



# THE NEW INDIA ASSURANCE COMPANY LTD.

405 I.T.C. Bldg., 337 Sen. Gil J. Puyat Avenue  
Makati City \* P.O. Box 2479 MCPO  
Tel. Nos.: 8899-9999 • 8899-3771 • 8899-3773 • 8899-3850  
Fax No.: (632) 8899-3844  
E-mail: [newindiamanila@pltdsl.net](mailto:newindiamanila@pltdsl.net)

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **The New India Assurance Company Limited** (the Branch) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended **December 31, 2021 and 2020**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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.

The Chief Operating Officer (COO) is responsible for overseeing the Branch's financial reporting process.

The COO reviews and approves the financial statements including the schedules attached therein, and submits the same to the Head Office.

R.G. Manabat & Co., the independent auditors appointed by the management, has audited the financial statements of the Branch in accordance with Philippine Standards on Auditing, and in its report to the management, has expressed its opinion on the fairness of presentation upon completion of such audit.

**ABHISHEK PAGARIA**  
Chief Operating Officer



**RULLIE B. PAYAPAYA**  
Senior Manager - Accounts

Signed this 30th day of May 2022

**LARGEST INSURER OF INDIA - IN PHILIPPINES, SINCE 1930**



# THE NEW INDIA ASSURANCE COMPANY LIMITED

**FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

With Independent Auditors' Report



R.G. Manabat & Co.  
The KPMG Center, 6/F  
6787 Ayala Avenue, Makati City  
Philippines 1209  
Telephone +63 (2) 8885 7000  
Fax +63 (2) 8894 1985  
Internet www.home.kpmg/ph  
Email ph-inquiry@kpmg.com

## 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, 2021 and 2020, 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, 2021 and 2020, 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.

#### Firm Regulatory Registration & Accreditation:

PRC-BOA Registration No. 0003, valid until November 21, 2023

SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)

IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)

BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



### *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.





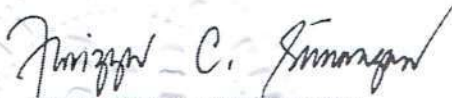
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.**



FLORIZZA C. SIMANGAN

Partner

CPA License No. 0147917

IC Accreditation No. 147917-IC, Group A, valid for five (5) years

covering the audit of 2021 to 2025 financial statements

SEC Accreditation No. 147917-SEC, Group A, valid for five (5) years

covering the audit of 2021 to 2025 financial statements

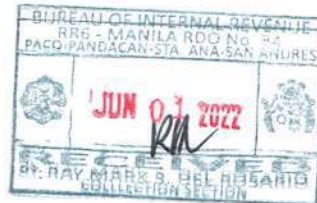
Tax Identification No. 429-267-284

BIR Accreditation No. 08-001987-150-2022

Issued January 27, 2022; valid until January 26, 2025

PTR No. MKT 8854083

Issued January 3, 2022 at Makati City



May 30, 2022

Makati City, Metro Manila

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

		December 31	
	Note	2021	2020
<b>ASSETS</b>			
Cash and cash equivalent	4, 27	P123,091,727	P157,176,752
Insurance receivables - net	5, 27	399,590,896	461,788,749
Held-to-maturity securities	6, 27	651,592,478	664,740,724
Available-for-sale securities	7, 28	3,892,530	3,921,698
Reinsurance assets - net	8	137,576,874	178,296,996
Deferred acquisition costs	9	25,067,825	25,694,579
Property and equipment - net	10	1,834,419	2,187,487
Computer software - net	11	3,841,238	4,801,547
Deferred tax assets - net	22	24,293,299	22,224,005
Right-of-use asset - net	12	88,995	304,115
Other assets	13, 27	48,416,102	56,422,336
		<b>P1,419,286,383</b>	<b>P1,577,558,988</b>
<b>LIABILITIES AND HEAD OFFICE ACCOUNT</b>			
<b>Liabilities</b>			
Insurance contract liabilities	14, 27	P428,411,833	P451,887,360
Due to reinsurers	15, 27	13,092,424	14,355,447
Accounts payable and other liabilities	16, 27	35,331,811	35,460,463
Commissions payable	27	4,852,250	6,550,127
Lease liabilities	12, 27	105,759	336,596
Deferred commission income	9	129,017	130,463
Retirement benefits liability	21	5,730,298	5,614,429
		<b>487,653,392</b>	<b>514,334,885</b>
<b>Head Office Account</b>			
Assigned capital	27	660,610,000	660,610,000
Remittances from Head Office	27	567,851,828	567,691,914
Revaluation reserve on available-for-sale securities	7, 27	1,119,139	1,141,015
Remeasurements of retirement liability	21, 27	(1,982,167)	(2,203,574)
Accumulated deficits	27	(295,965,809)	(164,015,252)
		<b>931,632,991</b>	<b>1,063,224,103</b>
		<b>P1,419,286,383</b>	<b>P1,577,558,988</b>

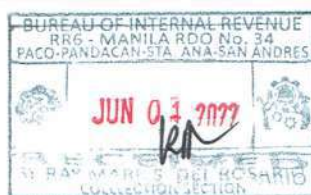
See Notes to the Financial Statements.



**THE NEW INDIA ASSURANCE COMPANY LIMITED**  
**STATEMENTS OF PROFIT OR LOSS AND**  
**OTHER COMPREHENSIVE LOSS**

		Years Ended December 31	
	Note	2021	2020
<b>UNDERWRITING INCOME</b>			
Gross premiums written		P166,670,262	P176,814,219
Reinsurance premiums assumed		70,906,139	80,134,796
Gross earned premiums	18, 27	237,576,401	256,949,015
Reinsurers' share of gross earned premiums	18, 27	(67,651,401)	(45,194,532)
Premiums retained		169,925,000	211,754,483
Net change in reserve for unearned premiums - net of reinsurance premiums	18	18,726,373	(9,573,958)
Net earned premiums		188,651,373	202,180,525
Commission income	9	272,204	454,004
<b>GROSS UNDERWRITING INCOME</b>		<b>188,923,577</b>	<b>202,634,529</b>
<b>UNDERWRITING EXPENSES</b>			
Gross insurance contract benefits and claims paid	14, 19	242,890,691	395,811,537
Reinsurers' share of gross insurance contracts benefits and claim paid	14, 19	(29,169,224)	(310,713,953)
Gross change in insurance contract liabilities	14, 19	(9,227,018)	(202,608,644)
Reinsurers' share of gross change in insurance contract liabilities	14, 19	50,307,906	249,160,088
Net benefits and claims		254,802,355	131,649,028
Commission expense	9	55,516,065	58,314,140
<b>TOTAL UNDERWRITING EXPENSES</b>		<b>310,318,420</b>	<b>189,963,168</b>
<b>NET UNDERWRITING (LOSS) INCOME</b>		<b>(121,394,843)</b>	<b>12,671,361</b>
<b>OTHER INCOME (EXPENSE) - Net</b>			
Interest income	17	19,486,500	17,879,822
Provision for impairment losses	5,8	429,836	5,073,020
Loss from tax assessment		-	(801,673)
Foreign exchange gain (loss) - net		4,370,556	(6,695,125)
Other income		252,515	3,453,588
		24,539,407	18,909,632
<b>NET UNDERWRITING AND OTHER (LOSS) INCOME</b>		<b>(96,855,436)</b>	<b>31,580,993</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	20	<b>33,387,155</b>	<b>30,943,211</b>
<b>NET (LOSS) INCOME BEFORE INCOME TAX EXPENSE</b>		<b>(130,242,591)</b>	<b>637,782</b>
<b>INCOME TAX EXPENSE</b>	22	<b>1,707,966</b>	<b>4,118,409</b>
<b>NET LOSS</b>		<b>(P131,950,557)</b>	<b>(P3,480,627)</b>

Forward





		Years Ended December 31	
	Note	2021	2020
<b>NET LOSS</b>		(P131,950,557)	(P3,480,627)
<b>OTHER COMPREHENSIVE LOSS</b>			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Remeasurements of retirement benefits liability	21	295,210	670,679
Tax effect	21, 22	(73,803)	(201,204)
		221,407	469,475
<i>Items that will be reclassified subsequently to profit or loss</i>			
Loss from change in fair value of available-for-sale securities	7	(29,168)	(684,604)
Tax effect	7, 22	7,292	205,381
		(21,876)	(479,223)
Total other comprehensive loss		199,531	(9,748)
<b>TOTAL COMPREHENSIVE LOSS</b>		(P131,751,026)	(P3,490,375)

See Notes to the Financial Statements.



**THE NEW INDIA ASSURANCE COMPANY LIMITED**  
**STATEMENTS OF CHANGES IN HEAD OFFICE**

	Years Ended December 31					
	Assigned Capital (Note 27)	Remittance from Head Office (Note 27)	Revaluation Reserves 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, 2021	P660,610,000	P567,691,914	P1,141,015	(P2,203,574)	(P164,015,252)	P1,063,224,103
Transaction with Head Office						
Charges paid by Head Office	-	159,914	-	-	-	159,914
<b>Total Comprehensive Income (loss)</b>						
Net loss for the year	-	-	(21,876)	221,407	(131,950,557)	(131,950,557)
Other comprehensive income (loss) - net of tax effect	-	-	(21,876)	221,407	-	199,531
<b>Balance at December 31, 2021</b>	<b>P660,610,000</b>	<b>P567,851,828</b>	<b>P1,119,139</b>	<b>(P1,982,167)</b>	<b>(P295,965,809)</b>	<b>P931,632,991</b>
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
<b>Total Comprehensive Income (loss)</b>						
Net loss for the year	-	-	(479,223)	469,475	(3,480,627)	(3,480,627)
Other comprehensive income (loss) - net of tax effect	-	-	(479,223)	469,475	-	(9,748)
<b>Balance at December 31, 2020</b>	<b>P660,610,000</b>	<b>P567,691,914</b>	<b>P1,141,015</b>	<b>(P2,203,574)</b>	<b>(P164,015,252)</b>	<b>P1,063,224,103</b>

See Notes to the Financial Statements.

**THE NEW INDIA ASSURANCE COMPANY LIMITED**  
**STATEMENTS OF CASH FLOWS**

		Years Ended December 31	
	Note	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Loss) income before income tax expense		(P130,242,591)	P637,782
Adjustments for:			
Changes in:			
Reserve for unearned premiums - net of reinsurance premiums reserve	14	(18,726,373)	9,573,959
Deferred acquisition costs	9	626,754	1,994,405
Deferred commission income	9	(1,446)	(196,461)
Foreign exchange (income) loss - net		(4,370,556)	6,695,125
Depreciation and amortization	10, 11, 12, 20	1,657,514	1,908,167
Reversal of impairment loss	8	(5,109,920)	-
Retirement benefits expense	21	930,546	1,162,471
Interest expense on lease liability	12, 20	24,359	46,625
Interest income	17	(19,486,500)	(17,879,822)
Operating (loss) income before working capital changes		(174,698,213)	3,942,251
Changes in:			
Insurance receivables - net		62,197,853	(247,386,223)
Reinsurance assets		50,307,906	249,160,088
Other assets		8,006,234	7,658,539
Insurance contract liabilities		(9,227,018)	(202,608,644)
Accounts payable and other liabilities		(128,652)	17,828,767
Commission payable		(1,697,877)	629,853
Due to reinsurers		(1,263,023)	2,189,719
Net cash used in operations		(66,502,790)	(168,585,650)
Retirement benefits paid	21	(519,467)	-
Interest paid on lease liability	12, 20	(24,359)	(46,625)
Interest received		17,524,746	16,749,098
Income tax paid		(3,843,770)	(3,923,453)
Net cash used in operating activities		(53,365,640)	(155,806,630)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from maturities of:			
Held-to-maturity securities	6	440,110,000	615,000,000
Acquisitions of:			
Property and equipment	10	(129,016)	-
Held-to-maturity securities	6	(425,000,000)	(826,357,698)
Net cash provided by (used in) investing activities		14,980,984	(211,357,698)

Forward

		Years Ended December 31	
	Note	2021	2020
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Remittances from Head Office		P159,914	P458,154,878
Payment of lease liabilities	12	(230,838)	(196,418)
Net cash (used in) provided by financing activities		(70,924)	457,958,460
<b>NET DECREASE (INCREASE) IN CASH AND CASH EQUIVALENT</b>		<b>(38,455,580)</b>	<b>90,794,132</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENT</b>		<b>4,370,555</b>	<b>(3,279,779)</b>
<b>CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR</b>	<b>4</b>	<b>157,176,752</b>	<b>69,662,399</b>
<b>CASH AND CASH EQUIVALENT AT END OF YEAR</b>	<b>4</b>	<b>P123,091,727</b>	<b>P157,176,752</b>

*See Notes to the Financial Statements.*

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**THE NEW INDIA ASSURANCE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**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.

On March 2, 2022, Certificate of Authority was granted to the Branch by the Insurance Commission (IC) effective January 1, 2022 to December 31, 2024.

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.

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**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 30, 2022.

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.

<u>Items</u>	<u>Measurement Bases</u>
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.

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### **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 non-derivative 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, 2021 and 2020 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 techniques adopted by management in estimating the ultimate loss are 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. All of these 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, 2021 and 2020, the Branch's provision for claims reported and IBNR claims amounted to P320.03 million and P329.26 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, 2021 and 2020, the carrying amount of the reserve for unearned premium, net of deferred acquisition cost amounting to P83.31 million and P96.94 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, 2021 and 2020, the total carrying amount of insurance receivables and reinsurance recoverable on unpaid losses amounted to P490.40 million and P600.00 million, respectively (see Notes 5 and 8).

The Branch recognized reversal for allowance of impairment losses on insurance receivables amounting to P4.68 million in 2021 and P5.07 million in 2020 (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, 2021 and 2020, the carrying amount of AFS securities amounted to P3.89 million and P3.92 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 2021 and 2020, no impairment loss was recognized for the Branch's nonfinancial assets. The table below shows the carrying amounts of the Branch's nonfinancial assets.

	<i>Note</i>	<b>2021</b>	<b>2020</b>
Property and equipment - net	10	<b>P1,834,419</b>	P2,187,487
Computer software - net	11	<b>3,841,238</b>	4,801,547
ROU asset - net	12	<b>88,995</b>	304,115
		<b>P5,764,652</b>	P7,293,149

(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, 2021 and 2020, the Branch's listed equity securities classified as "AFS securities" carried at fair value are classified as Level 1.

(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 P5.68 million and P6.99 million as at December 31, 2021 and 2020, respectively (see Notes 10 and 11).

Based on management's assessment as at December 31, 2021 and 2020, 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, 2021 and 2020 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, 2021 and 2020, the deferred tax assets recognized amounted to P24.29 million and 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, 2021 and 2020, the Branch's DBO amounted to P6.79 million and P6.68 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:

	<i>Note</i>	<b>2021</b>	<b>2020</b>
Cash in banks	27	<b>P123,073,727</b>	P156,158,752
Cash equivalent		-	1,000,000
Cash on hand		<b>18,000</b>	18,000
		<b>P123,091,727</b>	P157,176,752

Cash in banks generally earn interest at the prevailing bank deposit rates. Interest earned from cash in banks amounted to P0.17 million and P0.53 million in 2021 and 2020, respectively (see Note 17).

#### 5. Insurance Receivables

This account consists of:

	<i>Note</i>	<b>2021</b>	<b>2020</b>
Reinsurance recoverable on paid losses:			
Related party	23	<b>P286,290,368</b>	P336,764,921
Third parties		<b>21,966,954</b>	15,686,217
Premium receivables		<b>91,906,871</b>	91,974,740
Due from ceding companies		<b>36,933,991</b>	50,190,075
Funds held by ceding companies		<b>6,872,261</b>	6,872,261
		<b>443,970,445</b>	501,488,214
Allowance for impairment losses		<b>(44,379,549)</b>	(39,699,465)
	27	<b>P399,590,896</b>	P461,788,749

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 amounts 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:

	<b>2021</b>	<b>2020</b>
Balance at beginning of year	<b>P39,699,465</b>	P44,772,485
Reversal of (provision for) impairment	<b>4,680,084</b>	(5,073,020)
Balance at end of year	<b>P44,379,549</b>	P39,699,465

## 6. Held-to-maturity Securities

This account consists of investments in government securities with the total carrying amount of P651.59 million and P664.74 million as at December 31, 2021 and 2020, respectively, and bears interest ranging from 1.78% to 6.25% in 2021 and from 1.01% to 6.25% in 2020.

Interest income from these securities amounted to P19.32 million and P17.35 million in 2021 and 2020, 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 P558.00 million and P555.61 million as at December 31, 2021 and 2020, respectively.

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

	<i>Note</i>	<b>2021</b>	<b>2020</b>
Balance at beginning of year		<b>P664,740,724</b>	P452,252,302
Acquisitions		<b>425,000,000</b>	826,357,698
Maturities		<b>(440,110,000)</b>	(615,000,000)
Net amortization of discount		<b>1,961,754</b>	1,130,724
Balance at end of year	<b>27</b>	<b>P651,592,478</b>	P664,740,724

No provision for impairment loss was recognized for HTM securities in 2021 and 2020.

## 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.

	<i>Note</i>	<b>2021</b>	<b>2020</b>
Listed equity securities		<b>P3,876,080</b>	P3,905,248
Unquoted preferred stocks		<b>16,450</b>	16,450
	<b>28</b>	<b>P3,892,530</b>	P3,921,698

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

	<i>Note</i>	<b>2021</b>	<b>2020</b>
Balance at beginning of year		<b>P3,921,698</b>	P4,606,302
Loss from change in fair value during the year		<b>(29,168)</b>	(684,604)
Balance at end of year	<b>28</b>	<b>P3,892,530</b>	P3,921,698

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

	<i>Note</i>	2021	2020
Balance at beginning of year		P1,141,015	P1,620,238
Amount to be recognized in OCI:			
Loss from change in fair value during the current year		(29,168)	(684,604)
Tax effect	22	7,292	205,381
		(21,876)	(479,223)
Balance at end of year	27	P1,119,139	P1,141,015

## 8. Reinsurance Assets

This account consists of:

	<i>Note</i>	2021	2020
Reinsurance recoverable on unpaid losses:			
Related party	23	P76,021,008	P117,211,590
Third parties		29,436,313	40,764,827
	14	105,457,321	157,976,417
Deferred reinsurance premiums		28,982,868	24,505,004
Reinsurers' share on IBNR		17,788,772	15,577,582
	14	152,228,961	198,059,003
Allowance for impairment losses		(14,652,087)	(19,762,007)
		P137,576,874	P178,296,996

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. Reversal for allowance of impairment loss was recognized for the years ended December 31, 2021 and 2020.

Allowance for impairment losses recoverable recognized in December 31, 2021 and 2020 is P5.11 million and nil, respectively.

## 9. Deferred Acquisition Costs and Deferred Commission Income

The movements in these accounts are as follows:

	<i>Note</i>	2021	2020
Deferred acquisition costs:			
Balance at beginning of year		P25,694,579	P27,688,984
Commissions deferred during the year		54,889,311	56,319,735
Commissions incurred during the year		(55,516,065)	(58,314,140)
Balance at end of year	25	P25,067,825	P25,694,579
Deferred commission income:			
Balance at beginning of year		P130,463	P326,924
Reinsurance commissions deferred during the year		270,758	257,543
Reinsurance commissions earned during the year		(272,204)	(454,004)
Balance at end of year	25	P129,017	P130,463

## 10. Property and Equipment - net

The movements in this account are as follows:

	<i>Note</i>	For the Year Ended December 31, 2021		
		Office Equipment	Furniture, Fixtures and Transportation Equipment	Total
Cost at beginning and end of year		P4,482,327	P2,738,717	P7,221,044
Additions		129,016	-	129,016
		4,611,343	2,738,717	7,350,060
Accumulated Depreciation				
Balance at beginning of year		3,872,994	1,160,563	5,033,557
Depreciation	20	191,755	290,329	482,084
Balance at end of year		4,064,749	1,450,892	5,515,641
Carrying Amount		P546,594	P1,287,825	P1,834,419

	<i>Note</i>	For the Year Ended December 31, 2020		
		Office Equipment	Furniture, Fixtures and 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

There were no disposals of property and equipment in 2021. No property and equipment are pledged as collateral as at December 31, 2021 and 2020.

## 11. Computer Software - net

The movements in this account are as follows:

	<i>Note</i>	2021	2020
<b>Gross Carrying Amount</b>			
Beginning Balance		P9,603,096	P9,603,096
Acquisitions		-	-
Write-Off		-	-
Ending Balance		9,603,096	9,603,096
<b>Accumulated Amortization</b>			
Beginning Balance		4,801,548	3,841,237
Amortization	20	960,310	960,310
Write Off		-	-
Ending Balance		5,761,858	4,801,547
<b>Net Carrying Amount</b>			
Beginning Balance		P9,603,096	P9,603,096
Ending Balance		P3,841,238	P4,801,547

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:

	<i>Note</i>	2021	2020
<b>Cost</b>			
Balance at beginning of year		P645,360	P645,360
Balance at end of year		645,360	645,360
<b>Accumulated Depreciation</b>			
Balance at beginning of year		341,245	125,536
Depreciation	20	215,120	215,709
Balance at end of year		556,365	341,245
Carrying Amount		P88,995	P304,115

### *Lease Liability*

The movements in this account are as follows:

	<i>Note</i>	<b>2021</b>	<b>2020</b>
Balance at beginning of year		<b>P336,596</b>	P533,014
Amortization of interest	20	<b>24,359</b>	46,625
Lease payments		<b>(255,196)</b>	(243,043)
Balance at end of year		<b>P105,759</b>	P336,596

The incremental borrowing rate used is 10.44% during December 31, 2021 and 2020.

The following sets out the maturity analysis of lease liability, showing the undiscounted lease payments after December 31, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
Less than 1 year	<b>P108,484</b>	P255,196
1 to 2 years	-	108,484
Undiscounted lease payments	<b>108,484</b>	363,680
Unamortized interest	<b>(2,725)</b>	(27,084)
	<b>P105,759</b>	P336,596

The amounts recognized in profit or loss are as follows:

	<i>Note</i>	<b>2021</b>	<b>2020</b>
Expenses on short-term leases		<b>P3,833,736</b>	P3,329,792
Depreciation of ROU assets		<b>215,120</b>	215,709
Interest expense on lease liabilities	20	<b>24,359</b>	46,625
		<b>P4,073,215</b>	P3,592,126

Total cash outflows for the leases are as follows:

	<i>Note</i>	<b>2021</b>	<b>2020</b>
Short-term leases and leases of low-value assets applying the recognition exemption		<b>P3,833,735</b>	P3,329,792
Principal payments of the lease liabilities		<b>230,838</b>	196,418
Interest paid on lease liabilities	20	<b>24,359</b>	46,625
		<b>P4,088,932</b>	P3,572,835



### 13. Other Assets

This account consists of:

	Note	2021	2020
Creditable withholding taxes (CWT)		P25,191,958	P23,321,582
Deposits	27	2,864,830	2,847,805
Accrued interest on investments	27	2,516,652	2,542,045
Prepaid rent		2,056,003	2,014,561
Deferred input VAT		1,143,256	1,620,107
Advances to employees	27	756,211	1,252,582
Security fund	27	48,439	48,439
Input value-added tax (VAT)		-	8,650,826
VAT payable		(285,636)	-
Other receivables		14,124,389	14,124,389
		<b>P48,416,102</b>	<b>P56,422,336</b>

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

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.

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.

Other receivables are input VAT with no receipts issued by the payees which the Branch 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:

	Note	December 31, 2021			December 31, 2020		
		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		P277,041,282	P105,457,321	P171,583,961	P287,173,133	P157,976,417	P129,196,716
Provision for IBNR claims		42,988,267	17,788,772	25,199,495	42,083,434	15,577,582	26,505,852
Provision for claims reported and IBNR claims	27	320,029,549	123,246,093	196,783,456	329,256,567	173,553,999	155,702,568
Provision for unearned premiums		108,382,284	28,982,868	79,399,416	122,630,793	24,505,004	98,125,789
Balance at end of year		P428,411,833	P152,228,961	P276,182,872	P451,887,360	P198,059,003	P253,828,357

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:

	Note	December 31, 2021			December 31, 2020		
		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		P329,256,567	P173,553,999	P155,702,568	P531,865,211	P422,714,087	P109,151,124
Claims incurred during the year		232,758,840	(23,349,872)	256,108,712	200,477,748	60,740,708	139,737,040
Claims paid during the year	19	(242,890,691)	(29,169,224)	(213,721,467)	(395,811,537)	(310,713,953)	(85,097,584)
Increase (decrease) in IBNR		904,833	2,211,190	(1,306,357)	(7,274,855)	813,157	(8,088,012)
<b>Balance at end of year</b>	27	<b>P320,029,549</b>	<b>P123,246,093</b>	<b>P196,783,456</b>	<b>P329,256,567</b>	<b>P173,553,999</b>	<b>P155,702,568</b>

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, 2021 and 2020, the provision for unearned premiums may be analyzed as follows:

	Note	December 31, 2021			December 31, 2020		
		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		P122,630,793	P24,505,004	P98,125,789	P105,323,873	P16,772,043	P88,551,830
Policies written during the year	15, 18	237,576,401	67,651,401	169,925,000	256,949,015	45,194,532	211,754,483
Premiums earned during the year		(251,824,910)	(63,173,537)	(188,651,373)	(239,642,095)	(37,461,571)	(202,180,524)
<b>Balance at end of year</b>		<b>P108,382,284</b>	<b>P28,982,868</b>	<b>P79,399,416</b>	<b>P122,630,793</b>	<b>P24,505,004</b>	<b>P98,125,789</b>

## 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	2021	2020
Balance at beginning of year		P14,355,447	P12,165,728
Reinsurers' share of gross earned premiums:			
Related party	14, 18, 23	65,442,670	43,076,440
Third parties	14, 18	2,208,731	2,118,092
		82,006,848	57,360,260
Payments to reinsurers		(68,914,424)	(43,004,813)
	27	P13,092,424	P14,355,447

## 16. Accounts Payable and Other Liabilities

This account consists of:

	<i>Note</i>	2021	2020
Accounts payable	27	<b>P19,002,255</b>	P16,714,945
Deferred output VAT - net		<b>9,916,831</b>	11,560,497
Payable to government agencies		<b>5,527,557</b>	6,623,973
Accrued expenses	27	<b>885,168</b>	561,048
		<b>P35,331,811</b>	P35,460,463

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:

	<i>Note</i>	2021	2020
Interest income from:			
HTM securities	6	<b>P19,316,337</b>	P17,349,455
Cash in banks	4	<b>170,163</b>	530,367
		<b>P19,486,500</b>	P17,879,822

## 18. Net Earned Premiums

The details of this account are as follows:

	<i>Note</i>	2021	2020
Gross premiums written:			
Direct		<b>P166,670,262</b>	P176,814,219
Assumed		<b>70,906,139</b>	80,134,796
	14, 27	<b>237,576,401</b>	256,949,015
Gross change in provision for unearned premiums	14	<b>14,248,509</b>	(17,306,920)
	14	<b>P251,824,910</b>	P239,642,095

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

	<i>Note</i>	2021	2020
Reinsurers' share of gross premium written:			
Related parties	15, 23	P65,442,670	P43,076,440
Third parties	15	2,208,731	2,118,092
	14, 27	67,651,401	45,194,532
Gross change in provision for unearned premiums	14	(4,477,864)	(7,732,962)
		63,173,537	37,461,570
Net earned premiums		P188,651,373	P202,180,525

## 19. Net Insurance Benefits and Claims

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

	<i>Note</i>	2021	2020
Direct insurance		P191,153,404	P375,123,110
Assumed insurance		51,737,287	20,688,427
Total insurance contract benefits and claims paid	14	P242,890,691	P395,811,537

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

	<i>Note</i>	2021	2020
Direct insurance		(P15,548,009)	(P262,220,002)
Assumed insurance		(13,621,215)	(48,493,951)
Total reinsurers' share on insurance contract benefits and claims paid	14	(P29,169,224)	(P310,713,953)

Gross change in insurance contract liabilities are as follows:

	<i>Note</i>	2021	2020
Provision for claims reported		(P10,131,851)	(P195,333,789)
Change in provision for IBNR claims		904,833	(7,274,855)
Total gross change in insurance contract liabilities	14	(P9,227,018)	(P202,608,644)

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

	<i>Note</i>	2021	2020
Provision for claims reported		(P52,519,096)	(P249,973,244)
Change in provision for IBNR claims		2,211,190	813,156
Total reinsurers' share on gross change in insurance contract liabilities	14	(P50,307,906)	(P249,160,088)

## 20. General and Administrative Expenses

This account consists of:

	<i>Note</i>	2021	2020
Salaries and employee benefits		<b>P15,424,250</b>	P14,859,112
Rental, light and water		<b>4,499,571</b>	4,041,164
Depreciation and amortization	10, 11, 12	<b>1,657,514</b>	1,908,167
Professional fees		<b>1,741,199</b>	1,653,736
Taxes and licenses		<b>1,075,597</b>	937,919
Communications and postage		<b>918,199</b>	874,785
Social Security System, Philhealth and Pag-Ibig contributions		<b>684,442</b>	692,402
Subscription and promotion		<b>643,857</b>	681,354
Profit commission		<b>564,423</b>	588,602
Stationery and office supplies		<b>501,599</b>	458,362
Repairs, maintenance and gasoline		<b>461,364</b>	445,550
Insurance expense		<b>357,516</b>	333,504
Travel		<b>313,380</b>	265,865
Net interest expense in retirement benefits liability	21	<b>222,332</b>	187,531
Advertising and promotions		<b>37,030</b>	71,614
Interest expense on lease liability	12	<b>24,359</b>	46,625
Representation and entertainment		<b>110,983</b>	46,396
Interest and bank service charges		<b>43,977</b>	42,021
Miscellaneous		<b>4,105,563</b>	2,808,502
		<b>P33,387,155</b>	P30,943,211

The details of salaries and employee benefits are presented below:

	<i>Note</i>	2021	2020
Short-term employee benefits		<b>P14,716,036</b>	P13,962,506
Post-employment defined benefit	21	<b>708,214</b>	896,606
		<b>P15,424,250</b>	P14,859,112

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 method. The Branch's latest actuarial valuation date is December 31, 2021. 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:

	Note	Present Value of DBO		FVPA		Retirement Benefits Liability	
		2021	2020	2021	2020	2021	2020
Balance at beginning of year		P6,675,525	P6,137,494	P1,061,096	P1,014,857	P5,614,429	P5,122,637
Recognized in Profit or Loss							
Current service cost		708,214	896,606	-	-	708,214	896,606
Interest expense		264,351	318,536	-	-	264,351	318,536
Interest income		-	-	42,019	52,671	(42,019)	(52,671)
	20	972,565	1,215,142	42,019	52,671	930,546	1,162,471
Recognized in OCI							
Remeasurements:							
Actuarial loss arising from:							
Changes in financial assumptions		(713,773)	167,645	-	-	(713,773)	167,645
Experience adjustments		382,194	(844,756)	-	-	382,194	(844,756)
Changes in demographic assumptions		(4,215)	-	-	-	(4,215)	-
Return on assets (excluding amount included in net interest cost)		-	-	(40,584)	(6,432)	40,584	6,432
		(335,794)	(677,111)	(40,584)	(6,432)	(295,210)	(670,679)
Others							
Benefits paid		(519,467)	-	-	-	(519,467)	-
Balance at end of year		P6,792,829	P6,675,525	P1,062,531	P1,061,096	P5,730,298	P5,614,429

The rollforward of retirement benefits reserves is as follows:

	Note	2021	2020
Balance at beginning of year		(P2,203,574)	(P2,673,049)
Actuarial loss on DBO		335,794	677,111
Return on assets (excluding amount included in net interest cost)		(40,584)	(6,432)
Income tax effect	22	(73,803)	(201,204)
Balance at end of year	27	(P1,982,167)	(P2,203,574)

The composition of the plan assets as at December 31, 2021 and 2020 is as follows:

	2021	2020
Cash and cash equivalent	P46,410	P318,926
Philippine government bonds	991,498	720,322
Quoted equity securities	24,623	21,848
	P1,062,531	P1,061,096

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.

The COO reviews the level of funding required for the retirement fund. Such review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Branch's ALM objective is to match maturities of the plan assets to the retirement benefit liability as they fall due. The Branch monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit liability.

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

	2021	2020
Discount rate	5.07%	3.96%
Expected rate of salary increase	7.00%	7.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. As at December 31, 2021 and 2020, the average remaining working lives of an individual retiring at age 60 is 19.20 years and 20.40 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, 2021 and 2020:

	Impact on Present Value of DBO		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
<b>2021</b>			
Discount rate	+/-1.00%	P637,554	(P550,516)
Salary growth rate	+/-1.00%	618,954	(546,019)
<b>2020</b>			
Discount rate	+/-1.00%	(P618,612)	P724,757
Salary growth rate	+/-1.00%	695,465	(607,584)

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 PUC 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 2021 and 2020 amounted P8.25 million and P6.64 million, respectively, which is expected to be paid within six (6) to ten (10) years at the end of each reporting year.

*Maturity Profile*

	2021	2020
Less than 1 year	P1,117,548	P377,000
More than 1 year to 2 years	475,739	919,849
More than 2 years to 3 years	533,811	432,972
More than 3 years to 4 years	587,129	483,563
More than 4 years to 5 years	624,867	512,050
More than 5 years to 10 years	4,910,710	3,914,928
	<b>P8,249,804</b>	<b>P6,640,362</b>

The weighted average duration of the DBO at the end of the reporting period is 8 years and 10.10 years for the years ended December 31, 2021 and 2020, 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 P1.50 million to its plan assets in 2022, subject to further discussion and approval at the management meeting.

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## 22. Income Taxes

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

	2021	2020
<b>Recognized in profit or loss</b>		
Deferred tax (benefit) expense	(P2,135,804)	P194,956
Final tax expense	3,843,770	3,923,453
	<b>P1,707,966</b>	<b>P4,118,409</b>
<b>Recognized in OCI</b>	<b>P7,292</b>	<b>P4,177</b>



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

	2021	2020
Income (loss) before income tax	(P130,242,591)	P637,782
Income tax at statutory tax rate of 25%, 30%	(P32,560,648)	P191,335
Tax effects of:		
Unrecognized deferred tax asset on:		
Net operating loss carryover (NOLCO)	34,844,052	8,947,442
Excess minimum corporate income tax over regular corporate income tax	-	196,698
Recognized deferred tax asset/liability	(2,135,804)	-
Final tax expense	3,843,770	3,923,453
Adjustment due to Corporate Recovery and Tax Incentives for Enterprise (CREATE) Act		
Loss on tax assessment	53,396	240,502
(Nontaxable) nondeductible (income) expenses	2,534,825	(4,017,074)
Interest income subject to final tax	(4,871,625)	(5,363,947)
<b>Income tax expense</b>	<b>P1,707,966</b>	<b>P4,118,409</b>

Deferred tax assets - net as at December 31, 2021 and 2020 and the related deferred tax expense charged to profit or loss and OCI for the years ended December 31, 2021 and 2020 are as follows.

December 31, 2021	Note	Balance January 1, 2021	Recognized in Profit or Loss	Recognized in OCI	Balance December 31, 2021
<b>Deferred tax assets:</b>					
Allowance for impairment losses		P17,838,442	(P107,459)	P -	P17,730,983
Provision for IBNR		12,625,030	(226,208)	-	12,398,822
Unrealized forex loss - net		2,008,538	2,766,420	-	4,774,958
Retirement benefits liability	21	1,684,329	102,770	(73,802)	1,713,297
Changes in fair value of AFS	7	400,432	-	7,292	407,724
Lease liability		100,979	(57,028)	-	43,951
Deferred reinsurance commission		39,139	(362)	-	38,777
		34,696,889	2,478,133	(66,510)	37,108,512
<b>Deferred tax liabilities:</b>					
Deferred acquisition costs		(7,708,374)	156,689	-	(7,551,685)
Reinsurer share on IBNR claims		(4,673,275)	(552,798)	-	(5,226,073)
ROU asset - net		(91,235)	53,780	-	(37,455)
Unrealized forex loss - net		-	-	-	-
		(12,472,884)	(342,329)	-	(12,815,213)
		P22,224,005	P2,135,804	(66,510)	P24,293,299
<b>December 31, 2020</b>					
	Note	Balance January 1, 2020	Recognized in Profit or Loss	Recognized in OCI	Balance December 31, 2020
<b>Deferred tax assets:</b>					
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
<b>Deferred tax liabilities:</b>					
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

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 1% for 2021 and 2% for 2020 of gross income, as defined under the tax regulations, or RCIT, whichever is higher. For the years ended December 31, 2021 and 2020, 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 Branch 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
<b>2021</b>	<b>December 31, 2026</b>	<b>P139,376,209</b>
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, 2021 and 2020 are as follows:

	2021	2020
NOLCO	<b>P73,229,011</b>	P39,876,199
Excess MCIT over RCIT	<b>196,698</b>	2,159,889
	<b>P73,425,709</b>	P42,036,088

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.

## 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
<b>Head Office</b>						
Reinsurance recoverable on unpaid losses	8	2021	P76,021,008	P76,021,008	Due and demandable;	Unsecured;
		2020	72,676,886	117,211,590	noninterest-bearing	no impairment
Reinsurance recoverable on paid losses	5	2021	21,966,954	286,290,368	Due and demandable;	Unsecured;
		2020	262,220,002	336,764,921	noninterest-bearing	no impairment
Premiums due to reinsurers	15, 18	2021	65,442,670	-	Due and demandable;	Unsecured
		2020	43,076,440	-	noninterest-bearing	
<b>Key Management Personnel</b>						
Compensation and benefits		2021	6,494,743	-	Due to and demandable;	Unsecured
		2020	5,800,000	-	noninterest-bearing	
<b>Total</b>		<b>2021</b>		<b>P362,311,376</b>		
<b>Total</b>		<b>2020</b>		<b>P453,976,511</b>		

### Treaty Reinsurance Agreement with the Head Office

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 P6.49 million and P5.80 million for the years ended December 31, 2021 and 2020, 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*, are 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, 2021 and 2020:

	Note	December 31, 2021		December 31, 2020	
		Within 12 Months	Beyond 12 Months	Within 12 Months	Beyond 12 Months
<b>Assets</b>					
Cash	4, 27	P123,091,727	P -	P157,176,752	P -
Insurance receivables - net	5, 27	399,590,896	-	461,788,749	-
Held-to-maturity securities - net	6, 27	149,384,524	502,207,954	438,187,424	226,553,300
Available-for-sale securities - net	7, 27	-	3,892,530	-	3,921,698
Reinsurance assets - net	8, 27	28,982,868	108,594,006	24,505,004	153,791,992
Deferred acquisition cost	9	25,067,825	-	25,694,579	-
Property and equipment - net	10	-	1,834,419	-	2,187,487
Computer software - net	11	-	3,841,238	-	4,801,547
Deferred tax assets - net	22	-	22,157,495	-	22,224,005
ROU asset - net	12	-	88,995	-	304,115
Other assets	13, 27	389,882	48,026,220	444,834	55,977,502
		P726,507,722	P690,642,857	P1,107,797,342	P469,761,646
<b>Liabilities</b>					
Insurance contract liabilities	14, 27	P385,423,566	P42,988,267	P409,803,926	P42,083,434
Due to reinsurers	15, 27	13,092,424	-	14,355,447	-
Accounts payable and accrued expenses	16, 27	35,331,811	-	35,460,463	-
Commissions payable	27	4,852,250	-	6,550,127	-
Lease liability	12, 27	105,759	-	230,837	105,759
Deferred commission income	9	129,017	-	130,463	-
Retirement benefits liability	21	-	5,730,298	-	5,614,429
		P438,934,827	P48,718,565	P466,531,263	P47,803,622

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.

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## 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, 2021 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption did not have any significant impact on the Branch's financial statements.

- *COVID-19 Related Rent Concessions (Amendment to PFRS 16 Leases)*. 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 apply if:
  - the revised consideration is substantially the same or less than the original consideration;
  - the reduction in lease payments related 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 application of the practical expedient. No practical expedient is provided for lessors.

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 component of equity, as appropriate. The Branch has no COVID-19 related rent concessions in 2021.

### 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<sup>th</sup> 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 24<sup>th</sup> 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.

#### Financial Assets

##### *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, 2021 and 2020.

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, 2021 and 2020, 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.

#### Derecognition of Financial Assets and Financial Liabilities

##### *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, 2021 and 2020, 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, 2021. 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 April 1, 2021*

- *COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to PFRS 16)*. The amendment extends the practical expedient introduced in the 2020 amendment which simplified how a lessee accounts for rent concessions that are a direct consequence of COVID-19, permitting lessees to apply the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022.

The amendment is effective for annual reporting periods beginning on or after April 1, 2021. 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 component of equity, as appropriate. The adoption is mandatory for lessees that chose to apply the practical expedient introduced by the 2020 amendments and may result in reversal of lease modifications that was ineligible for the practical expedient under the 2020 amendments, but becomes eligible as a result of the extension.

##### *Effective January 1, 2022*

- *Onerous Contracts - Cost of Fulfilling a Contract (Amendment to PAS 37 Provisions, Contingent Liabilities and Contingent Assets)*. 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 component of equity, as appropriate. The comparatives are not restated. Earlier application is permitted.

- *Annual Improvements to PFRS Standards 2018-2020*.
  - *Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment to PFRS 9)*. The amendment clarifies that for the purpose of performing the '10 per cent' test for derecognition of financial liabilities, the fees paid net of fees received included in the discounted cash flows include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.



- *Lease Incentives (Amendment to Illustrative Examples Accompanying PFRS 16 Leases)*. The amendment deletes from the Illustrative Example 13 the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in PFRS 16.

The amendments are effective for annual reporting periods beginning 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 a liability for at least twelve 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 a liability includes transferring a company's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect 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.

In November 2021, the International Accounting Standards Board issued the Exposure Draft, *Non-Current Liabilities with Covenants* after considering stakeholder feedback on the December 2020 tentative agenda decision issued by the IFRS Interpretations Committee about the amendments. The exposure draft proposes to again amend IAS 1 as follows:

- Conditions which the entity must comply within twelve months after the reporting period will have no effect on the classification as current or non-current.
- Additional disclosure requirements will apply to non-current liabilities subject to such conditions to enable the assessment of the risk that the liability could become repayable within twelve months.
- Separate presentation in the statement of financial position will be required for non-current liabilities for which the right to defer settlement is subject to conditions within 12 months after the reporting period.
- The effective date of the amendments will be deferred to no earlier than January 1, 2024.

- *Definition of Accounting Estimates (Amendments to PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)*. To clarify the distinction between changes in accounting policies and changes in accounting estimates, the amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an accounting estimate is developed to achieve the objective set out by an accounting policy. Developing an accounting estimate includes both selecting a measurement technique and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in such inputs or measurement techniques are changes in accounting estimates. The definition of accounting policies remain unchanged. The amendments also provide examples on the application of the new definition.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted, and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the amendments are applied.

- *Disclosure of Accounting Policies (Amendments to PAS 1 and PFRS Practice Statement 2 Making Materiality Judgements)*. These amendments will help companies provide useful accounting policy disclosure. The key amendments to PAS 1 include:
  - requiring companies to disclose their material accounting policies rather than their significant accounting policies;
  - clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
  - clarifying that not all accounting policies that related to material transactions, other events or conditions are themselves material to a company's financial statements.

An amendment to PFRS Practice Statement 2 also included guidance and additional examples on the application of materiality to accounting policy disclosures. The amendments are effective from January 1, 2023. Earlier application is permitted.

- *Deferred tax related to Assets and Liabilities arising from a Single Transaction (Amendments to PAS 12 Income Taxes)*. The amendments clarify that that the initial recognition exemption does not apply to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning obligations. The amendments apply for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

For leases and decommissioning liabilities, the associated deferred tax assets and liabilities will be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other appropriate component of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

*Effective January 1, 2025*

- *PFRS 17 Insurance Contracts* replaces the interim standard, *PFRS 4 Insurance Contracts*. 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 fulfilment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policy holders, 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 fulfilment 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 business 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. There is also a transition option allowing presentation of comparative information about financial assets using a classification overlay approach on a basis that is more consistent with how *PFRS 9* will be applied in future reporting periods. Early application is permitted for entities that apply *PFRS 9 Financial Instruments* on or before the date of initial application of *PFRS 17*.

- *PFRS 9 (2014) Financial Instruments* 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.

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## **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:

<u>Net Worth</u>	<u>Compliance Date</u>
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, 2021 and 2020, the following table shows the RBC ratio of the Branch based on internal computation:

	<u>2021</u>	<u>2020</u>
TAC	P884,740,264	P1,008,769,365
RBC requirement	96,217,318	93,186,478
	<b>920%</b>	1083%

As at December 31, 2021 and 2020, 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.

### Capital Management Framework

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, 2021 and 2020

	<i>Note</i>	2021	2020
Assigned capital		P660,610,000	P660,610,000
Remittances from Head Office		567,851,828	567,691,914
Revaluation reserve on Available-for-sale securities	7	1,119,139	1,141,015
Remeasurements of retirement benefits liability	21	(1,982,167)	(2,203,574)
Accumulated deficit	22	(295,965,809)	(164,015,252)
		<b>P931,632,991</b>	<b>P1,063,224,103</b>

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 97% and 95% of the total premiums ceded in 2021 and 2020, 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, 2021					
Note	Direct	Assumed	Total Gross Premiums	Reinsurance	Net Retention
Line of risk:					
Fire	P86,307,302	P44,079,573	P130,386,875	P62,436,837	P67,950,038
Motor	55,499,289	-	55,499,289	96,521	55,402,768
Personal Accident	724,366	26,113,238	26,837,604	-	26,837,604
Health	13,269,269	-	13,269,269	-	13,269,269
Engineering	7,492,966	559,321	8,052,287	5,118,043	2,934,244
Marine cargo	2,214,088	-	2,214,088	-	2,214,088
Miscellaneous	1,162,982	154,007	1,316,989	-	1,316,989
14, 18	P166,670,262	P70,906,139	P237,576,401	P67,651,401	P169,925,000

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

The table below sets out the concentration of the claims liabilities as at December 31, 2021 and 2020 by type of contract.

December 31, 2021					
Note	Direct	Assumed	Gross Claims	Reinsurance	Net Retention
Line of risk:					
Fire	P277,505,427	P17,103,093	P294,608,520	P121,742,194	P172,866,326
Motor	9,066,049	-	9,066,049	7,513	9,058,536
Engineering	12,726,582	-	12,726,582	1,496,386	11,230,196
Personal Accident	1,247,077	-	1,247,077	-	1,247,077
Health	1,625,614	-	1,625,614	-	1,625,614
Marine cargo	202,810	-	202,810	-	202,810
Miscellaneous	116,675	436,222	552,897	-	552,897
14	P302,490,234	P17,539,315	P320,029,549	P123,246,093	P196,783,456

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

#### 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.

		2021		
		Change in Assumption	Impact on Insurance Contract Liabilities (Net of Reinsurance Assets)	Impact on Income before Income Tax
Average claim costs	40%	P50,000,000	P50,000,000	
Average number of claims	5%	6,000,000	6,000,000	
Period of settlement	Within 12 months	-	-	
		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	-	-	

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





AI Gross - 2020

Accident Year	Note	2010 and Prior	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
<b>Estimate of Ultimate Costs of Claims</b>													
At the end of accident year		P -	P295,004,251	P115,470,091	P803,487,000	P275,642,461	P89,093,818	P145,804,489	P259,582,959	P232,626,712	P270,834,269	P82,598,756	P92,598,756
One year later		192,597,688	323,153,706	121,083,903	877,716,697	314,874,726	101,348,821	151,154,757	301,474,117	324,907,592	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	160,562,459	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	249,189,408	156,812,026	1,060,000,688	265,631,953	98,423,249	149,711,947	-	-	-	-	149,711,947
Five years later		127,992,761	253,882,527	156,895,393	1,041,083,431	253,229,822	98,439,739	-	-	-	-	-	98,439,739
Six years later		129,680,130	253,825,009	158,892,246	1,052,994,025	273,694,946	-	-	-	-	-	-	273,694,946
Seven years later		181,421,537	253,626,618	156,694,803	1,098,916,958	-	-	-	-	-	-	-	1,098,916,958
Eight years later		183,142,579	253,827,082	156,946,633	-	-	-	-	-	-	-	-	156,946,633
Nine years 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	156,452,589	1,045,526,992	271,176,767	98,423,249	149,607,895	294,761,932	323,886,537	165,622,335	16,958,793	2,908,105,655
<b>Gross Claims Liability in the Statement of Assets, Liabilities and Head Office Account</b>													
	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	P65,839,963	P329,256,567

AI Net - 2020

Accident Year	Note	2010 and Prior	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
<b>Estimate of Ultimate Costs of Claims</b>													
At the end of accident year		P -	P103,619,989	P107,031,136	P266,023,500	P286,382,461	P85,948,657	P138,103,845	P259,582,959	P232,038,310	P186,550,278	P73,973,204	P73,973,204
One year later		41,223,858	115,741,752	87,556,948	265,635,270	119,940,144	94,194,070	136,876,111	301,473,831	282,455,655	190,557,541	-	190,557,541
Two years later		50,471,949	88,036,982	87,409,222	402,714,358	256,350,869	99,393,738	146,319,964	295,646,852	288,354,094	-	-	288,354,094
Three years later		67,658,380	96,324,572	89,915,553	307,029,077	249,731,781	93,841,341	135,432,911	288,378,907	-	-	-	288,378,907
Four years later		117,349,340	104,656,209	122,585,071	360,048,401	221,362,421	93,248,159	135,448,351	-	-	-	-	135,448,351
Five years later		76,840,300	105,703,488	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 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	135,448,351	288,378,907	288,354,094	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	211,870,304	93,248,159	135,345,299	294,761,645	291,271,338	160,254,273	16,500,373	1,871,410,340
<b>Net Claims Liability in the Statement of Assets, Liabilities and Head Office Account</b>													
	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

### 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, 2021 and 2020, the Branch's concentration of credit risk arises from its cash and cash equivalent, insurance receivables and HTM securities amounting to P1.17 billion and to P1.28 billion, respectively, which represent 99.45% and 99.58% in 2021 and 2020, 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.

	<i>Note</i>	<b>2021</b>	<b>2020</b>
Cash and cash equivalent*	4	<b>P123,073,727</b>	P157,158,752
Insurance receivables - net	5	<b>399,590,896</b>	461,788,749
HTM securities	6	<b>651,592,478</b>	664,740,724
Other assets:			
Deposits	13	<b>2,864,830</b>	2,847,805
Accrued interest on investments	13	<b>2,516,652</b>	2,542,045
Advances to employees	13	<b>756,211</b>	1,252,582
Security fund	13	<b>48,439</b>	48,439
		<b>P1,180,443,233</b>	P1,290,379,096

\*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, 2021 follows:

	Note	December 31, 2021					Total
		Current and/or Past Due and not Impaired			Impaired		
		Investment High-Grade	Non-investment Grade - Satisfactory	Total Current and/or Past Due and not Impaired			
Cash and cash equivalent*	4	P123,091,727	P -	P123,091,727	P -	P123,091,727	
Insurance Receivables	5						
Premium receivable		-	60,938,298	60,938,298	30,968,573	91,906,871	
Reinsurance recoverable on paid losses		294,846,346	-	294,846,346	13,410,976	308,257,322	
Due from ceding companies		36,933,991	-	36,933,991	-	36,933,991	
Funds held by ceding companies		6,872,261	-	6,872,261	-	6,872,261	
HTM securities	6	651,592,478	-	651,592,478	-	P651,592,478	
Other assets:	13						
Deposits		2,864,830	-	2,864,830	-	2,864,830	
Accrued interest on investments		2,516,652	-	2,516,652	-	2,516,652	
Advances to employees		-	756,211	756,211	-	756,211	
Security fund		48,439	-	48,439	-	48,439	
		P1,118,766,724	P61,694,509	P1,180,461,233	P44,379,549	P1,224,840,782	

\*excluding cash on hand

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

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 2021, and 2020 which are presented below.

	Note	December 31, 2021	
		On Demand	Over 6 Months
Provision for claims reported	14	P -	P277,041,282
Accounts payable	16	19,002,255	-
Accrued expenses	16	885,168	-
Commissions payable		-	4,852,250
Due to reinsurers	15	13,092,424	-
Lease liability	12	108,484	-
		P33,088,331	P281,893,532

	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	363,680	-
		P31,995,120	P293,723,260

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, 2021 and 2020, 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:

	2021		2020	
	USD	PHP	USD	PHP
<b>Financial Asset</b>				
Cash in banks	\$995,270	P50,757,775	\$1,682,607	P80,798,788

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, 2021 and 2020, respectively. Translation differences are due to rounding off of foreign exchange rates used.

	2021	2020
USD to PHP	P50.999	P48.02

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
2021	+5.00%	P2,537,900	P2,827,957
	-5.00%	(2,537,877)	(2,827,959)
2020	+5.00%	P4,039,939	P2,827,958
	-5.00%	(4,039,939)	(2,827,958)

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	2021	2020
Range of interest rates		1.78%-6.25%	1.01%-6.25%
1 - 3 years		P334,711,575	P608,448,564
4 - 5 years		221,254,864	20,821,816
Over 5 years		95,626,039	35,470,344
	6	P651,592,478	P664,740,724

Any increase by 100 basis points (1%) in interest rates, with all other variables held constant, will increase income before income tax by P0.50 million and P0.46 million for the years ended December 31, 2021 and 2020, respectively. The decrease in the same basis points will reduce the income before income tax by the same amount.

In 2021 and 2020, 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 8% and 9.25% has been observed during 2021 and 2020, respectively. If quoted price for these securities increased by that amount, other comprehensive income before tax would have changed by P0.31 million in 2021 and P0.36 million in 2020.

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.

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## 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 2021 and 2020.

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, 2021 and 2020, 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, 2021 and 2020 amounted to P3.89 million and P3.92 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, 2021 and 2020 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, 2021:

### A. VAT

	Amount
1. Output VAT	P18,404,355
Basis of the Output VAT:	
Receipt subject to VAT	P153,369,622
Exempt receipts	67,924,423
Zero rated receipts	-
Balance at end of year	P221,294,045
2. Input VAT	
Balance at beginning of year	P10,103,431
Current year's domestic purchases:	
a. Goods for resale/manufacture or further processing	-
b. Goods other than for resale or manufacture	50,763
c. Capital goods subject to amortization	-
d. Capital goods not subject to amortization	-
e. Services lodged under other accounts	10,162,971
Input tax on the importation of goods other than capital goods	
Claims for tax credit/refund and other adjustments	(20,317,165)
Balance at end of year	P -

### B. Documentary Stamp Tax

The Branch paid documentary stamp tax on premiums amounting to P20.43 million in 2021.

**C. Withholding Taxes**

	<u>Amount</u>
Expanded withholding taxes	P6,283,440
Withholding taxes on compensation and benefits	626,098
	<u>P6,909,538</u>

**D. Customs Duties, Tariff Fees and Excise 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 2021.

**E. All Other Taxes (Local and National)**

	<u>Amount</u>
<i>Other taxes paid during the year recognized as "Taxes and licenses" under the "General and Administrative Expenses"</i>	
Municipal licenses and permits	P460,985
National taxes	458,035
Others	156,777
	<u>P1,075,797</u>

**F. Tax Assessments and/or Tax Cases**

*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, 2021, 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. The Branch replied on October 31, 2019 and submitted all the necessary documents. As at December 31, 2021, the Branch has not yet received any tax assessment notice from the BIR.