the Ateneo de Manila University.

**REGINA S. RAMOS**  
Vice President/Head of Risk  
and Compliance

Ms Regina Ramos is a Certified Public Accountant and a Certified Internal Auditor. Prior to joining Nat Re in July 2000, Ms. Ramos held positions in various capacities in Accounting, Finance and Operations in a non-life direct insurer. She was also with the SyCip, Gorres, Velayo & Co., CPAs (SGV), the largest professional services firm in the Philippines. She obtained her degree in Bachelor of Science in Commerce, major in Accounting from St. Paul College Manila.

**DAISY C. SALONGA**  
Vice President/  
Head of Investments

Ms. Daisy Salonga has held various executive positions in treasury covering foreign exchange, fixed income, sales and market studies in leading financial institutions like Citibank N.A. Manila, Credit Agricole Indosuez Offshore Bank Manila, China Banking Corporation, and Greenwich Associates. She was nominated as one of the Most Astute Investors in the Philippine Peso Bonds by The Asset Benchmark Research for three consecutive years from 2012 to 2014. She earned her degree in Bachelor of Science in Commerce, major in Business Management from De La Salle University.

**SANTINO U. SONTILLANO**  
Senior Assistant Vice President/  
Head of Finance

Mr. Santino Sontillano worked with various big 4 auditing firms in the Philippines, Singapore and Bermuda prior to joining Nat Re in January 2016 as Head of Internal Audit. He obtained his degree in Bachelor of Science in Accountancy from Ateneo de Zamboanga and is a Certified Public Accountant

**REGINA D. PAPA**  
Senior Assistant Vice President/  
Head of Human Resources  
and Office Services

Ms. Regina Lourdes D. Papa has over twenty-five years of experience in Human Resources Talent Acquisition, Learning and Development, Compensation Planning and Administration, Performance Management and Employee Relations. Prior to her current role in Nat Re, she served as Treasurer and Managing Director of Integral Consultants, Inc., spearheading business planning and overseeing the company's career management group operations. She also designed and conducted Management and soft skills training programs as a Human Resources Management Consultant. As an Assistant Vice President at Mapfre Asian Insurance Corporation, she was responsible for formally setting up the company's Human Resources Management Department as well as providing strategic advice on organization development initiatives.

**CHERRY LOU R. LORENZO**  
Senior Assistant Vice President/  
Head of Catastrophe Management

Ms. Cherry Lorenzo has over ten years of experience in catastrophe modeling, (re)insurance pricing, model evaluation, project management, geographic information systems, and disaster risk financing and insurance. Before joining Nat Re, she was an Associate Director for Catastrophe Management at Aon Benfield Singapore, where she handled delivering, interpreting, and communicating catastrophe modeling analyses and was the territorial point of contact for Indonesia and key regional clients. At RR Donnelley where she was a Senior Catastrophe Research Analyst, she worked for ACE Insurance, servicing their Asia Pacific offices including those in Australia and New Zealand. She obtained her Bachelor of Science degree in Geodetic Engineering at the University of the Philippines Diliman.

# FINANCIAL STATEMENTS

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REPORT OF THE AUDIT COMMITTEE  
For the Year Ended December 31, 2019

In line with Article V. Board Committees of the Amended By-Laws of the National Reinsurance Corporation of the Philippines (Nat Re, the "Company") the Audit Committee assists the Board of Directors in carrying out its responsibilities as they relate to the oversight of the Company's internal control, internal audit function, independent auditors, legal or regulatory compliance, and corporate governance.

The Audit Committee's roles and responsibilities are likewise defined in the Audit Committee Charter approved by the Company's Board of Directors (Board).

In compliance with the Audit Committee Charter, we confirm that:

- The Audit Committee is composed of three (3) independent directors;
- We had eight (8) meetings during the year. The Company's President & Chief Executive Officer and other members of the Management attended the Committee meetings. External subject experts, such as the appointed Independent External Auditor and other consultants, were also invited to the meetings;
- The Committee met with the Internal Audit Head and the Independent External Auditor in private sessions during the year;
- We have reviewed and discussed the quarterly unaudited financial statements and the annual audited financial statements of the Company with the Management, who has the primary responsibility for the financial statements and the financial reporting process, and the reports of Internal Audit and Punongbayan & Araullo (P&A), the Independent External Auditor, who is responsible for expressing an opinion on the conformity of the Company's annual audited financial statements with Philippine Financial Reporting Standards;
- We have reviewed the effectiveness of the system for monitoring compliance with laws and regulations;
- We have discussed and approved the overall scope and plans for the respective audit reviews of the Independent Internal and External Auditors. We have also discussed the results of their audits and their assessments of the Company's internal controls and the overall quality of the financial reporting process;
- We have reviewed and discussed the reports of the Independent Internal and External Auditors ensuring that the Management is taking appropriate corrective actions in a timely manner, including addressing internal control and any regulatory compliance issues;
- We have reviewed the effectiveness of the internal audit function;
- We have reviewed and recommended for Board approval the audit and related services of P&A to the Company for the year ended December 31, 2019 and the related fees for such services, in accordance with existing policies, standards and regulatory requirements; and
- We have evaluated the performance of the Committee, for the year ended December 31, 2019 and benchmarked the practices against the expectations set out in the Audit Committee Charter. We have ascertained that the Audit Committee continues to fulfill its responsibilities in accordance with global best practices and in compliance with the Manual of Corporate Governance and other relevant regulatory requirements.

Based on the reviews and discussions undertaken, and subject to the limitation of our roles and responsibilities, the Audit Committee recommended to the Board the inclusion of the audited financial statements in the Annual Report for the year ended December 31, 2019, filed with the Securities and Exchange Commission.

In compliance with the Company's corporate governance standards, we recommended to the Board, subject to the ratification of the Stockholders during the annual stockholders meeting, the appointment of R.G. Manabat & Co. as the new Independent External Auditor for the year 2020.

By the Audit Committee:

  
Ermilando D. Napa  
Chairman

  
Medel T. Nera  
Member

  
Rex Ma. A. Mendoza  
Member



NATIONAL  
REINSURANCE  
CORPORATION  
OF THE PHILIPPINES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS

The management of National Reinsurance Corporation of the Philippines (the Company), is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue is a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations; or has no realistic alternative but to do so.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

  
WILFREDO C. MALDIA  
Chairperson of the Board

  
ALLAN R. SANTOS  
President & Chief Executive Officer

  
JOLI CO WU  
Treasurer

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

Signed this 26<sup>th</sup> day of May 2020.

SUBSCRIBED AND SWORN TO before me this 26<sup>th</sup> day of March 2018 at Makati City, Affiants exhibited to me their passport numbers.

NAME  
WILFREDO C. MALDIA  
JOLI CO WU  
ALLAN R. SANTOS  
SANTINO U. SONTILLANO

Doc. No. 479  
Page No. 97  
Book No. I  
Series of 2020.



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Financial Statements and  
Independent Auditors’ Report

**National Reinsurance Corporation of  
the Philippines**

December 31, 2019, 2018 and 2017

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and the Stockholders  
National Reinsurance Corporation of the Philippines  
31<sup>st</sup> floor BPI-Philam Life Makati  
6811 Ayala Avenue, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of National Reinsurance Corporation of the Philippines (the Company), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years ended December 31, 2019, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors’ Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of a Matter

We draw attention to Note 34 to the financial statements, which describes management’s assessment of the likely negative impact on the Company’s financial statements of the business disruption as a result of the coronavirus outbreak to the Company’s financial condition and performance after the end of the reporting period. Our opinion is not modified in respect to this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(a) Recognition of Reinsurance Premiums and the Related Commission Expense, and Retroceded Premiums and the Related Commission Income

Description of the Matter

Revenue is one of the key performance measures used to assess business performance. There is a risk that the amount of revenue presented in the financial statements is higher than what has been actually generated by the Company. The Company recognizes premiums from short duration insurance contracts over the period of the contracts using the “24<sup>th</sup> method”. The related commission expense is deferred and charged to profit or loss in proportion to premium revenue recognized. Retroceded premium and the related commission income are also recognized using the “24<sup>th</sup> method”. For the year ended December 31, 2019, the reinsurance premium and retroceded premium accounts and the related commission expense and income accounts recognized in the 2019 statement of income amounted to ₱4,338.5 million, ₱1,064.2 million, ₱986.7 million and ₱18.1 million, respectively. Based on the possible effects of misstatement in the recording of revenue transactions and the related expense accounts, and the materiality of the amounts involved to the financial statements, we have concluded that the Company’s revenue and expense recognition is considered to be a matter of audit significance.

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The Company’s policies and related disclosures on recognition of reinsurance premiums and the related commission expense, and retroceded premiums and the related commission income are discussed in Notes 2, 13, 18, 19 and 21.

How the Matter was Addressed In the Audit

Our audit procedures to address the risk of material misstatement on the recognition of premium revenue and related direct expense, which was considered to be a significant risk, included:

- testing the design and operating effectiveness of internal controls related to the Company’s process of recognition and measurement of reinsurance premiums assumed, retroceded premiums; commission expense and commission income;
- testing the existence and validity of premium income and the related receivables by sending positive confirmation, on sample basis, and testing the subsequent collections and reviewing originating documents for non-responding cedants;
- testing the reasonableness of the balances of reserves for unexpired risks on both premiums assumed and ceded by validating the propriety of the data used by the independent actuary in computing the unexpired risk reserves (URR);
- testing the reasonableness of the premium income recognized and the related outstanding unearned premium reserves, deferred reinsurance premiums, deferred acquisition costs and deferred reinsurance commissions using the “24<sup>th</sup> method”;
- testing the reasonableness of recorded accruals of reinsurance premiums assumed and retroceded premiums for treaty contracts and analysis of assumptions used in order to determine the proprietary of recorded accrual balances;
- performing detailed analysis of reinsurance premiums, commission expense, retroceded premiums and commission income by appropriate measures, such as, but not limited to, premiums assumed arid retroceded by source (life and non-life) and by major line of business (treaty and facultative); and,
- performing premium cut-off test, including, among others, examining date of approval and receipt date for insurance contracts near period-end and subsequent to period-end.

(b) Impairment of Reinsurance Balances Receivable

Description of the Matter

Reinsurance balances receivable is measured at amortized cost and the carrying amount is reduced by the amount of allowance for impairment. In determining impairment, the Company first assesses whether objective evidence of impairment exists for reinsurance balances receivable that are individually significant, and individually or collectively for reinsurance balances receivable that are not significant. If there is objective evidence that an impairment loss on reinsurance balances receivable carried at amortized cost exists, the amount of the loss is measured 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. The allowance for impairment of reinsurance balances receivable is considered to be a matter of significance as it requires the application of judgment and use of subjective assumptions by management. In addition, the outstanding balance of reinsurance receivable amounting to ₱2,608.8 million as of December 31, 2019 is material to the financial statements.

The Company’s policy on impairment of reinsurance balances receivable is discussed in Note 2, while the disclosures on the movements in the account and reconciliation of the allowance for impairment are included in Note 6.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to the impairment of reinsurance balances receivable included:

- evaluating the appropriateness of the Company’s accounting policy on impairment and the method to compute for the allowance for impairment on receivables;
- testing the reasonableness of the amount recognized as allowance for impairment using the criteria and method used by management, including testing of the basis of estimates and judgments;
- determining the consistency of the application of the method and criteria used throughout the period and from prior periods; and,
- performing analysis of the adequacy of the balance by testing the aging of reinsurance balances receivable and identifying potential troubled accounts considering, among others, past due accounts, accounts under litigation, accounts from closed companies, and customers with prior credit issues, and whether changes should be made to reflect a more accurate estimate of allowance for impairment.



(c) Valuation of Claims Liabilities

Description of the Matter

The valuation of the Company's losses and claims payable and claims reserves was a key focus area in our audit due to the degree of complexity involved in valuing these liabilities and the significance of the judgments and estimates made by management. Claims reserves include the provisions for incurred but not reported (IBNR) losses which are estimated through the use of past claims settlement trends to predict future claims settlement trends and the estimate of the ultimate loss. These estimates are ascertained by an independent actuary with the use of additional qualitative judgments to assess the extent to which the full tail of the claim development is influenced by the different internal and external factors. In addition, in compliance with an IC circular, the Company's claims liabilities include certain percentage of margin for adverse deviation (MfAD) to allow for inherent uncertainty of the best estimate of the policy reserves arising from the variability of claims experience, the diversification between classes of business and conservatism in the best estimate. For the year ended December 31, 2019, the losses and claims payable and claims reserves accounts recognized in the 2019 statement of income amounted to ₱4,554.3 million, and ₱1,997.6 million, respectively.

The Company's policies on valuation of claims liabilities are discussed in Note 2 while the related disclosures are presented in Note 17.

How the Matter was Addressed In the Audit

Our audit procedures to address the risk of material misstatement relating to the valuation of losses and claims payable and claims reserves included:

- testing of design and operating effectiveness of internal controls related to the Company's process of recognition and measurement of claims liabilities;
- evaluating the appropriateness and sufficiency of the data used by the independent actuary in computing the IBNR, and evaluating the reasonableness of the assumptions and methodologies used in the determination of IBNR;
- engaging a third-party actuary in recalculating the IBNR and URR in accordance with the relevant regulatory requirements and verifying the accuracy of a significant portion of the reserves based on stratified sampling;
- testing the reasonableness of the amount of IBNR following the methodology applied by the actuary;
- validating the reasonableness of the Company's liability adequacy test in compliance with the requirements of the Insurance Commission (IC) and PFRS 4, *Insurance Contracts*;
- performing detailed analysis of claims and loss adjustment expenses by appropriate measures, such as, but not limited to, claims liability by source (life and non-life) and by major line of business (treaty and facultative);
- examining relevant reports and documents to establish the propriety of the outstanding claims; and,
- testing subsequent disbursements and performing cut-off tests to determine whether disbursements represent previously unrecorded losses and claims payable.

(d) Valuation of Available-for-sale Financial Assets

Description of the Matter

The fair valuation of the Company's available-for-sale (AFS) financial assets was a key focus area in our audit because the outstanding balance amounting to P4,945.8 million as of December 31, 2019 is material to the financial statements. The Company's AFS financial assets comprise a portfolio of debt and equity investments measured at fair value with the corresponding fair value change recognized in other comprehensive income. The fair value of majority of these financial instruments is determined based on their quoted market prices, while a portion is measured by reference to the investee's book value using the most recent available financial data.

Moreso, impairment assessment on the Company's AFS financial assets requires significant judgment when determining whether the decline in market value is considered significant or prolonged.

The Company's disclosures about AFS financial assets and the basis of fair value measurement are included in Notes 7 and 30, respectively.



How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to valuation of AFS financial assets included:

- evaluating the appropriateness of the valuation process of investments and tested the inputs against reliable market sources and the valuation formulas used in fair market valuation;
- evaluating whether fair value prices used were appropriate;
- recomputing the fair values based on the inputs and comparing with the market values used by the Company;
- testing the validity of the Company's assessment on whether there is any objective evidence that AFS financial assets are impaired; and,
- evaluating the appropriateness of the Company's basis in determining whether the decline in value of the AFS financial assets is significant or prolonged.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Company's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement) and SEC Form 17-A, both of which do not include the financial statements and our auditors' report thereon, and the Annual Report for the year ended December 31, 2019. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements re resent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Our audits were conducted far the purpose of farming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2019 required by the Bureau of Internal Revenue as disclosed in Note 35 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS; neither it is a required disclosure under the Revised Securities Regulation Code Rule 68 of the SEC. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner on the audits resulting in this independent auditors' report is Anthony L. Ng.

PUNONGBAYAN & ARAULLO

By:   
Anthony L. Ng  
Partner

CPA Reg. No. 0109764  
TIN 230-169-270  
PTR No. 8116552, January 2, 2020, Makati City  
SEC Group A Accreditation  
Partner - No. 1638-A (until May 29, 2020)  
Firm - No. 0002-FR-5 (until Mar. 26, 2021)  
BIR AN 08-002511-38-2019 (until Sept. 4, 2022)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

March 26, 2020

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2019 and 2018  
(Amounts in thousands)

	Notes	2019	2018
<b>ASSETS</b>			
Cash and cash equivalents	5	₱1,004,977	₱1,161,899
Reinsurance balances receivable – net	6	2,608,807	2,280,122
Available-for-sale (AFS) financial assets	7	4,945,753	4,579,952
Held-to-maturity (HTM) investments	8	2,227,897	1,848,693
Loans and receivables	9	80,012	112,543
Property and equipment – net	10	70,394	76,563
Reinsurance recoverable on reported losses	11	2,288,383	2,374,542
Reinsurance recoverable on claims reserves	11	319,606	319,048
Deferred acquisition costs	12	595,480	405,104
Deferred reinsurance premiums	13	454,040	331,545
Other assets – net	14	387,102	381,300
<b>TOTAL ASSETS</b>		<b>₱14,982,451</b>	<b>₱13,871,311</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Reinsurance balances payable	15	₱1,185,518	₱1,154,233
Accounts payable and accrued expenses	16	110,930	90,649
Losses and claims payable	17	4,554,326	4,519,271
Claims reserves	17	1,997,624	1,715,474
Premium reserves	18	1,768,249	1,564,635
Deferred reinsurance commissions	19	6,234	526
<b>Total Liabilities</b>		<b>9,622,881</b>	<b>9,044,788</b>
<b>Equity</b>	24	<b>5,359,570</b>	<b>4,826,523</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>₱14,982,451</b>	<b>₱13,871,311</b>

See Notes to the Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
**STATEMENTS OF INCOME**  
For the years ended December 31, 2019, 2018 and 2017  
*(Amounts in thousands, except Earnings Per Share)*

	Notes	2019	2018	2017
<b>Reinsurance premium income</b>	4			
Reinsurance premiums – net of returns		₱4,338,535	₱3,682,906	₱3,205,114
Retroceded premiums		(1,064,246)	(1,106,771)	(841,429)
Net premiums retained		3,274,289	2,576,135	2,363,685
Increase in premium reserves – net	13, 18	(81,119)	(9,887)	(209,188)
		3,193,170	2,566,248	2,154,497
<b>Underwriting deductions</b>				
Share in reported losses – net	21.1	1,806,624	1,051,522	1,026,415
Share in unreported loss reserves – net	21.2	281,592	588,623	308,179
Commissions – net	21.3	968,591	773,369	583,329
		3,056,807	2,413,514	1,917,923
<b>Net underwriting income</b>		136,363	152,734	236,574
<b>Investment and Other income and expenses – net</b>	20	349,340	389,488	254,807
<b>Profit after Investment and Other income and expenses</b>		485,703	542,222	491,381
<b>General and administrative expenses</b>	22	268,501	350,328	317,342
<b>Profit before tax</b>		217,202	191,894	174,039
<b>Tax expense</b>	23	60,484	42,678	91,043
<b>Net profit</b>		₱156,718	₱149,216	₱82,996
<b>Earnings Per Share - Basic and Diluted</b>	27	₱0.074	₱0.070	₱0.039

See Notes to the Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
**STATEMENTS OF COMPREHENSIVE INCOME**  
For the years ended December 31, 2019, 2018 and 2017  
*(Amounts in thousands)*

	Notes	2019	2018	2017
<b>Net profit</b>		₱156,718	₱149,216	₱82,996
<b>Other comprehensive income (loss)</b>				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit asset	22.2	(1,814)	3,933	3,613
Items that are and will be reclassified subsequently to profit or loss				
Fair value gains (losses) on available-for-sale financial assets during the year	7	390,713	(492,442)	407,025
Amortization of unrealized gains (losses) on reclassified HTM securities to profit or loss		9,510	1,065	(1,519)
Fair value gains on disposal of AFS financial assets reclassified to profit or loss	7	(79,772)	(131,059)	(120,783)
Impairment of AFS financial assets reclassified to profit or loss	7	57,511	7,810	64,873
Income tax effect		181	(371)	(2,276)
		378,143	(614,997)	347,320
<b>Total other comprehensive income (loss)</b>		376,329	(611,064)	350,933
<b>Total comprehensive income (loss)</b>		₱533,047	(₱461,848)	₱433,929

See Notes to the Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
**STATEMENTS OF CHANGES IN EQUITY**  
For the years ended December 31, 2019, 2018 and 2017  
*(Amounts in thousands)*

	Notes	Capital Stock		Additional Paid-in Capital	Treasury Shares at Cost	Revaluation Reserves			Defined Benefit Liability	Retained Earnings		Total Equity
		No. of shares (in thousands)	Amount			AFS Financial Assets	HTM Investments	Appropriated		Unappropriated		
Balance at January 1, 2019		2,181,955	₱2,181,955	₱3,019,218	(₱100,525)	(₱369,023)	(₱85,047)	(₱67,601)	₱27,736	₱219,810	₱4,826,523	
Net profit		-	-	-	-	-	-	-	-	156,718	156,718	
Other comprehensive income:												
Items that will not be reclassified subsequently to profit or loss		-	-	-	-	-	-	(1,814)	-	-	(1,814)	
Item that are and will be reclassified subsequently to profit or loss		-	-	-	-	368,633	9,510	-	-	-	378,143	
Total comprehensive income	7, 22	-	-	-	-	368,633	9,510	(1,814)	-	156,718	533,047	
Appropriated for contingencies	24	-	-	-	-	-	-	-	15,672	(15,672)	-	
Balance at December 31, 2019		2,181,955	₱2,181,955	₱3,019,218	(₱100,525)	(₱390)	(₱75,537)	(₱69,415)	₱43,408	₱360,856	₱5,359,570	
Balance at January 1, 2018		2,181,955	₱2,181,955	₱3,019,218	(₱100,525)	₱157,671	₱3,256	(₱71,534)	₱12,815	₱85,515	₱5,288,371	
Net profit		-	-	-	-	-	-	-	-	149,216	149,216	
Other comprehensive income:												
Items that will not be reclassified subsequently to profit or loss		-	-	-	-	-	-	3,933	-	-	3,933	
Item that are and will be reclassified subsequently to profit or loss		-	-	-	-	(616,062)	1,065	-	-	-	(614,997)	
Reclassification	8					89,368	(89,368)	-	-	-	-	
Total comprehensive income	7, 22	-	-	-	-	(526,694)	(88,303)	3,933	-	149,216	(461,848)	
Appropriated for contingencies	24	-	-	-	-	-	-	-	14,921	(14,921)	-	
Balance at December 31, 2018		2,181,955	₱2,181,955	₱3,019,218	(₱100,525)	(₱369,023)	(₱85,047)	(₱67,601)	₱27,736	₱219,810	₱4,826,523	
Balance at January 1, 2017		2,181,955	₱2,181,955	₱3,019,218	(₱100,525)	(₱186,393)	₱-	(₱75,147)	₱7,805	₱7,529	₱4,854,442	
Net profit		-	-	-	-	-	-	-	-	82,996	82,996	
Other comprehensive income:												
Items that will not be reclassified subsequently to profit or loss		-	-	-	-	-	-	3,613	-	-	3,613	
Item that are and will be reclassified subsequently to profit or loss		-	-	-	-	348,840	(1,520)	-	-	-	347,320	
Reclassification						(4,776)	4,776	-	-	-	-	
Total comprehensive income		-	-	-	-	344,064	3,256	3,613	-	82,996	433,929	
Appropriated for contingencies		-	-	-	-	-	-	-	5,010	(5,010)	-	
Balance at December 31, 2017		2,181,955	₱2,181,955	₱3,019,218	(₱100,525)	₱157,671	₱3,256	(₱71,534)	₱12,815	₱85,515	₱5,288,371	

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
**STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2019, 2018 and 2017  
(Amounts in thousands)

	Notes	2019	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax		<b>₱217,202</b>	P191,894	P174,039
Adjustments for:				
Interest income	20	<b>(314,789)</b>	(224,676)	(192,510)
Increase in share in loss reserves – net	21	<b>281,592</b>	588,623	308,179
Increase in deferred acquisition costs – net	12, 19	<b>(184,668)</b>	(129,066)	(58,095)
Increase in premium reserves – net	13, 18	<b>81,119</b>	9,887	209,188
Gain on sale of AFS financial assets	20	<b>(79,772)</b>	(131,059)	(120,783)
Impairment losses – net	20, 22	<b>57,511</b>	86,550	147,391
Dividend income	20	<b>(43,713)</b>	(43,672)	(55,885)
Increase (Decrease) in share in reported losses – net		<b>40,920</b>	(67,319)	(25,700)
Unrealized foreign currency loss (gain)		<b>29,169</b>	(14,341)	35,458
Depreciation and amortization	22	<b>22,380</b>	15,904	12,139
Loss on asset retirement	20	<b>35</b>	244	8,179
Loss (Gain) on sale of non-financial assets	20	<b>17</b>	(11)	(202)
Operating income before working capital changes		<b>107,003</b>	282,958	441,398
Decrease (Increase) in:				
Reinsurance balances receivable		<b>(374,500)</b>	(321,747)	(454,267)
Loans and receivables		<b>11,876</b>	39,486	(35,992)
Reinsurance recoverable on reported losses		<b>154,389</b>	193,325	726,269
Other assets		<b>26,175</b>	4,100	(33,530)
Increase (Decrease) in:				
Reinsurance balances payable		<b>34,177</b>	(123,606)	186,489
Accounts payable and accrued expenses		<b>12,826</b>	15,332	13,159
Losses and claims payable		<b>(42,916)</b>	(123,078)	(621,906)
Cash generated from (used in) operations		<b>(70,970)</b>	(33,230)	221,620
Cash paid for income taxes		<b>(95,839)</b>	(56,460)	(36,602)
<b>Net Cash From (Used in) Operating Activities</b>		<b>(₱166,809)</b>	(₱89,690)	₱185,018
Proceeds from disposal/maturities of:				
AFS financial assets	7	<b>₱2,862,762</b>	₱2,519,925	₱2,428,510
Loans and receivable	9	<b>50,000</b>	50,000	305,070
HTM investments	8	<b>338,672</b>	-	73,000
Property and equipment	10	<b>144</b>	65	3,030
Interest received		<b>300,491</b>	223,247	193,168
Dividends received		<b>42,505</b>	47,873	51,798
Acquisitions of:				
AFS financial assets	7	<b>(2,848,452)</b>	(2,526,482)	(2,789,783)
Property and equipment	10	<b>(7,942)</b>	(7,657)	(35,047)
HTM investments	8	<b>(722,206)</b>	(340,830)	(15,100)
Intangible assets	14	<b>(5,271)</b>	(25,226)	(5,786)
Other investments	9	<b>-</b>	(5,000)	-
<b>Net Cash from (Used in) Investing Activities</b>		<b>10,703</b>	(64,085)	208,860
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(156,106)</b>	(153,775)	393,878
<b>EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS</b>		<b>(816)</b>	5,135	(3,766)
<b>CASH AND CASH EQUIVALENTS - January 1</b>		<b>1,161,899</b>	1,310,539	920,427
<b>CASH AND CASH EQUIVALENTS - December 31</b>		<b>₱1,004,977</b>	<b>₱1,161,899</b>	<b>₱1,310,539</b>

**Supplemental Information on Noncash Investing Activities:**  
In 2018 and 2017, the Company reclassified certain investments previously classified under AFS financial assets to HTM investments amounting to ₱473.13 million and ₱1.09 billion, respectively, and to Other assets amounting to ₱0.88 million and ₱0.84 million, respectively (see Note 7).

In 2019, the Company recognized right-of-use assets and lease liabilities amounting to ₱5.51 million (see Note 2).

See Notes to the Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2019 AND 2018  
(Amounts in thousands)

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 31<sup>st</sup> floor BPI-Philam Life Makati, 6811 Ayala Avenue, Makati City.

The financial statements of the Company as at and for the year ended December 31, 2019 (including the comparative financial statements as at December 31, 2018 and for the years ended December 31, 2018 and 2017) were authorized for issue by the Company's Board of Directors (BOD) on March 26, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. The policies have been consistently applied to all the years presented, unless otherwise stated.

**2.1 Basis of Preparation of Financial Statements**

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

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

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Company presents the statement of comprehensive income in two statements: a statement of income and a statement of comprehensive income.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine peso, the Company's functional and presentation currency, and amounts are presented in thousands except when otherwise indicated.

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

2.2 Adoption of New and Amended PFRS

(a) Effective in 2019 that are Relevant to the Company

The Company has adopted the following PFRS, amendments, and interpretation starting January 1, 2019. The adoption of these pronouncements did not have any significant impact on the Company’s financial statements.

- PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement*. The amendments clarify that past service cost and gain or loss on settlement is calculated by measuring the net defined benefit liability or asset using updated actuarial assumptions and comparing the benefits offered and plan assets before and after the plan amendment, curtailment or settlement but ignoring the effect of the asset ceiling that may arise when the defined benefit plan is in a surplus position. Further, the amendments now require that if an entity remeasures its net defined benefit liability or asset after a plan amendment, curtailment or settlement, it should also use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the change to the plan. The application of these amendments had no significant impact on the Company’s financial statements.
- PFRS 16, *Leases*. The new standard replaced PAS 17, *Leases*, and its related interpretation, International Financial Reporting Interpretations Committee (IFRIC) 4, *Determining Whether an Arrangement Contains a Lease*, Standard Interpretations Committee (SIC) 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. For lessees, it requires an entity to account for leases “on-balance sheet” by recognizing a “right-of-use” (ROU) asset and lease liability arising from contract that is, or contains, a lease.

The Company has adopted PFRS 16 using the modified retrospective approach as allowed under the transitional provisions of the standard. The adoption of the standard has resulted in adjustments to the amounts recognized in the financial statements as at January 1, 2019, with the cumulative effect recognized in equity as an adjustment to the opening balance of Retained earnings for the current period. Accordingly, comparative information were not restated.

The new accounting policies of the Company as a lessee are disclosed in Note 2.18(i) were not significantly affected.

Discussed below are the relevant information arising from the Company’s adoption of PFRS 16 and how the related accounts are measured and presented on the Company’s financial statements as at January 1, 2019.

- a. For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as leases under PAS 17 and IFRIC 4.
- b. The Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company’s incremental borrowing rate as of January 1, 2019. The Company’s weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 8%.
- c. The Company has elected not to include initial direct costs in the measurement of ROU assets at the date of initial application. The Company also elected to measure the ROU assets at its carrying amount as if PFRS 16 had been applied since the commencement date of the lease, but discounted using the weighted average incremental rate as of January 1, 2019, which is 8%.
- d. For leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Company has applied the optional exemptions to not recognize ROU assets but to account for the lease expense on a straight-line basis over the remaining lease term.

The change in accounting policies resulted into a recognition of ROU assets and lease liabilities amounting to ₱5.51 million on January 1, 2019. There is no impact on Retained earnings on January 1, 2019.

A reconciliation of the opening lease liabilities recognized at January 1, 2019 and the total operating lease commitments determined under PAS 17 at December 31, 2018 is shown below.

Future minimum lease payables	₱10,825
Less: Future minimum rentals payable on short-term leases	4,702
Operating lease liabilities before discounting	6,123
Discount using incremental borrowing rate	611
Lease liabilities, January 1, 2019	₱5,512

- IFRIC 23, *Uncertainty over Income Tax Treatments*. This 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. The application of this interpretation had no significant impact to the Company’s financial statements.
- Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends* are relevant to the Company. The amendments clarify that an entity should recognize the income tax consequence of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. The application of this interpretation had no significant impact to the Company’s financial statements.

(b) Effective Subsequent to 2019 but not Adopted Early

There are new PFRS, amendments and interpretation to existing standards effective for annual periods subsequent to 2019, which were adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions:

- PAS 1 (Amendments), *Presentation of Financial Statements* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). The amendments provide a clearer definition of ‘material’ in PAS 1 by including the concept of ‘obscuring’ material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity’s own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other Standards that contain definition of material or refer to the term ‘material’ to ensure consistency.
- Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised framework.

- PFRS 9 (2014), *Financial Instruments*. This new standard on financial instruments will replace PAS 39, *Financial Instruments* 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.

PFRS 4 (Amendments), Applying PFRS 9 with PFRS 4, provide two options for entities that issue insurance contracts within the scope of PFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (the “overlay approach”); and,
- an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4 (the “deferral approach”).

The Company has selected to apply the second option as allowed by this amendment, effectively deferring application of PFRS 9 (2014) to periods beyond January 2023, since the Company was able to meet the following criteria:

- it has not previously applied any version of PFRS 9; and,
- its activities are predominantly connected with insurance as of December 31, 2015, the Company's latest annual reporting date immediately preceding April 1, 2016, and no reassessment is required as the activities of the Company did not change at subsequent dates after initial assessment and before the effective date of PFRS 9.

Based on management's assessment, liabilities arising from insurance contracts represents over 90% of the total carrying amount of all the Company's total liabilities.

These liabilities include reinsurance balances payable, losses and claims payable, premium reserves and deferred reinsurance commissions.

Consequently, the Company will continue to apply its existing accounting policy on financial instruments.

- PFRS 17, Insurance Contracts (effective January 1, 2023). The new standard will eventually replace PFRS 4, Insurance Contracts, that will set out the principles for the recognition, measurement, presentation and disclosure of insurance contracts within its scope.

This new standard requires a current measurement model where estimates are remeasured in each reporting period. Moreover, contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and,
- a contractual service margin (CSM) representing the unearned profit of the contract which is recognized as revenue over the coverage period.

PFRS 17 further allows a choice between recognizing changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for financial assets under PFRS 9.

In addition, the standard provides an optional, simplified premium allocation approach for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

Management is currently assessing the impact of this new standard on the Company's 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 year. 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 recognized 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 December 31, 2019 and 2018, 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, loans and receivables, and funds at Lloyd's, deposits and security fund (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 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.

#### (ii) 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 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 and government securities 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.

#### (iii) 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 the 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.

### (b) Impairment of Financial Assets

The Company assesses at the end of each reporting period whether there is an 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 as a reclassification adjustment 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 recognition and reversal of impairment loss on reinsurance balances receivable, relating to financial assets that are recognized in the statements of income are presented as part of Investment and Other income and expenses. Provision for and reversal of impairment losses on reinsurance balances receivable are presented at net as part of Impairment losses – net 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 (DAC)**

Commissions are recognized as expense over the coverage period of the policy using the 24<sup>th</sup> method [see Note 2.17 (b)] except for DAC from modified co-insurance arrangements. The portion of the commissions that relates to the unexpired periods of the contracts at the end of the reporting period is accounted for as DAC 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 DAC under Commissions – net account in the statements of income.

For modified co-insurance arrangements, the related commissions are initially capitalized as DAC and amortized as Commission Expense in the profit or loss throughout the term of the contract.

**2.6    Deferred Reinsurance Premiums (DRP)**

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

**2.7    Reinsurance Recoverable on Reported Losses and Reinsurance Recoverable on Claims Reserves**

Reinsurance recoverable on reported losses and reinsurance recoverable on claims reserves represent 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 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

The Company depreciates ROU assets included as part of property and equipment on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term [see Note 2.18(i)].

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 from the 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 account 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. They are recognized in the 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. They 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.

Transfers to, or from, investment properties shall be made when and only when there is a change in use or purpose for such property.

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 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 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 (CWT)*

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 (VAT)*

The input 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 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 expense in the statements of income.

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.

Derivative financial instruments are classified under financial assets or financial liabilities at FVTPL, unless these are designated as hedging instruments in an effective hedge or financial guarantee contracts. Derivatives are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as cash flow hedges) are taken directly to the statements of income and are included in Investment and Other income and expenses account [see Note 20]. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. In 2019, derivatives consisted of a non-deliverable forward contract to hedge the risk associated with foreign currency fluctuations. The Company has no outstanding derivative asset or liability as at December 31, 2019.

**2.11 Losses and Claims Payable and Claims Reserves**

Losses and claims payable represent the present value of the estimated ultimate cost of all reported claims at the end of the reporting period, together with related claims handling costs and reduced for the expected value of salvage and other recoveries. This includes outstanding claim reserves, loss adjustment expenses payable plus a Margin for Adverse Deviation (MfAD) based on a certain percentage of the total outstanding claim reserves and loss adjustment expenses payable to allow for inherent uncertainty of the best estimate of the policy reserves.

Claims reserves represent the estimated ultimate cost of all incurred but not reported claims (IBNR), including incurred but not enough reported claims plus MfAD at the end of the reporting period. Claims reserves are measured on a discounted basis, using actuarial estimates of historical claims expense, adjusted for current trends and conditions. These estimates are continually reviewed and the ultimate liability may vary significantly from the amount recognized, which are reflected in losses and claims payable in the statement of income in the period in which they are determined.

**2.12 Premium Reserves**

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

UPR refers to the portion of the premiums attributable to the unexpired risks at the balance sheet date and is recognized as revenue over the coverage period of the policy using the 24<sup>th</sup> 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 DAC, 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 (DRC)**

Commissions earned from retrocession contracts are recognized as revenue over the coverage period of the policy using the 24<sup>th</sup> method [see Note 2.16 (a)]. The portion of the commissions that relates to the unexpired periods of the contracts 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 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 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 financial 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 and Income Recognition**

Revenue is recognized only when (or as) the Company satisfies a performance obligation by transferring control of the promised services to the customer. Expenses and costs, if any, are recognized in the statement of income upon utilization of the resources or services or at the date these are incurred. All finance costs are reported on an accrual basis.

The Company's significant revenues pertain to net reinsurance premiums and investment income (loss) which are accounted for by the Company in accordance with PFRS 4 and PAS 39, respectively. The Company also earns other income from sale of non-financial assets, which is recognized as income once the Company transferred the goods. These are accounted for by the Company in accordance with relevant accounting standards.

The following provides information about the specific recognition criteria of revenues recognized in accordance with PFRS 4 and PAS 39:

(a) *Reinsurance premiums* – Premiums are recognized over the coverage period of the contracts using the 24<sup>th</sup> method. The 24<sup>th</sup> method assumes that the average date of issue of all contracts written during any one month is the middle of that month. Accordingly, 1/24<sup>th</sup> of the net premiums are considered earned in the month the reinsurance contracts are issued and 2/24<sup>th</sup> for every month thereafter (or 1/24<sup>th</sup> for every 15-day period after the issue month). The portion of the gross reinsurance premiums that relates to the unexpired periods of the contracts 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 contracts 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 have passed to the buyer or at a point in time when the control of the non-financial assets transfers to the customer.

**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 estimated ultimate cost of settling the claims and are discounted for time value of money. 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 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<sup>th</sup> 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****(i) Accounting for Leases in Accordance with PFRS 16 (2019)**

For any new contracts entered into on or after January 1, 2019, the Company considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Company recognizes a ROU asset and a lease liability in the statement of financial position. The ROU asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Company depreciates the ROU asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. The Company also assesses the ROU asset for impairment when such indicators exist (see Note 2.20).

On the other hand, the Company measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the ROU asset, or profit and loss if the ROU asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a ROU asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, ROU assets and lease liabilities have been presented as part of Property, plant and equipment and Accounts payable and accrued expenses, respectively.

**(ii) Accounting for Leases in Accordance with PAS 17 (2018)**

Leases which transfer to the Company substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance costs are recognized in profit or loss. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Finance lease obligations, net of finance charges, are included in Interest-bearing Loans and Borrowings account in the statement of financial position.

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 (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and 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 or identified asset or assets and the arrangement conveys a right to use the asset for a period of time in exchange for consideration.

### **2.19 Foreign Currency Transactions and Translation**

The accounting records of the Company are maintained in Philippine peso. Foreign currency transactions during the year 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 20).

### **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 for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds using the reference rates as published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL) 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. BVAL provides evaluated prices that are based on market observations from contributed sources.

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, unless there is a plan amendment, curtailment or settlement during the reporting period.

The calculation also takes into 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 Interest income under Investment and Other income and 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 final tax, current tax and deferred 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 year. All changes to current tax assets or current tax 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 deferred tax 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 deferred tax 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 deferred tax 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 Transactions and Relationships

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.

Based on the requirement of SEC Memorandum Circular 2019-10, *Rules of Material Related Party Transactions for Publicly-listed Companies*, transactions amounting to ten percent (10%) or more of the total assets based on the latest audited financial statements that were entered into by the Company with related parties are considered material.

All individual material related party transactions shall be approved by at least two-thirds vote of the board of directors, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent directors' vote is not secured, the material related party transaction may be ratified by the vote of the stockholders representing at least two-thirds of the outstanding capital stock. For aggregate related party transactions within a 12-month period that breaches the materiality threshold of ten percent (10%) of the Company's total assets based on the latest audited financial statements, the same board approval would be required for the transaction(s) that meets and exceeds the materiality threshold covering the same related party.

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 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 24.2).

### 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 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 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 financial statements. Events subsequent to the balance sheet date that are not adjusting events, if any, are disclosed when material to the financial statements.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

#### (a) Impairment of Financial Assets

##### *Financial Assets at Fair Value – AFS Financial Assets*

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 or 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 P57.51 million and P7.81 million are considered impairment in value as at December 31, 2019 and 2018, respectively (see Note 7). 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 December 31, 2019 and 2018, the Company has recognized allowance for impairment loss amounting to ₱578.08 million and ₱637.44 million, respectively (see Note 6).

*(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 December 31, 2019 and 2018, 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 28.

*(d) Determination of Lease Term of Contracts with Renewal and Termination Options (2019)*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

The Company did not include the renewal period as part of the lease term for leases of a number of EDP equipment as these may no longer be optimal at the time of expiration of the lease, and alternative EDP equipment could be sourced and introduced into the operations without significant cost or disruption.

The lease term is reassessed if the renewal option is actually exercised or not exercised, or if the Company becomes obliged to exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Company."

**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. An 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 6.

The carrying values of HTM investments and loans and receivables are shown in Notes 8 and 9, 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 7.

*(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 10, and of investment properties and intangible assets in Note 14. Based on management's assessment as at December 31, 2019 and 2018, 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 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 December 31, 2019 and 2018, the Company recognized net deferred tax assets amounting to ₱167.52 million and ₱113.91 million, respectively, as management has assessed that it is probable that sufficient taxable profit will be available to allow the benefit of the deferred tax assets to be utilized. However, unrecognized deferred tax assets amounted to ₱641.23 million and ₱593.20 million as at December 31, 2019 and 2018, respectively (see Note 23).

*(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.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 22.2.

(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 claim liabilities are equal to the present value of Losses and claims payable and Claims reserves accounts in the statements of financial position which include outstanding losses, IBNR losses, loss adjustment expenses payable plus the MfAD. Claim liabilities are discounted for the time value of money.

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 claim 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 Chain Ladder Method, Bornhuetter-Ferguson 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.

As at December 31, 2019 and 2018, the carrying value of provision for claims reported and IBNR losses are recognized as Losses and claims payable and Claims reserves accounts, respectively, in the statements of financial position (see Note 17).

(h) Determination of Appropriate Discount Rate in Measuring Lease Liabilities (2019)

The Company measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed sby management equal to the Company's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks from both its operating and investing activities. The Company's main risk mitigation strategies generally include adoption of underwriting and investment policies and guidelines, annual budget provision and internal audit checks and assessments.

The Company has implemented an Enterprise Risk Management Process, which is an organization-wide approach to the identification, assessment, communication and management of enterprise risks which are, defined as issues which may prevent the Company from achieving its strategic objectives. This process has been fully integrated into the Company's operations and is overseen by a Risk Management Team, who reports the results of the review and risk assessment to members of senior management. At the same time, a Risk Oversight Committee has been established by the Company's BOD to assist them in the development and oversight of the Company's risk management program. The Risk Oversight Committee is required to provide the BOD with a comprehensive enterprise risk assessment at least annually and to establish plans to ensure that risks are being managed and monitored effectively. The Risk Oversight Committee's main task is to oversee that risk management is an integral part of the planning and operations of the Company in order to meet corporate goals and objectives.

The Company's risk management, in close cooperation with the respective duly constituted Board Committees on Underwriting, Investment and Budget, Risk Oversight and Audit, focuses on implementing risk control measures addressing underwriting acceptances, catastrophe exposures, retrocession programs, claims control, and securing short to medium-term cash flows by minimizing financial market risks while managing long-term financial investments to generate expected returns.

The most significant financial risks to which the Company may be exposed to are described in the succeeding pages.

4.1 Underwriting Risk

As a reinsurer, the Company underwrites reinsurance business from life and non-life insurance companies and intermediaries, with the objective of realizing profits and being a dependable partner to its clients. To attain this objective, it is essential for the Company to have a balanced portfolio, wherein there is diversification of risks. For non-life business, each risk that is accepted or treaty arrangement entered into is carefully evaluated based on the Company's underwriting guidelines, such as maximum limits per type of risk, existing exposures, premium adequacy and financial condition of the client.

The Company's retention on the larger risks that the Company accepts, or possible accumulation of the same in a given area, including losses that could arise from catastrophes such as earthquakes and typhoons, is protected by an excess of loss coverage to limit the Company's exposure up to a specified amount. Significant risk concentrations may result in potential losses not only in certain areas but also within a particular type of business such as property, motor and casualty. The Company monitors and controls its exposures in various lines.

Retrocession or reinsuring what the Company had earlier accepted as reinsurance is resorted to enable the Company to write risk with amounts in excess of its retention, and to reduce the volatility of its results and protect its capital. In doing so, the Company also sets minimum requirements and standards in determining with whom it retrocedes to, foremost of which is the rating of the retrocessionaires by international rating agencies such as Standard and Poor's and A.M. Best.

On the other hand, life business, which constitutes about 30% of gross premium written, follows a schedule of retention per life or group life as set by the Underwriting Committee. Any amount in excess of this is retroceded with reputable foreign reinsurers whose ratings from the same rating agencies are above par and meet the Company's standards.

Starting 2015, the Company repositioned itself as a lead-role reinsurer. Consequently, this triggered a reevaluation of company retention. The retention limits appropriate for mandatory 10% share are not advantageous to the Company when applied to lead contracts where share is 80% or 100%.

As a lead reinsurer, the Company is pushing for the adoption of underwriting guidelines which may be accessed through the Company's web portal.

Also, the Company continues to practice prudent claims management control. In evaluating a claim, the Company follows set of guidelines such as setting up of reserves upon its receipt of a preliminary loss advice, and requiring the cedant-claimant to submit other necessary documents such as the adjuster's report, affidavits and proof of loss, among others. In addition, the Company establishes claim reserves to provide for losses that have been incurred but not yet paid. At the end of each reporting date, the Company assesses the adequacy of reserves for future claims that are not yet reported by setting up IBNR best estimate and inclusion of MfAD as ascertained by an independent actuary.

Concentration of Insurance Risk

The tables below set out the concentration of premiums by line of risk.

	December 31, 2019		
	Gross Written Premiums	Retroceded Premiums	Net Written Premiums
Fire	₱1,707,837	₱311,334	₱1,396,503
Casualty	510,280	20,696	489,584
Motor	375,551	18,904	356,647
Life	1,698,065	704,738	993,327
Marine and aviation	46,802	8,574	38,228
	₱4,338,535	₱1,064,246	₱3,274,289

	December 31, 2018		
	Gross Written Premiums	Retroceded Premiums	Net Written Premiums
Fire	₱1,355,115	₱453,449	₱901,666
Casualty	638,415	31,703	606,712
Motor	538,443	14,896	523,547
Life	1,108,980	600,836	508,144
Marine and aviation	41,953	5,887	36,066
	₱3,682,906	₱1,106,771	₱2,576,135

December 31, 2017			
	Gross Written Premiums	Retroceded Premiums	Net Written Premiums
Fire	₱1,194,578	₱286,671	₱907,907
Casualty	635,959	93,009	542,950
Life	977,938	475,081	502,857
Motor	340,909	10,262	330,647
Marine and aviation	55,730	7,333	48,397
Adjustments	-	(30,927)	30,927
	₱3,205,114	₱841,429	₱2,363,685

Claims Development

The Company aims to maintain strong reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences are eliminated which results in the release of reserves from earlier accident/underwriting years. In order to maintain strong reserves, the Company transfers much of this release to current accident/underwriting year reserves when the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.

The risks vary significantly in relation to the location of the risk insured by the Company, type of risks insured and in respect of commercial and business interruption by industry.

The following tables shows the estimates of cumulative incurred claims, gross of retrocession, for each underwriting year at each reporting date, together with cumulative claims paid at December 31, 2019 and 2018, net of foreign exchange revaluation of ₱45.55 million and ₱87.78 million, respectively.

December 31, 2019												
Underwriting Year	2010 and prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
At the end of the financial year	₱-	₱364,594	₱446,197	₱846,131	₱1,517,806	₱278,093	₱720,430	₱900,312	₱1,138,057	₱1,156,134	₱1,305,765	₱1,305,765
One year later	-	742,276	2,285,183	1,479,571	2,474,672	692,265	1,286,124	1,659,396	1,936,767	2,291,699	-	2,291,699
Two years later	-	870,396	2,444,928	1,553,907	2,756,250	663,639	1,239,501	1,541,089	2,111,210	-	-	2,111,210
Three years later	-	908,425	3,754,928	1,676,474	2,643,911	605,379	1,221,244	1,381,816	-	-	-	1,381,816
Four years later	-	996,770	3,837,886	1,701,021	2,559,103	538,642	1,167,963	-	-	-	-	1,167,963
Five years later	-	1,040,042	3,821,055	1,654,200	2,400,590	572,578	-	-	-	-	-	572,578
Six years later	-	1,022,502	3,796,121	1,609,999	2,401,034	-	-	-	-	-	-	2,401,034
Seven years later	-	943,528	3,806,755	1,610,569	-	-	-	-	-	-	-	1,610,569
Eight years later	-	917,084	3,830,616	-	-	-	-	-	-	-	-	3,830,616
Nine years later	-	926,269	-	-	-	-	-	-	-	-	-	926,269
Ten years later	2,111,408	-	-	-	-	-	-	-	-	-	-	2,111,408
Estimate of cumulative claims	2,111,408	926,269	3,830,616	1,610,569	2,401,034	572,578	1,167,963	1,381,816	2,111,210	2,291,699	1,305,765	19,710,927
Cumulative payments to date	437,246	854,103	3,669,801	1,399,258	1,622,347	479,463	1,132,322	818,448	1,488,664	1,159,925	142,951	13,204,528
Total current estimate of loss reserves	₱1,674,162	₱72,166	₱160,815	₱211,311	₱778,687	₱93,115	₱35,641	₱563,368	₱622,546	₱1,131,774	₱1,162,814	₱6,506,399

December 31, 2018											
Underwriting Year	2010 and prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
At the end of the financial year	₱-	₱364,594	₱446,197	₱846,131	₱1,517,806	₱278,093	₱720,430	₱900,312	₱1,138,057	₱1,156,134	₱1,156,134
One year later	-	742,276	2,285,183	1,479,571	2,474,672	692,265	1,286,124	1,659,396	1,936,767	-	1,936,767
Two years later	-	870,396	2,444,928	1,553,907	2,756,250	663,639	1,239,501	1,541,089	-	-	1,541,089
Three years later	-	908,425	3,754,928	1,676,474	2,643,911	605,379	1,221,244	-	-	-	1,221,244
Four years later	-	996,770	3,837,886	1,701,021	2,559,103	538,642	-	-	-	-	538,642
Five years later	-	1,040,042	3,821,055	1,654,200	2,400,590	-	-	-	-	-	2,400,590
Six years later	-	1,022,502	3,796,121	1,609,999	-	-	-	-	-	-	1,609,999
Seven years later	-	943,528	3,806,755	-	-	-	-	-	-	-	3,806,755
Eight years later	-	917,084	-	-	-	-	-	-	-	-	917,084
Nine years later	2,087,688	-	-	-	-	-	-	-	-	-	2,087,688
Estimate of cumulative claims	2,087,688	917,084	3,806,755	1,609,999	2,400,590	538,642	1,221,244	1,541,089	1,936,767	1,156,134	17,215,992
Cumulative payments to date	399,213	844,042	3,622,767	1,384,353	1,597,720	451,098	1,119,192	645,908	841,755	162,976	11,069,024
Total current estimate of loss reserves	₱1,688,475	₱73,042	₱183,988	₱225,646	₱802,870	₱87,544	₱102,052	₱895,181	₱1,095,012	₱993,158	₱6,146,968

The following tables shows the estimates of cumulative incurred claims, net of retrocession, for each underwriting year at each reporting date, together with cumulative claims paid at December 31, 2019 and 2018, net of foreign exchange revaluation of ₱23.44 million and ₱35.19 million, respectively.

December 31, 2019												
Underwriting Year	2010 and prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
At the end of the financial year	₱-	₱304,021	₱388,456	₱752,041	₱871,508	₱213,369	₱408,903	₱611,372	₱1,019,477	₱974,497	₱1,127,670	₱1,127,670
One year later	-	482,633	580,212	1,166,414	1,316,239	530,461	633,978	1,300,749	1,852,647	2,028,455	-	2,028,455
Two years later	-	507,762	587,782	1,233,206	1,058,624	540,712	609,307	1,298,378	1,986,014	-	-	1,986,014
Three years later	-	482,904	1,257,465	1,127,832	1,083,323	517,872	602,258	1,310,028	-	-	-	1,310,028
Four years later	-	566,961	1,256,110	1,149,516	1,162,020	484,850	568,335	-	-	-	-	568,335
Five years later	-	596,987	1,279,786	1,088,884	1,140,621	507,431	-	-	-	-	-	507,431
Six years later	-	585,752	1,287,779	1,067,683	1,136,257	-	-	-	-	-	-	1,136,257
Seven years later	-	489,932	1,298,717	1,080,460	-	-	-	-	-	-	-	1,080,460
Eight years later	-	462,883	1,321,783	-	-	-	-	-	-	-	-	1,321,783
Nine years later	-	470,123	-	-	-	-	-	-	-	-	-	470,123
Ten years later	926,789	-	-	-	-	-	-	-	-	-	-	926,789
Estimate of cumulative claims	926,789	470,123	1,321,783	1,080,460	1,136,257	507,431	568,335	1,310,028	1,986,014	2,028,455	1,127,670	12,463,345
Cumulative payments to date	229,129	418,611	1,234,279	1,067,862	1,056,004	437,608	544,879	1,118,719	1,428,157	1,044,428	82,607	8,662,283
Total current estimate of loss reserves	₱697,660	₱51,512	₱87,504	₱12,598	₱80,253	₱69,823	₱23,456	₱191,309	₱557,857	₱984,027	₱1,045,063	₱3,801,062

December 31, 2018											
Underwriting Year	2010 and prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
At the end of the financial year	P-	P304,021	P388,456	P752,041	P871,508	P213,369	P408,903	P611,372	P1,019,477	P974,497	P974,497
One year later	-	482,633	580,212	1,166,414	1,316,239	530,461	633,978	1,300,749	1,892,067	-	1,892,067
Two years later	-	507,762	587,782	1,233,206	1,058,624	540,712	609,307	1,298,378	-	-	1,298,378
Three years later	-	482,904	1,257,465	1,127,832	1,083,323	517,872	602,258	-	-	-	602,258
Four years later	-	566,961	1,256,110	1,149,516	1,162,020	489,320	-	-	-	-	489,320
Five years later	-	596,987	1,279,786	1,088,884	1,196,386	-	-	-	-	-	1,196,386
Six years later	-	585,752	1,287,779	1,153,127	-	-	-	-	-	-	1,153,127
Seven years later	-	489,932	1,319,916	-	-	-	-	-	-	-	1,319,916
Eight years later	-	463,007	-	-	-	-	-	-	-	-	463,007
Nine years later	1,414,944										1,414,944
Estimate of cumulative claims	1,414,944	463,007	1,319,916	1,153,127	1,196,386	489,320	602,258	1,298,378	1,892,067	974,497	10,803,900
Cumulative payments to date	208,209	413,145	1,229,971	1,061,124	1,045,934	426,035	531,592	1,034,145	825,192	76,580	6,851,927
Total current estimate of loss reserves	P1,206,735	P49,862	P89,945	P92,003	P150,452	P63,285	P70,666	P264,233	P1,066,875	P897,917	P3,951,973

Sensitivities

As a reinsurer, the insurance contract liabilities of the Company are sensitive to key factors such as claims experience, the observed claims reporting and payment patterns, and the occurrence of catastrophic events as observed in the historical loss ratios of the Company.

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on the Company’s income before income tax. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear.

	Change in Assumption	Impact on Income before Income Tax Increase (Decrease)	
		2019	2018
Loss ratio	+5%	(P159,659)	(P128,312)
	-5%	159,659	128,312

4.2 Credit Risk

Credit risk is the risk of financial loss to the Company if a counterparty to a reinsurance contract or financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk primarily through its cash and cash equivalents, investments, reinsurance receivables, loans and receivables, funds at Lloyd’s, deposits and security fund. The carrying amounts of reinsurance receivables and financial assets best represent the maximum credit risk exposure at the reporting date.

The table below and in the succeeding page provides information regarding the credit risk exposure of the Company as at December 31, 2019 and 2018 by classifying assets according to the Company’s credit grading of counterparties.

	December 31, 2019				
	Neither Past Due nor Impaired		Past Due but not Impaired	Impaired	Total
	Investment High Grade	Non-investment Grade			
Cash and cash equivalents	P1,004,977	P-	P-	P-	P1,004,977
Reinsurance balances receivable	1,813,379	611,486	183,942	578,081	3,186,888
AFS financial assets - debt securities	3,479,780	-	-	-	3,479,780
HTM investments	2,227,897	-	-	-	2,227,897
Loans and receivables	71,535	8,477	-	-	80,012
Funds at Lloyd’s	150,509	-	-	-	150,509
Other assets	1,331	-	-	-	1,331
	P8,749,408	P619,963	P183,942	P578,081	P10,131,394

	December 31, 2018				
	Neither Past Due nor Impaired		Past Due but not Impaired	Impaired	Total
	Investment High Grade	Non-investment Grade			
Cash and cash equivalents	P1,161,899	P-	P-	P-	P1,161,899
Reinsurance balances receivable	1,528,292	636,861	114,969	637,438	2,917,560
AFS financial assets - debt securities	2,494,960	-	-	-	2,494,960
HTM investments	1,848,693	-	-	-	1,848,693
Loans and receivables	97,190	15,353	-	-	112,543
Funds at Lloyd’s	196,557	-	-	-	196,557
Other assets	1,364	-	-	-	1,364
	P7,328,955	P652,214	P114,969	P637,438	P8,733,576

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.

The Company continuously monitors defaults of ceding companies and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on ceding companies and other counterparties are obtained and used. The Company’s policy is to deal only with creditworthy counterparties.

As part of Company’s policy, substantially all bank deposits are only maintained with reputable financial institution having high quality external credit ratings. Cash in banks which are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of P0.50 million per depositor per banking institution, as provided for under Republic Act (RA) No. 9576, *Amendment to Charter of PDIC*, are still exposed to credit risk. However, the credit risk for cash and cash equivalents is considered negligible, since the majority of the counterparties are reputable banks with high quality external credit ratings.

The reinsurance balances receivable that are past due but not impaired are as follows:

	2019	2018
More than six months but not more than one year	P113,188	P38,627
More than one year	70,754	76,342
	P183,942	P114,969

None of the Company’s reinsurance receivables and financial assets are secured by collateral or other credit enhancements, except for cash and cash equivalents as described in the preceding page. Further, the Company’s reinsurance balances are subject to enforceable master netting agreements, each agreement between the Company and counterparties allows for net settlement of the relevant reinsurance liabilities when both elect to settle on a net basis.

Reinsurance balances as at December 31 are as follows.

	Notes	2019	2018
Reinsurance balances receivable	6	₱2,608,807	₱2,280,122
Reinsurance balances payable	15	1,185,518	1,154,233

4.3 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with its reinsurance contracts and financial liabilities that are settled by delivering cash or another financial asset.

The Company manages its cash and investment position to meet its obligations arising from reinsurance agreements and other financial liabilities. Currently, the Company’s excess cash is invested in short-term placements and AFS financial assets.

As at December 31, 2019 and 2018, the Company’s obligations arising from reinsurance agreements totaling ₱1.19 billion and P1.15 billion, respectively, have contractual maturities within the normal operating cycle of the business. In addition, as at December 31, 2019 and 2018, other financial liabilities included as part of Accounts payable and accrued expenses account in the statements of financial position amounted to ₱46.76 million and ₱56.02 million, respectively, and have contractual maturities within one year after the end of the reporting period.

As at December 31, 2019 and 2018, the Company has a current ratio of 3.56:1 and 3.02:1, respectively, which does not include losses and claims payable and claims reserves.

4.4 Market Risk

Market risk embodies potential losses due to market fluctuations and includes foreign exchange risk, equity price risk and interest rate risk.

The Company’s market risk is managed on a daily basis in accordance with internal and regulatory policies and procedures while overall market positions are reported to the Investment Committee of the Company.

The market risks to which the Company may be exposed are as follows:

(a) Foreign Exchange Risk

Foreign currency risk is the risk that fluctuations in foreign exchange rates will adversely affect the fair value or cash flow of a recognized financial instrument. The Company may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Company is exposed to risk that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Company’s assets or liabilities denominated in currencies other than in Philippine peso.

Exposures to currency exchange rates arise from the foreign currency denominated short-term placements, investments, receivables and payables. The Company recognized net foreign currency losses ₱26.25 million and ₱30.70 million in 2019 and 2017, respectively, and net foreign currency gains ₱43.22 million in 2018 (see Note 20).

To mitigate the Company’s exposure to foreign exchange risk, foreign-currency denominated cash flows and positions are monitored and hedged as it deems necessary.

	2019		2018	
	U.S. Dollars	Other Currencies	U.S. Dollars	Other Currencies
Financial assets	₱1,951,072	₱78,650	₱1,989,994	₱35,801
Financial liabilities	(1,774,123)	(254,912)	(1,306,288)	(190,517)
Total net exposure	₱176,949	(₱176,262)	₱683,706	(₱154,716)

The table below illustrates the sensitivity of the Company’s profit before tax with respect to changes on Philippine peso (Php) against foreign currencies exchange rates. The percentage changes in rates have been determined based on the average market volatility rates, using standard deviation, in the previous 12 months. If the Philippine peso had strengthened against the foreign currencies, the effect is presented below.

	2019			2018		
	Reasonably Possible Change in Rate	Effect in Profit Before Tax	Effect in Equity	Reasonably Possible Change in Rate	Effect in Profit Before Tax	Effect in Equity
Php - U.S. Dollars	13.37%	₱23,652	₱16,556	4.70%	₱32,101	₱22,471
Php - Indian Rupee	19.38%	339	237	6.85%	(15,970)	(11,179)
Php - Singaporean Dollars	11.01%	(2,356)	(1,649)	6.48%	(1,728)	(1,209)
Php - Hongkong Dollars	12.57%	(2,217)	(1,552)	4.81%	(849)	(594)
Php - Euro	13.02%	2,802	1,961	9.57%	1,640	1,147
Php - Thailand Baht	16.28%	(504)	(353)	9.71%	(476)	(333)
Php - Vietnamese Dong	12.63%	(963)	(674)	5.24%	(59)	(41)
Php - Indonesian Rupiah	19.07%	(8,474)	(5,931)	7.47%	(4,618)	(3,233)
Php - Nepalese Rupee	11.73%	1,505	1,053	8.83%	149	105
Php - Japanese Yen	23.30%	(26)	(18)	13.93%	(106)	(74)
Php - China Yuan	10.53%	(24)	(17)	8.71%	(20)	(14)
Php - Sri Lankan Rupee	14.81%	(26)	(18)	5.61%	(10)	(7)
Php - British Pound	24.31%	(11,344)	(7,941)	11.08%	(5,525)	(3,868)
Php - Malaysian Ringgit	-	-	-	9.53%	904	633
Php - South Korean Won	-	-	-	5.12%	(1,083)	(758)
Php - Bhutanese Ngulkrum	-	-	-	3.43%	(50)	(35)
Total		₱2,364	₱1,654		₱4,300	₱3,011

If the Philippine peso had weakened against the foreign currencies, the effect would be the reverse of the amounts presented.

Exposures to foreign currency rates vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis is considered to be a representative of the Company’s currency risk.

(b) Equity Price Risk

Equity price risk is the probability that the value of an equity investment would deteriorate due to changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

The Company, through its Investment Committee, has established conservative guidelines and policies and constantly reviews them to align with the Company’s risk appetite, business profile, targets, and better control the risks inherent in equity investments.

The Company’s own investment policy requires that it invests only in shares of common stock of companies listed in the PSE. Also, these listed companies must have profitable business operations and market capitalizations supportive of the overall strategic direction of the Company.

The Investment Committee regularly reviews and approves a list of publicly traded stocks authorized for investments on the basis of the foregoing considerations. Furthermore, the Investment Committee seeks to avoid unwarranted concentration of funds in a single asset class by regularly monitoring and limiting the proportion of equity investments to the Company’s total investment portfolio. Further, exposure limits to a group of entities and single entities are established and monitored regularly.

As at December 31, 2019 and 2018, investments in listed equities accounted for 13% and 24% of the Company's total investment portfolio, respectively.

The observed volatility rates of the fair value of the Company's AFS financial assets held at fair value and their impact on the Company's other comprehensive income for the years ended December 31, 2019 and 2018 are summarized as follows:

	2019		2018	
	Observed Volatility Rates	Effect in Other Comprehensive Income	Observed Volatility Rates	Effect in Other Comprehensive Income
Common shares	9.49%	₱99,021	14.45%	₱252,640
Preferred shares	9.58%	36,372	17.34%	49,218
		₱135,393		₱301,858

(c) Interest Rate Risk

There are two types of interest rate risk:

- Fair Value Interest Rate Risk - the probability that the value of a financial instrument would deteriorate due to changes in market interest rates; and
- Cash Flow Interest Rate Risk - the probability that future cash flows of a financial instrument would deteriorate due to changes in market interest rates.

Significant portion of the Company's investments is composed mainly of fixed interest-bearing debt instruments carried at fair value. Its total consolidated bond holdings accounted for 72% and 62% of its total investment portfolio as at December 31, 2019 and 2018, respectively. As a result, the Company is exposed to fair value interest rate risk.

The Company does not carry debt instruments with variable interest rate and, thus, is not exposed to cash flow interest rate risk.

Risk limits on issuer exposure, credit ratings, duration, and gapping of its portfolio are being monitored and managed to ensure protection of capital and address the Company's liquidity needs as they arise.

The analysis below details the impact of changes in market interest rate to the fair value of the Company's investment in fixed-rate debt instruments. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2019		
	Observed Volatility Rates	Effect in Other Comprehensive Income	
		Increase in variable	Decrease in variable
<b>Peso-denominated securities:</b>			
Government bonds	10.86%	(₱86,360)	₱30,355
<b>U.S. Dollar-denominated securities:</b>			
Government bonds	22.90%	(97)	7
Corporate bonds	19.17%	(16)	12
		(₱86,473)	₱30,374
	2018		
	Observed Volatility Rates	Effect in Other Comprehensive Income	
		Increase in variable	Decrease in variable
<b>Peso-denominated securities:</b>			
Government bonds	11.31%	(₱68,061)	₱80,954
<b>U.S. Dollar-denominated securities:</b>			
Government bonds	26.49%	(10,371)	4,627
Corporate bonds	16.93%	(1,758)	798
		(₱80,190)	₱86,379

In 2019 and 2018, the Company determined the reasonably possible change in interest rate based on the historical percentage changes in weighted average yield rates of outstanding investments of the Company.

5. CASH AND CASH EQUIVALENTS

This account consists of:

	2019	2018
Cash on hand and in banks	₱95,503	₱117,928
Short-term placements	909,474	1,043,971
	₱1,004,977	₱1,161,899

Cash in banks generally earn interest at rates based on daily bank deposit rates.

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.

Interest income recognized from cash in banks and short-term placements is presented as part of the Investment and Other income and expenses account in the statements of income (see Note 20).

Peso short-term placements earn annual interest ranging from 0.50% to 7.15% in 2019, 0.13% to 7.15% in 2018, from 0.50% to 2.63% in 2017, while U.S. dollar short-term placements earn annual interest ranging from 1.00% to 2.40% in 2019, 0.13% to 2.25% in 2018, and 0.50% to 1.38% in 2017.

The Cash and cash equivalents account includes cash denominated in U.S. dollar amounting to \$4.59 million or ₱233.04 million in 2019 and \$6.30 million or ₱331.98 million in 2018.

6. REINSURANCE BALANCES RECEIVABLE

The details of this account are as follows:

	2019	2018
Due from ceding companies	₱2,739,387	₱2,444,102
Due from reinsurers	1,261	25,568
Reinsurance recoverable on paid losses	344,609	372,202
Funds held by ceding companies	101,631	75,688
	3,186,888	2,917,560
Allowance for impairment	(578,081)	(637,438)
	₱2,608,807	₱2,280,122

The movements in these accounts are as follows:

	2019				
	Due from ceding companies	Due from Reinsurers	Reinsurance recoverable on paid losses	Funds held by ceding companies	Total
Balance at beginning of year	₱2,444,102	₱25,568	₱372,202	₱75,688	₱2,917,560
Loss recoveries during the year	-	-	257,462	-	257,462
Premiums written net of funds held during the year	4,312,524	-	-	-	4,312,524
Funds held during the year	-	-	-	26,011	26,011
Reclassified from due from ceding companies	(3,297)	-	-	3,297	-
Collections during the year	(3,971,803)	(24,307)	(281,384)	-	(4,277,494)
Revaluation adjustment	(42,139)	-	(3,671)	(3,365)	(49,175)
	2,739,387	1,261	344,609	101,631	3,186,888
Allowance for impairment	(221,988)	(1,261)	(331,962)	(22,870)	(578,081)
Balance at end of year	₱2,517,399	₱-	₱12,647	₱78,761	₱2,608,807

	2018				
	Due from ceding companies	Due from reinsurers	Reinsurance recoverable on paid losses	Funds held by ceding companies	Total
Balance at beginning of year	₱1,998,132	₱-	₱477,897	₱104,245	₱2,580,274
Loss recoveries during the year	-	-	176,069	-	176,069
Premiums written net of funds held during the year	3,506,872	-	-	-	3,506,872
Funds held during the year	-	-	-	77,158	77,158
Reclassified to due from ceding companies	98,876	-	-	(98,876)	-
Collections during the year	(3,106,749)	-	(283,484)	-	(3,390,233)
Write-off during the year	(37,829)	-	-	(4,689)	(42,518)
Reclassified to due from reinsurers	(25,568)	25,568	-	-	-
Revaluation adjustment	10,368	-	1,720	(2,150)	9,938
	2,444,102	25,568	372,202	75,688	2,917,560
Allowance for impairment	(265,287)	-	(348,020)	(24,131)	(637,438)
Balance at end of year	₱2,178,815	₱25,568	₱24,182	₱51,557	₱2,280,122

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

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

A reconciliation of the allowance for impairment at the beginning and end of 2019 and 2018 is shown below.

	2019				
	Due from ceding companies	Due from reinsurers	Reinsurance recoverable on paid losses	Funds held by ceding companies	Total
Balance at beginning of year	₱265,287	₱-	₱348,020	₱24,131	₱637,438
Reclassification	(42,360)	1,261	(13,637)	(1,261)	(55,997)
Revaluation	(939)	-	(2,421)	-	(3,360)
Balance at end of year	₱221,988	₱1,261	₱331,962	₱22,870	₱578,081

	2018				
	Due from ceding companies	Reinsurance recoverable on paid losses	Funds held by ceding companies	Total	
Balance at beginning of year	₱303,314	₱302,000	₱25,030	₱630,344	
Write-off during the year	(37,829)	-	(4,689)	(42,518)	
Impairment	21,174	24,672	7,406	53,252	
Reclassification	(15,584)	21,184	-	5,600	
Revaluation	(5,788)	164	(3,616)	(9,240)	
Balance at end of year	₱265,287	₱348,020	₱24,131	₱637,438	

The fair value of these short-term financial assets is not individually determined as the carrying amount is considered reasonable approximation of their fair value.

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account is composed of the following:

	2019	2018
Bonds	₱3,479,780	₱2,494,960
Equity securities - net	1,432,375	2,049,801
Investment in ARC shares	33,598	35,191
	₱4,945,753	₱4,579,952

Bonds include investments in corporate bonds and government securities.

Bonds earn interest at annual rates ranging from 2.13% to 8.00% in 2019, 2018 and 2017. Interest income is presented as part of Investment and Other income and expenses account in the statements of income (see Note 20).

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

	2019	2018
Due within one year	₱279,298	₱335,957
Due after one year through five years	1,542,863	1,196,614
Due after five years through ten years	970,427	732,972
Due after ten years	687,192	229,417
	₱3,479,780	₱2,494,960

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

	2019	2018
Cost:		
Quoted in the stock exchange	₱1,486,032	₱2,151,650
Not quoted in the stock exchange	15,517	33,416
	1,501,549	2,185,066
Unrealized foreign currency losses	95	590
Fair value losses:		
Quoted in the stock exchange	(63,460)	(119,659)
Not quoted in the stock exchange	(5,809)	(16,196)
	(69,269)	(135,855)
	₱1,432,375	₱2,049,801

Equity securities consist mainly of investment in companies listed in the PSE.

Dividend income from these equity securities is presented under the Investment and Other income and expenses account in the statements of income (see Note 20).

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 ₱33.60 million and ₱35.19 million as at December 31, 2019 and 2018, respectively.

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

	2019	2018
<b>Cost</b>		
Balance at beginning of year	₱4,946,329	₱5,367,174
Acquisitions	2,848,452	2,526,482
Reclassification	-	(563,380)
Disposals/maturities	(2,782,990)	(2,385,525)
Impairment losses	(57,511)	(7,810)
Unrealized foreign currency gains (losses)	(10,602)	9,388
	4,943,678	4,946,329
<b>Fair value adjustment</b>		
Balance at beginning of year	(366,377)	159,946
Changes in fair value	390,713	(492,442)
Fair value gains on disposal	(79,772)	(131,059)
Impairment losses	57,511	7,810
Reclassification	-	89,368
	2,075	(366,377)
Balance at end of year	₱4,945,753	₱4,579,952

Fair value gains or losses recognized in the statements of comprehensive income amounted to fair value gains of ₱390.71 million and ₱407.03 million in 2019 and 2017, respectively, and fair value losses of ₱492.44 million in 2018.

In 2018, the Company reclassified certain investments classified under AFS financial assets to HTM investments amounting to ₱473.13 million and to Other assets amounting to ₱0.88 million.

The Company recognized an impairment loss amounting to ₱57.51 million, ₱7.81 million and ₱3.30 million, in 2019, 2018 and 2017, respectively, which pertains to certain investments in equity securities with significant or prolonged decline in fair values. These were recorded as part of Investment and Other income and expenses account in the statements of income (see Note 20) after transferring the same amount of fair value losses on AFS financial assets from the Other comprehensive income account.

The Company sold AFS financial assets with carrying amount of P2.78 billion in 2019, ₱2.39 billion in 2018 and ₱2.31 billion in 2017. Accordingly, the Company recognized gain on sale of AFS financial assets amounting to ₱79.77 million, ₱131.06 million and ₱120.78 million in 2019, 2018 and 2017, respectively. These are presented as part of Investment and Other income and expenses account in the statements of income (see Note 20).

Fair value gains reclassified to profit or loss, as presented in the statements of comprehensive income, amounted to ₱79.77 million, ₱131.06 million and ₱120.78 million in 2019, 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 30.2).

8. HELD-TO-MATURITY INVESTMENTS

The following presents the carrying value of corporate and government securities by contractual maturity dates:

	2019	2018
Due within one year	₱480,142	₱170,878
Due after one year through five years	1,001,456	978,712
Due after five years through ten years	746,299	699,103
	<b>₱2,227,897</b>	<b>₱1,848,693</b>

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

	2019	2018
Balance at beginning of year	₱1,848,693	₱1,034,687
Reclassification	-	473,132
Additions	722,206	340,830
Maturities	(338,672)	-
Amortization	(4,330)	44
Balance at end of year	<b>₱2,227,897</b>	<b>₱1,848,693</b>

In September 2018, the Company reclassified certain government securities from AFS financial assets to HTM investments amounting to ₱473.13 million with face value of ₱562.50 million. These are earmarked as security for the benefit of cedants and creditors of the Company in accordance with the provisions of the Insurance Code. The new effective interest rate at the date of reclassification is 7.13%.

In May 2017, the Company's BOD approved the reclassification of certain investment in corporate bonds amounting to ₱1.09 billion previously classified as AFS financial assets to HTM investments due to change in intention to 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 ₱82.59 million and ₱55.14 million in 2018 and 2017, respectively, (see Note 20) and nil fair value gain or loss as a result of the reclassification had not been made, a decrease of ₱4.74 million and ₱130.00 million on the fair value of the bonds as at December 31, 2018 and 2017, respectively, would have been recognized directly in other comprehensive income.

9. LOANS AND RECEIVABLES

This account is comprised of the following:

	2019	2018
Current:		
Loans and notes receivable	₱2,487	₱8,073
Time deposits	-	5,000
Dividend and interest receivable	71,535	42,190
	<b>74,022</b>	<b>55,263</b>
Non-current:		
Loans and notes receivable	5,990	57,280
	<b>₱80,012</b>	<b>₱112,543</b>

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 periods of 140 days in 2019, 2018 and 2017. The annual interest rate of these deposits is 4.50% in 2019 and 2018, and 5.00% in 2017.

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 20).

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 recognized for loans and receivables in 2019, 2018 and 2017.

10. PROPERTY AND EQUIPMENT

A reconciliation of the carrying amount at the beginning and end of 2019 and 2018 of property and equipment is shown below.

	2019					
	Condominium Unit	Office Improvements	Office Furniture and Equipment	Transportation Equipment	EDP Equipment	Total
<b>Cost</b>						
Balance at beginning of year	₱101,310	₱25,234	₱11,183	₱11,906	₱14,406	₱164,039
Additions	-	7	57	929	6,949	7,942
Disposals/retirement	-	-	(15)	(250)	(3,485)	(3,750)
Balance at end of year	101,310	25,241	11,225	12,585	17,870	168,231
<b>Accumulated Depreciation</b>						
Balance at beginning of year	64,726	2,632	5,548	4,094	10,476	87,476
Depreciation	3,377	2,522	1,494	2,391	4,131	13,915
Disposals/retirement	-	-	-	(95)	(3,459)	(3,554)
Balance at end of year	68,103	5,154	7,042	6,390	11,148	97,837
<b>Net Book Value</b>	<b>₱33,207</b>	<b>₱20,087</b>	<b>₱4,183</b>	<b>₱6,195</b>	<b>₱6,722</b>	<b>₱70,394</b>

	2018					
	Condominium Unit	Office Improvements	Office Furniture and Equipment	Transportation Equipment	EDP Equipment	Total
<b>Cost</b>						
Balance at beginning of year	₱101,310	₱25,154	₱10,940	₱9,516	₱11,730	₱158,650
Additions	-	80	308	4,530	2,739	7,657
Disposals/retirement	-	-	(65)	(2,140)	(63)	(2,268)
Balance at end of year	101,310	25,234	11,183	11,906	14,406	164,039
<b>Accumulated Depreciation</b>						
Balance at beginning of year	61,349	227	4,126	3,820	9,117	78,639
Depreciation	3,377	2,405	1,487	2,154	1,387	10,810
Disposals/retirement	-	-	(65)	(1,880)	(28)	(1,973)
Balance at end of year	64,726	2,632	5,548	4,094	10,476	87,476
Net Book Value	₱36,584	₱22,602	₱5,635	₱7,812	₱3,930	₱76,563

The Company sold and retired certain assets with book value of ₱0.20 million, ₱0.30 million and ₱6.95 million in 2019, 2018, and 2017, respectively, and recognized net loss amounting to ₱0.05 million, ₱0.23 million and ₱3.92 million in 2019, 2018, and 2017, respectively, and is presented as part of Loss on asset retirement under Investment and Other income and expenses account in the statements of income (see Note 20).

The original cost of fully depreciated property and equipment that are still in use amounted to ₱9.88 million and ₱10.30 million as at December 31, 2019 and 2018, respectively.

ROU assets capitalized are recognized as part of under EDP Equipment. As of December 31, 2019, ROU assets and Lease liability amounted ₱2.88 million.

In 2019, depreciation associated with ROU assets amounted to ₱2.64 million.

#### 11. REINSURANCE RECOVERABLE ON REPORTED LOSSES AND REINSURANCE RECOVERABLE ON CLAIMS RESERVES

The movements in the accounts follow:

	Reinsurance recoverable on reported losses	Reinsurance recoverable on claims reserves
December 31, 2019		
Balance at beginning of year	₱2,442,548	₱319,048
Claims reported during the year	239,556	-
Transferred to reinsurance recovered on paid losses	(257,462)	-
Claims incurred but not reported, net of adjustments	-	558
Revaluation adjustment	(12,256)	-
	2,412,386	319,606
Allowance for impairment	(124,003)	-
Balance at end of year	₱2,288,383	₱319,606
December 31, 2018		
Balance at beginning of year	₱2,748,350	₱499,995
Claims reported during the year	(133,581)	-
Transferred to reinsurance recovered on paid losses	(176,069)	-
Claims incurred but not reported, net of adjustments	-	(180,947)
Revaluation adjustment	3,848	-
	2,442,548	319,048
Allowance for impairment	(68,006)	-
Balance at end of year	₱2,374,542	₱319,048

All of the Company's reinsurance recoverable on reported losses and claims reserves have been reviewed for indicators of impairment. In 2019, the Company reclassified the allowance for impairment from Reinsurance balance receivable – net to Reinsurance recoverable on reported losses amounting to ₱55.99 million. In 2018, the Company recognized an impairment loss amounting to ₱68.01 million which was recorded as part of Impairment loss under General and administrative expenses in the 2018 statement of income (see Note 22).

#### 12. DEFERRED ACQUISITION COSTS

The movements in this account are as follows:

	2019	2018
Balance at beginning of year	₱405,104	₱280,947
Cost deferred	1,177,086	902,034
Cost recognized	(986,710)	(777,877)
Balance at end of year	₱595,480	₱405,104

The increase or decrease of deferred acquisition costs for the year is presented as part of Commissions – net under Underwriting deductions in the statements of income (see Note 21.3).

#### 13. DEFERRED REINSURANCE PREMIUMS

The movements in this account are as follows:

	2019	2018
Balance at beginning of year	₱331,545	₱202,935
Premiums retroceded during the year	1,064,246	1,106,771
Premiums amortized during the year	(941,751)	(978,161)
Balance at end of year	₱454,040	₱331,545

The increase in deferred reinsurance premiums for the year is presented as part of Increase in premium reserves – net account in the statements of income.

#### 14. OTHER ASSETS

This account is composed of the following:

	Notes	2019	2018
Input VAT		₱207,007	₱210,085
Deferred tax assets – net	23	167,518	113,905
Funds at Lloyd's		150,509	196,557
Intangible assets – net		26,819	30,013
Defined benefit asset	22.2(b)	12,928	13,627
Prepayments		9,938	4,712
Deferred withholding VAT		9,203	9,203
Deferred creditable tax		7,022	7,092
Investment properties – net		3,705	3,705
Deposit		687	720
Security fund		644	644
Deferred input VAT	35(b)	617	532
Others		138	138
		596,735	590,933
Allowance for impairment		(209,633)	(209,633)
		₱387,102	₱381,300

Input VAT

The reconciliation of the allowance for impairment of input VAT is as follows:

	2019	2018
Balance at beginning of year	₱209,633	₱215,233
Reclassification	-	(5,600)
Balance at end of year	₱209,633	₱209,633

In 2017, the Company provided allowance for impairment on its input VAT as management assessed that the amount may not be realizable. Impairment loss recognized in 2017 is presented as part of Impairment losses – net under General and administrative expenses account in the statements of income (see Note 22).

Funds at Lloyd's

In December 2016, the Company entered into a quota share reinsurance treaty contract with a member of the Society of Lloyd's effective January 1, 2017, whereby the Company was required to establish its share of the Funds at Lloyd's amounting to U.S.\$3.00 million.

In 2017, the Company deposited additional funds amounting to £0.56 million equivalent to ₱36.94 million. In 2019, there was a cash call paid amounting to U.S.\$ 0.76 million equivalent to 38.67 million. As at December 31, 2019 and 2018, Funds at Lloyd's amounted to U.S. \$2.97 or ₱150.51 million and \$3.73 million or ₱196.56 million, respectively.

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 December 31, 2019 and 2018 are as follows:

	2019	2018
Cost	₱169,152	₱163,881
Accumulated amortization	(142,333)	(133,868)
Balance at end of year	₱26,819	₱30,013

A reconciliation of the carrying amount at the beginning and end of 2019 and 2018, of intangible assets is shown below.

	2019	2018
Balance at beginning of year, net of accumulated amortization	₱30,013	P9,881
Additions	5,271	25,226
Amortization	(8,465)	(5,094)
Balance at end of year,net of accumulated amortization	₱26,819	P30,013

Prepayments

Prepayments pertain to 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. The reconciliation of the carrying amount of the investment properties at the beginning and end of 2019 and 2018 is shown below.

	2019	2018
Balance at beginning of year	₱3,705	P2,825
Reclassification	-	880
Balance at end of year	₱3,705	P3,705

The total estimated fair value based on the latest available selling price of the properties obtained by the Company amounted to ₱15.20 million and ₱12.20 million as at December 31, 2019 and 2018, respectively (see Note 30.4).

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.

15. REINSURANCE BALANCES PAYABLE

The details of this account are as follows:

	2019	2018
Due to retrocessionaires	₱1,175,144	₱1,128,331
Funds held for retrocessionaires	5,691	23,559
Due to cedant	4,683	2,343
	₱1,185,518	₱1,154,233

Due to retrocessionaires are unpaid retroceded premiums of 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.

	2019			
	Due to retrocessionaires	Funds held for retrocessionaires	Due to cedant	Total
Balance at beginning of year	₱1,128,331	₱23,559	₱2,343	₱1,154,233
Retroceded premiums net of funds held during the year	1,060,761	-	-	1,060,761
Funds held during the year	-	3,485	-	3,485
Funds released during the year	21,353	(21,353)	-	-
Payments made during the year	(1,032,436)	-	2,367	(1,030,069)
Revaluation adjustment	(2,865)	-	(27)	(2,892)
Balance at end of year	₱1,175,144	₱5,691	₱4,683	₱1,185,518

	2018			
	Due to retrocessionaires	Funds held for retrocessionaires	Due to cedant	Total
Balance at beginning of year	₱1,235,348	₱34,290	₱-	₱1,269,638
Retroceded premiums net of funds held during the year	1,106,565	-	-	1,106,565
Funds held during the year	-	206	-	206
Funds released during the year	11,315	(11,315)	-	-
Payments made during the year	(1,230,377)	-	-	(1,230,377)
Reclassified to due to cedant	(2,316)	-	2,316	-
Revaluation adjustment	7,796	378	27	8,201
Balance at end of year	₱1,128,331	₱23,559	₱2,343	₱1,154,233

16. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

	Notes	2019	2018
Accounts payable		₱41,550	₱45,332
Income tax payable		31,207	6,553
Deferred output VAT	35(a)	24,727	24,003
Withholding taxes payable		8,238	4,070
Accrued expenses		2,665	8,148
Dividends payable	24.3	2,543	2,543
		₱110,930	₱90,649

Deferred output VAT pertains to VAT from the sale of goods and services that are still outstanding as at year-end. 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.

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

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.

## 17. LOSSES AND CLAIMS PAYABLE AND CLAIMS RESERVES

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

	Losses and Claims Payable	Claims Reserves
<b>December 31, 2019</b>		
Balance at beginning of year	<b>₱4,519,271</b>	<b>₱1,715,474</b>
Claims incurred during the year – net	<b>2,028,267</b>	<b>-</b>
Claims incurred but not reported, net of adjustments	<b>-</b>	<b>282,150</b>
Claims paid during the year	<b>(1,950,987)</b>	<b>-</b>
Revaluation adjustment	<b>(42,225)</b>	<b>-</b>
Balance at end of year	<b>₱4,554,326</b>	<b>₱1,997,624</b>

	Losses and Claims Payable	Claims Reserves
<b>December 31, 2018</b>		
Balance at beginning of year	<b>₱4,802,609</b>	<b>₱1,307,798</b>
Claims incurred during the year – net	<b>1,089,076</b>	<b>-</b>
Claims incurred but not reported, net of adjustments	<b>-</b>	<b>407,676</b>
Claims paid during the year	<b>(1,389,814)</b>	<b>-</b>
Revaluation adjustment	<b>17,400</b>	<b>-</b>
Balance at end of year	<b>₱4,519,271</b>	<b>₱1,715,474</b>

## 18. PREMIUM RESERVES

The movements in Premium reserves are as follows:

	2019	2018
Balance at beginning of year	<b>₱1,564,635</b>	<b>₱1,426,138</b>
Premium written	<b>4,338,535</b>	<b>3,682,906</b>
Premiums earned	<b>(4,134,921)</b>	<b>(3,544,409)</b>
Balance at end of year	<b>₱1,768,249</b>	<b>₱1,564,635</b>

The increase or decrease in Premiums reserves for the year is presented as part of Increase in premium reserves - net account in the statements of income.

## 19. DEFERRED REINSURANCE COMMISSIONS

The movements in Deferred reinsurance commissions are as follows:

	2019	2018
Balance at beginning of year	<b>₱526</b>	<b>₱5,435</b>
Income deferred	<b>23,827</b>	<b>(401)</b>
Income recognized	<b>(18,119)</b>	<b>(4,508)</b>
Balance at end of year	<b>₱6,234</b>	<b>₱526</b>

The increase or decrease in Deferred reinsurance commissions for the year is presented as part of Commissions – net under Underwriting deductions in the statements of income (see Note 21.3).

## 20. INVESTMENT AND OTHER INCOME AND EXPENSES

The details of this account follows:

	Notes	2019	2018	2017
	5,7,8,9			
Interest income	22,2,25,2	<b>₱314,789</b>	<b>₱224,676</b>	<b>₱192,510</b>
Gain on sale of AFS	7, 25,2	<b>79,772</b>	<b>131,059</b>	<b>120,783</b>
Dividend income	7, 25,2	<b>43,713</b>	<b>43,672</b>	<b>55,885</b>
Gain (loss) on sale of non-financial assets	10	<b>(17)</b>	<b>11</b>	<b>202</b>
Loss on asset retirement	10	<b>(35)</b>	<b>(244)</b>	<b>(8,179)</b>
Foreign currency gains (losses)		<b>(26,245)</b>	<b>43,221</b>	<b>(30,698)</b>
Impairment loss on AFS financial assets	7	<b>(57,511)</b>	<b>(7,810)</b>	<b>(64,873)</b>
Other charges	25,2	<b>(5,126)</b>	<b>(45,097)</b>	<b>(10,823)</b>
		<b>₱349,340</b>	<b>₱389,488</b>	<b>₱254,807</b>

In 2019, gain from settlement of derivative liabilities amounted to ₱4.06 million and reported under foreign currency gains.

## 21. UNDERWRITING DEDUCTIONS

The accounts below represent the aggregate amount of the Company's share in net losses and claims relative to its acceptances under reinsurance agreements.

### 21.1 Share in Reported Losses – Net

	2019	2018	2017
Gross claims paid	<b>₱1,950,987</b>	<b>₱1,389,814</b>	<b>₱1,159,242</b>
Retrocessionaires' share in losses paid	<b>(257,462)</b>	<b>(176,069)</b>	<b>(211,492)</b>
Gross change in provision for claims reported	<b>105,837</b>	<b>(485,039)</b>	<b>(724,760)</b>
Retrocessionaires' share in change in provision for claims reported	<b>7,262</b>	<b>322,816</b>	<b>803,425</b>
	<b>₱1,806,624</b>	<b>₱1,051,522</b>	<b>₱1,026,415</b>

### 21.2 Share in Unreported Loss Reserves – Net

	2019	2018	2017
Gross change in provision for IBNR	<b>₱282,150</b>	<b>₱407,676</b>	<b>₱310,757</b>
Retrocessionaires' share in change in provision for IBNR	<b>(558)</b>	<b>180,947</b>	<b>(2,578)</b>
	<b>₱281,592</b>	<b>₱588,623</b>	<b>₱308,179</b>

### 21.3 Commissions – Net

This account consists of the following:

	2019	2018	2017
Commission expense	<b>₱986,710</b>	<b>₱777,877</b>	<b>₱651,716</b>
Commission income	<b>(18,119)</b>	<b>(4,508)</b>	<b>(68,387)</b>
	<b>₱968,591</b>	<b>₱773,369</b>	<b>₱583,329</b>

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

**22. GENERAL AND ADMINISTRATIVE EXPENSES**

The details of this account are as follows:

	Notes	2019	2018	2017
Salaries and employee benefits	22.1	<b>₱166,355</b>	₱152,279	₱128,145
Depreciation and amortization	10,14	<b>22,380</b>	15,904	12,139
Data, licenses and subscriptions		<b>13,666</b>	13,272	9,177
Professional fees		<b>11,656</b>	28,973	29,835
Taxes, licenses and fees	35(f)	<b>9,215</b>	8,634	6,962
Repairs and maintenance		<b>8,632</b>	5,650	5,533
Outsourced functions		<b>7,078</b>	10,416	13,547
Communication and postages		<b>5,501</b>	7,430	7,221
Meetings, conferences and conventions		<b>3,393</b>	3,182	3,274
Dues and fees		<b>3,235</b>	3,308	2,896
Advertising and publicity		<b>2,962</b>	3,321	1,954
Light and water		<b>1,792</b>	2,106	2,095
Insurance		<b>991</b>	1,356	1,529
Representation and entertainment		<b>823</b>	995	850
Printing and office supplies		<b>738</b>	891	572
Rental	28.1	<b>210</b>	1,120	1,309
Impairment losses - net	6,11,14	<b>-</b>	78,740	82,517
Miscellaneous		<b>9,874</b>	12,751	7,787
		<b>₱268,501</b>	₱350,328	₱317,342

**22.1 Salaries and Employee Benefit Expense**

The details of salaries and employee benefits are presented below.

	2019	2018	2017
Short-term employee benefits	<b>₱153,286</b>	₱139,697	₱113,648
Post-employment defined benefit	<b>9,021</b>	8,413	9,050
Compensated absences	<b>4,048</b>	4,169	5,447
	<b>₱166,355</b>	₱152,279	₱128,145

**22.2 Post-employment Defined Benefit****(a) Characteristics of the Defined Benefit Plan**

The Company maintains a wholly-funded, tax-qualified, non-contributory post-employment defined benefit plan retirement plan that is being administered by a trustee covering all regular full-time employees.

The normal retirement age is 60 with a minimum of 10 years of credited service. The plan also provides for an early retirement at age 50 with a minimum of 10 years of credited service. Normal retirement benefit is an amount equivalent to 175% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

**(b) Explanation of Amounts Presented in the Financial Statements**

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation reports obtained from an independent actuary in 2019 and 2018. The amount of defined benefit asset presented as part of Other assets - net (see Note 14) and recognized in the statements of financial position are determined as follows:

	2019	2018
Fair value of the plan assets	<b>₱80,683</b>	₱64,704
Present value of the obligation	<b>(67,755)</b>	(51,077)
	<b>₱12,928</b>	₱13,627

The movements in the fair value of plan assets is presented below.

	2019	2018
Balance at beginning of year	<b>₱64,704</b>	₱60,165
Interest income	<b>5,293</b>	2,954
Return on plan assets	<b>3,815</b>	(6,383)
Contributions paid into the plan	<b>9,021</b>	8,413
Benefits paid by the plan	<b>(2,150)</b>	(445)
Balance at end of year	<b>₱80,683</b>	₱64,704

The movements in the present value of the retirement benefit obligation are as follows:

	2019	2018
Balance at beginning of year	<b>₱51,077</b>	₱50,925
Current service cost	<b>9,021</b>	8,413
Interest expense	<b>4,178</b>	2,500
Remeasurements - actuarial losses (gains) arising from:		
Experience adjustments	<b>(1,450)</b>	(1,712)
Changes in financial assumptions	<b>7,079</b>	(8,604)
Benefits paid by the plan	<b>(2,150)</b>	(445)
Balance at end of year	<b>₱67,755</b>	₱51,077

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

	2019	2018
Cash and cash equivalents	<b>₱5,163</b>	₱4,310
Philippine government securities	<b>40,506</b>	25,998
Equity securities	<b>16,972</b>	7,317
Corporate notes	<b>16,816</b>	34,934
Loans and receivables	<b>2,179</b>	1,477
Mutual fund	<b>1,498</b>	-
Accounts payable	<b>(2,451)</b>	(9,332)
	<b>₱80,683</b>	₱64,704

The fair value of the equity and government bonds are determined based on quoted market prices in active markets.

The plan assets earned a return of ₱9.11 million in 2019, incurred a loss of ₱3.43 million in 2018 and earned a return of ₱1.54 million in 2017.

Plan assets do not comprise any of the Company's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in the statements of income and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	2019	2018	2017
<i>Reported in statements of income:</i>			
Current service cost	<b>₱9,021</b>	₱8,413	₱9,050
Net interest income	<b>(1,115)</b>	(454)	(608)
	<b>₱7,906</b>	₱7,959	₱8,442
<i>Reported in other comprehensive loss (income):</i>			
Actuarial losses (gains) arising from:			
Experience adjustments	<b>(₱1,450)</b>	(₱1,712)	(₱2,630)
Changes in financial assumptions	<b>7,079</b>	(8,604)	(2,356)
Return on plan assets (excluding amounts included in net interest)	<b>(3,815)</b>	6,383	1,373
	<b>₱1,814</b>	(₱3,933)	(₱3,613)

Current service cost and settlement gain, if any, are presented as part of Salaries and employee benefits; while net interest income or expense is presented as part of Interest income under Investment and Other income and expenses, respectively (see Note 20).

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	2019	2018	2017
Discount rate	4.9%	8.2%	4.9%
Expected rate of salary increase	4.5%	6.0%	5.0%
Employee turn-over rate	10.0%	10.0%	10.0%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 65 is 39. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management’s historical experience.

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Company to actuarial risks such as investment risk, interest rate risk, longevity risk, salary risk and inflation risk.

(i) *Investment and Interest Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan’s investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has investments in equity securities, debt securities, cash and cash equivalents, and loans and receivables. Due to the long-term nature of the plan obligation, a level of continuing equity and debt investments is an appropriate element of the Company’s long-term strategy to manage the plan efficiently.

(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(iii) *Inflation Risk*

A significant proportion of the defined benefit obligation is linked to inflation. The increase in inflation will increase the Company’s liability. A portion of the plan assets are inflation-linked debt securities which will mitigate some of the effects of inflation.

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Company’s asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding page.

(i) *Sensitivity Analysis*

The following tables summarize the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit asset:

December 31, 2019	Impact on Defined Benefit Asset		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	+/- 1.0%	₱4,189	(₱4,724)
Salary growth	+/- 1.0%	(4,668)	4,302
Turn-over rate	+/- 10.0%	495	(495)

December 31, 2018	Impact on Defined Benefit Asset		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	+/- 1.0%	₱3,163	(₱3,482)
Salary growth	+/- 1.0%	(3,561)	3,349
Turn-over rate	+/- 10.0%	199	(199)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit asset recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) *Asset-liability Matching Strategies*

The Company applies asset-liability matching techniques to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement fund. Retirement funds are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations, and maximize opportunities for higher potential returns at the least risk.

The Company is guided by a formal Asset-Liability Management Study conducted by an independent actuary. In the study, expected benefit payments are projected and classified into short-term, medium-term or long-term liabilities. Investment instruments that would match the liabilities are identified. Finally, the investment mixes that would yield the maximum returns at certain risk levels are identified.

The study is conducted annually to capture changes in the demographic profile of the employees and changes in the economic environment affecting the amounts of maturing obligations and rates of return of available investment instruments.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as at December 31, 2019 and 2018 consists of debt and equity securities, although the Company also invests in cash equivalents, mutual fund and loans and receivables. The Company believes that debt securities offer the most secure returns over the long term as they have the least acceptable level of risk which is in line with their asset-liability matching techniques.

There has been no change in the Company’s strategies to manage its risks from previous periods.

(iii) *Funding Arrangements and Expected Contributions*

The plan is currently overfunded by ₱12.93 million based on the latest actuarial valuation. Therefore, the Company is not expected to make any contribution to the plan during the next reporting period, unless the plan becomes underfunded.

As at December 31, 2019 and 2018, the maturity profile of undiscounted expected benefit payments from the plan for the next 20 years follows.

	2019	2018
Within one year	<b>₱6,724</b>	₱3,075
More than one year to five years	<b>40,569</b>	33,006
More than five years to 10 years	<b>78,683</b>	93,432
More than 10 years to 15 years	<b>26,790</b>	35,186
More than 15 years to 20 years	<b>129,430</b>	168,572
	<b>₱282,196</b>	₱333,271

The weighted average duration of the defined benefit obligation at the end of the reporting period is 14 years.

### 23. CURRENT AND DEFERRED TAXES

The components of tax expense as reported in statements of income.

	2019	2018	2017
Current tax expense:			
Regular corporate income tax (RCIT)	<b>₱53,614</b>	₱116,553	₱74,581
Final tax at 20%, 7.5%, and 15%	<b>60,303</b>	42,678	36,602
Application of MCIT	-	-	(20,140)
Deferred tax benefit	<b>(53,433)</b>	(116,553)	-
	<b>₱60,484</b>	₱42,678	₱91,043

The reconciliation of the tax on pretax profit computed at the applicable statutory rates to tax expense in the statements of income is as follows:

	2019	2018	2017
Tax on pretax profit at 30%	<b>₱65,161</b>	₱57,568	₱52,212
Non-deductible expenses	<b>17,256</b>	2,704	63,458
Non-taxable income	<b>(13,115)</b>	(13,102)	(52,507)
Adjustment for income subjected to lower tax rates	<b>(56,306)</b>	(63,344)	(19,954)
Tax effects of:			
Movements in unrecognized deferred tax assets:			
Claims reserves	<b>58,920</b>	61,345	92,455
Losses and claims payable	<b>(3,295)</b>	(20,195)	(7,710)
Allowance for impairment of receivables	<b>24</b>	23,622	-
Accrued expense	<b>968</b>	4,044	14,402
Premium reserves	<b>(4,663)</b>	(5,498)	4,417
Amortized past service cost	<b>(4,466)</b>	(4,466)	(4,466)
Application of MCIT	-	-	(20,140)
Reversal of allowance for impairment	-	-	(19,091)
Write-off of receivables	-	-	(12,033)
Tax expense reported in statements of income	<b>₱60,484</b>	₱42,678	₱91,043

Below is the movement of the deferred tax asset and deferred tax liabilities recognized as at December 31, 2019 and 2018.

	2019		2018	
	Tax Base	Tax Amount	Tax Base	Tax Amount
Profit or loss:				
Claims reserves	<b>₱836,040</b>	<b>₱250,812</b>	₱774,721	₱232,416
Losses and claims payable	<b>185,461</b>	<b>55,638</b>	53,071	15,922
Accrued commission expense, net of deferred acquisition costs	<b>61,418</b>	<b>18,425</b>	39,113	11,734
Defined benefit asset	<b>(82,342)</b>	<b>(24,703)</b>	(81,228)	(24,368)
Prepaid expenses	<b>(9,958)</b>	<b>(2,987)</b>	(4,712)	(1,414)
Unrealized foreign currency gains	<b>29,167</b>	<b>8,750</b>	(20,340)	(6,102)
Reinsurance recoverable on claims reserves	<b>(319,606)</b>	<b>(95,882)</b>	(319,048)	(95,714)
Reinsurance recoverable on reported losses	<b>(133,556)</b>	<b>(40,067)</b>	(53,071)	(15,921)
	<b>566,624</b>	<b>169,986</b>	388,506	116,553
Other comprehensive income:				
Revaluation reserves on AFS financial assets	<b>(8,226)</b>	<b>(2,468)</b>	(8,829)	(2,648)
Net deferred tax assets	<b>₱558,398</b>	<b>₱167,518</b>	₱379,677	₱113,905

In accordance with the applicable accounting standards, the Company has taken a conservative position of not recognizing the deferred tax assets on the following temporary differences as at December 31, 2019 and 2018:

	2019		2018	
	Tax Base	Tax Amount	Tax Base	Tax Amount
Deferred tax assets:				
Claims reserves	<b>₱1,137,152</b>	<b>₱341,146</b>	₱940,753	₱282,226
Losses and claims payable	<b>60,412</b>	<b>18,124</b>	71,396	21,419
Premium reserves	<b>52,432</b>	<b>15,730</b>	67,976	20,393
Accrued commission expense, net of deferred acquisition costs	<b>50,767</b>	<b>15,230</b>	50,767	15,230
Allowance for impairment	<b>702,084</b>	<b>210,625</b>	702,004	210,601
Unamortized past service cost	<b>46,022</b>	<b>13,807</b>	60,908	18,272
Accrued expense	<b>19,148</b>	<b>5,744</b>	15,920	4,776
Defined benefit liability	<b>69,415</b>	<b>20,824</b>	67,601	20,280
Unrecognized deferred tax assets	<b>₱2,137,432</b>	<b>₱641,230</b>	₱1,977,325	₱593,197

In 2019 and 2018, the Company opted to claim itemized deductions in determining its tax expense.

The Company is subject to MCIT which is computed at 2% of gross income, or RCIT, whichever is higher. MCIT incurred in 2016 and 2015 were all applied against RCIT due in 2017.

### 24. EQUITY

#### 24.1 Capital Stock

As at December 31, 2019 and 2018, the Company has authorized shares of 3,000,000,000 and has issued and outstanding shares amounting to ₱2.08 billion net of treasury shares, which is divided into 2,123,605,600 shares with a par value of ₱1 per share.

On April 27, 2007, the Philippine 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 ₱3.80 per share.

As at December 31, 2019 and 2018, there are 271 holders of the listed shares. Such listed shares closed at ₱0.83 and ₱0.91 per share, as at those dates, respectively.

As at December 31, 2019 and 2018, total treasury shares amounted to ₱100.53 million representing 58,349,000 shares. There were no treasury stock transactions in 2019 and 2018.

24.2 Appropriation for Special Reserve

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 years ended December 31, 2019 and 2018, the Company appropriated ₱15.67 million and ₱14.92 million, respectively, for special reserve.

24.3 Retained Earnings

There was no declaration of cash dividends in 2019 and 2018. The total outstanding dividends payable amounted to ₱2.54 million as at December 31, 2019 and 2018. These are presented as Dividends payable under Accounts payable and accrued expenses account in the statements of financial position (see Note 16).

The Company’s retained earnings are restricted to the extent of the cost of the treasury shares as of the end of the reporting periods.

25. 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.

25.1 Reinsurance Contracts with Related Parties

The Company accepts and cedes insurance business under various reinsurance contracts with related parties. The details of which are presented as follows:

	2019		2018	
	Stockholders	Related Parties Under Common Ownership	Stockholders	Related Parties Under Common Ownership
Premiums	₱20,648	₱225,492	₱131,137	₱41,521
Retrocessions	-	8,646	(19)	13,765
Commission income	-	2,177	-	-
Commission expense	4,130	36,287	34,560	(5)
Losses incurred	4,486	(123,761)	5,673	137,692
Loss recoveries	(28,514)	-	1,842	-

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

	2019		2018	
	Stockholders	Related Parties Under Common Ownership	Stockholders	Related Parties Under Common Ownership
Due from ceding companies	₱2	₱56,514	₱39,777	₱31,247
Reinsurance recoverable on losses	19,129	-	19,183	-
Funds held by ceding companies	-	-	14,879	-
Claims payable	175,435	557,758	172,811	870,716
Due to retrocessionaires	41	₱5,154	-	-
Funds held for retrocessionaires	1	-	-	-

The balance of Reinsurance balances receivable which is noninterest-bearing, unsecured and is expected to be settled in cash within twelve months, is presented net of ₱75.16 million and ₱75.42 million allowance for impairment as at December 31, 2019 and 2018, respectively.

25.2 Other Transactions

The Company’s other transactions with related parties are presented as follows:

		2019		2018	
		Amount of Transactions	Outstanding Balance	Amount of Transactions	Outstanding Balance
<b>Stockholder:</b>					
Cash and cash equivalents	(a)	(₱22,660)	₱57,279	₱19,756	₱79,939
AFS financial assets	(b)	(59,170)	59,436	4,245	118,606
Dividend receivables	(b)	426	426	-	-
Interest income - bank accounts	(a)	1,764	11	2,324	246
Dividend income - AFS financial assets	(b)	3,013	-	-	-
Other expenses(reversals)	(d)	(44)	-	-	-
Service fees	(d)	3,763	-	989	-
<b>Related Party Under Common Ownership:</b>					
Cash and cash equivalents	(a)	(14,532)	634,322	(118,181)	648,854
AFS financial assets	(b)	(11,583)	304,299	290,679	315,882
Loans and receivables	(c)	(50,000)	-	(40)	50,000
Interest income - bank accounts	(a)	7,112	-	20,472	-

(a) Cash and Cash Equivalents

The Company maintains several savings, time deposits 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 20).

(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 20).

(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 20). The LTNCD and notes receivable are unsecured and earn interest of 5% and 8%, respectively in 2019 and 2018. As at December 31, 2018 management assessed that these receivables are not impaired.

(d) Investment Management and Custodianship

The Company has entered into “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.

The total service fees paid is charged against Other charges under Investment and Other income and expenses account (see Note 20) in the statements of income. As at December 31, 2019 and 2018, outstanding liabilities from these transactions amounted to nil. Such payables are noninterest-bearing, unsecured, and settled in cash within twelve months.

25.3 Investment Management of Retirement Fund

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

25.4 Transactions with Retirement Fund

As discussed in Note 22.2, 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 2019 and 2018. Equity securities of the retirement fund consist of investments in corporations listed in the PSE. The retirement fund does not hold any shares of stock of the Company as at December 31, 2019 and 2018.

25.5 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 presented as follows:

	2019	2018	2017
Short-term benefits	₱49,528	₱85,346	₱44,729
Post-employment defined benefit	3,920	2,953	12,415
	₱53,448	₱88,299	₱57,144

26. 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 IC 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 IC 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.

27. EARNINGS PER SHARE

The earnings per share are presented as follows:

	2019	2018	2017
Net profit available to common shareholders	₱156,718	₱149,216	₱82,996
Divided by the average number of outstanding common shares (in thousands)	2,123,606	2,123,606	2,123,606
	₱0.074	₱0.070	₱0.039

Diluted earnings per share is not determined since the Company does not have dilutive shares as at December 31, 2019, 2018 and 2017.

28. COMMITMENTS AND CONTINGENCIES

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

28.1 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 December 31, 2019 and 2018 is ₱0.85 million and ₱10.83 million, respectively.

Rental expense recognized amounted to ₱0.21 million, ₱1.12 million and ₱1.31 in 2019, 2018 and 2017, respectively, and is presented in the statements of income as Rental under General and administrative expenses (see Note 22).

28.2 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 December 31, 2019 will not have a material adverse effect on the Company’s financial position.

28.1 Deficiency Tax Assessments

The Company is in receipt of certain final deficiency tax assessment covering taxable period July 1, 2012 to December 31, 2012, pursuant to which the BIR has sought to investigate a certain tax period 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 and in line with prudent business practice, the Company has engaged tax counsel in relation to this matter.

As at December 31, 2019, 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 financial statements.

28.1 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 financial statements. Management believes that losses as at December 31, 2019, if any, that may arise from these commitments and contingencies will not have any material effect on the financial statements.

29. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

29.1 Comparison of Carrying Amounts and Fair Values

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

	2019		2018	
	Carrying Values	Fair Values	Carrying Values	Fair Values
Financial assets:				
Loans and receivables:				
Cash and cash equivalents	₱1,004,977	₱1,004,977	₱1,161,899	₱1,161,899
Funds at Lloyd’s	150,509	150,509	196,557	196,557
Loans and receivables	80,012	80,012	112,543	112,543
Other assets	1,331	1,331	1,364	1,364
	₱1,236,829	₱1,236,829	₱1,472,363	₱1,472,363
AFS financial assets:				
Debt securities	₱3,479,780	₱3,479,780	₱2,494,960	₱2,494,960
Equity securities	1,432,375	1,432,375	2,049,801	2,049,801
Investment in ARC	33,598	33,598	35,191	35,191
	₱4,945,753	₱4,945,753	₱4,579,952	₱4,579,952
HTM investments	₱2,227,897	₱2,285,405	₱1,848,693	₱1,864,766

(Forward)

	2019		2018	
	Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial liabilities –</b>				
Accounts payable and other accrued expenses*	<b>₱46,758</b>	<b>₱46,758</b>	₱56,023	₱56,023
*Excluding taxes payable				

Due to the short-term duration, management considers the carrying value of the Company’s loans and receivables and financial liabilities at amortized cost 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. A description of the Company’s risk management objectives and policies for financial instruments is provided in Note 4.

29.1 Offsetting of Financial Assets and Financial Liabilities

For financial assets and financial liabilities, subject to enforceable master netting agreements or similar arrangements, each agreement between the Company and counterparties, including related parties, allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis.

30. FAIR VALUE MEASUREMENT AND DISCLOSURES

30.1 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.

30.2 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).

	Level 1	Level 2	Level 3	Total
<b>December 31, 2019</b>				
AFS financial assets	₱4,902,448	₱1,460	₱41,845	₱4,945,753
<b>December 31, 2018</b>				
AFS financial assets	₱4,527,541	₱995	₱51,416	₱4,579,952

The movements of the AFS financial assets classified under Level 3 in the fair value hierarchy is shown below.

	2019	2018
Balance at beginning of year	<b>₱51,416</b>	₱48,773
Fair value gains	<b>9,329</b>	1,242
Disposal	<b>(17,910)</b>	-
Foreign currency gains (losses)	<b>(990)</b>	1,401
Balance at end of year	<b>₱41,845</b>	₱51,416

The Company has no financial liabilities measured at fair value as at December 31, 2019 and 2018.

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 December 31, 2019 and 2018, 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.

c) Mutual funds

The fair value of the Company’s investment in mutual funds which consist of money market placements and minimal equity securities is estimated by reference to the net asset value provided by the fund managers and is categorized within Level 2.

d) Derivative Liabilities

The fair value of the Company’s derivative liabilities are calculated by reference to the prevailing spot exchange rate as of statement of condition date and is categorized within Level 2. The Company has no outstanding derivative liability as at December 31, 2019 and 2018.

30.3 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
<b>December 31, 2019</b>				
<b>Financial assets:</b>				
Cash and cash equivalents	<b>₱1,004,977</b>	<b>₱-</b>	<b>₱-</b>	<b>₱1,004,977</b>
HTM investments	<b>2,285,405</b>	-	-	<b>2,285,405</b>
Loans and receivables	-	-	<b>80,012</b>	<b>80,012</b>
Funds at Lloyd’s	-	-	<b>150,509</b>	<b>150,509</b>
Other assets	-	-	<b>1,331</b>	<b>1,331</b>
	<b>₱3,290,382</b>	<b>₱-</b>	<b>₱231,852</b>	<b>₱3,522,234</b>
<b>Financial liabilities –</b>				
Accounts payable and other accrued expenses*	<b>₱-</b>	<b>₱-</b>	<b>₱46,758</b>	<b>₱46,758</b>
*Excluding taxes payable				

	Level 1	Level 2	Level 3	Total
<u>December 31, 2018</u>				
Financial assets:				
Cash and cash equivalents	₱1,161,899	₱–	₱–	₱1,161,899
HTM investments	1,864,766	–	–	1,864,766
Loans and receivables	–	–	112,543	112,543
Funds at Lloyd's	–	–	196,557	196,557
Other assets	–	–	1,364	1,364
	<u>₱3,026,665</u>	<u>₱–</u>	<u>₱310,464</u>	<u>₱3,337,129</u>
Financial liabilities –				
Accounts payable and other accrued expenses	<u>₱–</u>	<u>₱–</u>	<u>₱56,023</u>	<u>₱56,023</u>
<i>*Excluding taxes payable</i>				

For financial assets other than AFS investments with fair value included in Level 1 and HTM investments, management considers that the carrying amount of those short-term financial instruments approximate their fair value.

30.4 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 December 31, 2019 and 2018, the fair value of the investment properties is ₱15.20 million and ₱12.20 million, respectively, classified under Level 3 of the fair value hierarchy (see Note 14). 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.

30.5 Fair Value Measurement for Financial Assets Grouped Based on Nature of Cash Flows

As at December 31, 2019 and 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 ₱5.77 billion and ₱5.73 billion, respectively, with increase in fair value during the year in 2019 and 2018 amounting to ₱362.09 million and ₱319.34 million, respectively. Fair value of other financial assets amounted to ₱1.43 billion and ₱2.08 billion as at December 31, 2019 and 2018, respectively, with decrease in fair value amounting to ₱166.02 million and ₱293.58 million in 2019 and 2018, respectively.

31. 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 Insurance Commission (IC) and by aligning the Company's operational strategy to its corporate goals. The capital requirements and limitations are as follows:

31.1 Minimum Capitalization

Under Section 289 of the RA No. 10607 (The New Insurance Code), any partnership, association, or corporation authorized to transact solely reinsurance business must have a capitalization of at least ₱3,000,000,000 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 ₱400,000,000 or such capitalization as may be determined by the Secretary of Finance, upon the recommendation of the IC Commissioner.

The IC issued Circular Letter (CL) No. 2015-02-A dated January 13, 2015, to clarify the minimum capitalization requirements under Sections 194, 197, 200 and 289 of RA No. 10607. Under the said CL, all existing reinsurance companies authorized to transact solely reinsurance business must have a net worth of at least ₱2.5 billion by December 31, 2019. The minimum net worth of the said companies shall remain unimpaired at all times and shall increase to ₱3.0 billion as at December 31, 2022.

As at December 31, 2019, the Company has complied with the minimum capital requirements.

31.2 Risk-Based Capital Requirements

As per IC CL No. 2016-68, Amended Risk-Based Capital (RBC2) Framework, all insurance companies must satisfy the annual minimum statutory RBC Ratio set at 100%. RBC ratio is computed by dividing the Company's Total Available Capital (TAC) by the RBC requirement. TAC is the aggregate of Tier 1 and Tier 2, minus deductions, subject to applicable limits and determinations. Tier 1 capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis and is considered to be the highest quality capital available to the insurer. Tier 2 refers to capital not having the same high quality characteristics of Tier 1, but can provide additional buffer to the insurer. RBC requirement or the total required capital of an insurance company is the capital that is required to be held appropriately to the risks an insurance company is exposed to.

31.3 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 no 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 statements 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.

31.4 Non-admitted Assets

Various assets, included on the enumeration of Section 203 of RA 10607, are considered non-admitted assets for the purposes of determining the Company's financial condition.

The estimated non-admitted assets as defined in the Insurance Code are measured in accordance with PFRS and included in the statements of financial position. These assets, which are subject to final determination by the IC, are as follows:

	2019	2018
Goodwill, trade names, and other like intangible assets	₱26,819	₱30,013
Prepaid or deferred charges for expenses and commissions paid by such insurance company	1,073,694	758,641
Advances to officers (other than policy loans), which are not adequately secured and which are not previously authorized by the Commissioner, as well as advances to employees, agents, and other persons on mere personal security	3,889	8,587
Furniture, furnishing, fixtures, safes, equipment, library, stationery, literature, and supplies	17,100	17,378
Other non-admitted assets as determined by IC	12,928	13,627
Total Non-admitted Assets	₱1,134,430	₱828,246

**32. CURRENT AND NON-CURRENT CLASSIFICATION**

The Company expects that the following asset or liability line items are expected to be recovered or settled no more than twelve months after December 31, 2019 and 2018.

	2019	2018
Current Assets:		
Cash and cash equivalents	<b>₱1,004,977</b>	₱1,161,899
Reinsurance balances receivable - net	<b>1,453,519</b>	1,371,150
AFS financial assets	<b>4,625,705</b>	2,098,035
HTM investments	<b>2,053,121</b>	170,878
Loans and receivables	<b>74,022</b>	55,263
Reinsurance recoverable on reported losses	<b>474,610</b>	791,787
Reinsurance recoverable on claim reserves	<b>72,473</b>	99,610
Deferred acquisition costs	<b>343,203</b>	318,101
Deferred reinsurance premiums	<b>449,652</b>	330,062
Other assets	<b>164,843</b>	12,256
<b>Total Current Assets</b>	<b>₱10,716,125</b>	<b>₱6,409,041</b>
Current Liabilities:		
Reinsurance balances payable	<b>₱1,151,106</b>	₱1,146,481
Accounts payable and accrued expenses	<b>86,202</b>	66,646
Losses and claims payable	<b>1,153,160</b>	1,537,725
Claims reserves	<b>452,978</b>	535,590
Premium reserves	<b>1,766,402</b>	906,160
Deferred reinsurance commissions	<b>5,404</b>	526
<b>Total Current Liabilities</b>	<b>₱4,615,252</b>	<b>₱4,193,128</b>

On the other hand, the Company expects that the following asset or liability items are expected to be recovered or settled more than twelve months after December 31, 2019 and 2018.

	2019	2018
Non-current Assets:		
Reinsurance balances receivable - net	<b>₱1,155,288</b>	₱908,972
AFS financial assets	<b>320,048</b>	2,481,917
HTM investments	<b>174,776</b>	1,677,815
Loans and receivables	<b>5,990</b>	57,280
Property and equipment - net	<b>70,394</b>	76,563
Reinsurance recoverable on reported losses	<b>1,813,773</b>	1,582,755
Reinsurance recoverable on claim reserves	<b>247,133</b>	219,438
Deferred acquisition costs	<b>252,277</b>	87,003
Deferred reinsurance premiums	<b>4,388</b>	1,483
Other assets	<b>222,259</b>	369,044
<b>Total Non-current Assets</b>	<b>₱4,266,326</b>	<b>₱7,462,270</b>
Non-current Liabilities:		
Reinsurance balances payable	<b>₱34,412</b>	₱7,752
Accounts payable and accrued expenses	<b>24,728</b>	24,003
Losses and claims payable	<b>3,401,166</b>	2,981,546
Claims reserves	<b>1,544,646</b>	1,179,884
Premium reserves	<b>1,847</b>	658,475
Deferred reinsurance commissions	<b>830</b>	-
<b>Total Non-current Liabilities</b>	<b>₱5,007,629</b>	<b>₱4,851,660</b>

**33. OTHER INFORMATION REQUIRED BY THE SECURITIES AND EXCHANGE COMMISSION**

On February 20, 2019, Republic Act No. 11232, *An Act Providing for the Revised Corporation Code of the Philippines* (RCC) was signed into law and published in the Official Gazette on February 21, 2019. The RCC took effect on March 8, 2019. The significant provision, among others, of the RCC that would have financial reporting impact on the Company, is the removal of the maximum 50-year corporate term for stock corporations. The RCC states that corporations shall now have perpetual existence unless their articles of incorporation provide otherwise. Further, it clarifies that even corporations with certificates of incorporation issued prior to the effectivity of the RCC, and which continue to exist, shall have perpetual existence, unless the corporation, upon a vote of its stockholders representing majority of its outstanding capital stock, notifies SEC that it elects to retain its specific corporate term pursuant to its articles of incorporation. Provided, that any change in the corporate term is without prejudice to the appraisal right of dissenting stockholders in accordance with the provisions of the RCC. The Company intends to amend Article IV of the Articles of Incorporation in order to indicate that the Company shall have a perpetual existence, consistent with the RCC. The new provisions of the RCC or any amendments thereof have no significant impact to the Company's financial statements.

**EVENTS AFTER THE REPORTING PERIOD**

In December 2019, a novel strain of corona virus (COVID-19) was reported to have surfaced in China. The World Health Organization has declared the outbreak as a 'public health emergency of international concern.' COVID-19 started to become widespread in the Philippines in early March 2020 causing the government to declare the country in a state of public health emergency followed by implementation of enhanced quarantine and social distancing measures and restrictions within the Luzon area with other cities and provinces in the country enacting similar measures thereafter. This resulted in a wide-ranging business suspension - disrupting the supply chains, affecting production and sales across a range of industries, and weakening the stock market.

The COVID-19 outbreak and the ensuing economic slowdown resulted to volatility in the local equity market. For the period from December 31, 2019 to March 26, 2020, the Company's equity portfolio declined by P489.94 million. While the government and the Bangko Sentral ng Pilipinas have reacted with monetary interventions designed to stabilize the economic condition, the duration and extent of the impact of the COVID-19 outbreak, as well as the effectiveness of such responses, remains unclear at this time.

In support and compliance with the government measures to protect the welfare and interest of the Company's employees and stakeholders, including its counterparties, the Company has implemented safety measures and activated its business continuity procedures. Management believes that these measures can mitigate the further negative impact of the outbreak to the Company's business and to its financial condition and performance.

The Company has determined that these events are non-adjusting subsequent events. Accordingly, their impact was not reflected in the Company's financial statements as of and for the year ended December 31, 2019.

**34. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE (BIR)**

Presented in the succeeding pages are the supplementary information which is required by the BIR under its existing Revenue Regulation (RR) No. 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010 are presented below and in the succeeding page.

**(a) Output VAT**

In 2019, the Company declared output VAT amounting to ₱594,752, which is set off against input VAT, based on the following gross receipts:

	Tax Base	Output VAT
Exempt receipts	₱3,621,867,883	₱-
Commission earned on retrocession	1,888,399	226,608
Sale of ordinary assets	191,220	22,946
Interest income on loans	510,318	61,238
Other miscellaneous income	2,366,335	283,960
	<b>₱3,626,824,155</b>	<b>₱594,752</b>

Pursuant to RR No. 04-07 effective April 6, 2007, “Non-life insurance premiums are subject to VAT whereas non-life reinsurance premiums are not subject to VAT, the latter being already subject to VAT upon receipt of the insurance premiums.”

The tax bases of commission earned on retrocession are included as net of Underwriting deductions account in the 2019 statements of income. The tax bases for commission are based on the Company’s gross receipts for the year, hence, may not be the same with the amounts accrued in the 2019 statements of income.

As at December 31, 2019, the Company also has deferred output VAT amounting to ₱24,726,760 pertaining to uncollected commission income from retrocessionaires (see Note 16).

*(b) Input VAT*

The movements in input VAT in 2019 are summarized below.

Balance at beginning of year	₱156,132,635
Services lodged under other accounts	5,530,818
Goods other than for resale or manufacture	496,954
Capital goods subject to amortization	253,992
Applied against output VAT	(594,752)
Input VAT on exempt sales	(6,193,434)
Balance at end of year	₱155,626,213

The balance of input VAT as at December 31, 2019 is recorded under Other assets - net account in the statements of financial position (see Note 14).

As at December 31, 2019, the Company also has deferred input VAT amounting to ₱617,169 pertaining to VAT on capital assets, and deferred withholding VAT amounting to ₱9,202,886 representing VAT on unapplied input VAT on unpaid premiums on ceded out transactions to the Company from a certain government entity.

*(c) Taxes on Importation*

The Company does not have any customs duties or tariff fees in 2019 since it does not have any importation.

*(d) Excise Tax*

The Company does not have excise tax in 2019 since it does not have any transactions which are subject to excise tax.

*(e) Documentary Stamp Tax (DST)*

Total DST accrued and paid in 2019 amounted to ₱15,906 which pertains to car loan transactions of the Company. The Company is also liable to DST when it issues original shares of stocks or transfer certificate of stock. The Company did not issue original shares of stocks nor transfer certificate of stocks for the year ended December 31, 2019. Reinsurance contracts are not subject to DST.

*(f) Taxes and Licenses*

The details of taxes and licenses for 2019, which is presented under General and administrative expenses account in the statements of income is presented as follows:

Municipal licenses and permits	₱5,833,699
Fringe benefit tax	2,789,025
Real estate taxes	293,674
Registration	237,850
DST	15,906
Miscellaneous	44,674
	₱9,214,828

*(g) Withholding Taxes*

The details of total withholding taxes for the year ended December 31, 2019 are shown below.

Compensation and benefits	₱31,439,624
Expanded	14,478,693
Final	208,000
	₱46,126,317

*(h) Deficiency Tax Assessments and Tax Cases*

The Company has final deficiency tax assessment on VAT amounting to ₱32,693,611 for the taxable period July 1, 2012 to December 31, 2012.

As at December 31, 2019, 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 financial statements.

As at December 31, 2019, the Company does not have any other final deficiency tax assessments with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.



Report of Independent Auditors  
on Components of  
Financial Soundness Indicators

The Board of Directors and the Stockholders  
National Reinsurance Corporation of the Philippines  
31<sup>st</sup> floor BPI-PhilAm Life Makati  
6811 Ayala Avenue, Makati City

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of National Reinsurance Corporation of the Philippines (the Company) for the year ended December 31, 2019 and 2018, on which we have rendered our report dated March 26, 2020. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purposes of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's financial statements as at December 31, 2019 and 2018 and for each of the two years in the period ended December 31, 2019 and no material exceptions were noted.

PUNONGBAYAN & ARAULLO

By:   
Anthony L. Ng  
Partner

CPA Reg. No. 0109764  
TIN 230-169-270  
PTR No. 8116552, January 2, 2020, Makati City  
SEC Group A Accreditation  
Partner- No. 1638-A (until May 29, 2020)  
Firm - No. 0002-FR-5 (until Mar. 26, 2021)  
BIR AN 08-002511-038-2019 (until Sept. 4, 2022)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

March 26, 2020

Certified Public Accountants  
Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd

Offices in Cavite, Cebu, Davao  
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NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
Supplementary Schedule of Financial Soundness Indicators  
December 31, 2019 and 2018  
(Amounts in thousands)

Ratio	Formula	2019	Formula	2019
Current ratio	Total Current Assets divided by Total Current Liabilities*	2.57	Total Current Assets divided by Total Current Liabilities*	1.75
	Total Current Assets	10,716,125	Total Current Assets	6,409,741
	Divide by: Total Current Liabilities*	4,162,142	Divide by: Total Current Liabilities*	3,657,538
	Current ratio	2.57	Current ratio	1.75
Acid test ratio	Quick assets (Cash and cash equivalents + Reinsurance balances receivable – net + Loans and receivables) divided by Total Current Liabilities*	0.61	Quick assets (Cash and cash equivalents + Reinsurance balances receivable – net + Loans and receivables) divided by Total Current Liabilities*	0.71
	Cash and cash equivalents	1,004,977	Cash and cash equivalents	1,161,899
	Reinsurance balances receivable – net	1,453,519	Reinsurance balances receivable – net	1,371,150
	Loans and receivables	74,022	Loans and receivables	55,263
	Quick Assets	2,532,518	Quick Assets	2,588,312
	Divide by: Total Current Liabilities*	4,162,142	Divide by: Total Current Liabilities*	3,657,538
	Acid test ratio	0.61	Acid test ratio	0.71
Solvency ratio	Total Liabilities divided by Total Assets	0.64	Total Liabilities divided by Total Assets	0.65
	Total Liabilities	9,622,749	Total Liabilities	9,044,788
	Divide by: Total Assets	14,982,451	Divide by: Total Assets	13,871,311
	Solvency ratio	0.64	Solvency ratio	0.65
Debt-to-equity ratio	Total Liabilities divided by Total Equity	1.80	Total Liabilities divided by Total Equity	1.87
	Total Liabilities	9,622,749	Total Liabilities	9,044,788
	Divide by: Total Equity	5,359,570	Divide by: Total Equity	4,826,523
	Solvency ratio	1.80	Solvency ratio	1.87
Asset-to-equity ratio	Total Assets divided by Total Equity	2.80	Total Liabilities divided by Total Equity	2.87
	Total Assets	14,982,451	Total Assets	13,871,311
	Divide by: Total Equity	5,359,570	Divide by: Total Equity	4,826,523
	Assets-to-ratio	2.80	Assets-to-ratio	2.87
Interest rate coverage ratio	Earnings before interest and taxes (EBIT) divided by Interest expense	941.27	EBIT divided by Interest expense	-
	EBIT	217,433	EBIT	191,894
	Divide by: Interest expense	231	Divide by: Interest expense	-
	Interest rate coverage ratio	941.27	Interest rate coverage ratio	-
Return on equity	Net Profit divided by Total Equity	0.03	Net Profit divided by Total Equity	0.03
	Net Profit	156,718	Net Profit	149,216
	Divide by: Total Equity	5,359,570	Divide by: Total Equity	4,826,523
	Return on equity	0.03	Interest rate coverage ratio	0.03
Return on assets	Net Profit divided by Total Assets	0.01	Net Profit divided by Total Assets	0.01
	Net Profit	156,718	Net Profit	149,216
	Divide by: Total Assets	14,982,451	Divide by: Total Assets	13,871,311
	Return on assets	0.01	Return on assets	0.01
Net profit margin	Net Profit divided by Total Revenue**	0.03	Net Profit divided by Total Revenue**	0.04
	Net Profit	156,718	Net Profit	149,216
	Divide by: Total Revenue**	4,808,214	Divide by: Total Revenue**	4,135,228
	Net of margin	0.03	Return on assets	0.04

\*Excluding claims reserves  
\*\*Composed of Reinsurance premiums — net of returns, Commission income and Investment and Other income

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
List of Supplementary Information  
December 31, 2019

Statement of Management’s Responsibility for the Financial Statements

Independent Auditor’s Report on the SEC Supplementary Schedules  
Filed Separately from the Basic Financial Statements

Supplementary Schedules to Financial Statements  
(Form 17-A, item 7)

Schedule		No. of Pages
A	Financial Assets	3
B	Amounts Receivable from Directors, Officers, Employees, Related Parties & Principal stockholders other than related parties	2
C	Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements	N/A
D	Long-term Debt	N/A
E	Indebtedness to related parties (Long-term loans from related companies)	N/A
F	Guarantees of securities of other Issuers	N/A
G	Capital Stock	4

Supplementary Schedule to Financial Statements  
(SEC Circular 11)

Reconciliation of Retained Earnings for Dividend Declaration	1
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NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
SCHEDULE A. Financial Assets

Name of Issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes (ii)	Amount shown in the balance sheet (ii)	Valued based on market quotation at end of reporting	Income received and accrued
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I. LOANS AND RECEIVABLES

Cash and Cash Equivalents				
Cash on hand and in banks		95,502,516	95,502,516	115,215
Short-term placements		909,474,245	909,474,245	46,636,501
Total Cash and Cash Equivalents		1,004,976,761	1,004,976,761	46,751,716
Funds at Lloyds		150,508,517	150,508,517	3,817,432
Long Term Time Deposit and Investments				
Matured/Sold				86,875
Bank Note				
Matured/Sold				2,000,694
Other Receivables				
Accrued interest receivable		69,521,508	69,521,508	
Dividends receivable		2,014,196	2,014,196	
Other accounts receivable		8,476,337	8,476,337	554,412
Other Assets				
Deposit		687,368	687,368	-
Security fund		643,925	643,925	-
TOTAL LOANS AND RECEIVABLES		1,236,828,612	1,236,828,612	53,211,130

II. AVAILABLE FOR SALE SECURITIES

INVESTMENT IN EQUITY SECURITIES:				
Ayala Corporation	147,105	115,550,978	115,550,978	1,034,222
Ayala Corp. Class "B" Series 1 Pref.	79,830	40,314,150	40,314,150	2,625,000
Aboitiz Equity Ventures, Inc.	100,000	49,900,000	49,900,000	1,391,980
Alliance Global Group, Inc.	37,120	36,748,800	36,748,800	-
Ayala Land, Inc.	1,359,400	70,009,100	70,009,100	1,098,856
Aboitiz Power Corporation	40,902	34,643,994	34,643,994	1,645,665
Ayala Corp. B Class	2,200,000	845,725	845,725	-
Batangas Venture(BAC)	160,900	4,432,795	4,432,795	-
BDO Unibank, Inc.	750	96,972	96,972	512,538
Bank of the Philippine Islands	1,673,640	19,514,642	19,514,642	3,012,809
Cebu Air, Inc.	104,870	20,449,650	20,449,650	316,680
Calatagan Golf Club, Inc.	200,000	22,380,000	22,380,000	-
Century Pacific Food, Inc.	660	1,905,974	1,905,974	33,012
DoubleDragon Properties Corp	376,360	59,464,880	59,464,880	3,238,900
DMCI Holdings, Inc.	3,328,070	151,427,185	151,427,185	559,162
D and L Industries, Inc.	77,015	80,326,645	80,326,645	181,295
San Miguel Food and Beverage, Inc. Preferred 2	676,177	59,435,958	59,435,958	2,828,450
First Gen Corporation	18	62	62	18,205
First Gen Corporation - Series G Pref.	11,810	1,056,995	1,056,995	778,080
Globe Telecom, Inc.	64,270	8,265,122	8,265,122	91,000
Globe Telecom, Inc. - Perpetual Pref.	153,500	2,330,130	2,330,130	2,600,300
GT Capital Holdings, Inc.	118,730	25,645,680	25,645,680	92,259
GT Capital Holdings, Inc. - Series A Perpetual	500,000	50,250,000	50,250,000	1,718,619
Phil. Hotel C (Hot)	50,000	52,750,000	52,750,000	-
Int'l Container Terminal Services, Inc.	10,600	1,738,400	1,738,400	293,600
Jollibee Foods Corporation	277,620	22,431,696	22,431,696	221,048
JG Summit Holdings, Inc.	475,300	5,694,094	5,694,094	282,625
Metropolitan Bank and Trust Company	630,724	41,817,001	41,817,001	849,105
Megaworld Corporation	3,684,300	14,774,043	14,774,043	184,340
Manila Electric Company	38,870	12,321,790	12,321,790	379,874
Metro Pacific Investments Corporation	8,185,500	28,485,540	28,485,540	1,133,910
Makati Sports Club "A"	50,000	49,850,000	49,850,000	-
Manila Water Co., Inc.	133,000	10,307,500	10,307,500	86,788
Orchard Golf Club - C	4,000	8,080,000	8,080,000	-
Petron Corporation	67,000	5,025,000	5,025,000	128,106
Puregold Price Club, Inc.	1	900,000	900,000	218,656
Philippine Nuclear	100,000	50,000,000	50,000,000	-
Phil. Nuclear (PN)	2,628	2,628	2,628	-
Petron Corp.-Perpetual Pref. Series 3B	18	50,000	50,000	1,784,575
Robinson Land Corporation	1,023,300	34,996,860	34,996,860	459,935
Roxas	46,653	2,078,082	2,078,082	25,021
Roxas C	382,170	30,573,600	30,573,600	1,474,856
Robinsons Retail Holdings, Inc.	104,000	1,077,440	1,077,440	275,162
Roxas Pref. others C (RXC-1)	74,044	3,298,187	3,298,187	2,542,501
Semirara Mining and Power Corporation	1,634,900	68,829,290	68,829,290	153,800
Security Bank Corporation	1	500,000	500,000	1,232,775
Shell Co. (SHEP)	39,200	862,400	862,400	-
SM Investments Corporation	276,500	1,067,290	1,067,290	876,022
San Miguel Corporation	40,015	39,534,820	39,534,820	25,851
San Miguel Corporation Series 2-B Pref.	226,250	32,806,250	32,806,250	760,594
San Miguel Corporation Series 2-C Pref.	3,874,820	25,612,560	25,612,560	997,500
San Miguel Corporation Series 2-D Pref.	498,400	4,734,800	4,734,800	373,301
SM Prime Holdings, Inc.	376,640	14,971,440	14,971,440	64,295
Phil. Long Distance Telephone Co.	100	10,000	10,000	3,170,160
Universal Robina Corporation	200	20,000	20,000	1,004,411
Cirtek Holdings Philippines Corporation	250,000	12,178,560	12,178,560	794,474
Asian Reinsurance Corporation	980	33,597,776	33,597,776	-
Disposed/Sold				142,590
SUBTOTAL-INVESTMENT IN EQUITY SECURITIES	33,968,861	1,465,972,485	1,465,972,485	43,712,904

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
SCHEDULE A. Financial Assets

Name of Issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes (ii)	Amount shown in the balance sheet (ii)	Valued based on market quotation at end of reporting	Income received and accrued
INVESTMENT IN DEBT SECURITIES:				
A. NRCP-MANAGED				
Fixed Rate Treasury Bonds				
PIBD0721C574	100,000,000	99,826,793	99,826,793	5,656,494
PIBD0523C752	190,000,000	197,625,152	197,625,152	11,754,066
PIBD1025I608	197,000,000	192,175,391	192,175,391	13,255,382
PIBD1028C635	50,000,000	55,255,811	55,255,811	2,193,260
PIBD1029A644	50,000,000	57,682,946	57,682,946	2,028,836
PIBD2031G171	200,000,000	251,900,949	251,900,949	4,982,886
PIID0320D087	200,000,000	200,280,878	200,280,878	6,564,392
PIID0522L114	200,000,000	203,831,822	203,831,822	9,508,731
PIID0524C129	200,000,000	215,157,645	215,157,645	6,953,591
Matured/Sold				12,571,598
Subtotal-Peso Bonds	1,387,000,000	1,473,737,386	1,473,737,386	75,469,236
ROP Bonds - USD				
US718286BY27	3,200,000	174,859,764	174,859,764	5,682,063
Corporate Bonds - USD				
RCBC Bond - 2021	500,000	25,533,873	25,533,873	451,396
BDO 2023	200,000	10,215,275	10,215,275	308,698
SMC US\$	500,000	25,592,736	25,592,736	659,172
Matured				135,938
	1,200,000	61,341,884	61,341,884	1,555,204
Subtotal-Dollar Bonds	4,400,000	236,201,649	236,201,649	7,237,266
TOTAL NRCP-MANAGED	1,391,400,000	1,709,939,035	1,709,939,035	82,706,503
B. BPI-MANAGED				
Fixed Rate Treasury Bonds				
PIBD0721C574	60,000,000	59,896,076	59,896,076	1,839,754
PIBD1022G545	15,632,706	16,283,318	16,283,318	929,902
PIBD0522A747	50,000,000	50,210,732	50,210,732	1,999,387
PIID0522L114	50,000,000	50,957,956	50,957,956	2,325,347
PIBD0723D588	135,000,000	133,930,408	133,930,408	4,880,145
PIID0524C129	25,000,000	26,894,706	26,894,706	1,250,461
PIBD0724D595	39,290,000	39,943,995	39,943,995	1,739,405
PIBD1025I608	109,464,475	106,783,646	106,783,646	3,874,914
PIBD1027E617	10,000,000	10,202,349	10,202,349	317,758
PIBD1029A644	271,000,000	312,641,565	312,641,565	7,702,439
PIBD2031G171	179,000,000	225,436,887	225,436,887	10,660,037
PIBD2039A232	125,000,000	146,904,408	146,904,408	5,336,700
PIBD2540I116	67,344,100	62,950,112	62,950,112	3,131,968
PIBD0726B627	175,000,000	191,120,085	191,120,085	4,015,320
PIID0320D087	45,000,000	45,060,613	45,060,613	197,111
Matured/Sold				2,558,454
TOTAL BPI-MANAGED	1,356,731,281	1,479,216,856	1,479,216,856	52,759,102
C. RCBC-MANAGED				
Fixed Rate Treasury Bonds				
PIID0320D087	5,000,000	5,007,022	5,007,022	277,546
PIBD0520H735	27,000,000	26,963,091	26,963,091	900,732
PIBD0321A236	10,000,000	10,042,814	10,042,814	460,977
PIBD0721C574	30,000,000	29,948,038	29,948,038	978,681
PIID0321F092	4,000,000	4,050,968	4,050,968	56,147
PIBD0522A747	1,500,000	1,506,322	1,506,322	72,388
PIBD0322G247	10,000,000	10,192,677	10,192,677	201,028
PIBD0723D588	22,000,000	21,825,696	21,825,696	704,890
PIID1023H046	25,000,000	24,553,869	24,553,869	817,014
PIID0524C129	30,000,000	32,273,647	32,273,647	488,669
PIBD1024H595	50,000,000	50,210,935	50,210,935	1,816,761
PIBD0725D618	5,000,000	5,338,966	5,338,966	588,766
PIBD0726B627	3,164,400	3,455,888	3,455,888	75,264
PIID1526J019	20,000,000	21,926,487	21,926,487	720,496
PIBD1029A644	12,000,000	13,843,907	13,843,907	436,951
PIBD0724D595	7,000,000	7,116,517	7,116,517	174,076
PIID0522L114	20,000,000	20,381,617	20,381,617	444,704
Matured/Sold				882,723
Subtotal-Peso Bonds	281,664,400	288,638,461	288,638,461	10,097,812
Treasury Bills				
PIBL1219D141	2,000,000	1,986,116	1,986,116	65,796
MATURED/SOLD				3,308,059
Subtotal-Peso Bills	2,000,000	1,986,116	1,986,116	3,373,855
TOTAL RCBC-MANAGED	283,664,400	290,624,577	290,624,577	13,471,667
SUBTOTAL-INVESTMENT IN DEBT SECURITIES	3,031,795,681	3,479,780,468	3,479,780,468	148,937,271
TOTAL AVAILABLE FOR SALE SECURITIES	3,065,764,542	4,945,752,953	4,945,752,953	192,650,175

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
SCHEDULE A. Financial Assets

Name of Issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes (ii)	Amount shown in the balance sheet (ii)	Valued based on market quotation at end of reporting	Income received and accrued
III. HELD-TO-MATURITY INVESTMENTS				
Corporate Bonds				
ACFXBOND2023	25,000,000	23,757,325	23,553,650	985,444
ACFXBOND2025	27,500,000	26,097,939	25,223,193	1,332,864
AEV2FXBD2020	50,000,000	50,110,965	49,639,100	2,248,523
AEVFXBND2022	50,000,000	49,946,710	49,107,800	2,516,704
ALIFXBND2024	40,801,000	37,996,298	40,948,536	2,485,009
ALI2FXBD2026	50,000,000	50,000,000	50,966,200	2,078,771
ALIFXBND2028	60,000,000	60,000,000	59,855,700	3,571,914
CHIBFXBD2021	50,000,000	50,000,000	50,723,900	1,116,250
EDCFXBND2020	60,000,000	59,873,811	59,946,000	2,508,841
SMCSDNES2020	50,000,000	50,000,000	50,185,250	2,639,583
FDCFXBND2024	20,000,000	20,370,296	19,925,320	1,235,989
FLIFXBND2020	50,000,000	49,981,956	49,516,150	2,441,589
FLIFXBND2022	50,000,000	50,008,049	48,767,450	2,693,230
MBTFXBND2020	100,000,000	100,123,372	102,456,300	6,908,726
PCORFXBD2021	75,000,000	74,486,839	74,092,875	3,019,080
PCORFXBD2024	50,000,000	50,000,000	54,608,600	3,930,868
PSBFXBND2021	50,000,000	50,000,000	51,013,650	1,221,111
RCBFXBND2020	100,000,000	100,000,000	101,442,500	6,170,542
ROCKFXBD2021	65,000,000	65,032,119	65,417,495	3,303,615
SECBFXBD2021	50,000,000	50,000,000	51,166,100	1,493,229
SMICFXBD2022	80,000,000	83,987,873	84,052,240	4,728,205
SMICFXBD2023	122,000,000	123,571,620	123,114,592	6,296,063
SMBFXBND2022	70,000,000	71,764,212	72,650,351	4,645,667
SMCFXBND2024	67,000,000	66,999,565	62,876,485	3,559,948
SMCGPFBD2021	45,000,000	44,445,181	43,730,505	1,966,475
SMPH2FBD2021	50,000,000	49,854,044	50,230,355	2,267,276
SMPH2FBD2024	9,199,000	8,736,026	8,941,980	527,112
SMPHFXBD2023	30,500,000	30,500,000	30,204,943	1,736,811
SMPHFXBD2026	50,000,000	45,538,873	44,639,850	1,699,268
UBPFXBND2020	70,000,000	70,051,981	71,811,683	4,857,455
Matured/Sold				4,197,331
	1,667,000,000	1,663,235,054	1,670,808,753	90,383,493
Government Bonds				
PIBD1025I608	562,500,000	486,816,610	536,977,943	20,503,906
PIBD2031G171	62,500,000	77,844,977	77,618,802	263,889
	625,000,000	564,661,587	614,596,745	20,767,795
TOTAL HELD-TO-MATURITY INVESTMENTS	2,292,000,000	2,227,896,641	2,285,405,498	111,151,288
GRAND TOTAL FINANCIAL ASSETS		8,410,478,207	8,467,987,063	357,012,593

NATIONAL REINSURANCE CORPORATION OF THE PHILS.  
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties  
and Principal Stockholders’ (Other than Related Parties)  
December 31, 2019

					Deductions		Ending Balance		Balance at end of period
Name of employee	Designation	Date of Availment	Bal. at beg. of period	Additions	Amounts collected	Amounts Written off	Current	Non-Current	
A. Emergency Loans									
1 Aquino Camille C	Rank & File	10/27/2019	-	30,000	15,792	-	14,208	-	14,208
2 Basobas Patrick S	Asst. Manager	10/27/2019	-	30,000	15,792	-	14,208	-	14,208
3 Castillo Jocelyn A	Rank & File	02/02/2017	6,934	20,000	16,521	-	10,414	-	10,414
4 Cruz Bethzayda M	Rank & File	05/23/2018	8,585	30,000	24,376	-	14,208	-	14,208
5 De Guzman Darius	Rank & File	10/27/2019	-	60,000	26,586	-	33,414	-	33,414
6 Magalona Natalie S	Manager	04/12/2018	15,207	50,000	52,119	-	13,087	-	13,087
7 Magtalas Ivy E	Senior Manager	11/07/2017	44,072	60,000	51,170	-	52,902	-	52,902
8 Malana Jackilyn S	Manager	11/15/2016	9,464	30,000	22,757	-	16,707	-	16,707
9 Ortiz Maria Carmen C	Manager	09/06/2018	36,030	60,000	50,352	-	45,677	-	45,677
	Senior Asst. Vice President								
10 Papa Regina Lourdes P	President	04/25/2019	-	80,000	55,637	-	24,363	-	24,363
11 Reyes Lilybeth B	Senior Vice President	05/23/2018	8,568	30,000	24,360	-	14,208	-	14,208
12 Siason Angelo Matthew A	Supervisor	10/27/2019	-	30,000	13,293	-	16,707	-	16,707
13 Tabiola Sean B	Rank & File	10/01/2019	17,629	-	17,620	-	9	-	9
14 Torralba Carmel F	Senior Manager	10/27/2019	-	30,000	15,792	-	14,208	-	14,208
15 Tumangday Raul G	Senior Manager	04/18/2017	31,948	60,000	51,143	-	40,804	-	40,804
16 Villamer Rubysten T	Rank & File	06/16/2017	16,905	30,000	21,667	-	25,238	-	25,238
17 Yap Michelle Ann A	Rank & File	05/23/2018	10,346	20,000	15,124	-	15,222	-	15,222
			205,688	650,000	490,102	-	365,587	-	365,587
B. Car Facility Loan									
1 Agsaway, April Rose R	Manager	07/18/2018	385,138	-	74,043	-	-	311,095	311,095
2 Agustin, Russell B	Manager	06/27/2018	391,045	-	73,552	-	-	317,494	317,494
	Senior Asst. Vice President								
3 Besabe, Blesilda Santos	President	07/29/2015	216,479	-	133,522	-	-	82,957	82,957
4 Camince, Enrico	Manager	10/30/2015	177,419	-	91,313	-	-	86,106	86,106
5 Dela Paz, M.	Manager	03/31/2015	121,206	-	95,987	-	-	25,219	25,219
6 Edelita Suyo	Manager	10/13/2017	333,305	-	78,353	-	-	254,952	254,952
7 Francis Albert J. Alvarez	Senior Manager	12/28/2018	480,000	-	81,308	-	-	398,692	398,692
8 Lorenzo, Cherry Lou R	Asst. Vice President	08/31/2016	341,896	-	119,761	-	-	222,135	222,135
9 Lucos, Honorata	Asst. Vice President	06/21/2017	444,421	-	114,570	-	-	329,851	329,851
10 Magalona, Natalie	Manager	09/18/2017	330,164	-	78,614	-	-	251,550	251,550
11 Magtalas, Ivy E	Senior Manager	08/17/2016	244,711	-	85,719	-	-	158,992	158,992
12 Marites Balajadia	Senior Manager	11/28/2017	391,619	-	88,656	-	-	302,962	302,962
13 Merida, Anelisa Trinidad M	Asst. Vice President	10/24/2016	369,062	-	120,836	-	-	248,226	248,226
14 Nunez, Mark Quintin G	Asst. Vice President	07/31/2019	-	600,000	41,364	-	-	558,636	558,636
15 Ortiz, Maria Carmen C	Manager	11/13/2018	411,415	-	71,858	-	-	339,556	339,556
	Senior Asst. Vice President								
16 Papa, Regina	President	09/28/2016	359,357	-	121,643	-	-	237,714	237,714
17 Parungao, Sherwin T	Manager	08/30/2018	453,616	-	83,502	-	-	370,114	370,114
18 Ramos, Regina	Vice President	01/31/2017	291,715	-	86,861	-	-	204,854	204,854
19 Rolly Velasquez	Manager	11/07/2017	339,556	-	339,556	-	-	-	-
20 Salonga, Daisy Cua	Vice President	02/20/2017	272,527	-	77,582	-	-	194,945	194,945
21 Tanjuakio, Victor Del Rosario	Vice President	09/12/2014	73,507	440,000	73,507	-	-	440,000	440,000
22 Tumangday, Raul	Senior Manager	06/29/2016	258,587	-	97,285	-	-	161,302	161,302
23 Von Edward Ebron	Asst. Vice President	01/10/2019	592,800	-	100,415	-	-	492,385	492,385
			7,279,545	1,040,000	2,329,806	-	-	5,989,738	5,989,738

NATIONAL REINSURANCE CORPORATION OF THE PHILS.  
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties  
and Principal Stockholders’ (Other than Related Parties)  
December 31, 2019

					Deductions		Ending Balance		Balance at end of period
Name of employee	Designation	Date of Availment	Bal. at beg. of period	Additions	Amounts collected	Amounts Written off	Current	Non-Current	
C. Receivables from Employee (HMO & Car Insurance)									
1 Agsaway, April Rose R	Manager		7,036	12,254	13,163		6,127		6,127
2 Alvarez, Francis Albert J	Senior Manager		16,540	43,644	38,758		21,427		21,427
	Senior Asst. Vice President								
3 Besabe, Blesilda S	President		25,062	52,631	45,858		31,835		31,835
4 Balajadia, Marites B	Senior Manager		31,158	34,283	45,815		19,626		19,626
5 Basobas, Patrick S	Asst. Manager		6,235	24,624	28,569		2,290		2,290
6 Bueno, Evelyn N	Manager		10,260	71,410	30,780		50,890		50,890
7 De Guzman, Darius M	Rank & File		31,802	64,021	46,167		49,657		49,657
8 Dela Paz, Marilyn T	Manager		1,966	8,284	6,798		3,452		3,452
9 Ebron, Von Edward M	Asst. Vice President		16,263	69,258	51,716		33,804		33,804
10 Ignes, Nikkos Josef L	Asst. Vice President		23,010	-	42,854		(19,844)		(19,844)
	Chief Underiting Officer								
11 Francois	Officer		41,275	-	41,275		-		-
12 Lorenzo, Cherry Lou R	Asst. Vice President		67,279	113,224	83,270		97,233		97,233
13 Lozada, Irene G	Asst. Manager		28,649	34,283	11,428		22,855		22,855
14 Lucos, Honorata S	Asst. Vice President		9,516	16,466	17,749		8,233		8,233
15 Magalona, Nathalie S	Manager		24,161	34,283	36,769		21,675		21,675
16 Magtalas, Ivy E	Senior Manager		6,624	9,136	8,147		7,613		7,613
17 Melendez, Jackilyn M	Rank & File		10,260	24,624	20,520		14,364		14,364
18 Mendoza, Rojane C	Rank & File		51,384	88,645	76,008		64,020		64,020
19 Merida, Anelisa Trinidad M	Asst. Vice President		35,669	51,928	28,331		59,266		59,266
20 Ortiz, Maria Carmen C	Manager		15,806	13,811	16,382		13,236		13,236
21 Parungao, Sherwin T	Manager		9,519	-	9,518		0		0
22 Ramos, Regina S	Vice President		33,560	89,747	72,902		50,405		50,405
	Reyes, Alexander								
23 Dominador L	Senior Vice President		-	3,610	3,610		0		0
24 Santos, Allan R	CEO and President		18,496	5,502	22,394		1,605		1,605
25 Salonga, Daisy C	Vice President		1,966	10,900	7,643		5,223		5,223
26 Suyo, Edelita P	Manager		17,239	14,142	19,006		12,374		12,374
27 Tanjuakio, Victor D	Vice President		7,539	-	7,540		(0)		(0)
28 Torralba, Carmel F	Senior Manager		-	48,017	10,260		37,757		37,757
29 Tumangday, Raul G	Senior Manager		4,853	9,319	6,406		7,766		7,766
30 Villamer, Rubysten T	Rank & File		10,260	24,624	20,520		14,364		14,364
			563,388	972,669	870,156	-	637,252	-	637,252
GRAND TOTAL			8,048,621	2,662,669	3,690,064	-	1,002,838	5,989,738	6,992,576

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
Schedule C - Amounts Receivable from Related Parties which are  
eliminated during the consolidation of financial statements  
December 31, 2019

Name of employee	Designation	Bal. at beg. of period	Additions	Deductions		Ending Balance		Balance at end of period
				Amounts collected	Amounts Written off	Current	Non-Current	

NA

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
Schedule D - Long-term Debt  
December 31, 2019

Title of Issue and type of obligation (i)	Amount Authorized by Indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (iii)
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NA

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
Schedule E - Indebtedness to Related Parties (Long-Term Loans from Related Companies)  
December 31, 2019

Name of related party (i)	Balance at beginning of period	Balance at end of period (ii)
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NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
Schedule F - Guarantees of Securities of Other Issuers  
December 31, 2019

Name of issuing entity of securities guaranteed by the company for which this statement is file	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding (i)	Amount owned by person for which statement is file	Nature of guarantee (ii)
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NA

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
Schedule G- Capital Stock  
December 31, 2019

Name of Stockholders	Title of Issue	No. of shares issued & outstanding as shown under the related balance sheet caption	No. of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees	Others
1 ADELITA VERGEL DE DIOS	Common	171,500.00	NIL	-	-	171,500
2 ALEGAR CORPORATION	Common	32,600.00	NIL	-	-	32,600
3 ALICIA S. CRUZ	Common	6,400.00	NIL	-	-	6,400
4 ALLAN ROSSI SANTOS	Common	5,000.00	NIL	-	5,000	-
5 ALLIEDBANKERS INSURANCE CORPORATION	Common	100.00	NIL	-	-	100
ALMEDA, VALERIANO &/OR TITA JANE &/OR						
6 RAYMOND JOSEPH ALMEDA	Common	40,000.00	NIL	-	-	40,000
7 ALPHA INSURANCE & SURETY CO., INC.	Common	1,578,900.00	NIL	-	-	1,578,900
8 ALVENDIA, JOSE P.	Common	100.00	NIL	-	-	100
9 ANDRES E. SIOCHI	Common	11,700.00	NIL	-	-	11,700
10 ANGELITA U. REYES	Common	2,800.00	NIL	-	-	2,800
11 ANTONIO M. RUBIN	Common	1,000.00	NIL	-	1,000	-
12 ANTONIO P. MADRIGAL	Common	4,200.00	NIL	-	-	4,200
13 ANTONIO ROXAS CHUA	Common	1,089,500.00	NIL	-	-	1,089,500
14 ANTONIO S. ROXAS-CHUA JR.	Common	24,900.00	NIL	-	-	24,900
15 AP MADRIGAL STEAMSHIP CO. INC.	Common	3,300.00	NIL	-	-	3,300
16 ARAGON, BIENVENIDO M.	Common	200.00	NIL	-	-	200
17 ARAVAL, INC	Common	77,100.00	NIL	-	-	77,100
18 ASIA UNITED INSURANCE, INC	Common	1,252,300.00	NIL	-	-	1,252,300
19 AYUSTE JR., RAFAEL G.	Common	100,000.00	NIL	-	100,000	-
20 B.F. GENERAL INSURANCE CO., INC.	Common	36,900.00	NIL	-	-	36,900
21 BANCOR DEVELOPMENT CORP.	Common	8,300.00	NIL	-	-	8,300
22 BANK OF THE PHILIPPINE ISLANDS	Common	290,795,500.00	NIL	290,795,500	-	-
23 BANZON JR., JOSE G.	Common	54,000.00	NIL	-	-	54,000
24 BASCO, AMERFIL V.	Common	11,800.00	NIL	-	-	11,800
25 BELTRAN, AURELIO M.	Common	100.00	NIL	-	-	100
26 BENEFICIAL LIFE INSURANCE COMPANY INC.	Common	3,193,500.00	NIL	-	-	3,193,500
27 BERNARDO, ROMEO L.	Common	100.00	NIL	-	-	100
28 BETTY RC YAO	Common	13,400.00	NIL	-	-	13,400
29 BF LIFE INSURANCE CORP.	Common	397,300.00	NIL	-	-	397,300
30 BPI/MS INSURANCE CORP.	Common	3,347,500.00	NIL	3,347,500	-	-
31 BUENO, FRANCIS EDWIN I.	Common	100.00	NIL	-	-	100
32 CABANGON CHUA, ANTONIO L.	Common	100.00	NIL	-	-	100
33 CABREZA, JOCELYN DE GUZMAN	Common	1.00	NIL	-	1	-
CALLAR, CYRIL C. DEL CALLAR &/OR JOSEPHINE						
34 S. DEL	Common	1,896,000.00	NIL	-	-	1,896,000
35 CARREDO, RAMON M.	Common	200.00	NIL	-	-	200
36 CASTANEDA JR., CONSTANCIO T.	Common	100.00	NIL	-	-	100
37 CASTRO, WILLIAM Y.	Common	15,000.00	NIL	-	-	15,000
38 CENTENNIAL GUARANTEE ASSURANCE CORP.	Common	14,500.00	NIL	-	-	14,500
39 CHAVEZ, RAMON NONATO D.	Common	5,000.00	NIL	-	-	5,000
40 CHENG, BERCK Y.	Common	500,000.00	NIL	-	-	500,000
41 CHENG, GEMA O.	Common	100.00	NIL	-	-	100
42 CHUA, VICKY B.	Common	1,000.00	NIL	-	-	1,000
43 CONCEPCION S. ARANETA	Common	700.00	NIL	-	-	700
44 CONRADO BENITEZ	Common	7,400.00	NIL	-	-	7,400
45 CONSOLIDATED INSURANCE CO., INC.	Common	144,600.00	NIL	-	-	144,600
46 CONSUELO P. MADRIGAL	Common	1,200.00	NIL	-	-	1,200
COOPERATIVE INSURANCE SYSTEM OF THE						
47 PHILS.	Common	72,900.00	NIL	-	-	72,900
48 CORPUS, SERGIO	Common	100.00	NIL	-	-	100
49 COTOCO, DOMINGO	Common	100.00	NIL	-	-	100
50 COTOCO, NAZARIO	Common	100.00	NIL	-	-	100

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
Schedule G- Capital Stock  
December 31, 2019

Name of Stockholders	Title of Issue	No. of shares issued & outstanding as shown under the related balance sheet caption	No. of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees	Others
51 COUNTRY BANKERS INS. CORP.	Common	2,220,300.00	NIL	-	-	2,220,300
52 COUNTRY BANKERS LIFE INSURANCE CORP.	Common	30,000.00	NIL	-	-	30,000
53 CRISOL, ROBERTO B.	Common	1,000.00	NIL	-	-	1,000
54 CRUZ JR., ROMAN A.	Common	100.00	NIL	-	-	100
55 CRUZ, MARY ANN PINEDA DELA	Common	3,000.00	NIL	-	-	3,000
CRUZ, NAPOLEON D. CRUZ SR. &/OR LUISA I. &/						
56 OR NAPOLEON I. CRUZ JR.	Common	5,000.00	NIL	-	-	5,000
57 CUA, PAMELA S.	Common	6,000.00	NIL	-	-	6,000
58 CUYEGKENG, ROSARIO W.	Common	100.00	NIL	-	-	100
59 DANILO J. CABERO	Common	7,200.00	NIL	-	-	7,200
60 DAVID C. COYUKIAT	Common	200.00	NIL	-	-	200
61 DAVID C. MERCADO	Common	27,300.00	NIL	-	-	27,300
62 DEE, HELEN Y.	Common	100.00	NIL	-	-	100
63 DESIDERIO JR., JOSE O.	Common	100.00	NIL	-	-	100
64 DESIDERIO, RODOLFO O.	Common	100.00	NIL	-	-	100
65 DIZON, VLADEMIR S.	Common	26,000.00	NIL	-	-	26,000
66 DOMINO, JUAN	Common	100.00	NIL	-	-	100
67 EASTERN ASSURANCE & SURETY CORPORATION	Common	1,872,400.00	NIL	-	-	1,872,400
68 EDITHA B. GERONIMO	Common	15,000.00	NIL	-	-	15,000
69 EDUARDO ECHAUZ	Common	100.00	NIL	-	-	100
70 ELIAS BENIZA DULALIA	Common	1,000.00	NIL	-	-	1,000
71 ESTATE OF VICENTE M. WARNS	Common	600.00	NIL	-	-	600
72 EUGENIA G. SILVA	Common	2,800.00	NIL	-	-	2,800
73 FEDERAL PHOENIX ASSURANCE COMPANY INC.	Common	3,786,300.00	NIL	-	-	3,786,300
74 FERNANDEZ, JAIME C.	Common	100.00	NIL	-	-	100
75 FERNANDEZ, VICENTE T.	Common	100.00	NIL	-	-	100
76 FGU INSURANCE CORPORATION	Common	36,126,000.00	NIL	36,126,000	-	-
77 FIDELITY INSURANCE COMPANY INC.	Common	818,800.00	NIL	-	-	818,800
78 FIRST INTEGRATED BONDING & INS. CO INC.	Common	275,300.00	NIL	-	-	275,300
79 FIRST LIFE FINANCIAL COMPANY INC.	Common	485,700.00	NIL	-	-	485,700
80 FRANCISCO CORPUS	Common	100.00	NIL	-	-	100
81 FRANCISCO JOSE ELIZALDE YTURRALDE	Common	75,700.00	NIL	-	-	75,700
82 FRANCISCO M. BAYOT	Common	1,100.00	NIL	-	-	1,100
83 FRANCISCO, CLEOTILDE B.	Common	100.00	NIL	-	-	100
84 FRANCISCO, ROLANDO B.	Common	100.00	NIL	-	-	100
85 GALLAGA, RAFAEL C.	Common	100.00	NIL	-	-	100
86 GARCIA, WINSTON F.	Common	442,300.00	NIL	-	-	442,300
87 GERARDO A.S. MADRIGAL	Common	1,600.00	NIL	-	-	1,600
88 GILI JR., GUILLERMO F.	Common	38,000.00	NIL	-	-	38,000
89 GO, GEORGE L.	Common	1,000.00	NIL	-	-	1,000
90 GO, IRENE CHAN	Common	185,000.00	NIL	-	-	185,000
91 GONZALEZ, GIZELA M.	Common	600.00	NIL	-	-	600
92 GOZO, DANILO A.	Common	1,000.00	NIL	-	-	1,000
93 GREAT DOMESTIC INS. CO. OF THE PHILS.	Common	544,700.00	NIL	-	-	544,700
94 HANS MENZI	Common	2,100.00	NIL	-	-	2,100
95 HARI, ABDON M.	Common	100.00	NIL	-	-	100
96 HIDALGO, AUGUSTO PEDROSA III	Common	1,000.00	NIL	-	-	1,000
97 HONORATA S. LUCOS	Common	15,000.00	NIL	-	-	15,000
HYDEE MANAGEMENT & RESOURCE						
98 CORPORATION	Common	264,000.00	NIL	-	-	264,000
99 INDON, REYNALDO P.	Common	100.00	NIL	-	-	100
100 INSURANCE CO. OF NORTH AMERICA	Common	705,600.00	NIL	-	-	705,600

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
Schedule G- Capital Stock  
December 31, 2019

Name of Stockholders	Title of Issue	No. of shares issued & outstanding as shown under the related balance sheet caption	No. of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees	Others
101 INSURANCE OF THE PHIL. ISLANDS CO., INC.	Common	59,100.00	NIL	-	-	59,100
102 INVESTOR'S ASSURANCE CORP.	Common	99,000.00	NIL	-	-	99,000
103 ISABELITA M. CABANGUNAY	Common	14,500.00	NIL	-	-	14,500
104 JACINTO JR., FERNANDO P.	Common	100.00	NIL	-	-	100
105 JACQUELINE M. HALILI CO	Common	293,800.00	NIL	-	-	293,800
106 JAYMERLI C. BAUTISTA	Common	298,100.00	NIL	-	-	298,100
107 JENNIFER C. MARTIN	Common	294,000.00	NIL	-	-	294,000
108 JOSE R. RODAS	Common	100.00	NIL	-	-	100
109 JUAN, FRISCO F. SAN	Common	100.00	NIL	-	-	100
110 JUNTEREAL JR., FILEMON A.	Common	100.00	NIL	-	-	100
111 KAWSEK, PAUL L.	Common	80,000.00	NIL	-	-	80,000
112 KO PIO, RODERICK C.	Common	100.00	NIL	-	-	100
113 KO PIO, RUFFY C.	Common	100.00	NIL	-	-	100
114 KO PIO, RUFINO H.	Common	100.00	NIL	-	-	100
115 KOH, ANTONIO M.	Common	100.00	NIL	-	-	100
116 LAO, EDMUND Y.	Common	6,000.00	NIL	-	-	6,000
117 LA'O, LUIS C.	Common	100.00	NIL	-	-	100
118 LEE, JOSE C.	Common	100.00	NIL	-	-	100
119 LEE, LEA B.	Common	250,000.00	NIL	-	-	250,000
120 LEON, BEATRIZ P. DE	Common	1,933.00	NIL	-	-	1,933
121 LEON, JAIME S. DE	Common	100.00	NIL	-	-	100
122 LICAROS JR., GREGORIO B.	Common	100.00	NIL	-	-	100
123 LICAROS, ABELARDO B.	Common	100.00	NIL	-	-	100
124 LILY VICTORIA G. GALO	Common	2,800.00	NIL	-	-	2,800
125 LIM, JAMES ORTEGA	Common	100.00	NIL	-	-	100
126 LIM, PEDRO C.	Common	3,000.00	NIL	-	-	3,000
127 LIM, ROQUE A.	Common	66,000.00	NIL	-	-	66,000
128 LO, JOSEPHINE NG	Common	71,000.00	NIL	-	-	71,000
129 LOCSIN, JULIAN J.	Common	100.00	NIL	-	-	100
130 LOURDES S. RODAS	Common	1,100.00	NIL	-	-	1,100
131 LUCINA OCAMPO LEGASPI	Common	3,800.00	NIL	-	-	3,800
132 LUCITA R.C. LIMPE	Common	13,400.00	NIL	-	-	13,400
133 LUZ NER CRUZ	Common	13,400.00	NIL	-	-	13,400
134 LUZON INSURANCE & SURETY CO., INC.	Common	32,300.00	NIL	-	-	32,300
135 M PIONEER INSURANCE INC.	Common	542,300.00	NIL	-	-	542,300
136 MA. LUISA MADRIGAL VASQUEZ	Common	400.00	NIL	-	-	400
137 MAA GENERAL ASSURANCE PHILS., INC.	Common	271,800.00	NIL	-	-	271,800
138 MABASA & COMPANY, INC.	Common	36,500.00	NIL	-	-	36,500
139 MACARIA P. MADRIGAL	Common	2,300.00	NIL	-	-	2,300
140 MACROHON JR., IGNACIO	Common	100.00	NIL	-	-	100
141 MALAYAN INSURANCE CO., INC.	Common	21,600.00	NIL	21,600	-	-
142 MALLILLIN, MELECIO C.	Common	100.00	NIL	-	-	100
143 MALONG, ALEJANDRO V.	Common	100.00	NIL	-	-	100
144 MAMERTA ANDAYA	Common	2,100.00	NIL	-	-	2,100
145 MANANSALA, CONSUELO D.	Common	1,000.00	NIL	-	-	1,000
146 MANILA INSURANCE COMPANY INC.	Common	1,148,400.00	NIL	-	-	1,148,400
147 MANILA SURETY & FIDELITY CO., INC.	Common	3,168,400.00	NIL	-	-	3,168,400
148 MANUEL A. TORRES JR.	Common	79,100.00	NIL	-	-	79,100
149 MANUEL B. ENRIQUEZ	Common	500.00	NIL	-	-	500
150 MANUEL DYTOC	Common	900.00	NIL	-	-	900

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
Schedule G- Capital Stock  
December 31, 2019

Name of Stockholders	Title of Issue	No. of shares issued & outstanding as shown under the related balance sheet caption	No. of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees	Others
151 MANUEL U. CO	Common	100.00	NIL	-	-	100
152 MAR M. TANGLAO I	Common	180,000.00	NIL	-	-	180,000
153 MARIA CONSUELO A. LUKBAN	Common	50.00	NIL	-	50	-
154 MARIANO JR., JORGE T.	Common	100.00	NIL	-	-	100
155 MARILEX REALTY DEVELOPMENT CORPORATION	Common	1,933.00	NIL	-	-	1,933
156 MAURO PRIETO	Common	11,600.00	NIL	-	-	11,600
157 MENDIOLA, JORGE T.	Common	20,000.00	NIL	-	-	20,000
158 MERCADO JR., DANIEL M.	Common	100.00	NIL	-	-	100
159 MERCADO JR., DAVID P.	Common	100.00	NIL	-	-	100
160 MERCEDES U. GONZALES	Common	200.00	NIL	-	-	200
161 MONARCH INSURANCE CO., INC.	Common	1,674,000.00	NIL	-	-	1,674,000
162 MORALES, RHODORA B.	Common	100.00	NIL	-	-	100
163 NAPA, ERMILANDO D.	Common	1,000.00	NIL	-	1,000	-
164 NATIVIDAD CANTAJAL	Common	4,800.00	NIL	-	-	4,800
165 NELIA M. MALUBAY	Common	54,000.00	NIL	-	-	54,000
166 NERA, MEDEL T.	Common	1,000.00	NIL	-	1,000	-
167 NORA M. MALUBAY	Common	1.00	NIL	-	1	-
168 NORMANDO ANTONIO S. AGUILAR	Common	16,900.00	NIL	-	-	16,900
169 OLIVA, DULCE MARIA S.	Common	20,000.00	NIL	-	-	20,000
170 ONGKINGCO, FLORENCIO N.	Common	100.00	NIL	-	-	100
171 ORIENTAL ASSURANCE CORPORATION	Common	3,560,800.00	NIL	-	-	3,560,800
172 OWEN NATHANIEL S. AU ITF LI MARCUS M. AU	Common	200.00	NIL	-	-	200
173 PA, ANA GO &/OR GO KIM	Common	7,500,000.00	NIL	-	-	7,500,000
174 PACIFIC UNION INSURANCE CO.	Common	1,351,600.00	NIL	-	-	1,351,600
175 PACITA RODRIGUEZ	Common	13,400.00	NIL	-	-	13,400
176 PADIERNOS, GAY G.	Common	100.00	NIL	-	-	100
177 PARAMOUNT LIFE & GENERAL INS. CORP.	Common	940,900.00	NIL	-	-	940,900
178 PAZ VDA. DE RODAS	Common	6,200.00	NIL	-	-	6,200
179 PCD NOMINEE CORP - FIL	Common	1,676,296,187.00	NIL	820,477,497	-	855,818,690
180 PCD NOMINEE CORP - NON-FIL	Common	5,424,610.00	NIL	-	-	5,424,610
181 PEDRO P. BENEDICTO JR.	Common	15,800.00	NIL	-	-	15,800
182 PEOPLE'S TRANS-EAST ASIA INS. CORP.	Common	2,435,300.00	NIL	-	-	2,435,300
183 PETER T. ROXAS-CHUA	Common	13,400.00	NIL	-	-	13,400
184 PHIL. INT'L LIFE INSURANCE CO., INC.	Common	4,450,200.00	NIL	-	-	4,450,200
185 PHIL. PHOENIX SURETY & INS. INC.	Common	134,900.00	NIL	-	-	134,900
186 PHIL. PRUDENTIAL LIFE INS. CO., INC.	Common	1,771,900.00	NIL	-	-	1,771,900
187 PHILIPPINE AMERICAN LIFE INSURANCE CO.	Common	8,628,600.00	NIL	-	-	8,628,600
188 PHILIPPINE BRITISH ASSURANCE CO., INC.	Common	590,400.00	NIL	-	-	590,400
189 PHILIPPINE GENERAL INSURANCE CORP.	Common	750,000.00	NIL	-	-	750,000
190 PHILIPPINE REMNANTS CO., INC.	Common	399,300.00	NIL	-	-	399,300
191 PHILIPPINES FIRST INSURANCE CO., INC.	Common	11,075,200.00	NIL	-	-	11,075,200
192 PLARIDEL SURETY & INSURANCE COMPANY INC.	Common	162,500.00	NIL	-	-	162,500
193 PNB GENERAL INSURERS CO., INC.	Common	1,000.00	NIL	-	-	1,000
194 PRIETO JR., BENITO R.	Common	1,933.00	NIL	-	-	1,933
195 PRIETO, MARTIN L.	Common	967.00	NIL	-	-	967
196 PRIETO, MAURO R.	Common	1,934.00	NIL	-	-	1,934
197 PRIETO, MERCEDES R.	Common	1,933.00	NIL	-	-	1,933
198 PUYAT, ALFONSO G.	Common	100.00	NIL	-	-	100
199 RAFAEL C. GALLAGA	Common	13,500.00	NIL	-	-	13,500
200 RAMAJO, HONORIO J.	Common	100.00	NIL	-	-	100

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
Schedule G- Capital Stock  
December 31, 2019

Name of Stockholders	Title of Issue	No. of shares issued & outstanding as shown under the related balance sheet caption	No. of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees	Others
201 REGINA CAPITAL DEV. CORP. 018400	Common	6,000.00	NIL	-	-	6,000
202 REGINA CAPITAL DEV. CORP.018414	Common	3,000.00	NIL	-	-	3,000
203 REGINALDO ANTHONY B. CARIASO	Common	50.00	NIL	-	50	-
204 REMO JR., JOSE H.	Common	100.00	NIL	-	-	100
205 REX MARIA ARGUELLES MENDOZA	Common	1,000.00	NIL	-	1,000	-
206 REYES, CARLOS, R.	Common	12,000.00	NIL	-	-	12,000
207 REYES, OSCAR C.	Common	200.00	NIL	-	-	200
208 REYES, ROMAN FELIPE S.	Common	1,000.00	NIL	-	-	1,000
209 RITA LEGARDA., INC.	Common	13,700.00	NIL	-	-	13,700
210 RIVARA, INC.	Common	8,700.00	NIL	-	-	8,700
211 ROMAN, VICTOR B.	Common	100.00	NIL	-	-	100
212 ROMEO ECHAUZ	Common	400.00	NIL	-	-	400
213 ROMUALDEZ, FERDINAND MARTIN G.	Common	3,000,000.00	NIL	-	-	3,000,000
214 ROSARIO M. LLORA	Common	7,100.00	NIL	-	-	7,100
215 ROSARIO RODAS	Common	900.00	NIL	-	-	900
216 SALCEDO JR., ALFONSO L.	Common	100.00	NIL	-	-	100
217 SALVADOR, BIENVENIDO C.	Common	100.00	NIL	-	-	100
218 SAUCO, NORBERTO V.	Common	100.00	NIL	-	-	100
219 SECOR HOLDINGS INC.	Common	50,000.00	NIL	-	-	50,000
220 SEVERINO T. ROXAS-CHUA	Common	13,400.00	NIL	-	-	13,400
221 SM SAVINGS & LOAN ASSOCIATION	Common	70,000.00	NIL	-	-	70,000
222 SOUTH SEA SURETY & INS. CO., INC.	Common	4,152,700.00	NIL	-	-	4,152,700
223 STERLING INSURANCE CO., INC.	Common	2,453,900.00	NIL	-	-	2,453,900
224 STERLING INSURANCE COMPANY, INC.	Common	300,000.00	NIL	-	-	300,000
225 STRONGHOLD INSURANCE CO., INC.	Common	2,817,600.00	NIL	-	-	2,817,600
226 SUDHAKAR, RANIPETA RANI	Common	100.00	NIL	-	-	100
227 SUN LIFE ASSURANCE CO. OF CANADA	Common	305,700.00	NIL	-	-	305,700
SUNGA, PETER EDWIN J. SUNGA &/OR ROSANNA MARIE S.	Common	300,000.00	NIL	-	-	300,000
229 SUNGA, PROSPERO S. SUNGA &/OR CLARITA J.	Common	375,000.00	NIL	-	-	375,000
230 SUSANA B. ORTIGAS	Common	1,100.00	NIL	-	-	1,100
231 SUSANA REALTY	Common	600.00	NIL	-	-	600
232 TABACALERA INSURANCE CO. INC.	Common	1,278,700.00	NIL	-	-	1,278,700
233 TAN KIM CHIONG DE ROXAS-CHUA	Common	92,300.00	NIL	-	-	92,300
234 TAN, LOZANO A.	Common	100,000.00	NIL	-	-	100,000
235 TANCO, EUSEBIO H.	Common	100.00	NIL	-	-	100
236 TEO, STEPHEN T. TEO &/OR TERESITA R.	Common	29,000.00	NIL	-	-	29,000
237 TEODORO, MONICA P.	Common	967.00	NIL	-	-	967
238 THE NEW INDIA ASSURANCE COMPANY, LIMITED	Common	4,168,300.00	NIL	-	-	4,168,300
THE PREMIER INSURANCE & SURETY CORPORATION	Common	2,456,100.00	NIL	-	-	2,456,100
240 TIMES SURETY & INSURANCE CO., INC.	Common	7,500.00	NIL	-	-	7,500
241 TIU, ALFONSO SY	Common	6,000.00	NIL	-	-	6,000
242 TRAVELLER'S INSURANCE & SURETY CORP.	Common	696,100.00	NIL	-	-	696,100
243 TRINIDAD, ARMANDO C.	Common	100.00	NIL	-	-	100
244 TURNER, PHILIP &/OR ELNORA	Common	1,000.00	NIL	-	-	1,000
245 UNION BANK OF THE PHILIS.	Common	5,000.00	NIL	-	-	5,000
246 UNION INSURANCE SOCIETY OF CANTON LTD.	Common	2,197,300.00	NIL	-	-	2,197,300
247 UNITED INSURANCE CO., INC	Common	2,006,600.00	NIL	-	-	2,006,600
248 UNITED LIFE ASSURANCE CORP.	Common	2,518,100.00	NIL	-	-	2,518,100
249 UNSON JR., ALEJANDRO F.	Common	100.00	NIL	-	-	100
250 UNSON JR., EDMUNDO L.	Common	100.00	NIL	-	-	100

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
Schedule G- Capital Stock  
December 31, 2019

Name of Stockholders	Title of Issue	No. of shares issued & outstanding as shown under the related balance sheet caption	No. of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees	Others
251 UNSON, MA. ANICIA F.	Common	100.00	NIL	-	-	100
252 UTILITY ASSURANCE CORP.	Common	1,837,900.00	NIL	-	-	1,837,900
253 UY JR., CARLOS F.	Common	100.00	NIL	-	-	100
254 UY, ALVIN CHRIS SY	Common	6,000.00	NIL	-	-	6,000
255 VALENCIA, JESUS SAN LUIS	Common	2,100.00	NIL	-	-	2,100
256 VERGARA, ROBERT G.	Common	1,000.00	NIL	-	-	1,000
257 VICENTE A.S. MADRIGAL	Common	1,600.00	NIL	-	-	1,600
258 VICENTE B. VILLARAMA JR.	Common	2,800.00	NIL	-	-	2,800
259 VICENTE M. BAYOT	Common	1,100.00	NIL	-	-	1,100
260 VICTORIANO G. BELIZARIO	Common	300.00	NIL	-	-	300
261 VILLAMAYOR, ANTONIO S.	Common	100.00	NIL	-	-	100
262 VISAYAN SURETY & INSURANCE CORP.	Common	3,545,500.00	NIL	-	-	3,545,500
263 VISAYAN SURETY & INSURANCE CORPORATION	Common	200,000.00	NIL	-	-	200,000
264 WILFREDO C. MALDIA	Common	1.00	NIL	-	1	-
265 WONGAIHAM, ANTHONY T.	Common	200.00	NIL	-	-	200
266 WORLDWIDE INSURANCE & SURETY COMPANY	Common	100.00	NIL	-	-	100
267 WU, JOLI CO	Common	344,100.00	NIL	-	344,100	-
268 YAN, LUCIO W. YAN &/OR CLARA Y.	Common	50,000.00	NIL	-	-	50,000
269 YAO, WILSON A.	Common	30,000.00	NIL	-	-	30,000
270 YUCHENGCO, YVONNE S.	Common	100.00	NIL	-	100	-
271 ZENITH INSURANCE CORPORATION	Common	805,800.00	NIL	-	-	805,800
Total		2,123,605,600		1,150,768,097	453,303	972,384,200

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES  
31st floor BPI-Philam Life Makati, 6811 Ayala Avenue, Makati City

Reconciliation of Retained Earnings Available for Dividend Declaration  
For the Year Ended December 31, 2019

Unappropriated Retained Earnings at Beginning of Year as reported		₱ 219,810,555
Less Prior Years' Outstanding Reconciling Items, net of tax		
Net deffered tax asset		<u>( 113,904,612)</u>
		105,905,943
Net Profit Realized during the Year		
Net profit per audited financial statements	₱ 156,717,543	
Deffered tax benefit	( 53,432,684)	
Unrealized foreign exchange loss	<u>25,107,526</u>	128,392,385
Other Transactions During the Year		
Appropriated for contingencies		<u>( 15,671,954)</u>
Unappropriated Retained Earnings Available for Dividend Declaration at End of Year		<u>₱ 218,626,574</u>



NATIONAL  
REINSURANCE  
CORPORATION  
OF THE PHILIPPINES

# 2019 SUSTAINABILITY REPORT

CREATING SHARED  
VALUE:  
THE WAY  
TO A  
SUSTAINABLE  
FUTURE



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MESSAGE FROM THE PRESIDENT/CEO

GRI 102-14 to 15

Dear Stakeholders,

Sustainability is something we at Nat Re strive to faithfully live out as it is one of our core values. In all that we do, we consider not only the impact on our business or the insurance industry but also our responsibility to society, the national economy, and the global environment. More than just attaining financial returns, we work towards creating shared value which benefits individuals and communities beyond those we directly interact with.

Nat Re makes a unique contribution to promoting economic development through its business of providing reinsurance support and consultancy services. By helping build the technical capabilities of our clients, we support their growth as insurers of families, businesses, and governments. We establish mechanisms that stimulate the healthy development of the Philippine insurance industry. We invest in government securities to fund national government projects which will spur economic growth. Our functional strategies are also in line with this goal as we continue improving our internal processes so we can pay out claims to our clients more efficiently.

As a national reinsurer, we also enable disaster-resilient and financially inclusive communities. We play key roles in initiatives of external stakeholders, such as national government agencies and international aid agencies, which will promote development of climate risk insurance products. We began investing in green financing instruments to fund projects that have clear environmental benefits. We also had more employee engagement activities which raise environmental awareness, implemented environment-friendly practices in the office, and donated to organizations which grow, preserve, and protect Philippine biodiversity, or assist victims of recent natural disasters.

Many of these activities have been a part of our regular course of business while some have just been implemented. Moving forward, we will be more deliberate in institutionalizing these practices into our organization, and in pursuing more actions which either create positive change or lessen negative impacts on society. We have made a big step towards this by formalizing our Company’s sustainability policy, a guide in integrating a philosophy of sustainable development into our corporate, business, and functional strategies.

We thank Nat Re’s Board of Directors, senior management, and employees for their support for our efforts and our external stakeholders for choosing Nat Re as a partner in sustainability. Through this maiden sustainability report, we gladly share with you the stories of our journey towards helping create a better world for everyone.

  
**Allan R. Santos**  
President/CEO

ABOUT  
OUR REPORT GRI 102-01  
/ 102-05 / 102-48 to 102-54 / 102-56

The National Reinsurance Corporation of the Philippines (“the Company” or “the Corporation”), doing business under the names and styles of Nat Re and Philippine National Reinsurance Company (PhilNaRe), recognizes that the actions of its directors, officers, and employees during its regular course of business may have profound impacts on the economy, environment, and society. The Company has come to understand that its responsibilities go beyond the expected services from a reinsurer, which is to provide reinsurance support and advisory services.

As such, Nat Re has conducted an assessment of the wider economic, environmental, and social impacts of its business, focusing on what it has already done and what it can do to encourage positive change and lessen negative outcomes. This 2019 Sustainability Report, with the theme “Creating Shared Value: The Way to a Sustainable Future”, presents the results of this assessment.

This Sustainability Report was prepared in accordance with the Global Reporting Initiative (GRI) Standards: Comprehensive Option. Each topic is tagged with the appropriate GRI code (e.g. GRI 102-54) to denote the material disclosure in the GRI Standards.

Since this is Company’s first sustainability report, there are no restatement requirements or changes to be disclosed. This report will be updated and released annually.

No external assurance provider was engaged for this report.

Nat Re’s Risk and Compliance Department is the contact point for questions about this report.

GENERAL  
INFORMATION

ABOUT NAT RE:  
ORGANIZATIONAL PROFILE  
GRI 102-2 to 102-4 / 102-6

Nat Re provides life and non-life reinsurance capacity, and in relation to this offers consultancy, technical, and advisory services to its clients, the direct insurers. Its services allow direct insurers to better manage their retentions and capital, to maximize their net premiums given their risk appetites, and to execute their roadmaps to competitiveness.

Nat Re also stimulates know-how transfer in the industry by helping build its clients’ capabilities in underwriting, product development, pricing, retention setting, and reinsurance program analysis. It continuously derives insights from experience and shares with its partners its knowledge of the Philippine insurance market, and curated global best practices in reinsurance.

The Company was incorporated in 1978 pursuant to Presidential Decree No. 1270 to provide a well-coordinated and efficient machinery in reinsurance for the purpose of achieving a higher national retention in the Philippines.

Its main and only office is located in Makati City, Philippines, where it principally operates.

Our Life Business

The Company helps its clients develop new products for new markets or new distribution, create marketing plans, build underwriting and administration capabilities, and review and refine products. Its team members’ extensive experience in direct writing companies allows the Company to refine pricing to match with the appropriate underwriting approach of the chosen distribution and/or market. Nat Re offers traditional reinsurance of mortality and morbidity risks, medical reinsurance, catastrophe and co-insurance. Its strength is in group insurance where credit life and employee benefit lines dominate.

Our Non-Life Business

Nat Re offers a comprehensive range of reinsurance arrangements covering motor, property, casualty, marine, and surety. Its tailored solutions help its clients manage their risks and grow their portfolio through treaty and facultative reinsurance programs,

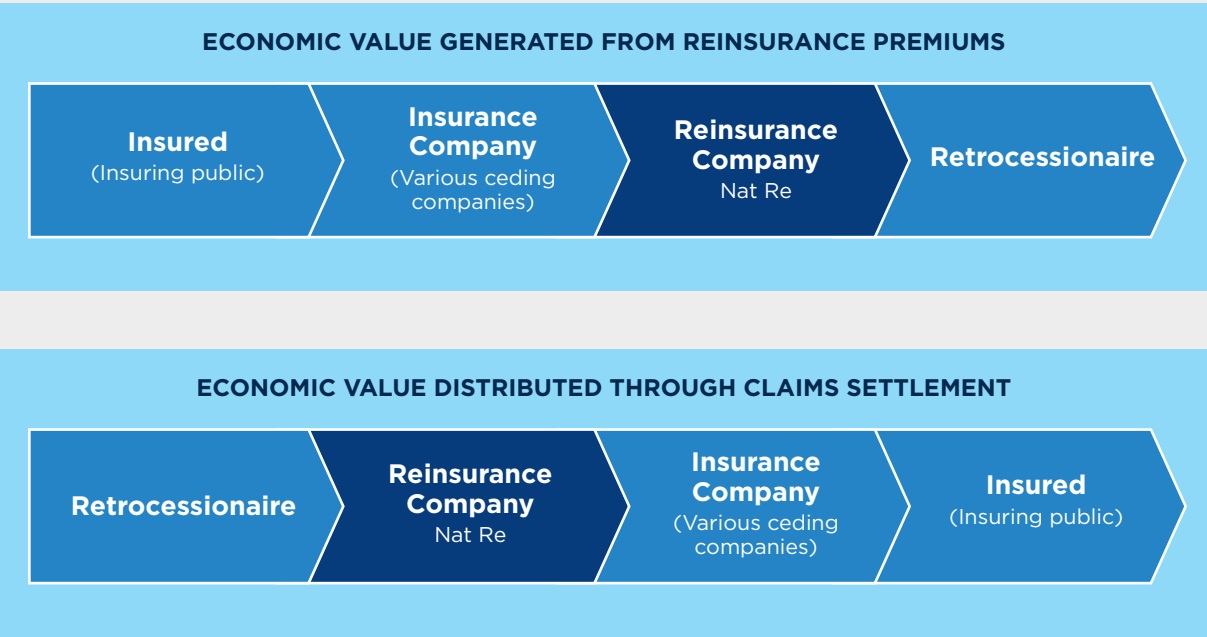
as well as provide support for the development of insurance products and services.

Through its industry-backed reinsurance facilities for sabotage & terrorism and financial lines—the first in the Philippines—the Company promotes the development of the local insurance industry. These facilities allow for the distribution of risks so insurers may maximize their retention and reduce portfolio volatility.

Through its established local presence, knowledge of regulations, and familiarity with market players and practices, Nat Re is able to provide global reinsurers with an efficient platform for access to the local market for the distribution of products and services, deployment of underwriting capacity, and delivery of related services to local insurers.

Nat Re has global and domestic exposure but risks situated in the Philippines dominate its portfolio.

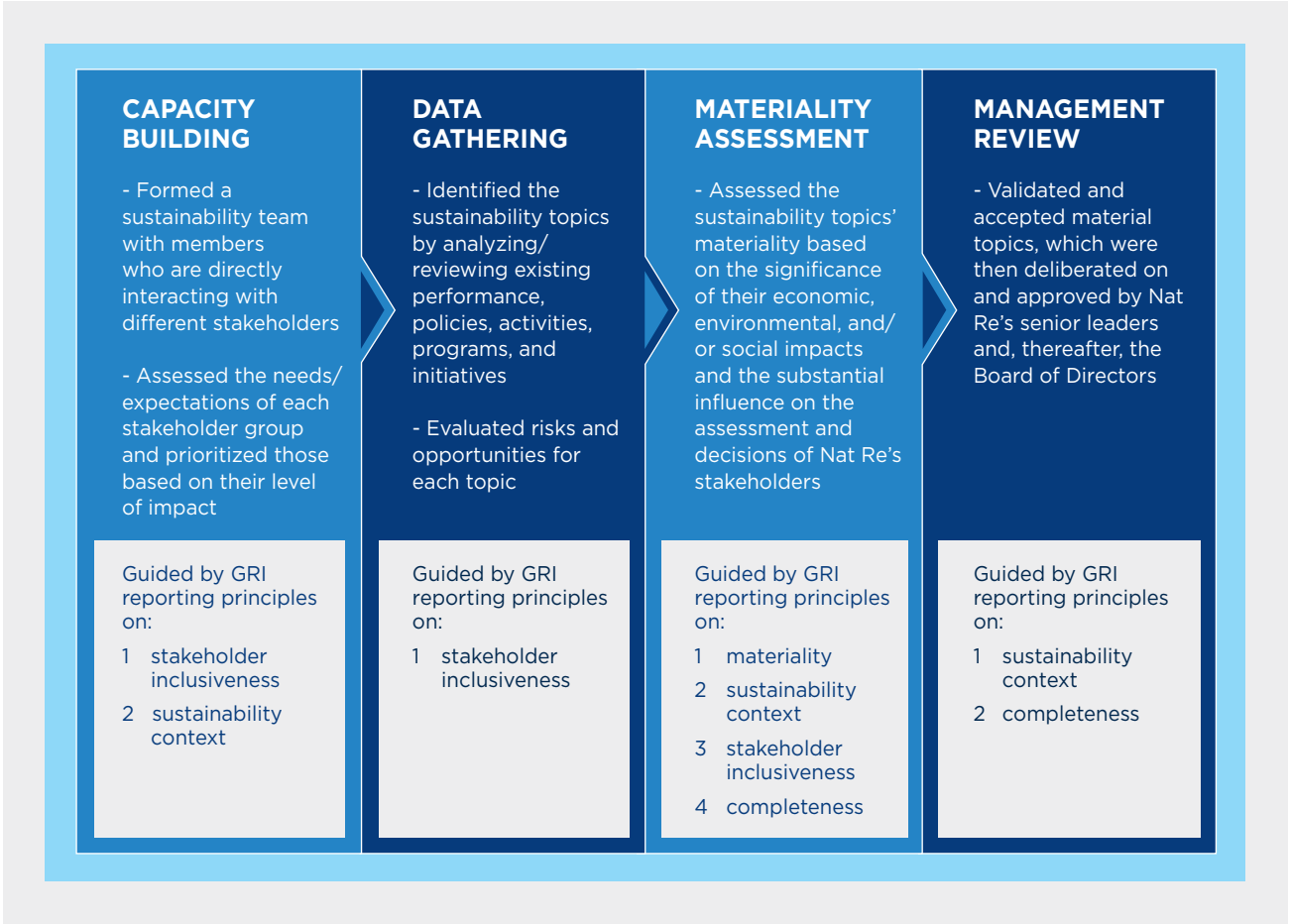
REINSURANCE VALUE CHAIN  
GRI 102-9



MATERIAL SUSTAINABILITY TOPICS

REPORTING PROCESS | GRI 102-46

The following flowchart shows the general process undertaken in defining the report’s content and topic boundaries.

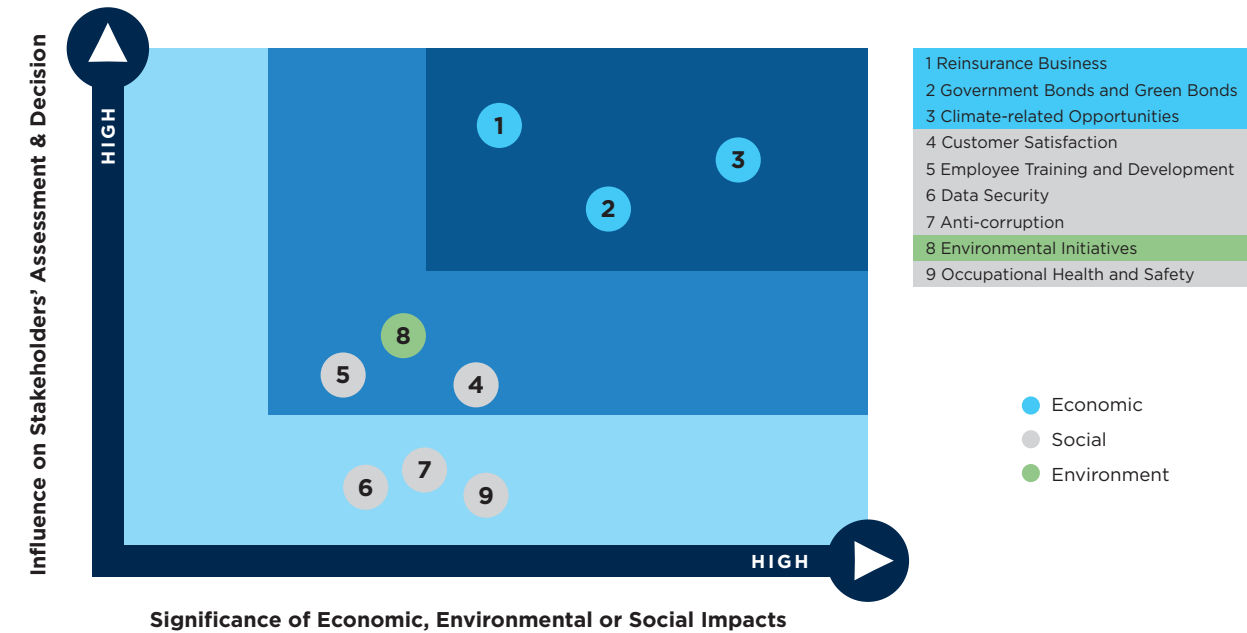


MATERIAL TOPICS ON NAT RE’S SUSTAINABILITY | GRI 102-47

The following topics are identified by Nat Re as ‘High’ in materiality:

Topic Description	Topic	Boundaries	Definition and Relevance
Economic Performance - Reinsurance Business	Economic	Within Nat Re, Business Partners, Employees, External Service Providers, Shareholders, Government, Regulators	By providing reinsurance capacity and consultancy services to its clients, the Company contributes to local and national economic development
Indirect Economic Impact – Investments in Government Bonds and Green Bond Financing	Economic	Within Nat Re, Investment Team, External Fund Managers, Shareholders, Banks, Regulators, Government	By investing in government and “green” bonds, the Company helps provide funding for government projects and initiatives in the private sector which have clear environmental benefits
Climate-Related Opportunities -Various Initiatives with External Parties	Economic	Within Nat Re, Member Organizations, Government	By partnering with organizations in the public and private sectors, the Company creates effective and affordable solutions for more disaster-resilient communities.

The following materiality matrix demonstrates the level of materiality on the other topics identified.



MANAGEMENT APPROACH ON MATERIAL TOPICS

GRI 103-1 TO 103-3 / 102-15

The following are strategies and action items identified by Nat Re’s senior leaders as crucial in improving the Company’s performance in the various sustainability aspects. These strategies will be reviewed by the senior leaders annually.

Topic	Strategy	Action items
Economic	Promote financial inclusion and serve as an effective mechanism for distributing risk within the insurance industry which leads to higher and sound national (risk) retention	Continue helping companies manage their retentions and capital by providing reinsurance capacity  Create reinsurance facilities for catastrophe insurance, sabotage & terrorism insurance, and financial lines for the sharing of risks among local insurance companies thereby contributing to increased national retention.  Support the growth of microinsurance through product and technical assistance and additional capacity
	Promote and develop a strong national insurance industry	Continue providing value-added services and capital-building reinsurance solutions and improving internal processes toward operational efficiency (e.g. faster claims settlement, more efficient collection process, etc.)
	Develop new products in response to current market needs in both non-life and life insurance business.	
Economic	Promote and help strengthen disaster and climate risk reduction programs and initiatives.	Promote and actively participate in initiatives with external partners
Economic	Manage key risks	Conduct risk and control assessment toward effective risk management measures
Economic	Boost technology and operational resilience to secure business operations	Establish Nat Re’s business continuity management system, continuing documentation of policies and procedures toward improving operational efficiency
Economic	Engage various stakeholders to identify and address material issues	Provide technical trainings for clients, host the Annual Technical Forum, and provide other value-added services
Social	Continue to develop capabilities and professional competence of employees to improve talent retention and develop leaders and mentors in the (re)insurance industry	Continue technical development programs and improve employee benefits
Environment	Promote a culture of awareness on environment sustainability within the organization	Incorporate new practices in the office or implement new policies which promote environment sustainability

ECONOMY

Nat Re makes a unique contribution to promoting economic development through its business of providing reinsurance support and consultancy services and its mechanisms for stimulating the healthy development of the insurance industry. Nat Re also enables disaster-resilient and financially inclusive communities primarily through its partnerships with various external stakeholders such as insurance companies, national government agencies, and international aid agencies.

THE ECONOMIC VALUE OF NAT RE’S BUSINESS | GRI 103-1 / 103-2

Nat Re provides insurers with reinsurance capacity so they may lessen volatility of their underwriting results and pay claims promptly to their policyholders, especially when large individual losses or catastrophic events hit. Ultimately, this service not only keeps insurers solvent but also helps insuring families, businesses, and governments recover financially from accidents, disasters, or family crises.

Nat Re, as the country’s national reinsurer, also promotes the growth of the local insurance industry by rendering consultancy services and providing tools to its clients. For example, Nat Re offers its life clients access to the Nat Re Online Risk Manual (NORM), the first web-based life underwriting tool that accounts for unique Philippine conditions.

Nat Re also hosts capability building activities for its clients. Its flagship seminar, the Annual Technical Forum (ATF), caters to its client companies’ CEOs, COOs, underwriters, actuaries, and marketing practitioners and representatives of the Insurance Commission. In 2019, it holds its fifth ATF which focused on agriculture and catastrophe insurance, artificial intelligence and machine learning in life insurance, and e-commerce. Guest speakers included executives from PT Reasuransi MAIPARK, the Asian Development Bank, and EXL, and a freelance e-commerce expert.



Within the non-life industry, the Company further promotes growth, provides diversification opportunities, and helps stabilize portfolio volatility through its reinsurance facilities. Such facilities (e.g. sabotage & terrorism and financial lines) distribute pooled risks back to local insurers, helping maximize retention of insurance premiums in the country.

Nat Re also has a long history of supporting the micro-insurance market (two mutual benefit associations are decades-old clients of the Company). Through these entities, Nat Re gives high-risk members of military, police and peace-and-order keeping personnel; low-income religious service members; and senior citizens and their families and dependents, access to modern insurance products. More recently, the Company started covering cooperatives based in provinces outside of Metro Manila.

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED | GRI 201-1 / 204-1

(In million pesos)

Net Written Premium	3,274
Investment and Other Income, Net	349
<b>Direct Economic Value Generated</b>	<b>3,623</b>
Claims Paid and Outstanding	2,088
Reinsurance Commission	969
Employee Wages and Benefits	163
Payment to external providers	62
Taxes to Government	81
Investment to community	0.3
<b>Direct Economic Value Distributed</b>	<b>3,363.30</b>
<b>Economic Value Retained*</b>	<b>259.70</b>

\*Direct economic value generated minus direct economic value distributed.

CAPITALIZATION | GRI 102-7

(In million pesos)

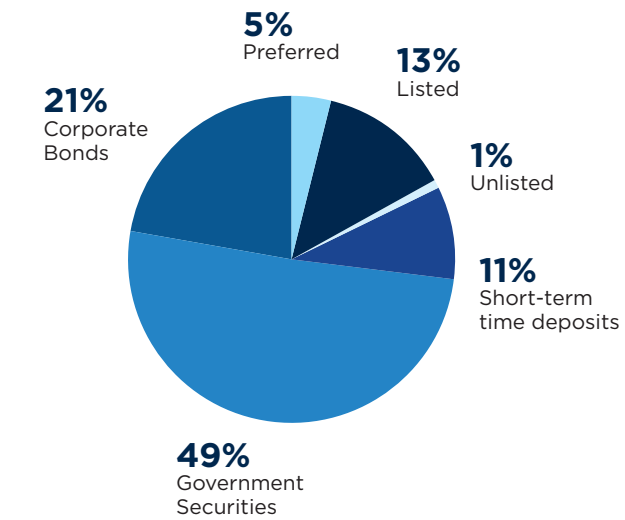
Total Assets	14,982
Total Liabilities	9,623
Stockholders' Equity	5,359

INDIRECT ECONOMIC IMPACT GRI 203-1 / GRI 203-2

Forty-nine percent of Nat Re's P8 billion investment portfolio is invested in government security bonds, allowing the Company to support funding of government infrastructure projects and social services. The remaining fifty-one percent of the Company's investment portfolio consists of corporate bonds including green financing, equities, and short-term deposits to support the private sector's growth.

Total investments (in billion pesos)		
Fixed Income		6.61
Government Securities	3.98	
Other Investments	2.63	
Equities		1.47
Total		8.08

INVESTMENT PORTFOLIO DISTRIBUTION



SUSTAINABILITY DEVELOPMENT GOALS (SDG) AND TARGETS

8 DECENT WORK AND ECONOMIC GROWTH

**Target**  
Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries.

**Nat Re's Contribution**  
In 2019, the Company's total Gross Written Premiums (GWP) were worth P4.339 billion, of which P2.772 billion came from its local business, P1.617 billion from its foreign business. It paid claims worth P1.694 billion and had outstanding claims worth P394 million.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

**Target**  
Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

**Nat Re's Contribution**  
Nat Re invests around P4 billion in government bonds and P4 billion in other commercial investments.

ENVIRONMENT

Nat Re values forging meaningful relationships with its private and public sector partners to help develop the reinsurance industry and promote disaster risk financing and insurance and environment sustainability. By leveraging their combined resources and knowhow, the Company and its partners can create effective and affordable solutions for more disaster-resilient communities.

CLIMATE-RELATED OPPORTUNITIES: INITIATIVES WITH EXTERNAL PARTNERS GRI 102-12 / GRI 102-13

The Oasis Project

Nat Re is the local project manager of The Catastrophe and Climate Change Risk Assessment for the Philippines Project ("the Oasis Project"), a two-year initiative running from August 1, 2018 to Q4 of 2020. It will bring together the Philippine government, academe, non-profit, development, and insurance sectors in developing the first open-access catastrophe model for flood in the Philippines. It will also build long-term capacity among participants in the Philippines to develop, understand, and sustain catastrophe models.



Catastrophe and Risk Management in ASEAN (CARMA)

CARMA is a project of the ASEAN Natural Disasters Research Works Sharing (ANDREWS) Committee of the ASEAN Insurance Council (AIC). Its online portal is designed to offer fast and convenient access to information and literature about natural disasters to help spread knowledge and enhance awareness in mitigating risks. Nat Re is a co-sponsor of the mobile application version of the CARMA website.



**Fostering Education & Environment for Development, Inc. (FEED)**

FEED is a non-stock, non-profit, non-governmental organization registered with the Philippine Securities & Exchange Commission. It supports sustainable education & tree-planting/nurturing, aiming to inclusively grow, preserve and protect marine and terrestrial Philippine biodiversity through integrated social forestry programs, community development and livelihood initiatives, and scientific and practical research into agricultural, environmental, farming, forestry, fisheries and sustainability studies.

Nat Re partnered with FEED in organizing corporate social responsibility (CSR) activities aimed to further its CSR advocacy of promoting environment sustainability and boosting disaster resilience. Its employees participated in a workshop for urban/ indoor gardening and learning sessions on climate

change. They also planted trees at the over 9,000-hectare protected Laguna Quezon Land Grant to enhance the biodiversity, restore lost forest cover, and support community livelihood development.

**ASEAN Reinsurance Working Committee (ARWC)**

The ASEAN Reinsurance Working Committee, created by the ASEAN Insurance Council, serves as an avenue for best practices sharing among national reinsurers in the region so they may craft tailor-fit strategies to address industry issues in their countries. It aids regulators in making more guided decisions and harmonizing regulation within ASEAN. It also promotes a healthy and cooperative environment within the (re)insurance industry and creates opportunities for collaboration such as regional pooling. The Nat Re CEO has been elected as Chairman of the Committee for two years starting July 2019.

**GIZ Climate Risk Insurance National Task Force**

The Climate Risk Insurance National Task Force was created under the RFPI Asia III project of the German development aid agency GIZ. Through this project, GIZ aims to engage the Philippine government to support the insurance industry in developing sustainable climate risk insurance solutions for low-income groups, the most-at-risk, and micro, small, and medium enterprises. The Nat Re CEO is a member of this Task Force composed of members of the public and private sectors. Nat Re also serves as member of the Technical Working Group.



**Philippine Insurers and Reinsurers Association (PIRA)**

Nat Re champions the development of the Philippine non-life insurance industry which is why it is an active member of PIRA. It provides insurers an avenue for enriching dialogue with each other, with regulators,

and with other groups; and, helps insurers harness opportunities that will better serve their customers. Nat Re's CEO is the Chairman of the Board of Trustees of PIRA.

**Industry Technical Working Groups (TWGs)**

Nat Re is a member of the TWG of the public-private crop insurance pilot project of the Philippine Crop Insurance Corporation. By joining this TWG, Nat Re is helping design a program that will encourage private insurers to develop and distribute crop insurance. Nat Re also received the support of the Insurance Commission and PIRA on its proposal to implement a Philippine Catastrophe Insurance Facility, an initiative that will increase the country's financial resilience against natural disasters. The facility will also help boost insurers' capacity to take in more catastrophe risks and encourage insurers to more actively promote catastrophe insurance.

To further develop its role as a national reinsurer, Nat Re has joined a number of other associations such as the Actuarial Society of the Philippines (ASP), Management Association of the Philippines (MAP), East Asian Insurance Congress (EAIC), Association of Insurers and Reinsurers in Developing Countries (AIRDC), and Federation of Afro-Asian Insurers & Reinsurers (FAIR).

**SUSTAINABILITY DEVELOPMENT GOALS (SDG) AND TARGETS**

**7 AFFORDABLE AND CLEAN ENERGY**

**Target**  
Ensure access to affordable, reliable, sustainable and modern energy for all.

**Nat Re's Contribution**  
Nat Re invested in green bonds worth P100M. These primarily fund loans and projects that have clear environmental benefits such as renewable energy, green buildings, and clean transportation.

**13 CLIMATE ACTION**

**Target**  
Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.

**Nat Re's Contribution**  
Nat Re participates in various public and private sector projects and initiatives towards disaster resilience.



## GOVERNANCE

GRI 102-18 to 102-24 / 102-26 to 102-29 / 102-32

Nat Re believes that fair and effective governance is vital in ensuring that its Board's, management's, and employee's decisions and actions contribute to sustainable development. Good governance within the Company is supported by the proper structure, effective policies and well-defined processes, and adequate tools to implement those policies.

### Board of Directors

The Board of Directors is the highest governing body tasked to formulate and approve the Company's business objectives and strategies and to oversee the development of priority activities identified to help achieve and implement such objectives and strategies. The Board fulfills these responsibilities to sustain the Company's long-term viability and strength.

The Board consists of thirteen (13) directors, three (3) of which are independent, nine (9) are non-executive, and one (1) is executive. The Chairman is a non-executive director.

There are six (6) board committees namely the Audit Committee, the Risk Oversight Committee (ROC), the Governance and Related Party Transaction (GRPT) Committee, the Underwriting Committee, the Investment and Budget Committee, and the Nomination and Compensation Committee. The composition of the Board and Board Committees are available in the Company website under Corporate Governance.

The members of the Board are elected by the Company's stockholders.

The Board is responsible for formulating a clear and focused policy which integrates the guiding principles on sustainable development into the Company's activities, and for requiring the disclosure of material and reportable non-financial information and sustainability issues.

### Senior Leaders

Nat Re's senior executives or Senior Leaders are responsible for identifying and implementing priority activities to help achieve the business objectives and implement the strategies approved by the Board.

In addition to this, the Senior Leaders also ensure that the Company:

- Serves its stakeholders and its environment in a positive and progressive manner;
- Promotes business and environment sustainability practices in its workplace;
- Adopts a globally recognized standard/framework in reporting sustainability and non-financial and sustainability issues such as the GRI (Global Reporting Initiatives) Sustainability Reporting Standards; and,
- Discloses material and reportable non-financial and sustainability issues.

All members of the Board of Directors and Senior Leaders are required to attend annual seminars on corporate governance, most of which cover topics on sustainability. The Directors conduct an annual self-assessment to evaluate their performance with respect to governance.

### REMUNERATION OF BOARD OF DIRECTORS AND SENIOR EXECUTIVES

GRI 102-35 TO 102-37 / 102-39

The Directors receive per diem for every meeting they attend. The amount is approved by Nat Re's shareholders.

The Senior Leaders receive a regular and fixed monthly basic salary. They also receive a variable performance incentive (the amount is approved by the Board of Directors) based on their achievement

of performance targets. They also receive Company benefits such as retirement pay. The remuneration and benefits of the Senior Leaders are subject to the approval of the Nomination and Compensation Committee.

### ENTERPRISE RISK MANAGEMENT

GRI 102-30

The Company is committed to meet the best risk management standards and to achieve risk management excellence. We strive to achieve this by establishing various processes, resources, and structures across the organization to address risk management needs. These cover internal audit systems, insurance and risk finance, IT security, compliance processes, quality management, and line management interventions.

The Company's risk policy provides an integrated framework for conducting enterprise risk management to ensure efforts are optimized. This policy applies to all levels of the organization starting from the Board of Directors.

### CLIMATE-RELATED RISKS

GRI 102-15 / GRI 201-2

Catastrophic events brought on by natural disasters are Nat Re's biggest climate-related risk as they may lead to large financial losses for the Company. Nat Re has put in place several measures to help manage this risk.

For instance, it has reduced its shares in treaties with significant catastrophe exposures but technically inadequate rates. Its catastrophe analysts, actuaries, and underwriters regularly review the adequacy of its loss reserves, monitor accumulation of its catastrophe exposures, and promote risk diversification through reciprocal arrangements with other (re)insurers. To better manage its foreign exposures, the Company has set a maximum potential loss per country at P200 million per peril. To further protect its total life and non-life portfolio should catastrophic events occur, the Company has secured an Excess of Loss cover.

However, Nat Re also harnesses opportunities for growth relating to climate change. It invested in green bonds amounting to P100 million, or 1.23% of its total portfolio, which primarily fund loans and projects that have clear environmental benefits such as renewable energy (e.g. solar, wind, hydropower, biomass and geothermal), green buildings, and clean transportation (e.g. electric vehicles).

The Risk Oversight Committee ensures that the Company's risks are being identified, managed, and monitored effectively by overseeing implementation of its risk management systems. The Company has also identified enhancing risk management, including managing catastrophe risks, as among its medium-term priorities.

### CRITICAL CONCERNS | GRI 102-33 / 102-34

Critical concerns are discussed with the respective Board Committees for evaluation. Related resolutions, if any, are endorsed to the Board of Directors.

There were no critical incidents during the reporting period.

### STAKEHOLDERS | GRI 102-40 / GRI 102-42

Nat Re's stakeholders are its regulators, stockholders, business partners, Board of Directors, employees, retrocessionaires, consultants, stock-brokers, reinsurance brokers, suppliers, rating agencies, external auditors, external legal counsel, and other partners.


APPROACH TO STAKEHOLDERS | GRI 102-43





Nat Re conducts various meetings/events to regularly engage different kinds of stakeholders:

Meeting/Event	Target stakeholder	Frequency
Board and Board Committee meetings	Board of Directors	Monthly
Annual Stockholders' Meeting	Stockholders	Annually
Annual Technical Forum	Clients and the insurance regulator	Annually
Town hall meetings	Employees	Quarterly
Various meetings and business correspondence	All stakeholders	As often as daily

KEY TOPICS AND CONCERNS RAISED | GRI 102-44

The Senior Leaders reviewed key concerns raised by various stakeholders and proposed courses of action to address them.

Area	Key Topics and Concerns	Topic/concern raised by	Status
<div>Technological and Operational Efficiency</div> <div></div>	Need for more efficient recording and reporting of all investment trades and settlement activities	Investment and Finance Teams	A new investment management system was launched and has been operational since October 2019.
	Revision/creation of new Company policies	Board of Directors and Compliance and Internal Audit Teams	Forty-one (41) policies have been revised/created.

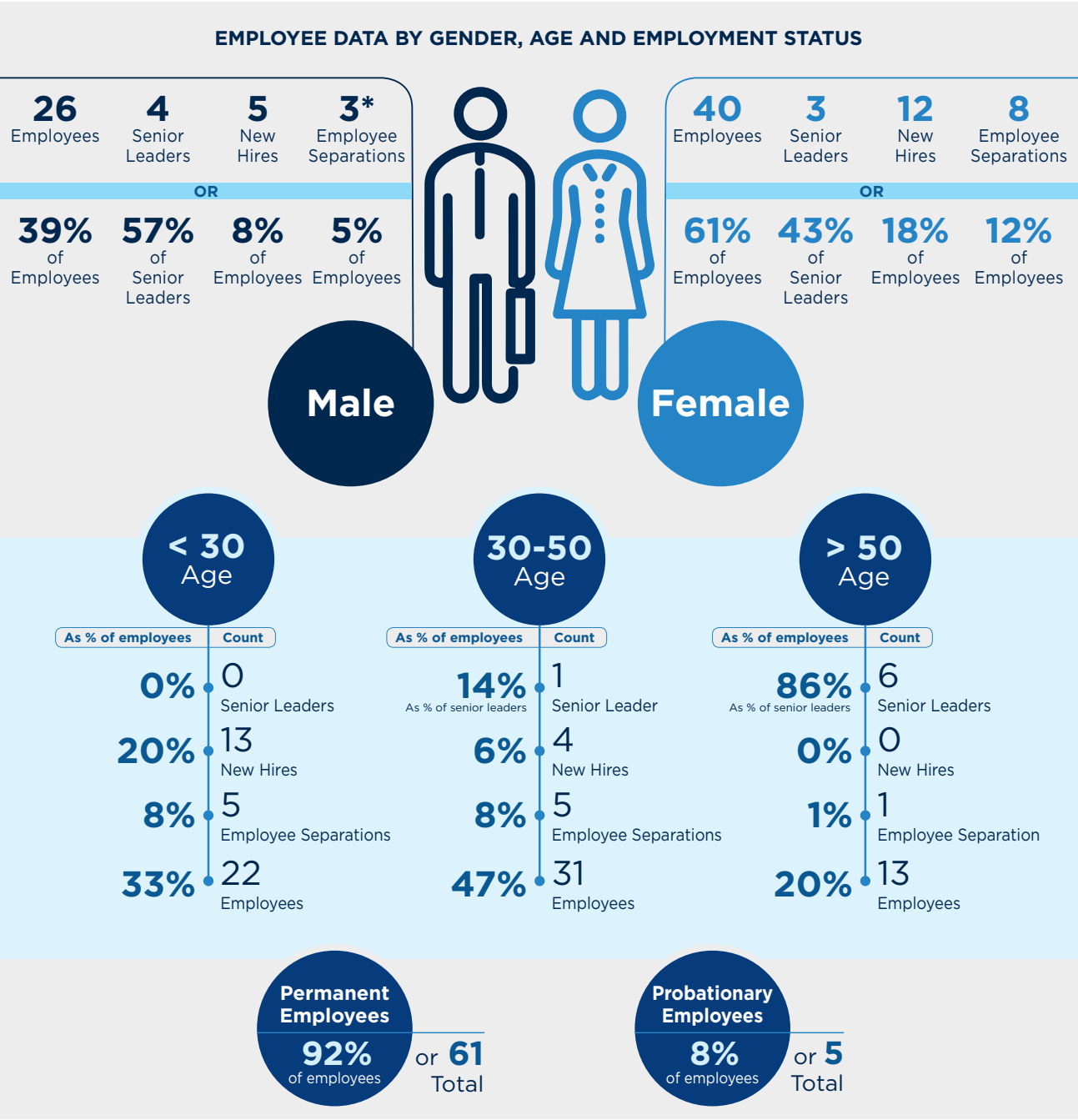
Area	Key Topics and Concerns	Topic/concern raised by	Status
<div>Regulatory</div> <div></div>	Revision of the Guidelines on Anti-Money Laundering and Terrorism Financing Prevention Program (AML/TFPP)	Insurance Commission	Nat Re's revised Guidelines on AML/TFPP was submitted to the Insurance Commission last May 7, 2019 .
	Policy on Material Related Party Transactions as required by the Securities and Exchange Commission (SEC)	SEC	Nat Re's Policy on Material Party Transactions was submitted to the SEC and IC last September 27 and October 2, 2019 respectively.
<div>Client Relationship</div> <div></div>	Client intimacy, defined as understanding, satisfying and supporting clients' needs and goals, to be Nat Re's value proposition	Board of Directors and President/CEO	The President/CEO regularly communicates to all Employees the company's shift to this strategy/value proposition and encourages Senior Leaders to develop plans in line with this strategy/ value proposition.
<div>Corporate Social Responsibility</div> <div></div>	Need for a more impactful corporate social responsibility (CSR) program	Office of the President/CEO, Human Resources, and Risk & Compliance	Nat Re started incorporating environment-friendly practices in the office (e.g. use of biodegradable kitchen products) and organizing CSR activities (e.g. learning sessions on the effect of climate change, tree planting). It also revised its company donation policy.
<div>Risk Management</div> <div></div>	Need for a Business Continuity Management System (BCMS)	Risk & Compliance	Nat Re obtained the services of a consultant to produce its Business Continuity Plan (BCP). Nat Re passed the tabletop testing of its BCP on October 3, 2019.

PEOPLE

EMPLOYEE MANAGEMENT AND DATA

GRI 102-8 / 102-22 / 202-2 / 401-1 / 401-2 / 401-3 / 405-1

Nat Re considers its people as its most important asset as they drive the company’s operations and, as a result, its impact to society, the national economy, and the global environment. The company therefore ensures the welfare and development of its employees and creates a culture that engenders sustainable practices, compliance, and innovation as to allow every employee to contribute his or her part.



\*includes one termed key officer.

The Senior Leaders are composed of department heads directly reporting to the President/CEO. All of them are hired locally.

There is no employee from an indigenous community and/or vulnerable sector.

EMPLOYEE BENEFITS

Benefits Description	% of female employees who availed for the year	% of male employees who availed for the year
SSS loan	15%	4%
SSS maternity	3%	0%
PhilHealth medical benefits	10%	4%
Pag-ibig salary loan	18%	12%
Pag-ibig housing loan	5%	0%
Emergency loan	28%	23%
13th month pay	100%	100%
Mid-year bonus	88%	88%
Sick leave conversion	100%	100%
Vacation leave conversion	100%	100%
Uniform allowance	88%	88%
Medical allowance	88%	88%
Emergency leaves	10%	8%
Gynecological leaves	5%	0%
Maternity leaves	0%	0%
Solo parent leaves	2%	0%
Paternity leaves	0%	2%
Vacation leaves	95%	88%
Sick leaves	93%	88%
Mobility program	33%	31%
HMO (aside from PhilHealth)	83%	92%
Retirement fund (aside from SSS)	0%	4%
Flexible-working hours	100%	100%

Company benefits are only provided to permanent employees. Probationary employees may enjoy these benefits as soon as their employment status changes to permanent.

All employees are entitled to maternity or paternity leave. One male availed of the benefit and returned to work after the parental leave reporting period ended.

SALARIES AND WAGES | GRI 102-38 / 102-39

Annual Total Compensation Ratio	
Ratio of the annual total compensation of the highest-paid individual to the median annual total compensation for all employees (excluding the highest-paid individual)	5.26
Percentage increase in the highest-paid individual’s compensation from prior period to the reporting period	4.39%
Percentage increase of the median annual total compensation from the previous reporting period to the current reporting period	0.95%
Ratio of the annual total compensation percentage increase of the highest-paid individual to the median annual total compensation percentage increase for all employees	4.62

GRI 405-2



TRAINING AND EDUCATION | GRI 404-2

Nat Re conducts an annual performance assessment of all employees’ skills and competencies. Employees can tap into an annual training budget and attend capacity-building seminars both in the Philippines and abroad. They are expected to echo learnings from their training to their colleagues.

HEALTH, SAFETY AND WELFARE OF EMPLOYEES | GRI 403-1 / 403-3 / 403-4 / 403-7 / 403-8 / 403-9

The Company is committed in providing a safe, secure and healthy work environment for their employees. In turn, employees are expected to work safely and keep work stations and common areas in the office neat and clean. Employees are urged to report to their immediate superior or to Office Services accidents or any condition or practice which is deemed unsafe, whether or not these result in personal injury or no matter how minor they might seem to be.

To promote health and well-being, all permanent employees receive health care benefits which includes coverage by a health insurance provider and medical allowance.

To encourage camaraderie with their co-workers, employees are involved in deciding, planning and implementing employee activities and programs

such as sports events, summer outings, and company parties. To promote a work-life balance, employees are entitled to at least fifteen vacation leaves a year and are expected to work only on weekdays.

There were no identified work-related ill health or work-related injuries in 2019.

HEALTH PROMOTION SERVICES | GRI 403-6

Nat Re believes that developing healthier employees will result in a more productive and engaged workforce. To create a healthier workplace culture and to maintain and improve the overall health and well-being of its staff, the Company:

- Partnered with the health maintenance organization Maxicare in conducting health and wellness learning sessions, such as on first aid;
- Disseminated medical bulletins, updates, and information from Maxicare on different topics such as heat stroke, malaria, cancer, immunization, autism, schistosomiasis, hypertension, AIDS, and safe motherhood;
- Conducted yoga and zumba sessions; and,
- Provided healthier food alternatives during Company meetings/events.





**COMPANY EVENTS**

Nat Re also organized employee engagement activities such as a company outing, Halloween party, and year-end party, and participated in the insurance industry-wide 2019 PIAA Bowling tournament. Its corporate social responsibility program activities, namely its tree planting activity, learning sessions on climate change, and air plants workshop, also had employees' participation.

**RETIREMENT BENEFIT | GRI 201-3**

Nat Re provides retirement benefits to its employees. The normal retirement benefit, which employees can avail upon reaching 60 years old, is equivalent to 175% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

Employees can avail of early retirement at 25% of the normal benefit rate as early as 50 years old so long as they have at least 5 years of continuous service in the Company.

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contribution. As of December 31, 2019, the Fair Value of the Plan Asset stood at P81 million while the Net Defined Benefit Asset was at P13 million.

**CORPORATE SOCIAL RESPONSIBILITY (CSR) ACTIVITIES | GRI 413-1**

Nat Re partnered with FEED in organizing CSR activities aimed to further the Company's CSR advocacy of promoting environment sustainability and boosting disaster resilience. Its employees participated in a workshop for urban/indoor gardening and learning sessions on climate change. They also planted trees at the over 9,000-hectare protected Laguna Quezon Land Grant to enhance biodiversity, restore lost forest cover, and support community livelihood development.



**SUSTAINABILITY DEVELOPMENT GOALS (SDG) AND TARGETS**

<div>8</div> <div>DECENT WORK AND ECONOMIC GROWTH</div> <div></div>	<p><b>Target</b> By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.</p> <p><b>Nat Re's Contribution</b> Nat Re paid P163 million worth of employee wages and benefits.</p> <p>The average length of employees' tenure is 5.26 years.</p> <p>No employee receives the minimum wage or lower. The salary of our lowest paid employee is 71% higher than the minimum wage. (GRI 202-1)</p>
<div>15</div> <div>LIFE ON LAND</div> <div></div>	<p><b>Target</b> By 2030, ensure the conservation of mountain ecosystems, including their biodiversity, in order to enhance their capacity to provide benefits that are essential for sustainable development.</p> <p><b>Nat Re's Contribution</b> Nat Re employees planted three hundred and seventy native Philippine tropical forest trees at the over 9,000-hectare protected Laguna Quezon Land Grant.</p>

COMPLIANCE

Nat Re considers compliance with applicable laws and regulations, market standards, and business ethics as a fundamental aspect of its corporate culture. It is practiced to build the trust of its stakeholders and to promote a safe working environment for its employees.

ETHICS AND INTEGRITY | GRI 102-17

Nat Re’s Code of Conduct describes the Company’s high-level ethical principles and values, and serves as a guide on how employees should properly conduct themselves in the workplace. The Code includes aspects such as care for the environment, labor rights, proper conduct towards stakeholders, commitment to human rights, the right to privacy, and anti-bribery and corruption.

The Company’s employees are regularly trained on this topic.

CONFLICT OF INTEREST | GRI 102-25

Nat Re believes that only fair and impartial business transactions should be conducted for the benefit of all of its stakeholders. In this regard, the Company seeks to ensure that situations with a potential or actual conflict of interest are addressed and avoided. It also ensures that all transactions are conducted at arm’s length with consideration paid or received by the Company, and on terms no less favorable than that made available to a non-related party under the same or similar circumstances.

The company has a Conflict of Interest Policy to establish integrity and transparency in all transactions between the Company and its major shareholders, directors, officers and employees.

LABOR MANAGEMENT RELATIONS

GRI 407-1

There was no Nat Re employee party to any Collective Bargaining Agreement (CBA). There were no consultations on CBA conducted with employees.

ANTI-CORRUPTION | GRI 205-2 / 205-3

The Company’s Anti-Bribery and Corruption Policy was circulated to Directors and employees and is also posted on the Nat Re website. There were no incidents of bribery and corruption reported in 2019.

ANTI-COMPETITIVE BEHAVIOR | GRI 206-1

There were no reported legal cases for the violation of the Philippine Competition Act (Republic Act No. 10667) or of any international law designed primarily for the purpose of regulating anti-competitive behavior or anti-trust or monopoly practices.

ENVIRONMENTAL COMPLIANCE | GRI 307-1

There were no identified breaches of environmental laws and/or regulations.

HUMAN RIGHTS | GRI 406-1 / 408-1 / 409-1

There were no cases of employee discrimination reported in 2019. The Company does not employ minors, engage in forced or compulsory labor, or deal with clients employing minors.

IMPACT TO LOCAL COMMUNITIES AND POLITICAL CONTRIBUTIONS

GRI 413-2 / GRI 415-1

Nat Re’s operations do not have significant actual or potential negative impacts on local communities. The Company did not directly or indirectly make financial or in-kind political contributions.

MARKETING OF PRODUCTS AND SERVICES

GRI 417-1 TO 417-3

There were no incidents of non-compliance concerning marketing communications.

CUSTOMER PRIVACY | GRI 418-1

Nat Re has established a standard Non-Disclosure Agreement with its business partners. There were no substantiated complaints concerning breaches of customer privacy and losses of customer data in 2019.

SOCIOECONOMIC COMPLIANCE | GRI 419-1

The Company has not identified any non-compliance with socioeconomic laws and/or regulations.

GRI CONTENT INDEX

GRI 102-55

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page Number, Direct Answer and / or URL
GRI 102	General Disclosures	102-1	Name of the organization	About our Report, page 2
GRI 102	General Disclosures	102-2	Activities, brands, products, and services	About Nat Re: Organizational Profile, page 2-3
GRI 102	General Disclosures	102-3	Location of headquarters	About Nat Re: Organizational Profile, page 2
GRI 102	General Disclosures	102-4	Location of operations	About Nat Re: Organizational Profile, page 2
GRI 102	General Disclosures	102-5	Ownership and legal form	About our Report, page 2
GRI 102	General Disclosures	102-6	Markets served	About Nat Re: Organizational Profile, page 2
GRI 102	General Disclosures	102-7	Scale of the organization	Net Premiums, page 8  Capitalization, page 8  Employee Management and Data, page 16
GRI 102	General Disclosures	102-8	Information on employees and other workers	Employee Management and Data, page 16
GRI 102	General Disclosures	102-9	Supply chain	Reinsurance Value Chain, page 3  Organizational structure - <a href="https://www.nat-re.com/about-us/organization-ownership-incorporation/">https://www.nat-re.com/about-us/organization-ownership-incorporation/</a>  Shareholder’s structure - <a href="https://www.nat-re.com/about-us/organization-ownership-incorporation/">https://www.nat-re.com/about-us/organization-ownership-incorporation/</a>

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page Number, Direct Answer and / or URL
GRI 102	General Disclosures	102-10	Significant changes to the organization and its supply chain	There are no significant changes to the organization and its value chain for the reporting year
GRI 102	General Disclosures	102-11	Precautionary Principle or approach	Nat Re will document the guidelines on its approach to risk management in operational planning.
GRI 102	General Disclosures	102-12	External initiatives	Climate Related Opportunities: Initiatives with External Partners, page 9
GRI 102	General Disclosures	102-13	Membership of associations	Climate-related Opportunities: Initiatives with External Partners, page 9
GRI 102	General Disclosures	102-14	Statement from senior decision-maker	Message from the President/ CEO, page 1
GRI 102	General Disclosures	102-15	Key impacts, risks, and opportunities	Climate-Related Risks, page 13
GRI 102	General Disclosures	102-16	Values, principles, standards, and norms of behavior	<a href="https://www.nat-re.com/about-us/mission-vision-values/">https://www.nat-re.com/about-us/mission-vision-values/</a>
GRI 102	General Disclosures	102-17	Mechanisms for advice and concerns about ethics	<a href="https://www.nat-re.com/corporate-governance/code-of-ethics/">https://www.nat-re.com/corporate-governance/code-of-ethics/</a> , Section III.2
GRI 102	General Disclosures	102-18	Governance structure	Governance, page 12
GRI 102	General Disclosures	102-19	Delegating authority	Governance – Board of Directors, page 12
GRI 102	General Disclosures	102-20	Executive-level responsibility for economic, environmental, and social topics	Governance – Senior Leaders, page 12
GRI 102	General Disclosures	102-21	Consulting stakeholders on economic, environmental, and social topics	Governance, page 12
GRI 102	General Disclosures	102-22	Composition of the highest governance body and its committees	Governance – Board of Directors, page 12

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page Number, Direct Answer and / or URL
GRI 102	General Disclosures	102-23	Chair of the highest governance body	<a href="https://www.nat-re.com/about-us/leadership/#toggle-id-1">https://www.nat-re.com/about-us/leadership/#toggle-id-1</a> . The Chairman of the Board is non-executive director.
GRI 102	General Disclosures	102-24	Nominating and selecting the highest governance body	<a href="https://www.nat-re.com/naresite/wp-content/uploads/2019/05/Amended_By-Laws.pdf">https://www.nat-re.com/naresite/wp-content/uploads/2019/05/Amended_By-Laws.pdf</a> , Article III, Board of Directors, Section 1, Number, Term of Office, Manner of Election, Membership of the Board, Election
GRI 102	General Disclosures	102-25	Conflicts of interest	Compliance - Conflict of Interest, page 22
GRI 102	General Disclosures	102-26	Role of highest governance body in setting purpose, values, and strategy	Governance, page 12
GRI 102	General Disclosures	102-27	Collective knowledge of highest governance body	Governance, page 12
GRI 102	General Disclosures	102-28	Evaluating the highest governance body's performance	Governance, page 12
GRI 102	General Disclosures	102-29	Identifying and managing economic, environmental, and social impacts	Governance, page 12
GRI 102	General Disclosures	102-30	Effectiveness of risk management processes	Enterprise Risk Management. Nat Re will embed risk management with respect to economic, social and environmental impact on our existing process
GRI 102	General Disclosures	102-31	Review of economic, environmental, and social topics	Management's Approach on Material Topics, page 6
GRI 102	General Disclosures	102-32	Highest governance body's role in sustainability reporting	Governance, page 12
GRI 102	General Disclosures	102-33	Communicating critical concerns	Critical Concerns, page 13
GRI 102	General Disclosures	102-34	Nature and total number of critical concerns	Critical Concerns, page 13

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page Number, Direct Answer and / or URL
GRI 102	General Disclosures	102-35	Remuneration policies	Remuneration of Board of Directors and Senior Executives, page 12
GRI 102	General Disclosures	102-36	Process for determining remuneration	Remuneration of Board of Directors and Senior Executives, page 12
GRI 102	General Disclosures	102-37	Stakeholders' involvement in remuneration	Remuneration of Board of Directors and Senior Executives, page 12
GRI 102	General Disclosures	102-38	Annual total compensation ratio	Salaries and Wages, page 18
GRI 102	General Disclosures	102-39	Percentage increase in annual total compensation ratio	Salaries and Wages, page 18
GRI 102	General Disclosures	102-40	List of stakeholder groups	Stakeholders, page 13
GRI 102	General Disclosures	102-41	Collective bargaining agreements	Labor Management Relations, page 22
GRI 102	General Disclosures	102-42	Identifying and selecting stakeholders	Stakeholders, page 13 Approach to Stakeholders, page 14
GRI 102	General Disclosures	102-43	Approach to stakeholder engagement	Approach to Stakeholders, page 14
GRI 102	General Disclosures	102-44	Key topics and concerns raised	Key Topics and Concerns Raised, page 14
GRI 102	General Disclosures	102-45	Entities included in the consolidated financial statements	Nat Re is not a part of any conglomerate structure.
GRI 102	General Disclosures	102-46	Defining report content and topic Boundaries	Material Topics on Nat Re's Sustainability, page 5  Reporting Process, page 4
GRI 102	General Disclosures	102-47	List of material topics	Material Topics on Nat Re's Sustainability, page 5
GRI 102	General Disclosures	102-48	Restatements of information	About our Report, page 2

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page Number, Direct Answer and / or URL
GRI 102	General Disclosures	102-49	Changes in reporting	About our Report, page 2
GRI 102	General Disclosures	102-50	Reporting period	About our Report, page 2
GRI 102	General Disclosures	102-51	Date of most recent report	About our Report, page2
GRI 102	General Disclosures	102-52	Reporting cycle	About our Report, page 2
GRI 102	General Disclosures	102-53	Contact point for questions regarding the report	About our Report, page 2
GRI 102	General Disclosures	102-54	Claims of reporting in accordance with the GRI Standards	About the Report, page 2
GRI 102	General Disclosures	102-55	GRI content index	GRI Context Index, page 24
GRI 102	General Disclosures	102-56	External assurance	About the Report, page 2
GRI 103	Management Approach	103-1	Explanation of the material topic and its Boundary	Material Topics on Nat Re's Sustainability, page 5  The Economic Value of Nat Re's Business, page 7  Indirect Economic Impact, page 8  Climate Related Opportunities: Initiatives with External Partners, page 9
GRI 103	Management Approach	103-2	The management approach and its components	Management Approach on Material Topics, page 6
GRI 103	Management Approach	103-3	Evaluation of the management approach	Management Approach on Material Topics, page 6
GRI 201	Economic Performance	201-1	Direct economic value generated and distributed	Direct Economic Value Generated and Distributed, page 8
GRI 201	Economic Performance	201-2	Financial implications and other risks and opportunities due to climate change	Climate Related Risks, page 13

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page Number, Direct Answer and / or URL
GRI 201	Economic Performance	201-3	Defined benefit plan obligations and other retirement plans	Retirement Benefit, page 20
GRI 201	Economic Performance	201-4	Financial assistance received from government	There is no financial assistance received from the government.
GRI 202	Market Presence	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	Sustainability Development Goals, SDG 8 Decent Work and Economic Growth, page 21
GRI 202	Market Presence	202-2	Proportion of senior management hired from the local community	Employee Management and Data, Page 17
GRI 203	Indirect Economic Impacts	203-1	Infrastructure investments and services supported	Indirect Economic Impact, page 8
GRI 203	Indirect Economic Impacts	203-2	Significant indirect economic impacts	Indirect Economic Impact, page 8
GRI 204	Procurement Practices	204-1	Proportion of spending on local suppliers	Nat Re is to set a policy on procurement in relation to sustainability
GRI 205	Anti-corruption	205-1	Operations assessed for risks related to corruption	Risk Control Assessment Activity will be completed in 2020
GRI 205	Anti-corruption	205-2	Communication and training about anti-corruption policies and procedures	Anti-Corruption, page 22
GRI 205	Anti-corruption	205-3	Confirmed incidents of corruption and actions taken	Anti-Corruption, page 22
GRI 206	Anti-competitive Behavior	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	Anti-Competitive Behavior, page 22
GRI 301	Materials	301-1	Materials used by weight or volume	Nat Re, a financial services company, does not use a large amount of materials in its ordinary course of business. However, the Company will set a policy on using more environment-friendly and sustainable materials (e.g. office supplies) in the office.
GRI 301	Materials	301-2	Recycled input materials used	
GRI 301	Materials	301-3	Reclaimed products and their packaging materials	

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page Number, Direct Answer and / or URL
GRI 302	Energy	302-1	Energy consumption within the organization	Nat Re will set a policy on conserving electricity in the office.
GRI 302	Energy	302-2	Energy consumption outside of the organization	
GRI 302	Energy	302-3	Energy intensity	
GRI 302	Energy	302-4	Reduction of energy consumption	
GRI 302	Energy	302-5	Reductions in energy requirements of products and services	
GRI 303	Water and Effluents	303-1	Interactions with water as a shared resource	Nat Re, a financial services company, does not consume or discharge a significant amount of water.
GRI 303	Water and Effluents	303-2	Management of water discharge-related impacts	
GRI 303	Water and Effluents	303-3	Water withdrawal	
GRI 303	Water and Effluents	303-4	Water discharge	
GRI 303	Water and Effluents	303-5	Water consumption	
GRI 304	Biodiversity	304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Nat Re only has one operational site (its office) which is not located in or adjacent to protected areas and areas of high biodiversity value.
GRI 304	Biodiversity	304-2	Significant impacts of activities, products, and services on biodiversity	
GRI 304	Biodiversity	304-3	Habitats protected or restored	
GRI 304	Biodiversity	304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page Number, Direct Answer and / or URL
GRI 305	Emissions	305-1	Direct (Scope 1) GHG emissions	Nat Re, a financial services company, does not expel a significant amount of greenhouse gases.
GRI 305	Emissions	305-2	Energy indirect (Scope 2) GHG emissions	
GRI 305	Emissions	305-3	Other indirect (Scope 3) GHG emissions	
GRI 305	Emissions	305-4	GHG emissions intensity	
GRI 305	Emissions	305-5	Reduction of GHG emissions	
GRI 305	Emissions	305-6	Emissions of ozone-depleting substances (ODS)	
GRI 305	Emissions	305-7	Nitrogen oxides (NO <sub>x</sub> ), sulfur oxides (SO <sub>x</sub> ), and other significant air emissions	Nat Re, a financial services company, does not expel hazardous waste products.
	Effluents and Waste	306-1	Water discharge by quality and destination	
GRI 306	Effluents and Waste	306-2	Waste by type and disposal method	
GRI 306	Effluents and Waste	306-3	Significant spills	
GRI 306	Effluents and Waste	306-4	Transport of hazardous waste	
-	Effluents and Waste	306-5	Water bodies affected by water discharges and/or runoff	
GRI 307	Environmental Compliance	307-1	Non-compliance with environmental laws and regulations	Environmental Compliance, page 22
GRI 308	Supplier Environmental Assessment	308-1	New suppliers that were screened using environmental criteria	Nat Re will set a policy on the screening of suppliers using environmental criteria.
GRI 308	Supplier Environmental Assessment	308-2	Negative environmental impacts in the supply chain and actions taken	

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page Number, Direct Answer and / or URL
GRI 401	Employment	401-1	New employee hires and employee turnover.	Employee Management, page 16
GRI 401	Employment	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Employee Management, List of Employee Benefits page 17
GRI 401	Employment	401-3	Parental leave	Employee Management, List of Employee Benefits page 17
GRI 402	Labor/Management Relations	402-1	Minimum notice periods regarding operational changes	Nat Re will set a policy on the minimum notice periods regarding operational changes.
GRI 403	Occupational Health and Safety	403-1	Occupational health and safety management system	Health, Safety and Welfare of Employees, page 19
GRI 403	Occupational Health and Safety	403-2	Hazard identification, risk assessment, and incident investigation	
GRI 403	Occupational Health and Safety	403-3	Occupational health services	
GRI 403	Occupational Health and Safety	403-4	Worker participation, consultation, and communication on occupational health and safety	
GRI 403	Occupational Health and Safety	403-5	Worker training on occupational health and safety	Nat Re will conduct hazard/ work-related illness identification and risk assessment. There were no identified work-related ill health or work-related injuries in 2019.
GRI 403	Occupational Health and Safety	403-6	Promotion of worker health	
GRI 403	Occupational Health and Safety	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	
GRI 403	Occupational Health and Safety	403-8	Workers covered by an occupational health and safety management system	
GRI 403	Occupational Health and Safety	403-9	Work-related injuries	
GRI 403	Occupational Health and Safety	403-10	Work-related ill health	
				Training on Standard First Aid and Basic Life Support (CPR) will be conducted in 2020.

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page Number, Direct Answer and / or URL
GRI 404	Training and Education	404-1	Average hours of training per year per employee	Currently, Nat Re only tracks the number of training session attended by employees. Starting 2020, the Company will track the number of hours of training per year per employee.
GRI 404	Training and Education	404-2	Programs for upgrading employee skills and transition assistance programs	Employees training programs will be formalized in 2020.
GRI 404	Training and Education	404-3	Percentage of employees receiving regular performance and career development reviews	Training and Education, page 19
GRI 405	Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	Employee Management, page 16
GRI 405	Diversity and Equal Opportunity	405-2	Ratio of basic salary and remuneration of women to men	Salaries and Wages, Ratio of Basic Salary, page 18
GRI 406	Non-discrimination	406-1	Incidents of discrimination and corrective actions taken	Human Rights, page 23
GRI 407	Freedom of Association and Collective Bargaining	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Labor Management Relations, page 22
GRI 408	Child Labor	408-1	Operations and suppliers at significant risk for incidents of child labor	Human Rights, page 23
GRI 409	Forced or Compulsory Labor	409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	Human Rights, page 23
GRI 410	Security Practices	410-1	Security personnel trained in human rights policies or procedures	The Company does not employ security personnel.
GRI 411	Rights of Indigenous Peoples	411-1	Incidents of violations involving rights of indigenous peoples	The Company did not employ indigenous people in 2019.

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page Number, Direct Answer and / or URL
GRI 412	Human Rights Assessment	412-1	Operations that have been subject to human rights reviews or impact assessments	The Company has not been subject to human rights reviews or impact assessment.
GRI 412	Human Rights Assessment	412-2	Employee training on human rights policies or procedures	Human Rights training will be included in the training program.
GRI 412	Human Rights Assessment	412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	The Company had no known agreement or contracts with clauses on human rights or that underwent human rights screening.
GRI 413	Local Communities	413-1	Operations with local community engagement, impact assessments, and development programs	Corporate Social Responsibility (CSR) Activities, page 21
GRI 413	Local Communities	413-2	Operations with significant actual and potential negative impacts on local communities	Impact to Local Communities, page 23
GRI 414	Supplier Social Assessment	414-1	New suppliers that were screened using social criteria	Nat Re’s Procurement Policy will be revised to include sustainability criteria and assessment of social impacts.
GRI 414	Supplier Social Assessment	414-2	Negative social impacts in the supply chain and actions taken	
GRI 415	Public Policy	415-1	Political contributions	Impact to Local Communities and Political Contributions, page 23
GRI 416	Customer Health and Safety	416-1	Assessment of the health and safety impacts of product and service categories	Nat Re’s reinsurance services do not directly impact the health and safety of its client companies’ employees.
GRI 416	Customer Health and Safety	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Nat Re’s reinsurance services do not directly impact the health and safety of its client companies’ employees.

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page Number, Direct Answer and / or URL
GRI 417	Marketing and Labeling	417-1	Requirements for product and service information and labeling	There were no incidents of non-compliance concerning marketing communications.
GRI 417	Marketing and Labeling	417-2	Incidents of non-compliance concerning product and service information and labeling	
GRI 417	Marketing and Labeling	417-3	Incidents of non-compliance concerning marketing communications	
GRI 418	Customer Privacy	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Customer Privacy, page 23
GRI 419	Socioeconomic Compliance	419-1	Non-compliance with laws and regulations in the social and economic area	Socioeconomic Compliance, page 23

## NAT RE'S COMMITMENT TO PROMOTING SUSTAINABLE DEVELOPMENT

We at Nat Re are fully committed to more consciously manage our business' impact on the economy, the environment, and the greater society, and monitor our contributions to achieving universal sustainability goals. We will enjoin our Board of Directors, our senior management, and our employees to proactively integrate a philosophy of sustainable development into our corporate, business, and functional strategies and our day-to-day company activities. Lastly, we will start publishing our annual financial and sustainability reports in one publication to holistically present the steps we are taking towards a stronger economy, a cleaner environment, and a healthier society.



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**About the cover**

The cover depicts *bayanihan*, the Filipino term for a system of mutual assistance in which community members cooperate and work together to accomplish a difficult task. It is derived from the Filipino word *bayan*, which means town, nation, or, in general, community.

**Concept, design  
and execution**

Graphic Arm

**Stock photos**

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