

INDEPENDENT AUDITOR'S REPORT

STARR International Insurance Philippines Branch
Unit 5, 23rd Floor, Tower 2, The Enterprise Center
6766 Ayala Avenue cor. Paseo de Roxas
Legaspi Village, Makati City 1226, Philippines

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of STARR International Insurance Philippines Branch (the Branch), which comprise the statements of financial position as at December 31, 2021 and 2020, and statements of comprehensive income, statements of changes in home office account and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Branch as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance 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.

Those charged with governance are responsible for overseeing the Branch's financial reporting process.



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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



Report on the Supplementary Information Required Under Revenue Regulations 34-2020 and 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 34-2020 and 15-2010 in Note 27 to the 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 information is the responsibility of the management of STARR International Insurance Philippines Branch. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



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BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024

SEC Partner Accreditation No. 108795-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

SEC Firm Accreditation No. 0001-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

BIR Accreditation No. 08-001998-107-2020, November 27, 2020, valid until November 26, 2023

PTR No. 8853467, January 3, 2022, Makati City

May 27, 2022



STARR INTERNATIONAL INSURANCE PHILIPPINES BRANCH
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2021	2020
ASSETS		
Cash and cash equivalents (Notes 4 and 25)	₱605,483,902	₱499,947,335
Short-term investments (Notes 4 and 25)	–	–
Insurance receivables (Notes 5 and 25)	1,188,184,672	783,451,125
Financial Assets (Notes 6 and 25)		
Available-for-sale financial assets	736,508,331	760,171,868
Held-to-maturity investments	529,154,860	634,996,187
Loans and receivables	11,434	30,361
Accrued income (Notes 7 and 25)	8,582,462	15,122,354
Deferred acquisition costs (Note 8)	115,160,641	85,627,815
Reinsurance assets (Notes 9 and 13)	1,803,900,372	1,553,646,346
Property and equipment - net (Note 10)	2,548,845	217,642
Intangible asset (Note 11)	3,249,135	2,296,635
Right-of-use assets (Note 21)	3,277,750	10,245,309
Deferred tax assets – net (Note 24)	11,840,440	12,271,118
Other assets (Note 12)	14,788,845	15,597,058
	₱5,022,691,687	₱4,373,621,153
LIABILITIES AND HOME OFFICE ACCOUNT		
Liabilities		
Insurance contract liabilities (Notes 13 and 25)	₱2,040,876,721	₱1,746,803,701
Insurance payables (Notes 14, 23, and 25)	896,706,335	784,364,925
Deferred reinsurance commissions (Note 8)	245,899,344	159,782,640
Accounts payable and accrued expenses (Notes 15 and 25)	172,752,172	132,354,260
Pension benefit obligation (Note 22)	12,152,489	11,673,464
Lease liabilities (Note 21)	5	7,620,824
Income tax payable	20,487,048	–
	3,388,874,114	2,842,599,814
Home Office Account		
Assigned capital (Note 16)	1,000,000,000	1,000,000,000
Contributed surplus (Note 16)	35,574,928	35,574,928
Revaluation gain on available-for-sale financial assets (Note 6)	34,688,476	66,907,471
Actuarial loss on pension obligation (Note 22)	(550,153)	(2,898,802)
Retained earnings	564,104,322	431,437,742
	1,633,817,573	1,531,021,339
	₱5,022,691,687	₱4,373,621,153

See accompanying Notes to Financial Statements.



STARR INTERNATIONAL INSURANCE PHILIPPINES BRANCH
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2021	2020
REVENUE (Notes 13 and 17)		
Gross earned premiums on insurance contracts	₱1,481,074,918	₱1,340,407,848
Reinsurers' share of gross earned premiums on insurance contracts	(1,255,624,143)	(1,138,195,658)
Net earned premiums	225,450,775	202,212,190
OTHER INCOME – net		
Commission income (Note 8)	278,454,799	260,600,532
Interest income (Notes 4, 6 and 18)	18,288,088	73,551,259
Foreign exchange loss - net (Notes 4,5,6,7,9,12, 13,14 and 15)	70,855,119	(59,726,664)
Survey fee income	–	1,143,993
Gain on sale of AFS	1,929,581	–
Miscellaneous income	–	350,925
Other income	369,527,587	275,920,045
Total revenue and other income	594,978,362	478,132,235
BENEFITS AND CLAIMS EXPENSE (Notes 13 and 19)		
Gross change in insurance contract liabilities	(23,967,536)	79,926,514
Reinsurers' share in gross change in insurance contract liabilities	44,438,334	(68,482,975)
Gross insurance benefits and claims paid	430,305,082	317,118,973
Reinsurers' share of gross insurance benefits and claims paid	(370,103,934)	(275,646,544)
Net insurance benefits and claims	80,671,946	52,915,968
OPERATING EXPENSES		
Commission expense (Note 8)	183,569,566	178,909,173
General and administrative expenses (Note 20)	150,124,379	123,125,437
Interest expense on lease liabilities (Note 21)	466,343	1,168,005
Interest expense on pension benefit obligation (Note 22)	357,091	370,710
Operating expenses	334,517,379	303,573,325
Total benefits, claims and expenses	415,189,325	356,489,293
INCOME BEFORE INCOME TAX	179,789,038	121,642,942
PROVISION FOR INCOME TAX (Note 24)	(47,122,458)	(26,074,286)
NET INCOME	132,666,579	95,568,656
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that will be reclassified to profit and loss in subsequent periods:		
Changes in revaluation losses on available-for-sale financial assets, net of tax (Note 6)	(32,218,995)	26,498,150
Actuarial gain (loss) on pension obligation, net of tax (Note 22)	2,348,649	(220,097)
TOTAL COMPREHENSIVE INCOME	₱102,796,234	₱121,846,709

See accompanying Notes to Financial Statements.



STARR INTERNATIONAL INSURANCE PHILIPPINES BRANCH

STATEMENTS OF CHANGES IN HOME OFFICE ACCOUNT

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	Assigned Capital (Note 16)	Contributed Surplus (Note 16)	Revaluation Gain (Loss) on Available-for- sale Financial Assets (Note 6)	Actuarial Loss on Pension Obligation (Note 22)	Retained Earnings	Total
Balance at January 1, 2021	₱1,000,000,000	₱35,574,928	₱66,907,471	(₱2,898,802)	₱431,437,742	₱1,531,021,339
Net income	–	–	–	–	132,666,579	132,66,579
Other comprehensive income (loss)	–	–	(32,218,995)	2,348,649	–	(29,870,346)
Total comprehensive income (loss)	–	–	(32,218,995)	2,348,649	132,666,579	102,796,233
Balance at December 31, 2021	₱1,000,000,000	₱35,574,928	₱34,688,476	(₱550,153)	₱564,104,322	₱1,633,817,573
Balance at January 1, 2020	₱1,000,000,000	₱35,574,928	₱40,409,321	(₱2,678,705)	₱335,869,086	₱1,409,174,630
Net income	–	–	–	–	95,568,656	95,568,656
Other comprehensive income (loss)	–	–	26,498,150	(220,097)	–	26,278,053
Total comprehensive income (loss)	–	–	26,498,150	(220,097)	95,568,656	121,846,709
Balance at December 31, 2020	₱1,000,000,000	₱35,574,928	₱66,907,471	(₱2,898,802)	₱431,437,742	₱1,531,021,339

See accompanying Notes to Financial Statements.



STARR INTERNATIONAL INSURANCE PHILIPPINES BRANCH
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱179,789,038	₱121,642,942
Adjustments for:		
Provision for claims IBNR and MfAD (Note 13)	21,638,735	9,871,143
Depreciation and amortization (Notes 10, 11, 20 and 21)	7,529,213	7,204,094
Pension obligation expense (Note 22)	2,470,583	2,514,955
Interest expense (Notes 21 and 22)	(62,612,627)	63,942,806
Unrealized foreign exchange (gain) loss - net	823,434	1,538,715
Interest income (Notes 4, 6 and 18)	(18,288,088)	(73,551,259)
Operating income before changes in working capital	131,350,289	133,163,396
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Insurance receivables	(378,162,801)	(64,205,469)
Loans and receivables	18,927	(21,981)
Deferred acquisition costs	(29,532,826)	(7,067,282)
Reinsurance assets	(252,216,990)	(207,924,581)
Other assets	1,312,026	(3,149,705)
Increase in:		
Insurance contract liabilities	274,686,497	185,090,123
Insurance payables	81,166,483	77,154,251
Deferred reinsurance commissions	86,116,705	35,162,798
Accounts payable and accrued expenses	34,382,132	20,579,062
Net cash flows generated from operations	(50,879,558)	168,780,612
Income taxes paid (Note 24)	(26,204,731)	(40,063,753)
Net cash flows provided by operating activities	(77,084,289)	128,716,859
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Short-term investments (Note 4)		-
Held-to-maturity investments (Note 6)	(224,919,658)	(204,171,031)
Available-for-sale investments (Note 6)	(149,728,212)	-
Property and equipment (Note 11)	(2,892,857)	-
Intangible asset (Note 11)	(952,500)	(2,296,635)
Proceeds from maturities/sale of:		
Short-term investments (Note 4)		103,285,901
Held-to-maturity investments (Note 6)	334,628,777	-
Available-for-sale investments (Note 6)	188,421,473	-
Intangible asset (Note 11)		-
Interest received	25,199,134	71,573,146
Net cash flows provided by (used in) investing activities	169,756,156	(31,608,619)
CASH FLOWS FROM FINANCING ACTIVITY		
Payment of principal portion of lease liabilities (Note 21)	(8,087,163)	(7,702,055)
NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES		
ON CASH	20,951,861	(29,859,760)
NET INCREASE IN CASH	105,536,567	59,546,425
CASH AT BEGINNING OF THE YEAR	499,947,335	440,400,910
CASH AT END OF THE YEAR (Note 4)	₱605,483,902	₱499,947,335

See accompanying Notes to Financial Statements.



STARR INTERNATIONAL INSURANCE PHILIPPINES BRANCH

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

STARR International Insurance Philippines Branch (the Branch) is the established branch office in the Philippines of Starr International Insurance (Asia) Limited (the Home Office). The Home Office is a subsidiary of Starr Insurance & Reinsurance Limited which is a Bermuda-based insurance and reinsurance company with a portfolio of insurance and reinsurance products and clients throughout North America, Europe and Latin/South America.

The Home Office was licensed by the Philippine Securities and Exchange Commission (SEC) on April 19, 2013 to establish its branch office in the Philippines under the name of STARR International Insurance Philippines Branch. Its objective is to engage in non-life insurance business by providing non-life insurance products, to include both commercial and personal product lines. The Home Office was duly licensed by the Insurance Commission (IC) on May 8, 2013 after complying with the minimum requirements set by IC.

The principal office address of the Branch is Unit 5, 23rd Floor, Tower 2, The Enterprise Center, 6766 Ayala Ave. cor. Paseo de Roxas Ave., Makati.

The accompanying financial statements were approved and authorized for issuance by the Board of Directors (BOD) on May 27, 2022.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The financial statements of the Branch have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

The accompanying financial statements have been prepared on a historical cost basis, except for debt and equity financial assets that have been measured at fair value.

The financial statements provide comparative information in respect of the previous period.

Statement of Compliance

The financial statements of the Branch have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements

The Branch presents its statements of financial position in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within twelve (12) months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 26.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. The Branch assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of solvency or bankruptcy of the Branch and all of the counterparties.



Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Branch.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments and improvements to PFRSs which became effective on January 1, 2021. The Branch did not early adopt any other standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, these new and revised accounting standards did not have an impact on the Branch's financial statements.

- Amendments to PFRS 16, *COVID-19-related Rent Concessions beyond 30 June 2021*
- Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, adoption of these pronouncements is not expected to have a significant impact on the Branch's financial statements. The Branch intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
- *Annual Improvements to PFRSs 2018-2020 Cycle*
 - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
 - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*
 - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

Effective beginning on or after January 1, 2023

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*



Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

The Branch has been performing an impact assessment of the new standard. The Branch expects that the new standard will result in a significant change to its accounting policies for insurance contract liabilities and is likely to have a significant impact on profit and total equity together with the presentation and disclosure. Initial financial impact assessment using the 2019 audited financial statements determined that there were no onerous contracts identified. There was also an insignificant impact on profit and total equity together with the presentation and disclosure.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Fair Value

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 by 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.



Fair value hierarchy

The Branch uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable in the market, either directly or indirectly
- Level 3: techniques which uses inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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 categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, management analyzes the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Branch's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, 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.

Financial assets

The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (price between the bid and ask spread), without any deduction for transaction costs. When current market 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 value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

Non-financial assets

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.

Cash

Cash includes cash on hand and in bank. Cash is carried in the statement of financial position at face amount. Cash in bank earns interest at the prevailing bank deposit rates.

Short-term Investments

Short-term investments are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months but less than one year from dates of placement. These earn interests at the respective short-term investment rates.



Insurance Receivables

Insurance receivables are recognized on policy inception dates and measured on initial recognition at the fair value of the consideration receivable for the period of coverage. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the profit and loss. Insurance receivables are derecognized following the derecognition criteria of financial assets.

Financial Instruments

Qualifying for temporary exemption from PFRS 9

The Branch applied the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4 Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts issued in September 2016. The temporary exemption permits entities whose activities are predominantly connected with insurance to continue applying PAS 39 rather than PFRS 9 for annual periods beginning before January 1, 2022.

The assessment for whether a reporting entity's activities are predominantly connected with insurance is based on the liabilities connected with insurance in proportion to the entity's total liabilities. An entity may elect the temporary exemption if, and only if:

- The carrying amount of its liabilities arising from contracts within the scope of PFRS 4 is significant compared to the total carrying amount of all its liabilities; and
- The percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all of its liabilities is:
 - Greater than 90 percent; or
 - Less than or equal to 90 percent but greater than 80 percent, and the insurer does not engage in a significant activity unconnected with insurance.

The predominance assessment is performed using the carrying amounts of liabilities reported on the statement of financial position at the annual reporting date December 31, 2015 and before December 31, 2020. Applying the requirements, the Branch performed the predominance assessment using the Branch's statement of financial position as of December 31, 2015.

The Branch concluded that it qualified for the temporary exemption from PFRS 9 because its activities are predominantly connected with insurance. As at December 31, 2015, the Branch's gross liabilities arising from contracts within the scope of PFRS 4 represented 88% of the total carrying amount of all its liabilities, and the Branch did not engage into any significant activities not connected with insurance. Since December 31, 2015, there has been no change in the activities of the Branch that requires reassessment of the use of the temporary exemption.

Date of recognition

Financial instruments are recognized in the statement of financial position when the Branch becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial recognition

Financial instruments are recognized initially at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Branch classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets, held-to-maturity (HTM) investments and loans and receivables. The Branch classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The



classification depends on the purpose for which the investments were acquired or liabilities incurred and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of December 31, 2021 and 2020, the Branch has no financial instruments at FVPL.

Day 1 difference

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 or loss) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where an unobservable data is used, 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 or loss amount.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities 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 classified as other financial assets held for trading, designated as AFS or financial assets designated at FVPL.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the EIR method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR.

As of December 31, 2021 and 2020, the Branch's financial asset include advances of employees recognized in loans and receivables account.

AFS financial assets

AFS financial assets are those non-derivative investments which are designated as such or do not qualify to be classified as designated as financial assets or financial liabilities at FVPL, HTM or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include government securities, equity investments, and other debt instruments.

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in profit or loss. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate (EIR). The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported in OCI. The losses arising from impairment of such investments are recognized as provisions on impairment losses in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as realized gains in profit or loss.

Held-to-maturity investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity. Where the Branch sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement these investments are subsequently measured 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 acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

Other financial liabilities

Issued financial instruments or their components, which are not designated at 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 asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

This accounting policy applies primarily to the Branch's insurance contract liabilities, insurance payables, accounts payable and accrued expenses that meet the above definition (other than liabilities covered by other accounting standards, such as pension liability and income tax payable).

Reclassification of financial assets

An investment will be reclassified as AFS assets if, as a result of the change in intention or ability, it fails to meet the requirements for classification as HTM investment. If the tainting provisions are triggered, any remaining HTM investments should also be reclassified as AFS assets. Similarly, if as a result of a change in intention or ability or because the tainting period has passed, it becomes appropriate to regard an AFS asset as HTM, it will be reclassified accordingly.

If an AFS asset is reclassified as held-to-maturity, the fair value carrying amount of the financial asset on the date becomes the new amortized cost.

Derecognition of Financial Assets and Liabilities

Financial asset

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

- a. the right to receive cash flow from the asset has expired;
- b. the Branch retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- c. the Branch has transferred its right to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.



When the Branch has transferred its right 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 nor transferred control of the asset, the asset is recognized to the extent of the Branch's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Branch could be required to repay.

Financial liability

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, and the difference in the respective carrying amounts is recognized in the profit and loss.

Impairment of Financial Assets

The Branch assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Insurance receivables

A provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Branch will not be able to collect all of the amounts due under the terms agreed with the counterparty. The carrying amount of the receivable is reduced through the use of an allowance account.

AFS financial assets

For debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded in the profit and loss. If, in a subsequent period, 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 the profit and loss, the impairment loss is reversed through the profit and loss.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted using the original EIR. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized as "Provision for impairment loss" in the profit and loss.

Interest income continues to be accrued on the reduced carrying amount based on the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Branch.



If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in the profit and loss. Any subsequent reversal of an impairment loss is recognized in the profit and loss, to the extent that the carrying value of the asset does not exceed what would have been its amortized cost at the reversal date had there been no impairment.

Held-to-maturity investments and Loans and receivables

For financial assets carried at amortized cost, the Branch first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Branch determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses 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 a collective assessment for impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position 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 asset and settle the liability simultaneously.

Reinsurance Assets

The Branch cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Branch may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Branch will receive from the reinsurer can be measured reliably. The impairment loss is charged to profit or loss.

Ceded reinsurance arrangements do not relieve the Branch from its obligations to policyholders. The Branch also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

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



Deferred Acquisition Costs (DAC)

Commission 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 an expense when incurred.

Subsequent to initial recognition, these costs are amortized using the 24th method. Amortization is charged against the profit or loss. The unamortized acquisition costs are shown as “Deferred acquisition costs” in the assets section of the statement of financial position.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged against the profit or loss. The DAC is also considered in the liability adequacy test for each end of the reporting period.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Branch and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation on other property and equipment is provided on a straight-line method over the estimated useful lives (or lease term, if shorter) of each part of an item of property and equipment as follows:

	Years
Equipment	3
Leasehold improvements	3

The estimated useful life and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from the equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

Right-of-use assets

The Branch recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use 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 costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless



the Branch is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term of 3 years.

Right-of-use assets are subject to impairment. Refer to the accounting policies in section impairment of non-financial assets.

Other Assets

Prepaid Expenses

Prepaid expenses pertain to resources controlled by the Branch as a result of past events and from which future economic benefits are expected to flow to the Branch. Prepaid expenses are carried at cost and are amortized on a straight-line basis, over the period of intended usage, which is equal to or less than 12 months or within the normal operating cycle.

Value-Added Tax (VAT)

Revenue, expenses and assets are recognized net of the amount of sales tax except:

- where the tax incurred on a purchase of assets or services is not recoverable from the tax 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 or payable from the tax authority is included as part of “Other assets” or “Accounts payable and accrued expenses” in the statement of financial position.

Creditable Withholding Taxes (CWTs)

Creditable withholding taxes pertain to the tax paid by the Branch that is withheld by its counterparties for the payment of its expenses and other purchases. These CWTs are initially recorded at cost as an asset under “Other assets” account.

At each end of the tax reporting deadline, these CWTs may either be offset against future tax income payable or be claimed as a refund from the taxation authorities at the option of the Branch.

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

Impairment of Nonfinancial Assets

At each reporting date, the Branch assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Branch makes a formal estimate of recoverable amount.

Recoverable amount is the higher of an asset’s or cash-generating unit’s (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount. 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 (or CGU). An impairment loss is charged to operations in the year in which it arises.



For nonfinancial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses 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.

Income Tax

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as of the financial reporting date.

Deferred tax

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carry forward of NOLCO can be utilized.

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 income 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.

Current tax and deferred tax relating to items recognized directly in equity or OCI are likewise recognized in equity or OCI.

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 substantially enacted as of end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Movements in the deferred tax assets and liabilities arising from changes in the rates are charged against or credited to operations for the period.

Product Classification

Insurance contracts are defined as those contracts under which the Branch (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Branch defines significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. 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. Investment contracts mainly transfer financial risk but can also transfer insignificant insurance risk.

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 has expired. Investment contracts can however be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Insurance Contract Liabilities

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

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. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method, otherwise, 365th method is used. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as provision for unearned premiums as part of “Insurance contract liabilities” and presented in the liabilities section of the statement of financial position. The change in the provision for unearned premiums is taken to profit or loss in order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Provision for claims reported and incurred but not reported (IBNR) losses

These liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period together with related claims handling costs and reduction for the expected value of salvage and other recoveries. 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. The liability is not discounted for the time value of money and includes provision for IBNR losses. The IBNR is calculated at the reporting date using a range of actuarial projection techniques such as but not limited to the chain ladder method, expected loss ratio method and Bornheutter-Ferguson method. The liability is derecognized when the contract is discharged, cancelled or has expired.

The Branch shall include a margin for adverse deviation (MfAD) to allow for inherent uncertainty of the best estimate of the policy reserves which shall be determined by an independent actuary at least on an annual basis based on standard projection techniques or combination of such techniques such as, but not limited to, the Mack Method, Bootstrapping Method, Stochastic Chain Ladder Method to bring the actuarial estimate of the policy liabilities at the 75% level of sufficiency.

Liability adequacy test

At each reporting date, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities, net of related DAC. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses are used. 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 is immediately charged to profit or loss by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.



Provision for unexpired risk (URR) is the best estimate that relates to expected future claim payments and related expenses to be incurred after the valuation date, arising from future events. This shall be calculated as the best estimate of future claims and expenses for all classes of business, with MfAD.

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. In calculating the present value of lease payments, the Branch uses the incremental borrowing rate 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 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 leases of low-value assets

The Branch applies the short-term lease recognition exemption to its short-term leases (i.e., lease term ends within 12 months and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of building pylon signage that is considered of low value. (i.e., below ₱250,000). 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.

Home Office Account

Assigned capital

Assigned capital represents funds transferred from the Home Office to the Branch including any investments and payments of costs and expenses of the Branch.

Contributed surplus

Contributed surplus represents funds transferred from the Home Office to the Branch in compliance with the requirement of the IC.

Retained earnings

Retained earnings represent the cumulative balance of net income or loss of the Branch, net of any dividend distribution.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Branch and the revenue can be reliably measured. The Branch assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Branch has concluded that it is acting as a principal in all of its revenue arrangements.

The Branch's revenue comprises mainly of net premiums earned, commission income and interest income which are outside the scope of PFRS 15 (scoped in under PFRS 4 and PFRS 9).

Premiums

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods.



Premiums from insurance contracts with policy duration of exactly one year are recognized as revenue over the period of the contracts using 24th method. The 365th method was used for recognition of revenue for insurance contracts with policy duration of less than or more than one year. The portion of the premiums written that relate to the unexpired periods of the policies at the end of the reporting period is accounted for as provision for unearned premiums and presented as part of insurance contract liabilities in the liabilities section of the statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at reporting date are accounted for as deferred reinsurance premiums shown as part of reinsurance assets presented in the assets section of the statement of financial position. The net changes in these accounts between reporting dates are included in the determination of net insurance revenue.

Commission income

Commissions earned from insurance contracts with policy duration of exactly one year are recognized as revenue over the period of the contracts using 24th method. The 365th method was used for recognition of revenue for insurance contracts with policy duration of less than or more than one year. 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 reinsurance commissions and presented in the liabilities section of the statement of financial position.

Interest income

Interest income is recognized as it accrues.

Survey fee income

Survey fee income is recognized upon issuance of policy.

Expense Recognition

Expenses are recognized in the profit and loss when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in the profit and loss on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the associations with income can only be broadly or indirectly determined; or immediately when an expenditure produces no economic benefit or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

Insurance benefits and claims

Benefits and claims consist of benefits and claims paid to policyholders and changes in the valuation of insurance contract liabilities, except for gross changes in the provision for unearned premiums which are included in net earned premiums. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Insurance claims are recorded on the basis of notifications received.

Commission expense

Commissions are recognized as expense over the period of the insurance contracts using the 24th method for policies with a term of exactly one year, otherwise 365th method is used. 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 the financial position

General and administrative expenses

General and administrative expenses constitute costs of administering the business. These are recognized and charged to operations as incurred.



Provisions

Provisions are recognized when the Branch has a present obligation (legal or constructive) as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Foreign Currency Translation

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated using the functional currency rate of exchange ruling at the reporting date. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. All foreign exchange differences are taken to profit or loss, except where it relates to equity securities where gains or losses are recognized directly in OCI, the gain or loss is then recognized net of the exchange component in OCI.

Contingencies

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

Events After the Reporting Date

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

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Branch's financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and related notes. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcome can differ from these estimates.

Judgments

In the process of applying the Branch's accounting policies, management has made the following judgments, apart from those involving estimates and assumptions, which have the most significant effect on the amounts recognized in the financial statements:

Product classification

The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Branch defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.



The Branch has determined that the insurance policies it issues have significant insurance risks and therefore meet the definition of insurance contracts and should be accounted for as such.

Determining functional currency

Based on the economic substance of the underlying circumstances relevant to the Branch, the functional currency of the Branch has been determined to be the Philippine Peso. The Philippine Peso is the currency of the primary economic environment in which the Branch operates. It is the currency that mainly influences labor, material and other costs of providing services.

Impairment of financial assets

The Branch reviews its insurance receivables and loans and receivables at each end of the reporting period to assess whether an allowance for impairment should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to age of balances, financial status of counterparties, payment behavior and known market factors. The Branch reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a regular basis.

The amount and timing of recorded expenses for any period would differ if the Branch made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

The Branch did not recognize any impairment loss for the years 2021 and 2020 on its financial assets since there was no objective evidence that the financial assets are impaired and are found to be recoverable through immediate subsequent collections from policyholders, intermediaries and debtors.

Determination of lease term of contracts with renewal and termination options – Branch as a lessee

The Branch applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Branch reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate depending on the terms of the lease agreement if upon mutual agreement of both parties or solely at the option of the lessee.

Estimates and Assumptions

The Branch based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to the market changes or circumstances arising beyond the control of the Branch. Such changes are reflected in the assumptions when they occur. The key assumptions concerning the future and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are discussed below.



Estimated useful lives of property and equipment

The Branch reviews annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation and amortization expense and decrease the related asset accounts.

The carrying value of property and equipment amounted to ₱2,548,844 and ₱217,642 as of December 31, 2021 and 2020, respectively (see Note 10)

Valuation of AFS financial assets

The Branch carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgments. Fair value determinations for financial assets and liabilities are based generally on listed or quoted market prices. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time.

The carrying value of AFS financial assets amounted to ₱736,508,331 and ₱760,171,868 as of December 31, 2021 and 2020, respectively (see Note 6).

Impairment of nonfinancial assets

The Branch assesses impairment on nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset 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 overall 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 to which the asset belongs.

The Branch did not recognize any impairment loss on its nonfinancial assets.

Recognition of deferred tax assets

Deferred tax assets are recognized for all future tax deductibles to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

Claims liability arising from insurance contracts

For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of the IBNR claims at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position claims provision. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, based on the following methods:



the Incurred Chain Ladder/Development Approach (IDA), the Paid Chain Ladder/Development Method (PDA), the Bornhuetter-Ferguson Incurred Approach (BFIA), and the Bornhuetter-Ferguson Paid Approach (BFPA).

The main assumption underlying these techniques is that a Branch's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

MfAD is estimated using Bootstrapping method to bring the actuarial best estimate of the claim liabilities at the 75th percentile level of sufficiency.

The provision for IBNR losses amounted to ₱68,935,775 and ₱45,995,086 as of December 31, 2021 and 2020, respectively (see Note 13).

4. Cash, Cash equivalents and Short-Term Investments

Cash

This account consists of:

	2021	2020
Cash on hand	₱86,200	₱86,200
Cash in banks	328,116,421	277,707,318
Cash equivalents	277,281,281	222,153,817
	₱605,483,902	₱499,947,335

Cash in banks comprise of current and savings accounts which earn interest at prevailing bank deposit rates. Cash equivalents consist of short-term US Dollar and Philippine Peso cash placements with banks which earn at rates ranging from 0.10% to 3.75% and 0.25% to 3.75% in 2021 and 2020, respectively.

Interest income earned on cash in banks and cash equivalents amounted to ₱779,830 and ₱1,455,907 in 2021 and 2020, respectively (see Note 18).

The net foreign exchange loss (gain) on cash and cash equivalents amounted to (₱20,951,861) and ₱28,143,455 in 2021 and 2020, respectively.



Short-term investments

The rollforward analysis of this account follows:

	2021	2020
At beginning of year	P-	P104,814,450
Maturities	-	(103,285,901)
Foreign exchange loss – net	-	(1,528,549)
At end of year	P-	P-

All time deposits of the branch were rolled over the rest of 2021 with term one up to three months, hence classified as cash equivalents.

Interest income earned in 2021 and 2020 amounted to nil and P1,077,112, respectively (see Note 18).

5. Insurance Receivables

This account consists of:

	2021	2020
Premiums receivable from:		
Agents and brokers	P958,003,627	P668,399,481
Policyholders	3,113,826	5,614,902
Reinsurance recoverable on paid losses	227,067,219	109,436,742
	P1,188,184,672	P783,451,125

Premiums receivable arise from unpaid premiums from intermediaries and policyholders.

Reinsurance recoverable on paid losses pertains to the share of ceding companies for the claims already paid to the policyholders by the Branch.

The Branch did not recognize impairment loss on insurance receivables as of December 31, 2021 and 2020 after considering a number of factors which include, but are not limited to age of balances, financial status of counterparties, payment behavior and known market factors.

The net foreign exchange loss (gain) on insurance receivables amounted to (P26,570,747) and P17,938,203 in 2021 and 2020, respectively.

6. Financial Assets

The Branch's financial assets are summarized by measurement categories as follows:

	2021	2020
AFS financial assets	P736,508,331	P760,171,868
Held-to-maturity investments	529,154,860	634,996,187
Loans and receivables	11,434	30,361
	P1,265,674,625	P1,395,198,416



The assets included in each of the categories above are detailed as follows:

a. *AFS financial assets*

This account consists of:

	2021	2020
Quoted securities		
Corporate bonds	₱588,542,737	₱716,445,995
Government debt securities	147,965,594	43,725,873
	₱736,508,331	₱760,171,868

The carrying values of AFS financial assets have been determined as follows:

	2021	2020
At January 1	₱760,171,868	₱956,538,574
Reclassification to HTM investments	–	(186,692,670)
Additions	149,728,212	–
Maturities	(182,011,432)	–
Foreign exchange loss – net	47,248,718	(29,110,390)
Premium amortization	(6,410,040)	(3,337,075)
Fair value gain (loss)	(32,218,995)	22,773,429
At December 31	₱736,508,331	₱760,171,868

The movements of revaluation gain on available-for-sale financial assets follows:

	2021	2020
At January 1	₱66,907,471	₱40,409,321
Change in fair value of AFS financial assets	(32,218,995)	22,773,429
Transfer to profit or loss:		
Amortization of unrealized (gain) loss reclassified from AFS to HTM	–	3,724,721
At December 31	₱34,688,476	₱66,907,471

The table below shows the breakdown of the revaluation reserves had there been no reclassification made:

	2021	2020
Other comprehensive income	₱34,688,476	₱66,907,471
Transferred to profit or loss as investment income (loss)	–	(3,724,721)
At December 31	₱34,688,476	₱63,182,750

AFS financial assets earned interest at rates ranging from 2.70% to 4.02% and 2.70% to 4.16% in 2021 and 2020, respectively. Interest income earned from AFS financial assets in 2021 and 2020 amounted to ₱13,365,283 and ₱28,355,476, respectively (see Note 18).



The net foreign exchange loss (gain) on these investments amounted to (₱47,248,718) and ₱29,110,390 in 2021 and 2020, respectively.

b. Held-to-maturity investments

The following presents the breakdown of HTM investments by contractual maturity dates:

	2021	2020
Due within a year	₱37,686,388	₱329,112,904
Due within two (2) to three (3) years	491,468,472	39,773,661
More than three (3) years	–	266,109,622
	₱529,154,860	₱634,996,187

The rollforward analysis of HTM investments follows:

	2021	2020
At January 1	₱634,996,187	₱257,470,983
Reclassification from AFS financial assets	–	186,692,670
Additions	224,919,658	204,171,031
Maturities	(328,293,577)	–
Premium amortization	(6,335,200)	(3,337,075)
Foreign exchange loss – net	3,867,792	(10,001,422)
At December 31	₱529,154,860	₱634,996,187

HTM investments consist of investment in government securities which are deposited with the Insurance Commission in accordance with the provisions of the Insurance Code (the Code). These deposited government securities serve as security for the benefit of policyholders and creditors of the Branch.

In 2021 and 2020, interest income on these investments, net of premium amortization, amounted to ₱4,142,975 and ₱42,662,764, respectively (see Note 18).

As of December 31, 2021, and 2020, the AFS financial assets and HTM investments denominated in foreign currency amounting to US\$15,856,217 and US\$15,825,045, respectively, were translated using the functional currency rate of exchange ruling at the reporting date.

The net foreign exchange loss (gain) on HTM investments amounted to (₱3,867,792) and ₱10,001,422 in 2021 and 2020, respectively.

c. Loans and receivables

Loans and receivables pertain to Branch's cash advances to employees which are for liquidation.



7. Accrued Income

This account consists of interest receivable on AFS financial assets, HTM investments, cash equivalents and short-term investments as follows:

	2021	2020
Held-to-maturity investments	₱3,667,937	₱9,500,318
Available-for-sale financial assets		
Corporate bonds	3,060,359	4,803,409
Government securities	1,764,736	806,258
Cash equivalents	89,430	12,369
Short-term investments	—	—
	₱8,582,462	₱15,122,354

The net foreign exchange loss (gain) on accrued income amounted to (₱371,154) and ₱434,412 in 2021 and 2020, respectively.

8. Deferred Acquisition Costs and Deferred Reinsurance Commissions

The rollforward analyses of these accounts follow:

Deferred acquisition costs

	2021	2020
At January 1	₱85,627,815	₱78,572,771
Cost deferred during the year	213,102,392	185,964,217
Amortization during the year recognized as “Commission expense”	(183,569,566)	(178,909,173)
At December 31	₱115,160,641	₱85,627,815

Deferred reinsurance commissions

	2021	2020
At January 1	₱159,782,640	₱124,644,771
Income deferred during the year	364,571,502	295,738,401
Amortization during the year recognized as “Commission income”	(278,454,799)	(260,600,532)
At December 31	₱245,899,344	₱159,782,640

9. Reinsurance Assets

This account consists of:

	2021	2020
Deferred reinsurance premiums (Note 13)	₱994,887,284	₱699,743,875
Reinsurance recoverable on unpaid losses (Note 13)	809,013,088	853,902,471
	₱1,803,900,372	₱1,553,646,346



Deferred reinsurance premiums pertain to the unexpired portion of the insurance premiums ceded to reinsurers.

Reinsurance recoverable on unpaid losses represents balances due from reinsurers for their share in insurance contract liabilities in accordance with the respective reinsurance contracts.

The net foreign exchange gain (loss) on reinsurance recoverable on unpaid losses amounted to ₱1,962,964 and ₱3,905,290 in 2021 and 2020, respectively.

10. Property and Equipment

The rollforward analysis of this account follow:

	2021		
	Equipment	Leasehold improvements	Total
Cost			
At January 1	₱4,162,185	₱10,895,748	₱15,057,933
Additions	2,892,856	–	2,892,856
At December 31	7,055,041	10,895,748	17,950,789
Accumulated depreciation			
At January 1	3,944,542	10,895,748	14,840,291
Depreciation (Note 20)	561,654	–	561,654
At December 31	4,506,197	10,895,748	15,401,945
Net Book Value	₱2,548,845	₱–	₱2,548,845
	2020		
	Equipment	Leasehold improvements	Total
Cost			
At January 1	₱4,162,185	₱10,895,748	₱15,057,933
Additions	–	–	–
Disposals	–	–	–
At December 31	4,162,185	10,895,748	15,057,933
Accumulated depreciation			
At January 1	3,708,008	10,895,748	14,603,756
Depreciation (Note 20)	236,535	–	236,535
At December 31	3,944,542	10,895,748	14,840,291
Net Book Value	₱217,642	₱–	₱217,642

As of December 31, 2021 and 2020, cost of fully depreciated property and equipment still in use amounted to ₱15,246,856 and ₱14,561,058, respectively.



11. Intangible asset

In 2020, the Branch entered into a contract with a third-party to develop a new accounting software. The licensing fee and other implementation expenses amounting to ₱1,259,135 and ₱1,037,500, respectively, were capitalized as 'Intangible asset'. The Branch expects the software to be available for use by April 2022. In 2021, the Branch capitalized computer software costs amounting to ₱952,500. Intangible assets as of December 31, 2021 and 2020 amounted to ₱3,249,135 and ₱2,296,635, respectively.

12. Other Assets

This account consists of:

	2021	2020
Prepaid expenses	₱5,975,338	₱7,484,693
Security deposit	5,727,672	4,909,491
Rental deposit	2,711,161	2,711,162
Deferred input VAT	374,674	218,608
Creditable withholding tax	–	273,104
	₱14,788,845	₱15,597,058

Prepaid expenses pertain to prepayments for payroll, IT services, insurance premiums, rental charges and resident agent fees.

Security deposit is the amount deposited by the Branch to the IC as required for all non-life insurance companies authorized to do business in the Philippines.

Rental deposit pertains to deposit made at the inception of the lease agreement that will be returned after the termination of the related lease.

The net foreign exchange loss (gain) on other assets amounted to (₱503,814) and nil in 2021 and 2020, respectively.

13. Insurance Contract Liabilities

Insurance contract liabilities may be analyzed as follows:

	Insurance contract liabilities	Reinsurers' share of liabilities (Note 9)	Net 2021	Insurance contract liabilities	Reinsurers' share of liabilities (Note 9)	Net 2020
Provision for claims reserves	₱599,584,947	₱523,477,752	₱76,107,195	₱645,642,268	₱567,065,182	₱78,577,086
Provision for IBNR claims and MfAD	354,471,110	285,535,335	68,935,775	332,832,375	286,837,289	45,995,086
Total claims reported, IBNR claims and MfAD	954,056,057	809,013,088	145,042,970	978,474,643	853,902,471	124,572,172
Reserve for unearned premiums	1,086,820,663	994,887,284	91,933,379	768,329,058	699,743,875	68,585,183
Total insurance contract liabilities	₱2,040,876,721	₱1,803,900,372	₱236,976,349	₱1,746,803,701	₱1,553,646,346	₱193,157,355



Provisions for claims reported by policyholders and IBNR claims may be analyzed as follows:

	Insurance contract liabilities	Reinsurers' share of liabilities (Note 9)	Net 2021	Insurance contract liabilities	Reinsurers' share of liabilities (Note 9)	Net 2020
At January 1	₱978,474,643	₱853,902,471	₱124,572,172	₱898,548,129	₱785,419,496	₱113,128,633
Claims incurred during the year	384,247,760	326,516,503	57,731,257	227,820,880	184,776,055	43,044,825
Claims paid during the year (Note 19)	(430,305,082)	(370,103,934)	(60,201,148)	(317,118,973)	(275,646,544)	(41,472,429)
Increase (decrease) in IBNR and MfAD	21,638,735	(1,301,952)	22,940,688	169,224,607	159,353,464	9,871,143
At December 31	₱954,056,056	₱809,013,088	₱145,042,970	₱978,474,643	₱853,902,471	₱124,572,172

Reserve for unearned premiums may be analyzed as follows:

	Insurance contract liabilities	Reinsurers' share of liabilities (Note 9)	Net 2021	Insurance contract liabilities	Reinsurers' share of liabilities (Note 9)	Net 2020
At January 1	₱768,329,058	₱699,743,875	₱68,585,183	₱645,873,416	₱556,396,980	₱89,476,436
New policies written during the year (Note 17)	1,799,566,524	1,550,767,552	248,798,972	1,462,863,490	1,281,542,553	181,320,937
Premiums earned during the year (Note 17)	(1,481,074,918)	(1,255,624,143)	(225,450,775)	(1,340,407,848)	(1,138,195,658)	(202,212,190)
At December 31	₱1,086,820,663	₱994,887,284	₱91,933,380	₱768,329,058	₱699,743,875	₱68,585,183

The net foreign exchange gain (loss) on insurance contract liabilities amounted to (₱2,252,212) and (₱7,420,890) in 2021 and 2020, respectively.

14. Insurance Payables

This account consists of:

	2021	2020
Due to reinsurers:		
Related parties (Note 23)	₱245,161,659	₱530,801,381
Other reinsurers	563,757,280	230,302,231
Funds held for reinsurers:		
Related parties (Note 23)	23,685,106	11,637,274
Other reinsurers	64,102,290	11,624,039
	₱896,706,335	₱784,364,925

The rollforward analysis of this account follows:

	Due to Reinsurers	Funds Held for Reinsurers	Total
At January 1, 2020	₱673,287,537	₱58,941,438	₱732,228,975
Arising during the year	990,969,762	321,652,855	1,312,622,617
Utilized	(903,153,687)	(357,332,980)	(1,260,486,667)
At December 31, 2020	₱761,103,612	₱23,261,313	₱784,364,925
Arising during the year	264,164,484	471,702,316	735,866,801
Utilized	(216,349,158)	(407,176,233)	(623,525,391)
At December 31, 2021	₱808,918,938	₱87,787,396	₱896,706,335



The net foreign exchange loss (gain) on insurance payables amounted to ₱31,174,927 and (₱25,018,301) in 2021 and 2020, respectively.

15. Accounts Payable and Accrued Expenses

This account consists of:

	2021	2020
Commissions payable	₱104,886,840	₱70,154,288
Taxes payable	45,023,181	39,485,794
Accrued expenses	21,861,867	20,754,725
Other payables	980,284	1,959,453
	₱172,752,172	₱132,354,260

Commissions payable pertain to unpaid commissions to agents, brokers and ceding companies which are payable upon the collection of the premium based on the Branch's commission disbursement schedule.

Taxes payable refer to VAT payable, documentary stamp tax payable, withholding taxes payable and other taxes and licenses due for settlement within one month after the reporting date.

Accrued expenses pertain to operating expenses of the Branch which are non-interest-bearing and are due within one year.

Other payables consist mainly of unidentified premium remittances directly deposited to the bank account of the Branch which will be reclassified to corresponding accounts once identified, unpaid salaries and wages, and advances to policyholders.

The net foreign exchange loss (gain) on accounts payable and accrued expenses amounted to ₱6,015,780 and (₱5,927,067) in 2021 and 2020, respectively.

16. Home Office Account

The details of this account follow:

	2021	2020
Statutory deposit	₱1,000,000,000	₱1,000,000,000
Contributed surplus	35,574,928	35,574,928

Assigned capital and Contributed surplus

These accounts represent funds transferred from the Home Office to the Branch including the initial contribution for the required capital of IC, additional investments and payments of pre-operating expenses of the Branch.



17. Net Earned Insurance Premiums

This account consists of:

	2021	2020
Gross written premiums on insurance contracts:		
Direct insurance	₱496,378,937	₱351,517,925
Assumed reinsurance	1,303,187,587	1,111,345,565
Total gross premiums written on insurance contracts (Note 13)	1,799,566,524	1,462,863,490
Gross change in reserve for unearned premiums	(318,491,606)	(122,455,642)
Total gross earned premiums on insurance contracts (Note 13)	1,481,074,918	1,340,407,848
Reinsurers' share of gross earned premiums on insurance contracts (Notes 13 and 14)	1,550,767,552	1,281,542,553
Reinsurers' share of gross change in deferred reinsurance premiums	(295,143,409)	(143,346,895)
Total reinsurers' share of gross earned premiums on insurance contracts (Note 13)	1,255,624,143	1,138,195,658
Net earned insurance premiums	₱225,450,775	₱202,212,190

18. Interest Income

This account consists of interest earned on:

	2021	2020
Held-to-maturity investments (Note 6)	₱4,142,975	₱42,662,764
Available-for-sale financial assets (Note 6)	13,365,283	28,355,476
Short-term investments (Note 4)	-	1,077,112
Cash and cash equivalents (Note 4)	779,830	1,455,907
	₱ 18,288,088	₱73,551,259

19. Insurance Benefits and Claims

Gross insurance benefits and claims paid:

	2021	2020
Direct insurance	₱90,201,116	₱89,671,973
Assumed reinsurance	340,103,966	227,447,000
Total insurance contracts benefits and claims paid (Note 13)	₱430,305,082	₱317,118,973

Reinsurers' share in gross insurance benefits and claims paid:

	2021	2020
Assumed reinsurance	₱319,491,554	₱221,638,331
Direct insurance	50,612,380	54,008,213
Total reinsurers' share of gross insurance contracts benefits and claims (Note 13)	₱370,103,934	₱275,646,544



Gross change in insurance contract liabilities pertaining to claims reported:

	2021	2020
Assumed reinsurance	(P48,106,200)	(P77,201,185)
Direct insurance	2,048,879	(12,096,908)
Total gross change in insurance contract liabilities pertaining to claims reported and IBNR claims (Note 13)	(P46,057,321)	(P89,298,093)

Reinsurers' share in gross change in insurance contract liabilities pertaining to claims reported:

	2021	2020
Assumed reinsurance	P46,726,828	P83,863,100
Direct insurance	(3,139,398)	7,007,389
Total reinsurer's share of gross change in insurance contract liabilities pertaining to claims reported and IBNR claims (Note 13)	P43,587,430	P90,870,489

Gross change in insurance contract liabilities pertaining to IBNR claims and MfAD:

	2021	2020
Assumed reinsurance	(P16,681,411)	P177,984,259
Direct insurance	38,771,196	(8,759,652)
Total gross change in insurance contract liabilities pertaining to claims reported and IBNR claims (Note 13)	P22,089,785	P169,224,607

Reinsurers' share in gross change in insurance contract liabilities pertaining to claims IBNR claims and MfAD:

	2021	2020
Assumed reinsurance	P9,970,717	(P171,743,614)
Direct insurance	(9,119,814)	12,390,150
Total reinsurer's share of gross change in insurance contract liabilities pertaining to claims reported and IBNR claims (Note 13)	P850,904	(P159,353,464)

20. General and Administrative Expenses

This account consists of:

	2021	2020
Salaries, allowances and benefits (Note 23)	P79,117,524	P64,325,838
Transportation and travel	22,556,076	9,711,585
Taxes and licenses	10,663,712	6,493,753
Professional fees	9,026,349	7,927,714
Depreciation (Notes 10 and 21)	7,529,213	7,204,094
Survey fees	5,209,350	2,931,301
Communication, light and water	3,682,215	3,316,357
Subscription fees	2,587,780	12,714,295



	2021	2020
<i>(Forward)</i>		
Computer expenses	₱2,346,135	₱1,682,319
Advertising and promotion	2,094,705	2,300,388
Bank charges	1,615,205	1,180,025
Rent (Note 21)	1,203,732	1,098,186
Entertainment, amusement and recreation	823,050	199,628
Stationery and supplies	515,476	581,355
Custody charges	373,076	469,487
Insurance	45,739	30,400
Miscellaneous	735,041	958,712
	₱150,124,379	₱123,125,437

Miscellaneous expenses consist mainly of express services charges and penalties.

21. Lease Commitments

The Branch entered into a three-year contract for the lease of its office space from June 20, 2019 to June 19, 2022.

The Branch also has also entered a lease contract for the building pylon signage with low value. The Branch applies the 'lease of low-value assets' recognition exemption for this lease.

The rollforward analysis of right-of-use assets on office space follows:

	2021	2020
Cost		
At beginning and end of year	₱20,902,677	₱20,902,677
Accumulated Depreciation		
At beginning of year	10,657,368	3,689,809
Depreciation	6,967,559	6,967,559
At end of year	17,624,927	10,657,368
Net Book Value at end of year	₱3,277,750	₱10,245,309

The rollforward analysis of lease liabilities follows:

	2021	2020
Balances at beginning of year	₱7,620,824	₱14,154,874
Accretion of interest	466,343	1,168,005
Cash payments	(8,087,162)	(7,702,055)
As at December 31	₱5	₱7,620,824

The following are the amounts recognized in the statements of comprehensive income:

	2021	2020
Depreciation expense of right-of-use assets	₱6,967,559	₱6,967,559
Interest expense on lease liabilities	466,343	1,168,005
Expenses relating to short term leases and leases of low-value assets (Note 20)	1,203,732	1,098,186



Total amount recognized in the statements of comprehensive income	₱8,637,634	₱9,233,750
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Shown below is the maturity analysis of the undiscounted lease payments:

	2021	2020
Within 1 year	P-	P8,087,163
More than 1 year to 2 years	-	-

22. Pension Benefit Obligation

Pension benefit obligation pertains to the Branch's actuarial estimated liabilities for the employees' retirement plan as of December 31, 2020. The Branch accrues the minimum retirement benefit provided under Republic Act (R.A.) No. 7641 or the "Retirement Pay Law".

Retirement benefit costs have been determined actuarially using the projected unit credit method. Under this method, retirement benefit costs include current service cost, interest cost and the amount recognized in the current period related to past service cost. Under this calculation, the normal retirement age is 60 years with the completion of at least five (5) years of service. Normal retirement benefit is equivalent to 1-month final salary of employee as at the date of retirement multiplied by years of service.

As at December 31, 2021 and 2020, retirement liability shown in the statements of financial position consists of the present value of net defined benefit obligation.

The rollforward analysis of this account follows:

	2021	2020
At January 1	P11,673,464	P8,473,375
Interest expense	357,091	370,710
Current service cost	2,470,583	2,514,955
Actuarial gain (loss) on obligation arising from changes in:		
Demographic assumptions	743,831	(1,618,166)
Financial assumptions	(3,508,143)	1,585,227
Experience adjustments	415,662	347,363
At December 31	P12,152,488	P11,673,464

The principal actuarial assumptions used to determine retirement benefit cost for the Branch as at December 31, 2020 and 2019 are shown below:

	2021	2020
Discount rate	4.81%	3.059%
Salary increase rate	3.000%	3.000%
Mortality rate	2009 - 2014 PICM	2009 - 2014 PICM



Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2021:

<u>Plan Year</u>	<u>Benefits</u>
One to less than five years	₱2,024,067
Five to less than 10 years	6,234,053
10 to less than 15 years	1,473,571
15 years and above	9,079,783

The weighted average duration of the defined benefit obligation is 10 years as at December 31, 2021.

The defined benefit obligation exposes the Branch to actuarial risks, such as longevity risks and interest risks.

Funding Arrangements

The Branch does not have a formal retirement plan, thus benefit claims under the retirement obligation are paid directly by the Branch when they become due.

Asset-Liability Matching

The Branch does not have a formal retirement plan and therefore has no plan assets to match against the liabilities under the retirement obligation.

23. Related Party Transactions

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Outstanding balances as of reporting date are unsecured and settlements are made in cash. There have been no guarantees received for the related party receivables. For the years ended December 31, 2021 and 2020, the Branch has not made any provision for doubtful accounts relating to amounts owed by related parties. This assessment is undertaken each financial year through examination of the financial position of each related party and the market in which the related party operates.

2021

<u>Related Party</u>	<u>Amount of Transactions</u>	<u>Outstanding Balance</u>	<u>Terms</u>	<u>Conditions</u>
Insurance payables				
<i>Due to reinsurers (a)</i>				
Starr Insurance & Reinsurance Limited	(₱3,483,171)	₱232,875,368	due and demandable; non-interest-bearing	Unsecured
Starr Marine Agency	9,065,986	11,555,146	due and demandable; non-interest-bearing	Unsecured
Starr Underwriting Agents Ltd	(1,712,003)	—	due and demandable; non-interest-bearing	Unsecured
Starr Indemnity & Liability Company - New York	410,145	731,146	due and demandable; non-interest-bearing	Unsecured

(Forward)



Related Party	Amount of Transactions	Outstanding Balance	Terms	Conditions
<i>Funds held for reinsurers (b)</i>				
Starr Insurance & Reinsurance Limited	₱15,465,512	₱23,685,106	due and demandable; non-interest-bearing	Unsecured
Starr Managing Agents			due and demandable; non-interest-bearing	Unsecured

2020

Related Party	Amount of Transactions	Outstanding Balance	Terms	Conditions
<i>Insurance payables</i>				
<i>Due to reinsurers (a)</i>				
Starr Insurance & Reinsurance Limited	(₱2,249,582)	₱236,358,539	due and demandable; non-interest-bearing	Unsecured
Starr Managing Agents	36,247,147	289,920,679	due and demandable; non-interest-bearing	Unsecured
Starr Marine Agency	2,345,430	2,489,159	due and demandable; non-interest-bearing	Unsecured
	1,712,003	1,712,003		
Starr Indemnity & Liability Company - New York			due and demandable; non-interest-bearing	Unsecured
	(35,449)	321,001		
<i>Funds held for reinsurers (b)</i>				
Starr Insurance & Reinsurance Limited	(13,801,357)	8,219,594	due and demandable; non-interest-bearing	Unsecured

(a) Pertains to insurance payable for premiums ceded out by the Branch (see Note 14).

(b) Pertains to premiums withheld by the Branch (see Note 14).

Key management personnel of the Branch include all management committee officers. The remuneration of the key management personnel of the Branch amounted to ₱39,943,945 and ₱30,987,430 in 2021 and 2020, respectively.

24. Income Tax

Under Philippine tax laws, the Branch is subject to percentage and other taxes, as well as income taxes. Percentage and other taxes paid consist principally of withholding taxes and VAT.

Income taxes include corporate income tax and final taxes paid which represents final withholding tax on gross interest income from bank deposits. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for income tax' in the statements of comprehensive income.

R.A. 9337, An Act Amending National Internal Revenue Code, provides that RCIT rate shall be 30.00% and the interest expense allowed as a deductible expense shall be reduced by 33.00% of interest income subjected to final tax.

A MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years.



Provision for (benefit from) income tax consists of the following:

	2021	2020
Current	₱45,286,394	₱36,204,729
Final	1,405,385	9,701,408
Deferred	430,679	(19,831,851)
	₱47,122,458	₱26,074,286

Deferred tax assets are recognized only to the extent probable that the Branch's future taxable income will be available against which the deferred tax assets can be used. The Branch reassessed the unrecognized deferred tax assets on the deductible temporary differences and recognized deferred tax assets to the extent that it has become probable that future taxable income would allow the deferred tax assets to be recovered. The Branch has no unrecognized deferred tax assets as of December 31, 2021 and 2020.

Deferred tax assets and liabilities of the Branch follow:

	2021	2020
Deferred tax assets:		
Provision for IBNR	₱17,233,943	₱13,798,526
Pension expense	3,038,122	3,502,039
Accrued expenses	818,224	897,878
Straight-line adjustment on rent	151,188	351,785
Total deferred tax assets	21,241,477	18,550,228
Deferred tax liabilities:		
Unrealized foreign exchange gain	9,401,037	6,279,110
Total deferred tax liabilities	9,401,037	6,279,110
Net deferred tax assets	₱11,840,440	₱12,271,118

On March 26, 2021, the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act was signed into law to attract more investments and maintain fiscal prudence and stability in the Philippines. RA No. 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act:

- Effective July 1, 2020, RCIT rate is reduced from 30% to 25% for domestic corporations.
- MCIT rate reduced from 2% to 1% of gross income effectively July 1, 2020 to June 30, 2023.
- Imposition of improperly accumulated earnings tax (IAET) is repealed.

Accordingly, current and deferred taxes as of and for the year ended December 31, 2021 are computed and measured using the applicable income tax rates as prescribed by the CREATE Act (i.e., 25% for RCIT and 1% for MCIT) for financial reporting purposes.

In effect, the RCIT rate for 2021 and 2020 is 25.00% and 30.00%, respectively. Meanwhile, the MCIT rate for 2021 and 2020 is 1.00% and 2.00%, respectively. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the date of inception.



The reconciliation of the income tax expense computed based on the pre-tax income at the statutory income tax rate to the provision for income tax in the statements of comprehensive income follows:

	2021	2020
Income tax expense at statutory income tax rate	₱44,947,259	₱36,492,883
Tax effects of:		
Impact of CREATE	2,050,270	–
Nontaxable interest income	(3,341,321)	(7,941,945)
Interest income subjected to final tax	(1,293,506)	(4,422,025)
Nondeductible expenses	4,759,756	1,945,373
Provision for income tax	₱ 47,122,458	₱26,074,286

25. Management of Capital, Insurance and Financial Risks

Governance Framework

The Branch has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risk. It also supports the effective implementation of policies at the individual business unit levels.

The policies define the Branch's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategy to the corporate goals and specify reporting requirements.

Capital Management Framework

The Branch maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is higher than the minimum net worth requirements set by the IC.

To ensure compliance with these externally imposed capital requirements, it is the Branch's policy to monitor the regulatory requirements of the IC on a quarterly basis as part of the Branch's internal financial reporting process.

As of December 31, 2021 and 2020, the Branch fully complied with the externally imposed net worth requirement during the reported financial periods. These are the minimum net worth requirement and the RBC2 requirement.

Minimum Statutory Net worth

On August 5, 2013, the President of the Philippines approved Republic Act No. 10607 to be known as the "New Insurance Code" which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022.

On January 13, 2015, the IC issued Circular Letter No. 2015-02-A clarifying the minimum capitalization and net worth requirements of new and existing insurance companies in the Philippines. Net worth shall include the Branch's paid-up capital, retained earnings, unimpaired surplus, revaluation of assets and shall be reduced by the cost of treasury shares. For foreign branches, the trusted surplus consists of statutory deposit, home office inward remittances and home office account.



The minimum net worth requirement must remain unimpaired for the continuance of the license and shall increase to the amounts as follows:

Networth	Compliance Date
₱250,000,000	June 30, 2013
550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

The said circular supersedes the Department Order Nos. 27-06, *Capitalization Requirements for Life, Non-life and Reinsurance Companies* and 15-2012, *Minimum Paid-Up Capital Requirements* and CL Nos. 22-2008, *Unimpaired Capital Requirements* and 26-2008, *Implementation of Department Order No. 27-06*.

The Branch's estimated net worth amounted to ₱1,595,434,403 and ₱1,493,384,712 as of December 31, 2021 and 2020, respectively.

The Branch's estimated non-admitted assets as of December 31, 2021 and 2020 amounted to ₱123,414,465 and ₱26,241,995, respectively.

Risk-based capital requirements

Pursuant to CL no. 2017-15, effective January 1, 2017, non-life insurance companies are required to maintain the minimum RBC2 requirement as prescribed under CL No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework*. Under the RBC2 framework, the RBC2 ratio shall be calculated as total available capital divided by the RBC2 requirement. Failure to meet the minimum RBC ratio shall subject the insurance company to corresponding regulatory intervention which has been defined at various levels. The final RBC2 ratio can be determined only after the accounts of the Branch have been examined by the IC.

The following table shows the RBC2 ratio as of December 31, 2021 and December 31, 2020 as determined by the Branch based on the RBC2 framework:

	2021 (Estimate)	2020 (Actual)
Net worth	₱1,595,434,403	₱1,414,462,210
RBC2 requirement	330,022,632	359,914,048
RBC2 Ratio	483%	393%

The RBC2 ratio was determined by the Branch following the requirements of IC CL 2016-68.

The final amount of the RBC2 ratio can be determined only after the accounts of the Branch have been examined by the IC, particularly with respect as to determination of admitted and non-admitted assets.

Insurance Risk

The risk under insurance contract is the possibility of occurrence of insured event and uncertainty of the amount and timing of the resulting claim. The principal risk the Branch faces under such contracts is that the actual claims and benefit payments 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 risks 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 strategy and guidelines.

The business of the Branch mainly comprises of short-term nonlife insurance contracts, specifically accident and health and casualty insurance transactions which are incidental to nonlife insurance contracts.

Key Assumptions

The principal assumption underlying the estimates is the Head Office's past claims development experience. This includes assumptions in respect of average claim costs, claims handling costs, claims inflation factors and number of claims 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 variations in interest, delays in settlement and changes in foreign currency rates.

Sensitivities

The claims reported and IBNR claims is sensitive to the above key assumptions. 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 dates.

The analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities and income before income tax. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are nonlinear.

	2021		
	Change in Assumptions	Increase on Net Insurance Contract Liabilities	Impact on Income Before Income Tax
Average claim cost	6%	₱2,736,911	(₱2,736,911)
Average number of claims	5%	2,054,304	(2,054,304)

	2020		
	Change in Assumptions	Increase on Net Insurance Contract Liabilities	Impact on Income Before Income Tax
Average claim costs	14%	₱5,749,705	(₱5,749,705)
Average number of claims	7%	2,868,666	(2,868,666)

Average claim costs and number of claims used for valuation are selected with consideration for statutory requirements, as specified in the Code.

The method used for deriving sensitivity information and significant assumptions did not change from the previous period.



Claims development table

The following tables reflect the cumulative incurred claims, including both claims notified and claim IBNR, for each successive accident year at each statement of financial position date, together with cumulative payments to date.

Gross Insurance Contract Liabilities for 2021							
Accident year	2016	2017	2018	2019	2020	2021	Total
Estimate of ultimate claim costs							
at the end of accident year	₱72,877,338	₱289,097,067	₱285,343,942	₱826,910,230	₱377,153,444	₱ 299,519,461	₱299,519,461
One year later	96,440,642	249,717,164	381,223,578	875,729,422	524,824,221	-	524,824,221
Two years later	101,647,407	247,353,526	397,292,833	854,301,444	-	-	854,301,444
Three years later	100,184,522	262,039,369	464,780,645	-	-	-	464,780,645
Four years later	106,580,863	270,590,268	-	-	-	-	270,590,258
Five years later	101,924,386	-	-	-	-	-	101,924,386
Current estimate of cumulative claims	101,924,375	270,590,268	464,780,645	854,301,444	524,824,221	299,519,461	2,515,940,414
Cumulative payments to date	(89,673,896)	(229,011,824)	(335,343,497)	(615,496,544)	(185,696,007)	(106,662,590)	(1,561,884,358)
Liability recognized in the statements of financial position	₱12,250,479	₱41,578,444	₱129,437,148	₱238,804,900	₱339,128,214	₱192,856,871	₱954,056,056

Net Insurance Contract Liabilities for 2021							
Accident year	2016	2017	2018	2019	2020	2021	Total
Estimate of ultimate claim costs							
at the end of accident year	₱18,127,454	₱28,064,250	₱54,909,300	₱81,726,422	₱50,994,170	₱ 40,495,733	₱ 40,495,733
One year later	21,471,695	37,518,211	74,937,052	76,937,500	58,253,093	-	58,253,093
Two years later	22,457,066	42,778,191	67,916,548	97,731,784	-	-	97,731,784
Three years later	25,335,043	40,689,335	92,049,177	-	-	-	92,049,177
Four years later	23,599,953	43,450,276	-	-	-	-	43,450,276
Five years later	26,130,091	-	-	-	-	-	26,130,091
Current estimate of cumulative claims	26,130,091	43,450,276	92,049,177	97,731,784	58,253,093	40,495,733	358,110,154
Cumulative payments to date	(21,589,919)	(33,102,618)	(51,822,527)	(67,198,916)	(26,758,056)	(12,595,151)	(213,067,187)
Liability recognized in the statements of financial position	₱4,540,172	₱10,347,658	₱40,226,650	₱30,532,868	₱31,495,037	₱27,900,582	₱145,042,970

Financial Instruments

Due to short-term nature of cash, insurance receivables, accounts receivable, accrued income, reinsurance recoverable on unpaid losses, security and rental deposits, accounts payable, accrued expenses, the carrying values approximate fair values as of reporting date.

The fair value of AFS financial assets that are actively traded in organized financial markets is determined by reference to quoted market prices, at the close of business on the end of the reporting period.

Fair Value Hierarchy

The Branch considers its quoted AFS financial assets amounting to ₱736,508,331 and ₱760,171,868 as of December 31, 2021 and 2020, respectively, under Level 2 classification. The Branch invests in government securities and corporate bonds which are based on observable inputs, such as quoted prices for similar assets at the measurement date. Thus, these government securities and corporate bonds were classified as Level 2. There are no AFS financial assets which have been classified under the Level 3 category. During the reporting periods ended December 31, 2021 and 2020, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurement.

Financial Risk

The Branch is exposed to financial risk through its financial assets and financial liabilities and insurance liabilities. In particular, the key financial risk that the Branch is exposed to is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and



market risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Prior to extending credit, the Branch manages its credit risk by assessing the credit quality of its counterparty. The Branch reviews all information about the counterparty and nature of the obligation is likewise considered. Based on this analysis, the credit analyst assigns the counterparty a credit rating to determine whether or not credit may be provided.

Credit risk limit is also used to manage credit exposure which specifies credit limit for each intermediary depending on the size of its portfolio and its ability to meet its obligation based on past experience.

The Branch does not hold any collateral held as security and other credit enhancements on its financial assets as of December 31, 2021 and 2020. Therefore, the Branch's maximum exposure to credit risk is equal to the carrying amount of its financial assets as of December 31, 2021 and 2020.

The table below provides information regarding the credit risk exposure of the Branch by classifying assets according to the Branch's credit ratings of counterparties:

2021

	Investment Grade	Non-investment Grade	Total
Loans and receivables			
Cash and cash equivalents*	₱605,397,702	₱-	₱605,397,702
Insurance receivables		1,188,184,672	1,188,184,672
Accrued income	8,582,462	-	8,582,462
Reinsurance recoverable on unpaid losses	809,013,088		809,013,088
Deposits			
Rental deposit	-	2,711,161	2,711,161
Security deposit	-	5,727,672	5,727,672
AFS Financial Assets			
Corporate bonds	₱588,542,737	₱-	₱588,542,737
Government debt securities	147,965,594	-	147,965,594
HTM Investments			
Government debt securities	529,154,860	-	529,154,860
	₱2,688,656,443	₱1,196,623,505	₱3,885,279,948

*excluding cash on hand



2020

	Investment Grade	Non-investment Grade	Total
Loans and receivables			
Cash and cash equivalents*	₱499,861,135	₱-	₱499,861,135
Short-term investments	-	-	-
Insurance receivables		783,451,125	783,451,125
Accrued income	15,122,354	-	15,122,354
Reinsurance recoverable on unpaid losses			
	853,902,471	-	853,902,471
Deposits			
Rental deposit	-	2,711,161	2,711,161
Security deposit	-	4,909,489	4,909,489
AFS Financial Assets			
Corporate bonds	₱716,445,995	₱-	₱716,445,995
Government debt securities	43,725,873	-	43,725,873
HTM Investments			
Government debt securities	634,996,187	-	634,996,187
	₱2,764,054,015	₱791,071,775	₱3,555,125,790

*excluding cash on hand

The Branch uses a credit rating concept based on the borrowers' and counterparties' overall creditworthiness, as follows:

- Investment grade - Rating given to counterparties who possess strong to very strong capacity to meet their obligations
- Non-investment grade - Rating given to counterparties who possess above average capacity to meet their obligations.

The tables below show the analysis of age of financial assets that are past-due but are not impaired.

2021

	Neither past due nor impaired	Past due but not impaired		Past due and Impaired	Total
		1 to 90 days	More than 91 days		
Insurance receivables	₱1,175,654,881	₱12,529,791	₱-	₱-	₱1,188,184,672

2020

	Neither past due nor impaired	Past due but not impaired		Past due and Impaired	Total
		1 to 90 days	More than 91 days		
Insurance receivables	₱756,689,956	₱26,761,169	₱-	₱-	₱783,451,125

The standard credit term given by the Branch is 90 days. However, the Branch is also extending the credit terms for accounts with reciprocal business and accounts involving bigger amount of sum insured.



Liquidity risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments as they fall due. Liquidity risks may result from either the inability to sell financial assets quickly at their fair values; the counterparty failing to repay a contractual obligation; insurance liabilities falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The Branch may suffer from a liquidity problem when its credit rating falls. The Branch is also exposed to liquidity risk if markets on which it depends on are subject to loss of liquidity. The major liquidity risk confronting the Branch is the potential daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Branch manages liquidity through a liquidity risk policy identifying the following: specifies minimum proportion of funds to meet emergency calls; sets up policies on contingency funding plans; specifies the sources of funding and the events that would trigger the plan as well as concentration of funding sources; requires reporting of liquidity risk exposures and breaches to the monitoring authority; and calls for monitoring of compliance with liquidity risk policy and review of liquidity risk policy.

Maturity Profiles

The table below analyzes assets and liabilities of the Branch into their relevant maturity group based on the remaining period at the reporting date to their contractual maturities or expected repayment dates:

2021

	On demand	Up to a year	1-3 years	More than 3 years	Total
Financial assets					
Loans and receivables					
Cash and cash equivalents	₱328,202,621	₱295,445,793	₱-	₱-	₱623,648,414
Insurance receivables	1,151,640,674	36,543,998	-	-	1,188,184,672
Accrued income	-	8,582,462	-	-	8,582,462
AFS financial assets					
Corporate bonds	-	145,107,218	140,137,306	303,298,213	588,542,737
Government securities	-	-	-	147,965,594	147,965,594
HTM securities					
Government securities	-	39,300,450	536,189,343	-	575,489,793
Reinsurance recoverable on unpaid losses					
	-	809,013,087	-	-	809,013,087
Deposit					
Rental	2,711,161	-	-	-	2,711,161
Security	5,727,672	-	-	-	5,727,672
Total financial assets	₱1,488,282,128	₱1,333,993,008	₱676,326,649	₱451,263,807	₱3,374,375,799
Financial Liabilities					
Insurance contract liabilities	₱-	₱2,040,876,721	₱-	₱-	₱2,040,876,721
Insurance payables	-	896,706,335	-	-	896,706,335
Accounts payable and accrued expenses*	-	127,728,991	-	-	127,728,991
Total financial liabilities	₱-	₱3,065,312,048	₱-	₱-	₱3,065,312,048



2020

	On demand	Up to a year	1-3 years	More than 3 years	Total
Financial assets					
Loans and receivables					
Cash and cash equivalents	₱277,473,610	₱222,572,440	₱-	₱-	₱500,046,050
Short-term investments	-	-	-	-	-
Insurance receivables	726,282,547	57,168,578	-	-	783,451,125
Accrued income	-	15,122,354	-	-	15,122,354
AFS financial assets					
Corporate bonds	-	-	510,942,574	372,089,609	883,032,183
Government securities	-	58,578,841	-	-	58,578,841
HTM securities					
Government securities	-	400,428,617	45,537,722	313,720,455	759,686,794
Reinsurance recoverable on unpaid losses					
	-	853,902,471	-	-	853,902,471
Deposit					
Rental	2,711,161	-	-	-	2,711,161
Security	4,909,491	-	-	-	4,909,491
Total financial assets	₱1,011,376,80	₱1,607,773,301	₱556,480,296	₱685,810,064	₱3,861,440,470
Financial Liabilities					
Insurance contract liabilities	₱-	₱1,746,803,701	₱-	₱-	₱1,746,803,701
Insurance payables	-	784,364,925	-	-	784,364,925
Accounts payable and accrued expenses*	-	92,868,466	-	-	92,868,466
Total financial liabilities	₱-	₱2,624,037,092	₱-	₱-	₱2,624,037,092

*Excluding taxes payable

Market risk

Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Branch manages market risk by evenly distributing capital among investment instruments, sectors and geographical areas.

Currency risk

Currency risk is the risk that the value of the financial instrument will fluctuate because of changes in foreign exchange rates. The Branch's principal transactions are carried out in Philippine Peso and its exposure to foreign exchange risk arises primarily with respect to the deposits and investments denominated in US Dollar (US\$).

The following table shows the Branch's exposure to currency risk as of December 31, 2021 and 2020:

	2021 ¹		2020 ¹	
	US\$	PHP	US\$	PHP
Assets				
Cash	6,054,742	307,423,461	6,544,202	314,357,282
AFS financial assets	13,831,486	702,279,867	15,825,045	760,171,869
HTM investments	1,350,598	68,575,248	3,598,910	172,877,245
Insurance receivables	14,476,021	735,005,480	9,706,080	466,241,258
Reinsurance recoverable on unpaid losses	8,096,622	411,097,886	11,768,844	565,328,177
	43,809,469	2,224,381,942	47,443,081	2,278,975,831

Forward



	2021 ¹		2020 ¹	
	US\$	PHP	US\$	PHP
Liabilities				
Insurance contract liabilities	8,260,085	419,397,581	14,177,666	681,038,364
Insurance payables	10,700,727	543,318,703	10,954,100	526,191,141
Accounts payable and accrued expenses	1,886,051	95,762,378	1,600,444	76,878,940
	20,846,863	1,058,478,662	26,732,210	1,284,108,445
Net exposure	22,962,606	1,165,903,280	20,710,871	994,867,386

¹ The exchange rate used was ₱50.774 and ₱48.036 to US\$1 for years 2021 and 2020, respectively. Third currencies are converted to USD.

The analysis below is performed for reasonably possible movements in US\$ exchange rate as of December 31, 2021 with all other variables held constant, showing the impact on income before income tax. There is no other impact on the Branch's equity other than those already affecting the profit and loss.

2021

Currency	Change in exchange rate	Impact on income before tax Increase(decrease)
US\$	+1.38%	₱16,031,657
	-1.38%	(16,031,657)

2020

Currency	Change in exchange rate	Impact on income before tax Increase (decrease)
US\$	+1.29%	₱12,833,789
	-1.29%	(12,833,789)

Reasonably possible movements in foreign exchange rates are computed based on average percentage changes in closing rate for twelve (12) months.

Interest rate risk

Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The following table sets out the Branch's financial instruments exposed to interest rate risk by maturity as of December 31, 2021 and 2020:

2021

	Range of interest rate	1-3 years	3-5 years	Total
AFS financial assets				
Corporate bonds	2.700% to 4.016%	₱285,244,524	₱303,298,213	₱588,542,737
Government securities				
Local currency	4.000% to 4.000%	–	147,965,594	147,965,594
Foreign currency				
HTM investments				
Government securities				
Local currency	3.500% to 6.250%	460,579,612	–	460,579,612
Foreign currency	4.000% to 4.200%	68,575,248	–	68,575,248
		₱814,399,384	₱451,263,807	₱1,265,663,191



2020

	Range of interest rate	1-3 years	3-5 years	Total
AFS financial assets				
Corporate bonds	2.700% to 4.016%	₱412,319,072	₱304,126,923	₱716,445,995
Government securities				
Local currency	4.000% to 4.000%	43,725,873	–	43,725,873
Foreign currency				
HTM investments				
Government securities				
Local currency	3.500% to 6.250%	265,226,448	199,936,363	465,162,811
Foreign currency	4.000% to 4.200%	103,660,116	66,173,260	169,833,376
		₱824,931,509	₱570,236,546	₱1,395,168,055

The analysis below is performed for reasonably possible movements in fair value interest rate as of December 31, 2021 and 2020 with all other variables held constant, showing the impact on OCI. There is no impact on the Branch's income before income tax.

2021

Currency	Change in interest rates	Impact on OCI Increase(decrease)
US\$	+100 basis points	(73,650,833)
	-100 basis points	73,650,833

2020

Currency	Change in interest rates	Impact on OCI Increase (decrease)
US\$	+100 basis points	(162,691,147)
	-100 basis points	284,745,924

In 2021 and 2020, the Branch determined the reasonably possible change in interest rates using the percentage changes in weighted average yield rates of outstanding securities for the past years.

26. Current and Non-current Classification

The tables below present the Manila Branch's assets and liabilities as of December 31, 2021 and 2020 analyzed according to when they are expected to be recovered or settled (amounts in thousands):

	2021			2020		
	Current	Non-current	Total	Current	Non-current	Total
Financial Assets						
Cash	₱605,484	–	₱605,484	₱499,947	₱–	₱499,947
Short-term investment	–	–	0	–	–	0
Loans and receivables	11	–	11	30	–	30
Insurance receivables	1,188,185	–	1,188,185	778,333	5,118	783,451
AFS financial assets	–	736,508	736,508	760,172	–	760,172
HTM investments	37,686	491,469	529,155	329,113	305,883	634,996
Accrued income	8,582	–	8,582	15,122	–	15,122
Reinsurance recoverable on unpaid losses	809,013	–	809,013	853,902	–	853,902
Other assets – deposits	8,439	–	8,439	7,621	–	7,621
	2,657,400	1,227,977	3,885,378	₱3,244,240	₱311,001	₱3,555,241

Forward – – 0



	2021			2020		
	Current	Non-current	Total	Current	Non-current	Total
Nonfinancial Assets						
Deferred acquisition costs	₱115,161	₱-	₱115,161	₱85,628	₱-	₱85,628
Deferred reinsurance premium	994,887	-	994,887	699,744	-	699,744
Property and equipment – net	-	2,549	2,549	-	218	218
Intangible asset	-	3,249	3,249	-	2,297	2,297
Right of use- net	3,278	-	3,278	-	10,245	10,245
Deferred tax assets – net	-	11,840	11,840	-	12,271	12,271
Other assets	6,350	-	6,350	7,977	-	7,977
	1,119,676	17,638	1,137,314	793,349	25,031	818,380
	₱3,777,076	₱1,245,616	₱5,022,692	₱4,037,589	₱336,032	₱4,373,621
Financial Liabilities						
Insurance contract liabilities	₱2,040,877	₱-	₱2,040,877	₱1,746,804	₱-	₱1,746,804
Insurance payables	896,706	-	896,706	784,365	-	784,365
Accounts payable and accrued expenses	127,729	-	127,729	92,868	-	92,868
	3,065,312	-	3,065,312	2,624,037	-	2,624,037
Nonfinancial Liabilities						
Lease liabilities	-	-	-	7,621	-	7,621
Deferred reinsurance commissions	245,899	-	245,899	159,783	-	159,783
Accounts payable and accrued expenses – taxes payable	65,510	-	65,510	39,486	-	39,486
Pension benefit obligation	-	12,152	12,152	-	11,673	11,673
Deferred tax liabilities – net	-	-	-	-	-	-
	311,410	12,152	323,562	206,890	11,673	218,563
	₱3,376,722	₱12,152	₱3,388,874	₱2,830,927	₱11,673	₱2,842,600

27. Supplementary Tax Information Required Under Revenue Regulations 15-2010 and 34-2020

In compliance with the requirements set forth by RR 15-2010 hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

The Branch reported and/or paid the following types of taxes for the year 2021:

Value added tax (VAT)

The Branch's sales are subject to output VAT while its importations and purchases from other VAT-registered individuals or corporation are subject to input VAT. The VAT rate is 12%.

a. Net Sales/Receipts and Output VAT declared in the Branch's VAT returns

	Net Sales/ Receipts	Output VAT
Taxable Sales:		
Sale of services	₱497,033,734	₱59,644,048
Zero- rated Sales	9,918,992	-
Exempt Sales	1,068,779,019	-
	₱1,575,731,745	₱59,644,048



b. Input VAT

Balance at January 1		₱-
Current year's domestic purchases/payments for:		
On purchase of capital goods less than P1M	112,500	
On purchase of capital goods P1M and above	339,363	
On domestic purchase of non-capital goods	135,506	
Services lodged under other accounts	14,859,095	
Services rendered by non-residents	1,442,345	
		16,888,809
Differed Input VAT on Capital goods		(320,244)
Input VAT allocable to exempt sales		(9,366,165)
Input VAT applied to output VAT		(7,202,400)
Balance at December 31		₱-

The Branch's input tax allocable to exempt sales using the ratable portion base on sales amounted to ₱9,366,165. The deferred input vat on computer software being developed amounted to ₱374,674. No tax credit or refund and other adjustments were made during the year.

Information on the Branch's Importations

No branch importation was made during the year.

Premium Taxes

The Branch has accident and health insurance transactions which were subjected to premium tax. The total amount of premium tax paid for the year 2021 is ₱5,291,135.

Documentary Stamp Tax (DST)

The Branch's documentary stamp tax paid during the year amounted to ₱29,393,809 which pertain to the DST on various insurance policies.

Local Business Taxes

This pertains to all taxes imposed by the local government for all the direct business policies issued and paid upon renewal of business amounted to ₱909,379.

Other Taxes and Licenses

This includes all local taxes including licenses and permit fees amounting to ₱924,775 under the "Taxes and Licenses" account and under "General and administrative expenses" in the statement of comprehensive income.

Details consist of the following:

National

Insurance Commission and taxes	₱728,995
CA with Starr Int'l Insurance Singapore	90,900
Business Permit Fee	43,899
BIR- DST Charges- Cancellations and Adjustments	41,087
Notarial Fees	15,800
Accreditation fee- Land Bank of the Philippines	2,000
BIR- Loose Stamps and Affixing	1,094
BIR – registration and other taxes	1,000
	₱924,775



Withholding Taxes

Details of withholding taxes for the year 2021 are as follows:

Withholding taxes on compensation and benefits	₱13,900,337
Expanded withholding taxes	387,692
Withholding taxes Final	14,947,632
	<hr/>
	₱29,235,661

Outstanding withholding taxes as of December 31, 2021 are as follows:

Withholding taxes on compensation and benefits	₱1,540,570
Expanded withholding taxes	1,461,829
Withholding taxes Final	—
	<hr/>
	₱3,002,399

Tax Assessments and Cases

The Branch has pending VAT Audit with protest on deficiency tax assessment and no tax case, litigation, and/or prosecution in courts and bodies outside the BIR as of December 31, 2021.

Revenue Regulations 34-2020

The Branch is not covered by the requirements and procedures for related party transactions under Section 2 of Revenue Regulations No. 34-2020.

