THE NEW INDIA ASSURANCE COMPANY LTD.

405 I.T.C. Bldg., 337 Sen. Gil Puyat Avenu
Makati City * P.O. Box 2479 MCP
Tel. Nos.: (632) 8899-3771 • 8899-3773 • 8899-999
Fax No.: 8899-3844 * Cell No.: 0925743195
E-mail Address: manila@newindia.com.p

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, 2019 and 2018**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

RDO 34 PACO-PANDACAN STA. ANA SAN ANDRES
RECEIVED
JUL 17 2020
ROGELIO G. ANCHETA
Compliance Section

SHANKAR PRASAD SINHA
Chief Operating Officer

CHARITO C. GONZALES
Senior Manager – Technical

RULIE B. PAYAPAYA
Senior Manager - Accounts

Signed this 17th day of July 2020

63276.0072.0002

COVER SHEET

For

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

F	0	0	0	0	0	0	0	0	9	1

COMPANY NAME

THE NEW INDIA ASSURANCE
COMPANY LIMITED

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

405 ITC Bldg.,
337 Sen. Gil Puyat Ave
Makati City, Metro Manila

Form Type	Department requiring the report	Secondary License Type, if Applicable
AAFS	NA	NA

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number
newindiamanila@pldtdsl.net	(02) 8899-999	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
N/A	N/A	December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Shankar Prasad Sinha	N/A	(02) 8555-0926	N/A

CONTACT PERSON's ADDRESS

26C Two Lafayette Square Condo 105 Tordesillas St., Salcedo Village Makati City

Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

Date: 2021-01-04 Time: 09:26:22 AM Username: Aaron Paul Pagkatipunan

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Page 3 of 60 pages JAN 05 2021
Verified by: D. ABAD Date

63276.0072.0003

Securities and Exchange Commission PHILIPPINES

THE NEW INDIA ASSURANCE COMPANY LIMITED

FINANCIAL STATEMENTS
December 31, 2019 and 2018

With Independent Auditors' Report

KPMG

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226

Telephone	+63 (2) 8885 7000
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REPORT OF INDEPENDENT AUDITORS

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The New India Assurance Company Limited (the Branch), which comprise the statement of assets, liabilities and head office account as at December 31, 2019, and the statements of profit or loss and other comprehensive (loss) income, changes in head office account and cash flows for the year 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, 2019, and its financial performance and its cash flows for the year 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.

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Emphasis of Matter - Comparative Information

We draw attention to Note 27 to the financial statements which indicates that the comparative information presented as at and for the year ended December 31, 2018 has been restated. Our opinion is not modified in respect of this matter.

Other Matter Relating to Comparative Information

The financial statements of the Branch as at and for the years ended December 31, 2018 and December 31, 2017 (from which the statement of assets, liabilities and head office account as at January 1, 2018 has been derived), excluding the adjustments described in Note 27 to the financial statements were audited by another auditor who expressed an unmodified opinion on those financial statements on April 12, 2019.

As part of our audit of the financial statements as at and for the year ended December 31, 2019, we audited the adjustments described in Note 27 that were applied to restate the comparative information presented as at and for the year ended December 31, 2018 and the statement of assets, liabilities and head office account as at January 1, 2018. We were not engaged to audit, review, or apply any procedures to the financial statements for the years ended December 31, 2018 or December 31, 2017 (not presented herein) or to the statement of assets, liabilities and head office account as at January 1, 2018, other than with respect to the adjustments described in Note 27 to the financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Note 27 are appropriate and have been properly applied.

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.

KPMG

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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.

KPMG

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

R.G. MANABAT & CO.

Tireso Randy F. Lapidez

TIRESO RANDY F. LAPIDEZ
Partner
CPA License No. 0092183
IC Accreditation No. SP-2017/016-R, Group A, valid until August 26, 2020
SEC Accreditation No. 1472-AR-1, Group A, valid until July 2, 2021
Tax Identification No. 162-411-175
BIR Accreditation No. 08-001987-34-2017
Issued September 4, 2017; valid until September 3, 2020
PTR No. MKT 8116769
Issued January 2, 2020 at Makati City

July 8, 2020
Makati City, Metro Manila

63276.0072.0008

THE NEW INDIA ASSURANCE COMPANY LIMITED

STATEMENTS OF ASSETS, LIABILITIES AND HEAD OFFICE ACCOUNT

	Note	2019	December 31 2018 (As restated - Note 27)	January 1, 2018 (As restated - Note 27)
ASSETS				
Cash and cash equivalent	4, 29	**P69,662,399**	P125,581,447	P58,215,611
Insurance receivables - net	5, 29	**214,402,526**	216,685,611	332,566,996
Held-to-maturity securities	6, 29	**452,252,302**	434,366,822	601,583,697
Available-for-sale securities	7, 29	**4,606,302**	4,972,354	5,256,474
Reinsurance assets - net	8, 29	**419,724,123**	429,449,780	435,932,200
Deferred acquisition costs	9	**27,688,984**	24,710,396	34,126,954
Property and equipment - net	10	**2,919,635**	1,779,342	2,093,555
Computer software - net	11	**5,761,857**	6,722,165	7,682,476
Deferred tax assets - net	22	**22,218,086**	42,887,303	25,867,323
Right-of-use asset - net	12	**519,824**	-	-
Other assets	13, 29	**67,692,918**	83,201,407	63,524,771
		P1,287,448,956	P1,370,356,627	P1,566,850,057
LIABILITIES AND HEAD *OFFICE ACCOUNT*				
Liabilities				
Insurance contract liabilities	14, 29	**P637,189,084**	P632,138,531	P931,224,961
Due to reinsurers	15, 29	**12,165,728**	12,134,737	5,593,408
Accounts payable and other liabilities	16, 29	**17,631,696**	18,980,986	14,384,700
Commissions payable	29	**5,920,274**	493,770	872,761
Lease liability	12, 29	**533,014**	-	-
Deferred commission income	9	**326,924**	239,507	114,560
Retirement liability	21	**5,122,637**	2,993,521	2,927,911
		678,889,357	666,981,052	955,118,301
Head Office Account				
Assigned capital	29	**275,000,000**	275,000,000	275,000,000
Remittances from Head Office	29	**495,147,035**	494,971,737	433,476,273
Revaluation reserve on Available-for-sale securities	7, 29	**1,620,238**	1,876,474	2,160,594
Remeasurements of retirement liability	21, 29	**(2,673,049)**	(1,387,738)	(1,650,081)
Accumulated deficit	29	**(160,534,625)**	(67,084,898)	(97,255,030)
		608,559,599	703,375,575	611,731,756
		P1,287,448,956	P1,370,356,627	P1,566,850,057

See Notes to the Financial Statements.

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THE NEW INDIA ASSURANCE COMPANY LIMITED
STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE (LOSS) INCOME

	Note	Year Ended December 31 2019	2018 (As restated - Note 27)
UNDERWRITING INCOME			
Gross premiums written		**P158,062,051**	P158,755,283
Reinsurance premiums assumed		**102,562,227**	86,933,284
Gross earned premiums	*18, 29*	**260,624,278**	245,688,567
Reinsurers' share of gross earned premiums	*18, 29*	**(36,046,855)**	(46,334,956)
Premiums retained		**224,577,423**	199,353,611
Net change in reserve for unearned premiums - net of reinsurance premiums	*18*	**(2,938,101)**	68,375,033
Net earned premiums		**221,639,322**	267,728,644
Commission income	*9*	**459,504**	330,683
GROSS UNDERWRITING INCOME		**222,098,826**	268,059,327
UNDERWRITING EXPENSES			
Gross insurance contract benefits and claims paid	*14*	**254,678,329**	404,545,635
Reinsurers' share of gross insurance contracts benefits and claim paid	*14*	**(40,120,045)**	(11,057,977)
Gross change in insurance contract liabilities	*14*	**8,955,507**	(228,444,516)
Reinsurers' share of gross change in insurance contract liabilities	*14*	**2,882,602**	4,215,539
Net benefits and claims		**226,396,393**	169,258,681
Commission expense	*9*	**53,184,301**	62,850,029
TOTAL UNDERWRITING EXPENSES		**279,580,694**	232,108,710
NET UNDERWRITING (LOSS) INCOME		**(57,481,868)**	35,950,617
OTHER INCOME (LOSS) - Net			
Interest income	*17*	**24,543,396**	19,444,274
Gain on sale of property and equipment	*10*	**315,777**	-
Foreign exchange (loss) gain		**(3,492,011)**	138,040
Provision for impairment losses	*5*	**-**	(5,171,731)
Other income		**25,226**	85,068
		21,392,388	14,495,651
NET UNDERWRITING AND OTHER (LOSS) INCOME		**(36,089,480)**	50,446,268
GENERAL AND ADMINISTRATIVE EXPENSES	*20*	**31,394,944**	31,556,927
NET (LOSS) INCOME BEFORE INCOME TAX		**(67,484,424)**	18,889,341
INCOME TAX EXPENSE (BENEFIT)	*22*	**25,965,303**	(11,280,791)
NET (LOSS) INCOME		**(P93,449,727)**	P30,170,132

See Notes to the Financial Statements.

63276.0072.0010

THE NEW INDIA ASSURANCE COMPANY LIMITED
STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE (LOSS) INCOME

	Note	Year Ended December 31 2019	2018 (As restated - Note 27)
NET (LOSS) INCOME		**(P93,449,727)**	P30,170,132
OTHER COMPREHENSIVE (LOSS) INCOME			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of retirement liability	21	**(1,836,158)**	374,775
Tax effect	21, 22	**550,847**	(112,432)
		(1,285,311)	262,343
Items that will be reclassified subsequently to profit or loss			
Fair value loss on available-for-sale securities	7	**(366,052)**	(284,120)
Tax effect	7, 22	**109,816**	-
		(256,236)	(284,120)
		(1,541,547)	(21,777)
TOTAL COMPREHENSIVE (LOSS) INCOME		**(P94,991,274)**	P30,148,355

See Notes to the Financial Statements.

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

	Note	Assigned Capital (Note 29)	Remittance from Head Office (Note 29)	Revaluation Reserves: Revaluation Reserve on Available-for-sale Securities (Notes 7 and 29)	Revaluation Reserves: Retirement Revaluation Reserve (Notes 21 and 29)	Accumulated Deficit (Note 29)	Total
Balance at January 1, 2019, as restated		P275,000,000	P494,971,737	P1,876,474	(P1,387,738)	(P67,084,898)	P703,375,575
Transaction with Head Office							
Charges paid by Head Office		-	175,298	-	-	-	175,298
Total comprehensive income (loss)							
Net loss for the year		-	-	-	-	(93,449,727)	(93,449,727)
Other comprehensive loss - net of tax effect		-	-	(256,236)	(1,285,311)	-	(1,541,547)
		-	-	(256,236)	(1,285,311)	(93,449,727)	(94,991,274)
Balance at December 31, 2019		P275,000,000	P495,147,035	P1,620,238	(P2,673,049)	(P160,534,625)	P608,559,599
Balance at January 1, 2018, as previously reported		P275,000,000	P433,476,273	P2,160,594	(P1,650,081)	(P121,624,500)	P587,362,286
Impact of restatements	27	-	-	-	-	24,369,470	24,369,470
Balance at January 1, 2018, as restated		275,000,000	433,476,273	2,160,594	(1,650,081)	(97,255,030)	611,731,756
Transactions with Head Office							
Additional fund		-	60,515,225	-	-	-	60,515,225
Charges paid by Head Office		-	980,239	-	-	-	980,239
		-	61,495,464	-	-	-	61,495,464
Total comprehensive income (loss)							
Net income for the year, as restated		-	-	-	-	30,170,132	30,170,132
Other comprehensive income (loss) - net of tax effect		-	-	(284,120)	262,343	-	(21,777)
		-	-	(284,120)	262,343	30,170,132	30,148,355
Balance at December 31, 2018, as restated		P275,000,000	P494,971,737	P1,876,474	(P1,387,738)	(P67,084,898)	P703,375,575

See Notes to the Financial Statements.

THE NEW INDIA ASSURANCE COMPANY LIMITED
STATEMENTS OF CASH FLOWS

	Note	Year Ended December 31 2019	2018 (As restated - Note 27)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) income before tax		**(P67,484,424)**	P18,889,341
Adjustments for:			
Changes in:			
Deferred acquisition costs	*9*	**(2,978,588)**	9,416,558
Deferred commission income	*9*	**87,417**	124,947
Reserve for unearned premiums - net of reinsurance premiums reserve	*14*	**2,938,101**	(68,375,033)
Foreign exchange loss (gain) - net		**3,492,011**	(138,040)
Depreciation and amortization	*10, 11, 12, 20*	**1,714,984**	1,532,201
Retirement expense	*21*	**632,408**	555,089
Provision for impairment losses	*5, 8*	**-**	5,171,731
Interest expense on lease liability	*12, 20*	**25,411**	-
Gain on sale of property and equipment	*10*	**(315,777)**	-
Interest income	*17*	**(24,543,396)**	(19,444,274)
Operating loss before working capital changes		**(86,431,853)**	(52,267,480)
Changes in:			
Insurance receivables - net		**2,283,085**	110,709,653
Reinsurance assets		**2,882,602**	4,215,537
Other assets		**12,163,600**	(19,676,634)
Insurance contract liabilities		**8,955,507**	(228,444,516)
Accounts and other liabilities		**(1,349,290)**	4,596,286
Commission payable		**5,426,504**	(378,991)
Due to reinsurers		**30,991**	6,541,329
Net cash used in operations		**(56,038,854)**	(174,704,816)
Retirement benefit paid	*21*	**(339,450)**	(114,704)
Interest paid on lease liability	*12, 20*	**(25,411)**	-
Interest received		**22,901,094**	20,687,453
Income tax paid		**(4,635,423)**	(5,851,621)
Net cash used in operating activities		**(38,138,044)**	(159,983,688)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposals of:			
Held-to-maturity securities	*6*	***228,500,000***	*322,969,846*
Property and equipment	*10*	**455,710**	-
Acquisitions of:			
Held-to-maturity securities	*6*	**(244,743,178)**	(156,996,149)
Property and equipment	*10*	**(1,909,366)**	(257,677)
Net cash (used in) provided by investing activities		**(P17,696,834)**	P165,716,020

Forward

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	Note	2019	2018 (As restated - Note 27)
		Year Ended December 31	
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of lease liability	*12*	**(P72,987)**	P -
Remittances from Head Office		**175,298**	61,495,464
Net cash provided by financing activities		**102,311**	61,495,464
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENT		**(55,732,567)**	67,227,796
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENT		**(186,481)**	138,040
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR	*4*	**125,581,447**	58,215,611
CASH AND CASH EQUIVALENT AT END OF YEAR	*4*	**P69,662,399**	P125,581,447

See Notes to the Financial Statements.

63276.0072.0014

THE NEW INDIA ASSURANCE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

The New India Assurance Company Limited, Philippine Branch (the Branch) was incorporated on July 23, 1919. The Branch was registered with the Philippine Securities and Exchange Commission (SEC) on August 28, 1930.

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

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

2. Basis of Preparation

Statement of Compliance
These financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). These financial statements were authorized for issue by the Branch's Chief Operating Officer (COO) on July 8, 2020.

This is the first set of the Branch's financial statements in which PFRS 16, *Leases* has been applied. The related changes to significant accounting policies are described in Note 28.

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

Items	Measurement Bases
Available-for-sale (AFS) securities	Fair value
Retirement 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 peso, unless otherwise indicated.

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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 (non-current) is presented in Note 26.

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, financial liability or an equity in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of assets, liabilities and head office account.

In classifying nonderivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as held-to-maturity (HTM) securities, the Branch evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity. If the Branch fails to keep these investments to maturity other than for specific circumstances as allowed under the standard, it will be required to reclassify the whole class as AFS securities. In such 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, 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, 2019 and 2018 that have significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is as follows:

Significant Accounting Estimate Applicable from January 1, 2019

(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 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.

Significant Accounting Estimates Applicable from and before January 1, 2019

(a) *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 of time before the ultimate costs of claims can be established with certainty.

The main assumption underlying the estimation of the insurance claims provision is 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 in order 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) in order to arrive at the estimated ultimate costs of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

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

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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, 2019 and 2018, the Branch's provision for claims reported and IBNR claims amounted to P531.87 million and P522.91 million, respectively (see Note 14).

(b) Liability Adequacy Test

At each reporting period, management performs 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, 2019 and 2018, the carrying amount of the reserve for unearned premium, net of deferred acquisition cost amounting to P77.63 million and P84.52 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*.

(c) Estimating Allowance for Impairment Losses on Receivables

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 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, 2019 and 2018, the total carrying amount of insurance receivables and reinsurance assets amounted to P634.13 million and P646.14 million, respectively (see Notes 5 and 8).

The Branch recognized provision for impairment losses on insurance receivables amounting to P5.17 million in 2018 (see Note 5).

(d) 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 fair value of AFS financial assets would affect other comprehensive income (OCI).

As at December 31, 2019 and 2018, the carrying amount of AFS securities amounted to P4.61 million and P4.97 million, respectively, are not impaired based on management assessment.

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(e) *Impairment of Nonfinancial Assets*
The Branch assesses impairment on property and equipment, computer software and 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 2019 and 2018, no impairment loss was recognized for the Branch's nonfinancial assets. The table below shows the carrying amounts of the Branch's nonfinancial assets.

	Note	2019	2018
Property and equipment - net	*10*	**P2,919,635**	P1,779,342
Computer software - net	*11*	**5,761,857**	6,722,165
ROU asset - net	*12*	**519,824**	-
		P9,201,316	P8,501,507

(f) *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, 2019 and 2018, the Branch's listed equity securities classified as "AFS securities" carried at fair value are classified as Level 1. While the unquoted preferred shares are measured at cost less any impairment loss.

(g) *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 P8.68 million and P8.51 million as at December 31, 2019 and 2018, respectively (see Notes 10 and 11). Based on management's assessment as at December 31, 2019 and 2018, 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.

(h) *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 that the deferred tax assets recognized as at December 31, 2019 and 2018 are recoverable in the subsequent periods. The Branch's management assessed that the benefits from net operating loss carry over (NOLCO) and excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) may not be utilized within the three-year period allowed for it to be deductible.

As at December 31, 2019 and 2018, the deferred tax assets recognized amounted to P56.94 million and P37.09 million, respectively (see Note 22).

(i) *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, 2019 and 2018, the Branch's DBO amounted to P6.14 million and P3.89 million, respectively (see Note 21).

(j) *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.

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4. Cash and Cash Equivalent

This account consists of:

	Note	2019	2018
Cash in banks	29	**P68,644,399**	P125,563,447
Cash equivalent	29	**1,000,000**	-
Cash on hand		**18,000**	18,000
		P69,662,399	P125,581,447

Cash in banks generally earn interest based on daily bank deposit rates. Interest earned from cash in banks amounted to P0.94 million and P0.26 million in 2019 and 2018, respectively (see Note 17).

5. Insurance Receivables

This account consists of:

	Note	2019	2018
Reinsurance recoverable on paid losses:			
Related party	23	**P116,114,924**	P116,549,270
Third parties		**13,925,767**	18,401,140
Premium receivables		**82,020,425**	88,326,498
Due from ceding companies		**40,494,055**	35,190,570
Funds held by ceding companies		**6,619,840**	2,990,618
		259,175,011	261,458,096
Allowance for impairment losses		**(44,772,485)**	(44,772,485)
	29	**P214,402,526**	P216,685,611

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

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

Due from ceding companies refers to the premiums receivable from the ceding companies as a result of 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:

	Note	2019	2018
Balance at beginning of year		**P44,772,485**	P39,600,754
Impairment loss during the year		**-**	5,171,731
Balance at end of year	29	**P44,772,485**	P44,772,485

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6. Held-to-maturity Securities

This account consists of investments in government securities with carrying amount of P452.25 million and P434.37 million as at December 31, 2019 and 2018, respectively, and bears interest ranging from 3.25% to 6.25% in 2019 and from 2.93% to 7.88% in 2018. Interest income from these securities amounted to P23.61 million and P19.19 million in 2019 and 2018, respectively (see Note 17).

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 Insurance Code. The face value of these investments deposited with the IC amounted to P435.61 million and P342.10 million as at December 31, 2019 and 2018, respectively.

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

	Note	**2019**	2018
Balance at beginning of year		**P434,366,822**	P601,583,697
Acquisitions		**244,743,178**	156,996,149
Maturities		**(228,500,000)**	(322,969,846)
Net amortization of discount (premium)		**1,642,302**	(1,243,178)
Balance at end of year	*29*	**P452,252,302**	P434,366,822

No provision for impairment loss was recognized for HTM securities in 2019 and 2018.

7. Available-for-sale Securities

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

	Note	**2019**	2018
Listed equity securities		**P4,589,852**	P4,955,904
Unquoted preferred shares		**16,450**	16,450
	30	**P4,606,302**	P4,972,354

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

	Note	**2019**	2018
Balance at beginning of year		**P4,972,354**	P5,256,474
Fair value loss during the year		**(366,052)**	(284,120)
Balance at end of year	*30*	**P4,606,302**	P4,972,354

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

	Note	2019	2018
Balance at beginning of year		P1,876,474	P2,160,594
Amount to be recognized in OCI:			
Fair value loss during the current year		(366,052)	(284,120)
Tax effect	22	109,816	-
		(256,236)	(284,120)
Balance at end of year		P1,620,238	P1,876,474

8. Reinsurance Assets

This account consists of:

	Note	December 31 2019	December 31 2018 (As restated - Note 27)	January 1, 2018 (As restated - Note 27)
Reinsurance recoverable on unpaid losses:				
Related party	23	**P325,229,138**	P283,463,190	P282,729,074
Third parties		**82,720,524**	93,383,480	87,718,154
	14, 29	**407,949,662**	376,846,670	370,447,228
Deferred reinsurance premiums	14	**16,772,043**	23,615,098	25,881,979
Reinsurers' share on IBNR	14	**14,764,425**	48,750,019	59,365,000
		439,486,130	449,211,787	455,694,207
Allowance for impairment loss	27	**(19,762,007)**	(19,762,007)	(19,762,007)
		P419,724,123	P429,449,780	P435,932,200

Reinsurance recoverable on unpaid losses represents amounts due from reinsurers under 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 reinsurer's share on IBNR, have been reviewed for indicators of impairment. No additional provision for impairment loss was recognized for the years ended December 31, 2019 and 2018.

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9. Deferred Acquisition Cost and Deferred Commission Income

The movements in these accounts are as follows:

	2019	2018
Deferred acquisition costs:		
Balance at beginning of year	P24,710,396	P34,126,954
Commission deferred during the year	56,162,889	53,433,471
Commission amortized during the year	(53,184,301)	(62,850,029)
Balance at end of year	P27,688,984	P24,710,396
Deferred commission income:		
Balance at beginning of year	P239,507	P114,560
Reinsurance commissions deferred during the year	546,921	455,630
Reinsurance commissions earned during the year	(459,504)	(330,683)
Balance at end of year	P326,924	P239,507

10. Property and Equipment

The movements in this account are as follows:

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

	Note	For the year ended December 31, 2018 Furniture, Fixtures and Office Equipment	Transportation Equipment	Total
Cost				
Balance at beginning of year		P4,206,360	P2,415,699	P6,622,059
Additions		257,677		257,677
Balance at end of year		4,464,037	2,415,699	6,879,736
Accumulated Depreciation				
Balance at beginning of year		2,878,528	1,649,976	4,528,504
Depreciation	*20*	394,235	177,655	571,890
Balance at end of year		3,272,763	1,827,631	5,100,394
Carrying Amount		P1,191,274	P588,068	P1,779,342

In 2019, the Branch disposed property and equipment with carrying amount of P0.14 million, which resulted to a gain of P0.32 million. There were no disposals of property and equipment in 2018.

The cost of the Branch's fully depreciated property and equipment that are still in use is P1.60 million and P1.70 million as at December 31, 2019 and 2018, respectively.

There were no property and equipment that are pledged as collateral as at December 31, 2019 and 2018.

11. Computer Software

The movements in this account are as follows:

	Note	2019	2018
Cost		**P9,603,094**	P9,603,094
Accumulated Amortization			
Balance at beginning of year		**(2,880,929)**	(1,920,618)
Amortization	*20*	**(960,308)**	(960,311)
Balance at end of year		**(3,841,237)**	(2,880,929)
Carrying Amount		**P5,761,857**	P6,722,165

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

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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. Previously, these leases were classified as operating leases under Philippine Accounting Standard (PAS) 17, *Leases*.

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

ROU Asset
The movements in this account are as follows:

	Note	2019
Cost		
Balance at beginning of year		P -
Transition adjustment due to adoption of PFRS 16		-
Additions		645,360
Balance at end of year		P645,360
Accumulated Depreciation		
Balance at beginning of year		P -
Depreciation	20	125,536
Balance at end of year		125,536
Carrying Amount		P519,824

Lease Liability
The movements in this account are as follows:

	Note	2019
Balance at beginning of year		P -
Transition adjustment due to adoption of PFRS 16		-
Additional lease liability during the year		606,001
Amortization of interest	20	25,411
Lease payments		(98,398)
Balance at end of year		P533,014

The incremental borrowing rate used is 10.44%.

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

Under PFRS 16	2019
Less than 1 year	P243,043
1 to 2 years	255,196
2 to 3 years	108,484
3 to 4 years	-
4 to 5 years	-
Undiscounted lease payments	606,723
Unamortized interest	(73,709)
	P533,014

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The future minimum lease payments under PAS 17 of the non-cancellable leases amounted to P1.91 million which is due within 1 year as at December 31, 2018.

Total cash outflows for the leases are as follows:

	Note	2019
Short-term leases and leases of low-value assets applying the recognition exemption		**P3,467,387**
Payments of lease liability		**72,987**
Interest paid on lease liability	20	**25,411**
		P3,605,144

13. Other Assets

This account consists of:

	Note	2019	2018
Creditable withholding taxes (CWT)		**P22,462,323**	P20,769,723
Input value-added tax (VAT)		**17,925,064**	24,585,515
Deposits	*29*	**6,750,063**	17,731,000
Accrued interest on investments	*29*	**3,115,965**	3,526,749
Prepaid expenses		**2,021,686**	2,720,317
Deferred input VAT		**1,800,845**	12,154,719
Advances to employees	*29*	**1,472,581**	1,664,945
Security fund	*29*	**48,439**	48,439
Other receivables		**12,095,952**	-
		P67,692,918	P83,201,407

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

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

Deposits include refundable deposit from lease agreements, performance bond and deposits to health maintenance organization.

Prepaid expenses pertain to prepaid rent for its office premises.

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

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

Other receivables are input VAT without supporting receipts which the Company will charged to the payee in the subsequent billings or to any outstanding amount due to the payee.

14. Insurance Contract Liabilities

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

December 31, 2019	Note	December 31, 2019 Insurance Contract Liabilities	December 31, 2019 Reinsurer's Share of Liabilities (Note 8)	December 31, 2019 Net Retention	December 31, 2018 (As restated - Note 27) Insurance Contract Liabilities	December 31, 2018 (As restated - Note 27) Reinsurer's Share of Liabilities (Note 8)	December 31, 2018 (As restated - Note 27) Net Retention	January 1, 2018 (As restated - Note 27) Insurance Contract Liabilities	January 1, 2018 (As restated - Note 27) Reinsurer's Share of Liabilities (Note 8)	January 1, 2018 (As restated - Note 27) Net Retention
Provision for claims reported		P482,506,922	P407,949,662	P74,557,260	P434,712,857	P376,846,670	P57,866,187	P859,560,220	P370,447,228	P289,112,992
Provision for IBNR claims		49,358,289	14,764,425	34,593,864	88,196,847	48,750,019	39,446,828	91,794,000	59,365,000	32,429,000
Provision for claims reported and IBNR claims	29	531,865,211	422,714,087	109,151,124	522,909,704	425,596,689	97,313,015	751,354,220	429,812,228	321,541,992
Provision for unearned premiums		105,323,873	16,772,043	88,551,830	109,228,827	23,615,098	85,613,729	179,870,741	25,881,979	153,988,762
Balance at end of year		P637,189,084	P439,486,130	P197,702,954	P632,138,531	P449,211,787	P182,926,744	P931,224,961	P455,694,207	P475,530,754

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

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

December 31, 2019	Note	December 31, 2019 Insurance Contract Liabilities	December 31, 2019 Reinsurer's Share of Liabilities (Note 8)	December 31, 2019 Net Retention	December 31, 2018 (As restated - Note 27) Insurance Contract Liabilities	December 31, 2018 (As restated - Note 27) Reinsurers' Share of Liabilities (Note 8)	December 31, 2018 (As restated - Note 27) Net Retention	January 1, 2018 (As restated - Note 27) Insurance Contract Liabilities	January 1, 2018 (As restated - Note 27) Reinsurer's Share of Liabilities (Note 8)	January 1, 2018 (As restated - Note 27) Net Retention
Balance at beginning of year		P522,909,704	P425,596,689	P97,313,015	P751,354,220	P429,812,228	P321,541,992	P689,601,393	P436,444,073	P253,157,320
Claims incurred during the year		302,472,394	71,223,037	231,249,357	179,698,272	17,457,419	162,240,853	344,914,838	15,954,290	328,960,548
Claims paid during the year		(254,678,329)	(40,120,045)	(214,558,284)	(404,545,635)	(11,057,977)	(393,487,658)	(269,782,844)	(23,193,903)	(246,588,941)
Increase (decrease) in IBNR		(38,838,558)	(33,985,594)	(4,852,964)	(3,597,153)	(10,614,981)	7,017,828	(13,379,165)	607,768	(13,986,933)
Balance at end of year	29	P531,865,211	P422,714,087	P109,151,124	P522,909,704	P425,596,689	P97,313,015	P751,354,220	P429,812,228	P321,541,992

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, 2019 and 2018, and January 1, 2018, provision for unearned premiums may be analyzed as follows:

December 31, 2019	Note	December 31, 2019 Insurance Contract Liabilities	December 31, 2019 Reinsurer's Share of Liabilities (Note 8)	December 31, 2019 Net Retention	December 31, 2018 (As restated - Note 27) Insurance Contract Liabilities	December 31, 2018 (As restated - Note 27) Reinsurer's Share of Liabilities (Note 8)	December 31, 2018 (As restated - Note 27) Net Retention	January 1, 2018 (As restated - Note 27) Insurance Contract Liabilities	January 1, 2018 (As restated - Note 27) Reinsurer's Share of Liabilities (Note 8)	January 1, 2018 (As restated - Note 27) Net Retention
Balance at beginning of year		P109,228,827	P23,615,098	P85,613,729	P179,870,741	P25,881,979	P153,988,762	P209,822,590	P32,959,734	P176,862,85
Policies written during the year	15, 18	260,624,278	36,046,855	224,577,423	245,688,567	46,334,956	199,353,611	408,686,247	51,559,249	355,106,99
Premiums earned during the year	18	(264,529,232)	(42,889,910)	(221,639,322)	(316,330,481)	(48,601,837)	(287,728,844)	(438,618,096)	(58,837,004)	(377,981,092
Balance at end of year		P105,323,873	P16,772,043	P88,551,830	P109,228,827	P23,615,098	P85,613,729	P179,870,741	P25,881,979	P153,988,76

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15. Due to Reinsurers

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

	Note	2019	2018
Balance at beginning of year		**P12,134,737**	P5,593,408
Reinsurers' share of gross earned premiums			
Related party	*18, 23*	**32,886,560**	P41,923,310
Third parties		**3,160,296**	4,411,646
	14, 18	**48,181,593**	51,928,364
Payments to reinsurers		**(36,015,865)**	(39,793,627)
		P12,165,728	P12,134,737

16. Accounts Payable and Other Liabilities

This account consists of:

	Note	2019	2018
Deferred output VAT - net		**P9,655,857**	P8,648,846
Payable to government agencies		**3,772,892**	6,505,099
Accounts payable	*29*	**3,391,447**	3,145,670
Accrued expenses	*29*	**811,500**	681,371
		P17,631,696	P18,980,986

Deferred output VAT - net pertains to the net amount of the deferred output and input VAT accounts. The deferred output VAT account represents the calculated VAT amount that is not due until the total billed amount is collected. Similarly, the deferred input VAT account pertains to amount that can be claimed by offsetting against 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.

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

17. Interest Income

The breakdown of interest income is as follows:

	Note	2019	2018
Interest income from:			
HTM securities	*6*	**P23,605,109**	P19,188,589
Cash in banks	*4*	**938,287**	255,685
		P24,543,396	P19,444,274

18. Net Earned Premiums

The details of this account are as follows:

	Note	2019	2018 (As restated - Note 27)
Gross premiums written:			
Direct		P158,062,051	P158,755,283
Assumed		102,562,227	86,933,284
	29	260,624,278	245,688,567
Gross change in provision for unearned premiums		3,904,954	70,641,914
	14	P264,529,232	P316,330,481

	Note	2019	2018
Reinsurers' share of:			
Gross premiums written			
Related party	15, 23	P32,886,560	P41,923,310
Third parties		3,160,295	4,411,646
	14, 15, 29	36,046,855	46,334,956
Gross change in provision for unearned premiums	8	6,843,055	2,266,881
		P42,889,910	P48,601,837

19. Net Insurance Benefits and Claims

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

	Note	2019	2018 (As restated - Note 27)
Direct insurance		P228,396,911	P340,414,197
Assumed insurance		26,281,418	64,131,438
Total insurance contract benefits and claims paid	14	P254,678,329	P404,545,635

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

	Note	2019	2018 (As restated - Note 27)
Direct insurance		(P32,452,213)	P -
Assumed insurance		(7,667,832)	(11,057,977)
Total reinsurers' share on insurance contract benefits and claims paid	14	(P40,120,045)	(P11,057,977)

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Gross change in insurance contract liabilities are as follows:

	Note	2019	2018 (As restated - Note 27)
Provision for claims reported		P47,794,065	(P224,847,363)
Change in provision for IBNR claims		(38,838,558)	(3,597,153)
Total gross change in insurance contract liabilities	14	P8,955,507	(P228,444,516)

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

	Note	2019	2018 (As restated - Note 27)
Provision for claims reported		P31,102,992	P6,399,442
Change in provision for IBNR claims		(33,985,594)	(10,614,981)
Total reinsurers' share on gross change in insurance contract liabilities	14	(P2,882,602)	(P4,215,539)

20. General and Administrative Expenses

This account consists of:

	Note	2019	2018
Salaries and employee benefits		P14,020,770	P14,048,062
Rental, light and water		4,252,401	4,722,606
Professional fees		2,303,858	3,183,342
Depreciation and amortization	10, 11, 12	1,714,984	1,532,201
Communications and postage		1,056,276	793,309
Taxes and licenses		886,781	1,204,925
Subscription and promotion		679,075	662,209
Travel		638,280	427,757
Social Security System, Philhealth and Pag-IBIG contributions		630,262	456,398
Stationery and office supplies		563,051	642,027
Profit commissions		521,586	435,081
Repairs, maintenance and gasoline		516,811	928,193
Insurance expense		455,472	508,650
Advertising and promotions		394,886	302,550
Net interest expense from retirement liability	21	222,119	166,891
Representation and entertainment		188,216	245,367
Interest and bank service charges		33,962	68,672
Interest expense on lease liability	12	25,411	-
Miscellaneous		2,290,743	1,228,687
		P31,394,944	P31,556,927

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The details of salaries and employee benefits are presented below:

	Note	2019	2018
Short-term employee benefits		P13,610,481	P13,659,864
Post-employment defined benefit	21	410,289	388,198
		P14,020,770	P14,048,062

Rental, light and water pertain to rental of the Branch's office spaces and residence of the COO and utilities.

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

21. Salaries and Employee Benefits

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. Annual cost is determined using the projected unit credit method. The Branch's latest actuarial valuation date is as at December 31, 2019. Valuation is obtained on an annual basis.

The normal retirement age is 60 with a minimum of 10 years of credited service. 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 No. 4917, As Amended.

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

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

	0	Present Value of DBO		FVPA		Retirement Liability	
	Note	2019	2018	2019	2018	2019	2018
Balance at beginning of year		P 3,894,412	P3,840,602	P900,891	P912,691	P2,993,521	P2,927,911
Recognized in profit or loss							
Current service cost		410,289	388,198	-	-	410,289	388,198
Interest expense		288,965	218,914	-	-	288,965	218,914
Interest income		-	-	66,846	52,023	(66,846)	(52,023)
	20	699,254	607,112	66,846	52,023	632,408	555,089
Recognized in OCI							
Remeasurements:							
Actuarial loss arising from:							
Changes in financial assumptions		1,206,204	(1,347,635)	-	-	1,206,204	(1,347,635)
Experience adjustments		897,753	1,170,000	-	-	897,753	1,170,000
Changes in demographic assumptions		(220,679)	(260,963)	-	-	(220,679)	(260,963)
Return on assets (excluding amount included in net interest cost)		-	-	47,120	(63,823)	(47,120)	63,823
		1,883,278	(438,598)	47,120	(63,823)	1,836,158	(374,775)
Others							
Benefits paid		(339,450)	(114,704)	-	-	(339,450)	(114,704)
Balance at end of year		P6,137,494	P3,894,412	P1,014,857	P900,891	P5,122,637	P2,993,521

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The rollforward of retirement benefits reserves is as follows:

	Note	2019	2018
Balance at beginning of year		(P1,387,738)	(P1,650,081)
Actuarial loss on DBO		(1,883,278)	438,598
Return on assets (excluding amount included in net interest cost)		47,120	(63,823)
Income tax effect	22	550,847	(112,432)
Balance at end of year		(P2,673,049)	(P1,387,738)

The composition of the plan assets as at December 31, 2019 and 2018 is as follows:

	2019	2018
Cash and cash equivalent	P140,674	P223,585
Philippine government bonds	847,438	650,623
Quoted equity securities	26,745	26,683
	P1,014,857	P900,891

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 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 to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

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

	2019	*2018*
Discount rates	5.19%	7.42%
Expected rates of salary increases	8.00%	8.00%

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Assumptions regarding future mortality are based on published statistics and mortality tables. As at December 31, 2019 and 2018, the average remaining working lives of an individual retiring at age 60 is 22.6 and 18.3, 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 to 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 defined benefit obligation as of December 31, 2019 and 2018:

	Impact on Retirement Liability		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
2019			
Discount rate	**+/-1.00%**	**(P592,450)**	**P696,567**
Salary growth rate	**+/-1.00%**	**670,210**	**(583,185)**
2018			
Discount rate	+/-1.00%	(P372,412)	P434,301
Salary growth rate	+/-1.00%	427,504	(373,767)

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

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

The maturity profile of the undiscounted expected benefit payments from the plan for 2019 and 2018 is P4.06 million and P1.94 million, respectively, which is expected be paid within six to ten years at the end of each reporting year.

Maturity Profile

	2019	2018
Less than 1 year	**P306,090**	P163,580
More than 1 year to 2 years	**386,563**	193,468
More than 2 years to 3 years	**941,038**	257,937
More than 3 years to 4 years	**482,323**	786,500
More than 4 years to 5 years	**555,544**	688,126
More than 5 years to 10 years	**4,056,625**	1,944,609
	P6,728,183	P4,034,220

The weighted average duration of the defined benefit obligation at the end of the reporting period is 10.50 years and 18.30 years for the years ended December 31, 2019 and 2018, respectively.

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At the end of the reporting period, the Branch has no formal plan of funding its post-employment defined benefit obligation. 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' time when a significant number of employees is expected to retire.

The Branch's annual contribution to the Retirement Plan consists of payments covering the current service cost. The Branch is expected to contribute the amount of P1.00 million to its plan assets in 2020, subject to further discussion and approval on the management meeting.

22. Income Taxes

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

	2019	2018 (As restated - Note 27)
Recognized in profit or loss		
Current tax expense	**P -**	P1,963,189
Deferred tax expense	**21,329,880**	(17,132,412)
Final tax expense	**4,635,423**	3,888,432
	P25,965,303	(P11,280,791)
Recognized in OCI	**P660,663**	(P112,433)

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

	2019	2018 (As restated - Note 27)
(Loss) income before income tax	**(P67,484,424)**	P18,889,341
Income tax at statutory rate of 30%	**(P20,245,327)**	P5,666,802
Unrecognized DTA from NOLCO	**30,928,757**	-
Nondeductible expense	**18,009,469**	3,146,967
Final tax expense	**4,635,423**	3,888,432
Interest income subject to final tax	**(7,363,019)**	(5,833,282)
Unrecognized excess MCIT over RCIT	**-**	1,963,191
Application of NOLCO	**-**	(20,112,901)
Income tax expense computed using effective income tax rate	**P25,965,303**	(P11,280,791)

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Deferred tax assets - net as at December 31, 2019 and 2018 and the related deferred tax expense charged to profit or loss and OCI for the years ended December 31 are as follows.

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

December 31, 2018	Note	January 1, 2018 (As restated - Note 27)	As Restated, Recognized in Profit or Loss	Recognized in OCI	As Restated December 31, 2018 (As restated - Note 27)
Deferred tax assets:					
Provision for IBNR		P40,223,873	P4,412,713	P -	P44,636,586
Allowance for impairment losses		17,808,828	1,551,519	-	19,360,347
Retirement liability	21	878,373	132,115	(112,432)	898,056
Deferred reinsurance commission		34,368	37,484	-	71,852
		58,945,442	6,133,831	(112,432)	64,966,841
Deferred tax liabilities:					
Deferred acquisition costs		(10,238,087)	2,824,967	-	(7,413,120)
Reinsurer share on IBNR claims		(17,809,500)	3,184,494	-	(14,625,006)
Unrealized forex loss - net		(5,030,532)	4,989,120	-	(41,412)
		(33,078,119)	10,998,581	-	(22,079,538)
		P25,867,323	P17,132,412	(P112,432)	P42,887,303

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

The Branch is subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations, or RCIT, whichever is higher. For the year ended December 31, 2019, the Branch is not liable for RCIT as the Branch's operations resulted to net loss, while for the year ended December 31, 2018, the Branch is liable for MCIT.

The balance of the Branch's excess MCIT over RCIT available for offsetting against future current tax liabilities amounting to P1.96 million was incurred in 2018 and expiring in 2021.

The carryforward benefits of NOLCO which are available for offsetting against future taxable income are as follows:

Year Incurred	Beginning Balance	Addition (Expired)	Ending Balance	Year of Expiry
2019	P -	P103,095,858	P103,095,858	2022
2017	80,167,105	-	P80,167,105	2020
2016	36,907,158	(36,907,158)	-	2019
	P117,074,263	P66,188,700	P183,262,963	

Deferred tax assets have not been fully recognized because 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, 2019 and 2018 are as follows:

	2019	2018
NOLCO	**P54,978,889**	P35,122,279
Excess MCIT over RCIT	**1,963,191**	1,963,191
	P56,942,080	P37,085,470

23. Related Party Transactions

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

Category/Transaction	*Note*	Year	Amount of the Transaction	Due from a Related Party	Terms	Conditions
Head Office						
Reinsurance recoverable on unpaid losses	*8*	2019	P53,120,352	P325,229,138	Due and demandable;	Unsecured;
		2018	734,116	283,483,190	noninterest-bearing	no impairment
Reinsurance recoverable on paid losses	*5*	2019	(434,346)	116,114,924	Due and demandable;	Unsecured;
		2018	(41,923,310)	116,549,270	noninterest-bearing	no impairment
Premiums due to reinsurers	*15, 18*	2019	32,886,560	-		
		2018	41,923,310	-		
Key Management Personnel						
Compensation and benefits		2019	5,902,885	-		
		2018	5,489,935	-		
Total		2019		P441,344,062		
Total		2018		P400,012,460		

Treaty Reinsurance Agreement with 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 US$3.50 million, in excess of US$1.50 million for each and every 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 US$1.50 million retention of the Branch.

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

Reinsurance recoverable on paid losses is presented as part of "Insurance receivables account" in the statements 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 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 is 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 position. The compensation and benefits given to the key management personnel amounted to P5.90 million and P5.49 million for the years ended December 31, 2019 and 2018, respectively, and is shown as part of salaries and employee benefits under "General and administrative expenses" account in profit or loss.

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

24. Contingencies

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

25. Events After the Reporting Period

Capital Infusion from the Head Office
The Head Office approved the capital infusion to the Branch amounting to P470.00 million in 2019 which will be provided in a staggered payment. On February 28, 2020, the Branch received P457.99 million capital infusion from the Head Office to ensure compliance with the increase in net worth requirement in 2019 and 2022.

Coronavirus Disease 2019 (COVID-19)
On March 8, 2020, under Proclamation 922, the Office of the President has declared a state of public health emergency and subsequently on March 16, 2020, under Proclamation 929, a state of calamity throughout the Philippines due to the spread of the novel COVID-19. To manage the spread of the disease, the entire Luzon and other cities and provinces in the Philippines has been placed under an Enhanced Community Quarantine, effective from March 17, 2020 until May 15, 2020, which involved several measures including travel restrictions, home quarantine and temporary suspension or regulation of business operations, among others, limiting activities related to the provision of essential goods and services.

Generally, insurance companies will be affected by volatile markets which affected the fair value of the investments. Stock markets have declined in value and bond yields are at record lows which might result to possible impairment in investment portfolios. Moreover, implications in insurance liabilities will be mixed depending on the specific types of coverage provided and the accounting policies applied under PFRS 4. This will also affect the assumptions used in accounting for insurance liabilities, including the liability adequacy test, and balance sheet and capital ratios.

With COVID-19 pandemic interrupting businesses and insurance companies across the world and the aforementioned possible volatility of financial assets which may affect financial results, the Branch does not consider these factors to affect its ability to continue as a going concern since the Branch continuously to operate and does not expect a significant increase in expenses and excessive investment losses.

The Branch considers the financial reporting effects of the outbreak to be non-adjusting events after the end of the reporting period. As the situation is fluid and rapidly evolving, the Branch does not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on its financial statements. The impacts of this outbreak will be determined, quantified and recognized in the Branch's financial statements as at and for the year ending December 31, 2020.

26. 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, 2019 and 2018:

		December 31, 2019		December 31, 2018	
	Note	Within 12 Months	Beyond 12 Months	Within 12 Months	Beyond 12 Months
Assets					
Cash	4, 29	P69,662,399	P -	P125,581,447	P -
Insurance receivables - net	5, 29	214,402,526	-	216,685,611	-
Held-to-maturity securities - net	6, 29	314,229,775	138,022,527	212,232,905	222,133,917
Available-for-sale securities - net	7, 29	-	4,606,302	-	4,972,354
Reinsurance assets - net	8, 29	16,772,043	402,952,080	23,615,098	405,834,682
Deferred acquisition cost	9	27,688,984	-	24,710,396	-
Property and equipment - net	10	-	2,919,635	-	1,779,342
Computer software - net	11	-	5,761,857	-	6,722,165
Deferred tax assets - net	22	-	22,218,086	-	42,887,303
ROU asset - net	12	-	519,824	-	-
Other assets	13, 29	409,520	67,283,398	82,860,418	340,989
		P643,165,247	P644,283,709	P685,685,875	P684,670,752
Liabilities					
Insurance contract liabilities	14, 29	P587,830,795	P49,358,289	P543,941,684	P88,196,847
Due to reinsurers	15, 29	12,165,728	-	12,134,737	-
Accounts payable and accrued expenses	16, 29	17,631,696	-	18,980,986	-
Commissions payable	29	5,920,274	-	493,770	-
Lease liability	12, 29	196,418	336,596	-	-
Deferred commission income	9	326,924	-	239,507	-
Retirement liability	21	-	5,122,637	-	2,993,521
		P624,071,835	P54,817,522	P575,790,684	P91,190,368

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.

27. Restatement of Balances

Adjustments were made to restate the comparative 2018 financial statements due to correction of errors, as follows:

a. *Unsupported Reinsurance Recoverable on Unpaid Losses (RRUL)*

Prior to 2017, the Branch recognized an amount recoverable to a reinsurer despite the refusal of the latter to accept the reinsurance binder issued by the former. Further, the reinsurer denied its share on the claim incurred related to the declined reinsurance agreement. As a consequence, the reinsurance recoverable on unpaid losses under "Reinsurance assets", head office account and deferred tax assets - net were overstated by P19.76 million, P5.93 million and P13.83 million, respectively, as at December 31, 2018 and January 1, 2018.

b. *Reversal of Foreign Exchange Revaluation of Reinsurance Asset*

The Branch recognized foreign exchange revaluation for two (2) claims and the related reinsurance recoverable amount. The revaluation account relates to the policies wherein there is a contract provision that the policyholder may demand payment in US dollar. However, it was noted by the Branch that the policy (direct and reinsurance) and the claim are both peso denominated. Further, the related foreign exchange revaluation erroneously recognized for the claims payable was already reversed by the Branch beginning 2018 but the related RRUL revaluation account amounting to P27.11 million still remains in the book. As a consequence, the reinsurance recoverable on unpaid losses under "Reinsurance assets" and head office account were overstated by P27.11 million as at December 31, 2018 and January 1, 2018.

c. *Incorrect Calculation of Unearned Premium Reserves (UPR)*

The Branch calculated UPR using 24th method across its line of business, except for marine. It was not able to consider that not all contracts have 1-year term. As a consequence, the UPR presented under "Insurance contract liabilities" and head office account were overstated by P13.27 million and P23.76 million as at December 31, 2018 and January 1, 2018, respectively.

d. *Recognition of Reinsurers' Share on IBNR*

The Branch did not recognize reinsurers' share on IBNR amounting to P48.75 million and P59.37 million as at December 31, 2018 and January 1, 2018, respectively. The related deferred tax impact amounted to of P14.63 million and P17.81 million as at December 31, 2018 and January 1, 2018, respectively.

e. *Reclassification*

The Branch reclassified a portion of its reinsurers' share of gross change in insurance contract liabilities amounting to P27.82 million for the year ended December 31, 2018, to appropriately classify the gross change in insurance contract liabilities representing said amount.

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Summary of Quantitative Impact

The table below shows the summary of the impact of restatements in the Branch's statement of assets, liabilities and head office account as at January 1, 2018.

	Note	As Previously Reported	Effect of Restatement	As Restated
Statement of Assets, Liabilities and Head Office Account				
Reinsurance assets - net	*a, b, d*	P423,442,655	P12,489,545	P435,932,200
Deferred tax assets - net	*a, d*	37,748,221	(11,880,898)	25,867,323
Insurance contract liabilities	*c*	954,985,784	(23,760,823)	931,224,961
Head office account	*a, b, c, d*	587,362,286	24,369,470	611,731,756

The impact on the statement of assets, liabilities and head office account as at December 31, 2018 and statement of profit or loss and comprehensive income (loss) and cash flows for the year ended December 31, 2018 is as follows:

	Note	As Previously Reported	Effect of Restatement	As Restated
Statement of Assets, Liabilities and Head Office Account				
Reinsurance assets - net	*a, b, d*	P427,575,218	P1,874,562	P429,449,780
Deferred tax assets - net	*a, d*	51,583,707	(8,696,404)	42,887,303
Insurance contract liabilities	*c*	645,409,468	(13,270,937)	632,138,531
Head office account	*a, b, c, d*	696,926,480	6,449,095	703,375,575
Statement of Profit or Loss and Other Comprehensive Income (Loss)				
Gross change in insurance contract liabilities	*e*	(P200,623,736)	(P27,820,780)	(P228,444,516)
Reinsurers' share of gross change in insurance contract liabilities	*d, e*	(34,220,224)	38,435,763	4,215,539
Net change in reserve for unearned premiums - net of reinsurance premiums	*c*	78,864,919	(10,489,886)	68,375,033
Income tax expense		(8,096,297)	(3,184,494)	(11,280,791)
Statement of Cash Flows				
Net cash flows used in operating activities	*c, d*	(P179,583,062)	P19,599,374	(P159,983,688)

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28. 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 New Standard, Amendments to Standards and Interpretation

The Branch has adopted the following new and amendments to standards and interpretation starting January 1, 2019 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption did not have any significant impact on the Branch's financial statements.

- PFRS 16 supersedes PAS 17 and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

  Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were also introduced.

  The Branch adopted PFRS 16 on January 1, 2019 using modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under PAS 17 and International Financial Reporting Interpretations Committee (IFRIC) 4, *Determining Whether an Arrangement Contains a Lease*. As a result, the Branch has changed its accounting policy for lease contracts as detailed below.

  Definition of a Lease

  Previously, the Branch determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under PFRS 16, the Branch assesses whether an arrangement is or contains a lease based on the definition of lease as explained in the significant accounting policies of leases.

  Under IFRIC 4, the Branch assessed a lease based on the evaluation of whether:

  - fulfilment of the arrangement was dependent on the use of a specific asset or assets; and

  - the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:

    - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;

- the purchaser had the ability or right to control physical access to the asset while obtaining or control more than an insignificant amount of the output; or

- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

On transition to PFRS 16, the Branch elected to apply the practical expedient to grandfather the assessment of which transactions are leases. Therefore, the Branch applied PFRS 16 only to contracts that were previously identified as leases and applied the definition of a lease under PFRS 16 only to contracts entered into or changed on or after January 1, 2019.

Branch as the Lessee
As a lessee, the Branch previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Branch. Under PFRS 16, the Branch recognizes ROU asset and lease liability for one of its leases – i.e. these leases are on the statement of assets, liabilities and head office account – and applied the practical expedients on other leases.

At transition, lease liability is measured at the present value of the remaining lease payments, discounted at the Branch's IBR as at January 1, 2019. The ROU asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Branch used the following practical expedients when applying PFRS 16 to leases previously classified as operating leases under PAS 17.

- Applied a single discount rate to a portfolio of leases with similar characteristics.

- Adjusted the ROU asset by the amount of PAS 37 onerous contract provision *immediately before the date of initial application, as an alternative to an* impairment review.

- Applied the exemption not to recognize ROU assets and liabilities for leases with less than 12 months of lease term.

- Excluded initial direct costs from measuring the ROU asset at the date of initial application.

- Used hindsight when determining the lease term if the contract contains option to extend or terminate the lease.

Impact of Transition
As at January 1, 2019, the Branch's existing lease contracts are short-term. Thus, practical expedient for short-term leases was applied.

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- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments,* clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes,* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Branch's chosen tax treatment. If it is not probable that the tax authority will accept the Branch's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

  The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19, *Employee Benefits*). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in OCI. These amendments were applied to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

- Annual Improvements to PFRSs 2015 - 2017 Cycle. This cycle of improvements contains amendments including:

  - Income tax consequences of payments on financial instruments classified as equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits, i.e. in profit or loss, OCI or head office account.

  - Borrowing costs eligible for capitalization (Amendments to PAS 23, *Borrowing Costs*). The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale are included in that general pool.

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Insurance Contracts

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 are 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 variable.

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 comprise 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 expense over the period of the contracts using the 24^{th} method. The portion of the commissions that relates 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 is recognized as "Commission expense" account 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 relates 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 expense when incurred.

An impairment review is performed at the end of each reporting periods 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.

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

Reinsurance assets represents balances due from reinsurance companies for its share on the unpaid losses incurred by the Branch. Recoverable amounts are estimated in the 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 "Reinsurance assets" account 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 reinsurer under "Due to reinsurers" account 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 Brach 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 Brach 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 recognize 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 are 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 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 refers 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 "Insurance contract liabilities" account 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 in order that revenue is recognized over the period of risk.

Liability Adequacy Test
At the end of each reporting period, 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 of provision for unearned premiums and the unexpired risk reserve. Unexpired risk reserve (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 an additional insurance reserves on top of provision for unearned premiums. The estimation of URR is made for each class of business line.

While claims liabilities are composed of provision 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 a liability) for the financial instrument.

Classification and Subsequent Measurement
The Branch classifies its financial assets in the following categories: financial assets at FVPL, HTM investments, loans and receivables, and AFS financial assets. The Branch classifies its financial liabilities as either financial liabilities at FVPL 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 FVPL as at December 31, 2019 and 2018.

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Financial instruments issued by the Branch are classified as a 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 component 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 head office account.

As at December 31, 2019 and 2018, 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 FVPL, 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 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 in banks 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 are 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". 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 disposal, or is impaired, the cumulative fair value changes recognized in OCI are reclassified from head office account to profit or loss. For a 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.

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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 a fixed maturity that the Branch has the positive intention and ability to hold to maturity other than those that (1) the Branch designates on initial recognition as at FVPL, (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 FVPL, 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 assets.

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. The 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 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 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.

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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 on the basis of 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 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.

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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 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 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 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 a 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 an 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 a 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 form of 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.

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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, cancelled 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 of 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 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 and amortization 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.

Computer software
Computer software acquired separately are measured on initial recognition at cost. Following initial recognition, computer software are carried at cost less any accumulated amortization and any impairment in value.

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

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

Computer software are 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 item of computer software (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.

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 for valuation of significant assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

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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. 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, 2019 and 2018, 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 the statement of profit or loss.

Remittance from Head Office pertains to the amounts received and remitted to the Head Office.

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 liability arising from actuarial gains and losses due to expenses and demographic assumptions as well as gains and losses in the plan assets.

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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 falls 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 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 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 an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

The legal obligation for any benefits from this kind of post-employment plan remains with the 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., Social Security System (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" account 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.

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Leases

Policy Applicable from January 1, 2019

At 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 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 estimate of cost to be incurred by the lessee 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 is 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.

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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 "Other expense" account 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 expense on a straight-line basis over the lease term.

Policy Applicable before January 1, 2019
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. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;

b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or

d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a, c or d above, and at the date of renewal or extension period for scenario b.

Operating Lease - Brach as a Lessee
Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as rent expense in profit or loss on a straight-line basis over the lease term.

<u>Foreign Currency Transactions and Translation</u>
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 head office account or in 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 "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" account 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 which 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 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 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 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.

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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, 2019. However, the Branch has not applied the following new or amended standards in preparing these financial statements. The Branch is assessing the potential impact of these on its financial statements, unless otherwise stated.

Effective January 1, 2020

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

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

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

  These amendments are effective for annual reporting periods beginning on or after January 1, 2020.

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

  - confirmed that a business must include inputs and a process, and clarified that:
    - the process must be substantive; and
    - the inputs and process must together significantly contribute to creating outputs;
  - narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and
  - *added a test that makes it easier to conclude that a company has acquired a* group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

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The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

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

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

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

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

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

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

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

  The amendments apply prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

Effective January 1, 2023

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

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

  Based on the management's assessment, liabilities arising from insurance contracts represents 95% of the total carrying amount of all the Branch's total liabilities as of December 31, 2019. These liabilities include claims payable, reinsurance payable, unearned premium reserves, commission payable, and IBNR claims.

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

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

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

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

  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, 2023. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. Early application is permitted for entities that apply
  PFRS 9 and PFRS 15 on or before the date of initial application of PFRS 17.

  Given the short tail duration of most of the insurance contracts issued, the Branch is assessing if the simplified approach is applicable. The Branch is currently performing detailed assessment on the impact of the adoption of the new standard in its financial statements.

29. Management of Capital, Insurance and Financial Risk

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

The Branch manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risks 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 capital on the basis of the carrying amount of 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 to 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 appropriate solvency position to meet liabilities arising from claims and acceptable levels of risk.

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

Net Worth Requirements

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

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

In 2018, the Head Office of the Branch provided additional capital amounting to P60.52 million to enable the Branch to meet the net worth requirements. As at December 31, 2018, the Branch's statutory net worth is above the required net worth of P550.00 million.

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As at December 31, 2019, the Branch's net worth amounted to P470.11 million based on internal calculations which is below the required P900.00 million in 2019. To ensure compliance with the increase in net worth requirement in 2019 and 2022, the Branch submitted to the IC its Capital Build-up Program on November 15, 2019. Further, the Head Office approved the capital infusion to the Branch amounting to P470.00 million in 2019 which will be provided in a staggered payment. On February 28, 2020, the Branch received P457.99 million capital infusion from the Head Office resulting to the Branch's net worth amounting to P916.18 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 as the capital that can also provide additional buffer to the insurance company, though it is not of the same high quality as Tier 1 Capital.

As at December 31, 2019 and 2018, the following table shows the RBC ratio of the Branch based on internal computation:

	2019	2018
TAC	P580,458,407	P697,261,850
RBC requirement	70,717,190	324,179,617
	821%	215%

As at December 31, 2019 and 2018, 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.

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The Branch regards the following as the capital it manages as at December 31, 2019 and 2018:

	Note	December 31 2019	2018 (As restated - Note 27)	January 31 2018 (As restated - Note 27)
Assigned capital		**P275,000,000**	P275,000,000	P275,000,000
Remittances from Head Office		**495,147,035**	494,971,737	433,476,273
Revaluation reserve on Available-for-sale securities	7	**1,620,238**	1,876,474	2,160,594
Remeasurements of retirement liability	21	**(2,673,049)**	(1,387,738)	(1,650,081)
Accumulated deficit		**(160,534,625)**	(67,084,898)	(97,255,030)
		P608,559,599	P703,375,575	P611,731,756

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

Insurance Risk

The risk under insurance contract is the possibility of occurrence of insured event and uncertainty of the amount and timing of 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, 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 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 is unable to meet its obligations assumed under such reinsurance agreements.

Majority of its reinsurance transaction was with the Head Office which is about 91% and 90% of the total premiums ceded in 2019 and 2018, respectively.

There has been no change to the Branch's exposure to insurance risk or the manner in which 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:

	Note	December 31, 2019 Direct	Assumed	Gross Premiums	Reinsurance	Net Retention
Line of risk:						
Fire		P88,821,364	P60,725,535	P149,646,899	P35,765,061	P 113,781,838
Motor		31,105,236	78,627	31,183,863	54,600	31,129,263
Health		15,538,333	-	15,538,333	-	15,538,333
Personal accident		946,110	38,008,438	38,954,548	-	38,954,548
Marine cargo		4,169,843	46,000	4,215,843	-	4,215,843
Miscellaneous		17,481,165	3,703,627	21,184,792	227,194	20,957,598
	14	P158,062,051	P102,562,227	P260,624,278	P36,046,855	P224,577,423

	Note	December 31, 2018 Direct	Assumed	Gross Premiums	Reinsurance	Net Retention
Line of risk:						
Fire		P84,926,552	P53,294,942	P138,221,494	P44,843,895	P93,377,599
Motor		27,687,322	1,819	27,689,141	186,300	27,502,841
Health		21,900,629	-	21,900,629	-	21,900,629
Personal accident		1,467,331	17,143,768	18,611,099	-	18,611,099
Marine cargo		3,307,017	-	3,307,017	-	3,307,017
Miscellaneous		19,466,432	16,492,755	35,959,187	1,304,761	34,654,426
	18	P158,755,283	P86,933,284	P245,688,567	P46,334,956	P199,353,611

The table below sets out the concentration of the claims liabilities as at December 31, 2019 and 2018 by type of contract.

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

	Note	December 31, 2018 Direct	Assumed	Gross Claims	Reinsurance	Net Retention
Line of risk:						
Fire		P463,848,462	P26,527,290	P490,375,752	P424,059,128	P66,316,624
Motor		10,139,174	-	10,139,174	633,224	9,505,950
Marine cargo		9,796,773	-	9,796,773	-	9,796,773
Health		399,152	-	399,152	-	399,152
Miscellaneous		9,110,962	3,087,891	12,198,853	904,337	11,294,516
	14	P493,294,523	P29,615,181	P522,909,704	P425,596,689	P97,313,015

Terms and Conditions

The major classes of general insurance written by the Branch include fire, motor, marine, engineering, health and personal accident. Risks under these policies usually cover 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.

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The measurement process primarily includes projections of future claims through 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 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.

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

	2018		
	Change in Assumption	Impact on Insurance Contract Liabilities (Net of Reinsurance Assets)	Impact on Income before Income Tax
Average claim costs	4%	P7,049,592	(P7,049,592)
Average number of claims	2%	3,524,796	(3,524,796)
Period of settlement	Within 12 months	-	-

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

Loss Development Tables

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

At Gross - 2019

Accident Year	Note	2009 and Prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of Ultimate Costs of Claims													
At the end of accident year		P -	P -	P295,004,251	P115,470,091	P803,487,0000	P275,842,461	P89,093,818	P145,804,489	P259,582,959	P232,626,712	P270,834,269	P 270,834,269
One year later		-	182,597,668	323,153,706	121,083,903	877,716,697	314,874,726	101,348,821	151,154,757	301,474,117	324,907,582	-	324,907,582
Two years later		108,461,089	30,701,121	235,772,179	121,636,176	973,589,684	309,800,968	106,532,474	160,582,459	295,646,852	-	-	295,646,852
Three years later		300,873,738	35,257,838	246,833,182	124,142,508	1,031,326,353	301,483,293	99,454,138	149,695,507	-	-	-	149,695,507
Four years later		276,298,014	34,172,461	249,189,406	156,812,026	1,060,000,886	265,631,953	98,423,249	-	-	-	-	98,423,249
Five years later		92,696,310	35,296,451	253,682,527	156,885,383	1,041,083,431	253,229,822	-	-	-	-	-	253,229,822
Six years later		93,368,488	36,299,642	253,825,009	156,892,246	1,052,994,025	-	-	-	-	-	-	1,052,994,025
Seven years later		145,121,542	36,299,995	253,826,818	156,894,803	-	-	-	-	-	-	-	156,894,803
Eight years later		147,097,115	35,373,986	253,827,082	-	-	-	-	-	-	-	-	253,827,082
Nine years later		147,886,462	35,256,117	-	-	-	-	-	-	-	-	-	35,256,117
Ten years later		152,450,023	-	-	-	-	-	-	-	-	-	-	152,450,023
Current estimate of cumulative claims		152,450,023	35,256,117	253,827,082	156,894,803	1,052,994,025	253,229,822	98,423,249	149,695,507	295,646,852	324,907,582	270,834,269	3,044,159,331
Cumulative payments to date		96,509,130	35,256,117	253,712,167	155,950,057	811,559,745	230,308,487	98,423,249	149,283,883	293,767,721	318,992,736	68,530,828	2,512,294,120
Gross Claims Liability in the Statement of Assets, Liabilities and Head Office Account	14	P55,940,893	P -	P114,915	P944,746	P241,434,280	P22,921,335	P -	P411,624	P1,879,131	P5,914,846	P202,303,441	P531,865,211

At Net - 2019

Accident Year	Note	2009 and Prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of Ultimate Costs of Claims													
At the end of accident year		P -	P -	P103,619,989	P107,031,136	P268,023,500	P266,382,461	P85,948,657	P138,103,845	P259,582,959	P232,038,310	P186,550,278	P186,550,278
One year later		-	41,223,856	115,741,752	87,558,948	265,635,270	119,940,144	94,194,070	136,876,111	301,473,831	292,455,655	-	292,455,655
Two years later		19,770,828	30,701,121	88,038,982	87,409,222	402,714,358	256,350,869	99,393,738	146,319,884	295,646,565	-	-	295,646,565
Three years later		32,400,744	35,257,636	96,324,572	89,915,553	307,029,077	249,731,761	93,941,341	135,432,911	-	-	-	135,432,911
Four years later		83,176,879	34,172,461	104,656,209	122,585,071	360,048,401	221,362,421	93,248,159	-	-	-	-	93,248,159
Five years later		41,543,849	35,298,451	105,703,486	122,658,428	315,629,780	210,146,555	-	-	-	-	-	210,146,555
Six years later		41,670,778	36,299,642	105,845,969	122,665,291	360,111,735	-	-	-	-	-	-	360,111,735
Seven years later		56,397,025	36,299,995	105,847,778	122,667,848	-	-	-	-	-	-	-	122,667,848
Eight years later		57,263,741	35,373,986	105,848,042	-	-	-	-	-	-	-	-	105,848,042
Nine years later		57,581,732	35,256,117	-	-	-	-	-	-	-	-	-	35,256,117
Ten years later		58,100,016	-	-	-	-	-	-	-	-	-	-	58,100,016
Current estimate of cumulative claims		58,100,016	35,256,117	105,848,042	122,667,848	360,111,735	210,146,555	93,248,159	135,432,911	295,646,565	292,455,655	186,550,278	1,895,463,881
Cumulative payments to date		41,728,354	35,256,117	105,733,127	121,723,102	360,111,735	210,146,555	93,248,159	135,021,287	293,787,434	286,640,809	103,038,078	1,786,312,757
Net Claims Liability in the Statement of Assets, Liabilities and Head Office Account	14	P16,373,662	P -	P114,915	P944,748	P -	P -	P -	P411,624	P1,879,131	P5,914,848	P83,512,200	P109,151,124

At Gross - 2018

Accident Year	Note	2008 and Prior	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of Ultimate Costs of Claims													
At the end of accident year		P -	P -	P -	P295,004,251	P115,470,091	P803,487,000	P275,842,481	P89,093,818	P145,804,489	P259,582,959	P320,823,559	P320,823,559
One year later		-	-	192,597,668	323,153,706	121,083,903	877,716,697	314,874,726	101,348,821	151,154,757	298,875,443	-	298,875,443
Two years later		-	108,461,089	30,701,121	235,772,179	121,838,176	973,588,684	309,800,968	106,532,474	160,582,459	-	-	160,582,459
Three years later		77,173	300,898,565	35,257,636	248,833,182	124,142,508	1,031,328,353	301,483,293	98,454,138	-	-	-	99,454,138
Four years later		75,000	276,223,014	34,172,481	249,189,408	158,812,028	1,060,000,685	265,631,053	-	-	-	-	265,631,953
Five years later		58,000	92,640,310	35,296,451	253,682,527	158,885,383	1,041,083,431	-	-	-	-	-	1,041,083,431
Six years later		58,329	93,330,160	38,299,642	253,825,009	158,892,246	-	-	-	-	-	-	158,892,246
Seven years later		58,221	145,063,322	38,299,995	253,826,818	-	-	-	-	-	-	-	253,826,818
Eight years later		447,618	146,649,497	35,373,986	-	-	-	-	-	-	-	-	35,373,988
Nine years later		529,426	147,357,038	-	-	-	-	-	-	-	-	-	147,357,036
Ten years later		624,426	-	-	-	-	-	-	-	-	-	-	624,426
Current estimate of cumulative claims		624,426	147,357,036	35,373,988	253,826,818	158,892,246	1,041,083,431	265,631,953	99,454,138	160,582,459	298,875,443	320,823,559	2,780,525,495
Cumulative payments to date		544,379	94,932,935	35,248,988	253,711,904	155,947,500	800,863,960	205,702,456	88,942,260	148,364,632	284,849,409	188,507,370	2,257,815,791
Gross Claims Liability in the Statement of Assets, Liabilities and Head Office Account	14	P80,047	P52,424,101	P125,000	P114,914	P944,746	P240,219,471	P59,929,497	P10,511,878	P12,217,827	P14,026,034	P132,316,189	P522,909,704

At Net - 2018

Accident Year	Note	2008 and Prior	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of Ultimate Costs of Claims													
At the end of accident year		P -	P -	P -	P103,619,989	P107,031,138	P268,023,500	P268,382,481	P85,948,657	P138,103,845	P259,582,959	P271,485,138	P271,485,138
One year later		-	-	41,223,856	115,741,752	87,550,948	265,635,270	119,840,144	94,194,070	138,676,111	298,785,154	-	298,785,154
Two years later		-	19,770,828	30,701,121	88,038,982	87,409,222	402,714,358	256,350,869	99,393,737	146,319,884	-	-	146,319,884
Three years later		77,173	32,323,571	35,257,636	96,324,572	89,915,553	307,029,077	249,731,761	93,941,342	-	-	-	93,941,342
Four years later		75,000	83,101,879	34,172,481	104,659,209	122,585,071	360,048,401	221,362,421	-	-	-	-	221,362,421
Five years later		58,000	41,487,849	35,296,451	105,703,488	122,858,428	315,629,780	-	-	-	-	-	315,629,780
Six years later		58,329	41,621,449	38,299,642	105,845,969	122,665,292	-	-	-	-	-	-	122,665,292
Seven years later		58,221	58,338,804	38,299,995	105,847,778	-	-	-	-	-	-	-	105,847,778
Eight years later		169,477	57,094,284	35,373,986	-	-	-	-	-	-	-	-	35,373,988
Nine years later		251,286	57,310,447	-	-	-	-	-	-	-	-	-	57,310,447
Ten years later		346,286	-	-	-	-	-	-	-	-	-	-	346,286
Current estimate of cumulative claims		346,286	57,310,447	35,373,988	105,847,778	122,665,292	315,629,780	221,362,421	93,941,342	146,319,884	298,785,154	271,485,138	1,669,067,488
Cumulative payments to date		266,238	41,261,346	35,248,988	105,732,863	121,720,546	315,629,780	221,362,421	85,379,463	134,102,036	284,759,119	226,291,675	1,571,754,473
Gross Claims Liability in the Statement of Assets, Liabilities and Head Office Account	14	P80,048	P16,049,101	P125,000	P114,915	P944,746	P -	P -	P8,561,879	P12,217,828	P14,028,035	P45,193,463	P97,313,015

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 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 the manner in which 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 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, 2019 and 2018, the Branch's concentration of credit risk arises from its cash and cash equivalent, insurance receivables and HTM securities amounting to P736.30 million and P776.62 million, respectively, which represent 98.48% in 2019 and 97.13% in 2018 of the Branch's financial assets (see Notes 4 and 6).

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

	Note	2019	2018
Cash and cash equivalent*	*4*	**P69,644,399**	P125,563,447
Insurance receivables - net	*5*	**214,402,526**	216,685,611
HTM securities	6	**452,252,302**	434,366,822
Other assets:	*13*		
Deposits		**6,750,063**	17,731,000
Accrued interest on investments		**3,115,965**	3,526,749
Advances to employees		**1,472,581**	1,664,945
Security fund		**48,439**	48,439
		P747,686,275	P799,587,013

**excluding cash on hand*
***excluding RI share on IBNR and deferred reinsurance premiums*

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The credit risk for cash and cash equivalent and HTM securities is considered negligible since the counterparties are reputable banks entities 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 credit worthiness, as described below:

Investment High Grade - This pertains to accounts with a very low probability of default as demonstrated by the borrower's strong financial position and reputation. The borrower has the ability to raise substantial amounts of funds through the public markets and/or credit facilities with financial institutions. The borrower has a strong debt service record and a 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 has abated already. The borrower is expected to be able to adjust to the cyclical downturns in its operations, for individuals into business or for corporate entities. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues. The use of leverage may be above industry or credit standards but remains stable.

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

		December 31, 2019				
		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	P69,644,399	P -	P69,644,399	P -	P69,644,399
Insurance Receivables	5					
Premium receivable		-	49,231,438	49,231,438	32,788,987	82,020,425
Reinsurance recoverable on paid losses		118,057,193	-	118,057,193	11,983,498	130,040,691
Due from ceding companies		40,494,055	-	40,494,055	-	40,494,055
Funds held by ceding companies		6,619,840	-	6,619,840	-	6,619,840
HTM securities	6	452,252,302	-	452,252,302	-	452,252,302
Other assets	13					
Deposits		6,750,063	-	6,750,063	-	6,750,063
Accrued interest on Investments		3,115,965	-	3,115,965	-	3,115,965
Advances to employees		-	1,472,581	1,472,581	-	1,472,581
Security fund		48,439	-	48,439	-	48,439
		P696,982,256	P50,704,019	P747,686,275	P44,772,485	P792,458,760

excluding cash on hand

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	Note	Investment High-Grade	Non-investment Grade - Satisfactory	Total Current and/or Past Due and not Impaired	Impaired	Total
		December 31, 2018				
		Current and/or Past Due and not Impaired				
Cash and cash equivalent*	4	P125,563,447	P -	P125,563,447	P -	P125,563,447
Insurance receivables	5					
Premium receivable		-	55,537,511	55,537,511	32,788,987	88,326,498
Reinsurance recoverable on paid losses		122,966,912	-	122,966,912	11,983,498	134,950,410
Due from ceding companies		35,190,570	-	35,190,570	-	35,190,570
Funds held by ceding companies		2,990,618	-	2,990,618	-	2,990,618
HTM securities	6	434,366,822	-	434,366,822	-	434,366,822
Other assets	13					
Deposits		17,731,000	-	17,731,000	-	17,731,000
Accrued interest on investments		3,526,749	-	3,526,749	-	3,526,749
Advances to employees		-	1,664,945	1,664,945	-	1,664,945
Security fund		48,439	-	48,439	-	48,439
		P742,384,557	P57,202,456	P799,587,013	P44,772,485	P844,359,498

*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 dates 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 are invested in time deposits, mutual funds or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

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

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

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		December 31, 2018	
	Note	On Demand	Over 6 Months
Provision for claims reported	14	P -	P434,712,857
Accounts payable	16	3,145,670	-
Accrued expenses	16	681,371	-
Commissions payable		-	493,770
Due to reinsurers	15	12,134,737	-
		P15,961,778	P435,206,627

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 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, 2019 and 2018, the Branch's foreign currency-denominated financial assets and financial liabilities, translated into Philippine pesos at the closing rate obtained from Bankers Association of the Philippines (BAP) follow:

	2019		2018	
	US Dollar	**PHP**	US Dollar	PHP
Financial Assets				
Cash	**$617,936**	**P31,292,279**	$1,475,034	P77,557,288
Insurance receivables	**-**	**-**	40,147	2,110,929
Reinsurance assets	**-**	**-**	23,149	1,217,174
	617,936	**31,292,279**	1,538,330	80,885,391
Financial Liabilities				
Insurance contract liabilities	**-**	**-**	(6,000,000)	(315,480,000)
	$617,936	**P31,292,279**	($4,461,670)	(P234,594,609)

The table below lists down the exchange rates per P1.00 from BAP in translating foreign currency-denominated financial assets into US dollar amounts as at December 31, 2019 and 2018, respectively. Translation differences are due to rounding off of foreign exchange rates used.

	2019	2018
USD to PHP	P50.64	P52.58

The following table shows the sensitivity to a reasonably possible change in US 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
2019	**+5.00%**	**P1,564,614**	**P1,095,230**
	-5.00%	**(1,564,614)**	**(1,095,230)**
2018	+11.80%	P27,682,164	P19,377,515
	-11.80%	(27,682,164)	(19,377,515)

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 maintenance of appropriate blend of financial instruments with consideration on 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	2019	2018
Range of interest rates		**3.25%-6.25%**	2.93%-7.88%
1 - 3 Years		**P356,450,874**	P374,366,822
4 - 5 Years		**60,000,000**	60,000,000
Over 5 Years		**35,801,428**	-
	6	**P452,252,302**	P434,366,822

Any increase by 100 basis points (1%) in interest rates, with all other variables held constant, will increase income before income tax by P0.55 million and P0.99 million for the years ended December 31, 2019 and 2018, respectively. The decrease in same basis points will reduce the income before income tax by the same amount.

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In 2019 and 2018, 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 at some extent, diversifying the investment portfolio in accordance with the limit set by management.

For equity securities listed in the Philippines, an average volatility of 28.00% and 30.88% has been observed during 2019 and 2018, respectively. If quoted price for these securities increased by that amount, other comprehensive income before tax would have changed by P1.10 million in 2019 and P1.5 million in 2018.

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.

30. 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 "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 values 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 and Philippine Dealing Exchange Corporation in 2019 and 2018, respectively.

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.

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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, 2019 and 2018, AFS securities, which comprised of investments in equity securities, are the only financial assets measured at fair value in the statements 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, 2019 and 2018 amounted to P4.59 million and P4.96 million, respectively (see Note 7). The fair values of 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 preference shares amounting to P0.02 million as at December 31, 2019 and 2018 are measured at cost less any impairment loss (see Note 7).

31. Supplementary Information Required Under Revenue Regulations No. 15-2010 of the BIR

In addition to the disclosures mandated under PFRSs, and such other standards and/or conventions as may be adopted, companies are 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 with 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, 2019:

A. VAT

	Amount
1. Output VAT	P15,978,871
Basis of the Output VAT:	
Receipt subject to VAT	P133,157,257
2. Input VAT	
Balance at beginning of year	P24,585,515
Current year's domestic purchases:	
a. Goods for resale/manufacture or further processing	-
b. Goods other than for resale or manufacture	160,330
c. Capital goods subject to amortization	-
d. Capital goods not subject to amortization	-
e. Services lodged under other accounts	8,176,551
Input tax on importation of goods other than capital goods	-
Claims for tax credit/refund and other adjustments	(15,978,871)
Balance at end of year	P16,943,525

B. Documentary Stamp tax

The Branch paid documentary stamp tax on premiums amounting to P17.90 million in 2019.

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C. Withholding Taxes

	Amount
Expanded withholding taxes	P6,219,803
Withholding taxes on compensation and benefits	605,858
	P6,825,661

D. Customs Duties, Tariff Fees and Excise Taxes

Information on amounts of custom duties, tariff fees and excise taxes is not applicable since there were no transactions that the Branch would be subjected to these taxes in 2019.

E. All Other Taxes (Local and National)

	Amount
Other taxes paid during the year recognized as "Taxes and licenses" account under General and Administrative Expenses	
Municipal licenses and permits	P410,139
National taxes	272,190
Others	204,452
	P886,781

F. Tax Assessments and Tax Cases

Tax Assessment for Taxable Year 2016

On November 5, 2019, the Branch received FLD covering the deficiency on the following taxes, inclusive of penalties, for the taxable year 2016:

Tax Type	Amount
Documentary stamp tax	P13,778,144
VAT	8,851,704
Income tax	1,527,081
Expanded withholding tax	11,063
	P24,167,992

The Branch filed request for reinvestigation dated December 10, 2019 and was received by the BIR on December 11, 2019. On May 27, 2020, The Branch settled the tax assessments amounting to P1.22 million, inclusive of penalties.

Tax Assessment for Taxable Year 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, 2019, the tax audit of the BIR is still on-going.