



NATIONAL
REINSURANCE
CORPORATION
OF THE PHILIPPINES

NAT RE DIVIDEND POLICY

1 TERMS / ABBREVIATIONS / DEFINITIONS

Acronym	Description
CL	Circular Letter
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standards
IC	Insurance Commission
PFRS	Philippine Financial Reporting Standards
PSE	Philippine Stock Exchange
RCC	Revised Corporation Code
SEC	Securities and Exchange Commission
SRC	Securities Regulation Code

Terms	Definition
Asset	An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
Board	Board of Directors
Declaration date	This is the day on which the board of directors approves and announces the dividend declaration.
Dividend	Refers to corporate profits allocated, lawfully declared and ordered by the directors to be paid to the stockholders on demand or at a fixed time. It may be in the form of cash, stock or property dividends, in accordance with the Revised Corporation Code.
Non-admitted assets	These are assets that have no value to fulfill policyholder obligations and cannot be easily converted to cash.
Outstanding capital stock	means the total shares of stock issued to subscribers or stockholders, whether or not fully or partially paid (as long as there is a binding subscription agreement), except treasury shares.
Paid-In Capital	the amount of outstanding capital stock and additional paid-in capital or premium paid over the par value of shares
Payment date	This is the day on which the declared dividend is scheduled to be paid to eligible investors.
Record date	This is the date set by the Board of Directors on which investors must be on the company's books in order to receive a dividend.
Retained earnings	The accumulated profits realized out of normal and continuous operations of the business after deducting therefrom distributions to stockholders and transfers to capital stock or other accounts. The Retained Earnings shall be the amount as shown in the financial statements audited by the company's independent auditor.
Unrestricted Retained Earnings	The amount of accumulated profits and gains realized out of the normal and continuous operations of the company after deducting therefrom distributions to stockholders and transfers to capital stock or other accounts, and which is: (1) not appropriated by its Board of Directors for corporate expansion projects or programs; (2) not covered by a restriction for dividend declaration under a loan agreement; and (3) not required to be retained under special circumstances obtaining in the corporation such as when there is a need for special reserve for probable contingencies.

2 PURPOSE

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Filename: Dividend Policy as approved by the Board on April 28, 2022

The purpose of this policy is to provide a framework for declaring and paying dividends to shareholders in accordance with the Company's Amended By-laws, the Revised Corporation Code (RCC), the Securities Regulation Code (SRC), the Amended Insurance Code, and the rules and guidelines of the Insurance Commission (IC) and the Securities and Exchange Commission (SEC). [The declarations in dividend may be in cash, stock, or property dividends in accordance with the Revised Corporation Code.](#) To ensure compliance in the requirements, the Company is required to calculate the retained earnings available for dividend declaration on an annual basis.

3 APPLICABLE LAWS & ISSUANCES

National Reinsurance Corporation of the Philippines, as a matter of policy, will declare dividends based on the retained earnings available for dividend declaration as computed based on the Company's By-laws, the RCC, SRC Rule 68, the Amended Insurance Code, and the rules and guidelines set forth by IC and the SEC.¹

The capital management philosophy and process, and dividend policy which comprises an integral component of this policy, is driven by the following objective:

1. Ensuring compliance with externally imposed regulatory capital requirements.
2. Maintaining strong credit ratings.
3. Maintaining healthy capital ratios to support its business and maximize shareholder value.

The Company's By-laws

Under Section 6, Article II of the By-laws, the Board may close the Stock and Transfer Books (STB) of the Corporation for a period not exceeding forty-five (45) calendar days preceding the date of the payment of any dividend; or in lieu of closing the STB, the Board may fix in advance a date, not exceeding forty-five (45) calendar days preceding the date for the payment of any dividend, as a record date for the determination of the stockholders entitled to receive payment of any such dividend, and in such case, only stockholders of record on the date so fixed shall be entitled to receive payment of such dividend, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed.

With respect to the record date, it should also be noted that under Section 6.1 of the PSE Disclosure Rules (PSE Rules), the Issuer (i.e. Nat Re) must set the record date in accordance with the rules of the PSE. The record date must not be less than ten (10) trading days from the Declaration date. On the other hand, with respect to the payment date, Section 6.2 of the PSE Rules provides that the payment date shall not be more than eighteen (18) trading days from the record date (Guidance Note 18 – PSE Memorandum No. 2008-0315 dated June 30, 2008).

Section 1, Article VII of the By-laws provides that the Board may, in its discretion, place all the profits earned by the Corporation during any one year on reserve or set the same aside as undivided profits. It may set aside from the surplus profits before the declaration of any dividend such sum or sums as a reserve fund or funds as it, in its discretion, may deem proper for the purpose of meeting contingencies, equalizing dividends, increasing work capital, maintaining or increasing the property of the Corporation, or any other purpose it may think conclusive to the best interest of the Corporation.

On the other hand, Section 2, Article VII of the By-laws provides that the Board may declare dividends out of the unrestricted retained earnings of the Corporation, which may be payable in cash, in property, or in stock to all the stockholders on the basis of outstanding stock held by them, Provided, that any dividends due on delinquent stock shall first be applied to the unpaid balance on the subscription plus costs and expenses, while stock dividends shall be withheld from the delinquent stockholder until his unpaid subscription is fully paid: Provided further, that no stock dividend shall be issued without the approval of stockholders representing not less than two-thirds (2/3) of the outstanding capital stock at a regular or special meeting duly called for the purpose. Dividends shall be payable at such time as the Board of Directors may decide.

¹ *Good corporate governance practice recommends that the Company should pay in an equitable and timely manner all its shareholders within 30 days after its dividend's declaration date.*

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Revised Corporation Code

Section 42 of the RCC provides that the board of directors may declare dividends out of the unrestricted retained earnings which shall be payable in cash, property, or in stock to all stockholders on the basis of outstanding stock held by them: Provided, that any dividends due on delinquent stock shall first be applied to the unpaid balance on the subscription costs and expenses, while stock dividends shall be withheld from the delinquent stockholders until their unpaid subscription is fully paid: Provided, further, That no stock dividend shall be issued without the approval of stockholders representing at least two-thirds (2/3) of the outstanding capital stock at a regular or special meeting duly called for the purpose.

Stock corporations are prohibited from retaining surplus profits in excess of one hundred percent (100%) of their paid-in capital stock, except: (a) when justified by definite corporate expansion projects or programs approved by the board of directors; or (b) when the corporation is prohibited under any loan agreement with financial institutions or creditors, whether local or foreign, from declaring dividends without their consent, and such consent has not yet been secured; or (c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is need for special reserve for probable contingencies.

Securities and Exchange Commission:

Section 5 of SEC Memorandum Circular No. 11 Series of 2008 (SEC MC No. 11-2008) states that dividends, whether cash, property or stock, shall be declared out of unrestricted retained earnings of the Corporation. Accordingly, a corporation cannot declare dividends when it has zero or negative retained earnings otherwise known as Retained Earnings deficit. For such purpose, the surplus profits or income must be a bona fide income founded upon actual earnings or profits. The existence, therefore, of surplus profits arising from the operation of corporate business is a condition precedent to the declaration of dividend. The phrase "actual earnings or profits" as shall be the net income for the year based on the audited financial statements, adjusted for unrealized items which are considered not available for dividend declaration as defined under SEC MC No. 11-2008 and other SEC existing issuances or regulations.

Additional Paid-In Capital Stock shall neither be declared as dividend nor shall it be reclassified to absorb deficiency except through an organizational restructuring duly approved by the SEC.

Section 4 of SEC MC No. 11-2008 provides that Stock corporations are prohibited from retaining surplus profits in excess of one hundred (100%) percent of their paid-in capital stock, except:

- a. When justified by definite corporate expansion projects or programs approved by the Board; or
- b. When the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not yet been secured; or
- c. When it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is need for special reserve for probable contingencies.

Section 6 of SEC MC No. 11-2008 states that for listed companies, corporation with registered securities under the SRC, and public companies, a reconciliation of retained earnings shall be presented as one for the schedules in the audited financial statements and shall be covered by an auditor's report similar to that provided for Schedules A-I under SRC Rule 68.1. Said entities are likewise required to provide in their financial statements a description of any appropriation or restriction on their retained earnings.

Insurance Commission:

Regulatory Measures

Section 201 of Amended Insurance Code. No domestic insurance corporation shall declare or distribute any dividend on its outstanding stocks unless it has met the minimum paid-up capital and net worth

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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:

- (a) The entire paid-up capital stock;
- (b) The solvency requirements defined by Section 200;
- (c) In the case of life insurance corporations, the legal reserve fund required by Section 217;
- (d) In the case of corporations other than life, the legal reserve fund required by Section 219; and
- (e) A sum sufficient to pay all net losses reported, or in the course of settlement, and all liabilities for expenses and taxes.

Any dividend declared or distributed under the preceding paragraph shall be reported to the Commissioner within thirty (30) days after such declaration or distribution. (Sec. 201, IC Code; Section 4 IC CL No. 2021-02).

Insurance Commission Circular Letter No. 2021-02 (IC CL No. 2021-02) issued on January 7, 2021 provides the revised guidelines on the declaration and/or distribution of dividends. Under Section 2 of the IC Circular, regulated entities shall meet the following regulatory measures at all times, without regulatory relief, and which shall be duly attested by the President and Treasurer of the company, before declaration and/or distribution of dividends out of the URE:

For insurance and professional reinsurance companies

- 1. Unimpaired paid-up capital stock;
- 2. The net worth requirements as prescribed by Circular Letter No. 2015-02-A and Section 194 of the Amended Insurance Code;
- 3. The solvency requirements defined by Section 200 of the Amended Insurance Code;
- 4. In the case of life insurance companies, the legal reserve fund required by Section 217;
- 5. In the case of corporation other than life, the legal reserve fund required by Section 219; and
- 6. A sum sufficient to pay all net losses reported, or in the course of settlement, and all liabilities for expenses and taxes.

If the Commissioner finds that any such corporation has declared or distributed any such dividend in violation of Sec. 201 of the Insurance Code and Section 5 of IC CL No. 2021-02, he may order such corporation to cease and desist from doing business until the amount of such dividend or the portion thereof in excess of the amount allowed under the Insurance Code and IC Circular has been restored.

4 CALCULATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

In accordance with SRC Rule 68 and SEC MC No. 11-2008, the following are the accounts to be considered in the computation of Retained Earnings available for dividend declaration (when applicable):

- a. Unrestricted retained earnings
- b. Share/equity in net income of the associate or joint venture accounted for equity method as the same is not yet actually earned or realized. It is only after the investee company declares such income as dividend that said income is actually realized or the earnings becomes available for dividend declaration. Due to the effect on the investment account, only cash or property dividends declared by the investee-company shall be considered as earnings declarable as dividends by the investor company;
- c. Unrealized foreign exchange gains, except those attributable to cash and cash equivalents, for the time being that they are not yet actual income prior to realization such foreign exchange gain;
- d. Unrealized actuarial gains which is the result when the company chooses the option of recognizing actuarial gains or losses directly to profit or loss statement;
- e. Fair value adjustment or the gains arising only from marked-to-market valuation which are not yet realized;
- f. The amount of recognized deferred tax asset that reduced the amount of income tax expense and increased the net income and retained earnings, until realized;

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- g. Adjustment due to deviation from PFRS/GAAP of the audited financial statements which results to gain;
- h. Other unrealized gains or adjustments to the retained earnings brought about by certain transactions accounted for under the PFRS such as accretion income under IAS 39, Day 1 gains on initial recognition of financial instruments, reversal of revaluation increment to retained earnings, and negative goodwill on investments in associate;
- i. Other adjustments that the Commission may prescribe.

Additional paid-in capital stock shall neither be declared as dividend nor shall it be reclassified to absorb deficiency except through an organizational restructuring duly approved by the Commission.

The calculation of retained earnings available for dividend declaration in accordance with IC requirements is enumerated in Section 201 of the Amended Insurance Code as stated in the Applicable Circulars section of this policy. Non-admitted assets are also deducted in the computation because these assets are not easily convertible to cash to pay/settle the claims/liabilities.

Section 203 of Amended Insurance Code provides that in addition to such assets as the Commissioner may from time to time determine to be non-admitted assets of insurance companies doing business in the Philippines, the following assets shall in no case be allowed as admitted assets of an insurance company doing business in the Philippines, in any determination of its financial condition:

- (a) Goodwill, trade names, and other like intangible assets.
- (b) Prepaid or deferred charges, except for deferred acquisition costs from contracts where the Company recognized unearned premium reserves, for expenses and commissions paid by such insurance company.
- (c) Advances to officers (other than policy loans), which are not adequately secured and which are not previously authorized by the Commissioner, as well as advances to employees, agents, and other persons on mere personal security.
- (d) Shares of stock of such insurance company, owned by it, or any equity therein as well as loans secured thereby, or any proportionate interest in such shares of stock through the ownership by such insurance company of an interest in another corporation or business unit.
- (e) Furniture, furnishing, fixtures, safes, equipment, library, stationery, literature, and supplies.
- (f) Items of bank credits representing checks, drafts or notes returned unpaid after the date of statement.
- (g) The amount, if any, by which the aggregate value of investments as carried in the ledger assets of such insurance company exceeds the aggregate value thereof as determined in accordance with the provisions of this Code and/or the rules of the Commissioner.

All non-admitted assets and all other assets of doubtful value or character included as ledger or non-ledger assets in any statement submitted by an insurance company to the Commissioner, or in any insurance examiner's report to him, shall also be reported, to the extent of the value disallowed as deductions from the gross assets of such insurance company, except where the Commissioner permits a reserve to be carried among the liabilities of such insurance company in lieu of any such deduction.

The Company must comply with the requirements of both the SEC and the IC. The Company must also consider the latest circular issued by IC which provide guidelines on the declaration and/or distribution of dividends.

5 DECLARATION OF DIVIDENDS

The President/CEO and the Audit Investment and Budget Committee shall recommend to the Board the amount to be declared as dividends after taking into consideration various factors, including but not limited to:

- a) the level of the Company's cash, return on equity, and retained earnings;
- b) the Company's results for, and the Company's financial condition at the end of the year, the year in respect of which the dividend is to be paid the Company's expected financial performance;
- c) the Company's projected levels of capital expenditure and other investment plans;

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- d) restrictions of payment of dividends that may be imposed on the Company by any of its financing arrangements and current and prospective debt service requirements;
- e) such other factors as the President/CEO and the Investment and Budget Committee deems appropriate; and
- f) compliance with applicable SEC and IC regulations.

Further to this, the recommendation of the President/CEO and the ~~Audit~~ Investment and Budget Committee is subject to the requirements of applicable laws and existing regulations and the absence of circumstances which may restrict the payment of such dividends.

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