NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

**Nat Re Compliance <compliance@nat-re.com>**

# National Reinsurance Corporation of the Philippines_SEC Form 17-Q_14 August 2020

4 messages

**Nat Re Compliance** <compliance@nat-re.com> Fri, Aug 14, 2020 at 5:37 PM
To: msrd_covid19@sec.gov.ph
Cc: "Regina S. Ramos" <gina.ramos@nat-re.com>, Raul Tumangday <raul.tumangday@nat-re.com>, "Ma. Pilar P. Gutierrez" <pilar.pilares@cltpsj.com.ph>, "Melina Rose E. Gutierrez" <melina.gutierrez@cltpsj.com.ph>, "Rojane C. Mendoza" <rojane.mendoza@nat-re.com>

Gentlemen / Mesdames,

On behalf of **National Reinsurance Corporation of the Philippines ("Nat Re**"), we submit the enclosed SEC Form 17 Q Quarterly Report as of June 30, 2020. Attached also is the copy of the PSE receipt on our submission of the same report for your reference.

Kindly confirm receipt hereof.

Thank you very much.

-National Reinsurance Corporation of the Philippines

**2 attachments**

**SEC Form17-Q Quarterly Report as of June 30, 2020.pdf**
1126K

**PSE Submission Receipt - Quarterly Report 14 Aug 2020.pdf**
101K

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**Rojane Mendoza** <rojane.mendoza@nat-re.com> Fri, Aug 14, 2020 at 5:39 PM
To: compliance@nat-re.com

Your message

To: Rojane Mendoza
Subject: National Reinsurance Corporation of the Philippines_SEC Form 17-Q_14 August 2020
Sent: 8/14/20, 5:37:28 PM GMT+8

was read on 8/14/20, 5:39:11 PM GMT+8

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**Ma. Pilar P. Gutierrez** <pilar.pilares@cltpsj.com.ph> Fri, Aug 14, 2020 at 5:42 PM
To: "compliance@nat-re.com" <compliance@nat-re.com>

Your message

To: Ma. Pilar P. Gutierrez
Subject: National Reinsurance Corporation of the Philippines_SEC Form 17-Q_14 August 2020
Sent: Friday, August 14, 2020 5:37:28 PM (UTC+08:00) Kuala Lumpur, Singapore

was read on Friday, August 14, 2020 5:42:12 PM (UTC+08:00) Kuala Lumpur, Singapore.

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**MSRD COVID19** <msrd_covid19@sec.gov.ph> Fri, Aug 14, 2020 at 9:58 PM
To: Nat Re Compliance <compliance@nat-re.com>
Cc: "Regina S. Ramos" <gina.ramos@nat-re.com>, Raul Tumangday <raul.tumangday@nat-re.com>, "Ma. Pilar P. Gutierrez" <pilar.pilares@cltpsj.com.ph>, "Melina Rose E. Gutierrez" <melina.gutierrez@cltpsj.com.ph>, "Rojane C. Mendoza" <rojane.mendoza@nat-re.com>, "FRANCO B. DELFIN" <fbdelfin@sec.gov.ph>, "CATHERINE E. GALIZA" <cegaliza@sec.gov.ph>

Sir/Madam,

We acknowledge receipt of your email below and the attached documents thereto.

Thank you.

Regards,

**MARKETS AND SECURITIES REGULATION DEPARTMENT**
**PHILIPPINE SECURITIES AND EXCHANGE COMMISSION**

[Quoted text hidden]

Rojane Mendoza <rojane.mendoza@nat-re.com>

# Quarterly Report

1 message

**Philippine Stock Exchange** <no-reply@pse.com.ph> Mon, Aug 17, 2020 at 7:41 AM
To: gina.ramos@nat-re.com, mari.opelac@nat-re.com, raul.tumangday@nat-re.com, rojane.mendoza@nat-re.com, disclosure@pse.com.ph

Dear Sir/Madam:

Your disclosure was approved as Company Report. Details are as follows:

Company Name: National Reinsurance Corporation of the Philippines
Reference Number: 0025628-2020
Date and Time: Monday, August 17, 2020 07:41 AM
Template Name: Quarterly Report
Report Number: CR05541-2020

Best Regards,
PSE EDGE

Rojane Mendoza <rojane.mendoza@nat-re.com>

# Quarterly Report

1 message

**Philippine Stock Exchange** <no-reply@pse.com.ph> Fri, Aug 14, 2020 at 5:34 PM
To: gina.ramos@nat-re.com, mari.opelac@nat-re.com, raul.tumangday@nat-re.com, rojane.mendoza@nat-re.com, disclosure@pse.com.ph

Dear Sir/Madam:

Your disclosure was successfully submitted. Details are as follows:

Company Name: National Reinsurance Corporation of the Philippines
Reference Number: 0025628-2020
Date and Time: Friday, August 14, 2020 17:33 PM
Template Name: Quarterly Report

Best Regards,
PSE EDGE

# COVER SHEET

8 0 1 1 8

SEC Registration Number

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

(Company's Full Name)

31F BPI-PHILAM LIFE MAKATI
6811 AYALA AVENUE MAKATI

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

Regina S. Ramos
Contact Person

(02) 8988-7400
Company Telephone Number

12 (Month) 31 (Day)
Fiscal Year

**SEC Form 17-Q**
**2nd Quarter ending June 30, 2020**
FORM TYPE

4th Wednesday of June
Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept Requiring this Doc

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

# CERTIFICATION

I, **SANTINO U. SONTILLANO**, Senior Assistant Vice President & Head of Finance of **NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES** with SEC registration number 80118 with principal office at 31st Floor, BPI-Philam Life Makati, 6811 Ayala Avenue, Makati City, on oath state:

1. That on behalf of **NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**, I have caused this SEC 17-Q Form for the quarter ending June 30, 2020 to be prepared;

2. That I read and understood its contents which are true and correct of my own personal knowledge and/or based on true records;

3. That the company **NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES** will comply with the requirements set forth in SEC Notice dated June 24, 2020 for a complete and official submission of reports and/or documents through electronic mail; and

4. That I am fully aware that documents filed online which requires pre-evaluation and/or processing fee shall be considered complete and officially received only upon payment of a filing fee.

IN WITNESS WHEREOF, I have hereunto set my hand this 12th day of August, 2020.

**SANTINO U. SONTILLANO**
Affiant

SUBSCRIBED AND SWORN to before me this AUG 1 3 2020 day of **August 2020** at **Makati City**, affiant having exhibited to me his Passport No. **P2981072B** issued on **06 September 2019** at **DFA NCR East**.

ATTY. HENRY D. ADASA
NOTARY PUBLIC UNTIL DEC. 31, 2020
NOTARIAL COMMISSION 2020-162 MLA
IBP NO. 100920 - 01/03/2020, PASIG
PTR NO. 9124087 - 01/03/2020 MLA
ROLL NO. 29679, TIN: 172-528-620
MCLE COMPL. NO. VI-0000165

Doc. No. 101
Page No. 22
Book No. XXXIII
Series of 2020

**SECURITIES AND EXCHANGE COMMISSION**
**SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE**
**SECURITIES REGULATIONS ACT AND SRC RULE 17 (2) (b) THEREUNDER**

1. For the quarter ended **June 30, 2020**

2. Commission identification Number **80118**

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

4. **NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES** doing business **under the name and style of Philippine National Reinsurance Company; PhilNaRe**
   Exact name of registrant as specified in its charter

5. **PHILIPPINES**
   Province, country or other jurisdiction of incorporation or organization

6. Industry classification code [ ] (SEC Use Only)

7. **31st FLOOR, BPI-PHILAM, 6811 AYALA AVENUE MAKATI CITY, PHILIPPINES 1227**
   Address of registrant's principal office Postal Code

8. **(632) 8988-7400**
   Registrant's telephone number, including area code

9. **N/A**
   Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 4 and 8 of the RSA as at quarter ended:

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

11. Are any or all of the securities listed on the Philippine Stock Exchange?
    **Yes** [✓]**No [ ]**

12. Indicate by check mark whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period the registrant was required to file such report);
    **Yes [✓]**No [ ]

    (b) has been subject to such filing requirements for the past 90 days.
    **Yes [✓]**No [ ]

# PART I. - FINANCIAL INFORMATION

## Item 1. Financial Statements

The financial statements listed below and covering pages 13 to 82 of this report are filed as part of this Form 17-Q:

a. Statements of Financial Position as at June 30, 2020 and December 31, 2019.

b. Statements of Income:
   i. For the three-month ended June 30, 2020 and 2019.
   ii. For the six-month ended June 30, 2020 and 2019.

c. Statements of Comprehensive Income:
   i. For the three-month ended June 30, 2020 and 2019.
   ii. For the six-month ended June 30, 2020 and 2019.

d. Statements of Changes in Equity for the six-month ended June 30, 2020 and 2019.

e. Statements of Cash Flows:
   i. For the three-month ended June 30, 2020 and 2019.
   ii. For the six-month ended June 30, 2020 and 2019.

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

### I. RESULTS OF OPERATIONS

### a. For the six-month ended June 30, 2020 and 2019

| | For the six-month ended | | Inc(dec) | |
|---|---|---|---|---|
| In Million PhP | June 30, 2020 | June 30, 2019 | Amount | % |
| **REINSURANCE PREMIUM INCOME** | | | | |
| Reinsurance premiums - net of returns | **P2,188.6** | P2,063.0 | P125.6 | 6% |
| Retroceded premiums | **(787.5)** | (552.0) | (235.5) | 43% |
| Net premiums retained | **1,401.1** | 1,511.0 | (109.9) | -7% |
| Decrease (Increase) in premium reserves - net | **164.9** | (57.1) | 222.0 | -389% |
| | **1,566.0** | 1,453.9 | 112.1 | 8% |
| **UNDERWRITING DEDUCTIONS** | | | | |
| Share in reported losses – net | **(1,038.7)** | (909.3) | (129.4) | 14% |
| Share in loss reserves – net | **243.3** | (53.2) | 296.5 | -557% |
| Commissions – net | **(488.5)** | (360.9) | (127.6) | 35% |
| | **(1,283.9)** | (1,323.4) | 39.5 | -3% |
| **NET UNDERWRITING PROFIT** | **282.1** | 130.5 | 151.6 | 116% |
| **INVESTMENT AND OTHER INCOME AND EXPENSES – Net** | **(239.3)** | 246.3 | (485.6) | -197% |
| **PROFIT AFTER INVESTMENT AND OTHER INCOME AND EXPENSES** | **42.8** | 376.8 | (334.0) | -89% |
| **GENERAL AND ADMINISTRATIVE EXPENSES** | **(130.3)** | (130.6) | 0.3 | 0% |
| **(LOSS) PROFIT BEFORE TAX** | **(87.5)** | 246.2 | (333.7) | -136% |
| **TAX EXPENSE** | **(71.7)** | (46.6) | (25.1) | 54% |
| **NET (LOSS) PROFIT** | **(P159.2)** | P199.6 | (P358.8) | -180% |

## Underwriting Results

**Underwriting profit** of P282.1 million is higher by P151.6 million or 116% than the same period of 2019. This resulted from higher earned premiums and better loss experience (loss ratios: 2020 - 51%; 2019 - 66%), partly offset by higher commission ratio relative to earned premiums (commission ratios: 2020 - 31%; 2019 - 25%). Higher earned premiums in 2020 was due mainly to higher gross premiums written from business growth in both life and non-life domestic businesses and actual reported premiums exceeding 2019 premium accruals.

**Net premiums written** for the period amounted to P1,401.1 million, P109.9 million or 7% lower than the same period of 2019 resulting mainly from higher proportional retroceded premiums and the absence of non-recurring premium refund of P46 million from a retrocession contract that terminated in March 2019.

**Share in reported losses, net and Share in loss reserves, net** amounted to P795.4 million, lower by P167.1 million or 17% compared to the same period of 2019 which amounted to P962.5 million that resulted to loss ratio of 51% in 2020 and 66% in 2019. Lower loss ratio in 2020 resulted mainly from favorable development from losses incurred in prior years.

| | For the six-month ended | | Inc (dec) | |
|---|---|---|---|---|
| | June 30, 2020 | June 30, 2019 | Amount | % |
| Share in reported losses – net (A) | P1,038.7 | P909.3 | P129.4 | 14% |
| Share in loss reserves – net (B) | (243.3) | 53.2 | -296.5 | -557% |
| **Total share in loss and loss reserves (C) [A+B]** | **795.4** | **962.5** | **-167.1** | **-17%** |
| **Total earned premiums (D)** | **1,566.0** | **1,453.9** | **112.1** | **8%** |
| **Loss ratio (C/D)** | **51%** | **66%** | | |

**Commissions, net** amounted to P488.5 million, P127.6 million or 35% higher than the same period in 2019 which amounted to P360.9 million. Higher commissions resulted mainly from the Company's business growth and higher reported commissions from past underwriting years. These were partially negated by higher overriding commissions earned from a certain proportional retrocession facility.

**Investment and other income and expenses, net** resulted to a net loss of P239.3 million, P485.6 million or 197% lower than the same period of 2019 which amounted to P246.3 million as investing activities resulted to a net loss of P249.6 million, partly negated by lower other expenses by P10.3 million.

Investing activities resulted to a net loss of P249.6 million as the Company recognized an impairment loss of P469.3 million on it's available-for-sale equity securities in the first quarter following the volatility experienced by the local equity market. The decrease is also paired by the lower gain on sale of fixed income and equity securities that are classified as available-for-sale securities by P23.4 million and lower interest and dividend income by P3.2 million.

Lower other expenses by P10.3 million was mainly due to the lower foreign exchange loss by P23.4 million in 2020, partly negated by movement in statutory reserves of P11.0 million. Movement in statutory reserves resulted from the co-insurance arrangement as discussed in Accounts payable and accrued expenses.

**Tax expense** amounted to P71.7 million, higher by P25.1 million or 54% than the same period of 2019 due to higher underwriting profit.

## b. For the three-month ended June 30, 2020 and 2019

| In Million PhP | For the three-month ended June 30, 2020 | June 30, 2019 | Inc(dec) Amount | % |
|---|---|---|---|---|
| **REINSURANCE PREMIUM INCOME** | | | | |
| Reinsurance premiums - net of returns | **P1,178.8** | P1,052.8 | P126.0 | 12% |
| Retroceded premiums | **(538.0)** | (389.8) | (148.2) | 38% |
| Net premiums retained | **640.8** | 663.0 | (22.2) | -3% |
| Decrease in premium reserves - net | **190.5** | 57.0 | 133.5 | 234% |
| | **831.3** | 720.0 | 111.3 | 15% |
| **UNDERWRITING DEDUCTIONS** | | | | |
| Share in reported losses – net | **(517.0)** | (459.1) | (57.9) | 13% |
| Share in loss reserves – net | **133.7** | (58.0) | 191.7 | -331% |
| Commissions – net | **(278.5)** | (180.0) | (98.5) | 55% |
| | **(661.8)** | (697.1) | 35.3 | -5% |
| **NET UNDERWRITING PROFIT** | **169.5** | 22.9 | 146.6 | 640% |
| **INVESTMENT AND OTHER INCOME AND EXPENSES – Net** | **91.6** | 76.8 | 14.8 | 19% |
| **PROFIT AFTER INVESTMENT AND OTHER INCOME AND EXPENSES** | **261.1** | 99.7 | 161.4 | 162% |
| **GENERAL AND ADMINISTRATIVE EXPENSES** | **(60.8)** | (66.0) | 5.2 | -8% |
| **PROFIT BEFORE TAX** | **200.3** | 33.7 | 166.6 | 494% |
| **TAX EXPENSE** | **(48.4)** | (19.6) | (28.8) | 147% |
| **NET PROFIT** | **P151.9** | P14.1 | P137.8 | 977% |

### Underwriting Results

**Underwriting profit** amounting to P169.5 million**,** P146.6 or 640% higher than the second quarter of 2019. Higher underwriting profit in 2020 was mainly resulted from higher earned premiums and better loss experience mostly from nonlife and life businesses (loss ratios: 2020 – 46%; 2019 – 72%) partially negated by higher commission ratio relative to earned premiums (commission ratios: 2020 – 34%; 2019 – 25%). Higher earned premiums in 2020 was due largely to higher gross premiums written resulting from business growth in both life and non-life domestic businesses and actual reported premiums exceeding 2019 premium accruals.

**Share in reported losses, net and Share in loss reserves**, net amounted to P383.3 million, lower by P133.8 million or 26% compared to the second quarter of 2019 which amounted to P517.1 million that resulted to loss ratio of 46% in 2020 and 72% in 2019. Lower loss ratio in 2020 resulted mainly from favorable development from losses incurred in prior years.

| | For the three-month ended June 30, 2020 | June 30, 2019 | Inc (dec) Amount | % |
|---|---|---|---|---|
| Share in reported losses – net (A) | P517.0 | P459.1 | P57.9 | 13% |
| Share in loss reserves – net (B) | (133.7) | 58.0 | -191.7 | -331% |
| **Total share in loss and loss reserves (C) [A+B]** | **383.3** | **517.1** | **-133.8** | **-26%** |
| **Total earned premiums (D)** | **831.3** | **720.0** | **111.3** | **15%** |
| **Loss ratio (C/D)** | **46%** | **72%** | | |

**Commissions, net** amounted to P278.5 million, P98.5 million or 55% higher than the second quarter of 2019 which amounted to P180.0 million. Higher commissions resulted mainly from the Company's business growth and higher commission costs for certain contracts. These were partially negated by higher overriding commissions earned from our proportional retrocession facility.

**Investment and other income and expenses, net** amounted to P91.6 million, P14.8 million or 19% higher than the second quarter of 2019 which amounted to P76.8 million as investment income was higher by P18.9 million, negated by higher other expense by P4.1 million.

Investment income was higher by P18.9 million mainly due to higher gain on sale on fixed income and equity securities classified as available for sale by P28.1 million, partly negated by lower interest and dividend income by P9.2 million.

Higher other expenses by P4.1 million was due to the P14.0 million mostly from the movement in statutory reserves for a co-insurance arrangement as discussed in Accounts payable and accrued expenses, partially offset by lower foreign exchange loss by P9.9 million in 2020.

**General and administrative expenses** amounted to P60.8 million, lower by P5.2 million or 8% than the second quarter of 2019 which amounted to P66.0 million mainly due to lower manpower cost and professional fees.

**Tax expense** amounted to P48.4 million, higher by P28.8 million or 147% compared to P19.6 million on the second quarter of 2019 mainly due to higher underwriting profit.

## II. FINANCIAL CONDITIONS

| | Unaudited | Audited | Inc(dec) | |
|---|---|---|---|---|
| In Million PhP | June 30, 2020 | December 31, 2019 | Amount | % |
| CASH AND CASH EQUIVALENTS | P769.9 | P1,005.0 | (P235.1) | -23% |
| REINSURANCE BALANCES RECEIVABLE - Net | 2,754.3 | 2,608.8 | 145.5 | 6% |
| AVAILABLE-FOR-SALE FINANCIAL ASSETS | 5,452.3 | 4,945.8 | 506.5 | 10% |
| HELD-TO-MATURITY INVESTMENTS | 2,273.5 | 2,227.9 | 45.6 | 2% |
| LOANS AND RECEIVABLES | 96.6 | 80.0 | 16.6 | 21% |
| PROPERTY AND EQUIPMENT - Net | 64.4 | 70.4 | (6.0) | -9% |
| REINSURANCE RECOVERABLE ON REPORTED LOSSES | 2,292.2 | 2,288.4 | 3.8 | 0% |
| REINSURANCE RECOVERABLE ON CLAIMS RESERVES | 297.5 | 319.6 | (22.1) | -7% |
| DEFERRED ACQUISITION COSTS | 612.4 | 595.5 | 16.9 | 3% |
| DEFERRED REINSURANCE PREMIUMS | 604.0 | 454.0 | 150.0 | 33% |
| OTHER ASSETS – Net | 334.8 | 387.1 | (52.3) | -14% |
| TOTAL ASSETS | P15,551.9 | P14,982.5 | P569.4 | 4% |
| LIABILITIES AND EQUITY | | | | |
| REINSURANCE BALANCES PAYABLE | P1,339.0 | P1,185.5 | P153.5 | 13% |
| ACCOUNTS PAYABLE AND ACCRUED EXPENSES | 304.6 | 110.9 | 193.7 | 175% |
| LOSSES AND CLAIMS PAYABLE | 4,797.4 | 4,554.3 | 243.1 | 5% |
| CLAIMS RESERVES | 1,732.2 | 1,997.6 | (265.4) | -13% |
| PREMIUM RESERVES | 1,753.2 | 1,768.3 | (15.1) | -1% |
| DEFERRED REINSURANCE COMMISSIONS | 6.6 | 6.3 | 0.3 | 5% |
| TOTAL LIABILITIES | 9,933.0 | 9,622.9 | 310.1 | 3% |
| EQUITY | 5,618.9 | 5,359.6 | 259.3 | 5% |
| TOTAL LIABILITIES AND EQUITY | P15,551.9 | P14,982.5 | P569.4 | 4% |

**Cash and cash equivalents** amounting to P769.9 million decreased by P235.1 million or 23% from the balance as at December 31, 2019 of P1,005.0 million. The decrease resulted mainly from the cash used for the Company's investing activities amounting to P359.7 million, offset by the net cash from operating activities amounting to P127.7 million.

**Reinsurance balances receivables, net** amounting to P2,754.3 million increased by P145.5 million or 6% from the balance as at December 31, 2019 of P2,608.8 million. The increase resulted mainly from contracts that had longer settlement periods and growth in nonlife domestic business in 2020.

**Available for sale financial assets** amounting to P5,452.3 million increased by P506.5 million or 10% from the balance as at December 31, 2019 of P4,945.8 million. The increase was mainly due to the P2,830.7 million acquisition of debt and equity securities, partially negated by disposals amounting to P2,328.5 million.

**Loans and Receivables** amounting to P96.6 million increased by P16.6 million or 21% from the balance of P80.0 million as at December 31, 2019. The P22.3 million of the increase is temporary as a result of the sale of available for sale securities, partly negated by P5.3 million decrease in accrued interest receivable.

**Property and Equipment - net** amounting to P64.4 million decreased by P6.0 million or 9% from P70.4 million as at December 31, 2019. The decrease was mainly due to the depreciation expense recognized for the period.

**Reinsurance recoverable on claims reserves** amounting to P297.5 million decreased by P22.1 million or 7% from P319.6 million as at December 31, 2019 mainly due to favorable development on claims as discussed in the Results of operations.

**Deferred Reinsurance Premiums** amounting to P604.0 million increased by P150.0 million or 33% from the balance as at December 31, 2019 of P454.0 million resulted mainly from the Company's excess of loss facility which started from April 2020 to the first quarter of 2021.

**Other Assets – net** amounting to P334.8 million decreased by P52.3 million or 14% from the balance as at December 31, 2019 of P387.1 million mainly due to the decrease in deferred tax assets brought by the release of claims reserves as discussed in Results of operations.

**Reinsurance balances payable** amounting to P1,339.0 million increased by P153.5 million or 13% from the balance as at December 31, 2019 of P1,185.5 million due mainly to the accrual of retroceded premiums from both life and nonlife as well as the excess of loss cost with coverage period from April 1, 2020 to March 31, 2021.

**Accounts payable and accrued expenses** amounting to P304.6 million increased by P193.7 million or 175% from the balance as at December 31, 2019 of P110.9 million. The increase resulted mainly from the statutory reserves that accompanied a co-insurance arrangement entered into by the Company during the first quarter of 2020 (see Note 15 of the notes to the financial statements).

**Losses and claims payable and Claims reserves** amounting to P6,529.6 million decreased by P22.3 million from P6,551.9 million as at December 31, 2019. The decrease was due to the release of loss reserves resulting from favorable development of losses incurred in prior years, settlement of claims, and losses reported during the period. These were partially negated by increase in claims reserves for premiums earned during the period. See related discussion in Results of operations.

**Deferred reinsurance commissions** amounting to P6.6 million increased by P0.3 million or 5% from P6.3 million as at December 31, 2019. The increase resulted mainly from higher retroceded commissions consistent with the movement in retroceded premiums as discussed under Results of operations.

**Shareholders' equity** amounting to P5,618.9 million increased by P259.3 million or 5% from P5,359.6 million as at December 31, 2019. The increase resulted mainly from other comprehensive income recognized during the period amounting to P418.5 million, partially negated by net loss of P159.2 million for the period.

Other comprehensive income of P418.5 million resulted from increase in fair market value of fixed income securities amounting to P220.4 million, partially negated by decline in market value of equity securities amounting to P193.6 million, net of impairment loss for the period.

Net loss of P159.2 million for the period was due mainly to the impairment loss of P469.3 million from the Company's investment in equity securities classified as available for sale. This was partially negated by strong underwriting results of P282.1 million for the first six months of the year.

Significant components of net loss and other comprehensive income are as follows:

| Financial Statement Accounts | Profit or Loss | Other Comprehensive Income | Total Comprehensive Income |
|---|---|---|---|
| Underwriting results | P282.1 | P- | P282.1 |
| Investment and other income and expenses – net | 230.0 | - | 230.0 |
| General and administrative expenses | (130.3) | - | (130.3) |
| Fair market value of fixed income securities (AFS) | - | 220.4 | 220.4 |
| Fair market value of equity securities (AFS) – OCI | - | (275.7) | (275.7) |
| Impairment in market value of equity securities (AFS) | (469.3) | 469.3 | - |
| Other items in OCI | - | 4.6 | 4.6 |
| Tax expense | (71.7) | (0.1) | (71.8) |
| **TOTAL** | **(P159.2)** | **P418.5** | **P259.3** |

## III. KEY PERFORMANCE INDICATORS:

| | For the six-month ended June 30, 2020 | For the six-month ended June 30, 2019 | % Inc.( Dec.) |
|---|---|---|---|
| 1. Net profit/ (loss) | **(P159.2 million)** | P199.6 million | -180% |
| 2. Earnings Per Share (EPS) [a] | **(P0.075)** | P0.094 | -180% |
| 3. Retention Ratio[b] | **64%** | 73% | -12% |
| 4. Combined Ratio[c] | **90%** | 100% | -10% |
| 5. Return on Average Equity (ROE) | **-2.9%** | 4% | -173% |

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

| | **2020** | **2019** |
|---|---|---|
| Loss Ratio | **51%** | 66% |
| Commission Ratio | **31%** | 25% |
| Expense Ratio | **8%** | 9% |
| Total | **90%** | 100% |

## IV. FINANCIAL SOUNDNESS INDICATORS

| | As at June 30, 2020 | As at December 31, 2019 |
|---|---|---|
| Current Ratio | 3.10 : 1.00 | 3.56 : 1.00 |
| Asset to Equity Ratio | 2.77 : 1.00 | 2.80 : 1.00 |
| Total Liabilities/Equity | 1.77 : 1.00 | 1.80 : 1.00 |

## V. MATERIAL EVENT/S AND UNCERTAINTIES:

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

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

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

3. Material off balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

4. Any material commitments for capital expenditures.

5. Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.

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

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

## VI. FINANCIAL RISK DISCLOSURE

The Company's investments are regulated under the pertinent provisions of the Amended Insurance Code, otherwise known as Republic Act (R.A.) 10607. The Amended Insurance Code generally requires all insurance companies to obtain prior approval of the Insurance Commission (IC) for any and all investments. Further, the Company reports all investments made and sold during the previous month to the IC. The IC reviews these investment reports and may require the immediate sale or disposal of any investment found to be too risky.

A portion of the Company's funds is invested in equities. Section 207 of the Amended Insurance Code provides that insurance companies may invest in listed equities of other financial institutions without need of prior approval by the Commissioner. Beyond the provisions of the Amended Insurance Code, the Company, through its Investment Committee, has established additional guidelines to manage the risk inherent in equity investments. The Company's own investment policy requires that the Company invest only in shares of common stock of companies that are listed on the Philippine Stock Exchange. Furthermore, these listed companies must have profitable business operations and market capitalization are on a scale that would qualify them as blue chips.

The Company also invests in fixed income securities in which it attempts to manage interest rate risk by managing the duration and average maturity of its fixed income portfolio. Asset-liability duration mismatches are evaluated based on the team's outlook on interest rates vis-a-vis the duration of the Company's liabilities. The fixed income portfolio is structured such that maturity profiles align with funding needs. Moreover, investments in fixed income securities are limited only to securities issued by entities of undisputedly strong creditworthiness and to those instruments have active secondary markets to allow transparent valuation and easier liquidation as needed.

A certain portion of the Company's investments is in foreign currencies, particularly the U.S. Dollar. These investments are monitored closely and are limited largely to dollar-denominated obligations backed by the full faith and credit of the Republic of the Philippines (ROP's). Foreign currency denominated investments are reported to the BSP on a monthly basis for monitoring.

## VII. OTHER DISCLOSURE

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

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

## II. – OTHER INFORMATION

B. No other material information.

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

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

**ALLAN R. SANTOS**
*President & Chief Executive Officer*

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2020 and December 31, 2019**

*(Amounts in thousands)*

| | *Notes* | June 30, 2020 | December 31, 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | *4* | **P769,898** | P1,004,977 |
| Reinsurance balances receivable – net | *5* | **2,754,269** | 2,608,807 |
| Available–for–sale (AFS) financial assets | *6* | **5,452,291** | 4,945,753 |
| Held–to–maturity (HTM) investments | *7* | **2,273,474** | 2,227,897 |
| Loans and receivables | *8* | **96,562** | 80,012 |
| Property and equipment – net | *9* | **64,368** | 70,394 |
| Reinsurance recoverable on reported losses | *10* | **2,292,188** | 2,288,383 |
| Reinsurance recoverable on claims reserves | *10* | **297,537** | 319,606 |
| Deferred acquisition costs | *11* | **612,433** | 595,480 |
| Deferred reinsurance premiums | *12* | **604,006** | 454,040 |
| Other assets – net | *13* | **334,823** | 387,102 |
| **TOTAL ASSETS** | | **P15,551,849** | P14,982,451 |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Reinsurance balances payable | *14* | **P1,338,976** | P1,185,518 |
| Accounts payable and accrued expenses | *15* | **304,552** | 110,930 |
| Losses and claims payable | *16* | **4,797,412** | 4,554,326 |
| Claims reserves | *16* | **1,732,237** | 1,997,624 |
| Premium reserves | *17* | **1,753,221** | 1,768,249 |
| Deferred reinsurance commissions | *18* | **6,563** | 6,234 |
| **Total Liabilities** | | **9,932,961** | 9,622,881 |
| **Equity** | *22* | **5,618,888** | 5,359,570 |
| **TOTAL LIABILITIES AND EQUITY** | | **P15,551,849** | P14,982,451 |

*See Notes to the Financial Statements.*

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**

**STATEMENTS OF INCOME**

**For the six months ended June 30, 2020 and 2019**

*(Amounts in thousands, except (Loss) Earnings Per Share)*

| | *Notes* | June 30, 2020 | June 30, 2019 |
|---|---|---|---|
| **Reinsurance premium income** | | | |
| Reinsurance premiums – net of returns | | **P2,188,598** | P2,063,023 |
| Retroceded premiums | | **(787,499)** | (551,960) |
| Net premiums retained | | **1,401,099** | 1,511,063 |
| Decrease (increase) in premium reserves – net | *12,17* | **164,994** | (57,123) |
| | | **1,566,093** | 1,453,940 |
| **Underwriting deductions** | | | |
| Share in reported losses – net | *20.1* | **1,038,719** | 909,315 |
| Share in unreported loss reserves – net | *20.2* | **(243,318)** | 53,227 |
| Commissions – net | *20.3* | **488,540** | 360,836 |
| | | **1,283,941** | 1,323,378 |
| **Net underwriting income** | | **282,152** | 130,562 |
| **Investment and Other income and expenses** – net | *19* | **(239,311)** | 246,282 |
| **Profit after Investment and Other income and expenses** | | **42,841** | 376,844 |
| **General and administrative expenses** | *21* | **130,304** | 130,588 |
| **(Loss) Profit before tax** | | **(87,463)** | 246,256 |
| **Tax expense** | | **71,735** | 46,622 |
| **Net (loss) profit** | | **(P159,198)** | P199,634 |
| **(Loss) Earnings Per Share – Basic and Diluted** | *25* | **(P0.075)** | P0.094 |

*See Notes to the Financial Statements.*

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**

**STATEMENTS OF INCOME**

**For the three months ended June 30, 2020 and 2019**

*(Amounts in thousands, except Earnings Per Share)*

| | *Notes* | June 30, 2020 | June 30, 2019 |
|---|---|---|---|
| **Reinsurance premium income** | | | |
| Reinsurance premiums – net of returns | | **P1,178,733** | P1,052,803 |
| Retroceded premiums | | **(537,970)** | (389,787) |
| Net premiums retained | | **640,763** | 663,016 |
| Decrease in premium reserves – net | *12,17* | **190,618** | 57,007 |
| | | **831,381** | 720,023 |
| **Underwriting deductions** | | | |
| Share in reported losses – net | *20.1* | **516,971** | 459,108 |
| Share in unreported loss reserves – net | *20.2* | **(133,707)** | 58,067 |
| Commissions – net | *20.3* | **278,570** | 179,922 |
| | | **661,834** | 697,097 |
| **Net underwriting income** | | **169,547** | 22,926 |
| **Investment and Other income and expenses** – net | *19* | **91,622** | 76,769 |
| **Profit after Investment and Other income and expenses** | | **261,169** | 99,695 |
| **General and administrative expenses** | *21* | **60,802** | 65,976 |
| **Profit before tax** | | **200,367** | 33,719 |
| **Tax expense** | | **48,424** | 19,592 |
| **Net profit** | | **P151,943** | P14,127 |
| **Earnings Per Share – Basic and Diluted** | *25* | **P0.072** | P0.007 |

*See Notes to the Financial Statements.*

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**

**STATEMENTS OF COMPREHENSIVE INCOME**

**For the six months ended June 30, 2020 and 2019**

*(Amounts in thousands)*

| | ***Notes*** | **June 30, 2020** | June 30, 2019 |
|---|---|---|---|
| **Net (loss) profit** | | **(P159,198)** | P199,634 |
| **Other comprehensive income** | | | |
| Items that are and will be reclassified subsequently to profit or loss | | | |
| Fair value gains during the period | *6* | **9,188** | 292,886 |
| Amortization of unrealized gains on reclassified HTM securities to profit or loss | | **4,570** | 4,722 |
| Fair value gains on disposal of AFS financial assets reclassified to profit or loss | *6* | **(64,413)** | (87,813) |
| Fair value losses on impairment of AFS financial assets reclassified to profit or loss | *6* | **469,312** | – |
| Income tax effect | | **(141)** | (69) |
| **Total other comprehensive income** | | **418,516** | 209,726 |
| **Total comprehensive income** | | **P259,318** | P409,360 |

*See Notes to the Financial Statements.*

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**

**STATEMENTS OF COMPREHENSIVE INCOME**

**For the three months ended June 30, 2020 and 2019**

*(Amounts in thousands)*

| | *Notes* | **June 30, 2020** | June 30, 2019 |
|---|---|---|---|
| **Net profit** | | **P151,943** | P14,127 |
| **Other comprehensive income** | | | |
| Items that are and will be reclassified subsequently to profit or loss | | | |
| Fair value gains during the period | *6* | **493,543** | 80,054 |
| Amortization of unrealized gains on reclassified HTM securities to profit or loss | | **2,268** | 2,488 |
| Fair value gains on disposal of AFS financial assets reclassified to profit or loss | *6* | **(38,680)** | (10,485) |
| Income tax effect | | **(126)** | (72) |
| **Total other comprehensive income** | | **457,005** | 71,985 |
| **Total comprehensive income** | | **P608,948** | P86,112 |

*See Notes to the Financial Statements.*

# NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
## STATEMENTS OF CHANGES IN EQUITY
### For the periods ended June 30, 2020 and 2019
*(Amounts in thousands)*

| | | Capital Stock | | | | Revaluation Reserves | | | Retained Earnings | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | ***Notes*** | **No. of shares *(in thousands)*** | **Amount** | **Additional Paid–in Capital** | **Treasury Shares at Cost** | **AFS Financial Assets** | **HTM Investments** | **Defined Benefit Liability** | **Appropriated** | **Unappropriated** | **Total Equity** |
| **Balance at January 1, 2020** | | **2,181,955** | **P2,181,955** | **P3,019,218** | **(P100,525)** | **(P390)** | **(P75,537)** | **(P69,415)** | **P43,408** | **P360,856** | **P5,359,570** |
| Net loss | | | | | | | | | | **(159,198)** | **(159,198)** |
| Other comprehensive income: | | | | | | | | | | | |
| Item that are and will be reclassified subsequently to profit or loss | | | | | | **413,946** | **4,570** | **–** | | | **418,516** |
| Total comprehensive income | *6* | **–** | **–** | **–** | **–** | **413,946** | **4,570** | **–** | **–** | **(159,198)** | **259,318** |
| **Balance at June 30, 2020** | | **2,181,955** | **P2,181,955** | **P3,019,218** | **(P100,525)** | **P413,556** | **(P70,967)** | **(P69,415)** | **P43,408** | **P201,658** | **P5,618,888** |
| Balance at January 1, 2019 | | 2,181,955 | P2,181,955 | P3,019,218 | (P100,525) | (P369,023) | (P85,047) | (P67,601) | P27,736 | P219,810 | P4,826,523 |
| Net income | | | | | | | | | | 199,634 | 199,634 |
| Other comprehensive income: | | | | | | | | | | | |
| Item that are and will be reclassified subsequently to profit or loss | | | | | | 205,004 | 4,722 | – | | | 209,726 |
| Total comprehensive income | 6 | – | – | – | – | 205,004 | 4,722 | – | – | 199,634 | 409,360 |
| Balance at June 30, 2019 | | 2,181,955 | P2,181,955 | P3,019,218 | (P100,525) | (P164,019) | (P80,325) | (P67,601) | P27,736 | P419,444 | P5,235,883 |

*See Notes to the Financial Statements.*

## NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

**STATEMENTS OF CASH FLOWS**

**For the six months ended June 30, 2020 and 2019**

*(Amounts in thousands)*

| | ***Notes*** | **June 30, 2020** | June 30, 2019 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| (Loss) profit before tax | | **(P87,463)** | P246,256 |
| Adjustments for: | | | |
| (Decrease) increase in premium reserves – net | *12, 17* | **(164,994)** | 57,123 |
| Increase in share in reported losses | | **51,449** | 37,869 |
| (Decrease) increase in share in loss reserves | *10, 16* | **(243,318)** | 53,227 |
| Increase in deferred acquisition costs – net | *11, 18* | **(16,624)** | (45,629) |
| Impairment losses – net | *6* | **469,312** | – |
| Depreciation and amortization | *21* | **10,165** | 10,971 |
| Unrealized foreign currency (gain) loss | | **(1,747)** | 22,953 |
| Dividend income | *19* | **(30,517)** | (27,983) |
| Gain on sale of AFS financial assets | *19* | **(64,413)** | (87,813) |
| Interest income | *19* | **(150,786)** | (156,481) |
| Operating (loss) income before working capital changes | | **(228,936)** | 110,493 |
| Decrease (Increase) in: | | | |
| Reinsurance balances receivable – net | | **(158,979)** | (220,380) |
| Loans and receivables | | **(20,505)** | 9,699 |
| Reinsurance recoverable on unpaid losses | | **15,655** | 217,303 |
| Other assets – net | | **9,832** | (4,853) |
| Increase (Decrease) in: | | | |
| Reinsurance balances payable | | **156,343** | 121,753 |
| Accounts payable and accrued expenses | | **224,851** | 56,925 |
| Losses and claims payable | | **194,998** | (162,383) |
| Cash generated from operations | | **193,259** | 128,557 |
| Cash paid for income taxes | | **(65,554)** | (37,637) |
| **Net Cash From Operating Activities** | | **P127,705** | P90,920 |

*Forward*

| | Notes | | |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from disposal/maturities of: | | | |
| AFS financial assets | *6* | **P2,328,525** | P1,321,113 |
| HTM investments | | **109,997** | – |
| Interest received | | **155,664** | 211,245 |
| Dividends received | | **29,192** | 26,933 |
| Acquisitions of: | | | |
| AFS financial assets | *6* | **(2,830,666)** | (1,472,097) |
| Property and equipment | *9* | **(856)** | (6,035) |
| HTM investments | *7* | **(150,588)** | (370,293) |
| Intangible assets | *13* | **(1,013)** | (73) |
| **Net Cash Used in Investing Activities** | | **(359,745)** | (289,207) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(232,040)** | (198,287) |
| **EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS** | | **(3,039)** | (3,027) |
| **CASH AND CASH EQUIVALENTS – January 1** | | **1,004,977** | 1,161,899 |
| **CASH AND CASH EQUIVALENTS – June 30** | | **P769,898** | P960,585 |

*See Notes to the Financial Statements*

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**

**STATEMENTS OF CASH FLOWS**

**For the three months ended June 30, 2020 and 2019**

*(Amounts in thousands)*

| | *Notes* | June 30, 2020 | June 30, 2019 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **P200,367** | P33,719 |
| Adjustments for: | | | |
| Increase in premium reserves – net | *12, 17* | **(190,618)** | (57,007) |
| Increase in share in reported losses | | **48,377** | 17,396 |
| (Decrease) increase in share in loss reserves | *10, 16* | **(133,707)** | 58,067 |
| Increase in deferred acquisition costs – net | *11, 18* | **(29,881)** | (26,665) |
| Depreciation and amortization | *21* | **4,756** | 5,493 |
| Unrealized foreign currency loss | | **14,314** | 24,793 |
| Dividend income | *19* | **(8,088)** | (9,839) |
| Gain on sale of AFS financial assets | *19* | **(38,680)** | (10,485) |
| Interest income | *19* | **(74,120)** | (81,601) |
| Operating loss before working capital changes | | **(207,280)** | (46,129) |
| Decrease (Increase) in: | | | |
| Reinsurance balances receivable – net | | **(250,861)** | (191,515) |
| Loans and receivables | | **18,020** | 39,945 |
| Reinsurance recoverable on unpaid losses | | **8,597** | 215,287 |
| Other assets – net | | **9,472** | 776 |
| Increase (Decrease) in: | | | |
| Reinsurance balances payable | | **371,964** | 243,148 |
| Accounts payable and accrued expenses | | **8,766** | 53,865 |
| Losses and claims payable | | **59,014** | (252,230) |
| Cash generated from operations | | **17,692** | 63,147 |
| Cash paid for income taxes | | **(46,750)** | (17,478) |
| **Net Cash (Used in) From Operating Activities** | | **(P29,058)** | P45,669 |

*Forward*

| | *Notes* | | |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from disposal/maturities of: | | | |
| AFS financial assets | *6* | **P775,598** | P411,558 |
| HTM investments | | **109,997** | – |
| Interest received | | **47,340** | 131,238 |
| Dividends received | | **18,027** | 13,695 |
| Acquisitions of: | | | |
| AFS financial assets | *6* | **(1,021,419)** | (925,759) |
| Property and equipment | *9* | **(353)** | (507) |
| HTM investments | *7* | **–** | (153,949) |
| Intangible assets | *13* | **(506)** | – |
| **Net Cash Used in Investing Activities** | | **(71,316)** | (523,724) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(100,374)** | (478,055) |
| **EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS** | | **(4,397)** | (3,911) |
| **CASH AND CASH EQUIVALENTS – April 1** | | **874,669** | 1,442,551 |
| **CASH AND CASH EQUIVALENTS – June 30** | | **P769,898** | P960,585 |

*See Notes to the Financial Statements*

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**
**NOTES TO FINANCIAL STATEMENTS**
***(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 31st Floor BPI–Philam Life Makati, 6811 Ayala Avenue, Makati City.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are consistent with those followed in the preparation of the Company's financial statements as at and for the year ended December 31, 2019, except for adoption of new and amended standards, as summarized below and in the succeeding pages.

### *2.1 Basis of Preparation of Financial Statements*

*(a) Statement of Compliance with Philippine Financial Reporting Standards*

The accompanying interim condensed financial statements of the Company have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. Accordingly, the condensed financial statements do not include all of the information and disclosures required in the December 31, 2019 audited financial statements, and should be read in conjunction with the Company's audited financial statements as at and for the year ended December 31, 2019.

*(b) Basis of Measurement*

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

*(c)* *Functional and Presentation Currency*

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

Items included in the interim condensed 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 2020 that are Relevant to the Company*

A number of new and amended standards became applicable for the current reporting period. Management adopted 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. Management is still assessing the impact of the amendment.

- 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.

*(b) Effective in 2019 that are Relevant to the Company*

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

  For lessees, it requires to account for leases "on–balance sheet" by recognizing a "right of use" (ROU) asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non–cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right–of–use" asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to a financial liability using the effective interest method.

  However, the new standard provides important reliefs or exemptions for short–term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight–line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

  The Company applied the standard from its mandatory adoption date of January 1, 2019. The impact of the adoption of the new leasing standard and the new accounting policies are disclosed under Note 2.18.

*(c) 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:

- 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 the 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.

As at June 30, 2020, the fair value of the financial assets with contractual terms that give rise to cash flows that are solely for payments of principal and interest amounted to P10.54 billion with increase in fair value amounting to P398.47 million. The fair value of other financial assets amounted to P1.52 billion with decrease in fair value amounting to P237.49 million.

The table below provides information regarding the credit risk exposure of the Company's financial assets as at June 30, 2020 by classifying assets according to the Company's credit grading of counterparties:

| | Neither Past Due nor Impaired | | | | |
|---|---|---|---|---|---|
| | Investment High Grade | Non–investment Grade | Past Due but not Impaired | Impaired | Total |
| Cash and cash equivalents | P769,898 | P– | P– | P– | P769,898 |
| Reinsurance balances receivable | 1,686,200 | 661,595 | 406,474 | 598,932 | 3,353,201 |
| AFS financial assets – debt securities | 3,900,815 | – | – | – | 3,900,815 |
| HTM investments | 2,273,474 | – | – | – | 2,273,474 |
| Loans and receivables | 67,567 | 28,995 | – | – | 96,562 |
| Funds at Lloyd's | 147,860 | – | – | – | 147,860 |
| Other assets | 1,331 | – | – | – | 1,331 |
| | P8,847,145 | P690,590 | P406,474 | P598,932 | P10,543,141 |

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.

- PFRS 17, *Insurance Contracts* (effective January 1, 2023) but deferred until two years after its effective date as decided by International Accounting Standards Board (IASB) under Insurance Commission (IC) Circular Letter (CL) No. 2020–62, *Amendments to Sec. 1 of CL No. 2018–69; Deferral of IFRS 17 Implementation.* 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, Held–to–Maturity (HTM) investments and Available–for–Sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

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

As at June 30, 2020 and December 31, 2019, 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 contracts using the 24th 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 24th method [see Note 2.16 (a)]. The net change in the account between each end of reporting periods are recognized as Increase (decrease) in 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 represent 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 purchases 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 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 19].

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 June 30, 2020 and 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 contracts using the $24^{th}$ method [see Note 2.16 (a)].

*Liability Adequacy Test*

Liability adequacy tests are performed at end of each reporting period, to ensure the adequacy of premium reserves. The test is performed by comparing the UPR, net of related 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 contracts using the 24th 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$^{th}$ method. The 24$^{th}$ 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$^{th}$ of the net premiums are considered earned in the month the reinsurance contracts are issued and 2/24$^{th}$ for every month thereafter (or 1/24$^{th}$ for every 15–day period after the issue month).

The portion of the gross reinsurance premiums that relates to the unexpired periods of the 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 transfer 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 24th 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*

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 assesses 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.

### *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 19).

### *2.20 Impairment of Non–financial Assets*

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

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

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

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

### *2.21 Employee Benefits*

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

*Defined Benefit Plan*

*(a)* 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.

### *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 below and 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 as at June 30, 2020 and June 30, 2019, impairment is P469.31 million and nil, respectively. 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.

*(b) Classification of Financial Instruments*

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

As at June 30, 2020 and December 31, 2019, the Company classified its financial instruments as AFS financial assets, HTM investments, loans and receivables, and other financial liabilities.

*(c) Recognition of Provisions and Contingencies*

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

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

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 5.

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

*(b) Fair Value Measurement of AFS Financial Assets*

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

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

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

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

The carrying amount of property and equipment is analyzed in Note 9, and of investment properties and intangible assets in Note 13. Based on management's assessment as at June 30, 2020 and December 31, 2019, 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 June 30, 2020 and December 31, 2019, the Company recognized net deferred tax assets amounting to P126.20 million and P167.52 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 P681.15 million and P641.23 million as at June 30, 2020 and December 31, 2019, respectively.

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

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

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

*(g) Determination of Appropriate Discount Rate in Measuring Lease Liabilities*

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 by 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.

(h) *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.

The following tables show the estimates of cumulative incurred claims, gross of retrocession, for each underwriting year at each reporting date, together with cumulative claims paid at June 30, 2020 and December 31, 2019, net of foreign exchange revaluation of P21.18 million and P50.33 million, respectively.

**June 30, 2020**

| Underwriting Year | 2010 and prior | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At the end of the financial year | P– | P446,197 | P846,131 | P1,517,806 | P278,093 | P720,430 | P900,312 | P1,138,057 | P1,156,134 | P1,290,466 | P241,529 | P241,529 |
| One year later | – | 2,285,183 | 1,479,571 | 2,474,672 | 692,265 | 1,286,124 | 1,659,396 | 1,936,767 | 2,289,508 | 2,087,153 | – | 2,087,153 |
| Two years later | – | 2,444,928 | 1,553,907 | 2,756,250 | 663,639 | 1,239,501 | 1,541,089 | 2,064,256 | 2,330,597 | – | – | 2,330,597 |
| Three years later | – | 3,754,928 | 1,676,474 | 2,643,911 | 605,379 | 1,221,244 | 1,346,228 | 2,082,881 | – | – | – | 2,082,881 |
| Four years later | – | 3,837,886 | 1,701,021 | 2,559,103 | 538,642 | 1,166,945 | 1,282,351 | – | – | – | – | 1,282,351 |
| Five years later | – | 3,821,055 | 1,654,200 | 2,400,590 | 572,946 | 1,172,888 | – | – | – | – | – | 1,172,888 |
| Six years later | – | 3,796,121 | 1,609,999 | 2,399,282 | 574,726 | – | – | – | – | – | – | 574,726 |
| Seven years later | – | 3,806,755 | 1,609,110 | 2,419,661 | – | – | – | – | – | – | – | 2,419,661 |
| Eight years later | – | 3,790,200 | 1,610,920 | – | – | – | – | – | – | – | – | 1,610,920 |
| Nine years later | – | 3,827,706 | – | – | – | – | – | – | – | – | – | 3,827,706 |
| Ten years later | 3,047,122 | – | – | – | – | – | – | – | – | – | – | 3,047,122 |
| Estimate of cumulative claims | P3,047,122 | P3,827,706 | P1,610,920 | P2,419,661 | P574,726 | P1,172,888 | P1,282,351 | P2,082,881 | P2,330,597 | P2,087,153 | P241,529 | P20,677,534 |
| Cumulative payments to date | 1,299,133 | 3,672,097 | 1,400,456 | 1,638,773 | 486,322 | 1,133,995 | 833,018 | 1,583,026 | 1,577,824 | 539,146 | 5,566 | 14,169,356 |
| Total current estimate of loss reserves | P1,747,989 | P155,609 | P210,464 | P780,888 | P88,404 | P38,893 | P449,333 | P499,855 | P752,773 | P1,548,007 | P235,963 | P6,508,178 |

December 31, 2019

| Underwriting Year | 2009 and prior | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At the end of the financial year | P– | P364,594 | P446,197 | P846,131 | P1,517,806 | P278,093 | P720,430 | P900,312 | P1,138,057 | P1,156,134 | P1,305,733 | P1,305,733 |
| 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 | 2,291,601 | – | 2,291,601 |
| Two years later | – | 870,396 | 2,444,928 | 1,553,907 | 2,756,250 | 663,639 | 1,239,501 | 1,541,089 | 2,108,170 | – | – | 2,108,170 |
| Three years later | – | 908,425 | 3,754,928 | 1,676,474 | 2,643,911 | 605,379 | 1,221,244 | 1,381,995 | – | – | – | 1,381,995 |
| Four years later | – | 996,770 | 3,837,886 | 1,701,021 | 2,559,103 | 538,642 | 1,167,959 | – | – | – | – | 1,167,959 |
| Five years later | – | 1,040,042 | 3,821,055 | 1,654,200 | 2,400,590 | 572,579 | – | – | – | – | – | 572,579 |
| Six years later | – | 1,022,502 | 3,796,121 | 1,609,999 | 2,401,038 | – | – | – | – | – | – | 2,401,038 |
| Seven years later | – | 943,528 | 3,806,755 | 1,610,589 | – | – | – | – | – | – | – | 1,610,589 |
| Eight years later | – | 917,084 | 3,827,643 | – | – | – | – | – | – | – | – | 3,827,643 |
| Nine years later | – | 926,254 | – | – | – | – | – | – | – | – | – | 926,254 |
| Ten years later | 2,112,591 | – | – | – | – | – | – | – | – | – | – | 2,112,591 |
| Estimate of cumulative claims | 2,112,591 | 926,254 | 3,827,643 | 1,610,589 | 2,401,038 | 572,579 | 1,167,959 | 1,381,995 | 2,108,170 | 2,291,601 | 1,305,733 | 19,706,152 |
| 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 | P1,675,345 | P72,151 | P157,842 | P211,331 | P778,691 | P93,116 | P35,637 | P563,547 | P619,506 | P1,131,676 | P1,162,782 | P6,501,624 |

The following tables show the estimates of cumulative incurred claims, net of retrocession, for each underwriting year at each reporting date, together with cumulative claims paid at June 30, 2020 and December 31, 2019, net of foreign exchange revaluation of P17.81 million and P26.19 million, respectively.

**June 30, 2020**

| Underwriting Year | 2010 and prior | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **At the end of the financial year** | P– | P388,456 | P752,041 | P871,508 | P213,369 | P408,903 | P611,372 | P1,019,477 | P974,497 | P1,104,462 | P195,286 | P195,286 |
| **One year later** | – | 580,212 | 1,166,414 | 1,316,239 | 530,461 | 633,978 | 1,300,749 | 1,852,647 | 2,026,991 | 1,802,717 | – | 1,802,717 |
| **Two years later** | – | 587,782 | 1,233,206 | 1,058,624 | 540,712 | 609,307 | 1,298,378 | 1,939,580 | 2,019,234 | – | – | 2,019,234 |
| **Three years later** | – | 1,257,465 | 1,127,832 | 1,083,323 | 517,872 | 602,258 | 1,275,113 | 1,968,120 | – | – | – | 1,968,120 |
| **Four years later** | – | 1,256,110 | 1,149,516 | 1,162,020 | 484,850 | 567,379 | 1,247,948 | – | – | – | – | 1,247,948 |
| **Five years later** | – | 1,279,786 | 1,088,884 | 1,140,621 | 507,988 | 566,953 | – | – | – | – | – | 566,953 |
| **Six years later** | – | 1,287,779 | 1,067,683 | 1,136,074 | 505,043 | – | – | – | – | – | – | 505,043 |
| **Seven years later** | – | 1,298,717 | 1,079,424 | 1,132,913 | – | – | – | – | – | – | – | 1,132,913 |
| **Eight years later** | – | 1,281,610 | 1,108,184 | – | – | – | – | – | – | – | – | 1,108,184 |
| **Nine years later** | – | 1,320,075 | – | – | – | – | – | – | – | – | – | 1,320,075 |
| **Ten years later** | 1,369,992 | – | – | – | – | – | – | – | – | – | – | 1,369,992 |
| **Estimate of cumulative claims** | 1,369,992 | 1,320,075 | 1,108,184 | 1,132,913 | 505,043 | 566,953 | 1,247,948 | 1,968,120 | 2,019,234 | 1,802,717 | 195,286 | 13,236,465 |
| **Cumulative payments to date** | 651,078 | 1,236,572 | 1,068,879 | 1,071,880 | 439,375 | 544,649 | 1,114,869 | 1,522,472 | 1,386,192 | 420,993 | 5,815 | 9,462,774 |
| **Total current estimate of loss reserves** | P718,914 | P83,503 | P39,305 | P61,033 | P65,668 | P22,304 | P133,079 | P445,648 | P633,042 | P1,381,724 | P189,471 | P3,773,691 |

December 31, 2019

| Underwriting Year | 2009 and prior | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 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 | P1,127,963 | P1,127,963 |
| One year later | – | 482,633 | 580,212 | 1,166,414 | 1,316,239 | 530,461 | 633,978 | 1,300,749 | 1,852,647 | 2,025,632 | – | 2,025,632 |
| Two years later | – | 507,762 | 587,782 | 1,233,206 | 1,058,624 | 540,712 | 609,307 | 1,298,378 | 1,982,974 | – | – | 1,982,974 |
| Three years later | – | 482,904 | 1,257,465 | 1,127,832 | 1,083,323 | 517,872 | 602,258 | 1,302,481 | – | – | – | 1,302,481 |
| Four years later | – | 566,961 | 1,256,110 | 1,149,516 | 1,162,020 | 484,850 | 564,843 | – | – | – | – | 564,843 |
| Five years later | – | 596,987 | 1,279,786 | 1,088,884 | 1,140,621 | 506,501 | – | – | – | – | – | 506,501 |
| Six years later | – | 585,752 | 1,287,779 | 1,067,683 | 1,136,306 | – | – | – | – | – | – | 1,136,306 |
| Seven years later | – | 489,932 | 1,298,717 | 1,080,044 | – | – | – | – | – | – | – | 1,080,044 |
| Eight years later | – | 462,883 | 1,318,657 | – | – | – | – | – | – | – | – | 1,318,657 |
| Nine years later | – | 468,869 | – | – | – | – | – | – | – | – | – | 468,869 |
| Ten years later | 878,278 | – | – | – | – | – | – | – | – | – | – | 878,278 |
| Estimate of cumulative claims | 878,278 | 468,869 | 1,318,657 | 1,080,044 | 1,136,306 | 506,501 | 564,843 | 1,302,481 | 1,982,974 | 2,025,632 | 1,127,963 | 12,392,548 |
| 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 | P649,149 | P50,258 | P84,378 | P12,182 | P80,302 | P68,893 | P19,964 | P183,762 | P554,817 | P981,204 | P1,045,356 | P3,730,265 |

As at June 30, 2020 and December 31, 2019, the carrying value of provision for claims reported and IBNR losses are recognized as Losses and claims payable and Claims reserves in the statements of financial position (see Note 16).

## 4. CASH AND CASH EQUIVALENTS

This account consists of:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Cash on hand and in banks | **P131,472** | P95,503 |
| Short–term placements | **638,426** | 909,474 |
| | **P769,898** | P1,004,977 |

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 19).

Peso short–term placements earn annual interest ranging from 0.22% to 3.50% in 2020 and from 2.75% to 7.15% in 2019, while U.S. dollar short–term placements earn annual interest ranging from 0.13% to 1.88% in 2020 and 1.60% to 2.40% in 2019.

The Cash and cash equivalents account includes cash denominated in U.S. dollar amounting to $3.47 million or P172.98 million and $4.59 million or P233.04 million as at June 30, 2020 and December 31, 2019, respectively.

## 5. REINSURANCE BALANCES RECEIVABLE

The details of this account are as follows:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Due from ceding companies | **P2,822,732** | P2,739,387 |
| Due from reinsurers | **1,261** | 1,261 |
| Reinsurance recoverable on paid losses | **373,988** | 344,609 |
| Funds held by ceding companies | **155,220** | 101,631 |
| | **3,353,201** | 3,186,888 |
| Allowance for impairment | **(598,932)** | (578,081) |
| | **P2,754,269** | P2,608,807 |

The movements in these accounts are as follows:

| | June 30, 2020 | | | | |
|---|---|---|---|---|---|
| | **Due from ceding companies** | **Due from reinsurers** | **Reinsurance recoverable on paid losses** | **Funds held by ceding companies** | **Total** |
| Balance at beginning of period | **P2,739,387** | **P1,261** | **P344,609** | **P101,631** | **P3,186,888** |
| Loss recoveries during the period | **–** | **–** | **203,596** | **–** | **203,596** |
| Premiums written net of funds held during the period | **2,023,305** | **–** | **–** | **–** | **2,023,305** |
| Funds held during the period | **–** | **–** | **–** | **165,293** | **165,293** |
| Reclassified to Due from ceding companies | **109,994** | **–** | **–** | **(109,994)** | **–** |
| Collections during the period | **(2,038,413)** | **–** | **(169,871)** | **–** | **(2,208,284)** |
| Revaluation adjustment | **(11,541)** | **–** | **(4,346)** | **(1,710)** | **(17,597)** |
| | **2,822,732** | **1,261** | **373,988** | **155,220** | **3,353,201** |
| Allowance for impairment | **(220,973)** | **(1,261)** | **(353,828)** | **(22,870)** | **(598,932)** |
| Balance at end of period | **P2,601,759** | **P–** | **P20,160** | **P132,350** | **P2,754,269** |

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Due from ceding companies | Due from reinsurers | Reinsurance recoverable on paid losses | Funds held by ceding companies | Total |
| Balance at beginning of year | P2,444,102 | P25,568 | P372,202 | P75,688 | P2,917,560 |
| 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 | P2,517,399 | P– | P12,647 | P78,761 | P2,608,807 |

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 June 30, 2020 and December 31, 2019 is shown below.

| | June 30, 2020 | | | | |
|---|---|---|---|---|---|
| | **Due from ceding companies** | **Due from reinsurers** | **Reinsurance recoverable on paid losses** | **Funds held by ceding companies** | **Total** |
| Balance at beginning of period | **P221,988** | **P1,261** | **P331,962** | **P22,870** | **P578,081** |
| Reclassification | **(1,019)** | **–** | **25,949** | **–** | **24,930** |
| Revaluation | **4** | **–** | **(4,083)** | **–** | **(4,079)** |
| Balance at end of year | **P220,973** | **P1,261** | **P353,828** | **P22,870** | **P598,932** |

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Due from ceding companies | Due from reinsurers | Reinsurance recoverable on paid losses | Funds held by ceding companies | Total |
| Balance at beginning of period | P265,287 | P– | P348,020 | P24,131 | P637,438 |
| Reclassification | (42,360) | 1,261 | (13,637) | (1,261) | (55,997) |
| Revaluation | (939) | – | (2,421) | – | (3,360) |
| Balance at end of year | P221,988 | P1,261 | P331,962 | P22,870 | P578,081 |

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.

In 2020, the Company reclassified allowance for impairment on Reinsurance recoverable on reported losses to Reinsurance balances receivable amounting to P24.93 million.

## 6. AVAILABLE–FOR–SALE FINANCIAL ASSETS

This account is composed of the following:

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| Debt securities | **P3,900,815** | P3,479,780 |
| Equity securities – net | **1,517,855** | 1,432,375 |
| Investment in ARC shares | **33,621** | 33,598 |
| | **P5,452,291** | P4,945,753 |

Debt securities include investments in corporate bonds and government securities.

Debt securities earn interest at annual rates ranging from 2.10% to 8.00% in 2020 and 2.13% to 8.00% in 2019. Interest income is presented as part of Investment and Other income and expenses account in the statements of income (see Note 19).

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

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| Due within one year | **P370,023** | P279,298 |
| Due after one year through five years | **1,499,622** | 1,542,863 |
| Due after five years through ten years | **995,257** | 970,427 |
| Due after ten years | **1,035,913** | 687,192 |
| | **P3,900,815** | P3,479,780 |

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

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| Cost: | | |
| Quoted in the stock exchange | **P1,378,629** | P1,486,032 |
| Not quoted in the stock exchange | **15,507** | 15,517 |
| | **1,394,136** | 1,501,549 |
| Unrealized foreign currency gains (losses) | **(129)** | 95 |
| Fair value losses: | | |
| Quoted in the stock exchange | **129,707** | (63,460) |
| Not quoted in the stock exchange | **(5,859)** | (5,809) |
| | **123,848** | (69,269) |
| | **P1,517,855** | P1,432,375 |

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 19).

The shares of ARC have been issued in the name of the Government of the Philippines (GoP) as the Philippine government's participation in the joint undertaking of Asian countries to organize a reinsurance company that will service the needs of the region. The GoP assigned such shares, including any interest accruing thereon, to the Company.

The GoP designated the Company as the national institution authorized to subscribe and pay for the said shares of stock. The shares of stock of ARC, while not for sale, were classified under this category since these do not qualify for inclusion in any other categories of financial assets. The fair value of investment in ARC shares amounted to P33.62 million and P33.60 million as at June 30, 2020 and December 31, 2019, respectively.

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

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| **Cost** | | |
| Balance at beginning of period | **P4,943,678** | P4,946,329 |
| Acquisitions | **2,830,666** | 2,848,452 |
| Disposals/maturities | **(2,264,112)** | (2,782,990) |
| Impairment losses | **(469,312)** | (57,511) |
| Unrealized foreign currency losses | **(4,791)** | (10,602) |
| | **5,036,129** | 4,943,678 |
| **Fair value adjustment** | | |
| Balance at beginning of period | **2,075** | (366,377) |
| Changes in fair value | **9,188** | 390,713 |
| Fair value gains on disposal | **(64,413)** | (79,772) |
| Impairment losses | **469,312** | 57,511 |
| | **416,162** | 2,075 |
| Balance at end of period | **P5,452,291** | P4,945,753 |

Fair value gains recognized in the statements of comprehensive income amounted to P9.02 million and P292.89 million in 2020 and 2019, respectively.

The Company sold AFS financial assets with carrying amount of P2.26 billion and P1.23 billion for the six months ended June 30, 2020 and 2019, respectively.

Accordingly, the Company recognized gain on sale of AFS financial assets amounting to P64.41 million and P87.81 million in 2020 and 2019, respectively. These are presented as part of Investment and Other income and expenses account in the statements of income (see Note 19).

Fair value losses of P404.90 million and fair value gains of P87.81 million, as presented in the statements of comprehensive income, were reclassified to profit or loss in 2020 and 2019, respectively.

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

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 31, 2020, the index of the local stock market dropped to 5,321.23 points which resulted in decline in market value of the Company's equity securities. As a result, the Company recognized impairment loss amounting to P469.31 million. During this period, the Philippine government and the Bangko Sentral ng Pilipinas have reacted with monetary interventions designed to stabilize the economic condition of the country.

For the period from April 1 to June 30, 2020, the PSE index has partially recovered to 6,207.72 points and the decline in the fair market value of the Company's investment in equity securities that is classified as available for sale has partially recovered by P159.04 million. During the same period, the fair market value of the Company's fixed income securities appreciated by P295.70 million.

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 to mitigate the further negative impact of the outbreak to the Company's business and to its financial condition and performance.

## 7. HELD–TO–MATURITY INVESTMENTS

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

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| Balance at beginning of period | **P2,227,897** | P1,848,693 |
| Additions | **150,588** | 722,206 |
| Maturities | **(109,997)** | (338,672) |
| Amortization | **4,986** | (4,330) |
| Balance at end of period | **P2,273,474** | P2,227,897 |

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

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| Due within one year | **P585,045** | P480,142 |
| Due after one year through five years | **863,027** | 1,001,456 |
| Due after five years through ten years | **748,093** | 746,299 |
| Due after ten years | **77,309** | – |
| | **P2,273,474** | P2,227,897 |

## 8. LOANS AND RECEIVABLES

This account is comprised of the following:

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| Current: | | |
| Loans and notes receivable | **P24,060** | P2,487 |
| Dividend and interest receivable | **67,567** | 71,535 |
| | **91,627** | 74,022 |
| Non–current: | | |
| Loans and notes receivable | **4,935** | 5,990 |
| | **P96,562** | P80,012 |

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%.

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

The carrying value of these financial assets approximate their fair value as the interest rates approximate the prevailing market interest rates. No impairment loss was recorded for loans and receivables in 2020 and 2019.

## 9. PROPERTY AND EQUIPMENT

A reconciliation of the carrying amount at the beginning and end of June 30, 2020 and December 31, 2019 of property and equipment is shown below.

| | June 30, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | **Condominium Unit** | **Office Improvements** | **Office Furniture and Equipment** | **Transportation Equipment** | **EDP Equipment** | **Total** |
| Cost | | | | | | |
| Balance at beginning of period | **P101,310** | **P25,241** | **P11,225** | **P12,585** | **P17,870** | **P168,231** |
| Additions | **–** | **–** | **–** | **–** | **856** | **856** |
| Disposal/retirement | **–** | **–** | **–** | **(589)** | **–** | **(589)** |
| Balance at end of period | **101,310** | **25,241** | **11,225** | **11,996** | **18,726** | **168,498** |
| Accumulated Depreciation | | | | | | |
| Balance at beginning of period | **68,103** | **5,154** | **7,042** | **6,390** | **11,148** | **97,837** |
| Depreciation | **1,689** | **1,261** | **702** | **1,185** | **2,045** | **6,882** |
| Disposal/retirement | **–** | **–** | **–** | **(589)** | **–** | **(589)** |
| Balance at end of period | **69,792** | **6,415** | **7,744** | **6,986** | **13,193** | **104,130** |
| Net Book Value | **P31,518** | **P18,826** | **P3,481** | **P5,010** | **P5,533** | **P64,368** |

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Condominium Unit | Office Improvements | Office Furniture and Equipment | Transportation Equipment | EDP Equipment | Total |
| Cost | | | | | | |
| Balance at beginning of year | P101,310 | P25,234 | P11,183 | P11,906 | P14,406 | P164,039 |
| 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 |
| Accumulated Depreciation | | | | | | |
| 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 |
| Net Book Value | P33,207 | P20,087 | P4,183 | P6,195 | P6,722 | P70,394 |

The original cost of fully depreciated property and equipment that are still in use amounted to P11.32 million and P9.88 million as at June 30, 2020 and December 31, 2019, respectively.

ROU assets capitalized are recognized as part of EDP Equipment. As at June 30, 2020 and December 31, 2019, ROU assets and Lease liability amounted to P1.56 million and P2.88 million, respectively.

Depreciation associated with ROU assets amounted to P1.32 million in 2020 and P2.64 million in 2019.

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

The movement in the accounts follows:

| | Reinsurance recoverable on reported losses | Reinsurance recoverable on claims reserves |
|---|---|---|
| **June 30, 2020** | | |
| Balance at beginning of period | **P2,412,386** | **P319,606** |
| Claims reported during the period | **188,795** | **–** |
| Transferred to reinsurance recoverable on paid losses | **(203,596)** | **–** |
| Claims incurred but not reported, net of adjustments | **–** | **(22,069)** |
| Revaluation adjustment | **(6,324)** | **–** |
| | **2,391,261** | **297,537** |
| Allowance for impairment | **(99,073)** | **–** |
| Balance at end of period | **P2,292,188** | **P297,537** |
| | | |
| December 31, 2019 | | |
| Balance at beginning of year | P2,442,548 | P319,048 |
| Claims reported during the year | 239,556 | – |
| Transferred to reinsurance recoverable 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 | P2,288,383 | P319,606 |

All the Company's reinsurance recoverable on reported losses and claims reserves have been reviewed for indicators of impairment.

## 11. DEFERRED ACQUISITION COSTS

The movements in this account are as follows:

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| Balance at beginning of period | **P595,480** | P405,104 |
| Cost deferred | **519,620** | 1,177,086 |
| Cost recognized | **(502,667)** | (986,710) |
| Balance at end of period | **P612,433** | P595,480 |

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 20.3).

## 12. DEFERRED REINSURANCE PREMIUMS

The movements in this account are as follows:

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| Balance at beginning of period | **P454,040** | P331,545 |
| Premiums retroceded during the period | **787,499** | 1,064,246 |
| Premiums amortized during the period | **(637,533)** | (941,751) |
| Balance at end of period | **P604,006** | P454,040 |

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

## 13. OTHER ASSETS

This account is composed of the following:

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| Input VAT | **P206,830** | P207,007 |
| Funds at Lloyd's | **147,860** | 150,509 |
| Deferred tax assets – net | **126,203** | 167,518 |
| Intangible assets – net | **20,776** | 26,819 |
| Prepayments | **12,039** | 9,938 |
| Deferred withholding VAT | **9,203** | 9,203 |
| Defined benefit asset | **8,097** | 12,928 |
| Deferred creditable tax | **7,765** | 7,022 |
| Investment properties – net | **3,705** | 3,705 |
| Deposit | **687** | 687 |
| Security fund | **644** | 644 |
| Deferred input VAT | **509** | 617 |
| Others | **138** | 138 |
| | **544,456** | 596,735 |
| Allowance for impairment | **(209,633)** | (209,633) |
| | **P334,823** | P387,102 |

*Input VAT*

In 2017, the Company provided allowance for impairment on its input VAT as management assessed that the amount may not be realizable. There was no movement in the allowance for impairment of Input VAT during the period.

*Funds at Lloyd's*

As at June 30, 2020 and December 31, 2019, Funds at Lloyd's amounted to U.S. $2.97 million.

*Intangible Assets*

Intangible assets pertain to acquired computer software licenses used in operation and administration. The gross carrying amount and accumulated amortization of intangible assets as at June 30, 2020 and December 31, 2019 are as follows:

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| Cost | **P163,289** | P169,152 |
| Accumulated amortization | **(142,513)** | (142,333) |
| Balance at end of period | **P20,776** | P26,819 |

A reconciliation of the carrying amount at the beginning and end of June 30, 2020 and December 31, 2019 of intangible assets is shown below.

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| Balance at beginning of period, net of accumulated amortization | **P26,819** | P30,013 |
| Additions | **1,013** | 5,271 |
| Reclassification | **(3,773)** | – |
| Amortization | **(3,283)** | (8,465) |
| Balance at end of period, net of accumulated amortization | **P20,776** | P26,819 |

*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 carrying amount of investment properties amounted to P3.71 million as at June 30, 2020 and December 31, 2019. There were no acquisitions and disposals for both periods ended.

These properties are classified as Level 3 in the fair value hierarchy. The total estimated fair value based on the latest available selling price of the properties obtained by the Company amounted to P21.14 million and P15.20 million as at June 30, 2020 and December 31, 2019, respectively (see Note 28.4).

*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.

## 14. REINSURANCE BALANCES PAYABLE

The details of this account are as follows:

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| Due to retrocessionaires | **P1,323,223** | P1,175,144 |
| Funds held for retrocessionaires | **11,070** | 5,691 |
| Due to cedant | **4,683** | 4,683 |
| | **P1,338,976** | P1,185,518 |

Due to retrocessionaires represent unpaid premiums payable to the Company's 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.

| | **June 30, 2020** | | | |
|---|---|---|---|---|
| | **Due to retrocessionaires** | **Funds held for retrocessionaires** | **Due to cedant** | **Total** |
| Balance at beginning of period | **P1,175,144** | **P5,691** | **P4,683** | **P1,185,518** |
| Retroceded premiums net of funds held during the period | **781,208** | **–** | **–** | **781,208** |
| Funds held during the period | **–** | **6,291** | **–** | **6,291** |
| Funds released during the period | **912** | **(912)** | | **–** |
| Payments made during the period | **(631,156)** | **–** | **–** | **(631,156)** |
| Revaluation adjustment | **(2,885)** | **–** | **–** | **(2,885)** |
| Balance at end of period | **P1,323,223** | **P11,070** | **P4,683** | **P1,338,976** |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Due to retrocessionaires | Funds held for retrocessionaires | Due to cedant | Total |
| Balance at beginning of year | P1,128,331 | P23,559 | P2,343 | P1,154,233 |
| 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 | P1,175,144 | P5,691 | P4,683 | P1,185,518 |

## 15. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

| | *Note* | **June 30, 2020** | December 31, 2019 |
|---|---|---|---|
| Accounts payable | | **P249,730** | P30,022 |
| Deferred output VAT | | **25,434** | 24,727 |
| Accrued expenses | | **21,045** | 14,193 |
| Withholding taxes payable | | **5,800** | 8,238 |
| Dividends payable | *22.3* | **2,543** | 2,543 |
| Income tax payable | | **–** | 31,207 |
| | | **P304,552** | P110,930 |

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

In February 13, 2020, the Company entered into an ordinary life coinsurance agreement with a ceding company for its specific in–force block of business, where it assumed a share of the gross premium in return for a proportionate share of the coverage of all benefits. An initial consideration of P211.1 million was transferred to the Company. This contract was not accounted for as an insurance contract as the related insurance risk was not considered significant. As at June 30, 2020, the statutory reserves amounted to P199.9 million and is presented under Accounts payable. The movement in the statutory reserves was recognized in Investment and other income and expenses (see Note 19).

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 mainly to accrual of outside services, utilities, membership dues and meeting expenses.

Other than the statutory reserves discussed above, 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.

The statutory reserves are measured by the ceding company based on assumptions consistent with the Life's valuation standards set by the IC.

## 16. 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.

| **June 30, 2020** | **Losses and Claims Payable** | **Claims Reserves** |
|---|---|---|
| Balance at beginning of period | **P4,554,326** | **P1,997,624** |
| Claims incurred during the period–net | **1,239,078** | **–** |
| Claims incurred but not reported, net of adjustments | **–** | **(265,387)** |
| Claims paid during the period | **(966,847)** | **–** |
| Revaluation adjustment | **(29,145)** | **–** |
| Balance at end of period | **P4,797,412** | **P1,732,237** |

| December 31, 2019 | Losses and Claims Payable | Claims Reserves |
|---|---|---|
| Balance at beginning of year | P4,519,271 | P1,715,474 |
| Claims incurred during the year – net | 2,028,267 | – |
| Claims incurred but not reported, net of adjustments | – | 282,150 |
| Claims paid during the year | (1,950,987) | – |
| Revaluation adjustment | (42,225) | – |
| Balance at end of year | P4,554,326 | P1,997,624 |

## 17. PREMIUM RESERVES

The movements in Premium reserves are as follows:

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| Balance at beginning of period | **P1,768,249** | P1,564,635 |
| Premium written | **2,188,598** | 4,338,535 |
| Premiums earned | **(2,203,626)** | (4,134,921) |
| Balance at end of period | **P1,753,221** | P1,768,249 |

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

## 18. DEFERRED REINSURANCE COMMISSIONS

The movements in Deferred reinsurance commissions are as follows:

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| Balance at beginning of period | **P6,234** | P526 |
| Income deferred | **14,456** | 23,827 |
| Income recognized | **(14,127)** | (18,119) |
| Balance at end of period | **P6,563** | P6,234 |

The increase or decrease in Deferred reinsurance commissions for the period is presented as part of Commissions – net under Underwriting deductions in the statements of income (see Note 20.3).

## 19. INVESTMENT AND OTHER INCOME AND EXPENSES

The details of this account are as follows:

| | *Notes* | **June 30, 2020** | June 30, 2019 |
|---|---|---|---|
| Interest income | *4,5,6,7,8,23.2* | **P150,786** | P156,481 |
| Gain on sale of AFS | *6, 23.2* | **64,413** | 87,813 |
| Dividend income | *6, 23.2* | **30,517** | 27,983 |
| Impairment losses on AFS financial assets | *6* | **(469,312)** | – |
| Foreign currency gains | | **(1,115)** | (24,467) |
| Other charges | *23.2* | **(14,600)** | (1,528) |
| | | **(P239,311)** | P246,282 |

## 20. 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.

### *20.1 Share in Reported Losses – Net*

| | **June 30, 2020** | June 30, 2019 |
|---|---|---|
| Gross claims paid | **P966,847** | P928,516 |
| Retrocessionaires' share in losses paid | **(203,596)** | (56,445) |
| Gross change in provision for claims reported | **293,001** | (56,888) |
| Retrocessionaires' share in change in provision for claims reported | **(17,533)** | 94,132 |
| | **P1,038,719** | P909,315 |

### *20.2 Share in Loss Reserves – Net*

| | **June 30, 2020** | June 30, 2019 |
|---|---|---|
| Gross change in provision for IBNR | **(P265,387)** | P115,316 |
| Retrocessionaires' share in change in provision for IBNR | **22,069** | (62,089) |
| | **(P243,318)** | P53,227 |

### *20.3 Commissions – Net*

This account consists of the following:

| | **June 30, 2020** | June 30, 2019 |
|---|---|---|
| Commission expense | **P502,667** | P367,125 |
| Commission income | **(14,127)** | (6,289) |
| | **P488,540** | P360,836 |

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.

## 21. GENERAL AND ADMINISTRATIVE EXPENSES

The details of this account are as follows:

| | *Notes* | **June 30, 2020** | June 30, 2019 |
|---|---|---|---|
| Salaries and employee benefits | *21.1* | **P74,394** | P80,165 |
| Data, licenses and subscriptions | | **10,702** | 6,264 |
| Depreciation and amortization | *9,13* | **10,165** | 10,971 |
| Taxes, licenses and fees | | **9,260** | 7,164 |
| Professional fees | | **8,356** | 4,698 |
| Repairs and maintenance | | **4,103** | 4,948 |
| Outsourced functions | | **3,114** | 2,973 |
| Communication and postages | | **2,998** | 2,651 |
| Dues and fees | | **1,595** | 2,457 |
| Light and water | | **848** | 919 |
| Insurance | | **619** | 697 |
| Advertising and publicity | | **419** | 999 |
| Meetings, conferences and conventions | | **227** | 868 |
| Representation and entertainment | | **199** | 329 |
| Printing and office supplies | | **195** | 389 |
| Rentals | *26.1* | **103** | 15 |
| Miscellaneous | | **3,007** | 4,081 |
| | | **P130,304** | P130,588 |

### *21.1 Salaries and Employee Benefit Expense*

The details of salaries and employee benefits are presented below:

| | **June 30, 2020** | June 30, 2019 |
|---|---|---|
| Short–term employee benefits | **P69,247** | P75,655 |
| Post–employment defined benefits | **5,147** | 4,510 |
| | **P74,394** | P80,165 |

## 22. EQUITY

### *22.1 Capital Stock*

As at June 30, 2020 and December 31, 2019, the Company has authorized shares of 3,000,000,000 and has issued and outstanding shares amounting to P2.08 billion net of treasury shares, which is divided into 2,123,605,600 shares with a par value of P1 per share.

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

As at June 30, 2020 and December 31, 2019, there are 271 holders of the listed shares. Such listed shares closed at P0.56 and P0.83 per share as at those dates, respectively.

As at June 30, 2020 and December 31, 2019, total treasury shares amounted to P100.53 million representing 58,349,000 shares. There were no treasury stock transactions in 2020 and 2019.

### *22.2 Appropriation for Special Reserve*

In 1989, the Board of Directors (BOD) approved the establishment of a special reserve for extraordinarily high loss occurrences or severe catastrophic losses. As such, 10% of profit is set aside as special reserve provided there is no deficit. For the periods June 30, 2020 and December 31, 2019, the Company appropriated nil and P15.67 million, respectively, for special reserve.

### *22.3 Retained Earnings*

There was no declaration of cash dividends in 2020 and 2019. The total outstanding dividends payable amounted to P2.54 million as at June 30, 2020 and December 31, 2019. These are presented as Dividends payable under Accounts payable and accrued expenses account in the statements of financial position (see Note 15).

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.

## 23. RELATED PARTY TRANSACTIONS

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

### *23.1 Reinsurance Contracts with Related Parties*

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

| | **June 30, 2020** | | June 30, 2019 | |
|---|---|---|---|---|
| | **Stockholders** | **Related Parties Under Common Ownership** | Stockholders | Related Parties Under Common Ownership |
| Premiums | **P27,496** | **P130,322** | P20,490 | P136,033 |
| Retroceded premiums | **(1)** | **–** | 0 | – |
| Commission expense | **114** | **14,653** | 4,098 | 12,747 |
| Losses incurred | **568** | **16,119** | 910 | (165,960) |
| Loss recoveries (reversal) | **4** | **–** | (28,492) | – |

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

| | **June 30, 2020** | | December 31, 2019 | |
|---|---|---|---|---|
| | **Stockholders** | **Related Parties Under Common Ownership** | Stockholders | Related Parties Under Common Ownership |
| Due from ceding companies | **P27,371** | **P81,267** | P2 | P56,514 |
| Reinsurance recoverable on losses | **19,123** | **–** | 19,129 | – |
| Claims payable | **177,576** | **520,882** | 175,435 | 557,758 |
| Due to retrocessionaires | **1,825** | **5,035** | 41 | 5,154 |
| Funds held for retrocessionaires | **1** | **–** | 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 P75.18 million and P75.16 million allowance for impairment as at June 30, 2020 and December 31, 2019, respectively.

### *23.2 Other Transactions*

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

| | | **June 30, 2020** | | December 31, 2019 | |
|---|---|---|---|---|---|
| | | **Amount of Transactions** | **Outstanding Balance** | Amount of Transactions | Outstanding Balance |
| **Stockholder:** | | | | | |
| Cash and cash equivalents | (a) | **(P1,037)** | **P56,242** | (P22,660) | P57,279 |
| AFS financial assets | (b) | **20,716** | **80,152** | (59,170) | 59,436 |
| Dividend receivables | (b) | **(426)** | **–** | 426 | 426 |
| Interest income – bank accounts | (a) | **196** | **–** | 1,764 | 11 |
| Dividend income – AFS financial assets | (b) | **–** | **–** | 3,013 | – |
| Other expenses (reversals) | | **12** | **–** | (44) | – |
| **Related Party Under Common Ownership:** | | | | | |
| Cash and cash equivalents | (a) | **(108,289)** | **526,033** | (14,532) | 634,322 |
| AFS financial assets | (b) | **21,399** | **275,843** | (11,583) | 254,444 |
| HTM investments | (b) | **285** | **150,140** | – | 149,855 |
| Loans and receivables | | **–** | **–** | (50,000) | – |
| Interest income – bank accounts | (a) | **–** | **–** | 7,112 | – |
| Service fees | (c) | **1,944** | **–** | 3,763 | – |

*(a) Cash and Cash Equivalents*

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

*(b) AFS Financial Assets and HTM Investments*

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 and HTM investments. Relative to these transactions, the Company recognized dividend income, interest income and trading gains which are presented as part of Investment and Other income and expenses account in the statements of income (see Note 19).

*(c) Investment Management and Custodianship*

The Company has entered into "Investment Management Agreement" and "Custodianship Agreement" with entities 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 service fees equivalent to a certain percentage of the market value of the investments.

Total service fees paid is charged against Other charges under Investment and Other income and expenses account (see Note 19) in the statements of income. There are no outstanding liabilities from these transactions as at June 30, 2020 and December 31, 2019.

### *23.3 Investment Management of Retirement Fund*

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

### *23.4 Transactions with Retirement Fund*

The Company maintains a wholly funded, tax–qualified, non–contributory retirement plan that is being administered by a trustee covering all regular full–time employees. The Company has no transactions with its retirement fund in 2020 and 2019. 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 June 30, 2020 and December 31, 2019.

### *23.5 Key Management Personnel Compensation*

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

The compensation of key management personnel is presented as follows:

| | **June 30, 2020** | June 30, 2019 |
|---|---|---|
| Short–term benefits | **P20,448** | P26,548 |
| Post–employment defined benefit | **1,960** | 1,960 |
| | **P22,408** | P28,508 |

## 24. SOLVENCY

Under the New Insurance Code, an insurance company doing business in the Philippines shall at all times maintain the minimum paid–up capital, and net worth requirements as prescribed by the 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.

## 25. (LOSS) EARNINGS PER SHARE

The (loss) earnings per share are presented as follows:

| | **June 30, 2020** | June 30, 2019 |
|---|---|---|
| Net (loss) profit available to common shareholders | **(P159,198)** | P199,634 |
| Divided by the average number of outstanding common shares (in thousands) | **2,123,606** | 2,123,606 |
| | **(P0.075)** | P0.094 |

Diluted earnings per share is not determined since the Company does not have dilutive shares as at June 30, 2020 and 2019.

## 26. COMMITMENTS AND CONTINGENCIES

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

### *26.1 Operating Lease Commitments – Company as Lessee*

The Company is a lessee under various operating leases covering warehouse and parking lots having a term of one year with renewal options. The future minimum rentals payable under this non–cancellable operating lease as at June 30, 2020 and December 31, 2019 is P0.87 million and P0.85 million.

Rental expense recognized amounted to P0.10 million and P0.02 million in 2020 and 2019, respectively, and is presented in the statements of income as Rental under General and administrative expenses (see Note 21).

### *26.2 Legal Claims*

The Company is currently involved in various legal proceedings. In consultation with the legal counsel, the related risk has been analyzed as to likelihood of occurrence and amount of future obligation. The Company believes that the outcome of these proceedings as at June 30, 2020 will not have a material adverse effect on the Company's financial position.

### *26.3 Deficiency Tax Assessments*

The Company is in receipt of certain final deficiency tax assessment covering taxable 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 June 30, 2020, 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.

### *26.4 Others*

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities that are not given recognition in the accompanying financial statements. Management believes that losses as at June 30, 2020, if any, that may arise from these commitments and contingencies will not have any material effect on the financial statements.

## 27. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

### *27.1 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.

| | **June 30, 2020** | | December 31, 2019 | |
|---|---|---|---|---|
| | **Carrying Values** | **Fair Values** | Carrying Values | Fair Values |
| **Financial assets:** | | | | |
| Loans and receivables: | | | | |
| Cash and cash equivalents | **P769,898** | **P769,898** | P1,004,977 | P1,004,977 |
| Funds at Lloyd's | **147,860** | **147,860** | 150,509 | 150,509 |
| Loans and receivables | **96,562** | **96,562** | 80,012 | 80,012 |
| Other assets | **1,331** | **1,331** | 1,331 | 1,331 |
| | **P1,015,651** | **P1,015,651** | P1,236,829 | P1,236,829 |
| AFS financial assets: | | | | |
| Debt securities | **3,900,815** | **3,900,815** | P3,479,780 | P3,479,780 |
| Equity securities | **1,517,855** | **1,517,855** | 1,432,375 | 1,432,375 |
| Investment in ARC | **33,621** | **33,621** | 33,598 | 33,598 |
| | **P5,452,291** | **P5,452,291** | P4,945,753 | P4,945,753 |
| HTM investments | **P2,273,474** | **P2,412,746** | P2,227,897 | P2,285,405 |
| **Financial liabilities:** | | | | |
| Accounts payable and other accrued expenses* | **P273,318** | **P273,318** | P46,758 | P46,758 |

**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.

### *27.2 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.

## 28. FAIR VALUE MEASUREMENT AND DISCLOSURES

### *28.1 Fair Value Hierarchy*

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

### *28.2 Financial Instruments Measured at Fair Value*

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

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **June 30, 2020** | | | | |
| AFS financial assets | **P5,409,023** | **P1,390** | **P41,878** | **P5,452,291** |
| December 31, 2019 | | | | |
| AFS financial assets | P4,902,448 | P1,460 | P41,845 | P4,945,753 |

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

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Balance at beginning of year | **P41,845** | P51,416 |
| Fair value gains | **1,566** | 9,329 |
| Disposal | **–** | (17,910) |
| Foreign currency losses | **(1,533)** | (990) |
| Balance at end of year | **P41,878** | P41,845 |

The Company has no financial liabilities measured at fair value as at June 30, 2020 and December 31, 2019.

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

a) *Equity securities*

As at June 30, 2020 and December 31, 2019, 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.

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

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

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| June 30, 2020 | | | | |
| **Financial assets:** | | | | |
| Cash and cash equivalents | **P769,898** | **P–** | **P–** | **P769,898** |
| HTM investments | **2,412,568** | **–** | **–** | **2,412,568** |
| Loans and receivables | **–** | **–** | **96,562** | **96,562** |
| Funds at Lloyd's | **–** | **–** | **147,860** | **147,860** |
| Other assets | **–** | **–** | **1,331** | **1,331** |
| | **P3,182,466** | **P–** | **P245,753** | **P3,428,219** |
| **Financial liabilities:** | | | | |
| Accounts payable and other accrued expenses* | **P–** | **P–** | **P273,318** | **P273,318** |

***Excluding taxes payable***

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| December 31, 2019 | | | | |
| Financial assets: | | | | |
| Cash and cash equivalents | P1,004,977 | P– | P– | P1,004,977 |
| HTM investments | 2,285,405 | – | – | 2,285,405 |
| Loans and receivables | – | – | 80,012 | 80,012 |
| Funds at Lloyd's | – | – | 150,509 | 150,509 |
| Other assets | – | – | 1,331 | 1,331 |
| | P3,290,382 | P– | P231,852 | P3,522,234 |
| Financial liabilities: | | | | |
| Accounts payable and other accrued expenses* | P– | P– | P46,758 | P46,758 |

*Excluding taxes payable*

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.

### *28.4 Fair Value Measurement for Non–financial Assets*

The Company used market comparable approach as a valuation technique in measuring the fair value of its investment properties to arrive at fair value that is more representative of the investment properties' highest and best use. As at June 30, 2020 and December 31, 2019, the fair value of the investment properties is P21.14 million and P15.20 million, respectively and is classified under Level 3 of the fair value hierarchy (see Note 13). The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value.

## 29. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

### *29.1 Minimum Capitalization*

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

The IC issued 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 P2.5 billion by December 31, 2019. The minimum net worth of the said companies shall remain unimpaired at all times and shall increase to P3.0 billion as at December 31, 2022.

As at June 30, 2020 and December 31, 2019, the Company has complied with the minimum capital requirements.

### *29.2 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.

### *29.3 Limitation on Dividend Declaration*

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

Section 201 of the New Insurance Code provides that 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 period 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.

## 30. SELECTED FINANCIAL PERFORMANCE INDICATORS

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

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| Asset–to–equity | **2.77 : 1.00** | 2.80 : 1.00 |
| Liability–to–equity | **1.77 : 1.00** | 1.80 : 1.00 |

## 31. OTHER SEC REQUIREMENTS

The following information, as a minimum, should be disclosed in the notes to financial statements, if material and if not disclosed elsewhere in the interim financial report:

| | |
|---|---|
| • Explanatory comments about the seasonality or cyclicality of interim operations | • Nothing to report. |
| • The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents | • Nothing to report. |
| • The nature and amount of changes in estimates of amounts reported in prior interim years of the current fiscal year or changes in estimates of amounts reported prior financial years, if those changes have a material effect in the current interim year | • Refer to Note 3 for the development of claims liabilities. |
| • Issuances, repurchases, and repayments of debt and equity securities | • Nothing to report. |
| • Dividends paid (aggregate or per share) separately for ordinary shares and other shares | • Nothing to report. |
| • Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting. (This shall be provided only if the issuer is required to disclose segment information in its annual financial statements) | • Nothing to report. |
| • Material events subsequent to the end of the interim year that have not been reflected in the financial statements for the interim year | • Nothing to report. |
| • The effect of changes in the composition of the issuer during the interim year, including business combinations, acquisitions or disposal of subsidiaries and long–term investments, restructurings, and discontinuing operations | • Nothing to report. |
| • Changes in contingent liabilities or contingent assets since the last annual balance sheet date | • Nothing to report. |
| • Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim year. | • Nothing to report. |

**AGING OF REINSURANCE BALANCES RECEIVABLE**
As at June 30, 2020
(In million pesos)

| | Total | Below 360 days | Over 360 days | Not due |
|---|---|---|---|---|
| Due from ceding companies | P2,823 | P197 | P278 | P2,348 |
| Reinsurance recoverable on paid losses | 374 | 11 | 363 | 0 |
| Funds held by ceding companies | 155 | 132 | 23 | – |
| Due from reinsurers | 1 | – | 1 | – |
| | 3,353 | P340 | P665 | P2,348 |
| Allowance for impairment* | (599) | | | |
| | P2,754 | | | |

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