

**PHILIPPINE BRITISH ASSURANCE COMPANY, INC.
ENTERPRISE RISK MANAGEMENT**

The following Board Members constitute the Risk Management Committee:

- Chairman of the Board
President and CEO - **Rosario W. Cuyegkeng**
 - Director
Executive Vice President and
Chief Operating Officer - **Ian Philippe W. Cuyegkeng**
 - Independent Director - **Jose Z. Clemente**
 - Independent Director - **Dianne Lynne Baysac Natividad**
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1. Introduction

- A.** The Company maintains a robust culture of enterprise risk management. If we can assess our risk parameters accurately, then this will give us a real competitive advantage and ensure we maximize the return on our capital.

This includes our employees identifying risk gaps in their own area of operation and creating action plans to eliminate or mitigate those risks. In order to do so, employees must be open and honest in assessing and reporting risk gaps and breaches of authority.

B. Purpose

We aim to generate wealth and maximize returns for our shareholders by pursuing opportunities that involve risks.

We aim to use our ability to properly manage risk to provide more certainty and improved outcomes for all stakeholders.

We aim to achieve an optimal return overall with strong support and enhanced decision-making by our people.

C. Risk Management Strategy

Our Key Focus in 2022 is embedding a risk assessment mindset in business planning and management processes, assists in keeping focus on the key objectives and identifying metrics required to monitor portfolio performance and improvement initiatives.

Our strategy describes the way we will achieve our vision and how we will create our corporate values.

Our Mission:

To be the Filipino's insurer of choice by providing high-quality service through formulating the most suitable insurance solutions and delivering claims services efficiently and fairly. We pledge to make our products accessible to both Filipino individuals and enterprises. We aspire to have a leading role in protecting the Filipino family and to be the country's most trustworthy insurer.

Our Vision:

To be the most trusted non-life insurance partner in the Philippines.

Corporate Values:

- Customer Focus
- Integrity
- Responsibility
- Collaboration
- Learning
- Excellence

Today, our brand means more than service excellence. It has become our way of life – a standard quality for everything we do and for all that we say.

The following provides types of risk PBAC faces, drivers of these risks and mitigation:

RISK TYPE:

- **INSURANCE RISK** – The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to the expectations at the time of underwriting. This includes underwriting, catastrophe claims concentration and claims estimation risks.

KEY DRIVERS:

- Natural or man-made catastrophic events.
- Pricing of individual insurance contracts.
- Insurance claims

MITIGATION:

- Maintaining historical pricing and claims analysis.
- Monitoring and performance review.

- Reinsurance
- Ensuring consistency of provisioning practices
- Internal and external actuarial review of claims provisions independent of underwriting teams.

RISK TYPE:

- **Financial Risk** – exposed to financial risk through its financial assets, financial liabilities, reinsurance assets, and insurance liabilities.

- **KEY DRIVERS:**

- The proceeds from its financial assets are not sufficient to fund the obligations arising from the insurance contract.

- **MITIGATION**

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

TYPE OF RISK

- **CREDIT RISK** – the risk of not recovering amounts owed to PBAC.

- **KEY DRIVERS:**

- Reduction or delay in repayments or interest payments from the default of a counterparty such as bond issue, policyholder or reinsurer.

- **MITIGATION**

The Company uses the following risk mitigation policies to reduce credit risks:

- Setting net exposure limits for each counterparty in relation to deposits and investments. Cash in banks and short-term investments are deposited and placed with reputable commercial and universal banks in the Philippines.
- Financial assets that are HTM are debt securities issued and guaranteed by the Philippine government which are considered risk-free. Prior approval from IC is sought before the Company can invest in these securities.
- The Company's equity investments classified as AFS are mostly stocks belonging to Philippine Stock Exchange Index (PSEI) with regular trading transactions in the Philippine Stock Exchange.
- Insurance balances of brokers and agents have a maximum age of 90 days. Commissions are released only upon full remittance of premium. Reinsurance arrangements are placed only with reputable reinsurers at industry-acceptable terms.

TYPE OF RISK

- **Liquidity Risk** – The risk of insufficient liquid assets being available to meet liabilities as they fall due. Difficulty in raising funds to meet commitments associated with financial instruments.
- **Key Drivers**
 - Cash inflows from premiums, investment income, capital injections, dividends and loan
 - Cash outflows for claims and redemptions, debt service requirements, tax payments and expenses
- **Mitigation**
 - Stress testing of liquidity needs relative to catastrophe events.
 - Holding a minimum percentage of consolidated investments and cash in liquid, short-term money market securities.
 - Negotiating cash call clauses in reinsurance contracts and seeking accelerated settlements for large reinsurance recoveries.
 - Maintaining sufficient liquidity in investment portfolios to address claims needs.
- **Risk Type**
 - **Market Risk** – The risk of the variability of the value of and returns on investments and the variability of interest rates, foreign exchange rates and economy-wide inflation on both assets and liabilities, excluding insurance liabilities.
- **Key Drivers:**
 - Change in market value and/or volatility of a portfolio.
 - Changes in interest rates or shape of the yield curve.
 - Changes in spot/forward currency rates, price movement of a given probability over a specified time horizon.
- **Mitigation**
 - Active asset management, evenly distributing capital among investment instruments, sectors and geographical areas.
 - Tactical asset allocation.
 - Diversification benchmarks of investment portfolio to different investment types duly approved by the Insurance Commission.
 - Compliance reporting of market risk exposures to the Insurance Commission, monitoring and review of investment portfolio and structure.

- **Risk Type**
- **Operational Risk** – The risk of financial loss resulting from inadequate or failed internal processes, people and system or from external events.
- **Key Drivers:**
 - System errors or failure in information that impacts delivery of services.
 - Failure of key processes and controls resulting to losses.
- **Mitigation**
 - Active monitoring of key processes and vigorous control framework and responding to potential risks.
 - Business continuity and disaster recovery planning and testing.
 - Scenario reviews to identify and quantify potential exposures for mitigation.
 - Use of external loss database and shared learning from internal incidents and near misses.
 - Effective segregation of duties, access controls, authorization and reconciliation procedures.