Manulife China Bank Life Assurance Corporation

Financial Statements
December 31, 2018 and 2017

and

Independent Auditor's Report

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Manulife China Bank Life Assurance Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Manulife China Bank Life Assurance Corporation (the Company), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, 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 Company 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 Company'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 Company'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 Company 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 15-2010

The supplementary information required under Revenue Regulations 15-2010 for purposes of filing with the Bureau of Internal Revenue is presented by the management of Manulife China Bank Life Assurance Corporation in a separate schedule. Revenue Regulations 15-2010 require the information to be presented in the notes to financial statements. Such information is not a required part of the basic financial statements. The information is also not required by Securities Regulation Code Rule 68. Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

SYCIP GORRES VELAYO & CO.

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November 13, 2018, valid until November 12, 2021
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February 26, 2018, valid until February 25, 2021
PTR No. 7332515, January 3, 2019, Makati City

April 1, 2019

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Cash and Cash Equivalents (Note 4)	**₱1,850,094,830**	₱1,282,822,265
Insurance Receivables (Note 21)	**9,830,976**	18,457,147
Reinsurance Assets (Notes 11 and 14)	**4,273,945,905**	4,273,222,760
Financial Assets (Note 5)		
Financial assets at fair value through profit or loss	**30,359,933,820**	29,617,814,478
Available-for-sale financial assets	**1,241,430,218**	1,585,538,896
Loans and receivables	**251,238,180**	381,128,780
Accrued Income (Note 7)	**104,406,377**	137,250,402
Property and Equipment (Note 8)	**19,931,717**	21,653,324
Other Assets (Note 9)	**38,344,910**	29,578,348
	₱38,149,156,933	₱37,347,466,400
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Note 10)	**₱35,362,069,804**	₱34,647,557,447
Insurance payables (Note 11)	**1,087,437,506**	862,705,143
Policyholders' dividends (Note 21)	**192,110,863**	152,273,529
Accounts payable and accrued expenses (Note 12)	**363,024,820**	622,413,796
Due to related parties (Note 14)	**357,573,980**	351,304,229
Pension liability (Note 19)	–	3,999,758
Income tax payable	**3,828,422**	3,466,226
Total Liabilities	**37,366,045,395**	36,643,720,128
Equity		
Capital stock (Notes 13 and 23)	**500,000,000**	500,000,000
Additional paid-in capital (Note 13)	**525,000,000**	525,000,000
Remeasurement gain (loss) on legal policy reserves (Note 10)	**57,620,349**	(14,290,907)
Remeasurement loss on pension plan (Note 19)	**(3,992,013)**	(11,453,937)
Reserve for fluctuation in value of available-for-sale financial assets (Note 5)	**(441,666,692)**	(237,345,378)
Appropriated surplus - Negative reserves	**53,038,081**	50,985,290
Retained earnings (Deficit)	**93,111,813**	(109,148,796)
Total Equity	**783,111,538**	703,746,272
	₱38,149,156,933	₱37,347,466,400

See accompanying Notes to Financial Statements.

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31	
	2018	2017
REVENUES		
Gross premiums earned on insurance contracts	**₱8,812,694,328**	₱8,411,039,102
Reinsurers' share of gross premiums earned on insurance contracts	**(252,293,360)**	(199,909,191)
Net insurance premiums earned (Note 15)	**8,560,400,968**	8,211,129,911
Investment income (Note 16)	**91,283,405**	96,859,851
Fair value gain (loss) on financial assets at FVPL (Note 5)	**(4,895,854)**	5,768,658
Gain (loss) on sale of available-for-sale financial assets (Note 5)	**(36,812,757)**	3,224,986
Foreign currency exchange gain (loss) - net	**(6,429,205)**	572,351
Other income (Note 16)	**1,179,440,727**	661,702,568
Total revenues	**9,782,987,284**	8,979,258,325
BENEFITS AND OPERATING EXPENSES		
Gross benefits and claims incurred on insurance contracts (Note 17)	**147,955,862**	106,415,770
Reinsurers' share of benefits and claims incurred on insurance contracts (Note 17)	**(52,820,789)**	(39,612,430)
Gross change in legal policy reserves (Note 17)	**8,242,880,777**	7,860,254,164
Reinsurer's share of gross change in legal policy reserves (Note 17)	**(57,770,101)**	(119,770,085)
Dividends to policyholders	**49,269,969**	46,181,774
Net insurance benefits and claims	**8,329,515,718**	7,853,469,193
General and administrative expenses (Note 18)	**779,511,650**	660,363,630
Commission expenses (Note 14)	**414,476,289**	406,632,510
Insurance taxes	**17,702,113**	17,264,156
Total benefits and operating expenses	**9,541,205,770**	8,937,729,489
INCOME BEFORE INCOME TAX	**241,781,514**	41,528,836
PROVISION FOR INCOME TAX (Note 20)	**37,468,114**	31,441,907
NET INCOME	**₱204,313,400**	₱10,086,929

See accompanying Notes to Financial Statements.

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
NET INCOME	**₱204,313,400**	₱10,086,929
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will be reclassified to profit or loss in subsequent periods:		
Net change in fair value of available-for-sale financial assets (Note 5)	**(204,321,314)**	(169,807,789)
Remeasurement gain on legal policy reserves (Note 10)	**71,911,256**	16,754,200
Item that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement gain (loss) on pension plan (Note 19)	**7,461,924**	(11,453,937)
	(124,948,134)	(164,507,526)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱79,365,266**	(₱154,420,597)

See accompanying Notes to Financial Statements.

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Notes 13 and 23)	Contributed Surplus (Note 13)	Remeasurement Gain (Loss) on Legal Policy Reserves (Note 2)	Remeasurement Gain (Loss) on Pension Plan (Note 19)	Reserve for Fluctuation in Value of Available-for-sale Financial Assets (Note 5)	Appropriated Surplus - Negative Reserves (Note 2)	Retained Earnings (Deficit)	Total
Balances at January 1, 2018	**₱500,000,000**	**₱525,000,000**	**(₱14,290,907)**	**(₱11,453,937)**	**(₱237,345,378)**	**₱50,985,290**	**(₱109,148,796)**	**₱703,746,272**
Net income	**–**	**–**	**–**	**–**	**–**	**–**	**204,313,400**	**204,313,400**
Other comprehensive income (loss)	**–**	**–**	**71,911,256**	**7,461,924**	**(204,321,314)**	**–**	**–**	**(124,948,134)**
Total comprehensive income (loss)	**–**	**–**	**71,911,256**	**7,461,924**	**(204,321,314)**	**–**	**204,313,400**	**79,365,266**
Appropriation of negative policy reserves	**–**	**–**	**–**	**–**	**–**	**2,052,791**	**(2,052,791)**	**–**
Balances at December 31, 2018	**₱500,000,000**	**₱525,000,000**	**₱57,620,349**	**(₱3,992,013)**	**(₱441,666,692)**	**₱53,038,081**	**₱93,111,813**	**₱783,111,538**
Balances at January 1, 2017	500,000,000	525,000,000	(31,045,107)	–	(67,537,589)	59,486,746	(127,737,181)	858,166,869
Net income	–	–	–	–	–	–	10,086,929	10,086,929
Other comprehensive income (loss)	–	–	16,754,200	(11,453,937)	(169,807,789)	–	–	(164,507,526)
Total comprehensive loss	–	–	16,754,200	(11,453,937)	(169,807,789)	–	10,086,929	(154,420,597)
Reversal of appropriation of negative policy reserves	–	–	–	–	–	(8,501,456)	8,501,456	–
Balances at December 31, 2017	₱500,000,000	₱525,000,000	(₱14,290,907)	(₱11,453,937)	(₱237,345,378)	₱50,985,290	(₱109,148,796)	₱703,746,272

See accompanying Notes to Financial Statements.

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱241,781,514**	₱41,528,836
Adjustments for:		
Change in insurance contract liabilities (Note 17)	**151,447,921**	141,035,128
Loss (gain) on sale of available-for-sale financial assets (Note 5)	**36,812,757**	(3,224,986)
Change in IBNR provision (Note 10)	**14,514,461**	4,628,041
Depreciation and amortization (Notes 8 and 18)	**9,637,495**	10,587,273
Retirement costs (Note 19)	**6,305,150**	7,312,537
Fair value (gain) loss on financial assets at fair value through profit or loss (Note 5)	**4,895,854**	(5,768,658)
Unrealized foreign currency exchange loss (gain) - net	**4,880,232**	(572,351)
Interest income (Note 16)	**(91,283,405)**	(96,859,851)
Operating income before changes in working capital	**378,991,979**	98,665,969
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets at fair value through profit or loss (Note 5)	**(747,015,196)**	(7,893,279,813)
Insurance receivables	**8,626,171**	490,961
Reinsurance assets	**(723,145)**	(190,996,217)
Loans and receivables	**129,890,600**	(128,661,189)
Other assets	**(6,102,535)**	(9,367,623)
Increase (decrease) in:		
Insurance contract liabilities (Note 10)	**608,420,155**	6,884,697,614
Policy and contract claims and other insurance contract liabilities (Note 10)	**12,041,076**	31,918,984
Insurance payables	**224,732,363**	(185,674,152)
Policyholders' dividends	**39,837,334**	33,958,809
Accounts payable and accrued expenses	**(259,388,976)**	146,078,159
Due to related parties	**6,272,304**	101,806,845
Net cash generated by (used in) operations	**395,582,130**	(1,110,361,653)
Contribution to retirement fund (Note 19)	**(5,509,564)**	(4,955,499)
Income taxes paid	**(37,105,918)**	(28,533,639)
Net cash generated by (used in) operating activities	**352,966,648**	(1,143,850,791)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**131,852,775**	94,346,473
Proceeds from sale/maturities of:		
Available-for-sale financial assets (Note 5)	**142,083,604**	69,729,309
Property and equipment (Note 8)	**613,334**	–
Acquisitions of:		
Available-for-sale financial assets (Note 5)	**(46,834,342)**	(81,715,390)
Property and equipment (Note 8)	**(8,529,222)**	(9,791,549)
Net cash generated by investing activities	**219,186,149**	72,568,843

(Forward)

	Years Ended December 31	
	2018	2017
EFFECT OF FOREIGN CURRENCY RATE CHANGES IN CASH AND CASH EQUIVALENTS	**(₱4,880,232)**	₱572,351
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**567,272,565**	(1,070,709,597)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,282,822,265**	2,353,531,862
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱1,850,094,830**	₱1,282,822,265

See accompanying Notes to Financial Statements.

1. **Corporate Information**

Manulife China Bank Life Assurance Corporation (formerly The Pramerica Life Insurance Company, Inc.) (the Company) was incorporated and registered with the Securities and Exchange Commission (SEC) on February 20, 1998 and December 8, 1988, respectively. The Company received its Certificate of Authority from the Insurance Commission of the Philippines (IC) in the same year.

On May 12, 2006, The Manufacturers Life Insurance Company of Canada (Manulife Canada), a corporation established and existing under the laws of Canada, acquired the entire shareholdings of the Company, a then wholly-owned subsidiary of Prudential International Insurance Holdings, Ltd. (PII), a company based in New Jersey, USA. PII is in turn a wholly-owned subsidiary of Prudential Financial, Inc. (PFI), a company based in Newark, New Jersey, USA. As a result of this transaction, the Company became a wholly-owned subsidiary of Manulife Canada and its ultimate parent became Manulife Financial Corporation (MFC).

On January 5, 2007, a Bancassurance Alliance Agreement (the Agreement) was made and entered by and between Manulife Canada and China Banking Corporation (the Bank), a corporation duly organized under Philippine laws and registered with the SEC. The parties agreed to enter into a 15-year exclusive bancassurance alliance to distribute life insurance products to the Bank's customers, and the Bank has undertaken not to distribute, market or endorse the products of any other life insurance company during the term of the 15-year exclusive bancassurance alliance.

On March 5, 2007, in a special meeting of the Company's Board of Directors (BOD), majority of the members of BOD approved the change in name of the Company from The Pramerica Life Insurance Company, Inc. to Manulife China Bank Life Assurance Corporation. The SEC approved the Company's application for the change in name on March 23, 2007.

On August 8, 2007, the Bank acquired 5% of the Company's capital stock, equivalent to 125,000 common shares.

On December 3, 2008, The Manufacturers Life Insurance Co. (Phils.), Inc. (Manulife Philippines or the Parent Company), a subsidiary of MFC, purchased the 95% of the Company's capital stock from Manulife Canada.

On September 12, 2014, based on the Share Purchase Agreement and the Deed of Absolute Sale of Shares of Stock and Transfer of Contributed Surplus entered into between Manulife Philippines and the Bank, Manulife Philippines sold 1,750,000 Common Shares representing thirty five percent (35%) of the total issued shares in the capital stock of the company and contributed surplus to the Bank. The Bank after the sale now has forty (40%) stake in the Company. The Bank and Manulife Philippines have contemporaneously entered into the Bancassurance Agreement and the Addendum to Administrative Services Agreement.

The Bancassurance Agreement is an amendment of the Bancassurance Alliance Agreement in 2007, which set out the initial terms of cooperation between the Bank and the Company in connection with their promotion and sale of life insurance products for an initial term of 15 years. The term of the new agreement shall be for ten (10) years commencing from July 1, 2014 during which time Manulife Philippines shall, in exchange for an increased equity stake in the Company and other valuable consideration given to the Bank by the Company, have exclusive access to the Distribution Network and Bank Customers for the duration of the new term.

Manulife Philippines administers the Company's operations as provided by the Administrative Services Agreement. The Addendum to Administrative Services Agreement prescribes the amendment of the basis of the services fees charged by Manulife Philippines to the Company.

On July 5, 2018, the Board of Directors (BOD) approved the change in principal place of business of the Company to 10th Floor, NEX Tower, 6786 Ayala Avenue, Makati City. The Company officially moved to this address on February 26, 2019. Prior to such date, the registered office address of the Company was 24th Floor, LKG Tower, 6801 Ayala Avenue, Makati City.

The accompanying financial statements were approved and authorized for issue by the BOD on April 1, 2019.

2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value.

The financial statements are presented in Philippine Peso (₱), which is also the Company's functional currency.

Statement of Compliance
The financial statements which are prepared for submission to the SEC and the Bureau of Internal Revenue (BIR) have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

Amendments

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contract standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

During 2018, the Company performed an assessment of the amendments and reached the conclusion that as of December 31, 2015 up to December 31, 2017, its activities are predominantly connected with insurance. The Company opted to apply the temporary exemption from PFRS 9 and therefore continues to apply PAS 39, *Financial Instruments: Recognition and Measurement*, to its financial assets and liabilities until the Company applies the new standard on insurance contracts.

<u>*Philippine Interpretation*</u>

- IFRIC 22, *Foreign Currency Transaction and Advance Consideration*

<u>*New Standards*</u>

- PFRS 9, *Financial Instruments*

  The Company applies the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4 *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*. The temporary exemption permits the Company to continue applying PAS 39 rather than PFRS 9 for annual periods beginning before January 1, 2022.

  The assessment on 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.

  The predominance assessment is performed using the carrying amounts of liabilities reported on the statement of financial position at the annual reporting date after March 31, 2015 and before April 1, 2016. Applying the requirements, the Company performed the predominance assessment using the statement of financial position as of December 31, 2015. The Company concluded that it qualified for the temporary exemption from PFRS 9 because its activities are predominantly connected with insurance. As of December 31, 2015, the Company's gross liabilities arising from contracts within the scope of PFRS 4 represent 99% of the total carrying amount of all liabilities. Since December 31, 2015, there has been no change in the activities of the Company that requires reassessment of the use of the temporary exemption.

  Fair value disclosures
  The table below presents an analysis of the fair value of classes of financial assets of the Company as of December 31, 2018, as well as the corresponding change in fair value for the year then ended. The financial assets are divided into two categories:

  - Assets for which their contractual cash flows represent solely payments of principal and interest (SPPI), excluding any financial assets that are held for trading or that are managed and whose performance is evaluated on a fair value basis; and

- All other financial assets (i.e. those for which contractual cash flows do not represent SPPI, assets that are held for trading and assets that are managed and whose performance is evaluated on a fair value basis).

	SPPI financial assets		Other financial assets	
	Fair value	Fair value change	Fair value	Fair value change
AFS financial assets				
Debt securities:				
Government bonds	₱1,214,891,503	(₱200,260,961)	₱–	₱–
Corporate bonds	26,538,715	(4,060,353)	–	–
Financial assets designated at FVPL*				
Debt securities held in insurance investment funds (IIFs)				
Government bonds	–	–	8,447,799,719	(302,271,979)
Corporate bonds	–	–	325,565,006	(14,666,862)
Unit trust investment funds (UITFs)	–	–	2,110,429,052	(103,818,297)
Equity securities held in IIFs				
Common stock	–	–	14,197,125,717	(1,530,333,919)
Other equity securities	–	–	5,279,014,326	(249,768,203)
Loans and receivables				
Inter-fund receivables	109,213,308			
Policy loans	108,088,008	–	–	–
Accounts receivable held in IIFs	23,243,382	–	–	–
Due from related parties	1,306,386	–	–	–
Security fund contribution	141,244	–	–	–
Other receivables	9,245,852	–	–	–
	₱1,492,668,398	(₱204,321,314)	₱30,359,933,820	(₱2,200,859,260)

* *The fair value changes on financial assets designated at FVPL that are attributable to the unit-linked holders are recognized as part of "Due to unit-linked holders" (see Note 10). The fair value changes attributable to the seed capital is recognized in the statement of income as "Fair value gain (loss) on financial assets at FVPL".*

Credit risk disclosures

The following table shows the carrying amounts of the SPPI assets in accordance with PAS 39 categories by credit risk rating grades reported to key management personnel. The carrying amounts are measured in accordance with PAS 39. For assets measured at amortized cost, the carrying amount shown is before any allowance for impairment loss.

		Credit Rating		
	Total	**BBB**	**BB/B**	**Unrated**
AFS financial assets				
Debt securities:				
Government bonds	₱1,214,891,503	₱1,214,891,503	₱–	₱–
Corporate bonds	26,538,715	26,538,715	–	–
Loans and receivables				
Inter-fund receivables	109,213,308	–	–	109,213,308
Policy loans	108,088,008	–	–	108,088,008
Accounts receivable held in IIFs	23,243,382	–	–	23,243,382
Due from related parties	1,306,386	–	–	1,306,386
Security fund contribution	141,244	–	–	141,244
Other receivables	9,245,852	–	–	9,245,852
	₱1,492,668,398	₱1,241,430,218	₱–	₱251,238,180

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 18, *Revenue* and related interpretations and it applies with limited exceptions, to all revenue from contracts with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to customers.

PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customer. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The adoption of PFRS 15 has no significant impact on the Company's financial statements since majority of the Company's revenue are insurance premiums, which is outside the scope of PFRS 15 (scoped in under PFRS 4). In addition, the Company assessed that the revenue recognition requirements for other sources of revenue such as management fee income remain the same when the Company applied the five-step model under PFRS 15 (see detailed discussion in Revenue accounting policy).

Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.
  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  The Company is currently assessing the impact of adopting PFRS 16 and plans to adopt the new standard on the required effective date.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- *Annual Improvements to PFRSs* 2015-2017 Cycle
  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

Effective beginning on or after January 1, 2022

- 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, 2021, with comparative figures required. Early application is permitted. The Company is currently assessing the impact of adopting PFRS 17.

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.*

<u>Product Classification</u>
Insurance contracts are defined as those contracts under which the Company (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 Company 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, financial instrument price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index, or other variable. Investment contracts mainly transfer significant 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 have expired. Investment contracts can, however, be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Insurance and investment contracts are further classified as being with or without discretionary participation features (DPF). DPF is a contractual right to receive, as a supplement to guaranteed contracts, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on the performance of a specified pool of contracts or a specified type of contract, realized and/or unrealized investment returns on a specified pool of assets held by the issuer, or the profit or loss of the Company, fund or other entity that issues the contract.

For financial options and guarantees which are not closely related to the host insurance contract and/or investment contract with DPF, bifurcation is required to measure these embedded financial derivatives separately at FVPL. Bifurcation is not required if the embedded derivative is itself an insurance contract and/or investment contract with DPF or when the host insurance contract and/or investment contract with DPF itself is measured at FVPL. The options and guarantees within the insurance contracts issued by the Company are treated as derivative financial instruments which are clearly and closely related to the host insurance and therefore not bifurcated subsequently. As such, the Company does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). Likewise, the embedded derivative in unit-linked insurance contracts linking the payments on the contract to units of insurance investment funds (IIFs) meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placement and that are subject to an insignificant risk of change in value.

Insurance Receivables
Insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortized cost, using the effective interest rate method. The carrying value of insurance receivables are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

Insurance receivables are derecognized when the derecognition criteria for financial assets have been met.

Financial Instruments
Date of Recognition
The company recognizes a financial asset or a financial liability in the statement of financial position when it 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 of Financial Instruments
Financial instruments are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments classified as at FVPL. Any difference noted between the fair value and the transaction price on initial recognition is treated as expense or income, unless it qualifies for recognition as some type of asset or liability at the time of the transaction.

The Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired 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.

Fair Value Measurement
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 Company.

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 non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company 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.

Financial instruments at FVPL
Financial assets and financial liabilities at FVPL include those assets and liabilities held-for-trading purposes or those designated by management at FVPL on initial recognition. Derivative instruments, except those covered by hedge accounting relationships, are classified under this category.

Financial assets and financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets and financial liabilities may be designated at FVPL when the following criteria are met:

(a) The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities recognizing gains or losses on them on a different basis;

(b) The assets or liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or

(c) The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear with little or no analysis that it would not be separately recorded.

Subsequent to initial recognition, these instruments are re-measured at fair value. Fair value gains and losses are recognized in the statement of income under the 'Fair value gain (loss) on financial assets at FVPL' account. Interest earned on debt instruments is reported as interest income under 'Investment income' in the statements of income.

The Company's financial assets at FVPL consist of debt and equity securities of the IIFs.

The IIFs set up by the Company underlying the unit-linked insurance contracts are designated as at FVPL in accordance with the investment strategy and valuation provisions of the unit-linked policy contracts. Likewise, this is consistent with the valuation basis of the reserve for variable units held by policyholders.

The Company's peso and dollar-denominated debt securities and equity securities under the IIFs are designated at FVPL as these financial instruments are managed and their performance are evaluated on a fair value basis, in accordance with the Company's investment strategy.

As of December 31, 2018 and 2017, the Company has no financial liabilities classified as at FVPL.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, nor designated as AFS or at FVPL. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less allowance for impairment losses. 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 the statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

As of December 31, 2018 and 2017, the Company's loans and receivables represent cash and cash equivalents, insurance receivables, accrued income, inter-fund receivables, policy loans, accounts receivable held in IIFs, due from related parties, security fund contribution and other receivables.

AFS Financial Assets
AFS financial assets are non-derivative financial assets that are either designated in this category or do not qualify to be classified as loans and receivables, HTM investments or financial assets at FVPL. 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 the restatement on foreign currency-denominated AFS debt securities, is recognized in the statement of income. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in the statement of income as investment income when the right of the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets, including the impact of foreign exchange differences on AFS equity securities, are reported in other comprehensive income. The losses arising from impairment of such investments are recognized as provision for impairment and credit losses in the statement of income. On derecognition or impairment, the cumulative gain or loss previously reported in other comprehensive income is transferred to the statement of income.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost.

The Company's AFS financial assets consists of peso-denominated government and corporate debt securities.

Other Financial Liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest 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 effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of income. Other financial liabilities include the Company's insurance payables, policyholders' dividends, due to related parties, accounts payable and accrued expenses.

<u>Classification of Financial Instruments between Debt and Equity</u>
A financial instrument is classified as debt if it has a contractual obligation to:

- Deliver cash or another financial asset to another entity or
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. 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.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is 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. This is not generally the case with master netting agreements, thus, the related assets and liabilities are presented gross in the statement of financial position.

Impairment of Financial Assets
The Company assesses at each reporting date whether there is objective evidence that 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 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.

Financial assets carried at amortized cost
For financial assets carried at amortized cost, the Company 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 Company determines that no objective evidence of impairment exists for 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. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. 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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original effective interest rate of the asset. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Allowance for impairment losses' account.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as type of borrower, collateral type and past due status.

AFS financial assets carried at fair value
In case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income) is removed from other comprehensive income and recognized in the statement of income. Impairment losses on equity instruments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS, 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 based on the rate of interest used to discount cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Investment income" in the statement of income. If, in a subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

<u>Derecognition of Financial Instruments</u>
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:

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

Where the Company has transferred its right to receive cash flows from an asset 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 Company'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 the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liability
A financial liability is derecognized when the obligation under the liability expired, is discharged or cancelled. 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 statement of income.

<u>Policy Loans</u>
Policy loans, included in loans and receivables, are carried at their unpaid balances plus accrued interest and are secured by the cash surrender values and dividends on which the loans are made. Policy loans are accounted for based on the accounting policy for loans and receivables.

Reinsurance Assets
The Company 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 related reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

The Company assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance assets are impaired, the Company reduces the carrying amount of the reinsurance assets to its recoverable amount and recognizes that impairment loss in its statement of income. The Company gathers the objective evidence that the reinsurance asset is impaired using the same process adopted for financial assets held at amortized cost. The impairment loss is calculated following the same method used for these financial assets.

In modified coinsurance (quota share) treaties, the Company records as reinsurance premiums the reinsurer's proportionate share in benefits reinsured for the covered policies. Reinsurance allowances due from the reinsurers, on the other hand, are recorded under "Other income" (see Note 16).

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

The initial cost of property and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are charged to the statement of income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization is calculated on a straight-line method over the estimated useful lives (EUL) of the property and equipment.

	Years
Electronic Data Processing (EDP) equipment	3
Leasehold improvements	5
Furniture and fixtures	5
Transportation equipment	5

Leasehold improvements are amortized over the term of the lease or the EUL of the improvements, whichever is shorter.

The assets' useful lives and depreciation and amortization methods are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits for each item of property and 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 the statement of income in the year the item is derecognized.

Creditable withholding tax
Creditable withholding tax pertains to the indirect tax paid by the Company that is withheld by suppliers, service providers and clients of the Company for purchase of goods or services. 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 Company.

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

Pension Asset
The Company maintains a defined contribution (DC) plan that covers all regular full-time employees. Under its DC plan, the Company pays fixed contributions based on the employees' monthly salaries. The Company, however, is covered by Republic Act (RA) No. 7641, The Philippine Retirement Law, which provides for its qualified employees a defined benefit (DB) minimum guarantee. The DB minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA 7641.

Accordingly, the Company accounts for its retirement obligation under the higher of the DB obligation relating to the minimum guarantee and the obligation arising from the DC plan.

For the DB minimum guarantee plan, the liability is determined based on the present value of the excess of the projected DB obligation over the projected DC obligation at the end of the reporting period. The DB obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The Company determines the net interest expense (income) on the net DB liability (asset) for the period by applying the discount rate used to measure the DB obligation at the beginning of the annual period to the then net DB liability (asset), taking into account any changes in the net DB liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the DB plan are recognized in profit or loss.

The DC liability, on the other hand, is measured at the fair value of the DC assets upon which the DC benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the DC benefits.

Remeasurements of the net DB liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains or losses on the settlement of a DB plan when the settlement occurs.

Impairment of Nonfinancial Assets
The carrying values of the Company's nonfinancial assets (e.g., property and equipment) are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units (CGU) are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less cost to sell and value in use. 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 assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the statement of income.

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. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

<u>Insurance Contract Liabilities</u>
Life insurance liabilities
Life insurance contact liabilities are recognized when the contracts are entered into and the premiums are recognized. The provision for life insurance contracts is calculated on the basis of a stringent prospective actuarial valuation method where the assumptions used depend on the Company's current experience. Assumptions and actuarial valuation methods are also subject to provisions of the Insurance Code (the Code) and guidelines set by the Insurance Commission.

Subsequently, new estimates are developed at each reporting date to determine whether the liabilities reflect the current experience. The initial assumptions can be retained if the Company deems the current assumptions to still be reflective of their experience. Improvements and significant deteriorations in estimates have an impact on the value of the liabilities.

Movements in legal policy reserves attributable to changes in discount rate are recorded under 'Remeasurement gain (loss) on legal policy reserves' in other comprehensive income and the changes in policies and assumptions are recorded under 'Gross change in legal policy reserves' in the statement of income.

Life insurance contracts with fixed and guaranteed terms
Premiums are recognized as revenue when they become due from the policyholders which for single premium business, is the date on which the policy becomes effective. Benefits are recorded as an expense when they are incurred and are accrued as a liability.

An increase in liability for contractual benefits that are expected to be incurred in the future is recorded under 'Gross change in legal policy reserves' in the statement of income when the premiums are recognized. The liability is determined as the sum of the present value of future benefits and expenses, less the present value of the future gross premiums arising from the policy contract discounted at the appropriate risk-free discount rate. The expected future cash flows is determined using the best estimate assumptions with due regard to significant recent experience and appropriate margin for adverse deviation from the expected experience.

The liability is based on actuarial assumptions such as mortality and morbidity, maintenance expenses, and lapse and/or persistency rates that are established at the time the contract is issued. A margin for adverse deviation (MfAD) is also included in the assumptions. For group life insurance and accident and health insurance, reserves are computed by calculating the unearned portion of the written premiums for the year.

Provision is also made for the cost of claims incurred but not reported (IBNR) as of the reporting date based on the Company's experience. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in the statement of income in later years. Policy and contract claims payable forms part of the 'Insurance contract liabilities' in the statements of financial position.

Unit-linked insurance contracts
The Company issues unit-linked insurance contracts. In addition to providing life insurance coverage, a unit-linked contract links payments to IIFs set-up by the Company with consideration received from the policyholders. As allowed by PFRS 4, the Company chose not to unbundle the investment portion of its unit-linked products. Premiums received (including premium load and bid-offer spread) from the issuance of unit-linked insurance contracts are recognized as premium revenue. Consideration received from policyholders that are transferred to the segregated funds is recognized as part of 'Gross change in legal policy reserves' in the statements of income.

The Company withdraws the cost of insurance and administrative charges from the consideration received from the policyholders in accordance with the provisions of the unit-linked insurance contracts. After deduction of these charges, the remaining amounts in fund assets are equal to the surrender value of the unit-linked policies, and are withdrawable anytime.

The investment returns on the IIFs belong to policyholders and the Company does not bear the risk associated with these assets (outside of guarantees offered). Accordingly, investment income earned and expenses incurred by these funds and payments to policyholders have the same corresponding change in the reserve for unit-linked liabilities. Such changes have offsetting effect on the Company's results of operations and are therefore not separately presented in the statement of income. Management fee income earned by the Company for managing the IIFs and the monthly load and cost of insurance charges are included in other income.

IIFs primarily include investments in debt securities, equities, short-term investments and cash and cash equivalents. The methodology applied to determine the fair value of the investments held in these funds is consistent with that applied to investments held by general fund. Reserve for unit-linked liabilities is measured based on the value of the IIFs attributable to the policyholders.

The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to its total number of outstanding units multiplied by the net asset value per unit (NAVPU). The NAVPU is the market value of the fund divided by its total number of outstanding units.

Policy and contract claims payable
Policy and contract claims payable includes the sum of the individual amounts that are due and have already been approved for payment but have not actually been paid as of the end of the reporting period. This also includes accrual of reported claims that are not yet approved for payment. This is recognized when due and measured on initial recognition at fair value. Subsequent to initial recognition, this is measured at amortized cost using the effective interest rate method.

Other insurance contract liabilities
Other insurance contract liabilities include unpaid policy related disbursements such as policy surrenders and maturities.

Discretionary Participation Feature
A discretionary participation feature (DPF) is a contractual right that gives policyholders the right to receive supplementary discretionary returns through participation in the surplus arising from the assets held in the specified fund. The supplementary discretionary returns are subject to the discretion of the Company and are within the constraints of the terms and conditions of the contract. The supplementary discretionary returns which were not withdrawn by the policyholders from the Company accumulated over time and are, recognized as part of "Policyholders' dividends" account in the statement of financial position. Policyholders' dividends are carried at amortized cost.

Insurance Payables
Insurance payables result from the reinsurance agreement entered into by the Company for ceding out its insurance business. The Company initially recognizes the liability at transaction price. After initial measurement, insurance payables are subsequently measured at amortized cost using the effective interest rate method.

Capital Stock and Additional Paid-in Capital
Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to "Additional paid-in capital" account.

Direct cost incurred related to the equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings.

Appropriated surplus - Negative reserves
For any traditional life insurance policy, where the calculation based on GPV results in a negative reserve, the Company appropriates from retained earnings an amount equal to the negative reserves calculated on a per policy basis as required by IC CL No. 2016-66.

Retained earnings
Retained earnings represent accumulated net income of the Company, net of dividends declared.

Revenue Recognition
Prior to January 1, 2018, under PAS 18, revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

The Company assesses its revenue arrangement against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized within the scope of PFRS 15:

Management fee income
The Company's service arrangements are generally satisfied over time, with revenue recognized over the period in which the related services are performed.

Revenues outside the scope of PFRS 15
Insurance premiums
Gross recurring premiums from life insurance contracts are recognized when due. For single premium business, revenue is recognized on the date from which the policy becomes effective. For regular premium contracts, receivables are recorded at the date when payments are due.

Reinsurance allowances
Reinsurance allowance are recognized in the statement of income when the related ceded policy-related expenses such as commissions and other underwriting expenses are incurred.

Cost of insurance
Cost of insurance is recognized as revenue over the period in which the related services are performed.

Processing fee
The Company's service arrangements are generally satisfied over time, with revenue measured and collected from customers within a short term, as services are rendered.

Investment income
Interest income is recognized in the statement of income as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated using the effective interest rate.

Investment income also includes dividends, which are recognized when the Company's right to receive the payment is established.

Miscellaneous revenue
Insurance contract policyholders are charged for policy administration services, surrenders and other contract fees. These charges, comprising of cost of insurance and monthly load, are recognized as revenue over the period in which the related services are performed.

Benefits and Claims Recognition
Benefits and claims
Life insurance business claims reflect the cost of all claims arising during the year, including claims handling costs. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Benefits claims are recorded as liabilities.

For unpaid benefits, a provision is made for the estimated cost of all claims and dividends notified but not settled at the reporting date, net of reinsurance recoveries, using the information available at the time. Provision is also made for the cost of claims incurred but not reported (IBNR) until after the reporting date based on the Company's experience and historical data. These actual claims are those reported during the first quarter immediately following the reporting date, whether paid or unpaid, but wherein the date of loss occurred on or before the reporting date.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Dividend to policyholders
Dividend expense attributable to dividend entitlement of certain participating insurance policies is recognized as it accrues every policy anniversary date. Policyholders dividends can be paid in cash, buy paid up additions or can be left with the Company. Policyholder dividends which are not withdrawn from the Company earn interest, which is included in the statement of income as "Dividend to policyholders".

Expense Recognition
Expenses are recognized in the statement of income when incurred. These are recognized in the statement of income:

- 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 association can only be broadly or indirectly determined; or
- immediately when expenditure produces no future economic benefits 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.

General and administrative expenses
General and administrative expenses are costs attributable to administrative and other business activities of the Company.

Commission expenses
Commission expenses are charged against operations when incurred.

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

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

Company as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the profit and loss on a straight-line basis over the lease term. Indirect costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognized over the lease term on the same basis as the lease income. Minimum lease payments are recognized on a straight-line basis while the variable rent is recognized as an expense based the terms of the leased contract.

Foreign Currency-Denominated Transactions and Translations
Transactions in foreign currencies are initially recorded at the functional currency spot rate prevailing at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date.

All differences arising from monetary items are taken to the statement of income.

Nonmonetary assets and liabilities 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. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of nonmonetary items measured at fair value is treated in line with the recognition of a gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

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 are enacted or substantially enacted as of the reporting date.

Deferred tax
Deferred tax is provided using the liability method on 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, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, excess MCIT over RCIT and unused NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences 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 profit will be available to allow all or part of the deferred income tax asset 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 the deferred tax asset to be recovered.

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 tax relate to the same taxable entity and the same taxation authority.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, 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. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingencies

Contingent liabilities are not recognized in the Company's financial statements. They 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 are disclosed when an inflow of economic benefit is probable.

Events after Reporting Period

Post year-end events that provide additional information about the Company's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are non-adjusting events are disclosed in the financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The Company makes judgments, estimates and assumptions that affect the reported amounts of assets and liabilities. Judgments and estimates 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.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the company financial statements.

Product classification

The Company has determined that the traditional and unit-linked insurance policies (that link the payments on the contract to units of IIFs) have significant insurance risk and, therefore meet the definition of an insurance contract and should be accounted for as such.

The options and guarantees within the insurance contracts issued by the Company are treated as derivative financial instruments which are clearly and closely related to the host insurance and therefore not bifurcated. As such, the Company does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

Estimates and Assumptions

The key estimates and assumptions concerning future and other key sources of estimation uncertainty at the reporting date that have significant risks of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Claims liability arising from insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for those claims.

Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases these estimates on the mortality and morbidity that are appropriate to the nature of the risks covered based on the Company's actual experience. The estimated number of deaths determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in turn is monitored against current and future premiums.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

In accordance with the provision of the Code, estimates for future deaths, voluntary terminations, investment returns and administration expenses are determined at the inception of the contract and are used to calculate the liability over the term of the contract. At each reporting date, these estimates are reassessed for adequacy and changes will be reflected in the adjustments to the liability. The interest rates used to discount future liabilities are based on the published rates by the Insurance Commission, which are in turn based on the BVAL PHP Reference rates in 2018 (PDST R-2 Reference rates in 2017) and International Yield Curve (IYC) for peso- and US dollar (USD)-denominated policies, respectively.

The carrying value of the legal policy reserves amounted to ₱35.25 billion and ₱34.54 billion as of December 31, 2018 and 2017, respectively (see Note 10).

Estimation of allowance for impairment losses

The Company reviews its loans and receivables at each reporting date to assess whether an allowance for impairment losses should be recorded in the statement of income. 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 Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. 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, the length of the Company's relationship with the debtors, the debtor's payment behavior, legal opinion on recoverability in case of legal disputes and known market factors. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis.

In addition to specific allowance against individually significant loans and receivables, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring specific allowance, have a greater risk of default than when originally granted. This collective allowance takes into consideration any deterioration in the loans and receivables.

As of December 31, 2018 and 2017, the carrying value of loans and receivables amounted to ₱251.24 million and ₱381.13 million, respectively (see Note 5). There is no allowance for impairment losses as of December 31, 2018 and 2017.

Estimated useful lives of property and equipment
The Company 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 decrease the related asset accounts.

As of December 31, 2018 and 2017, the carrying values of property and equipment amounted to ₱19.93 million and ₱21.65 million, respectively (see Note 8).

Recognition of pension asset/liability
The cost of defined benefit pension plans as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The Company recognized ₱2.66 million pension asset and ₱3.99 million pension liability, as of December 31, 2018 and 2017, respectively (see Note 19).

The present value of cash flows from expected benefit payments as at the statement of financial position date are determined using interest rates from a derived zero yield curve of government securities, with extrapolated maturities corresponding to the expected duration of defined benefit obligation. The discount rate used is the single-weighted average discount rate, which, when applied to the same cash flows, results in the same present value as at the valuation date.

The salary increase rates are based on expected future inflation rates, historical annual merit, market and promotional increases.

The mortality rate represents the proportion of current plan members who might die prior to retirement and hence be entitled to death benefits instead of retirement benefits. This is based on publicly available mortality tables for the Philippines and is modified accordingly with estimates of mortality improvements.

Further details about the assumptions used are provided in Note 19.

Recognition of deferred tax assets
Deferred tax assets are recognized for all deductible temporary difference to the extent that it is probable that taxable profit 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 profits together with future tax planning strategies. See Note 20 for related balances.

Contingencies
The Company is currently involved in various proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and outside counsel handling the Company's defense in these matters and is based upon an analysis of potential results. The Company currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* is not disclosed as it may prejudice the outcome of these on-going claims and assessments.

4. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand		
Petty cash fund	**₱95,753**	₱95,753
Cash in commercial banks	**603,047,873**	489,408,091
Short-term deposits in commercial banks	**30,953,829**	77,722,014
	634,097,455	567,225,858
Cash held in IIFs (Note 6)	**1,215,997,375**	715,596,407
	₱1,850,094,830	₱1,282,822,265

Cash in banks earns interest at the corresponding bank deposit rate. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Company, and earn interest at the corresponding short-term deposit rate. The range of interest rates is from 1.25% to 5.00% and from 1.25% to 3.50% in 2018 and 2017, respectively.

5. Financial Assets

The Company's financial assets are summarized below:

	2018	2017
Financial assets at FVPL	**₱30,359,933,820**	₱29,617,814,478
AFS financial assets	**1,241,430,218**	1,585,538,896
Loans and receivables	**251,238,180**	381,128,780
	₱31,852,602,218	₱31,584,482,154

The assets included in each of the financial asset categories are detailed below:

a) Financial Assets at FVPL

The breakdown of assets held in IIFs designated as financial assets at FVPL is as follows (see Note 6):

	2018	2017
Debt securities held in IIFs (Note 6)		
Government bonds	**₱8,447,799,719**	₱10,071,061,137
Corporate bonds	**325,565,006**	870,336,568
UITFs	**2,110,429,052**	1,220,482,219
Equity securities held in IIFs (Note 6)		
Common shares	**14,197,125,717**	13,217,982,021
Other equity securities	**5,279,014,326**	4,237,952,533
	₱30,359,933,820	₱29,617,814,478

Other equity securities include exchange traded funds, real estate investment trusts and non-voting depositary receipts.

The net fair value change on financial assets at FVPL included in the statements of income amounted to ₱4.90 million loss and ₱5.77 million gain in 2018 and 2017, respectively.

b) AFS Financial Assets

This account consists of:

	2018	2017
Quoted debt securities:		
Government bonds	**₱1,214,891,503**	₱1,560,841,978
Corporate bonds	**26,538,715**	24,696,918
	₱1,241,430,218	₱1,585,538,896

The roll-forward analysis of AFS financial assets follows:

	2018	2017
Balance at beginning of year	**₱1,585,538,896**	₱1,747,877,168
Additions	**46,834,342**	81,715,390
Disposals/maturities	**(142,083,604)**	(69,729,309)
Net premium amortization	**(7,725,345)**	(7,741,550)
Fair value losses recognized in other comprehensive income	**(241,134,071)**	(166,582,803)
Balance at end of year	**₱1,241,430,218**	₱1,585,538,896

The movement in unrealized fair value gains (losses) of AFS financial assets follows:

	2018	2017
Balance at beginning of year	**(₱237,345,378)**	(₱67,537,589)
Changes in fair value of available-for-sale financial assets	**(241,134,071)**	(166,582,803)
Realized loss (gains) transferred to statements of income	**36,812,757**	(3,224,986)
Net change during the year	**(204,321,314)**	(169,807,789)
Balance at end of year	**(₱441,666,692)**	(₱237,345,378)

Annual interest rates of AFS government and corporate bonds range as follows:

		From	**To**
2018	**Government bonds**	**3.38%**	**9.50%**
	Corporate bonds	**3.92%**	**6.08%**
2017	Government bonds	4.63%	9.50%
	Corporate bonds	3.92%	5.26%

Interest earned amounted to ₱81.62 million and ₱85.29 million in 2018 and 2017, respectively (see Note 16).

AFS government securities with total face value of ₱125.00 million and aggregate market value of ₱146.43 million and ₱163.51 million as of December 31, 2018 and 2017, respectively, are deposited with the Insurance Commission pursuant to the provisions of the Insurance Code as security for the benefit of policyholders and creditors of the Company.

(c) *Loans and Receivables*

This account consists of:

	2018	2017
Inter-fund receivables	**₱109,213,308**	₱90,393,365
Policy loans	**108,088,008**	113,787,789
Accounts receivable held in IIFs (Note 6)	**23,243,382**	165,284,571
Due from related parties (Note 14)	**1,306,386**	1,306,386
Security fund contribution	**141,244**	141,244
Other receivables	**9,245,852**	10,215,425
	₱251,238,180	₱381,128,780

Inter-fund receivables pertain to accrued management fees of IIFs and unsettled redemptions.

Policy loans pertain to loans issued to policyholders. A policy loan is secured with the cash surrender value and earned dividends on the policy. Interest rates charged range from 7.5% to 8% per annum in 2018 and 2017.

The security fund, which is held by the Insurance Commission in compliance with Sections 365 and 367 of the Code, as amended under Presidential Decree 1640, is to be used for payment of valid claims against insolvent insurance companies.

6. **Insurance Investment Funds (IIFs)**

The Company issues unit-linked insurance contracts where the payments to policyholders are linked to insurance investment funds set up by the Company.

The debt and equity securities of these funds are included in the financial assets at FVPL of the Company (see Note 5).

The IIFs are set up using a fund-in-fund approach. Under this structure, the IIFs purchase units of a pool of assets, which are referred to as Underlying Funds (UF). The UFs consist of Peso Bond Pool, Peso Money Market Pool, Peso Equity Pool, US Dollar Bond Pool, Asia Bond Pool, Asean Growth Pool, Peso Cash Pool, Power House Pool, Wealth Premier Pool (until June 2018), Global Target Income Pool, Dynamic Asset Allocation (starting February 2018), Chinabank Dollar Fixed Income VUL fund (starting June 2018) and Asia First Fund (starting November 2018).

The Company and Hongkong and Shanghai Banking Corporation (HSBC) entered into a non-fiduciary fund administration agreement where the HSBC shall act as the Administrator of the UFs. The Administration is limited to performing administrative services and does not have any discretion or control with respect to the management or disposition of the UFs. The administration fee of HSBC is charged directly against the UFs.

The details of the IIFs are as follows:

December 31, 2018

	Net assets	Due to unit linked holders	Seed Capital	Total
Peso Dynamic Allocation Fund	**₱3,805,642,471**	**₱3,803,643,484**	**₱1,998,987**	**₱3,805,642,471**
Summit Peso Bond Fund	**87,687,706**	**84,207,651**	**3,480,055**	**87,687,706**
Summit Peso Stable Fund	**55,111,126**	**51,634,138**	**3,476,988**	**55,111,126**
Summit Peso Equity Fund	**174,123,488**	**169,813,076**	**4,310,412**	**174,123,488**
Peso Balanced Fund	**71,368,583**	**69,347,732**	**2,020,851**	**71,368,583**
Summit Dollar Bond Fund	**104,687,635**	**101,402,945**	**3,284,690**	**104,687,635**
Peso Secure Fund	**1,759,217,058**	**1,756,254,547**	**2,962,511**	**1,759,217,058**
Peso Diversified Value Fund	**1,743,573,732**	**1,740,159,933**	**3,413,799**	**1,743,573,732**
Peso Growth Fund	**5,477,551,830**	**5,471,275,857**	**6,275,973**	**5,477,551,830**
US Dollar Secure Fund	**529,469,224**	**521,572,160**	**7,897,064**	**529,469,224**
Peso Target Income Fund	**200,467,055**	**198,784,895**	**1,682,160**	**200,467,055**
Peso Target Distribution Fund	**6,035,021,484**	**6,033,356,439**	**1,665,045**	**6,035,021,484**
Power House Fund	**4,172,247,547**	**4,170,193,490**	**2,054,057**	**4,172,247,547**
Wealth Optimizer 2026 Fund	**193,949,787**	**192,133,791**	**1,815,996**	**193,949,787**
Wealth Optimizer 2031 Fund	**43,460,380**	**41,637,266**	**1,823,114**	**43,460,380**
Wealth Optimizer 2036 Fund	**25,765,769**	**23,946,928**	**1,818,841**	**25,765,769**
Asia Pacific Bond Fund	**141,000,202**	**138,865,284**	**2,134,918**	**141,000,202**
Asean Growth Fund	**670,218,773**	**667,788,528**	**2,430,245**	**670,218,773**
Peso Cash Fund	**29,228,117**	**28,220,750**	**1,007,367**	**29,228,117**
Global Target Income Fund	**6,153,604,819**	**6,151,346,560**	**2,258,259**	**6,153,604,819**
Asia First Fund	**11,040,590**	**8,964,789**	**2,075,801**	**11,040,590**
Chinabank Dollar Fixed Income VUL Fund	**150,530,195**	**44,964,878**	**105,565,317**	**150,530,195**
	₱31,634,967,571	**₱31,469,515,121**	**₱165,452,450**	**₱31,634,967,571**

December 31, 2017

	Net assets	Due to unit-linked holders	Seed Capital	Total
Peso Dynamic Allocation Fund	₱4,318,890,866	₱4,316,667,707	₱2,223,159	₱4,318,890,866
Summit Peso Bond Fund	117,159,677	113,551,974	3,607,703	117,159,677
Summit Peso Stable Fund	71,530,902	67,841,178	3,689,724	71,530,902
Summit Peso Equity Fund	222,275,072	217,292,101	4,982,971	222,275,072
Peso Balanced Fund	93,416,286	91,171,239	2,245,047	93,416,286
Summit Dollar Bond Fund	122,906,722	119,701,441	3,205,281	122,906,722
Peso Secure Fund	2,415,983,881	2,412,907,195	3,076,686	2,415,983,881
Peso Diversified Value Fund	2,073,335,933	2,069,709,152	3,626,781	2,073,335,933
Peso Growth Fund	5,875,908,566	5,868,637,021	7,271,545	5,875,908,566
US Dollar Secure Fund	687,919,743	680,199,059	7,720,684	687,919,743
Peso Target Income Fund	202,300,522	200,463,374	1,837,148	202,300,522
Peso Target Distribution Fund	6,407,696,566	6,405,873,962	1,822,604	6,407,696,566
Power House Fund	1,974,334,825	1,971,985,996	2,348,829	1,974,334,825
Wealth Optimizer 2026 Fund	143,192,790	141,142,973	2,049,817	143,192,790
Wealth Optimizer 2031 Fund	16,351,037	14,252,211	2,098,826	16,351,037
Wealth Optimizer 2036 Fund	11,018,858	8,917,839	2,101,019	11,018,858
Asia Pacific Bond Fund	200,004,973	197,860,871	2,144,102	200,004,973
Asean Growth Fund	1,208,029,177	1,205,476,745	2,552,432	1,208,029,177
Peso Cash Fund	98,914,176	97,905,113	1,009,063	98,914,176
Wealth Premier Fund	32,998,309	31,298,677	1,699,632	32,998,309
Global Target Income Fund	4,271,523,034	4,269,055,011	2,468,023	4,271,523,034
	₱30,565,691,915	₱30,501,910,839	₱63,781,076	₱30,565,691,915

The breakdown of the net assets of the IIFs is as follows:

December 31, 2018

	Peso Bond Pool	Peso Money Market Pool	Peso Equity Pool	USD Bond Pool	Dynamic Asset Allocation Equity Pool	Asia Bond Pool	Asean Growth Pool	Peso Cash Pool	Power House Pool	Global Target Income Pool	Asia First Fund	Chinabank Dollar Fixed Income VUL Fund	Accrued Management Fees	Total
Peso Dynamic Allocation Fund	**₱1,516,308,274**	**₱–**	**₱–**	**₱–**	**₱2,296,622,692**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**(₱7,288,495)**	**₱3,805,642,471**
Summit Peso Bond Fund	**87,799,703**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(111,997)**	**87,687,706**
Summit Peso Stable Fund	**31,844,130**	**11,570,508**	**11,778,511**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(82,023)**	**55,111,126**
Summit Peso Equity Fund	**–**	**–**	**174,420,503**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(297,015)**	**174,123,488**
Peso Balanced Fund	**28,428,841**	**–**	**–**	**–**	**43,061,673**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(121,931)**	**71,368,583**
Peso Target Income Fund	**–**	**–**	**–**	**104,827,467**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(139,832)**	**104,687,635**
Peso Target Distribution Fund	**1,761,837,170**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,620,112)**	**1,759,217,058**
Power House Fund	**1,011,488,686**	**364,570,235**	**370,485,492**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,970,681)**	**1,743,573,732**
Summit Dollar Bond Fund	**–**	**–**	**5,488,025,473**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10,473,643)**	**5,477,551,830**
Peso Secure Fund	**–**	**–**	**–**	**530,282,573**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(813,349)**	**529,469,224**
Peso Diversified Value Fund	**78,117,386**	**57,450,436**	**–**	**–**	**65,202,943**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(303,710)**	**200,467,055**
Peso Growth Fund	**2,352,616,655**	**1,730,217,191**	**–**	**–**	**1,962,717,732**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10,530,094)**	**6,035,021,484**
Wealth Optimizer 2026 Fund	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,179,276,247**	**–**	**–**	**–**	**(7,028,700)**	**4,172,247,547**
Wealth Optimizer 2031 Fund	**56,463,546**	**1,700,782**	**136,124,013**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(338,554)**	**193,949,787**
Wealth Optimizer 2036 Fund	**5,086,407**	**65,870**	**38,383,831**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(75,728)**	**43,460,380**
US Dollar Secure Fund	**1,879,897**	**23,334**	**23,907,447**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(44,909)**	**25,765,769**
Asia Pacific Bond Fund	**–**	**–**	**–**	**–**	**–**	**141,167,642**	**–**	**–**	**–**	**–**	**–**	**–**	**(167,440)**	**141,000,202**
Asean Growth Fund	**–**	**–**	**–**	**–**	**–**	**–**	**671,009,016**	**–**	**–**	**–**	**–**	**–**	**(790,243)**	**670,218,773**
Peso Cash Fund	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**29,231,336**	**–**	**–**	**–**	**–**	**(3,219)**	**29,228,117**
Global Target Income Fund	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,164,087,484**	**–**	**–**	**(10,482,665)**	**6,153,604,819**
Asia First Fund	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11,040,590**	**–**	**–**	**11,040,590**
Chinabank Dollar Fixed Income VUL Fund	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**150,530,195**	**–**	**150,530,195**
	₱6,931,870,695	**₱2,165,598,356**	**₱6,243,125,270**	**₱635,110,040**	**₱4,367,605,040**	**₱141,167,642**	**₱671,009,016**	**₱29,231,336**	**₱4,179,276,247**	**₱6,164,087,484**	**₱11,040,590**	**₱150,530,195**	**(₱54,684,340)**	**₱31,634,967,571**

December 31, 2017

	Peso Bond Pool	Peso Money Market Pool	Peso Equity Pool	USD Bond Pool	Asia Bond Pool	Asean Growth Pool	Peso Cash Pool	Power House Pool	Wealth Premier Pool	Global Target Income Pool	Accrued Management Fees	Total
Peso Dynamic Allocation Fund	₱1,637,994,651	₱–	₱2,689,069,780	₱–	₱–	₱–	₱–	₱–	₱–	₱–	(8,173,565)	₱4,318,890,866
Summit Peso Bond Fund	117,312,784	–	–	–	–	–	–	–	–	–	(153,107)	117,159,677
Summit Peso Stable Fund	40,874,428	14,413,836	16,349,749	–	–	–	–	–	–	–	(107,111)	71,530,902
Summit Peso Equity Fund		–	222,648,489	–	–	–	–	–	–	–	(373,417)	222,275,072
Peso Balanced Fund	35,304,119	–	58,270,292	–	–	–	–	–	–	–	(158,125)	93,416,286
Peso Target Income Fund	86,904,250	68,631,163	47,106,839	–	–	–	–	–	–	–	(341,730)	202,300,522
Peso Target Distribution Fund	2,753,139,200	2,174,091,941	1,492,704,815	–	–	–	–	–	–	–	(12,239,390)	6,407,696,566
Power House Fund	–	–	–	–	–	–	–	1,977,432,455	–	–	(3,097,630)	1,974,334,825
Summit Dollar Bond Fund	–	–	–	123,090,931	–	–	–	–	–	–	(184,209)	122,906,722
Peso Secure Fund	2,419,614,584	–	–	–	–	–	–	–	–	–	(3,630,703)	2,415,983,881
Peso Diversified Value Fund	1,185,725,766	417,646,144	473,698,615	–	–	–	–	–	–	–	(3,734,592)	2,073,335,933
Peso Growth Fund	–		5,886,824,657	–	–	–	–	–	–	–	(10,916,091)	5,875,908,566
Wealth Optimizer 2026 Fund	33,313,392	861,778	109,287,706	–	–	–	–	–	–	–	(270,086)	143,192,790
Wealth Optimizer 2031 Fund	1,265,464	15,229	15,101,323	–	–	–	–	–	–	–	(30,979)	16,351,037
Wealth Optimizer 2036 Fund	726,838	8,321	10,304,351	–	–	–	–	–	–	–	(20,652)	11,018,858
US Dollar Secure Fund	–	–	–	689,114,250	–	–	–	–	–	–	(1,194,507)	687,919,743
Asia Pacific Bond Fund	–	–	–	–	200,343,988	–	–	–	–	–	(339,015)	200,004,973
Asean Growth Fund	–	–	–	–	–	1,210,310,128		–	–	–	(2,280,951)	1,208,029,177
Peso Cash Fund	–	–	–	–	–	–	98,924,171	–	–	–	(9,995)	98,914,176
Wealth Premier Fund	–	–	–	–	–	–	–		32,998,309	–	–	32,998,309
Global Target Income Fund	–	–	–	–	–	–	–		–	4,279,325,204	(7,802,170)	4,271,523,034
	₱8,312,175,476	₱2,675,668,412	₱11,021,366,616	₱812,205,181	₱200,343,988	₱1,210,310,128	₱98,924,171	₱1,977,432,455	₱32,998,309	₱4,279,325,204	(₱55,058,025)	₱30,565,691,915

The underlying funds included in the above pool of assets are composed of the following assets and liabilities:

	2018	2017
Cash in banks (Note 4)	**₱1,215,997,375**	₱715,596,407
Debt securities held in IIFs (Note 5)		
Government bonds	**8,447,799,719**	10,071,061,137
Corporate bonds	**325,565,006**	870,336,568
UITFs	**2,110,429,052**	1,220,482,219
Equity securities held in IIFs (Note 5)		
Common shares	**14,197,125,717**	13,217,982,021
Other equity securities	**5,279,014,326**	4,237,952,533
Accounts receivable held in IIF (Note 5)	**23,243,382**	165,284,571
Accrued income (Note 7)	**90,477,334**	122,054,485
Accrued management fees (Note 12)	**(54,684,340)**	(55,058,026)
	₱31,634,967,571	₱30,565,691,915

Underlying assets in the IIFs are consolidated line by line with the other accounts of the Company.

In 2018, the IIFs incurred investment loss amounting to ₱2.57 billion while in 2017, the IIFs earned investment income amounting to ₱5.34 billion. Redemptions amounted to ₱11.94 billion and ₱2.39 billion in 2018 and 2017, respectively.

7. Accrued Income

This account consists of:

	2018	2017
Accrued interests:		
AFS debt financial assets		
Government bonds	**₱13,601,442**	₱14,996,363
Corporate bonds	**300,368**	192,420
Debt financial assets designated at FVPL (Note 6)	**83,444,478**	112,568,238
Cash and cash equivalents	**27,234**	7,134
	97,373,522	127,764,155
Accrued dividends:		
Equity financial assets designated at FVPL (Note 6)	**7,032,855**	9,486,247
	₱104,406,377	₱137,250,402

8. Property and Equipment

The rollforward analysis of this account follows:

December 31, 2018

	EDP Equipment	Leasehold Improvements	Furniture and Fixtures	Transportation Equipment	Total
Cost					
At beginning of year	**₱103,047,626**	**₱2,002,350**	**₱315,799**	**₱48,045,450**	**₱153,411,225**
Additions	**1,982,436**	**–**	**–**	**6,546,786**	**8,529,222**
Disposals	**–**	**–**	**–**	**(800,000)**	**(800,000)**
Derecognized	**(5,577,853)**	**–**	**–**	**–**	**(5,577,853)**
At end of year	**99,452,209**	**2,002,350**	**315,799**	**53,792,236**	**155,562,594**
Accumulated depreciation and amortization					
At beginning of year	**99,087,073**	**1,636,549**	**113,546**	**30,920,733**	**131,757,901**
Depreciation and amortization (Note 18)	**3,338,771**	**161,929**	**55,160**	**6,081,635**	**9,637,495**
Disposals	**–**	**–**	**–**	**(186,666)**	**(186,666)**
Derecognized	**(5,577,853)**	**–**	**–**	**–**	**(5,577,853)**
At end of year	**96,847,991**	**1,798,478**	**168,706**	**36,815,702**	**135,630,877**
Net book value	**₱2,604,218**	**₱203,872**	**₱147,093**	**₱16,976,534**	**₱19,931,717**

December 31, 2017

	EDP Equipment	Leasehold Improvements	Furniture and Fixtures	Transportation Equipment	Total
Cost					
Balances at beginning of year	₱101,728,077	₱2,002,350	₱ 315,799	₱39,573,450	₱143,619,676
Additions	1,319,549	–	–	8,472,000	9,791,549
Balances at end of year	103,047,626	2,002,350	315,799	48,045,450	153,411,225
Accumulated depreciation and amortization					
Balances at beginning of year	94,885,273	1,462,720	58,386	24,764,250	121,170,629
Depreciation and amortization (Note 18)	4,201,800	173,829	55,160	6,156,483	10,587,272
Balances at end of year	99,087,073	1,636,549	113,546	30,920,733	131,757,901
Net book value	₱3,960,553	₱365,801	₱202,253	₱17,124,717	₱21,653,324

As of December 31, 2018 and 2017, there were no fully depreciated property and equipment that are in use.

9. Other Assets

This account consists of:

	2018	2017
Prepayments	**₱27,302,127**	₱23,877,971
Refundable deposits	**4,653,981**	5,416,190
Creditable withholding taxes	**4,421,144**	983,059
Pension assets (Note 19)	**2,664,027**	–
	39,041,279	30,277,220
Allowance for impairment losses - refundable deposits	**(696,369)**	(698,872)
	₱38,344,910	₱29,578,348

Prepayments include local business taxes and various prepaid expenses.

10. Insurance Contract Liabilities

This account consists of:

	2018	2017
Legal policy reserves	**₱35,247,063,816**	₱34,544,586,916
Policy and contract claims payable	**40,965,257**	23,803,019
IBNR	**23,454,653**	8,940,192
Other insurance contract liabilities	**50,586,078**	70,227,320
	₱35,362,069,804	₱34,647,557,447

Legal policy reserves may be analyzed as follows:

	2018			2017		
	Legal Policy Reserves	**Reinsurers' Share of Liabilities**	**Net of reinsurance**	Legal Policy Reserves	Reinsurers' Share of Liabilities	Net of reinsurance
Unit-linked						
Due to unit-linked holders (Note 6)	**₱31,469,515,121**	**₱–**	**₱31,469,515,121**	₱30,501,910,839	₱–	₱30,501,910,839
Legal policy reserves	**4,393,272**	**348,640**	**4,044,632**	2,694,807	311,203	2,383,604
Ordinary life	**3,702,182,441**	**3,502,114,330**	**200,068,111**	3,991,299,621	3,845,345,901	145,953,720
Group life	**43,411,047**	**–**	**43,411,047**	28,151,422	–	28,151,422
Accident and health	**27,561,935**	**3,007,670**	**24,554,265**	20,530,227	4,477,580	16,052,647
Total	**₱35,247,063,816**	**₱3,505,470,640**	**₱31,741,593,176**	₱34,544,586,916	₱3,850,134,684	₱30,694,452,232

	2018	2017
Gross		
Insurance contracts with discretionary participation features	**₱3,633,138,645**	₱3,919,299,615
Insurance contracts without discretionary participation features	**31,613,925,171**	30,625,287,301
	35,247,063,816	34,544,586,916
Recoverable from reinsurers		
Insurance contracts with discretionary participation features	**3,480,103,557**	3,815,183,814
Insurance contracts without discretionary participation features	**25,367,083**	34,950,870
	3,505,470,640	3,850,134,684
Net		
Insurance contracts with discretionary participation features	**153,035,088**	104,115,801
Insurance contracts without discretionary participation features	**31,588,558,088**	30,590,336,431
	₱31,741,593,176	₱30,694,452,232

The movements in legal policy reserves are as follows:

	2018			2017		
	Legal Policy Reserves	**Reinsurers' Share of Liabilities**	**Net of reinsurance**	**Legal Policy Reserves**	**Reinsurers' Share of Liabilities**	**Net of reinsurance**
At January 1	**₱34,544,586,916**	**₱3,850,134,684**	**₱30,694,452,232**	₱27,535,608,375	₱3,915,123,096	₱23,620,485,279
Due to change in discount rates	**(474,345,402)**	**(402,434,146)**	**(71,911,256)**	(201,512,699)	(184,758,499)	(16,754,200)
Due to change in policies and assumptions	**209,218,023**	**57,770,102**	**151,447,921**	260,805,215	119,770,087	141,035,128
Due to change in segregated funds	**967,604,279**	**–**	**967,604,279**	6,949,686,025	–	6,949,686,025
At December 31	**₱35,247,063,816**	**₱3,505,470,640**	**₱31,741,593,176**	₱34,544,586,916	₱3,850,134,684	₱30,694,452,232

The movements in the legal policy reserves due to change in discount rates are recorded under "Remeasurements on gain (loss) policy reserves". The rollforward analyses of this account follow:

	2018	2017
At January 1	**(₱14,290,907)**	(₱31,045,107)
Arising during the year	**71,911,256**	16,754,200
At December 31	**₱57,620,349**	(₱14,290,907)

The movements during the year in policy and contract claims payable, IBNR and other insurance contract liabilities are as follows:

	2018	2017
At beginning of year	**₱102,970,531**	₱66,423,505
Additions during the year (Note 17)	**147,955,862**	106,415,770
Paid during the year	**(135,920,405)**	(69,868,744)
At end of year	**₱115,005,988**	₱102,970,531

Other insurance contract liabilities consist mainly of advanced or excess premium collections and policy related disbursements such as policy surrenders and maturities.

11. Insurance Contract Liabilities and Reinsurance Assets - Terms, Assumptions and Sensitivities

Life Insurance Contracts

For life insurance contracts with fixed and guaranteed terms, estimates are made in two stages. At the inception of the contracts, the Company determines assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. These assumptions are used for calculating the liabilities during the life of the contract. A margin for risk and uncertainty is added to these assumptions. Assumptions are evaluated subsequently to ensure realistic and reasonable valuation. Actual past experience, current internal and external data, and industry experience are used as basis to update the assumptions every reporting period.

Terms

Life insurance contracts offered by the Company mainly include whole life, term insurance, endowments and unit-linked products.

Whole life and term insurance are conventional products where lump sum benefits are payable on death, provided death occurs within the terms of the policy.

Endowment products are products where lump sum benefits are payable after a fixed period or upon death if it occurs before the period is completed.

Unit-linked products differ from conventional policies in that premium, net of applicable charges, are allocated to units in a pooled investment fund and the policyholder benefits directly from the total investment growth and income of the fund.

Key Assumptions
Material judgment is required in determining the liabilities and in the choice of assumptions relating to insurance and contracts. Assumptions used are based on past experience, current internal data and conditions and external market indices and benchmarking, which reflect current observable market prices and other published information. Such assumptions are determined as appropriate and prudent estimates at the date of valuation, and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations. Assumptions are also subject to the provisions of the Code and guidelines set by the Insurance Commission.

The key assumptions to which the estimation of liabilities is particularly sensitive follows:

- *Mortality and morbidity*
  The mortality and morbidity assumptions are based on rates of mortality and morbidity that are appropriate to the nature of the risks covered based on the Company's actual experience. The mortality assumption is based on the Company's 2015 Mortality Study, which covers actual death claims experience for policies issued from January 1, 1998 to December 31, 2013. The morbidity assumptions are consistent with the IC approved rates used in product pricing.

- *Discount rates*
  Discount rates relate to the time value of money. The risk-free discount rate shall be the equivalent zero-coupon spot yield of the above yield curve with matching duration for durations less than or equal to 20 years. The valuation interest rate assumptions are consistent with risk free rates as provided by the IC. Discount rates used as of December 31, 2018 and 2017 follow:

	2018	2017
Peso	**BVAL PHP Reference Yield Curve** **6.27% - 6.76%**	PDST-R2 Yield Curve 3.06% - 3.64%
Dollar	**International Yield Curve** **3.26% - 4.01%**	International Yield Curve 1.80% - 3.63%

  The assumptions are reviewed and revised at each reporting date. A decrease in discount rate would result in remeasurement loss on life insurance reserves.

- *Expenses*
  The expense assumptions are based on the Company's results of the 2016 Expense Study.

- *Lapses and/or persistency rates*
  Lapse and/or persistency rates reflective of the Company's actual experience are taken as the best estimate lapse and/or persistency assumption, with regard to changing Company practices and market conditions. Lapse assumptions are based on the Company's 2018 Lapse Experience Study.

The estimation of liabilities include margin for adverse deviations (MfADs) of +/-10% of the best estimate assumptions as prescribed by IC Circular 2016-66.

Reinsurance - Assumptions and Methods
The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on surplus-share basis with retention limits varying by product. Amounts receivable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statements of financial position as reinsurance assets.

Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

Reinsurance Agreement with Manulife Philippines
On January 1, 2008, the Company entered into a reinsurance agreement with Manulife Philippines. The reinsurance premiums to be paid by the Company to Manulife Philippines will be net of distribution loading, commission, premium taxes, documentary stamp taxes, value added taxes (VAT), local government and withholding taxes.

On June 30, 2014, the reinsurance agreement with Manulife Philippines was terminated. The reinsurance agreement continues to be valid for all policies covered by such agreement. As of December 31, 2018 and 2017, the Company's insurance payable to Manulife Philippines amounted to ₱950.03 million and ₱852.59 million, respectively.

As of December 31, 2018 and 2017, the Company's reinsurance assets related to this agreement amounted to ₱3.97 billion and ₱4.14 billion, respectively. The balance as of December 31, 2018 and 2017 comprised of reinsurers' share of insurance contract liabilities of ₱3.51 billion and ₱3.85 billion, respectively and receivable related to death claims ceded by the Company to Manulife Philippines of ₱462.24 million and ₱159.76 million, respectively.

Reinsurance Agreement with ModCo
The Company has entered into a Quota Share Reinsurance Agreement with Munich RE (the reinsurer) in September 2017, effective July 1, 2017, whereby the Company will cede to the reinsurer proportionate share of premiums reinsured as stipulated in the agreement.

As of December 31, 2018 and 2017, the Company's insurance payable to ModCo amounted to ₱137.40 million and ₱10.12 million, respectively.

As of December 31, 2018 and 2017, the Company's reinsurance assets related to this agreement amounted to ₱306.24 million and ₱131.66 million, respectively.

12. Accounts Payable and Accrued Expenses

This account consists of:

	2018	2017
Accrued expenses	**₱249,965,018**	₱147,647,248
Advance premiums and other policy-related liabilities	**76,437,257**	431,058,832
Commissions payable (Note 14)	**23,283,167**	31,232,456
Taxes payable	**13,339,378**	12,475,260
	₱363,024,820	₱622,413,796

Accrued expenses pertain to accruals for agency conferences, management fees related to IIFs amounting to ₱54.68 million and ₱55.06 million as of December 31, 2018 and 2017, respectively (Note 6) and various liabilities to suppliers. This also include liabilities for Philhealth, Social Security System (SSS) contributions and salary loans, Home Development Mutual Fund (HDMF) contributions and loans, and other miscellaneous liabilities.

Advance premiums and other policy-related liabilities include premiums received from plan holders awaiting the issuance or reinstatement of policies.

Taxes payable consists of withholding taxes related to the cost allocation from Manulife Philippines, fringe benefits and premium taxes. These are normally settled within one year.

13. Capital Stock

Capital stock of the Company consists of the following:

	Number of shares		Amount	
	2018	2017	**2018**	2017
Authorized capital stock - par value ₱100	**5,000,000**	5,000,000	**₱500,000,000**	₱500,000,000
Issued capital stock - par value	**5,000,000**	5,000,000	**₱500,000,000**	₱500,000,000
Additional paid-in capital	**–**	–	**525,000,000**	525,000,000
			₱1,025,000,000	₱1,025,000,000

14. Related Party Transactions

The Company has entered into various transactions with related parties. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions or the parties are subject to common control (referred to as affiliates). Related parties may be individuals or corporate entities.

Outstanding balances at year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party payables or receivables. The Company has not recognized any impairment losses on amounts due from related parties for the years ended December 31, 2018 and 2017. This assessment is undertaken at each financial year through a review of the financial position of the related party and the market in which the related party operates.

The Company has the following volume of transactions and net outstanding balances due to related parties:

As of December 31, 2018

	Entities	Financial Statement Account	Nature	Terms and Conditions	Transactions during the year	Outstanding Balance
Parent Company	Manulife Philippines	Insurance Payable	99% of in-force business ceded to the Parent Company and 1% retained by the Company	Unsecured, non-interest bearing, due and demandable	₱97,446,648	₱950,031,941
		Reinsurance Assets	Reinsurance assets	No term	(173,853,891)	3,967,706,619
		Due to Related Parties	Management fee related to unit-linked investments ceded out to Parent Company	Unsecured, non-interest bearing, due and demandable	94,816,499	177,962,065
		Due to Related Parties	Cost allocation for services rendered	Unsecured, non-interest bearing, due and demandable	(82,326,526)	172,305,120
Ultimate Parent Company	Manulife Financial Corporation	Due to Related Parties	Accrued Portia charge	Unsecured, non-interest bearing, due and demandable	(424,351)	–
		Due from Related Parties	Reimbursement of expenses	Unsecured, non-interest bearing, no impairment	–	1,306,386
Under Common Control	Manulife Business Processing Services	Due to Related Parties	Accrued Portia charge	Unsecured, non-interest bearing, due and demandable	(144,401)	702,204
	Manulife Regional Office	Due to Related Parties	Reimbursement of expenses	Unsecured, non-interest bearing, due and demandable	–	379,384
	Manulife Asset Management and Trust Corporation	Due to Related Parties	Trust fees	Per investment Management Fee Agreement	(5,651,470)	5,899,480
		Due to Related Parties	Payable pertaining to withholding tax	Non-interest bearing	–	325,727
Bancassurance	China Banking Corporation	Commission Payable	Sales commissions	Unsecured, non-interest bearing, due and demandable	(7,949,289)	23,283,167

As of December 31, 2017

	Entities	Financial Statement Account	Nature	Terms and Conditions	Transactions during the year	Outstanding Balance
Parent Company	Manulife Philippines	Insurance Payable	99% of in-force business ceded to the Parent Company and 1% retained by the Company	Unsecured, non-interest bearing, due and demandable	₱262,148,008	₱852,585,293
		Reinsurance Assets	Reinsurance assets	No term	957,215,373	4,141,560,510
		Due to Related Parties	Management fee related to unit-linked investments ceded out to Parent Company	Unsecured, non-interest bearing, due and demandable	231,753,192	83,145,566
		Due to Related Parties	Cost allocation for services rendered	Unsecured, non-interest bearing, due and demandable	216,925,058	254,631,646
Ultimate Parent Company	Manulife Financial Corporation	Due to Related Parties	Accrued Portia charge	Unsecured, non-interest bearing, due and demandable	43,135	424,351
		Due from Related Parties	Reimbursement of expenses	Unsecured, non-interest bearing, no impairment	–	1,306,386
Under Common Control	Manulife Business Processing Services	Due to Related Parties	Accrued Portia charge	Unsecured, non-interest bearing, due and demandable	18	846,605
	Manulife Regional Office	Due to Related Parties	Reimbursement of expenses	Unsecured, non-interest bearing, due and demandable	–	379,384
	Manulife Asset Management and Trust Corporation	Due to Related Parties	Trust fees	Per investment Management Fee Agreement	11,550,950	11,550,950
		Due to Related Parties	Payable pertaining to withholding tax	Non-interest bearing	325,727	325,727
Bancassurance	China Banking Corporation	Commission Payable	Sales commissions	Unsecured, non-interest bearing, due and demandable	406,632,510	31,232,456

On September 12, 2017, the Company entered into an Investment Advisory Agreement (IAA) and Investment Management Agreement (IMA) with Manulife Asset Management and Trust Corporation (an affiliate).

The Company entered into the IAA to avail of advisory services relative to the management of the investible funds of the unit-linked holders. The Company is charged by MAMTC 0.05% of the net asset value of accounts under management plus VAT, accrued daily and collected monthly in accordance with the IAA.

The Company entered into the IMA to avail of services for the management and investments of its investible funds. The Company is charged by MAMTC fees ranging from 0.18% to 0.90% of the net asset value of accounts under management plus VAT, accrued daily and collected monthly in accordance with the IMA.

All transactions with related parties are to be settled in cash.

Outstanding balances as at December 31, 2018 and 2017 are unsecured and non-interest bearing and settlement occurs in cash.

15. Net Insurance Premiums Earned

The details of net insurance premiums earned follow:

	2018	2017
Gross premiums earned on insurance contracts:		
Unit-linked	**₱8,385,773,589**	₱7,956,796,488
Ordinary life insurance	**335,714,293**	352,105,391
Accident and health	**5,741,652**	29,056,497
Group life insurance	**85,464,794**	73,080,726
	8,812,694,328	8,411,039,102
Reinsurers' share of gross premiums earned on insurance contracts (Note 14):		
Ordinary life insurance	**113,776,910**	197,474,040
Unit-linked	**138,516,450**	2,435,151
	252,293,360	199,909,191
	₱8,560,400,968	₱8,211,129,911

16. Investment and Other Income

Investment income consists of:

	2018	2017
Interest income on:		
AFS financial assets (Note 5)	**₱81,624,246**	₱85,286,165
Cash and cash equivalents (Note 4)	**8,847,324**	8,293,644
Loans and receivables (Note 5)	**811,835**	3,280,042
	₱91,283,405	₱96,859,851

Interest income pertains to the interest earned on government and corporate bonds, policy loans, and time deposits.

Other income consists of:

	2018	2017
Revenue from contracts with customers:		
Management fee income	**₱425,409,982**	₱282,460,007
Revenue outside the scope of PFRS 15:		
Reinsurance allowance	**390,776,160**	131,662,250
Cost of insurance	**239,650,270**	148,116,518
Processing fee	**54,801,549**	30,712,828
Miscellaneous revenue	**68,802,766**	68,750,965
	754,030,745	379,242,561
	₱1,179,440,727	₱661,702,568

Management fee income refers to the income from management and administration of assets by the Company charged to the unit linked funds.

Cost of insurance are charges to policyholders used to provide for the mortality component of unit linked products.

Reinsurance allowance are allowances given by reinsurers to cover upfront charges of back-end unit-linked products ceded.

Processing fee pertains to the periodic charges to policyholders to service the insurance contracts during its life.

Miscellaneous revenue consists of the policy administration services and monthly load charges.

17. Benefits and Claims

Gross benefits and claims incurred on insurance contracts during the year consist of:

	2018	2017
Death and hospitalization benefits	**₱109,694,689**	₱79,450,141
Surrenders	**4,466,419**	25,856,684
Maturities	**33,794,754**	1,108,945
	₱147,955,862	₱106,415,770

Gross insurance contract benefits and claims incurred on insurance contracts consist of:

	2018	2017
Ordinary life insurance	**₱11,678,410**	₱36,964,707
Group life insurance	**55,041,402**	45,982,422
Accident and health	**992,973**	4,142,048
Unit-Linked	**80,243,077**	19,326,593
	₱147,955,862	₱106,415,770

Reinsurer’s share of benefits and claims incurred on insurance contracts during the year consist of:

	2018	2017
Unit- linked	**(₱49,404,101)**	(₱32,283,262)
Ordinary life insurance	**(3,416,688)**	(7,329,168)
	(₱52,820,789)	(₱39,612,430)

Gross change in legal policy reserves during the year consist of:

	2018	2017
Unit-linked	**₱8,035,361,223**	₱7,599,992,273
Ordinary life insurance	**185,228,222**	238,874,362
Group life insurance	**7,031,707**	6,233,935
Accident and health	**15,259,625**	15,153,594
	₱8,242,880,777	₱7,860,254,164

The reinsurers' share of gross change in legal policy reserves in 2018 and 2017 amounted to ₱57.77 million and ₱119.77 million, respectively.

18. General and Administrative Expenses

This account consists of:

	2018	2017
Salaries, wages and employee benefits	**₱345,144,855**	₱301,606,889
Advertising	**131,061,780**	115,614,835
Administrative charges	**129,462,603**	155,765,162
Telephone and communications	**22,888,436**	17,124,702
Travel	**12,565,292**	16,929,215
Depreciation and amortization (Note 8)	**9,637,495**	10,587,273
Outside services	**8,894,434**	6,350,043
Rent and utilities	**8,838,907**	8,920,331
Equipment and supplies	**6,146,066**	4,934,796
Taxes and licenses	**3,482,896**	4,548,329
Professional and other fees	**3,355,924**	1,990,676
Repairs and maintenance	**2,057,020**	1,616,368
Others	**95,975,942**	14,375,011
	₱779,511,650	₱660,363,630

Administrative charges
The Company and Manulife Philippines entered into an Administrative Services Agreement on October 1, 2007. On September 29, 2014, the parties executed an addendum to the Administrative Services Agreement. As amended, the agreement requires the Company to pay Manulife Philippines for services rendered equal to:

- the Actual cost incurred by Manulife Philippines in rendering the services plus 5% mark-up on life insurance policies issued after the effective date of the addendum (i.e., July 1, 2014); and
- the Net Costs incurred by Manulife Philippines in rendering the services plus 5% mark-up on life insurance policies issued prior to effective date.

Others include management fees per investment management agreement with MAMTC.

19. Retirement Cost

As discussed in Note 2, the Company maintains a defined contribution (DC) plan which under PIC Q&A 2013-03 should be accounted for as a defined benefit plan.

Republic Act (RA) No. 7641, Retirement Pay Law, requires provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employee's retirement benefits of any collective bargaining and other agreements shall not be less than what is provided under the law. The law does not require minimum funding of the plan.

The Company established a formal defined contribution retirement plan for its regular employees. The retirement plan is non-contributory and of the defined contribution type. It provides a benefit at normal retirement equal to one hundred percent (100%) of the Member's Account Balance (Company contributions ranging from 5% to 10% of Plan Salary plus credited earnings depending on the tenure of eligible employees) or the benefit due under RA 7641, whichever is greater. The benefit is paid in a lump sum upon retirement or separation in accordance with the terms of the retirement plan. If the value of the Member's Company Account is less than the retirement benefits to which the Member is entitled under RA No. 7641, any forfeited Company contributions and earnings remaining in the retirement fund shall be used to satisfy the difference. Should such forfeited amounts be insufficient for the purpose, the Company shall pay the amount of any remaining shortfall directly to the Member.

The assets of the plan are held separately from those of the Company in a fund under the control of a trustee bank.

The latest actuarial valuation study of the Company's minimum retirement obligation under RA No. 7641 was made as of December 31, 2018.

The following table compares the present value of the Company's DB obligation and the projected DC obligation as of December 31, 2018 and 2017.

	2018	2017
DC obligation[1]	**₱17,628,309**	₱21,952,059
DB obligation[2]	**22,011,640**	26,232,325
Excess of DB over DC obligation	**₱4,383,331**	₱4,280,266

1. *Determined on an employee by employee basis as the present value of the projected benefits at retirement attributable to Company contributions to the DC plan, then prorated by accrued service over total service.*
2. *Determined on an employee by employee basis as the present value of the projected benefits based on the minimum guaranteed benefits under RA. 7641*

In 2018 and 2017, contributions made by the Company amounted to ₱5.51 million and ₱4.96 million, respectively, while retirement expense amounted to ₱6.31 million and ₱7.32 million, respectively.

In 2018, certain employees of an affiliate were transferred to the Company with various effective dates in 2018. Consequently, the Company acquired the defined benefit obligation and plan assets pertaining to the pension of the transferred employees. The difference between the transferred defined benefit obligation and plan assets was recognized as 'Due from related parties'.

The following table summarizes the components of the net benefit expense recognized in the statements of income and amounts recognized in the statements of financial position for the plan.

Net benefits expenses follows:

	2018	2017
Current service cost	**₱6,077,084**	₱7,837,437
Net interest cost	**228,066**	(524,900)
	₱6,305,150	₱7,312,537

Remeasurement effects recognized in other comprehensive income follow:

	2018	2017
Actuarial loss (gain)	**(₱10,752,878)**	₱4,775,170
Loss on plan assets	**3,290,954**	6,678,767
	(₱7,461,924)	₱11,453,937

The amounts recognized in the statements of financial position follow:

	2018	2017
Present value of DB obligation	**₱22,011,640**	₱26,232,325
Fair value of plan assets	**(24,675,667)**	(22,232,567)
	(₱2,664,027)	₱3,999,758

Changes in the present value of the defined benefit obligation follow:

	2018	2017
At January 1	**₱26,232,325**	₱14,615,856
Current service cost	**6,077,084**	7,837,437
Interest cost	**1,425,185**	757,364
Benefits paid	**(988,654)**	(1,753,502)
Actuarial loss (gain) arising from:		
Experience adjustments	**(9,877,620)**	5,152,156
Changes in demographic assumptions	**1,740,703**	(39,229)
Changes in financial assumptions	**(2,615,961)**	(337,757)
Acquired obligation	**18,578**	–
At December 31	**₱22,011,640**	₱26,232,325

Changes in the fair value of the plan assets follow:

	2018	2017
At January 1	**₱22,232,567**	₱24,427,073
Interest income included in net interest cost	**1,197,119**	1,282,264
Loss on return on plan assets	**(3,290,954)**	(6,678,767)
Actual contributions	**5,509,564**	4,955,499
Benefits paid	**(988,654)**	(1,753,502)
Acquired plan assets	**16,025**	–
At December 31	**₱24,675,667**	₱22,232,567
Actual return on plan assets	**(₱2,093,835)**	(₱5,396,503)

The principal assumptions used in determining the defined benefit obligation for the Company are as follows:

	2018	2017
Discount rate		
At January 1	**5.70%**	5.35%
At December 31	**7.31%**	5.70%
Annual rate of increase in compensation projection	**6.00%**	7.00%

The sensitivity analysis below showing estimated increase (decrease) in the retirement benefit obligation has been determined based on reasonably possible changes of each relevant significant assumption as at December 31, 2018 and 2017, assuming all other assumptions were held constant.

	Change in basis points	2018	2017
Discount rate	+100	**(₱540,198)**	(₱842,296)
	-100	**816,656**	1,009,910
Salary increase rate	+100	**833,737**	933,466
	-100	**(560,232)**	(788,214)

The retirement fund is co-owned by the Parent Company and its subsidiaries, the Company and MAMTC, which is in the form of a trust administered by a trustee bank. The carrying values of the plan assets as of December 31, 2018 and 2017, which approximate their fair values, are as follows:

	2018	2017
Cash	**₱11,635**	₱3,951
Investments in government debt securities	**268,724,581**	251,759,758
Accrued income receivable	**4,230,857**	3,593,552
Other receivables	**–**	888
Total	**272,967,073**	255,358,149
Liabilities	**31,114,842**	28,177,168
	₱241,852,231	₱227,180,981

As of December 31, 2018 and 2017, the plan assets pertaining to the Company amounted to ₱24.68 million and ₱22.23 million as of December 31, 2018 and 2017, respectively.

The Company expects to contribute ₱2.66 million to the retirement plan in 2019.

Shown below is the maturity profile of the undiscounted benefit payments:

	2018	2017
Less than one year	**₱2,682,794**	₱2,475,718
One to less than five years	**22,790,989**	17,961,958
Five to less than ten years	**22,434,455**	28,348,321
Ten to less than fifteen years	**36,432,906**	27,987,388
Fifteen to less than twenty years	**38,789,894**	41,345,778
Twenty years and above	**67,292,994**	78,525,942

20. Income Taxes

The provision for income tax consists of:

	2018	2017
Final taxes on interest income	**₱18,316,245**	₱18,869,827
MCIT	**19,151,869**	12,572,080
	₱37,468,114	₱31,441,907

The components of net deferred tax assets as of December 31, 2018 and 2017 are as follows:

	2018	2017
Deferred tax assets on:		
NOLCO	**₱1,373,664**	₱3,302,425
Deferred tax liability on:		
Unrealized foreign exchange gain	**1,373,664**	3,302,425
Net deferred tax assets	**₱–**	₱–

The Company did not recognize the deferred tax assets on the following deductible temporary differences, NOLCO and MCIT since management believes that the benefits may not be realized.

	2018	2017
NOLCO	**₱189,680,133**	₱524,571,065
MCIT	**37,957,333**	21,534,649
Provision for IBNR	**23,454,653**	8,940,192
Accrued expenses	**3,310,668**	30,200,292
Allowance per impairment losses	**696,369**	698,872
Remeasurement loss on legal policy reserves	**–**	14,290,907

Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. The Company will reassess the unrecognized deferred tax assets on the above deductible temporary differences and will recognize previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income would allow the deferred tax asset to be recovered.

The unexpired NOLCO and MCIT, which are available for offset against future taxable income and income tax payable, respectively, are as follows:

<u>NOLCO</u>

Year incurred	Amount	Used Amount	Expired Amount	Balance	Expiry Year
2015	₱341,320,137	₱230,087,870	₱111,232,267	₱–	2018
2016	190,351,097	–	–	190,351,097	2019
2017	3,907,914	–	–	3,907,914	2020
	₱535,579,148	₱230,087,870	₱111,232,267	₱194,259,011	

<u>MCIT</u>

Year incurred	Amount	Used Amount	Expired Amount	Balance	Expiry Year
2015	₱2,729,185	₱–	₱2,729,185	₱–	2018
2016	6,233,384	–	–	6,233,384	2019
2017	12,572,080	–	–	12,572,080	2020
2018	19,151,869	–	–	19,151,869	2021
	₱40,686,518	₱–	₱2,729,185	₱37,957,333	

The reconciliation of tax expense computed based on the pretax income at the statutory tax rate to the provision for income tax follows:

	2018	2017
Income before income tax	**₱241,781,514**	₱41,528,836
Income tax expense at statutory income tax rate	**72,534,454**	12,458,651
Additions to (reductions in) income tax expense resulting from:		
Interest income - net of final tax	**(8,268,430)**	(16,226,439)
Fair value loss (gain) on financial assets at FVPL exempt from tax	**1,468,756**	(1,730,597)
Exempt loss (gain) on sale of long term investment in bonds	**11,043,827**	(967,496)
Nondeductible expenses	**5,216,460**	13,099,608
Change in temporary differences without recognized deferred tax assets and others	**(44,526,953)**	24,808,180
	₱37,468,114	₱31,441,907

21. **Risk Management Policies**

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

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

Insurance Risk
The risk under insurance contract is the possibility of the occurrence of an insured event and the uncertainty of the amount and timing of the resulting claim. The principal risk the Company faces under such insurance contracts is that the actual claims and benefit payments or the timing thereof differs from expectations. This could occur due to any of the following:

Occurrence Risk
The possibility that the number of insured events will differ from those expected.

Severity Risk
The possibility that the cost of the events will differ from those expected.

Development Risk
The possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The variability of risks is improved by the diversification of the 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 changes in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The business of the Company comprises life insurance contracts. For contracts where death is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected.

These risks currently do not vary significantly in relation to the location of the risk insured by the Company while undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

There are no mitigating terms and conditions that reduce the insured risk accepted for contracts with fixed and guaranteed benefits and fixed future premiums.

The Company has an objective to control and minimize insurance risk, and to reduce volatility of operating profits. The Company manages insurance risk through the following mechanism:

- Actuarial models based on past experience and statistical techniques aid in pricing decisions and monitoring claims patterns.
- Guidelines are issued for concluding insurance contracts and assuming insurance risks.
- Proactive claims handling procedures are followed to investigate and adjust claims thereby preventing settlement of dubious or fraudulent claims.
- Reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security.
- Diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well-diversified in terms of type and amount of risk, industry and geography.

Insurance risk is also affected by the policyholders' rights to terminate the contract, pay reduced premiums, refusal to pay premiums or to avail the guaranteed annuity option. Thus, the resultant insurance risk is subject to the policyholders' behavior and decisions.

The Company's concentration of insurance risk, before and after reinsurance, in relation to the type of insurance contract is as follows:

	2018	2017
Whole Life insurance		
Gross	**₱1,591,751,210**	₱1,697,483,782
Net	**556,189,063**	857,595,527
Endowment		
Gross	**3,705,579,518**	3,740,255,942
Net	**347,761,399**	413,051,744
Term policies		
Gross	**2,243,057,825**	1,713,054,393
Net	**1,251,036,719**	1,480,631,307
Variable unit-linked policies		
Gross	**62,871,057,864**	50,673,557,398
Net	**41,334,768,980**	37,452,096,647

(Forward)

	2018	2017
Accident and health		
Gross	**₱450,996,574**	₱499,186,187
Net	**391,932,888**	434,075,486
Group insurance		
Gross	**26,647,605,363**	18,549,038,332
Net	**26,647,605,363**	18,549,038,332
Total		
Gross	**97,510,048,354**	76,872,576,034
Net	**70,529,294,412**	59,186,489,043

Underwriting Risk
Underwriting risk represents the exposure to loss resulting from actual policy experience adversely deviating from assumptions made in the product pricing. Underwriting risks are brought about by a combination of the following:

- Mortality risk - risk of loss arising due to policyholder's death experience being different than expected.
- Morbidity risk - risk of loss arising due to policyholder's health experience being different than expected.
- Expense risk - risk of loss arising from expense experience being different than expected.
- Policyholder decision risk - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures.

Underwriting limits are in place to enforce appropriate risk selection criteria.

The Company's retention limit on any single life is: (a) ₱3.00 million or $75,000 in the order of basic individual life, accelerated and standalone dread disease benefit, female benefits which include accelerated major disease benefit, accidental death benefit, accidental death and dismemberment, maccimax benefit; or (b) 20% of the amount of the female accelerated dread disease ceded for female cancer benefit and female surgical benefit; or (c) ₱3.00 million or $75,000 of basic group life and group accidental death and dismemberment.

The Company is cognizant of the need to exercise good judgment in the selection and approval of both domestic and foreign companies participating in its reinsurance programs. While reinsurance arrangements do not relieve the Company from its direct obligations to its insured, an efficient and effective reinsurance program substantially limits the Company's exposure to potentially significant losses.

Type	2018 Number of Policies	2018 Amount of Insurance	2017 Number of Policies	2017 Amount of Insurance
Whole Life	**826**	**₱1,591,751,210**	830	₱1,697,483,782
Endowment	**7,832**	**3,705,579,518**	7,943	3,740,255,942
Term	**539**	**2,243,057,825**	468	1,713,054,393
Variable unit-linked	**51,609**	**62,871,057,864**	42,145	50,673,557,398
Accident and health	**491**	**450,996,574**	493	499,186,187
Group life	**16**	**26,647,605,363**	30	18,549,038,332
	61,313	**₱97,510,048,354**	51,909	₱76,872,576,034

There are no mitigating terms and conditions that reduce the insured risk accepted for contracts with fixed and guaranteed terms.

The insurance risk disclosed above is also affected by the contract holders' right to pay reduced or no future premiums, or to terminate the contract completely. As a result, the amount of insurance risk is also subject to contract holder behavior. On the assumption that the contract holder can make decisions rationally, overall insurance risk can be assumed to be aggravated by such behavior.

Where a derivative is a part of an insurance contract (i.e., embedded derivative), it is treated as an insurance contract and valued as part of the host contract. The valuation of these embedded derivatives are based on the expected future market conditions at maturity arising from variation in interest rates, foreign currency rates and price of equities.

<u>Sensitivities</u>
The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. 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, assumption changes had to be done on an individual basis. It should also be noted that movements in these assumptions are non-linear and the degree of impacts cannot easily be gleaned from these results.

	December 31, 2018				
	Change in assumptions	**Increase (decrease) in gross liabilities**	**Increase (decrease) in net liabilities**	**Increase (decrease) in profit before tax**	**Increase (decrease) in equity***
			(In Thousands)		
Mortality	**+10%**	**₱15,421**	**₱5,443**	**(₱5,443)**	**₱–**
Valuation interest rate	**+1%**	**(458,975)**	**(65,756)**	**–**	**65,756**
	-1%	**458,975**	**65,756**	**–**	**(65,756)**

**Impact on equity reflects adjustments for tax, when applicable*

		December 31, 2017			
	Change in assumptions	Increase (decrease) in gross liabilities	Increase (decrease) in net liabilities	Increase (decrease) in profit before tax	Increase (decrease) in equity*
			(In Thousands)		
Mortality	+10%	₱15,871	₱5,757	(₱5,757)	₱–
Valuation interest rate	+1%	(574,702)	(87,967)	–	87,967
	-1%	574,702	87,967	–	(87,967)

**Impact on equity reflects adjustments for tax, when applicable*

The carrying values of insurance contract liabilities as of December 31, 2018 and 2017 amounted to ₱35.36 billion and ₱34.65 billion, respectively (see Note 10).

Investment Risk

The investment risk represents the exposure to loss resulting from cash flows from invested assets, primarily long-term fixed rate investments, being less than the cash flows required to meet the obligations of the expected policy and contract liabilities and the necessary return on investments.

In addition, there exists a future investment risk associated with certain policies currently in force which will have premium receipts in the future. That is, the investment of those future premium receipts may be at yield below that required to meet future policy liabilities.

To maintain an adequate yield to match the interest necessary to support future policy liabilities, management focus is to reinvest in proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality.

The Company adopts an investment strategy to invest primarily in high quality securities while maintaining diversification to avoid significant exposure to issuer, industry and/or country concentrations. The Company also adopts a strategy to produce cash flows required to meet maturing insurance liabilities. The Company invests in debt securities which are subject to declines in fair value. Generally, insurance regulations restrict the type of assets in which an insurance company may invest. When permitted by regulatory authorities and when deemed necessary to protect insurance assets including invested assets, from adverse movements of foreign currency exchange rates and interest rates, the Company may also enter into derivative transactions as end users.

The Company uses asset-liability matching as a management tool to determine the composition of the invested assets and appropriate investment and marketing strategies. As part of these strategies, the Company may determine that it is economically advantageous to be temporarily in an unmatched position due to anticipated interest rate or other economic changes.

Financial Risk

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk 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.

Market risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements. The risk that the Company primarily faces due to the nature of its investments and liabilities is the interest rate risk.

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.

The Company manages the level of credit risk it accepts through: a comprehensive group credit risk policy, setting out the assessment and determination of what constitutes credit risk for the Company; setting up of exposure limits by each counterparty or group of counterparties, geographical and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collateral and guarantees; reporting of credit risk exposures and breaches to the monitoring authority; and monitoring compliance with credit risk policy and review of credit risk policy for refinance and changing environment.

The Company further restricts its credit risk exposure by entering into master netting arrangements with counterparties with which it transacts significant volumes of transactions. Such arrangements do not generally result in offset of assets and liabilities since transactions are usually settled on a gross basis. However, the credit risk associated with such balances is reduced in the event of a default, when such balances are settled on a net basis. The situation may substantially change within a short period following the reporting date because the exposure is affected by transactions subject to the arrangement.

The Company issues unit-linked investment policies where the policyholder bears the investment risk on the assets held in the unit-linked funds, as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material credit risk on unit linked financial assets. Loans to policyholders are granted against the surrender value of policies.

The table below shows the maximum exposure of the Company to credit risk for the components of the statements of financial position. The maximum exposure is shown net of impairment losses, but before the effect of mitigation through the use of master netting or collateral agreements.

	December 31, 2018		
	Non-Linked	**Unit-linked**	**Total**
Financial assets designated at FVPL			
Debt securities			
Government bonds	**₱–**	**₱8,447,799,719**	**₱8,447,799,719**
Corporate bonds	**–**	**325,565,006**	**325,565,006**
UITFs	**–**	**2,110,429,052**	**2,110,429,052**
Equity securities			
Common shares	**–**	**14,197,125,717**	**14,197,125,717**
Other equity securities	**–**	**5,279,014,326**	**5,279,014,326**
AFS financial assets			
Debt securities			
Government bonds	**1,214,891,503**	**–**	**1,214,891,503**
Corporate bonds	**26,538,715**	**–**	**26,538,715**
Cash and cash equivalents			
Cash in commercial banks	**603,047,873**	**–**	**603,047,873**
Short term deposits in commercial banks	**30,953,829**	**–**	**30,953,829**
Cash and cash equivalents held in IIFs			
Cash in bank	**–**	**1,215,997,375**	**1,215,997,375**

(Forward)

	December 31, 2018		
	Non-Linked	**Unit-linked**	**Total**
Loans and receivables			
Inter-fund receivables	**₱109,213,308**	**₱–**	**₱109,213,308**
Policy loans	**108,088,008**	**–**	**108,088,008**
Insurance receivable	**9,830,976**	**–**	**9,830,976**
Accounts receivable held in IIFs	**–**	**23,243,382**	**23,243,382**
Due from related parties	**1,306,386**	**–**	**1,306,386**
Security fund contribution	**141,244**	**–**	**141,244**
Other receivables	**9,245,852**	**–**	**9,245,852**
Accrued income			
Accrued interests			
AFS debt financial assets	**13,901,810**	**–**	**13,901,810**
Debt financial assets designated at FVPL		**83,444,478**	**83,444,478**
Cash and cash equivalents	**27,234**	**–**	**27,234**
Accrued dividends			
Equity financial assets designated at FVPL		**7,032,855**	**7,032,855**
	₱2,127,186,738	**₱31,689,651,910**	**₱33,816,838,648**

	December 31, 2017		
	Non-Linked	Unit-linked	Total
Financial assets designated at FVPL			
Debt securities			
Government bonds	₱–	₱10,071,061,137	₱10,071,061,137
Corporate bonds	–	870,336,568	870,336,568
UITFs	–	1,220,482,219	1,220,482,219
Equity securities			
Common shares	–	13,217,982,021	13,217,982,021
Other equity securities	–	4,237,952,533	4,237,952,533
AFS financial assets			
Debt securities			
Government bonds	1,560,841,978	–	1,560,841,978
Corporate bonds	24,696,918	–	24,696,918
Cash and cash equivalents			
Cash in commercial banks	489,408,091	–	489,408,091
Short term deposits in commercial banks	77,722,014	–	77,722,014
Cash and cash equivalents held in IIFs			
Cash in bank	–	715,596,407	715,596,407
Loans and receivables			
Policy loans	113,787,789	–	113,787,789
Inter-fund receivables	90,393,365	–	90,393,365
Insurance receivable	18,457,147	–	18,457,147
Due from related parties	1,306,386	–	1,306,386
Accounts receivable held in IIFs	–	165,284,571	165,284,571
Security fund contribution	141,244	–	141,244
Other receivables	10,215,425	–	10,215,425
Accrued income			
Accrued interests			
AFS debt financial assets	15,188,783		15,188,783
Debt financial assets designated at FVPL	–	112,568,238	112,568,238
Cash and cash equivalents	7,134	–	7,134
Accrued dividends			
Equity financial assets designated at FVPL	–	9,486,247	9,486,247
	₱2,402,262,025	₱30,620,749,941	₱33,099,480,050

The following tables provide information regarding the credit risk exposure of the Company as of December 31, 2018 and 2017 by classifying financial assets according to credit ratings of the counterparties:

	As of December 31, 2018			
	Neither past due nor impaired			
	Investment Grade	Non-investment Grade Satisfactory	Not Rated	Total
Financial assets designated at FVPL				
Debt securities				
Government bonds	**₱8,447,799,719**	**₱–**	**₱–**	**₱8,447,799,719**
Corporate bonds	**325,565,006**	–	–	**325,565,006**
UITFs	–	–	**2,110,429,052**	**2,110,429,052**
Equity securities				
Common shares	–	–	**14,197,125,717**	**14,197,125,717**
Other equity securities	–	–	**5,279,014,326**	**5,279,014,326**
AFS financial assets				
Debt securities				
Government bonds	**1,214,891,503**	–	–	**1,214,891,503**
Corporate bonds	–	**26,538,715**	–	**26,538,715**
Cash and cash equivalents				
Cash in commercial banks	**603,047,873**	–	–	**603,047,873**
Short term deposits in commercial banks	**30,953,829**	–	–	**30,953,829**
Cash and cash equivalents held in IIFs				
Cash in bank	**1,215,997,375**	–	–	**1,215,997,375**
Loans and receivables				
Inter-fund receivables	–	–	**109,213,308**	**109,213,308**
Policy loans	–	–	**108,088,008**	**108,088,008**
Insurance receivable	–	**9,830,976**	–	**9,830,976**
Accounts receivable held in IIFs	–	–	**23,243,382**	**23,243,382**
Due from related parties	–	–	**1,306,386**	**1,306,386**
Security fund contribution	–	–	**141,244**	**141,244**
Other receivables	–	–	**9,245,852**	**9,245,852**
Accrued income				
Accrued interests				
AFS debt financial assets	**13,901,810**	–	–	**13,901,810**
Debt financial assets designated at FVPL	**83,444,478**	–	–	**83,444,478**
Cash and cash equivalents	**27,234**	–	–	**27,234**
Accrued dividends				
Equity financial assets designated at FVPL	–	–	**7,032,855**	**7,032,855**
	₱11,935,628,827	**₱36,369,691**	**₱21,844,840,130**	**₱33,816,838,648**

	As of December 31, 2017			
	Neither past due nor impaired			
	Investment Grade	Non-investment Grade Satisfactory	Not Rated	Total
Financial assets designated at FVPL				
Debt securities				
Government bonds	₱10,071,061,137	₱–	₱–	₱10,071,061,137
Corporate bonds	870,336,568	–	–	870,336,568
UITFs	–	–	1,220,482,219	1,220,482,219
Equity securities				
Common shares	–	–	13,217,982,021	13,217,982,021
Other equity securities	–	–	4,237,952,533	4,237,952,533
AFS financial assets				
Debt securities				
Government bonds	1,560,841,978	–	–	1,560,841,978
Corporate bonds	–	24,696,918	–	24,696,918
Cash and cash equivalents				
Cash in commercial banks	489,408,091	–	–	489,408,091
Short term deposits in commercial banks	77,722,014	–	–	77,722,014
Cash and cash equivalents held in IIFs				
Cash in bank	715,596,407	–	–	715,596,407
Loans and receivables				
Reinsurance assets	–	–	4,273,222,760	4,273,222,760
Policy loans	–	–	113,787,789	113,787,789
Inter-fund receivables	–	–	90,393,365	90,393,365
Insurance receivable	–	18,457,147	–	18,457,147
Due from related parties	–	–	1,306,386	1,306,386
Accounts receivable held in IIF		–	165,284,571	165,284,571
Security fund contribution	–	–	141,244	141,244
Other receivables	–	–	10,215,425	10,215,425
Accrued income				
Accrued interests				
AFS debt financial assets	15,188,783	–	–	15,188,783
Debt financial assets designated at FVPL	112,568,238	–	–	112,568,238
Cash and cash equivalents	7,134	–	–	7,134
Accrued dividends				
Equity financial assets designated at FVPL	–	–	9,486,247	9,486,247
	₱13,912,730,350	₱43,154,065	₱23,340,254,560	₱37,296,138,975

The credit quality of the financial assets was determined as follows:

a) *Cash and Cash Equivalents*
These are deposited, placed or invested in foreign and local banks belonging to the top banks in the Philippines in terms of resources and profitability.

b) *Investment Securities*
In respect of investment securities pertaining to financial assets at FVPL and AFS financial assets, the Company secures satisfactory credit quality by setting maximum limits of portfolio securities with a single or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer.

The Company uses Standard and Poor's credit ratings as basis to determine whether a security is investment grade or non-investment grade. In the financial market, securities with credit rating of at least BBB are considered as investment grade securities while securities with credit rating lower than BBB are considered as non-investment grade. Investment grade financial assets are assets which have strong capacity to meet the issuer's financial commitments and are unsusceptible to adverse effects of changes in economic conditions. Non-investment grade financial assets, on the other hand, are assets that are likely to be impaired in adverse economic conditions. However, no default or impairment is expected on these securities as these are issued by the Philippine Government.

All of the Company's securities are lodged in the Registry of Scripless Securities (RoSS) to mitigate misplacement of physical inventory of assets.

c) *Loans and Receivables*
The Company sets a maximum amount and limits that may be advanced to or placed with individual corporate counterparties which are set by reference to their long term ratings.

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions, will only persist during the grace period specified in the policy document or trust deed on the expiry of which the policy is either paid up or terminated.

Those accounts that are classified as not rated include UITFs, quoted equity securities, policy loans, inter-fund receivables, due from related parties, security fund contributions and other receivables for which the Company has not yet established a credit rating system.

As of December 31, 2018 and 2017, bulk of the Company's FVPL and AFS investments pertains to Philippine government securities (see Note 5).

The Company did not have other significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2018 and 2017.

Liquidity Risk
Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or inability to generate cash inflows as anticipated. The major liquidity risk confronting the Company is the daily operating cash requirements.

The Company manages liquidity through its liquidity risk policy, which determines what constitutes liquidity risk for the Company:

- Specify minimum proportion of funds to meet emergency calls
- Setting up contingency funding plans; specifies the sources of funding and the events that would trigger the plan and concentrates on funding sources
- Reporting of liquidity risk exposures and breaches to the monitoring authority
- Monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

The Company uses all its outstanding financial assets to manage liquidity risks.

The tables below analyze financial assets and financial liabilities of the Company into their relevant maturity groups based on the remaining periods at the reporting date to their contractual maturities or expected repayment dates.

	December 31, 2018						
	Up to a year	1-3 years	3-5 years	Over 5 years	No Term	Variable Unit-Linked	Total
Financial assets designated at FVPL							
Debt securities							
Government bonds	₱–	₱–	₱–	₱–	₱–	₱8,447,799,719	₱8,447,799,719
Corporate bonds	–	–	–	–	–	325,565,006	325,565,006
UITFs	–	–	–	–	–	2,110,429,052	2,110,429,052
Equity securities							
Common shares	–	–	–	–	–	14,197,125,717	14,197,125,717
Other equity securities	–	–	–	–	–	5,279,014,326	5,279,014,326
AFS financial assets							
Debt securities							
Government bonds	111,840,313	175,911,877	170,743,126	2,619,814,002	–	–	3,078,309,318
Corporate bonds	16,919,550	3,089,100	9,089,100	29,822,500	–	–	58,920,250
Cash and cash equivalents							
Cash in commercial banks	603,047,873	–	–	–	–	–	603,047,873
Short-term deposits in commercial banks	30,953,829	–	–	–	–	–	30,953,829
Cash and cash equivalents held in IIFs							
Cash in bank	–	–	–	–	–	1,215,997,375	1,215,997,375
Loans and receivables							
Inter-fund receivables	109,213,308	–	–	–	–	–	109,213,308
Policy loans	112,273,454	–	–	–	–	–	112,273,454
Insurance receivables	9,830,976	–	–	–	–	–	9,830,976
Due from related parties	1,306,386	–	–	–	–	–	1,306,386
Accounts receivable held in IIFs	–	–	–	–	–	23,243,382	23,243,382
Security fund contribution	–	–	–	–	141,244	–	141,244
Other receivables	9,245,852	–	–	–	–	–	9,245,852
Accrued income							
Accrued interests							
AFS debt financial assets	13,901,810	–	–	–	–	–	13,901,810
Debt financial assets designated at FVPL	–	–	–	–	–	83,444,478	83,444,478
Cash and cash equivalents	27,234	–	–	–	–	–	27,234
Accrued dividends							
Equity financial assets designated at FVPL	–	–	–	–	–	7,032,855	7,032,855
Total financial assets	1,018,560,585	179,000,977	179,832,226	2,649,636,502	141,244	31,689,651,910	35,716,823,444
Other financial liabilities							
Policy and contract claims payable	40,965,257	–	–	–	–	–	40,965,257
Other insurance contract liabilities	50,586,078	–	–	–	–	–	50,586,078
Policyholders' dividends	192,110,863	–	–	–	–	–	192,110,863
Insurance payables	1,087,437,506	–	–	–	–	–	1,087,437,506
Accounts payable and accrued expenses*	478,721,877	–	–	–	–	–	478,721,877
Accounts and other payables	76,437,257	–	–	–	–	–	76,437,257
Accrued expenses	249,965,018	–	–	–	–	–	249,965,018
Commissions payable	23,283,167	–	–	–	–	–	23,283,167
Held in IIFs:							
Accrued management fees	–	–	–	–	–	54,684,340	54,684,340
Due to related parties	357,573,980	–	–	–	–	–	357,573,980
Total financial liabilities	2,557,081,003	–	–	–	–	54,684,340	2,611,765,343
Net excess liquidity (deficit)	(₱1,538,520,418)	₱179,000,977	₱179,832,226	₱2,649,636,502	₱141,244	₱31,634,967,570	₱33,105,058,101

**Amount excluding statutory liability*

	December 31, 2017						
	Up to a year	1-3 years	3-5 years	Over 5 years	No Term	Variable Unit-Linked	Total
Financial assets at FVPL							
Debt securities							
Government bonds	₱–	₱–	₱–	₱–	₱–	₱10,071,061,137	₱10,071,061,137
Corporate bonds	–	–	–	–	–	870,336,568	870,336,568
UITFs	–	–	–	–	–	1,220,482,219	1,220,482,219
Equity securities							
Common shares	–	–	–	–	–	13,217,982,021	13,217,982,021
Other equity securities	–	–	–	–	–	4,237,952,533	4,237,952,533
AFS financial assets							
Debt securities							
Government bonds	95,332,411	111,966,875	74,644,583	2,973,268,788	–	–	3,255,212,657
Corporate bonds	1,508,427	1,771,631	1,181,088	47,045,490	–	–	51,506,636
Cash and cash equivalents							
Cash in commercial banks	489,408,091	–	–	–	–	–	489,408,091
Short-term deposits in commercial banks	77,722,014	–	–	–	–	–	77,722,014
Cash and cash equivalents held in IIFs							
Cash in bank	–	–	–	–	–	715,596,407	715,596,407
Loans and receivables							
Insurance receivables	18,457,147	–	–	–	–	–	18,457,147
Policy loans	113,787,789	–	–	–	–	–	113,787,789
Due from related parties	1,306,386	–	–	–	–	–	1,306,386
Inter-fund receivables	90,393,365	–	–	–	–	–	90,393,365
Accounts receivable held in IIFs	–	–	–	–	–	241,752,655	241,752,655
Security fund contribution	–	–	–	–	141,244	–	141,244
Other receivables	10,215,425	–	–	–	–	–	10,215,425
Accrued income							
Accrued interests							
AFS debt financial assets	15,188,783	–	–	–	–	–	15,188,783
Debt financial assets at FVPL		–	–	–	–	112,568,238	112,568,238
Cash and cash equivalents	7,134	–	–	–	–	–	7,134
Accrued dividends							
Equity financial assets at FVPL	–	–	–	–	–	9,486,247	9,486,247
Total financial assets	913,326,972	113,738,506	75,825,671	3,020,314,278	141,244	30,697,218,025	34,820,564,696
Other financial liabilities							
Policy and contract claims payable	23,803,019	–	–	–	–	–	23,803,019
Other insurance contract liabilities	70,227,320	–	–	–	–	–	70,227,320
Policyholders' dividends	152,273,529	–	–	–	–	–	152,273,529
Insurance payables	862,705,143	–	–	–	–	–	862,705,143
Accounts payable and accrued expenses*							
Accounts and other payables	431,058,832	–	–	–	–	–	431,058,832
Accrued expenses	147,647,248	–	–	–	–	–	147,647,248
Commissions payable	31,232,456	–	–	–	–	–	31,232,456
Held in IIFs:							
Accrued management fees	–	–	–	–	–	55,058,026	55,058,026
Due to related parties	351,304,229	–	–	–	–	–	351,304,229
Total financial liabilities	2,070,251,776	–	–	–	–	55,058,026	2,125,309,802
Net excess liquidity (deficit)	(₱1,156,924,804)	₱113,738,506	₱75,825,671	₱3,020,314,278	₱141,244	₱30,642,159,999	₱32,695,254,894

**Amount excluding statutory liability.*

As of December 31, 2018 and 2017, the debt securities held in IIFs have maturities beyond 5 years.

It is unusual for the Company to predict the requirements of funding with absolute certainty since the theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are thus based on management's best estimate, based on statistical techniques and past experiences.

AFS debt securities are expected to be held indefinitely and would be realized based on the funding requirement of the Company. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

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

The Company manages market risk by minimizing the duration gap of its assets and liabilities, by ensuring that its liabilities are correctly matched to assets and by setting exposure limits.

The Company structures the levels of market risk it accepts through a group market risk policy that determines what constitutes market risk for the Company; basis used to fair value financial assets and liabilities; asset allocation and portfolio limit structure; diversification benchmarks by type of instrument and geographical area; and sets out the net exposure limits by each counterparty or group of counterparties, geographical and industry segments.

The Company's principal transactions with insurance and investment policyholders comprise of unit-linked contracts in which the unit prices (i.e., obligation to the policyholders) are based on fair values of investments and other assets within the portfolio. Therefore, there is no foreign currency, equity and interest rate risk for these contracts. However, the Company's exposure to such contracts is the risk of volatility in asset management fees due to the impact of interest rate and market price movements on the fair value of assets held in the linked funds, on which investment management fees are based. Within this category of contracts, there are insurance contracts with minimum guaranteed death benefits that expose the Company to the risk of decline in the value of underlying investments as a result of change in interest rates.

The Company issues unit linked investment policies where the policyholder bears the investment risk on the assets held in the unit-linked funds, as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material market risk on unit linked financial assets.

Currency Risk
The Company holds foreign currency denominated assets and liabilities, thus, fluctuations on the foreign exchange rates can affect the financial and cash flows of the Company. Exposure to currency risk arises mainly when financial assets and liabilities are denominated in a currency other than the Company's functional currency or will be denominated in such a currency in the planned course of business.

The Company invests in dollar bonds to meet its dollar obligations from its dollar insurance products. The following table shows the details of the Company's currency exposure in original currency (US$) and Philippine Peso equivalent (PHP) as of December 31, 2018 and 2017:

	2018		2017	
Assets	**US$**	**PHP**	US$	PHP
Cash and cash equivalents	**$3,892,585**	**₱204,672,119**	$1,407,616	₱70,282,267
Loans and receivables	**85,374**	**4,488,965**	92,091	4,598,104
	3,977,959	**209,161,084**	1,499,707	74,880,371
Policy and contract claims	**233,636**	**12,284,581**	38,569	1,925,750
Net exposures	**$3,744,323**	**₱196,876,503**	$1,461,138	₱72,954,621

Foreign currency risk is monitored and analyzed systematically. The Company's policy is to maintain foreign currency exposure within existing regulations, and within acceptable risk limits. The Company believes in ensuring that its foreign currency is at all times within limits prescribed for companies who are engaged in the same type of businesses.
The exchange rate used to restate the Company's Philippine dollar-denominated assets and liabilities is ₱52.58 and ₱49.93 to $1 as of December 31, 2018 and 2017, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rate, with all variables held constant, of the Company's income before tax (due to changes in the fair value of monetary assets and liabilities).

	2018	
	Change in Variable	**Increase (Decrease) on Income before Tax**
USD	**+3.54%**	**₱6,969,428**
	-3.54%	**(6,969,428)**

	2017	
	Change in Variable	Increase (Decrease) on Income before Tax
USD	+3.54%	₱2,582,594
	-3.54%	(2,582,594)

The sensitivity analysis above has been determined assuming that the change in interest rates has occurred at the reporting date and has been applied to the exposure to interest rate risk for interest bearing financial instruments in existence at that date. The increase or decrease in basis points represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

Fair Value Interest Rate Risk
Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company's fixed rate investments in particular are exposed to such risk.

The Company manages fair value interest rate risk by minimizing the duration gap of its assets and liabilities.

The following tables show information relating to the Company's financial instruments as of December 31, 2018 and 2017 that are exposed to fair value interest rate risk presented by maturity profile (see Note 5):

	December 31, 2018					
Fixed Rate Instruments	**Interest Rate**	**<1 year**	**1 - 5 years**	**Over 5 years**	**No term**	**Total**
Financial assets						
AFS financial assets						
Debt securities						
Government bonds	**3.38% - 9.50%**	**₱25,352,802**	**₱4,733,575**	**₱1,184,805,126**	**₱–**	**₱1,214,891,503**
Corporate bonds	**3.92% - 6.08%**	**–**	**5,006,820**	**21,531,895**	**–**	**26,538,715**
Loans and receivables						
Policy loans	**7.50% - 8.00%**	**112,273,454**	**–**	**–**	**–**	**112,273,454**
Short-term deposits	**0.75% - 1.00%**	**30,953,829**	**–**	**–**	**–**	**30,953,829**
Cash in banks	**1.25% - 5.00%**	**1,819,045,248**	**–**	**–**	**–**	**1,819,045,248**
		₱1,987,625,333	**₱9,740,395**	**₱1,206,337,021**	**₱–**	**₱3,203,702,749**

		December 31, 2017				
Fixed Rate Instruments	Interest Rate	<1 year	1 - 5 years	Over 5 years	No term	Total
Financial assets						
AFS financial assets						
Debt securities						
Government bonds	4.63% - 9.50%	₱2,003,958	₱–	₱1,558,838,020	₱–	₱1,560,841,978
Corporate bonds	3.92% - 5.26%	–	–	24,696,918	–	24,696,918
Loans and receivables						
Policy loans	7.50% - 8.00%	113,787,789	–	–	–	113,787,789
Short-term deposits	0.5% - 1.75%	77,722,014	–	–	–	77,722,014
Cash in banks	1.25% - 3.50%	1,205,004,498	–	–	–	1,205,004,498
		₱1,398,518,259	₱–	₱1,583,534,938	₱–	₱2,982,053,197

The table below demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's other comprehensive income through the impact of AFS financial assets.

		Impact on OCI	
Currency	**Change in basis points**	**2018**	2017
Philippine Peso	+100	**(₱122,678,187)**	(₱179,592,166)
Philippine Peso	-100	**₱122,678,187**	₱179,592,166

The Company determined the reasonably possible change in fair value interest rate risk by using the trend analyses of the Company's monthly sustainable portfolio yields for the past three years.

Equity Price Risk
The Company has no price risk exposure at year-end related to underlying equity financial assets of insurance investment funds. While the values of these equity financial assets will fluctuate as a result of changes in market prices, such fluctuation will not affect either the Company's income before tax or other comprehensive income.

Financial Instruments - Fair Value Measurement

Due to the short-term nature of cash and cash equivalents, insurance receivables, policy loans, accounts receivables held in IIFs, due from related parties, other receivables, accrued income, insurance payables, due to related parties, accounts payable and accrued expenses, their carrying values reasonably approximate their fair values at year-end.

The fair values of financial assets at FVPL and AFS financial assets that are actively traded in organized financial markets are determined by reference to quoted prices, at the close of business on the reporting date.

The carrying amounts of policyholders' dividends and premium deposit fund approximate fair values considering that these are due and demandable.

The following table shows the analysis of financial assets recorded at fair value and financial assets for which fair value is required to be disclosed by level of the fair value hierarchy:

	December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
AFS financial assets				
Debt securities				
Government bonds	**₱4,733,575**	**₱1,210,157,928**	**₱–**	**₱1,214,891,503**
Corporate bonds	**26,538,715**	**–**	**–**	**26,538,715**
Financial Assets designated at FVPL				
Debt securities held in IIFs				
Government bonds	**4,358,959,185**	**4,088,840,534**	**–**	**8,447,799,719**
Corporate bonds	**122,761,280**	**202,803,726**	**–**	**325,565,006**
UITFs	**2,110,429,052**	**–**		**2,110,429,052**
Equity securities held in IIFs				
Common stock	**14,197,125,717**	**–**	**–**	**14,197,125,717**
Other equity securities	**5,279,014,326**	**–**	**–**	**5,279,014,326**
Total	**₱26,099,561,850**	**₱5,501,802,188**	**₱–**	**₱31,601,364,038**

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
AFS financial assets				
Debt securities				
Government bonds	₱39,940,571	₱1,520,901,407	₱–	₱1,560,841,978
Corporate bonds	24,696,918	–	–	24,696,918
Financial Assets designated at FVPL				
Debt securities held in IIFs				
Government bonds	5,196,541,810	4,874,519,327	–	10,071,061,137
Corporate bonds	328,179,101	542,157,467	–	870,336,568
UITFs	1,220,482,219	–	–	1,220,482,219
Equity securities held in IIFs				
Common stock	13,217,982,021	–	–	13,217,982,021
Other equity securities	4,237,952,533	–	–	4,237,952,533
Total	₱24,265,775,173	₱6,937,578,201	₱–	₱31,203,353,374

There were no changes in the valuation technique used by the Company. In 2018 and 2017, there have been no transfers between Level 1 and Level 2, and no transfers into and out of Level 3.

22. Lease Commitments

On November 1, 2013, the Company entered into a contract of lease for the use of its office for a period of 5 years. This lease agreement has escalation clause ranging from 5% to 10%.
In October 2018, the contract was extended up to February 26, 2019.

Future minimum lease payments under lease commitments existing as of December 31, 2018 and 2017 are as follows:

	2018	2017
Within one (1) year	**₱1,541,233**	₱3,848,572
After one (1) year but not more than five (5) years	**–**	1,740,000
	₱1,541,233	₱5,588,572

The lease agreement of the Company for its LKG premises was ended on October 31, 2018 and was just extended up to the date when the Company transferred to its new business premises at NEX Tower in Ayala Avenue, Makati City. Rent expense incurred by the Company in 2018 and 2017 amounted to ₱7.66 million and ₱7.01 million, respectively.

23. **Regulatory Requirements**

Capital Management Framework

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is usually higher than the minimum capital requirements set by the regulators and the amount computed under the Risk-based Capital (RBC) Model.

The Company fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its capital base, objectives, policies and processes from the previous year.

The Company's risk management function has developed and implemented certain minimum stress and scenario tests for identifying the risks to which each of its business units and the Company as a whole is exposed, quantifying their impact on the volatility of economic capital. The results of these tests, particularly the anticipated impact on the realistic financial position and revenue account of each business unit, are reported to the Company's risk management function. The risk management function then considers the aggregate impact of the overall capital requirement revealed by the stress testing to assess how much capital is needed to mitigate the risk of insolvency to a selected remote level.

Regulatory Framework

A substantial portion of the Company's long-term insurance business comprises policies where the investment risk is borne by policyholders. Risk attributable to policyholders is actively managed keeping in view their investment objectives and constraints.

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

The operations of the Company are subject to the regulatory requirements of the Insurance Commission. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions, (e.g., fixed capitalization requirements and RBC requirements) to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise.

Fixed Capitalization Requirements

On August 5, 2013, the President of the Philippines approved the Republic Act No. 10607, known as the "New Insurance Code" (Amended Code), which provides the new capitalization requirements of all existing insurance companies based on networth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required networth and the schedule of compliance per Amended Insurance Code:

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

On January 13, 2015, the IC issued CL No. 02-2015 which provide clarifications on the minimum capitalization requirements under Sections 194, 197, 200 and 289 of the Amended Code. It also supersedes DO No. 15-2012, DO No. 27-2006, CL No. 22-2008 and CL No. 26-2008. According to the CL, the minimum networth requirement would be ₱250,000,000 by December 31, 2013. The minimum networth shall be unimpaired at all times and shall increase to the amounts as follows:

Minimum Networth	Compliance Date
₱550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

As of December 31, 2018, the required minimum statutory net worth for the Company is ₱550 million. The Company has complied with the minimum paid-up capital requirement.

Solvency Requirement
Under the revised Insurance Code (RA 10607), a life insurance company doing business in the Philippines shall at all times maintain the minimum paid-up capital, and net worth requirements as prescribed by the Commissioner. Such solvency requirements shall be based on internationally accepted solvency frameworks and accepted only after due consultation with the insurance industry association.

The amounts of estimated non-admitted assets, as defined in the Code, are as follows:

	2018 (Estimated)	2017 (Actual)
Loans and receivables	**₱9,259,513**	₱10,687,189
Property and equipment - net	**17,327,498**	17,692,770
Other assets	**27,860,402**	24,433,339
	₱54,447,413	₱52,813,298

The Excess Solvency shall be the excess of the value of its admitted assets (as defined under the same Code), over the amount of its liabilities and the required minimum capital/net worth.

If an insurance company fails to meet the minimum required capital, the Insurance Commission is authorized to suspend or revoke all certificates of authority granted to such company, its officers and agents, and no new business shall be done by and for such company until its authority is restored by the Insurance Commission.

The final amount of the net worth as of December 31, 2018 and 2017 can be determined only after the accounts of the Company have been examined by the Insurance Commission, specifically as to admitted and non-admitted assets as defined under the Code.

The following table shows the total equity available for Minimum Capital as of December 31:

	2018 (Estimated)	2017 (Actual)
Total admitted assets	**₱34,647,474,876**	₱33,268,200,054
Total liabilities	**33,884,441,791**	32,624,143,492
Total net worth	**763,033,085**	644,056,562
Required Minimum Capital / Net Worth	**550,000,000**	550,000,000
	₱213,033,085	₱94,056,562

Unimpaired Capital Requirement
In August 7, 2008, the Insurance Commission issued IMC 22-2008 providing that for purposes of determining compliance with the law, rules and regulations requiring that the paid-up capital should remain intact and unimpaired at all times, the statements of financial position should show that the net worth or equity is at least equal to the actual paid-up capital. The Company has complied with the unimpaired capital requirement.

Risk-Based Capital (RBC) Requirements
Pursuant to Section 194 of the Amended Insurance Code (R.A 10607), the Insurance Commission conducted a review of the current Risk Based Capital (RBC) Framework contained in Insurance Memorandum Circular Numbered 6-2006 and 7-2006 both dated October 5, 2006. On June 10, 2015, the Insurance Commission issued Circular Letter No. 2015-30 requiring all life and non life insurance companies to participate in parallel runs for the RBCQ15 (Quantitative Impact Study).

In 2016, IC issued Circular Letter No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework*, prescribes that all insurance companies must satisfy the minimum statutory RBC ratio of 100% and not fail the Trend Test as stated under Section 3 of this Circular. The RBC ratio of an insurance company shall be equal to the Total Available Capital (TAC) divided by the RBC requirement. IC Circular Letter No. 2016-69, *Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework*, provides that the level of sufficiency for the RBC2 Framework shall be at 95% level in 2017, 97.50% in 2018 and 99.50% in 2019.

The following table shows how the RBC ratio was determined as of December 31, 2018 and 2017:

	2018 (Estimated)	2017 (Actual)
Total Available Capital (TAC)	**789,889,702**	675,734,234
RBC requirement	**301,247,970**	373,161,936
RBC ratio	**262%**	181%

RBC2 Ratio is computed by dividing TAC with Required Capital. RBC TAC is computed by deducting non-admitted assets from PFRS Equity, plus sum of Excess capital from subsidiaries and 50% of PV dividends less IT equipment and Investment in subsidiaries. While Required Capital requirement of an insurance company is the capital that is required to be held appropriately to the risks an insurance company is exposed to. The minimum RBC ratio is set at 100%. All insurance companies are required to maintain the minimum RBC ratio and not fail the Trend Test as required by Circular 2016-68.

The final RBC ratio can only be determined after the accounts of the Company have been examined by IC.

Dividend Declaration

Under Section 201 of the Amended Code, no insurance company shall declare and distribute any dividend on its outstanding stocks unless it has met the minimum paid-up capital and net worth requirements and except from profits attested in a sworn statement to the Commissioner by the president or treasurer of the corporation to be remaining on hand after retaining unimpaired : (a) the entire paid-up capital stock, (b) the solvency requirements, (c) in the case of life insurance corporations, the legal reserve fund, and (d) a sum sufficient to pay all net losses reported, or in the course of settlement, and all liabilities for expenses and taxes. If the Commissioner finds that any such corporation has declared or distributed any such dividend in violation of this section, he may order such corporation to cease and desist from doing business until the amount of such dividend or the portion thereof in excess of the amount allowed under this section has been restored to said corporation.

24. Current and Non-Current classification

The Company's classification of its account is as follows:

	2018			2017		
	Current	**Non-current**	**Total**	Current	Non-current	Total
Assets						
Cash and cash equivalents	**₱1,850,094,830**	**₱–**	**₱1,850,094,830**	₱1,282,822,265	₱–	₱1,282,822,265
Insurance receivables	**9,830,976**	**–**	**9,830,976**	18,457,147	–	18,457,147
Reinsurance assets	**4,273,945,905**	**–**	**4,273,945,905**	4,273,222,760	–	4,273,222,760
Financial assets						
Financial assets at fair value through profit or loss	**30,359,933,820**	**–**	**30,359,933,820**	29,617,814,478	–	29,617,814,478
Available-for-sale financial assets	**25,352,802**	**1,216,077,416**	**1,241,430,218**	2,003,958	1,583,534,938	1,585,538,896
Loans and receivables	**251,096,936**	**141,244**	**251,238,180**	380,987,536	141,244	381,128,780
Accrued income	**104,406,377**	**–**	**104,406,377**	137,250,402	–	137,250,402
Property and equipment	**–**	**19,931,717**	**19,931,717**	–	21,653,324	21,653,324
Other assets	**34,387,298**	**3,957,612**	**38,344,910**	24,861,030	4,717,318	29,578,348
	36,909,048,944	**1,240,107,989**	**38,149,156,933**	35,737,419,576	1,610,046,824	37,347,466,400
Liabilities						
Insurance contract liabilities	**31,632,334,977**	**3,729,734,827**	**35,362,069,804**	30,635,161,724	4,012,395,723	34,647,557,447
Insurance payable	**1,087,437,506**	**–**	**1,087,437,506**	862,705,143	–	862,705,143
Policyholders' dividends	**192,110,863**	**–**	**192,110,863**	152,273,529	–	152,273,529
Accounts payable and accrued expenses	**363,024,820**	**–**	**363,024,820**	622,413,796	–	622,413,796
Pension liability	**–**	**–**	**–**	–	3,999,758	3,999,758
Due to related parties	**357,573,980**	**–**	**357,573,980**	351,304,229	–	351,304,229
Income tax payable	**3,828,422**	**–**	**3,828,422**	3,466,226	–	3,466,226
	₱33,636,310,568	**₱3,729,734,827**	**₱37,366,045,395**	₱32,627,324,647	₱4,016,395,481	₱36,643,720,128