THE NEW INDIA ASSURANCE COMPANY LIMITED

FINANCIAL STATEMENTS
December 31, 2020 and 2019

With Independent Auditors' Report

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REPORT OF INDEPENDENT AUDITORS

The Management
The New India Assurance Company Limited
405 ITC Bldg., 337 Sen. Gil Puyat Ave.
Makati City, Metro Manila

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The New India Assurance Company Limited (the Branch), which comprise the statements of assets, liabilities and head office account as at December 31, 2020 and 2019, and the statements of profit or loss and other comprehensive loss, changes in head office account and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Branch as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Management is responsible for overseeing the Branch's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Branch to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 29 to the basic financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

TIRESO RANDY F. LAPIDEZ
Partner
CPA License No. 0092183
IC Accreditation No. 92183-IC, Group A, valid for five (5) years
  covering the audit of 2019 to 2023 financial statements
SEC Accreditation No. 1472-AR-1, Group A, valid until July 2, 2021
Tax Identification No. 162-411-175
BIR Accreditation No. 08-001987-034-2020
  Issued July 20, 2020; valid until July 19, 2023
PTR No. MKT 8533905
  Issued January 4, 2021 at Makati City

May 28, 2021
Makati City, Metro Manila

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REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING
WITH THE BUREAU OF INTERNAL REVENUE

The Management
The New India Assurance Company Limited
405 ITC Bldg., 337 Sen. Gil Puyat Ave.
Makati City, Metro Manila

We have audited the accompanying financial statements of The New India Assurance Company Limited (the Branch) as at and for the year ended December 31, 2020, on which we have rendered our report dated May 28, 2021.

In compliance with Revenue Regulations No. V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the Chief Operating Officer and managers of the Branch.

R.G. MANABAT & CO.

Tireso Randy F. Lapidez

TIRESO RANDY F. LAPIDEZ
Partner
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May 28, 2021
Makati City, Metro Manila

THE NEW INDIA ASSURANCE COMPANY LIMITED
STATEMENTS OF ASSETS, LIABILITIES AND HEAD OFFICE ACCOUNT

		December 31	
	Note	**2020**	2019
ASSETS			
Cash and cash equivalent	*4, 27*	**P157,176,752**	P69,662,399
Insurance receivables - net	*5, 27*	**461,788,749**	214,402,526
Held-to-maturity securities	*6, 27*	**664,740,724**	452,252,302
Available-for-sale securities	*7, 28*	**3,921,698**	4,606,302
Reinsurance assets - net	*8*	**178,296,996**	419,724,123
Deferred acquisition costs	*9*	**25,694,579**	27,688,984
Property and equipment - net	*10*	**2,187,487**	2,919,635
Computer software - net	*11*	**4,801,547**	5,761,857
Deferred tax assets - net	*22*	**22,224,005**	22,218,086
Right-of-use asset - net	*12*	**304,115**	519,824
Other assets	*13, 27*	**56,422,336**	67,692,918
		P1,577,558,988	P1,287,448,956
LIABILITIES AND HEAD OFFICE ACCOUNT			
Liabilities			
Insurance contract liabilities	*14, 27*	**P451,887,360**	P637,189,084
Due to reinsurers	*15, 27*	**14,355,447**	12,165,728
Accounts payable and other liabilities	*16, 27*	**35,460,463**	17,631,696
Commissions payable	*27*	**6,550,127**	5,920,274
Lease liability	*12, 27*	**336,596**	533,014
Deferred commission income	*9*	**130,463**	326,924
Retirement benefits liability	*21*	**5,614,429**	5,122,637
		514,334,885	678,889,357
Head Office Account			
Assigned capital	*27*	**660,610,000**	275,000,000
Remittances from Head Office	*27*	**567,691,914**	495,147,035
Revaluation reserve on available-for-sale securities	*7, 27*	**1,141,015**	1,620,238
Remeasurements of retirement liability	*21, 27*	**(2,203,574)**	(2,673,049)
Accumulated deficits	*27*	**(164,015,252)**	(160,534,625)
		1,063,224,103	608,559,599
		P1,577,558,988	P1,287,448,956

See Notes to the Financial Statements.

THE NEW INDIA ASSURANCE COMPANY LIMITED

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE LOSS

		Year Ended December 31	
	Note	**2020**	2019
UNDERWRITING INCOME			
Gross premiums written		**P176,814,219**	P158,062,051
Reinsurance premiums assumed		**80,134,796**	102,562,227
Gross earned premiums	*18, 27*	**256,949,015**	260,624,278
Reinsurers' share of gross earned premiums	*18, 27*	**(45,194,532)**	(36,046,855)
Premiums retained		**211,754,483**	224,577,423
Net change in reserve for unearned premiums - net of reinsurance premiums	*18*	**(9,573,958)**	(2,938,101)
Net earned premiums		**202,180,525**	221,639,322
Commission income	*9*	**454,004**	459,504
GROSS UNDERWRITING INCOME		**202,634,529**	222,098,826
UNDERWRITING EXPENSES			
Gross insurance contract benefits and claims paid	*14,19*	**395,811,537**	254,678,329
Reinsurers' share of gross insurance contracts benefits and claim paid	*14,19*	**(310,713,953)**	(40,120,045)
Gross change in insurance contract liabilities	*14,19*	**(202,608,644)**	8,955,507
Reinsurers' share of gross change in insurance contract liabilities	*14,19*	**249,160,088**	2,882,602
Net benefits and claims		**131,649,028**	226,396,393
Commission expense	*9*	**58,314,140**	53,184,301
TOTAL UNDERWRITING EXPENSES		**189,963,168**	279,580,694
NET UNDERWRITING INCOME (LOSS)		**12,671,361**	(57,481,868)
OTHER INCOME (EXPENSE) - Net			
Interest income	*17*	**17,879,822**	24,543,396
Provision for impairment losses	*5*	**5,073,020**	-
Gain on sale of property and equipment	*10*	**-**	315,777
Loss from tax assessment		**(801,673)**	-
Foreign exchange loss - net		**(6,695,125)**	(3,492,011)
Other income		**3,453,588**	25,226
		18,909,632	21,392,388
NET UNDERWRITING AND OTHER INCOME (LOSS)		**31,580,993**	(36,089,480)
GENERAL AND ADMINISTRATIVE EXPENSES	*20*	**30,943,211**	31,394,944
NET INCOME (LOSS) BEFORE INCOME TAX EXPENSE		**637,782**	(67,484,424)
INCOME TAX EXPENSE	*22*	**4,118,409**	25,965,303
NET LOSS		**(P3,480,627)**	(P93,449,727)

Forward

		Year Ended December 31	
	Note	**2020**	2019
NET LOSS		**(P3,480,627)**	(P93,449,727)
OTHER COMPREHENSIVE LOSS			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of retirement benefits liability	*21*	**670,679**	(1,836,158)
Tax effect	*21, 22*	**(201,204)**	550,847
		469,475	(1,285,311)
Items that will be reclassified subsequently to profit or loss			
Loss from change in fair value of available-for-sale securities	*7*	**(684,604)**	(366,052)
Tax effect	*7, 22*	**205,381**	109,816
		(479,223)	(256,236)
		(9,748)	(1,541,547)
TOTAL COMPREHENSIVE LOSS		**(P3,490,375)**	(P94,991,274)

See Notes to the Financial Statements.

THE NEW INDIA ASSURANCE COMPANY LIMITED

STATEMENTS OF CHANGES IN HEAD OFFICE ACCOUNT

Year Ended December 31

			Revaluation Reserves			
	Assigned Capital (Note 27)	**Remittance from Head Office** (Note 27)	**Revaluation Reserve on Available-for-Sale Securities** (Notes 7 and 27)	**Retirement Revaluation Reserve** (Notes 21 and 27)	**Accumulated Deficits** (Note 27)	**Total**
Balance at January 1, 2020	**P275,000,000**	**P495,147,035**	**P1,620,238**	**(P2,673,049)**	**(P160,534,625)**	**P608,559,599**
Transaction with Head Office						
Inward remittance	**-**	**457,992,329**	**-**	**-**	**-**	**457,992,329**
Transfer of Head Office fund to assigned capital	**385,610,000**	**(385,610,000)**	**-**	**-**	**-**	**-**
Charges paid by Head Office	**-**	**162,550**	**-**	**-**	**-**	**162,550**
	385,610,000	**72,544,879**	**-**	**-**	**-**	**458,154,879**
Total Comprehensive Income						
Net loss for the year	**-**	**-**	**-**	**-**	**(3,480,627)**	**(3,480,627)**
Other comprehensive loss - net of tax effect	**-**	**-**	**(479,223)**	**469,475**	**-**	**(9,748)**
	-	**-**	**(479,223)**	**469,475**	**(3,480,627)**	**(3,490,375)**
Balance at December 31, 2020	**P660,610,000**	**P567,691,914**	**P1,141,015**	**(P2,203,574)**	**(P164,015,252)**	**P1,063,224,103**
Balance at January 1, 2019	P275,000,000	P494,971,737	P1,876,474	(P1,387,738)	(P67,084,898)	P703,375,575
Transaction with Head Office						
Charges paid by Head Office	-	175,298	-	-	-	175,298
Total Comprehensive Loss						
Net loss for the year	-	-	-	-	(93,449,727)	(93,449,727)
Other comprehensive loss - net of tax effect	-	-	(256,236)	(1,285,311)	-	(1,541,547)
	-	-	(256,236)	(1,285,311)	(93,449,727)	(94,991,274)
Balance at December 31, 2019	P275,000,000	P495,147,035	P1,620,238	(P2,673,049)	(P160,534,625)	P608,559,599

See Notes to the Financial Statements.

THE NEW INDIA ASSURANCE COMPANY LIMITED
STATEMENTS OF CASH FLOWS

		Year Ended December 31	
	Note	**2020**	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax expense		**P637,782**	(P67,484,424)
Adjustments for:			
Changes in:			
Reserve for unearned premiums - net of reinsurance premiums reserve	*14*	**9,573,959**	2,938,101
Deferred acquisition costs	*9*	**1,994,405**	(2,978,588)
Deferred commission income	*9*	**(196,461)**	87,417
Foreign exchange loss - net		**6,695,125**	3,492,011
Depreciation and amortization	*10, 11, 12, 20*	**1,908,167**	1,714,984
Retirement benefits expense	*21*	**1,162,471**	632,408
Interest expense on lease liability	*12, 20*	**46,625**	25,411
Gain on sale of property and equipment	*10*	**-**	(315,777)
Interest income	*17*	**(17,879,822)**	(24,543,396)
Operating income (loss) before working capital changes		**3,942,251**	(86,431,853)
Changes in:			
Insurance receivables - net		**(247,386,223)**	2,283,085
Reinsurance assets		**249,160,088**	2,882,602
Other assets		**7,658,539**	12,163,600
Insurance contract liabilities		**(202,608,644)**	8,955,507
Accounts and other liabilities		**17,828,767**	(1,349,290)
Commission payable		**629,853**	5,426,504
Due to reinsurers		**2,189,719**	30,991
Net cash used in operations		**(168,585,650)**	(56,038,854)
Retirement benefits paid	*21*	**-**	(339,450)
Interest paid on lease liability	*12, 20*	**(46,625)**	(25,411)
Interest received		**16,749,098**	22,901,094
Income tax paid		**(3,923,453)**	(4,635,423)
Net cash used in operating activities		**(155,806,630)**	(38,138,044)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposals of:			
Held-to-maturity securities	*6*	**615,000,000**	228,500,000
Property and equipment	*10*	**-**	455,710
Acquisitions of:			
Property and equipment	*10*	**-**	(1,909,366)
Held-to-maturity securities	*6*	**(826,357,698)**	(244,743,178)
Net cash used in investing activities		**(211,357,698)**	(17,696,834)

Forward

		Year Ended December 31	
	Note	**2020**	2019
CASH FLOWS FROM FINANCING ACTIVITIES			
Remittances from Head Office		**P458,154,878**	P175,298
Payment of lease liability	*12*	**(196,418)**	(72,987)
Net cash provided by financing activities		**457,958,460**	102,311
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT		**90,794,132**	(55,732,567)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENT		**(3,279,779)**	(186,481)
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR	*4*	**69,662,399**	125,581,447
CASH AND CASH EQUIVALENT AT END OF YEAR	*4*	**P157,176,752**	P69,662,399

See Notes to the Financial Statements.

1. Reporting Entity

The New India Assurance Company Limited (the Branch) has been established to engage in the business and operation of all kinds of insurance, reinsurance on buildings, automobiles, cars and other motor vehicles, goods and merchandise, goods-in-transit, goods in-charge, fire insurance, earthquake, insurance against accident, all other forms of undertakings to indemnify any person against loss, damage, or liability arising from unknown or contingent events, except life insurance.

The Branch was licensed by the Philippine Securities and Exchange Commission (SEC) on August 28, 1930. The head office of the Branch is New India Assurance Company Limited (the Head Office), a foreign company incorporated under the laws of India on July 23, 1919.

The Insurance Commission (IC) granted a Certificate of Authority to the Branch effective January 1, 2019 to December 31, 2021.

The Branch's registered office, which is also its principal place of business, is located at 405 ITC Bldg., 337 Sen. Gil Puyat Ave., Makati City, Metro Manila.

2. Basis of Preparation

Statement of Compliance
These financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). These financial statements were authorized for issue by the Branch's Chief Operating Officer (COO) on May 28, 2021.

Details in the Branch's significant accounting policies are included in Note 26.

Basis of Measurement
The financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis on each reporting date.

Items	Measurement Bases
Available-for-sale (AFS) securities	Fair value
Retirement benefits liability	Present value of the defined benefit obligation (DBO) less fair value of plan assets (FVPA)

Functional and Presentation Currency
These financial statements are presented in Philippine peso (PHP), which is the Branch's functional currency. All amounts have been rounded to the nearest PHP unless otherwise indicated.

Presentation of Financial Statements
The Branch presents its statement of assets, liabilities and head office account in a manner that the presentation provides information that is reliable and relevant. An analysis regarding recovery or settlement within twelve (12) months after reporting date (current) and more than 12 months after reporting date (noncurrent) is presented in Note 25.

3. Significant Accounting Judgments, Estimates and Assumptions

In preparing these financial statements, management has made judgments and estimates that affect the application of the Branch's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of estimates are recognized prospectively.

Judgments
Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is as follows:

(a) *Classifying Financial Instruments*
The Branch exercises judgment in classifying a financial instrument, or its components, on initial recognition either as a financial asset, a financial liability or an equity in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of assets, liabilities and head office account.

In classifying nonderivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as held-to-maturity (HTM) securities, the Branch evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity. If the Branch fails to keep these investments to maturity other than for specific circumstances as allowed under the standard, it will be required to reclassify the whole class as AFS securities. In such a case, the investments would, therefore, be measured at fair value, not at amortized cost.

(b) *Impairment of AFS Securities*
The Branch considers that AFS financial assets 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 Branch evaluates among other factors, the normal volatility in share/market price and the future cash flows and the discount factors for non-listed equity securities. The Branch generally regards fair value decline as being significant when its decline exceeds 20% of the original cost of the investment and prolonged when it persists for six (6) months. In addition, an 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.

Estimates and Assumptions
Information about assumptions and estimation uncertainties as at December 31, 2020 and 2019 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is as follows:

(a) *Estimating Incremental Borrowing Rate (IBR)*
The Branch uses its IBR as the discount rate in measuring its lease liability. It is the rate of interest that the Branch would have to pay to borrow over a similar term, and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use (ROU) asset in a similar economic environment. The Branch estimates its IBR based on its credit rating affected by the history of borrowing and payment of debts due, length of its credit history, evidence of default, its current ability to repay debts and its future economic outlook. The Branch obtained the interest rate available to it based on its credit standing from banking entities and derived the IBR based on several factors provided that it should not be lower than the risk-free rate on treasury bills. The IBR is also impacted by the value of the leased asset and the duration of the lease, which could result in a different IBR for each lease.

(b) *Valuation of Insurance Contract Liabilities*
Estimates have to be made for the expected ultimate costs of claims reported and incurred but not yet reported (IBNR) at the end of the reporting period. It can take a significant period before the ultimate costs of claims can be established with certainty.

The main assumption underlying the insurance claims provision estimates that a Branch's past claims development experience can be used to project future claims development and hence, ultimate costs of claims. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by geographical area, as well as by significant business lines and claim types. Large claims are usually addressed separately, either by being reserved at the face value of loss per adjuster estimates or projected separately to reflect their future development.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in the future (i.e., to reflect one-off occurrences, changes in external or market factors such as public's attitude to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) to arrive at the estimated ultimate costs of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

The primary technique adopted by management in estimating the ultimate loss is using the incurred chain-ladder method, expected loss ratio and Bornhuetter-Ferguson method excluding one-off and large claims to predict the future claims settlement. Both actuarial projection techniques are acceptable as per IC Circular Letter (CL) No. 2018-18, *Valuation Standards for Nonlife Insurance Policy Reserves*.

At each reporting date, prior year claim estimates are assessed for adequacy and changes made are charged to provision for claims reported and IBNR claims. Insurance contract liabilities are not discounted for the time value of money.

As at December 31, 2020 and 2019, the Branch's provision for claims reported and IBNR claims amounted to P329.26 million and P531.87 million, respectively (see Note 14).

(c) *Liability Adequacy Test*
At each reporting period, management performs a liability adequacy test to determine if there is a need to set aside expected claims and expenses which could arise during the unexpired coverage period of the policies after the reporting date which is over and above the reserve for unearned premiums. The Branch calculates the best estimate of future claims and expenses for each line of business using actuarial valuation techniques. Expected future claims include policy maintenance and claims handling expenses.

As at December 31, 2020 and 2019, the carrying amount of the reserve for unearned premium, net of deferred acquisition cost amounting to P96.94 million and P77.63 million, respectively, (see Notes 9 and 14) are adequate in light of the latest current estimates and taking into the provisions of PFRS 4, *Insurance Contracts*.

(d) *Estimating Allowance for Impairment Losses on Receivables*
An adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Branch evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of the Branch's relationship with the customers, the customers' current credit status, and the average age of accounts, collection experience and historical loss experience.

The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Branch to reduce any differences between loss estimates and actual loss experience.

As at December 31, 2020 and 2019, the total carrying amount of insurance receivables and reinsurance recoverable on unpaid losses amounted to P600.00 million and P602.59 million, respectively (see Notes 5 and 8).

The Branch recognized reversal for allowance of impairment losses on insurance receivables amounting to P5.07 million in 2020 and nil in 2019 (see Note 5).

(e) *Estimating Allowance for Impairment Losses on AFS Securities*
The Branch carries AFS financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates and interest rates. However, the amount of changes in fair value would differ if the Branch utilized different valuation methods and assumptions. Any change in the fair value of AFS financial assets would affect other comprehensive income (OCI).

As at December 31, 2020 and 2019, the carrying amount of AFS securities amounted to P3.92 million and P4.61 million, respectively, are not impaired based on management assessment (see Note 7).

(f) *Impairment of Nonfinancial Assets*
The Branch assesses impairment on property and equipment, computer software and the ROU asset whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. The factors that the Branch considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;

- significant changes in the manner of use of the acquired assets or the strategy for business; and

- significant negative industry or economic trends.

The Branch recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit (CGU) to which the asset belongs.

In 2020 and 2019, no impairment loss was recognized for the Branch's nonfinancial assets. The table below shows the carrying amounts of the Branch's nonfinancial assets.

	Note	**2020**	2019
Property and equipment - net	*10*	**P2,187,487**	P2,919,635
Computer software - net	*11*	**4,801,547**	5,761,857
ROU asset - net	*12*	**304,115**	519,824
		P7,293,149	P9,201,316

(g) *Fair Value of Financial Assets and Liabilities*
The fair values of financial instruments traded in active markets (such as the AFS financial assets) are based on quoted market prices or quoted prices for similar assets or liabilities at the reporting date. If the financial instrument is not traded in an active market, the fair value is determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use observable data only, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

As at December 31, 2020 and 2019, the Branch's listed equity securities classified as "AFS securities" carried at fair value are classified as Level 1. While the unquoted preferred shares are measured at cost less any impairment loss.

(h) *Estimation of Useful Lives of Property and Equipment and Computer Software*
The Branch estimates the useful lives of property and equipment and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and computer software 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 total carrying amounts of property and equipment and computer software amounted to P6.99 million and P8.68 million as at December 31, 2020 and 2019, respectively (see Notes 10 and 11).

Based on management's assessment as at December 31, 2020 and 2019, there is no change in estimated useful lives of property and equipment and computer software during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(i) *Recoverability of Deferred Tax Assets*
The Branch reviews its deferred tax assets at the end of 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 asset to be utilized. The Branch assessed whether the deferred tax assets recognized as at December 31, 2020 and 2019 are recoverable in the subsequent periods. Based on the Branch's assessment, the benefits from net operating loss carryover (NOLCO) and excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) may not be utilized within the period allowed for it to be deductible.

As at December 31, 2020 and 2019, the deferred tax assets recognized amounted to P22.22 million. (see Note 22).

(j) *Present Value of DBO*
The determination of DBO is dependent on the selection of certain assumptions used in calculating such amounts and is determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and its long-term nature, a DBO is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

While the Branch believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the DBO.

As at December 31, 2020 and 2019, the Branch's DBO amounted to P6.68 million and P6.14 million, respectively (see Note 21).

(k) *Contingencies*
The Branch is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of claims has been developed through consultation and aid of legal counsels handling the Branch's defense in these matters and based upon an analysis of potential results. Management does not believe that the outcome of these proceedings will have a material adverse effect on the Branch's financial position. Management has determined that the present obligations with respect to contingent liabilities and claims and contingent assets do not meet the recognition criteria and therefore has not recorded any such amounts. It is probable, however, that the future results of operations could be materially affected by changes in or in the effectiveness of the strategies relating to these proceedings.

4. Cash and Cash Equivalent

This account consists of:

	Note	**2020**	2019
Cash in banks	*27*	**P156,158,752**	P68,644,399
Cash equivalent	*27*	**1,000,000**	1,000,000
Cash on hand		**18,000**	18,000
		P157,176,752	P69,662,399

Cash in banks generally earn interest at the prevailing bank deposit rates. Interest earned from cash in banks amounted to P0.53 million and P0.94 million in 2020 and 2019, respectively (see Note 17).

5. Insurance Receivables

This account consists of:

	Note	**2020**	2019
Reinsurance recoverable on paid losses:			
Related party	*23*	**P336,764,921**	P116,114,924
Third parties		**15,686,217**	13,925,767
Premium receivables		**91,974,740**	82,020,425
Due from ceding companies		**50,190,075**	40,494,055
Funds held by ceding companies		**6,872,261**	6,619,840
		501,488,214	259,175,011
Allowance for impairment losses		**(39,699,465)**	(44,772,485)
	27	**P461,788,749**	P214,402,526

Reinsurance recoverable on paid losses represents amounts due from reinsurers under the treaty and facultative agreements as their share in losses already paid by the Branch.

Premium receivables represent the amount due from policyholders under the direct insurance contracts written by the Branch.

Due from ceding companies refers to the premiums receivable from the ceding companies as a result of the treaty and facultative reinsurance assumed by the Branch.

Funds held by ceding companies pertain to the portion of reinsurance premiums withheld by ceding companies in accordance with treaty and facultative agreements.

The reconciliation of the allowance for impairment losses on insurance receivables is as follows:

	2020	2019
Balance at beginning of year	**P44,772,485**	P44,772,485
Reversal of impairment	**(5,073,020)**	-
Balance at end of year	**P39,699,465**	P44,772,485

6. Held-to-maturity Securities

This account consists of investments in government securities with the total carrying amount of P664.74 million and P452.25 million as at December 31, 2020 and 2019, respectively, and bears interest ranging from 1.01% to 6.25% in 2020 and from 3.25% to 6.25% in 2019.

Interest income from these securities amounted to P17.35 million and P23.61 million in 2020 and 2019, respectively (see Note 17).

A portion of the Branch's investments in HTM securities is deposited with the IC as security for the benefit of policyholders and creditors of the Branch in accordance with the provision of the Amended Insurance Code. The face value of these investments deposited with the IC amounted to P555.61 million and P435.61 million as at December 31, 2020 and 2019, respectively.

The reconciliation of the carrying amounts of HTM securities is as follows:

	Note	**2020**	2019
Balance at beginning of year		**P452,252,302**	P434,366,822
Acquisitions		**826,357,698**	244,743,178
Maturities		**(615,000,000)**	(228,500,000)
Net amortization of discount		**1,130,724**	1,642,302
Balance at end of year	*27*	**P664,740,724**	P452,252,302

No provision for impairment loss was recognized for HTM securities in 2020 and 2019.

7. Available-for-Sale Securities

This account consists of investment in equity securities which include shares of stocks of corporations in the Philippines that are traded in the Philippine Stock Exchange (PSE) and some preferred stocks.

	Note	**2020**	2019
Listed equity securities		**P3,905,248**	P4,589,852
Unquoted preferred stocks		**16,450**	16,450
	28	**P3,921,698**	P4,606,302

The reconciliation of the carrying amounts of AFS securities is as follows:

	Note	**2020**	2019
Balance at beginning of year		**P4,606,302**	P4,972,354
Loss from change in fair value during the year		**(684,604)**	(366,052)
Balance at end of year	*28*	**P3,921,698**	P4,606,302

The reconciliation of revaluation reserve on AFS securities is as follows:

	Note	**2020**	2019
Balance at beginning of year		**P1,620,238**	P1,876,474
Amount to be recognized in OCI:			
Loss from change in fair value during the current year		**(684,604)**	(366,052)
Tax effect	*22*	**205,381**	109,816
		(479,223)	(256,236)
Balance at end of year	*27*	**P1,141,015**	P1,620,238

8. Reinsurance Assets

This account consists of:

	Note	**2020**	2019
Reinsurance recoverable on unpaid losses:			
Related party	*23*	**P117,211,590**	P325,229,138
Third parties		**40,764,827**	82,720,524
	14	**157,976,417**	407,949,662
Deferred reinsurance premiums		**24,505,004**	16,772,043
Reinsurers' share on IBNR		**15,577,582**	14,764,425
	14	**198,059,003**	439,486,130
Allowance for impairment losses		**(19,762,007)**	(19,762,007)
		P178,296,996	P419,724,123

Reinsurance recoverable on unpaid losses represents amounts due from reinsurers under the treaty and facultative agreements as their share in losses on claims not yet paid but already reported and recognized by the Branch.

Deferred reinsurance premiums pertain to the portion of the reinsurance premiums ceded out related to the unexpired periods of the policies at the end of each reporting period.

The Branch's reinsurance assets, excluding the reinsurer's share on IBNR, have been reviewed for indicators of impairment. No additional provision for impairment loss was recognized for the years ended December 31, 2020 and 2019.

9. Deferred Acquisition Costs and Deferred Commission Income

The movements in these accounts are as follows:

	Note	**2020**	2019
Deferred acquisition costs:			
Balance at beginning of year		**P27,688,984**	P24,710,396
Commissions deferred during the year		**56,319,735**	56,162,889
Commissions incurred during the year		**(58,314,140)**	(53,184,301)
Balance at end of year	*25*	**P25,694,579**	P27,688,984
Deferred commission income:			
Balance at beginning of year		**P326,924**	P239,507
Reinsurance commissions deferred during the year		**257,543**	546,921
Reinsurance commissions earned during the year		**(454,004)**	(459,504)
Balance at end of year	*25*	**P130,463**	P326,924

10. Property and Equipment

The movements in this account are as follows:

		For the Year Ended December 31, 2020		
	Note	**Furniture, Fixtures and Office Equipment**	**Transportation Equipment**	**Total**
Cost at beginning and end of year		**P4,482,327**	**P2,738,717**	**P7,221,044**
Accumulated Depreciation				
Balance at beginning of year		**3,442,024**	**859,385**	**4,301,409**
Depreciation	*20*	**430,970**	**301,178**	**732,148**
Balance at end of year		**3,872,994**	**1,160,563**	**5,033,557**
Carrying Amount		**P609,333**	**P1,578,154**	**P2,187,487**

		For the Year Ended December 31, 2019		
	Note	Furniture, Fixtures and Office Equipment	Transportation Equipment	Total
Cost				
Balance at beginning of year		P4,464,037	P2,415,699	P6,879,736
Additions		81,955	1,827,411	1,909,366
Disposals		(63,665)	(1,504,393)	(1,568,058)
Balance at end of year		4,482,327	2,738,717	7,221,044
Accumulated Depreciation				
Balance at beginning of year		3,272,763	1,827,631	5,100,394
Depreciation	*20*	232,926	396,214	629,140
Disposals		(63,665)	(1,364,460)	(1,428,125)
Balance at end of year		3,442,024	859,385	4,301,409
Carrying Amount		P1,040,303	P1,879,332	P2,919,635

In 2019, the Branch disposed of property and equipment with carrying amount of P0.14 million, which resulted in a gain of P0.32 million. There were no disposals of property and equipment in 2020.

No property and equipment are pledged as collateral as at December 31, 2020 and 2019.

11. Computer Software

The movements in this account are as follows:

	Note	2020	2019
Cost at beginning and end of year		**P9,603,094**	P9,603,094
Accumulated Amortization			
Balance at beginning of year		**(3,841,237)**	(2,880,929)
Amortization	*20*	**(960,310)**	(960,308)
Balance at end of year		**(4,801,547)**	(3,841,237)
Carrying Amount		**P4,801,547**	P5,761,857

The Branch's computer software is the GENIISYS which is used as the Branch's insurance system.

12. Leases

The Branch leases office spaces for several of its satellite offices and a residential house for its COO with terms of one (1) to three (3) years. The lease agreements include escalation clauses that allow a reasonable increase in rates. The leases are renewable under certain terms and conditions and require mutual agreement of the Branch and the lessor.

Information about the leases for which the Branch is a lessee is presented below:

ROU Asset
The movements in this account are as follows:

	Note	2020	2019
Cost			
Balance at beginning of year		**P645,360**	P -
Additions		**-**	645,360
Balance at end of year		**645,360**	645,360
Accumulated Depreciation			
Balance at beginning of year		**125,536**	-
Depreciation	*20*	**215,709**	125,536
Balance at end of year		**341,245**	125,536
Carrying Amount		**P304,115**	P519,824

Lease Liability
The movements in this account are as follows:

	Note	2020	2019
Balance at beginning of year		**P533,014**	P -
Addition		**-**	606,001
Amortization of interest	*20*	**46,625**	25,411
Lease payments		**(243,043)**	(98,398)
Balance at end of year		**P336,596**	P533,014

The incremental borrowing rate used is 10.44%.

The following sets out the maturity analysis of lease liability, showing the undiscounted lease payments after December 31, 2020 and 2019:

	2020	2019
Less than 1 year	**P255,196**	P243,043
1 to 2 years	**108,484**	255,196
2 to 3 years	**-**	108,484
Undiscounted lease payments	**363,680**	606,723
Unamortized interest	**(27,084)**	(73,709)
	P336,596	P533,014

The amounts recognized in profit or loss are as follows:

	Note	2020	2019
Expenses on short-term leases and lease of low-value assets		**P3,329,792**	P3,467,387
Depreciation of ROU assets		**215,709**	125,536
Interest expense on lease liabilities	*20*	**46,625**	25,411
		P3,592,126	P3,618,334

Total cash outflows for the leases are as follows:

	Note	2020	2019
Short-term leases and leases of low-value assets applying the recognition exemption		**P3,329,792**	P3,467,387
Principal payments of the lease liability		**196,418**	72,987
Interest paid on lease liability	*20*	**46,625**	25,411
		P3,572,835	P3,565,785

13. Other Assets

This account consists of:

	Note	2020	2019
Creditable withholding taxes (CWT)		**P23,321,582**	P22,462,323
Input value-added tax (VAT)		**8,650,826**	17,925,064
Deposits	*27*	**2,847,805**	6,750,063
Accrued interest on investments	*27*	**2,542,045**	3,115,965
Prepaid rent		**2,014,561**	2,021,686
Deferred input VAT		**1,620,107**	1,800,845
Advances to employees	*27*	**1,252,582**	1,472,581
Security fund	*27*	**48,439**	48,439
Other receivables		**14,124,389**	12,095,952
		P56,422,336	P67,692,918

CWT are taxes withheld on premium payments from intermediaries to the Branch.

Input VAT pertains to taxes on purchases of goods and services equivalent to 12% of the selling price which can be claimed against output VAT.

Deposits include refundable deposits from lease agreements, a performance bond and deposits to health maintenance organizations.

Prepaid rent pertains to the amount paid in advance by the Branch to the lessors for short-term leases of its office premises, which will be applied against the lease payable at end of the lease term.

Advances to employees pertain to loans granted or extended to staff and officers and sundry advances which will be collected by way of salary deduction from the employees.

Security fund represents the amount deposited with IC. This was created under Section 365 of the Presidential Decree No. 612 to be used for the payment of valid claims against insolvent insurance companies.

Other receivables are input VAT with no receipts issued by the payees which the Company will charge to the payees in the subsequent billings to be issued by the payees or any outstanding amount due to the payees.

14. Insurance Contract Liabilities

The analysis of insurance contract liabilities, net of reinsurer's share of liabilities is as follows:

		December 31, 2020			December 31, 2019		
	Note	**Insurance Contract Liabilities**	**Reinsurer's Share of Liabilities** (Note 8)	**Net Retention**	Insurance Contract Liabilities	Reinsurer's Share of Liabilities (Note 8)	Net Retention
Provision for claims reported		**P287,173,133**	**P157,976,417**	**P129,196,716**	P482,506,922	P407,949,662	P74,557,260
Provision for IBNR claims		**42,083,434**	**15,577,582**	**26,505,852**	49,358,289	14,764,425	34,593,864
Provision for claims reported and IBNR claims	*27*	**329,256,567**	**173,553,999**	**155,702,568**	531,865,211	422,714,087	109,151,124
Provision for unearned premiums		**122,630,793**	**24,505,004**	**98,125,789**	105,323,873	16,772,043	88,551,830
Balance at end of year		**P451,887,360**	**P198,059,003**	**P253,828,357**	P637,189,084	P439,486,130	P197,702,954

Provision for claims reported pertains to losses and claims due to policyholders under direct insurance contracts and due to ceding companies under the treaty and facultative agreements.

The movements of provisions for claims reported and IBNR claims are as follows:

		December 31, 2020			December 31, 2019		
	Note	**Insurance Contract Liabilities**	**Reinsurer's Share of Liabilities** (Note 8)	**Net Retention**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net Retention
Balance at beginning of year		**P531,865,211**	**P422,714,087**	**P109,151,124**	P522,909,704	P425,596,689	P97,313,015
Claims incurred during the year		**200,477,748**	**60,740,708**	**139,737,040**	302,472,394	71,223,037	231,249,357
Claims paid during the year	*19*	**(395,811,537)**	**(310,713,953)**	**(85,097,584)**	(254,678,329)	(40,120,045)	(214,558,284)
Increase (decrease) in IBNR		**(7,274,855)**	**813,157**	**(8,088,012)**	(38,838,558)	(33,985,594)	(4,852,964)
Balance at end of year	*27*	**P329,256,567**	**P173,553,999**	**P155,702,568**	P531,865,211	P422,714,087	P109,151,124

Provision for unearned premiums is the portion of the direct insurance and reinsurance premiums assumed related to the unexpired periods of the policies at the end of each reporting period.

As at December 31, 2020 and 2019, the provision for unearned premiums may be analyzed as follows:

		December 31, 2020			December 31, 2019		
	Note	**Insurance Contract Liabilities**	**Reinsurer's Share of Liabilities** (Note 8)	**Net Retention**	Insurance Contract Liabilities	Reinsurer's Share of Liabilities (Note 8)	Net Retention
Balance at beginning of year		**P105,323,873**	**P16,772,043**	**P88,551,830**	P109,228,827	P23,615,098	P85,613,729
Policies written during the year	*15, 18*	**256,949,015**	**45,194,532**	**211,754,483**	260,624,278	36,046,855	224,577,423
Premiums earned during the year		**(239,642,095)**	**(37,461,571)**	**(202,180,524)**	(264,529,232)	(42,889,910)	(221,639,322)
Balance at end of year		**P122,630,793**	**P24,505,004**	**P98,125,789**	P105,323,873	P16,772,043	P88,551,830

15. Due to Reinsurers

Due to reinsurers pertain to unremitted share in premiums of reinsurers. An analysis of the movements in this account as follows.

	Note	**2020**	2019
Balance at beginning of year		**P12,165,728**	P12,134,737
Reinsurers' share of gross earned premiums:			
Related party	*14,18, 23*	**43,076,440**	32,886,560
Third parties	*14, 18*	**2,118,092**	3,160,296
		57,360,260	48,181,593
Payments to reinsurers		**(43,004,813)**	(36,015,865)
	27	**P14,355,447**	P12,165,728

16. Accounts Payable and Other Liabilities

This account consists of:

	Note	**2020**	2019
Accounts payable	*27*	**P16,714,945**	P3,391,447
Deferred output VAT - net		**11,560,497**	9,655,857
Payable to government agencies		**6,623,973**	3,772,892
Accrued expenses	*27*	**561,048**	811,500
		P35,460,463	P17,631,696

Accounts payable consists of outstanding invoices billed by suppliers for goods and services received during the year.

Deferred output VAT - net pertains to the net amount of deferred output and input VAT. The deferred output VAT account represents the calculated VAT amount that is not due until the total billed amount is collected by the Branch. Similarly, the deferred input VAT account pertains to the amount that can be claimed by offsetting from output VAT after the receipt of an invoice from suppliers.

Payable to government agencies include local taxes, mandatory contributions to government employee benefits, documentary stamp tax and withholding taxes payable.

17. Interest Income

The breakdown of interest income is as follows:

	Note	**2020**	2019
Interest income from:			
HTM securities	*6*	**P17,349,455**	P23,605,109
Cash in banks	*4*	**530,367**	938,287
		P17,879,822	P24,543,396

18. Net Earned Premiums

The details of this account are as follows:

	Note	**2020**	2019
Gross premiums written:			
Direct		**P176,814,219**	P158,062,051
Assumed		**80,134,796**	102,562,227
	14, 27	**256,949,015**	260,624,278
Gross change in provision for unearned premiums	*14*	**(17,306,920)**	3,904,954
	14	**P239,642,095**	P264,529,232

The reinsurers’ share of gross premiums written is only direct premiums ceded out. The details are as follows:

	Note	2020	2019
Reinsurers’ share of gross premium written:			
Related parties	*15,23*	**P43,076,440**	P32,886,560
Third parties	*15*	**2,118,092**	3,160,295
	14,27	**45,194,532**	36,046,855
Gross change in provision for unearned premiums	*14*	**(7,732,962)**	6,843,055
		P37,461,570	P42,889,910

19. Net Insurance Benefits and Claims

Gross change in insurance contract liabilities and claims paid are as follows:

	Note	2020	2019
Direct insurance		**P375,123,110**	P228,396,911
Assumed insurance		**20,688,427**	26,281,418
Total insurance contract benefits and claims paid	*14*	**P395,811,537**	P254,678,329

Reinsurers' share of gross insurance contract benefits and claims paid are as follows:

	Note	2020	2019
Direct insurance		**(P262,220,002)**	(P32,452,213)
Assumed insurance		**(48,493,951)**	(7,667,832)
Total reinsurers’ share on insurance contract benefits and claims paid	*14*	**(P310,713,953)**	(P40,120,045)

Gross change in insurance contract liabilities are as follows:

	Note	2020	2019
Provision for claims reported		**(P195,333,789)**	P47,794,065
Change in provision for IBNR claims		**(7,274,855)**	(38,838,558)
Total gross change in insurance contract liabilities	*14*	**(P202,608,644)**	P8,955,507

Reinsurers' share of gross change in insurance contract liabilities are as follows:

	Note	2020	2019
Provision for claims reported		**(P249,973,244)**	P31,102,992
Change in provision for IBNR claims		**813,157**	(33,985,594)
Total reinsurers’ share on gross change in insurance contract liabilities	*14*	**(P249,160,087)**	(P2,882,602)

20. General and Administrative Expenses

This account consists of:

	Note	**2020**	2019
Salaries and employee benefits		**P14,859,112**	P14,020,770
Rental, light and water		**4,041,164**	4,252,401
Depreciation and amortization	*10, 11, 12*	**1,908,167**	1,714,984
Professional fees		**1,653,736**	2,303,858
Taxes and licenses		**937,919**	886,781
Communications and postage		**874,785**	1,056,276
Subscription and promotion		**692,402**	679,075
Profit commissions		**681,354**	521,586
Social Security System, Philhealth and Pag-IBIG contributions		**588,602**	630,262
Stationery and office supplies		**458,362**	563,051
Repairs, maintenance and gasoline		**445,550**	516,811
Insurance expense		**333,504**	455,472
Net interest expense on retirement benefits liability	*21*	**265,865**	222,119
Travel		**187,531**	638,280
Advertising and promotions		**71,614**	394,886
Interest expense on lease liability	*12*	**46,625**	25,411
Representation and entertainment		**46,396**	188,216
Interest and bank service charges		**42,021**	33,962
Miscellaneous		**2,808,502**	2,290,743
		P30,943,211	P31,394,944

The details of salaries and employee benefits are presented below:

	Note	**2020**	2019
Short-term employee benefits		**P13,962,506**	P13,610,481
Post-employment defined benefit	*21*	**896,606**	410,289
		P14,859,112	P14,020,770

Rental, light and water include the rental of the Branch's short-term leases of office spaces and residence of the COO and utilities.

Miscellaneous includes general charges, training, annual maintenance charges and other expenses.

21. Retirement Benefits Liability

The Branch has a funded, non-contributory, post-employment defined benefit plan covering all regular full-time employees (the Retirement Plan). Contributions and costs are determined in accordance with the actuarial studies made for the Retirement Plan. The annual cost is determined using the projected unit credit (PUC) method. The Branch's latest actuarial valuation date is December 31, 2020. Valuation is obtained on an annual basis.

The normal retirement age is 60 with a minimum of 10 years of credited service. The normal retirement benefit is an amount equivalent to 100% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

The Retirement Plan is registered with the Bureau of Internal Revenue (BIR) as a tax-qualified plan under Republic Act (RA) No. 4917, As Amended.

The Branch's plan assets are managed by a trustee bank.

The reconciliation of the retirement benefits liability and its components is as follows:

		Present Value of DBO		FVPA		Retirement Benefits Liability	
	Note	**2020**	2019	**2020**	2019	**2020**	2019
Balance at beginning of year		**P6,137,494**	P 3,894,412	**P1,014,857**	P900,891	**P5,122,637**	P2,993,521
Recognized in Profit or Loss							
Current service cost		**896,606**	410,289	**-**	-	**896,606**	410,289
Interest expense		**318,536**	288,965	**-**	-	**318,536**	288,965
Interest income		**-**	-	**52,671**	66,846	**(52,671)**	(66,846)
	20	**1,215,142**	699,254	**52,671**	66,846	**1,162,471**	632,408
Recognized in OCI							
Remeasurements:							
Actuarial loss arising from:							
Changes in financial assumptions		**167,645**	1,206,204	**-**	-	**167,645**	1,206,204
Experience adjustments		**(844,756)**	897,753	**-**	-	**(844,756)**	897,753
Changes in demographic assumptions		**-**	(220,679)	**-**	-	**-**	(220,679)
Return on assets (excluding amount included in net interest cost)		**-**	-	**(6,432)**	47,120	**6,432**	(47,120)
		(677,111)	1,883,278	**(6,432)**	47,120	**(670,679)**	1,836,158
Others							
Benefits paid		**-**	(339,450)	**-**	-	**-**	(339,450)
Balance at end of year		**P6,675,525**	P6,137,494	**P1,061,096**	P1,014,857	**P5,614,429**	P5,122,637

The rollforward of retirement benefits reserves is as follows:

	Note	**2020**	2019
Balance at beginning of year		**(P2,673,049)**	(P1,387,738)
Actuarial loss on DBO		**677,111**	(1,883,278)
Return on assets (excluding amount included in net interest cost)		**(6,432)**	47,120
Income tax effect	*22*	**(201,204)**	550,847
Balance at end of year	*27*	**(P2,203,574)**	(P2,673,049)

The composition of the plan assets as at December 31, 2020 and 2019 is as follows:

	2020	2019
Cash and cash equivalent	**P318,926**	P140,674
Philippine government bonds	**720,322**	847,438
Quoted equity securities	**21,848**	26,745
	P1,061,096	P1,014,857

The carrying amounts disclosed above reasonably approximate the fair value.

The Retirement Plan exposes the Branch to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

(i.) Investment and Interest Rate Risks

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

(ii.) Longevity and Salary Risks

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

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

	2020	2019
Discount rate	**3.96%**	5.19%
Expected rate of salary increase	**7.00%**	8.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. As at December 31, 2020 and 2019, the average remaining working lives of an individual retiring at age 60 is 20.4 years and 22.6 years, respectively. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero-coupon government bond with terms to maturity approximating the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the DBO as of December 31, 2020 and 2019:

	Impact on Present Value of DBO		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
2020			
Discount rate	**+/-1.00%**	**(P618,612)**	**P724,757**
Salary growth rate	**+/-1.00%**	**695,465**	**(607,584)**
2019			
Discount rate	+/-1.00%	(592,450)	696,567
Salary growth rate	+/-1.00%	670,210	(583,185)

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

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

The maturity profile of the undiscounted expected benefit payments from the plan for 2020 and 2019 is P6.64 million and P6.73 million, respectively, which is expected to be paid within six to ten years at the end of each reporting year.

Maturity Profile

	2020	2019
Less than 1 year	**P377,000**	P306,090
More than 1 year to 2 years	**919,849**	386,563
More than 2 years to 3 years	**432,972**	941,038
More than 3 years to 4 years	**483,563**	482,323
More than 4 years to 5 years	**512,050**	555,544
More than 5 years to 10 years	**3,914,928**	4,056,625
	P6,640,362	P6,728,183

The weighted average duration of the DBO at the end of the reporting period is 10.10 years and 10.50 years for the years ended December 31, 2020 and 2019, respectively.

At the end of the reporting period, the Branch has no formal plan of funding its post-employment DBO. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 20 years when a significant number of employees is expected to retire.

The Branch’s annual contribution to the Retirement Plan consists of payments covering the current service cost. The Branch is expected to contribute the amount of P1.00 million to its plan assets in 2021, subject to further discussion and approval at the management meeting.

22. Income Taxes

The components of the Branch’s income tax (benefit) expense are as follows:

	2020	2019
Recognized in profit or loss		
Deferred tax (benefit) expense	**P194,956**	P21,329,880
Final tax expense	**3,923,453**	4,635,423
	P4,118,409	P25,965,303
Recognized in OCI	**P4,177**	P660,663

The reconciliation of the income tax expense computed at statutory tax rate to the income tax shown in profit or loss is as follows:

	2020	2019
Income (loss) before income tax	**P637,782**	(P67,484,424)
Income tax at statutory tax rate of 30%	**P191,335**	(P20,245,327)
Tax effects of:		
Unrecognized deferred tax asset on:		
Net operating loss carryover (NOLCO)	**8,947,442**	30,928,757
Excess minimum corporate income tax over regular corporate income tax	**196,698**	-
Final tax expense	**3,923,453**	4,635,423
Loss on tax assessment	**240,502**	-
(Nontaxable) nondeductible (income) expenses	**(4,017,074)**	18,009,469
Interest income subject to final tax	**(5,363,947)**	(7,363,019)
Income tax expense	**P4,118,409**	P25,965,303

Deferred tax assets - net as at December 31, 2020 and 2019 and the related deferred tax expense charged to profit or loss and OCI for the years ended December 31, 2020 and 2019 are as follows.

December 31, 2020	***Note***	**Balance January 1, 2020**	**Recognized in Profit or Loss**	**Recognized in OCI**	**Balance December 31, 2020**
Deferred tax assets:					
Allowance for impairment losses		**P19,360,347**	**(P1,521,905)**	**P -**	**P17,838,442**
Provision for IBNR		**14,807,487**	**(2,182,457)**	**-**	**12,625,030**
Unrealized forex loss - net		**-**	**2,008,538**	**-**	**2,008,538**
Retirement benefits liability	*21*	**1,536,791**	**348,742**	**(201,204)**	**1,684,329**
Changes in fair value of AFS	*7*	**195,051**	**-**	**205,381**	**400,432**
Lease liability		**159,904**	**(58,925)**	**-**	**100,979**
Deferred reinsurance commission		**98,077**	**(58,938)**	**-**	**39,139**
		36,157,657	**(1,464,945)**	**4,177**	**34,696,889**
Deferred tax liabilities:					
Deferred acquisition costs		**(8,306,694)**	**598,320**	**-**	**(7,708,374)**
Reinsurer share on IBNR claims		**(4,429,327)**	**(243,948)**	**-**	**(4,673,275)**
ROU asset - net		**(155,947)**	**64,712**	**-**	**(91,235)**
Unrealized forex loss - net		**(1,047,603)**	**1,047,603**	**-**	**-**
		(13,939,571)	**1,466,687**	**-**	**(12,472,884)**
		P22,218,086	**P1,742**	**P4,177**	**P22,224,005**

December 31, 2019	*Note*	Balance January 1, 2019	Recognized in Profit or Loss	Recognized in OCI	Balance December 31, 2019
Deferred tax assets:					
Provision for IBNR		P44,636,586	(P29,829,099)	P -	P14,807,487
Allowance for impairment losses		19,360,347	-	-	19,360,347
Retirement benefits liability	*21*	898,056	87,888	550,847	1,536,791
Changes in fair value of AFS	*7*	-	85,235	109,816	195,051
Lease liability		-	159,904	-	159,904
Deferred reinsurance commission		71,852	26,225	-	98,077
		64,966,841	(29,469,847)	660,663	36,157,657
Deferred tax liabilities:					
Deferred acquisition costs		(7,413,120)	(893,574)	-	(8,306,694)
Reinsurer share on IBNR claims		(14,625,006)	10,195,679	-	(4,429,327)
Unrealized forex loss - net		(41,412)	(1,006,191)	-	(1,047,603)
ROU asset - net		-	(155,947)	-	(155,947)
		(22,079,538)	8,139,967	-	(13,939,571)
		P42,887,303	(P21,329,880)	P660,663	P22,218,086

The Branch no longer recognized temporary differences relating to unearned premiums since the method of computation under PFRS and statutory method is the same (24th method). Hence, no temporary difference will arise.

The Branch is subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations, or RCIT, whichever is higher. For the years ended December 31, 2020 and 2019, the Branch is not liable for RCIT as the Branch's operations resulted in a net loss.

The balance of the Branch's excess MCIT over RCIT available for offsetting against future current tax liabilities amounting are as follows:

Year Incurred	Beginning Balance	Addition	Ending Balance	Expiry
2020	P -	P196,698	P196,698	December 31, 2022
2018	1,963,191	-	1,963,191	December 31, 2021
	P1,963,191	P196,698	P2,159,889	

NOLCO is allowed as a deduction from gross income from operations to arrive at the net taxable income within 3 years from the end of the taxable year the NOLCO was incurred, provided that the Company earns net income within the next 3 taxable years against which the NOLCO can be utilized.

The details of the NOLCO are as follows:

Year Incurred	Beginning Balance	Expired	Ending Balance	Expiry
2019	P103,095,858	P -	P103,095,858	December 31, 2022
2017	80,167,105	(80,167,105)	-	December 31, 2020
	P183,262,963	(P80,167,105)	P103,095,858	

The Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) No. 25-2020 to implement Section 4 (bbbb) of R.A. No. 11494, *Bayanihan to Recover as One Act*, which provides that the NOLCO incurred for taxable years 2020 and 2021 can be carried over as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss. The said RR also defined taxable years 2020 and 2021 to include those corporations with fiscal years ending on or before June 30, 2021 and June 30, 2022, respectively.

The details of the NOLCO covered by R.A. No. 11494 are as follows:

Year Incurred	Expiry	Amount
2020	December 31, 2025	P29,824,806

Deferred tax assets have not been fully recognized because management assessed that it is not probable that future net taxable profit will be available against which the Branch can utilize the benefit therefrom. The unrecognized deferred tax assets as at December 31, 2020 and 2019 are as follows:

	2020	2019
NOLCO	**P39,876,199**	P54,978,889
Excess MCIT over RCIT	**2,159,889**	1,963,191
	P42,036,088	P56,942,080

On March 26, 2021, the President of the Philippines has approved the Corporate Recovery and Tax Incentives for Enterprises or the CREATE Act, with nine (9) provisions vetoed by the President. Below are the salient features of the Act that are relevant to the Branch.

a) RCIT rate is reduced from 30% to 20% for domestic corporations with net taxable income not exceeding P5.00 million and with total assets not exceeding P100.00 million. All other domestic corporations and resident foreign corporations will be subject to 25% income tax. Said reductions are effective July 1, 2020.

b) MCIT rate is reduced from 2% to 1% effective July 1, 2020 to June 30, 2023.

On April 8, 2021, the Bureau of Internal Revenue (BIR) issued the following implementing revenue regulations (RR) that are effective immediately upon publication:

- BIR RR No. 2-2021, *Amending Certain Provisions of RR No. 2-98, As Amended, to Implement the Amendments Introduced by the CREATE Act, to the National Internal Revenue Code (NIRC) of 1997, as Amended, Relative to the Final Tax on Certain Passive Income*;

- BIR RR No. 3-2021, *Rules and Regulations Implementing Section 3 of the CREATE Act, Amending Section 20 of the NIRC of 1997, As Amended*;

- BIR RR No. 4-2021, *Implementing the Provisions on VAT and Percentage Tax Under the CREATE Act Which Further Amended the NIRC of 1997, as Amended, as Implemented by RR No. 16-2005 (Consolidated VAT Regulations of 2005), As Amended*; and

- BIR RR No. 5-2021, *Implementing the New Income Tax Rates on the Regular Income of Corporations, on Certain Passive Incomes, Including Additional Allowable Deductions from Gross Income of Persons Engaged in Business or Practice of Profession Pursuant to the CREATE Act, Which Further Amended the NIRC of 1997*

The enactment of the CREATE Law is a non-adjusting subsequent event thus, the current and deferred income taxes as of December 31, 2020 are measured using the applicable income tax rates as of December 31, 2020.

Further, the BIR has issued its RR No. 5-2021 to promulgate the implementation of the new income tax rates on the regular income of corporations, on certain passive incomes and additional allowable deductions of persons engaged in business or practice of profession as provided for in CREATE Law. The corporate income tax of the Branch will be lowered from 30% to 25% for resident foreign corporations, and on which the Branch would qualify, effective July 1, 2020.

Presented below is the estimated effect of changes in tax rates under the CREATE Act:

	Note	As at December 31, 2020	Effect of Changes in Tax Rates	Amounts Based on the Reduced Tax Rates
Statement of Profit or Loss and Other Comprehensive Loss				
Deferred tax expense		**(P194,956)**	**P86,204**	**(P108,752)**
Net loss for the year		**(3,480,627)**	**303,708**	**(3,176,919)**
Statement of Assets, Liabilities and Head Office Account				
Other assets	*13*	**56,422,336**	**49,175**	**56,471,511**
Deferred tax assets		**22,224,005**	**254,185**	**22,478,190**
Statement of Changes in Head Office Account				
Accumulated deficits	*27*	**(164,015,252)**	**303,708**	**(163,711,544)**
Remeasurements of retirement liability	*21*	**(2,203,574)**	**16,767**	**(2,186,807)**

23. Related Party Transactions

The Branch's related parties include the Head Office and the Branch's key management personnel as described below.

Category/Transaction	*Note*	Year	Amount of the Transaction	Due from a Related Party	Terms	Conditions
Head Office						
Reinsurance recoverable on unpaid losses	*8*	**2020**	**P72,676,886**	**P117,211,590**	Due and demandable;	Unsecured;
		2019	53,120,352	325,229,138	noninterest-bearing	no impairment
Reinsurance recoverable on paid losses	*5*	**2020**	**262,220,002**	**336,764,921**	Due and demandable;	Unsecured;
		2019	(434,346)	116,114,924	noninterest-bearing	no impairment
Premiums due to reinsurers	*15, 18*	**2020**	**43,076,440**	**-**	Due and demandable;	Unsecured;
		2019	32,886,560	-	noninterest-bearing	
Key Management Personnel						
Compensation and benefits		**2020**	**5,800,000**	**-**	Due to and demandable;	Unsecured;
		2019	5,902,885	-	noninterest-bearing	
Total		**2020**		**P453,976,511**		
Total		2019		P441,344,062		

<u>Treaty Reinsurance Agreement with Head Office</u>

The Branch, in the normal operations of the business, enters into a treaty reinsurance agreement with the Head Office in India. The Branch is under the global property excess of loss treaty agreement with a 100% limit of treaty amounting to USD3.50 million, in excess of USD1.50 million for each loss arising from one event. Reinsurance recoverable on paid and unpaid losses is the share of the Head Office on losses claimed with the Branch in excess of the USD1.50 million retention of the Branch.

Reinsurance recoverable on unpaid losses are presented as part of "Reinsurance assets" in the statement of assets, liabilities and head office account (see Note 8).

Reinsurance recoverable on paid losses are presented as part of "Insurance receivables account" in the statement of assets, liabilities and head office account (see Note 5). The balance of reinsurance recoverable on paid losses is presented net of premiums due to reinsurers. The right of offset was established since these transactions arose from the same contract of treaty reinsurance agreement with the Head Office explained above.

Premiums due to reinsurers pertain to the share of the Head Office on the premiums for policies written by the Branch during the year. As mentioned above, premiums due to reinsurers are being offset against the balance of reinsurance recoverable on paid losses, while the premiums ceded to Head Office are presented as part of "Reinsurers' share of gross earned premiums" in profit or loss (see Note 18).

Key Management Personnel Compensation

The Branch's key management personnel pertain to all executive positions. The compensation and benefits given to the key management personnel amounted to P5.80 million and P5.90 million for the years ended December 31, 2020 and 2019, respectively, and is shown as part of salaries and employee benefits under "General and administrative expenses" in profit or loss.

All related party transactions are expected to be settled in cash.

24. Contingencies

The Branch is a defendant in several lawsuits arising from the normal course of carrying out its insurance business. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the Branch's position with regard to the outcome of these claims.

25. Current and Noncurrent Classification

The following summarizes the assets and liabilities of the Branch which are expected to be recovered or settled within 12 months and beyond 12 months after December 31, 2020 and 2019:

		December 31, 2020		December 31, 2019	
	Note	**Within 12 Months**	**Beyond 12 Months**	Within 12 Months	Beyond 12 Months
Assets					
Cash	*4, 27*	**P157,176,752**	**P -**	P69,662,399	P -
Insurance receivables - net	*5, 27*	**461,788,749**	**-**	214,402,526	-
Held-to-maturity securities - net	*6, 27*	**438,187,424**	**226,553,300**	314,229,775	138,022,527
Available-for-sale securities - net	*7, 27*	**-**	**3,921,698**	-	4,606,302
Reinsurance assets - net	*8, 27*	**24,505,004**	**153,791,992**	16,772,043	402,952,080
Deferred acquisition cost	*9*	**25,694,579**	**-**	27,688,984	-
Property and equipment - net	*10*	**-**	**2,187,487**	-	2,919,635
Computer software - net	*11*	**-**	**4,801,547**	-	5,761,857
Deferred tax assets - net	*22*	**-**	**22,224,005**	-	22,218,086
ROU asset - net	*12*	**-**	**304,115**	-	519,824
Other assets	*13, 27*	**444,834**	**55,977,502**	409,520	67,283,398
		P1,107,797,342	**P469,761,646**	P643,165,247	P644,283,709
Liabilities					
Insurance contract liabilities	*14, 27*	**P409,803,926**	**P42,083,434**	P587,830,795	P49,358,289
Due to reinsurers	*15, 27*	**14,355,447**	**-**	12,165,728	-
Accounts payable and accrued expenses	*16, 27*	**35,460,463**	**-**	17,631,696	-
Commissions payable	*27*	**6,550,127**	**-**	5,920,274	-
Lease liability	*12, 27*	**230,837**	**105,759**	196,418	336,596
Deferred commission income	*9*	**130,463**	**-**	326,924	-
Retirement benefits liability	*21*	**-**	**5,614,429**	-	5,122,637
		P466,531,263	**P47,803,622**	P624,071,835	P54,817,522

The Branch is unable to predict with certainty when the insurance contract liabilities related to the IBNR claims and claims reserves are to be settled since the estimation uses probability to determine the amounts of IBNR claims and claims reserve. The amounts and maturities in respect of insurance contract liabilities are based on management's best estimate.

26. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the changes in accounting policies as explained below.

Adoption of Amended Standards and Framework
The Branch has adopted the following amended standards and framework starting January 1, 2020 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption did not have any significant impact on the Branch's financial statements.

- Amendments to References to Conceptual Framework in PFRS Standards sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:

  - a new chapter on measurement;
  - guidance on reporting financial performance;
  - improved definitions of an asset and a liability, and guidance supporting these definitions; and
  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

  Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and make other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- Definition of a Business (Amendments to PFRS 3, *Business Combinations*). The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments:

  - confirmed that a business must include inputs and a process, and clarified that:

    - the process must be substantive; and
    - the inputs and process must together significantly contribute to creating outputs.

- narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and

- added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

▪ Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:

  (a) raising the threshold at which information becomes material by replacing the term ‘could influence’ with ‘could reasonably be expected to influence’;

  (b) including the concept of ‘obscuring information’ alongside the concept of ‘omitting’ and ‘misstating’ information in the definition;

  (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;

  (d) clarifying the explanatory paragraphs accompanying the definition; and

  (e) aligning the wording of the definition of material across PFRS Standards and other publications.

  The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

▪ Extension of the Temporary Exemption from Applying PFRS 9, *Financial Instruments* (Amendments to PFRS 4). The amendments extend the expiry date for the temporary exemption from PFRS 9 to annual periods beginning on or after January 1, 2025. The extension maintains the alignment between the expiry date of the temporary exemption and the effective date of PFRS 17, *Insurance Contracts*, which was deferred to annual periods on or after January 1, 2025.

Insurance Contracts
An insurance contract is an agreement whereby one party, called the insurer, undertakes for a consideration paid by the other party, called the insured, promises to pay money, or its equivalent or to do some act valuable to the latter, upon happening of a loss, liability or disability arising from an unknown or contingent event.

Classification of Insurance and Investment Contracts
The Branch issues contracts that transfer insurance or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such risk includes the possibility of having to pay benefits on the occurrence of an insured event. The Branch may also transfer insurance risk in insurance contracts through its reinsurance arrangements to hedge a greater possibility of claims occurring than expected. As a general guideline, the Branch defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that is at least 10.00% more than the benefits payable if the insured event did not occur. Insurance contracts can also expose the insurer to financial risks. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index, or other variables.

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

Investment contracts can however be reclassified as insurance contracts after inception if the insurance risk becomes significant. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Gross Premium on Insurance Contracts
Gross premium on insurance contracts comprises the total premiums for the whole coverage period provided in the insurance contracts entered during the accounting period and are recognized on the inception date of the policy. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods.

Commission Expense and Deferred Acquisition Costs
Commissions are recognized as expenses over the period of the contracts using the 24^{th} method. The portion of the commissions that relate to the unexpired periods of the policies at the end of the reporting period is accounted for as “Deferred acquisition costs” in the statement of assets, liabilities and head office account. The net changes in deferred acquisition costs at the end of each reporting period are recognized as “Commission expense” in profit or loss.

Commissions and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and or renewing existing insurance contracts, but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred.

An impairment review is performed at the end of each reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount. The impairment loss is charged to profit or loss.

Deferred acquisition costs are derecognized when the related contracts are settled or disposed of.

Reinsurance
The Branch cedes insurance risk in the normal course of business. Ceded insurance arrangements do not relieve the Branch from its obligation to the policyholders. Premiums payable for reinsurance contracts are recognized as a contra-income account upon recognition of related premiums which are presented under the "Reinsurers' share of gross earned premiums" account in profit or loss.

The related reinsurance premium ceded that pertains to the unexpired periods at end of the reporting period are accounted for as reinsurance premiums reserve presented as part of "Reinsurance assets" in the statement of assets, liabilities and head office account. The net changes in reinsurance premiums reserve between each end of the reporting period are recognized using the 24th method and are presented as part of the "Net change in reserve for unearned premium" in profit or loss.

Reinsurance assets represent balances due from reinsurance companies for their share of the unpaid losses incurred by the Branch. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. Reinsurance recoverable on paid losses are included as part of "Insurance receivable - net" in the statement of assets, liabilities and head office account.

The benefits unpaid recoverable to which the Branch is entitled under its reinsurance contracts held are recognized as reinsurance recoverable on unpaid losses classified under the "Reinsurance assets" in the statement of assets, liabilities and head office account. Reinsurance recoverable on unpaid losses are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contracts.

When the Branch enters into reinsurance agreements for ceding out its insurance business, the Branch recognizes the amount payable to the reinsurer under the "Due to reinsurers" in the statement of assets, liabilities and head office account for the reinsurer's share in premium.

The Branch also assumes reinsurance risk in the normal course of business. Premiums and claims on assumed reinsurance are recognized in profit or loss 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 assumed business. For the assumed insurance risk, the Branch recognizes its share in premium and portion of the reinsurance premium withheld by ceding companies as due from ceding companies and funds held by ceding companies, respectively, presented under "Insurance receivables" in the statement of assets, liabilities and home office account.

Gains and losses on buying reinsurance, if any, are recognized in profit or loss immediately at the date of purchase and are not amortized.

Premiums and claims are presented on a gross basis for ceded reinsurance. Reinsurance premiums are presented as "Reinsurance premium assumed". The reinsurers' share in claims paid by the Branch and unpaid including IBNR claims are presented as "Reinsurer's share of gross insurance contract benefits and claims paid" and "Reinsurer's share of gross change in insurance contract liabilities", respectively, in profit or loss.

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

Impairment of Reinsurance Assets

The Branch assesses its reinsurance assets for impairment at least annually. If there is objective evidence that the reinsurance asset is impaired, the Branch reduces the carrying amount of the reinsurance assets to its recoverable amount and recognizes that impairment loss in profit or loss. The Branch gathers the objective evidence that a reinsurance asset is impaired using specific assessment. The Branch identifies individually which accounts should be provided with impairment loss.

Commission Income and Deferred Reinsurance Commissions

Commissions earned from reinsurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the commissions that relate to the unexpired periods of the policies at end of the reporting period is accounted for as "Deferred commissions income" in the statement of assets, liabilities and head office account. The net changes in deferred reinsurance commissions between each end of the reporting period are recognized as "Commission income" in the profit or loss.

Insurance Contract Liabilities

Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

Provision for Claims Reported and IBNR Claims

These liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. Insurance liabilities are composed of provisions for claims reported and IBNR claims.

Provisions for claims reported refer to those claims that are known to the Branch as of reporting date. Claims that are subsequently paid are presented as part of "Gross insurance contract benefits and claims paid" in profit or loss.

IBNR claims are based on the estimated cost of all claims incurred but not reported at the end of the reporting period. The IBNR claims shall be calculated based on the standard actuarial projection techniques or combination of such techniques, such as but not limited to chain-ladder method, expected loss ratio approach and Bornhuetter-Ferguson method. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are charged to "Gross change in insurance contract liabilities" in profit or loss.

Provision for Unearned Premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired, is deferred as provision for unearned premiums as part of the "Insurance contract liabilities" in the statement of assets, liabilities and head office account. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. "Net change in the reserve for unearned premiums" account is taken to profit or loss so that revenue is recognized over the period of risk.

Liability Adequacy Test
At the end of each reporting period, a liability adequacy test is performed to ensure the adequacy of insurance contract liabilities, net of the related deferred acquisition cost. The test considers current best estimates of future cash flows, claims handling cost and policy administrative expenses. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy arising from the test is immediately charged to profit or loss by establishing an unexpired risk provision for losses.

The Branch's insurance contract liabilities are composed of premium liabilities and claims liabilities. Premium liabilities are calculated as the higher between provision for unearned premiums and the unexpired risk reserve (URR). URR is an estimate of future claims and expenses, at a designated level of confidence, in respect of the risk during the unexpired period after the valuation date of the policies written prior to that date including maintenance and claims handling expense. If the unexpired risk reserve is higher than the provision for unearned premiums, the excess is set up as additional insurance reserves on top of the provision for unearned premiums. The estimation of URR is made for each class of business line.

While claims liabilities are composed of provisions for claims reported and IBNR. The related significant accounting policies are disclosed in the preceding section of the notes to the financial statements.

<u>Financial Assets</u>
Date of Recognition
Financial instruments are recognized in the statement of assets, liabilities and head office account when the Branch becomes a party to the contractual provisions of the instrument. The purchase or sale of a non-derivative financial asset that will be delivered within the timeframe generally established by regulation or convention in the market concerned, except for equity securities, are recognized on the date on which the instrument is actually transferred (the settlement date).

Initial Recognition
On initial recognition, a financial asset or financial liability is measured at fair value plus directly attributable transaction costs, unless the instrument is classified at fair value through profit or loss (FVPL). Normally, the fair value on initial recognition is the transaction price - i.e., the fair value of the consideration given (in case of an asset) or received (in case of liability) for the financial instrument.

Classification and Subsequent Measurement
The Branch classifies its financial assets in the following categories: financial assets at FVTPL, HTM investments, loans and receivables, and AFS financial assets. The Branch classifies its financial liabilities as either financial liabilities at FVTPL or other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at the end of each reporting period.

The Branch has no financial instruments at FVTPL as at December 31, 2020 and 2019.

Financial instruments issued by the Branch are classified as financial liability or equity in accordance with the substance of the contractual arrangement. Any interest, dividends, and realized and unrealized gains and losses from financial instruments or components considered as a financial liability are recognized in profit or loss for the period. On the other hand, distributions to holders of financial instruments classified as equity are treated as owner-related and thus charged directly to the Head Office account.

As at December 31, 2020 and 2019, the Branch did not issue any financial instruments classified as equity.

(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. They are not entered into with the intention of immediate or short-term resale and are not designated as financial assets at FVTPL, AFS financial assets or HTM investments.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees that are an integral part of the effective interest rate (EIR). Loans and receivables that are perpetual and that have either a fixed or a market-based variable rate of interest are measured at cost.

Any interest earned on loans and receivables is recognized in profit or loss on an accrual basis. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

The Branch's financial assets categorized as loans and receivables consist of cash and cash equivalent, insurance receivables, and other assets such as other receivables, deposits and accrued interest on investments.

Cash includes cash on hand and in banks which are stated at face amount. Cash equivalent is short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less and are subject to an insignificant risk of changes in value.

(ii.) AFS Financial Assets

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. These financial assets are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. These include debt and equity securities.

Subsequent to initial recognition, AFS financial assets are measured at fair value.

Fair value changes are recognized in OCI. Cumulative change in the fair value is presented as "Revaluation reserve on AFS securities" in the statement of assets, liabilities and head office account. Impairment losses and foreign exchange gains and losses on AFS debt instruments are recognized in profit or loss as they arise.

When the relevant asset is derecognized, on sale or other disposals, or is impaired, the cumulative fair value changes recognized in OCI are reclassified from head office account to profit or loss. For partial disposal, a proportionate share of the fair value gains and losses previously recognized in OCI is reclassified from head office account to profit or loss.

Such gains and losses include all fair value changes until the date of disposal.

The Branch's listed and unquoted equity securities are classified under this category.

(iii.) HTM Investments

HTM investments are non-derivative financial assets with fixed and determinable payments and fixed maturity that the Branch has a positive intention and ability to hold to maturity other than those that (1) the Branch designates on initial recognition as at FVTPL, (2) the Branch designates as AFS financial assets and (3) those financial assets that meet the definition of loans and receivables. HTM investments are initially measured at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method, less any impairment in value. The amortization of premiums and discounts and any impairment losses during the year are recognized in profit or loss.

(iv.) Other Financial Liabilities

Issued financial instruments or their components, which are not classified as FVTPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Branch having an obligation either to deliver cash or another financial instrument to the holder or lender or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset.

Subsequent to initial measurement, these financial liabilities are carried at amortized cost using the effective interest method, less any impairment losses. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees and costs that are an integral part of the EIR of the liability. Amortization is recognized in profit or loss.

Included in this category are claims payable under "Insurance contract liabilities", due to reinsurers, accounts payable and other liabilities (excluding amounts payable to government agencies), commission payable and lease liability.

Fair Value Measurements

Determination of Fair Values

The fair values of financial instruments traded in active markets at the reporting date are based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

When the current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair values are determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flows method, price comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

Fair Value Hierarchy
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Branch determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For purposes of the fair value disclosure, the Branch has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

"Day 1" Profit
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from the observable market, the Branch recognizes the difference between the transaction price and fair value (a "Day 1" profit) in profit or loss, unless it qualifies for recognition as some other type of asset. In cases where data used as inputs in a valuation model are not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Branch determines the appropriate method of recognizing the "Day 1" profit.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset, and the net amount is reported in the statement of assets, liabilities and head office account if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the financial asset and settle the financial liability simultaneously. This is not generally the case with master netting agreements; thus the related financial assets and financial liabilities are presented on a gross basis in the statement of assets, liabilities and head office account.

The Branch has reinsurance recoverable on paid and unpaid losses to its Head Office which can be applied against its outstanding premiums due to Head Office.

Impairment of Financial Assets
The Branch assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets may be impaired. A financial asset or a group of financial assets is impaired and an impairment loss is incurred if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (loss event) and that loss event(s) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

AFS Financial Assets Carried at Fair Value
In the case of equity securities classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below cost. Where there is objective evidence of impairment, the cumulative loss lodged under the head office account, measured as the difference between the acquisition cost and the current fair value, less any impairment previously recognized in OCI, is transferred to profit or loss.

In the case of AFS debt securities, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the EIR on the reduced carrying amount of the asset and is recognized in profit or loss. If in a subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss to the extent that the resulting carrying amount of the security does not exceed its carrying amount had no impairment loss been recognized.

For partial disposal, a proportionate share of the fair value gains and losses previously recognized in OCI is reclassified from head office account to profit or loss. Such gains and losses include all fair value changes until the date of disposal.

Gains (losses) on sale of AFS financial assets and impairment losses are reclassified from accumulated OCI to net gains (losses) on AFS financial assets.

AFS Financial Assets Carried at Cost
If there is objective evidence of an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar security.

Loans and Receivables and HTM Investments
For financial assets carried at amortized cost such as loans and receivables and HTM investments, the Branch first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Branch includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that a borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other forms of a financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If an asset has a variable rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. For collective impairment purposes, impairment losses are computed based on their respective default and historical loss experience.

The carrying amounts of the loans and receivables and HTM investments shall be reduced either directly or through the use of an allowance account. The impairment losses for the period shall be recognized in profit or loss. If in a subsequent period, the amount of the impairment losses decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of impairment losses is recognized in profit or loss, to the extent that the carrying amounts of the loans and receivables and HTM investments do not exceed their amortized cost at the reversal date.

Where loans and receivables have been ascertained to be worthless, the related amount is written-off against the corresponding allowance for impairment.

<u>Derecognition of Financial Assets and Financial Liabilities</u>

Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the contractual rights to receive cash flows from the asset have expired;

- the Branch retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Branch has transferred its right to receive cash flows from the asset and either has:

    - transferred substantially all the risks and rewards of the asset; or

    - neither transferred nor retained substantially the risks and rewards of the financial asset but has transferred the control of the financial asset.

When the Branch has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset but transferred control of the asset, the Branch continues to recognize the asset to the extent of the Branch's continuing involvement. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Branch could be acquired to pay.

Financial Liabilities
A financial liability is derecognized when the obligation under the liability is discharged, canceled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Property and Equipment
The initial cost of property and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation.

Subsequent to initial measurement, property and equipment are measured at cost less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of the property and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the cost of day-to-day servicing. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as an expense in the period these costs are incurred. Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the items will flow to the Branch and the cost of the items can be measured reliably.

Depreciation commences when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Furniture, fixtures and office equipment	5
Transportation equipment	5

The remaining useful lives, residual values and depreciation method are reviewed and adjusted periodically, if appropriate, to ensure that such periods and method of depreciation are consistent with the expected pattern of economic benefits from the items of property and equipment.

The carrying amounts of the property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use. An item of property and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

Intangible Asset

Intangible asset acquired separately is measured on initial recognition at cost. Following initial recognition, intangible is carried at cost less any accumulated amortization and any impairment in value.

An intangible asset with definite useful lives is amortized on a straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at the reporting date. Changes in the expected useful life or the expected pattern of consumption of the future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on an intangible asset with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

An intangible asset is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an intangible asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

The Branch's intangible asset is composed of its computer software. Amortization is computed using the straight-line method over the estimated useful life of ten (10) years.

Determination of Fair Value of Nonfinancial Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or

- in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Branch.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Branch uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

External appraisers are involved in the valuation of significant assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

Impairment of Nonfinancial Assets
The carrying amounts of nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or CGU are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs of disposal and value in use. The fair value less costs of disposal is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of future cash flows expected to be derived from an asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. An impairment loss is recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal can be made only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charges are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

As at December 31, 2020 and 2019, no impairment loss has been recognized on the Branch's property and equipment, computer software and ROU asset.

Head Office Account
Assigned capital pertains to the initial inward remittance by the Head Office as required by Republic Act No. 72, *Foreign Investment Act of 1991*, to operate as a domestic enterprise in the Philippines.

Accumulated earnings (deficit) include all current and prior period results of operations as reported in profit or loss.

Remittance from Head Office pertains to the amounts received and remitted to the Head Office. This account includes the capital infusion received by the Branch.

Revaluation reserve on AFS securities unrealized fair value gains and losses from mark-to-market valuation of AFS securities.

Retirement revaluation reserve represents the cumulative amount of remeasurement of retirement benefits liability arising from actuarial gains and losses due to expenses and demographic assumptions as well as gains and losses in the plan assets.

Revenue Recognition
The Branch recognizes revenue from contracts with customers when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Branch expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

The Branch’s revenue streams arising from insurance contracts fall under PFRS 4 while, investments-related income falls under PAS 39, *Financial Instruments*.

Other Income
Other income is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control - at a point in time or over time - requires judgment.

Revenue Out of Scope of PFRS 15, *Revenue from Contracts with Customers*

Investment Income
Interest Income
Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

Dividend Income
Dividend income is recognized when the Branch’s right to receive the payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unquoted equity shares.

Determining whether the Branch is Acting as Principal or an Agent
The Branch assesses its revenue arrangements against the following criteria to determine whether it is acting as a principal or an agent:

- whether the Branch has primary responsibility for providing the services; and
- whether the Branch has discretion in establishing prices.

If the Branch has determined it is acting as a principal, the Branch recognizes revenue on a gross basis with the amount remitted to the other party being accounted as part of cost and expenses. If the Branch has determined it is acting as an agent, only the net amount retained is recognized as revenue.

The Branch has determined that it is acting as principal in its revenue from direct business arrangements.

Expense Recognition
General and Administrative Expenses
General and administrative expenses, except for lease agreements, are recognized as an expense as they are incurred.

Employee Benefits
The Branch provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

Post-employment Defined Benefit Plan
A defined benefit plan is a post-employment plan that defines the amount of a 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 Branch, 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 Branch's post-employment defined benefit plan covers all regular full-time employees.

The plan asset is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of assets, liabilities and head office account for a defined benefit plan is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period. The defined benefit obligation 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 zero-coupon government bonds as published by Bloomberg through its valuation technology, Bloomberg Valuation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest), are reflected immediately in the statement of assets, liabilities and head office account with a charge or credit recognized in OCI amendment and curtailment.

Post-employment Defined Contribution Plan
A defined contribution plan is a post-employment plan under which the Branch pays fixed contributions into an independent entity i.e., SSS. The Branch has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred.

Termination Benefits
Termination benefits are payable when employment is terminated by the Branch before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Branch recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

Compensated Absences
Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included in "Accounts payable and other liabilities" in the statement of assets, liabilities and head office account at the undiscounted amount that the Branch expects to pay as a result of the unused entitlement.

Leases
At the inception of a contract, the Branch assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Branch assesses whether:

- the contract involves the use of an identified asset-this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

- the Branch has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and

- the Branch has the right to direct the use of the asset. The Branch has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used is predetermined, the Branch has the right to direct the use of the asset if either:

  - the Branch has the right to operate the asset; or

  - the Branch designed the asset in a way that predetermines how and for what purpose it will be used.

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

Branch as a Lessee
ROU Assets
The Branch recognizes ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and an estimate of the cost to be incurred by the Branch in dismantling and removing the underlying asset.

Subsequently, ROU assets are measured at cost, less accumulated depreciation and any impairment losses, and adjusted for any re-measurement of lease liabilities. Unless the Branch is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term of three (3) years with depreciation expense recognized under “Other expense” account in profit or loss. The Branch applies PAS 36, *Impairment of Assets*, to determine whether the ROU assets are impaired.

Lease Liabilities
At the commencement date of the lease, the Branch recognizes lease liabilities measured at the present value of lease payments to be made over the lease term, discounted using the Branch’s IBR. Any options to extend or terminate a lease that the Branch is reasonably certain to exercise are included in the lease term.

In calculating the present value of lease payments, the Branch uses the IBR at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest charged as interest expense under the "General and administrative expenses" in profit or loss and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term Leases and Low-value Lease Assets
The Branch applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the low-value assets recognition exemption to leases that are considered of low value (i.e., P250,000 or below). Lease payments on short-term leases and leases of low-value assets are recognized as expenses on a straight-line basis over the lease term.

Foreign Currency Transactions and Translation
Transactions in foreign currencies are translated to the functional currency of the Branch at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated using the closing exchange rates at the reporting date; income and expenses are translated using the average rate for the year. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Nonmonetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Nonmonetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of AFS securities, a financial liability designated as a hedge of the net investment in a foreign operation that is effective or qualifying cash flow hedges, which are recognized in OCI.

Taxes
Current and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in the head office account or OCI.

The Branch has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under PAS 37.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at each reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, and the carryforward tax benefits of the NOLCO and excess of MCIT over RCIT. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted at each reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced 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. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow all or part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the reporting date.

Final Tax

Interest income from cash in banks, debt securities, funds held by ceding companies and dividend income, which is subject to final withholding tax, is presented at gross amounts while taxes paid or withheld are recognized as final tax under the "Income tax expense" account in profit or loss.

CWT

CWT pertains to the indirect tax paid by the Branch that is withheld by its counterparty for the payment of premiums to the Branch. CWT is initially recorded at cost under "Other assets" in the statement of assets, liabilities and head office account.

At each end of the tax reporting deadline, CWT may either be offset against future income tax payable or be claimed as a refund from the taxation authorities at the option of the Branch. If CWT is claimed as a refund, these will be reclassified to receivables in the statement of assets, liabilities and head office account when the refund is virtually certain.

At each end of the reporting period, an assessment for impairment is performed as to the recoverability of the CWT.

VAT

Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of assets, liabilities and head office account.

Related Parties
Related party relationships exist when one party has the ability to control or influence the other party, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities that are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel or directors. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Provisions
A provision is recognized if, as a result of a past event, the Branch has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Contingencies
Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date
Post year-end events that provide additional information about the Branch’s financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

New and Amendments to Standards Issued but Not Yet Adopted
A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2020. However, the Branch has not early adopted the following new or amended standards in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Branch’s financial statements.

Effective June 1, 2020

- COVID-19-Related Rent Concessions (Amendment to PFRS 16). The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The practical expedient applies if:

    - the revised consideration is substantially the same or less than the original consideration;

    - the reduction in lease payments relates to payments due on or before June 30, 2021; and

- no other substantive changes have been made to the terms of the lease.

Lessees applying the practical expedient are required to disclose that fact, whether they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and the amount recognized in profit or loss for the reporting period arising from the application of the practical expedient. No practical expedient is provided for lessors.

The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other components of equity, as appropriate.

Effective January 1, 2022

- Property, Plant and Equipment - Proceeds before Intended Use (Amendments to PAS 16, *Property, Plant and Equipment*). The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2, *Inventories*.

  The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

  For the sale of items that are not part of a company's ordinary activities, the amendments require the company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and costs are presented separately in the statement of comprehensive income

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments.

- Onerous Contracts - Cost of Fulfilling a Contract (Amendment to PAS 37). The amendments clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprises both incremental costs and an allocation of other direct costs.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated. Earlier application is permitted.

- Reference to the Conceptual Framework (Amendment to PFRS 3, *Business Combinations*). The amendments:

  - updated PFRS 3 so that it now refers to the 2018 Conceptual Framework;

  - added a requirement that for transactions and other events within the scope of PAS 37, or International Financial Reporting Interpretations Committee (IFRIC) 21, *Levies*, an acquirer applies PAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and

  - added an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

  The amendments are effective for business combinations occurring in reporting periods starting on or after January 1, 2022. Earlier application is permitted.

Effective January 1, 2023

- Classification of Liabilities as Current or Non-current (Amendments to PAS 1, *Presentation of Financial Statements*). To promote consistency in application and clarify the requirements on determining whether a liability is current or non-current, the amendments:

  - removed the requirement for a right to defer settlement of the liability for at least 12 months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;

  - clarified that a right to defer settlement exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and

  - clarified that settlement of liability includes transferring a company's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect the classification of the liability as current or non-current.

  The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

Effective January 1, 2025

- PFRS 17 replaces the interim standard, PFRS 4. Reflecting the view that an insurance contract combines features of both a financial instrument and a service contract, and considering the fact that many insurance contracts generate cash flows with substantial variability over a long period, PFRS 17 introduces a new approach that:

  (a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract;

  (b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and

(c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in other comprehensive income.

Under PFRS 17, groups of insurance contracts are measured based on fulfillment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policyholders, and a contractual service margin, which represents the unearned profit the entity will recognize as it provides services over the coverage period. Subsequent to initial recognition, the liability of a group of insurance contracts represents the liability for remaining coverage and the liability for incurred claims, with the fulfillment cash flows remeasured at each reporting date to reflect current estimates.

Simplifications or modifications to the general measurement model apply to groups of insurance contracts measured using the 'premium allocation approach', investment contracts with discretionary participation features, and reinsurance contracts held.

PFRS 17 brings greater comparability and transparency about the profitability of new and in-force businesses and gives users of financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings.

PFRS 17 is effective for annual periods beginning on or after January 1, 2025. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. Early application is permitted for entities that apply PFRS 9 on or before the date of initial application of PFRS 17.

- PFRS 9 (2014) replaces PAS 39 and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

  The Branch availed the temporary exemption in the implementation of PFRS 9 as allowed by PFRS 4 below as the Branch has not previously applied any version of PFRS 9 and its activities are predominantly connected with insurance.

27. Management of Capital, Insurance and Financial Risk

The Branch's capital management objectives are to ensure the Branch's ability to continue as a going concern.

The Branch manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Head Office of the Branch may provide additional capital infusion or sell assets to reduce debt. The Branch monitors its capital based on the carrying amount of the Head Office account as presented in the statement of assets, liabilities and head office account.

Further, the Branch is exposed to a variety of financial risks which result from both its operating and investing activities. The Branch's risk management is coordinated with its Head Office and focuses on actively securing the Branch's short to medium-term cash flows by minimizing the exposure to financial markets.

The Branch does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The significant financial risks to which the Branch is exposed are described below and in the succeeding pages.

Regulatory Framework

Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that the Branch is satisfactorily managing its affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Branch maintains an appropriate solvency position to meet liabilities arising from claims and acceptable levels of risk.

The operations of the Branch are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions such as net worth requirements and risk-based capital 2 (RBC2) requirements. Such restrictive provisions minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as they arise.

Net Worth Requirements

Under Section 194 of the Amended Insurance Code (Republic Act 10607) which was approved on August 15, 2013, every insurance company doing business in the Philippines needs to comply with the following net worth requirements:

Net Worth	Compliance Date
P250,000,000	On or before June 30, 2013
550,000,000	On or before December 31, 2016
900,000,000	On or before December 31, 2019
1,300,000,000	On or before December 31, 2022

To ensure compliance with the increase in the net worth requirement, the Branch received P457.99 million capital infusion from the Head Office on February 28, 2020, resulting in the Branch's net worth amounting to P979.40 million based on internal calculations as at financial report issuance.

RBC2 Requirements
IC CL No. 2016-68, *Amended RBC2 Framework*, provides for the RBC2 framework for the nonlife insurance industry to establish the required amounts of capital to be maintained by the insurance companies in relation to the risks an insurance company is exposed to. Every non-life insurance company is annually required to maintain an RBC2 ratio of at least 100.00% and not to fail the trend test. Failure to meet the minimum RBC2 ratio shall subject the insurance company to regulatory intervention which could be at various levels depending on the degree of the violation.

The RBC2 ratio shall be calculated as total available capital (TAC) divided by the RBC2 requirement. TAC is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits determined by IC. With Tier 1 Capital being the capital fully available to cover losses at all times on a going concern and winding up basis, and Tier 2 Capital is the capital that can also provide an additional buffer to the insurance company, though it is not of the same high quality as Tier 1 Capital.

As at December 31, 2020 and 2019, the following table shows the RBC ratio of the Branch based on internal computation:

	2020	2019
TAC	**P1,008,769,365**	P580,458,407
RBC requirement	**93,186,478**	70,717,190
	1083%	821%

As at December 31, 2020 and 2019, the Branch has complied with RBC2 requirements based on internal calculations.

The final RBC2 ratio and net worth can be determined only after the accounts of the Branch have been examined by the IC, specifically as to the admitted and non-admitted assets as defined under the Amended Insurance Code.

<u>Capital Management Framework</u>
The primary objective of the Branch's capital management is to ensure that it complies with the IC requirements.

The Branch regularly assesses and changes its level of capital to ensure sufficient solvency margins and to adequately protect the policyholders in accordance with the regulations set by IC. The Head Office promptly adjusts and considers strategies in order for the Branch to maintain the net worth requirements.

The Branch regards the following as the capital it manages as at December 31, 2020 and 2019:

	Note	**2020**	2019
Assigned capital		**P660,610,000**	P275,000,000
Remittances from Head Office		**567,691,914**	495,147,035
Revaluation reserve on Available-for-sale securities	*7*	**1,141,015**	1,620,238
Remeasurements of retirement benefits liability	*21*	**(2,203,574)**	(2,673,049)
Accumulated deficit	*22*	**(164,015,252)**	(160,534,625)
		P1,063,224,103	P608,559,599

There were no changes made to its capital base, objectives, policies and processes from previous years.

Insurance Risk

The risk under an insurance contract is the possibility of occurrence of an insured event and uncertainty of the amount and timing of the resulting claim. The principal risk the Branch faces under such contracts is that the actual claims and benefits payments might exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, the severity of claims and actual benefits paid are greater than originally estimated.

The variability of risk is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The variability of risks can also be improved by careful selection and implementation of underwriting strategies and guidelines.

The majority of reinsurance business ceded is placed on an excess of loss basis per risk and per catastrophe. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented as "Reinsurance assets" in the statement of assets, liabilities and head office account.

Although the Branch has reinsurance agreements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurers are unable to meet its obligations assumed under such reinsurance agreements.

The majority of its reinsurance transaction was with the Head Office which is about 95% and 91% of the total premiums ceded in 2020 and 2019, respectively.

There has been no change to the Branch's exposure to insurance risk or how it manages and measure risk since the prior financial year.

The following table shows the gross and net premiums written for each type of contract:

		December 31, 2020				
	Note	**Direct**	**Assumed**	**Total Gross Premiums**	**Reinsurance**	**Net Retention**
Line of risk:						
Fire		**P101,511,428**	**P53,144,305**	**P154,655,733**	**P43,638,956**	**P111,016,777**
Motor		**41,934,874**	**-**	**41,934,874**	**49,140**	**41,885,734**
Personal Accident		**748,330**	**25,416,574**	**26,164,904**	**-**	**26,164,904**
Health		**13,833,630**	**-**	**13,833,630**	**-**	**13,833,630**
Engineering		**14,545,439**	**586,350**	**15,131,789**	**1,506,436**	**13,625,353**
Marine cargo		**3,060,120**	**40,000**	**3,100,120**	**-**	**3,100,120**
Miscellaneous		**1,180,398**	**947,567**	**2,127,965**	**-**	**2,127,965**
	14, 18	**P176,814,219**	**P80,134,796**	**P256,949,015**	**P45,194,532**	**P211,754,483**

		December 31, 2019				
	Note	Direct	Assumed	Total Gross Premiums	Reinsurance	Net Retention
Line of risk:						
Fire		P88,821,364	P60,725,535	P149,546,899	P35,765,061	P113,781,838
Motor		31,105,236	78,627	31,183,863	54,600	31,129,263
Personal accident		946,110	38,008,438	38,954,548	-	38,954,548
Health		15,538,333	-	15,538,333	-	15,538,333
Engineering		16,171,213	2,696,605	18,867,818	-	18,867,818
Marine cargo		4,169,843	46,000	4,215,843	-	4,215,843
Miscellaneous		1,309,952	1,007,022	2,316,974	227,194	2,089,780
	14, 18	P158,062,051	P102,562,227	P260,624,278	P36,046,855	P224,577,423

The table below sets out the concentration of the claims liabilities as at December 31, 2020 and 2019 by type of contract.

		December 31, 2020				
	Note	**Direct**	**Assumed**	**Gross Claims**	**Reinsurance**	**Net Retention**
Line of risk:						
Fire		**P248,994,984**	**P58,176,659**	**P307,171,643**	**P171,986,894**	**P135,184,749**
Motor		**9,793,531**	**-**	**9,793,531**	**70,965**	**9,722,566**
Engineering		**5,287,592**	**50,000**	**5,337,592**	**1,496,140**	**3,841,452**
Personal Accident		**2,996,526**	**-**	**2,996,526**	**-**	**2,996,526**
Health		**2,816,843**	**-**	**2,816,843**	**-**	**2,816,843**
Marine cargo		**466,861**	**-**	**466,861**	**-**	**466,861**
Miscellaneous		**237,349**	**436,222**	**673,571**	**-**	**673,571**
	14	**P270,593,686**	**P58,662,881**	**P329,256,567**	**P173,553,999**	**P155,702,568**

		December 31, 2019				
	Note	Direct	Assumed	Gross Claims	Reinsurance	Net Retention
Line of risk:						
Fire		P505,588,410	P9,255,179	P514,843,589	P421,191,968	P93,651,621
Motor		5,306,237	-	5,306,237	67,261	5,238,976
Engineering		5,171,584	96,952	5,268,536	1,454,858	3,813,678
Personal Accident		2,368,211	-	2,368,211	-	2,368,211
Health		2,194,760	-	2,194,760	-	2,194,760
Marine cargo		318,362	-	318,362	-	318,362
Miscellaneous		620,770	944,746	1,565,516	-	1,565,516
	14	P521,568,334	P10,296,877	P531,865,211	P422,714,087	P109,151,124

Terms and Conditions

The major classes of general insurance written by the Branch include fire, motor, engineering, personal accident, health, marine cargo and miscellaneous. Risks under these policies usually cover a twelve-month duration.

For general insurance contracts, claims provisions (comprising of provisions for claims reported and IBNR claims) are established to cover the ultimate costs of claims in respect of claims that have occurred and are estimated based on known facts at the reporting date.

The provisions are refined quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled, and further claims are reported.

The measurement process primarily includes projections of future claims through the use of actual experience data. Claims provisions are separately analyzed by geographical area and class of business. In addition, claims are usually assessed by loss adjusters.

Assumptions

The principal assumption underlying the estimates is the Branch’s past claims development experience. This includes assumptions in respect of average claim costs and claim numbers for each accident year. Judgment is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key assumptions include variation in interest, delays in settlement and changes in foreign currency rates.

Sensitivities
The general insurance claims provision is sensitive to the above key assumptions. The sensitivity of certain variables such as legislative change and uncertainty in the estimation process is not possible to quantify. Furthermore, because of delays that arise between the occurrence of a claim and its subsequent notification and eventual settlement the outstanding claim provisions are not known with certainty at the reporting date.

Consequently, the ultimate costs of claims will vary as a result of subsequent developments. Differences resulting from reassessments of the ultimate costs of claims are recognized in subsequent financial statements.

The table below indicates the impact of changes in certain key assumptions in respect of general insurance business while other assumptions remain unchanged.

	2020		
	Change in Assumption	**Impact on Insurance Contract Liabilities (Net of Reinsurance Assets)**	**Impact on Income before Income Tax**
Average claim costs	**28%**	**P32,912,256**	**(P32,912,256)**
Average number of claims	**6%**	**7,898,941**	**7,898,941**
Period of settlement	**Within 7 months**	**-**	**-**

	2019		
	Change in Assumption	Impact on Insurance Contract Liabilities (Net of Reinsurance Assets)	Impact on Income before Income Tax
Average claim costs	26%	P56,630,284	(P56,630,284)
Average number of claims	9%	18,876,761	(18,876,761)
Period of settlement	Within 12 months	-	-

The Branch determines that the above assumptions will best represent the movement of general insurance claims provision.

Loss Development Tables

Reproduced below is an exhibit that shows the development of claims over a period of time on a gross and net reinsurance basis:

		At Gross - 2020											
Accident Year	***Note***	**2010 and Prior**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
Estimate of Ultimate Costs of Claims													
At the end of accident year		P -	P295,004,251	P115,470,091	P803,487,000	P275,842,461	P89,093,818	P145,804,489	P259,582,959	P232,626,712	P270,834,269	P82,598,756	P82,598,756
One year later		192,597,668	323,153,706	121,083,903	877,716,697	314,874,726	101,348,821	151,154,757	301,474,117	324,907,582	313,613,215	-	313,613,215
Two years later		139,162,210	235,772,179	121,636,176	973,589,684	309,800,968	106,532,474	160,582,459	295,646,852	330,969,293	-	-	330,969,293
Three years later		336,231,374	246,833,182	124,142,508	1,031,326,353	301,483,293	99,454,138	149,695,507	298,379,094	-	-	-	298,379,094
Four years later		310,470,475	249,189,406	156,812,026	1,060,000,686	265,631,953	98,423,249	149,711,947	-	-	-	-	149,711,947
Five years later		127,992,761	253,682,527	156,885,383	1,041,083,431	253,229,822	98,439,739	-	-	-	-	-	98,439,739
Six years later		129,688,130	253,825,009	156,892,246	1,052,994,025	273,694,946	-	-	-	-	-	-	273,694,946
Seven years later		181,421,537	253,826,818	156,894,803	1,098,918,958	-	-	-	-	-	-	-	1,098,918,958
Eight years later		182,471,101	253,827,082	156,946,633	-	-	-	-	-	-	-	-	156,946,633
Nine years later		183,142,579	253,712,167	-	-	-	-	-	-	-	-	-	253,712,167
Ten years and later		180,377,474	-	-	-	-	-	-	-	-	-	-	180,377,474
Current estimate of cumulative claims		180,377,474	253,712,167	156,946,633	1,098,918,958	273,694,946	98,439,739	149,711,947	298,379,094	330,969,293	313,613,215	82,598,756	3,237,362,222
Cumulative payments to date		131,776,419	253,712,167	156,452,569	1,045,526,992	271,176,767	98,423,249	149,607,895	294,761,932	323,886,537	165,822,335	16,958,793	2,908,105,655
Gross Claims Liability in the Statement of Assets, Liabilities and Head Office Account	*14*	P48,601,055	P -	P494,064	P53,391,966	P2,518,179	P16,490	P104,052	P3,617,162	P7,082,756	P147,790,880	P65,639,963	P329,256,567

		At Net - 2020											
Accident Year	***Note***	**2010 and Prior**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
Estimate of Ultimate Costs of Claims													
At the end of accident year		P -	P103,619,989	P107,031,136	P266,023,500	P266,382,461	P85,948,657	P138,103,845	P259,582,959	P232,038,310	P186,550,278	P73,973,204	P73,973,204
One year later		41,223,856	115,741,752	87,556,948	265,635,270	119,940,144	94,194,070	136,876,111	301,473,831	292,455,655	190,557,541	-	190,557,541
Two years later		50,471,949	88,038,982	87,409,222	402,714,358	256,350,869	99,393,738	146,319,864	295,646,565	298,354,094	-	-	298,354,094
Three years later		67,658,380	96,324,572	89,915,553	307,029,077	249,731,761	93,941,341	135,432,911	298,378,807	-	-	-	298,378,807
Four years later		117,349,340	104,656,209	122,585,071	360,048,401	221,362,421	93,248,159	135,449,351	-	-	-	-	135,449,351
Five years later		76,840,300	105,703,486	122,658,428	315,629,780	210,146,555	93,264,649	-	-	-	-	-	93,264,649
Six years later		77,979,420	105,845,969	122,665,291	360,111,735	213,406,315	-	-	-	-	-	-	213,406,315
Seven years later		92,697,020	105,847,778	122,667,848	405,523,977	-	-	-	-	-	-	-	405,523,977
Eight years later		92,637,727	105,848,042	122,719,678	-	-	-	-	-	-	-	-	122,719,678
Nine years later		92,817,849	105,733,127	-	-	-	-	-	-	-	-	-	105,733,127
Ten years and later		89,752,165	-	-	-	-	-	-	-	-	-	-	89,752,165
Current estimate of cumulative claims		89,752,165	105,733,127	122,719,678	405,523,977	213,406,315	93,264,649	135,449,351	298,378,807	298,354,094	190,557,541	73,973,204	2,027,112,908
Cumulative payments to date		76,993,643	105,733,127	122,225,614	363,106,565	211,970,304	93,248,159	135,345,299	294,761,645	291,271,338	160,254,273	16,500,373	1,871,410,340
Net Claims Liability in the Statement of Assets, Liabilities and Head Office Account	*14*	P12,758,522	P -	P494,064	P42,417,412	P1,436,011	P16,490	P104,052	P3,617,162	P7,082,756	P30,303,268	P57,472,831	P155,702,568

		At Gross - 2019											
Accident Year	*Note*	2009 and Prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of Ultimate Costs of Claims													
At the end of accident year		P -	P -	P295,004,251	P115,470,091	P803,487,0000	P275,842,461	P89,093,818	P145,804,489	P259,582,959	P232,626,712	P270,834,269	P270,834,269
One year later		-	192,597,668	323,153,706	121,083,903	877,716,697	314,874,726	101,348,821	151,154,757	301,474,117	324,907,582	-	324,907,582
Two years later		108,461,089	30,701,121	235,772,179	121,636,176	973,589,684	309,800,968	106,532,474	160,582,459	295,646,852	-	-	295,646,852
Three years later		300,973,738	35,257,636	246,833,182	124,142,508	1,031,326,353	301,483,293	99,454,138	149,695,507	-	-	-	149,695,507
Four years later		276,298,014	34,172,461	249,189,406	156,812,026	1,060,000,686	265,631,953	98,423,249	-	-	-	-	98,423,249
Five years later		92,696,310	35,296,451	253,682,527	156,885,383	1,041,083,431	253,229,822	-	-	-	-	-	253,229,822
Six years later		93,388,488	36,299,642	253,825,009	156,892,246	1,052,994,025	-	-	-	-	-	-	1,052,994,025
Seven years later		145,121,542	36,299,995	253,826,818	156,894,803	-	-	-	-	-	-	-	156,894,803
Eight years later		147,097,115	35,373,986	253,827,082	-	-	-	-	-	-	-	-	253,827,082
Nine years later		147,886,462	35,256,117	-	-	-	-	-	-	-	-	-	35,256,117
Ten years later		152,450,023	-	-	-	-	-	-	-	-	-	-	152,450,023
Current estimate of cumulative claims		152,450,023	35,256,117	253,827,082	156,894,803	1,052,994,025	253,229,822	98,423,249	149,695,507	295,646,852	324,907,582	270,834,269	3,044,159,331
Cumulative payments to date		96,509,130	35,256,117	253,712,167	155,950,057	811,559,745	230,308,487	98,423,249	149,283,883	293,767,721	318,992,736	68,530,828	2,512,294,120
Gross Claims Liability in the Statement of Assets, Liabilities and Head Office Account	*14*	P55,940,893	P -	P114,915	P944,746	P241,434,280	P22,921,335	P -	P411,624	P1,879,131	P5,914,846	P202,303,441	P531,865,211

		At Net - 2019											
Accident Year	*Note*	2009 and Prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of Ultimate Costs of Claims													
At the end of accident year		P -	P -	P103,619,989	P107,031,136	P266,023,500	P266,382,461	P85,948,657	P138,103,845	P259,582,959	P232,038,310	P186,550,278	P186,550,278
One year later		-	41,223,856	115,741,752	87,556,948	265,635,270	119,940,144	94,194,070	136,876,111	301,473,831	292,455,655	-	292,455,655
Two years later		19,770,828	30,701,121	88,038,982	87,409,222	402,714,358	256,350,869	99,393,738	146,319,864	295,646,565	-	-	295,646,565
Three years later		32,400,744	35,257,636	96,324,572	89,915,553	307,029,077	249,731,761	93,941,341	135,432,911	-	-	-	135,432,911
Four years later		83,176,879	34,172,461	104,656,209	122,585,071	360,048,401	221,362,421	93,248,159	-	-	-	-	93,248,159
Five years later		41,543,849	35,296,451	105,703,486	122,658,428	315,629,780	210,146,555	-	-	-	-	-	210,146,555
Six years later		41,679,778	36,299,642	105,845,969	122,665,291	360,111,735	-	-	-	-	-	-	360,111,735
Seven years later		56,397,025	36,299,995	105,847,778	122,667,848	-	-	-	-	-	-	-	122,667,848
Eight years later		57,263,741	35,373,986	105,848,042	-	-	-	-	-	-	-	-	105,848,042
Nine years later		57,561,732	35,256,117	-	-	-	-	-	-	-	-	-	35,256,117
Ten years later		58,100,016	-	-	-	-	-	-	-	-	-	-	58,100,016
Current estimate of cumulative claims		58,100,016	35,256,117	105,848,042	122,667,848	360,111,735	210,146,555	93,248,159	135,432,911	295,646,565	292,455,655	186,550,278	1,895,463,881
Cumulative payments to date		41,726,354	35,256,117	105,733,127	121,723,102	360,111,735	210,146,555	93,248,159	135,021,287	293,767,434	286,540,809	103,038,078	1,786,312,757
Net Claims Liability in the Statement of Assets, Liabilities and Head Office Account	*14*	P16,373,662	P -	P114,915	P944,746	P -	P -	P -	P411,624	P1,879,131	P5,914,846	P83,512,200	P109,151,124

Financial Risk

The primary objective of the Branch's risk management framework is to ensure the sustainable achievement of its financial performance goals and objectives.

The Branch reviews and assesses the different financial risks it is exposed to. It promptly aligns its management strategies to properly manage these risk exposures.

These normally include the identification of related risks and their interpretation and setting up of appropriate limit structures to ensure the suitable quality and diversification of assets.

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risk (consisting of foreign currency risk, interest rate risk and price risk).

There has been no change to the Branch's exposure to financial risk or how it manages and measure risk since the prior financial year.

Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Branch. The Branch is exposed to this risk for various financial instruments arising from cash in banks, cash equivalent, HTM securities, insurance receivables, reinsurance assets, other receivables, deposits, accrued interest on investments and security fund.

The Branch structures the levels of the credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties. Such risks are subject to an annual review.

With respect to investment securities, the Branch ensures satisfactory credit quality by setting maximum limits of portfolio securities with a single issuer or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer.

As at December 31, 2020 and 2019, the Branch's concentration of credit risk arises from its cash and cash equivalent, insurance receivables and HTM securities amounting to P1.28 billion and P736.32 million, respectively, which represent 99.58% and 98.48% in 2020 and 2019, respectively, of the Branch's financial assets exposed to credit risk (see Notes 4 and 6).

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statements of assets, liabilities and head office account, as summarized below.

	Note	**2020**	2019
Cash and cash equivalent*	*4*	**P157,158,752**	P69,644,399
Insurance receivables - net	*5*	**461,788,749**	214,402,526
HTM securities	*6*	**664,740,724**	452,252,302
Other assets:	*13*		
Deposits		**2,847,805**	6,750,063
Accrued interest on investments		**2,542,045**	3,115,965
Advances to employees		**1,252,582**	1,472,581
Security fund		**48,439**	48,439
		P1,290,379,096	P747,686,275

**excluding cash on hand*

The credit risks for cash and cash equivalent and HTM securities are considered negligible since the counterparties are reputable banks with high-quality external credit ratings and the Philippine government. The credit quality of these financial assets is therefore considered as high grade.

The Branch uses a credit grading system based on the borrowers and counterparties overall creditworthiness, 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 the public markets and/or credit facilities with financial institutions. The borrower has a strong debt service record and moderate use of leverage. Financial assets classified as investment high grade are either current or past due, and not impaired.

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 have abated already. The borrower is expected to be able to adjust to the cyclical downturns in its operations, for individuals into business or for corporate entities. 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.

The credit grading analysis of the Branch's financial assets as at December 31 follows:

		December 31, 2020				
		Current and/or Past Due and not Impaired				
	Note	Investment High-Grade	Non-investment Grade - Satisfactory	Total Current and/or Past Due and not Impaired	Impaired	Total
Cash and cash equivalent*	*4*	P157,158,752	P -	P157,158,752	P -	P157,158,752
Insurance Receivables	*5*					
Premium receivable		-	64,258,773	64,258,773	27,715,967	91,974,740
Reinsurance recoverable on paid losses		340,467,640	-	340,467,640	11,983,498	352,451,138
Due from ceding companies		50,190,075	-	50,190,075	-	50,190,075
Funds held by ceding companies		6,872,261	-	6,872,261	-	6,872,261
HTM securities	*6*	664,740,724	-	664,740,724	-	664,740,724
Other assets:	*13*					
Deposits		2,847,805	-	2,847,805	-	2,847,805
Accrued interest on investments		2,542,045	-	2,542,045	-	2,542,045
Advances to employees		-	1,252,582	1,252,582	-	1,252,582
Security fund		48,439	-	48,439	-	48,439
		P1,224,867,741	P65,511,355	P1,290,379,096	P39,699,465	P1,330,078,561

**excluding cash on hand*

	Note	December 31, 2019 Current and/or Past Due and not Impaired Investment High-Grade	Non-investment Grade - Satisfactory	Total Current and/or Past Due and not Impaired	Impaired	Total
Cash and cash equivalent*	*4*	P69,644,399	P -	P69,644,399	P -	P69,644,399
Insurance Receivables	*5*					
Premium receivable		-	49,231,438	49,231,438	32,788,987	82,020,425
Reinsurance recoverable on paid losses		118,057,193	-	118,057,193	11,983,498	130,040,691
Due from ceding companies		40,494,055	-	40,494,055	-	40,494,055
Funds held by ceding companies		6,619,840	-	6,619,840	-	6,619,840
HTM securities	*6*	452,252,302	-	452,252,302	-	452,252,302
Other assets:	*13*					
Deposits		6,750,063	-	6,750,063	-	6,750,063
Accrued interest on investments		3,115,965	-	3,115,965	-	3,115,965
Advances to employees		-	1,472,581	1,472,581	-	1,472,581
Security fund		48,439	-	48,439	-	48,439
		P696,982,256	P50,704,019	P747,686,275	P44,772,485	P792,458,760

**excluding cash on hand*

The Branch considers insurance receivables as past due when it is outstanding for more than 120 days, except for claims related to Head Office. Based on historical information about customer default rates, management considers the credit quality of insurance receivables which are not past due or impaired to be good. The Branch has also made provisions, where necessary, for potential losses on credits extended.

The Branch's management considers that all of the above financial assets for each reporting date are of good credit quality. None of the financial assets are secured by collateral or other credit enhancements, except for cash.

Liquidity Risk

The Branch manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The Branch maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits, mutual funds or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

The Branch's financial liabilities have contractual maturities as of December 31 which are presented below.

	Note	**December 31, 2020 On Demand**	**Over 6 Months**
Provision for claims reported	*14*	**P -**	**P287,173,133**
Accounts payable	*16*	**16,714,945**	**-**
Accrued expenses	*16*	**561,048**	**-**
Commissions payable		**-**	**6,550,127**
Due to reinsurers	*15*	**14,355,447**	**-**
Lease liability	*12*	**336,596**	**-**
		P31,968,036	**P293,723,260**

		December 31, 2019	
	Note	On Demand	Over 6 Months
Provision for claims reported	*14*	P -	P482,506,922
Accounts payable	*16*	3,391,447	-
Accrued expenses	*16*	811,500	-
Commissions payable		-	5,920,274
Due to reinsurers	*15*	12,165,728	-
Lease liability	*12*	533,014	-
		P16,901,689	P488,427,196

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting periods.

Market Risk
Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (foreign currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in prices is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. Increasing market fluctuations may result in a significant impact on the Branch's head office account, cash flows and profit.

The Branch manages market risk exposures by setting up limits structures and by promulgating specific investment guidelines and strategies (e.g., investing only in high-grade securities and only with reputable reinsurers). The Branch only invests in financial institutions or corporate entities with acceptable ratings from domestic and international credit rating agencies. The Branch also ensures that its investments shall comply with the guidelines and requirements set out by the IC.

(a) Currency Risk
Most of the Branch's transactions are carried out in Philippine pesos, its currency. The Branch holds cash, insurance receivables, and reinsurance assets, and insurance contract liabilities denominated in US dollar (USD).

To mitigate the Branch's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

As at December 31, 2020 and 2019, the Branch's foreign currency-denominated financial assets and financial liabilities, translated into Philippine pesos at the closing rate obtained from the Bankers' Association of the Philippines (BAP) follow:

	2020		2019	
	USD	**PHP**	USD	PHP
Financial Asset				
Cash in banks	**$1,682,607**	**P80,798,788**	$617,936	P31,292,279

The table below lists down the exchange rates per P1.00 from BAP in translating foreign currency-denominated financial assets into USD amounts as at December 31, 2020 and 2019, respectively. Translation differences are due to rounding off of foreign exchange rates used.

	2020	2019
USD to PHP	**P48.02**	P50.64

The following table shows the sensitivity to a reasonably possible change in the U.S. dollar exchange rate, with all other variables, held constant of the Branch's income before income tax.

	Change in USD Exchange Rate	Effect on Income before Income Tax	Effect on Equity
2020	**+5.00%**	**P4,039,939**	**P2,827,958**
	-5.00%	**(4,039,939)**	**(2,827,958)**
2019	+5.00%	1,564,614	1,095,230
	-5.00%	(1,564,614)	(1,095,230)

The percentage rate changes have been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Branch's foreign currency financial instruments held at the end of the reporting period, with effect estimated from the beginning of the year.

Exposures to foreign exchange rates vary during the period depending on the volume of foreign currency buy and sell transactions. Nonetheless, the analysis above is considered to be representative of the Branch's foreign currency risk.

(b) Interest Rate Risk

The Branch's income and operating cash flows are substantially independent of changes in market interest rates since its HTM securities have fixed interest rates.

The management of interest rate risk involves the maintenance of an appropriate blend of financial instruments with consideration of the maturity profile.

The following table shows the information relating to the HTM securities that are exposed to fair value interest rate risk presented by maturity profile:

	Note	2020	2019
Range of interest rates		**1.01%-6.25%**	3.25%-6.25%
1 - 3 years		**P608,448,564**	P356,450,874
4 - 5 years		**20,821,816**	60,000,000
Over 5 years		**35,470,344**	35,801,428
	6	**P664,740,724**	P452,252,302

Any increase by 100 basis points (1%) in interest rates, with all other variables held constant, will increase income before income tax by P0.46 million and P0.55 million for the years ended December 31, 2020 and 2019, respectively. The decrease in the same basis points will reduce the income before income tax by the same amount.

In 2020 and 2019, the Branch determined the reasonably possible change in interest rate based on the historical change in weighted average yield rates of outstanding investments of the Branch.

(c) Price Risk

The Branch's market price risk arises from its investments carried at fair value which are its investment in AFS securities. The Branch manages exposures to price risk by monitoring the changes in the market price of the investments and to some extent, diversifying the investment portfolio in accordance with the limit set by management.

For equity securities listed in the Philippines, average volatility of 9.25% and 1.40% has been observed during 2020 and 2019, respectively. If quoted price for these securities increased by that amount, other comprehensive income before tax would have changed by P0.36 million in 2020 and P0.06 million in 2019.

The investments in listed equity securities are considered long-term strategic investments. In accordance with the Branch's policies, no specific hedging activities are undertaken in relation to these investments.

28. Fair Value Measurement

The carrying amount of the Branch's financial instruments such as cash and cash equivalent (excluding cash on hand), insurance receivables, reinsurance recoverable on unpaid losses, other receivables, deposits, accrued interest on investments, claims payable (included under "Insurance contract liabilities" account), accounts payable and other liabilities (excluding government payables), commission payable and due to reinsurers, approximate their fair values at each reporting date due to the relatively short-term maturities of these financial assets and financial liabilities.

The carrying amount of HTM investments and security deposits (included under the "Other assets" account) approximates fair value at year-end. The management believes that the effect of discounting and future cash flows of this instrument using the prevailing market rate is not significant.

AFS financial assets are measured at fair value. The fair values of quoted equity securities were determined by reference to quoted market prices published by PSE.

If the market prices are not readily available, fair values are estimated using either value obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. The market price reference in determining the market values of the Branch's debt securities is derived from PHP Bloomberg Valuation Services in 2020 and 2019.

Investments in unquoted equity instruments for which no reliable basis for fair value measurement is available are carried at cost, net of any allowance for impairment losses.

Fair Value Hierarchy

Financial assets measured at fair value in the statement of assets, liabilities and head office account are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets into three levels based on the significance of inputs used in measuring the fair value of the financial assets.

As at December 31, 2020 and 2019, AFS securities, which are comprised of investments in equity securities, are the only financial assets measured at fair value in the statement of assets, liabilities and head office account. The fair value of quoted equity securities determined using Level 1 of the fair value hierarchy as at December 31, 2020 and 2019 amounted to P3.91 million and P4.59 million, respectively (see Note 7). The fair values of listed equity securities were valued based on their market prices quoted in the PSE at the end of each reporting period, hence, categorized within Level 1. Unquoted preferred shares amounting to P16,450 as at December 31, 2020 and 2019 are measured at cost less any impairment loss (see Note 7).

29. Supplementary Information Required Under RR No. 15-2010 of the BIR

In addition to the disclosures mandated under PFRSs, the Branch is required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such supplementary information may not necessarily be the same as those amounts disclosed in the financial statements which were prepared in accordance with PFRSs.

The following are the tax information/disclosures required for the taxable year ended December 31, 2020:

A. VAT

		Amount
1.	Output VAT	**P15,179,309**
	Basis of the Output VAT:	
	Receipt subject to VAT	**P126,494,240**
2.	Input VAT	
	Balance at beginning of year	**P17,925,064**
	Current year's domestic purchases:	
	a. Goods for resale/manufacture or further processing	**-**
	b. Goods other than for resale or manufacture	**40,066**
	c. Capital goods subject to amortization	**-**
	d. Capital goods not subject to amortization	**-**
	e. Services lodged under other accounts	**6,100,704**
	Input tax on the importation of goods other than capital goods	**-**
	Claims for tax credit/refund and other adjustments	**(15,415,008)**
	Balance at end of year	**P8,650,826**

B. Documentary Stamp Tax

The Branch paid documentary stamp tax on premiums amounting to P20.75 million in 2020.

C. Withholding Taxes

	Amount
Expanded withholding taxes	**P5,435,231**
Withholding taxes on compensation and benefits	**585,716**
	P6,020,947

D. Customs Duties, Tariff Fees andExcise Taxes

Information on amounts of customs duties, tariff fees and excise taxes is not applicable since there were no transactions that the Branch would be subjected to these taxes in 2020.

E. All Other Taxes (Local and National)

	Amount
Other taxes paid during the year recognized as "Taxes and licenses" under the "General and Administrative Expenses"	
Municipal licenses and permits	**P772,069**
National taxes	**500**
Others	**165,350**
	P937,919

F. Tax Assessments and/or Tax Cases

Taxable Year 2016
On May 27, 2020, The Branch settled the tax assessments for the taxable year 2016 amounting to P1.22 million, inclusive of penalties.

Taxable Period from January 1, 2017 to June 30, 2017
On March 26, 2019, the Branch received a Letter of Authority from the BIR to examine its books of accounts for VAT for the period from January 1, 2017 to June 30, 2017. As at December 31, 2020, the Branch has not yet received any tax assessment notice from the BIR.

Taxable Year 2018
On October 4, 2019, the Branch received a Letter of Authority from the BIR to examine its books of accounts for all internal revenue taxes including documentary stamp tax, other taxes for the period from January 1, 2018 to December 31, 2018. As at December 31, 2020, the Branch has not yet received any tax assessment notice from the BIR.