From: noreply-cifssost@sec.gov.ph
Subject: SEC eFast Initial Acceptance
Date: Thursday, April 27, 2023 10:37:03 AM

CAUTION: This is an external email. Please exercise caution when accessing links or attachments.

Greetings!

SEC Registration No: AS96000511
Company Name: Pru Life Insurance Corporation of U.K.
Document Code: AFS

This serves as temporary receipt of your submission.
Subject to verification of form and quality of files of the submitted report.
Another email will be sent as proof of review and acceptance.

Thank you.

REMINDER:
TO ALL FILERS OF REPORTS IN THE e-FAST

Please strictly follow the instruction stated in the form.

Filings not in accordance with the prescribed template for the following reports will be automatically reverted by the system to the filer.

1. General Information Sheet (GIS-Stock)
2. General Information Sheet (GIS-Non-stock)
3. General Information Sheet (GIS- Foreign stock & non-stock)
4. Broker Dealer Financial Statements (BDFS)
5. Financing Company Financial Statements (FCFS)
6. Investment Houses Financial Statements (IHFS)
7. Publicly – Held Company Financial Statement
8. General Form for Financial Statements
9. Financing Companies Interim Financial Statements (FCIF)
10. Lending Companies Interim Financial Statements (LCIF)

Per Section 18 of SEC Memorandum Circular No. 3 series of 2021, the reckoning date of receipt of reports is the date the report was initially submitted to the eFast, if the filed report is compliant with the existing requirements.

A report, which was reverted or rejected, is considered not filed or not received. A notification will be sent to the filer, stating the reason for the reports rejection in the remarks box.

SECURITIES AND EXCHANGE COMMISSION
SEC Headquarters, 7907 Makati Avenue,
Salcedo Village, Barangay Bel-Air, Makati City,
1209, Metro Manila, Philippines

From: eafs@bir.gov.ph
Sent: Wednesday, 26 April 2023 5:03 pm
To: [redacted]
Cc: [redacted]
Subject: Your BIR AFS eSubmission uploads were received

CAUTION: This is an external email. Please exercise caution when accessing links or attachments.

Hi PRU LIFE INSURANCE CORPORATION OF UK,

Valid files

- EAFS004661494ITRTY122022.pdf
- EAFS004661494AFSTY122022.pdf
- EAFS004661494OTHTY122022.pdf
- EAFS004661494TCRTY122022-02.pdf
- EAFS004661494TCRTY122022-01.pdf
- EAFS004661494RPTTY122022.pdf
- EAFS004661494TCRTY122022-03.pdf

Invalid file

- <None>

Transaction Code: **AFS-0-GJ67E8G08HFF97JLMVNRP4Q206FA99LJB**
Submission Date/Time: **Apr 26, 2023 05:02 PM**
Company TIN: **004-661-494**

Please be reminded that you accepted the terms and conditions for the use of this portal and expressly agree, warrant and certify that:

- The submitted forms, documents and attachments are complete, truthful and correct based on the personal knowledge and the same are from authentic records;
- The submission is without prejudice to the right of the BIR to require additional document, if any, for completion and verification purposes;
- The hard copies of the documents submitted through this facility shall be submitted when required by the BIR in the event of audit/investigation and/or for any other legal purpose.

This is a system-generated e-mail. Please do not reply.

C O V E R   S H E E T

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A S 0 9 6 - 0 5 1 1

COMPANY NAME

PRU LIFE INSURANCE CORPORATION OF U.K.

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

9/F Uptown Place Tower 1
1 East 11th Drive, Uptown
Bonifacio, Taguig City 1634
Metro Manila, Philippines

Form Type	Department requiring the report	Secondary License Type, If Applicable
A A F S		

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number
contact.us@prulifeuk.com.ph	(02) 887-5433	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
8	June 20	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Dante Marasigan	Dante.Marasigan@prulifeuk.com.ph	(632) 8683-9203	(63) 919-086-8337

CONTACT PERSON's ADDRESS

9/F Uptown Place Tower 1, 1 East 11th Drive, Uptown Bonifacio, Taguig City 1634

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

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

PRU LIFE U.K.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The Management of **Pru Life Insurance Corporation of U.K.** (the "Company") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended **December 31, 2022 and 2021**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free form 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.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein and submits the same to the shareholders of the Company.

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

Imelda C. Tiongson
Chairman, Board of Directors

Eng Teng Wong
President and Chief Executive Officer

Francis P. Ortega
Treasurer, Executive Vice President & Chief Financial Officer

Signed this 24th day of March 2023

PRU LIFE INSURANCE CORPORATION OF U.K.

SEPARATE FINANCIAL STATEMENTS
December 31, 2022 and 2021

With Independent Auditors’ Report

KPMG

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

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Pru Life Insurance Corporation of U.K.
9/F Uptown Place Tower 1
1 East 11th Drive, Uptown Bonifacio
Taguig City 1634, Metro Manila
Philippines

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Pru Life Insurance Corporation of U.K. (the Company), which comprise the separate statements of financial position as at December 31, 2022 and 2021, and the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Company as at December 31, 2022 and 2021, and its unconsolidated financial performance and its unconsolidated cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audit in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate 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 separate 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 Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate 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.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate 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 separate 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 auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

Our audit was conducted for the purpose of forming an opinion on the basic separate financial statements taken as a whole. The supplementary information in Note 33 to the basic separate financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic separate financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic separate financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic separate financial statements taken as a whole.

R.G. MANABAT & CO.

FLORIZZA C. SIMANGAN
Partner
CPA License No. 0147917
IC Accreditation No. 147917-IC, Group A, valid for five (5) years
covering the audit of 2021 to 2025 financial statements
SEC Accreditation No. 147917-SEC, Group A, valid for five (5) years
covering the audit of 2021 to 2025 financial statements
Tax Identification No. 429-267-284
BIR Accreditation No. 08-001987-150-2022
Issued January 27, 2022; valid until January 26, 2025
PTR No. MKT 9563847
Issued January 3, 2023 at Makati City

April 25, 2023
Makati City, Metro Manila

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

SUPPLEMENTAL WRITTEN STATEMENT OF AUDITOR

The Board of Directors and Stockholders
Pru Life Insurance Corporation of U.K.
9/F Uptown Place Tower 1
1 East 11th Drive, Uptown Bonifacio
Taguig City 1634, Metro Manila
Philippines

We have audited the accompanying separate financial statements of Pru Life Insurance Corporation of U.K. (the Company) as at and for the year ended December 31, 2022, on which we have rendered our report dated April 25, 2023.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the said Company has one (1) stockholder owning one hundred (100) or more shares.

R.G. MANABAT & CO.

FLORIZZA C. SIMANGAN
Partner
CPA License No. 0147917
IC Accreditation No. 147917-IC, Group A, valid for five (5) years
covering the audit of 2021 to 2025 financial statements
SEC Accreditation No. 147917-SEC, Group A, valid for five (5) years
covering the audit of 2021 to 2025 financial statements
Tax Identification No. 429-267-284
BIR Accreditation No. 08-001987-150-2022
Issued January 27, 2022; valid until January 26, 2025
PTR No. MKT 9563847
Issued January 3, 2023 at Makati City

April 25, 2023
Makati City, Metro Manila

Firm Regulatory Registration & Accreditation:
PRC-BOA Registration No. 0003, valid until November 21, 2023
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

PRU LIFE INSURANCE CORPORATION OF U.K.

SEPARATE STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

		December 31	
	Note	**2022**	2021
ASSETS			
Cash and cash equivalents	*5, 7, 32*	**P5,930,837**	P2,574,335
Interest receivable	*5, 32*	**126,855**	132,241
Investments	*5, 6, 8, 32*	**9,666,746**	12,340,312
Investment in subsidiary	*9, 32*	**239,189**	529,248
Premiums due from policyholders	*5, 32*	**8,716**	10,831
Policy loans receivables - net	*5, 10, 32*	**315,202**	369,607
Coverage debt receivables - net	*5, 12, 32*	**1,065,080**	960,404
Reinsurance assets	*5, 32*	**134,179**	53,439
Property and equipment - net	*13, 32*	**450,064**	415,241
Right-of-use assets - net	*29, 32*	**423,557**	533,003
Deferred acquisition costs	*5, 14, 32*	**14,558,939**	12,455,967
Other assets - net	*15, 32*	**2,046,217**	1,647,258
Total General Assets		**34,965,581**	32,021,886
Assets Held to Cover Linked Liabilities	*11, 32*	**108,522,565**	106,573,549
		P143,488,146	P138,595,435
LIABILITIES AND EQUITY			
General Liabilities			
Legal policy reserves	*5, 16, 32*	**P4,268,958**	P5,611,804
Claims payable	*5, 17, 32*	**1,320,050**	1,042,874
Reinsurance payable	*5, 18, 32*	**226,036**	124,788
Deferred tax liabilities - net	*27, 32*	**2,232,501**	1,788,018
Accounts payable, accrued expenses and other liabilities	*19, 32*	**8,542,426**	7,234,154
Lease liabilities	*5, 29, 32*	**511,023**	634,939
Total General Liabilities		**17,100,994**	16,436,577
Technical Provisions for Linked Liabilities	*5, 11*	**108,522,565**	106,573,549
Total Liabilities		**125,623,559**	123,010,126
Equity			
Capital stock	*30*	**500,000**	500,000
Additional paid-in capital	*30*	**462,000**	462,000
Total paid-up capital		**962,000**	962,000
Contributed surplus		**50,386**	50,386
Fair value reserve	*8*	**14,321**	5,671
Retirement fund reserve		**42,344**	(4,124)
Remeasurement on life insurance reserve		**(113,465)**	(824,644)
Retained earnings	*30*	**16,909,001**	15,396,020
Total Equity		**17,864,587**	15,585,309
Total General Liabilities and Equity		**34,965,581**	32,021,886
		P143,488,146	P138,595,435

See Notes to the Separate Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.

SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Amounts in Thousands)

		Years Ended December 31	
	Note	**2022**	2021
NET PREMIUMS			
Premiums	*20*	**P41,861,165**	P38,446,782
Premiums ceded to reinsurers	*18, 20*	**(363,005)**	(394,161)
		41,498,160	38,052,621
OTHER REVENUE			
Policy administration fees	*21*	**2,217,483**	2,077,652
Investment loss - net	*22*	**(1,176,576)**	(807,933)
Others - net		**10,655**	9,623
		1,051,562	1,279,342
BENEFITS AND CLAIMS			
Costs on premiums of variable insurance	*11*	**17,981,410**	16,538,479
Gross benefits and claims	*23*	**8,648,331**	8,081,967
Reinsurer's share of gross benefits and claims	*23*	**(109,627)**	(42,100)
Gross change in legal policy reserves	*16, 23*	**(394,608)**	(199,877)
		26,125,506	24,378,469
OPERATING EXPENSES			
Commissions, bonuses and other agents' expenses		**7,241,391**	6,499,581
Salaries, allowances and employees' benefits	*24*	**1,847,752**	1,787,406
Utilities		**1,327,210**	1,074,989
Trainings, seminars and contests		**973,922**	829,863
Insurance taxes, licenses and fees		**568,353**	274,789
Depreciation	*13, 29*	**395,512**	409,868
Taxes and licenses	*25*	**277,098**	89,720
Advertising and marketing		**275,705**	282,373
Professional fees		**252,946**	195,307
Communications		**158,991**	198,045
Dividends to policyholders		**130,687**	142,473
Rent	*29*	**101,166**	93,137
Office supplies		**83,233**	89,368
Security and janitorial services		**71,868**	69,649
Amortization of software development costs	*15*	**56,391**	67,716
Representation and entertainment		**52,781**	13,470
Interest expense related to lease liabilities	*29*	**44,454**	52,356
Interest expense related to policies		**41,375**	43,423
Others	*26*	**1,025,042**	437,781
Deferred expenses - net	*14*	**(2,102,972)**	(2,047,281)
		12,822,905	10,604,033

Forward

	Note	2022	2021
		Years Ended December 31	
INCOME BEFORE INCOME TAX EXPENSE		**P3,601,311**	P4,349,461
INCOME TAX EXPENSE (BENEFIT)	*27*	**1,148,330**	(4,496)
NET INCOME		**2,452,981**	4,353,957
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be reclassified to profit or loss			
Net gain on fair value changes of available-for-sale financial assets	*8*	**8,650**	2,200
Items that will not be reclassified to profit or loss			
Remeasurement on life insurance reserve	*16*	**948,238**	578,951
Remeasurement gain (loss) on retirement liability	*24*	**61,958**	(31,803)
Income tax effect	*27*	**(252,550)**	(21,458)
		766,296	527,890
TOTAL COMPREHENSIVE INCOME		**P3,219,277**	P4,881,847

See Notes to the Separate Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.

SEPARATE STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

Years Ended December 31

	Note	**Capital Stock** (Note 30)	**Additional Paid-in Capital** (Note 30)	**Contributed Surplus**	**Fair Value Reserve** (Note 8)	**Retirement Fund Reserve**	**Remeasurement on Life Insurance Reserve**	**Retained Earnings**			**Total Equity**
								Appropriated (Note 16)	**Unappropriated** (Note 30)	**Total**	
Balance at January 1, 2022		**P500,000**	**P462,000**	**P50,386**	**P5,671**	**(P4,124)**	**(P824,644)**	**P60,911**	**P15,335,109**	**P15,396,020**	**P15,585,309**
Total Comprehensive Income											
Net income		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,452,981**	**2,452,981**	**2,452,981**
Other comprehensive income:											
Items that may be reclassified to profit or loss	*8*	**-**	**-**	**-**	**8,650**	**-**	**-**	**-**	**-**	**-**	**8,650**
Items that will not be reclassified to profit or loss		**-**	**-**	**-**	**-**	**46,468**	**711,179**	**-**	**-**	**-**	**757,647**
Total Comprehensive Income		**-**	**-**	**-**	**8,650**	**46,468**	**711,179**	**-**	**2,452,981**	**2,452,981**	**3,219,278**
Transaction with Owner of the Company											
Dividends	*30*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(940,000)**	**(940,000)**	**(940,000)**
Reversal of appropriation of reserves		**-**	**-**	**-**	**-**	**-**	**-**	**(7,899)**	**7,899**	**-**	**-**
Balance at December 31, 2022		**P500,000**	**P462,000**	**P50,386**	**P14,321**	**P42,344**	**(P113,465)**	**P53,012**	**P16,855,989**	**P16,909,001**	**P17,864,587**
Balance at January 1, 2021		P500,000	P462,000	P50,386	P3,471	P17,514	(P1,371,972)	P60,822	P15,153,241	P15,214,063	P14,875,462
Total Comprehensive Income											
Net income		-	-	-	-	-	-	-	4,353,957	4,353,957	4,353,957
Other comprehensive income (loss):											
Items that may be reclassified to profit or loss	*8*	-	-	-	2,200	-	-	-	-	-	2,200
Items that will not be reclassified to profit or loss		-	-	-	-	(21,638)	547,328	-	-	-	525,690
Total Comprehensive Income		-	-	-	2,200	(21,638)	547,328	-	4,353,957	4,353,957	4,881,847
Transaction with Owner of the Company											
Dividends	*30*	-	-	-	-	-	-	-	(4,172,000)	(4,172,000)	(4,172,000)
Appropriation of reserves		-	-	-	-	-	-	89	(89)	-	-
Balance at December 31, 2021		P500,000	P462,000	P50,386	P5,671	(P4,124)	(P824,644)	P60,911	P15,335,109	P15,396,020	P15,585,309

See Notes to the Separate Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.
SEPARATE STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

		Years Ended December 31	
	Note	**2022**	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax expense		**P3,601,311**	P4,349,461
Adjustments for:			
Amortization of deferred acquisition costs	*14*	**1,344,193**	1,179,641
Unrealized loss on valuation of investments	*8, 22*	**1,312,173**	963,631
Provision for impairment losses	*10, 12, 15*	**752,098**	83,339
Depreciation	*13, 29*	**395,512**	409,868
Amortization of software development costs	*15*	**56,391**	67,716
Interest expense related to lease liabilities	*29*	**44,454**	52,356
Interest expense related to policies		**41,375**	43,423
Loss (gain) on disposal of investments	*8, 22*	**18,153**	(27,499)
Gain on disposal of software and development costs	*15*	**-**	(1,209)
Gain on disposal of property and equipment	*13*	**(355)**	(10,316)
Reversal of provision for impairment losses	*10, 15*	**(1,657)**	(10,297)
Unrealized foreign exchange gain	*8,22*	**(41,962)**	(33,080)
Interest income	*22*	**(575,883)**	(543,056)
		6,945,803	6,523,978
Changes in:			
Accounts payable, accrued expenses and other liabilities		**1,667,430**	743,100
Claims payable		**277,176**	432,989
Reinsurance payable		**101,248**	23,779
Policy loans receivables		**54,405**	6,366
Premiums due from policyholders		**2,115**	1,440
Other assets		**(109,224)**	16,317
Reinsurance assets		**(80,740)**	19,856
Coverage debt receivables		**(228,507)**	(200,596)
Legal policy reserves	*16, 23*	**(394,608)**	(199,877)
Deferred acquisition costs	*14*	**(3,447,165)**	(3,226,922)
		4,787,933	4,140,430
Interest paid		**(42,222)**	(43,006)
Contributions to retirement fund	*24*	**(109,379)**	(79,734)
Income tax paid		**(1,008,991)**	(1,269,390)
Net cash provided by operating activities		**3,627,341**	2,748,300

Forward

	Note	2022	2021
		Years Ended December 31	
	Note	**2022**	2021
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of investments	*8*	**P5,187,340**	P4,096,533
Interest received		**581,268**	532,975
Proceeds from disposal of property and equipment	*13*	**3,973**	14,913
Proceeds from disposal of software development costs	*15*	**-**	17,209
Acquisitions of software costs	*15*	**(306,218)**	(67,022)
Additions to investment in subsidiary	*9*	**-**	(169,000)
Acquisitions of property and equipment	*13*	**(361,781)**	(187,806)
Acquisitions of investments	*8*	**(3,793,488)**	(3,626,001)
Net cash provided by investing activities		**1,311,094**	611,801
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	*30*	**(1,280,000)**	(3,832,000)
Payment of lease liabilities	*29*	**(301,933)**	(276,949)
Cash used in financing activities		**(1,581,933)**	(4,108,949)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**3,356,502**	(748,848)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**2,574,335**	3,323,183
CASH AND CASH EQUIVALENTS AT END OF YEAR	*5, 7, 32*	**P5,930,837**	P2,574,335

See Notes to the Separate Financial Statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

(Amounts in Thousands, except as indicated)

1. Reporting Entity

Pru Life Insurance Corporation of U.K. (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on January 17, 1996, primarily to engage in the business of life insurance. The Company started commercial operations in September 1996. On September 11, 2002, the Insurance Commission (IC) approved the Company's license to sell variable unit-linked insurance, a life insurance product which is linked to investment funds.

The Company is a wholly-owned subsidiary of Prudential Corporation Holdings Limited (Prudential). The Company's ultimate parent company is Prudential plc, an internationally-diversified organization providing life insurance and fund management services worldwide. Prudential plc was incorporated in United Kingdom and has primary listing on the London Stock Exchange and secondary listings on Hong Kong, New York and Singapore stock exchanges.

The Company has a Certificate of Authority No. 2022/62-R issued by the IC to transact in life insurance business until December 31, 2024.

The Company's registered address is at the 9/F Uptown Place Tower 1, 1 East 11th Drive, Uptown Bonifacio, Taguig City 1634, Metro Manila, Philippines.

2. Basis of Preparation

Statement of Compliance

The separate financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). PFRSs which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRSs, Philippine Accounting Standards (PAS), and Philippine Interpretations.

The Company elected not to prepare a consolidated financial statements since Prudential plc, the ultimate parent company, prepares consolidated financial statements that comply with IFRSs.

The separate financial statements were authorized for issue by the Board of Directors (BOD) on March 24, 2023.

Details of the Company's accounting policies are included in Note 3.

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

Items	Measurement bases
Financial instruments at fair value through profit or loss (FVPL)	Fair value
Available-for-sale (AFS) financial assets	Fair value
Investments in Agents' Savings Fund (ASF)	Fair value
Investments in treasury notes, shares of stocks, and other funds under "Assets held to cover linked liabilities"	Fair value
Legal policy reserves	Gross Premium Valuation (GPV) and Unearned Premiums for traditional contracts; Unearned Cost of Insurance Charges for unit-linked contracts and Unearned Premiums for traditional contracts; Unearned Cost of Insurance Charges for unit-linked contracts
Retirement liability	Present value of the defined benefit obligation (DBO) less the fair value of the plan assets (FVPA)
Lease liabilities	Present value of the lease payments not yet paid discounted using the Company's incremental borrowing rate

Functional and Presentation Currency
The separate financial statements of the Company are presented in Philippine peso, which is the Company's functional currency. All financial information has been rounded off to the nearest thousands (P'000s), unless otherwise indicated.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these separate financial statements, except for the changes in accounting policies as discussed below.

Adoption of Amendments to Standards
The Company has adopted the following amendments to standards starting January 1, 2022 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Company's separate financial statements.

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

The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Earlier application is permitted. A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate. The adoption is mandatory for lessees that chose to apply the practical expedient introduced by the 2020 amendments and may result in reversal of lease modifications that was ineligible for the practical expedient under the 2020 amendments, but becomes eligible as a result of the extension.

- Onerous Contracts - Cost of Fulfilling a Contract (Amendment to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). The amendments clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprises both incremental costs and an allocation of other direct costs.

  The amendments apply to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated.

- Annual Improvements to PFRS Standards 2018-2020. This cycle of improvements contains amendments to four (4) standards. Among the amendments, only one (1) is relevant to the Company:

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

<u>Insurance Contracts</u>

Product Classification

Insurance contracts are those contracts under which the Company (the insurer) has accepted 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 determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risks.

Investment contracts are those contracts that transfer significant financial risk but can also transfer insignificant insurance risk. Financial risk is the risk of a possible future change in one (1) 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, provided in the case of a nonfinancial variable that the variable is not specific to a party to the contract.

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 the period, unless all rights and obligations are extinguished or 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 and without Discretionary Participation Feature (DPF). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- likely to be a significant portion of the total contractual benefits;
- the amount or timing of which is contractually at the discretion of the issuer; and
- contractually based on the following:

  - performance of a specified pool of contracts or a specified type of contract;
  - realized or an 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.

The additional benefits include policy dividends that are declared annually, the amounts of which are computed using actuarial methods and assumptions, and are included under "Dividends to policyholders" account in profit or loss with the corresponding liability recognized under dividends payable to policyholders account which is included in "Accounts payable, accrued expenses and other liabilities" account in the separate statement of financial position.

Conventional Long-term Insurance Contracts
These contracts ensure events associated with human life (for example, death or survival) over a long duration. Premiums are recognized as revenue when they become payable by the policyholder. Benefits are recognized as an expense when they are incurred or when the policies reach maturity.

A liability for contractual benefits that is expected to be incurred in the future is recognized under "Legal policy reserves" for policies that are in-force as of each reporting date. Using GPV, the liability is determined as the sum of the present value of future benefits and expenses less the present value of future gross premiums arising from the policy discounted at appropriate risk-free discount rate. For this purpose, the expected future cash flows were determined using the best estimate assumptions with appropriate margin for adverse deviation from the expected experience. The liability is based on assumptions as to mortality, morbidity, lapse or persistency, non-guarantee benefits, and expenses. The present value of liabilities is determined using the discount rate approved by the IC with appropriate margin for adverse deviation.

Unit-linked Insurance Contracts
A unit-linked insurance contract is an insurance contract linking payments to units of an internal investment fund set up by the Company with the consideration received from the policyholders. The investment funds supporting the linked policies are maintained in segregated accounts in conformity with Philippine laws and regulations. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets, while the non-unit reserves for unit-linked insurance contracts are calculated as the unearned cost of insurance charges.

Revenue from unit-linked insurance contracts consists of premiums received and policy administration fees.

Management assessed that the insurance contracts have no derivative components.
As allowed by PFRS 4, *Insurance Contracts*, the Company chose not to unbundle the investment portion of its unit-linked products.

Legal Policy Reserves
Legal policy reserves are determined by the Company's actuary in accordance with the requirements of the amended Insurance Code of the Philippines (Insurance Code) and represent the amounts which are required to discharge the obligations of the insurance contracts and to pay expenses related to the administration of those contracts. These reserves are determined using generally accepted actuarial practices and have been approved by the IC at the product approval stage.

Any movement in legal policy reserves of traditional life insurance policies arising from current period assumptions or changes in assumptions other than discount rate during the year are recognized under "Gross change in legal policy reserves" in profit or loss. While net movement arising from changes in discount rate during the year are recognized directly in other comprehensive income as "Remeasurement on life insurance reserve".

Liability Adequacy Tests
At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of reinsurance assets. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately recognized under "Gross change in legal policy reserves" in profit or loss.

Reinsurance Contracts Held
Contracts entered by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts above are classified as reinsurance contracts held. Contracts that do not meet those classification requirements are classified as financial assets.

The benefits to which the Company is entitled to under its reinsurance contracts held are recognized as reinsurance assets. These include short-term balances due from reinsurers. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as expense when due.

If there is objective evidence that reinsurance assets are impaired, the Company reduces the carrying amount of the reinsurance receivable and recognizes the impairment loss in profit or loss.

Receivables and Payables Related to Insurance Contracts
Receivables and payables are recognized when due. These include amounts due to and from policyholders and amounts due to agents and brokers. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable and recognizes the impairment loss in profit or loss.

Investment in Subsidiary

A subsidiary is an entity controlled by the parent company. The parent company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiary are included in the consolidated financial statements from the date on which the control commences except if the following conditions are met:

- it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
- its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
- it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and
- its ultimate or any intermediate parent produces financial statements that are available for public use and comply with PFRS 10, *Consolidated Financial Statements,* in which subsidiaries are consolidated or are measured at FVPL in accordance with PFRS 10.

The Company met the aforementioned criteria, thus, did not present a consolidated financial statement.

The Company accounted its investments in subsidiary under the cost method, the investment is initially recognized at cost in the separate statement of financial position. Subsequently, these are carried in the separate statement of financial position at cost less any accumulated impairment losses. The Company recognizes income from the investment only to the extent that the Company receives distributions from accumulated profits of the subsidiary arising after the date of acquisition.

Financial Instruments

Derivative Financial Assets

Derivative financial instruments are initially recognized at fair value on the date when the derivative contract is entered into and are subsequently remeasured at fair value. A derivative is reported as an asset when fair value is positive and as a liability when fair value is negative.

The Company's derivative financial asset consists of no deliverable forward contracts under "Assets Held to Cover Linked Liabilities" account.

Non-derivative Financial Assets

Date of Recognition. Financial instruments are recognized in the separate statement of financial position when the Company 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, i.e., the date that the Company commits to purchase the asset.

Initial Recognition. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. The Company classifies its financial assets into the following categories: financial assets at FVPL, AFS financial assets, held-to-maturity (HTM) investments, and loans and receivables. The Company classifies its financial liabilities either as financial liabilities at FVPL or other financial liabilities.

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

As at December 31, 2022 and 2021, the Company has no financial assets classified as HTM investments.

Fair Value Measurement

A number of the Company's accounting policies and disclosures require the measurement of fair value for both financial and nonfinancial assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using another valuation technique. Where applicable, 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.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair value is categorized in different levels in a fair value hierarchy based on the inputs used in the valuation technique (see Note 6).

Financial Instruments at FVPL. This category consists of financial instruments that are held-for-trading or designated by management on initial recognition. Financial instruments at FVPL are recorded in the separate statement of financial position at fair value. The change in fair value of the Company's held-for-trading investments portfolio under "Investments" and investments in ASF under "Other assets" are recognized in unrealized gain on valuation of investments under "Investment gain" and Others - net in profit or loss, respectively.

These are allowed to be designated by management on initial recognition in this category when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or
- these 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 or investment strategy; or
- 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 bifurcated.

Held-for-trading securities are not reclassified subsequent to their initial recognition, unless they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met:

- if the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held-for-trading at initial recognition), then it may be reclassified if the Company has the intention and the ability to hold the financial asset in the foreseeable future or until maturity; and
- the financial asset may be reclassified out of the held-for-trading securities category only under "rare circumstances".

As at December 31, 2022 and 2021, the Company does not have any financial asset designated by management as financial instruments at FVPL. However, the Company's held-for-trading investments portfolio are presented below.

	Note	**2022**	2021
Financial Assets at FVPL	*6, 8*	**P9,623,888**	P12,307,684
AFS Investment	*6, 8,*	**42,858**	32,628
Assets held to cover linked liabilities	*6, 11*	**141,421,422**	144,158,099
Other assets - net	*6, 15*	**644,237**	567,810
		P151,732,405	P157,066,221

As at December 31, 2022 and 2021, the Company's held-for-trading securities include government, quasi-government, corporate debt, equity securities, derivative financial instruments and unit investment trust funds.

The Company's technical provisions for linked liabilities classified as financial liabilities at FVPL amounted to P108.52 billion and P106.57 billion as at December 31, 2022 and 2021, respectively (see Note 11).

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not held for trading.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment loss. 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. The amortization, if any, is included as part of "Others - net" in profit or loss.

As at December 31, 2022 and 2021, the Company's cash and cash equivalents, premiums due from policyholders, policy loans receivables, coverage debt receivables, interest receivable, reinsurance assets, and other assets such as receivable from unit linked fund, advances to employees and agents, and due from related parties are classified under this category. Cash and cash equivalents, interest receivable, receivable from life fund, and other assets such as trade receivables under "Assets held to cover linked liabilities" are also classified under this category.

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 and are subject to an insignificant risk of change in value.

AFS Financial Assets. AFS financial assets are financial assets which are designated as such, or do not qualify to be classified or have not been classified under any other financial asset category. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value. Changes in fair value, other than impairment loss and foreign currency differences on AFS equity securities, are recognized in other comprehensive income and presented as “Fair value reserve”. The losses arising from the impairment of such securities are recognized in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is transferred to profit or loss. The effective yield component of AFS debt securities is reported in profit or loss. When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of unobserved inputs such as in the case of unquoted equity instruments, these financial assets are allowed to be carried at cost less impairment, if any.

As at December 31, 2022 and 2021, the Company’s AFS financial assets amounted to P42.86 million and P32.63 million, respectively, and primarily composed of equity securities (see Note 8).

Other Financial Liabilities. Issued financial instruments or their component, which are not classified as at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder or lender, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company’s own equity instruments.

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. The amortization is included as part of “Interest expense related to policies” in profit or loss.

This category includes the Company’s claims payable, reinsurance payable, and accounts payable, accrued expenses and other liabilities such as dividends payable to policyholders, accrued expenses, due to unit-linked funds, due to related parties, agent’s commission payable, provident fund payable and other liabilities (excluding liabilities to government agencies), and lease liabilities. This category also includes liability to life and other linked funds, accrued expense, and trade payable (excluding liabilities to government agencies) under assets held to cover linked liabilities.

Impairment of Financial Assets

The Company assesses at each reporting date whether a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have 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 economic conditions that correlate with defaults.

Loans and Receivables. 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 accounts, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective assessment for impairment. For the purpose of a collective evaluation of impairment, loans and receivables are grouped on the basis of credit risk characteristics such as type of borrower, collateral type, credit and payment status and term.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the excess of loan's carrying amount over its net realizable value, based on the present value of the estimated future cash flows from the asset. The present value of the estimated future cash flows is discounted at the loan's original effective interest rate. Time value is generally not considered when the effect of discounting is not material.

The carrying amount of an impaired loan is reduced to its net realizable value through the use of an allowance account and the accrual of interest is discontinued. If, in a subsequent period, the amount of the allowance for impairment loss decreases because of an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed to profit or loss to the extent that the resulting carrying amount of the asset does not exceed its amortized cost had no impairment loss been recognized.

AFS Financial Assets Carried at Fair Value. In case of equity securities classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below cost. Where there is objective evidence of impairment, the cumulative loss in equity, measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized, is recorded in profit or loss. Subsequent increase in the fair value of an impaired AFS equity security is recognized in other comprehensive income.

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

Income and expenses are presented on a net basis only when permitted under PFRSs, such as in the case of any realized gains or losses arising from the Company's trading activities.

Derecognition of Financial Assets and Liabilities
Financial Assets. A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Company has transferred its right to receive cash flows from the asset and either has: (a) 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 pay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amounts recognized in profit or loss.

Prepayments
Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

Property and Equipment
Property and equipment are measured at cost less accumulated depreciation and impairment losses, if any.

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Company. The cost of day-to-day servicing of an asset is recognized as an expense when incurred.

Items of property and equipment are depreciated on a straight-line basis over the estimated useful lives of each component. Leasehold improvements are amortized over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Estimated useful lives are as follows:

	Number of Years
Computer equipment	3 - 5
Furniture, fixtures and equipment	5
Transportation equipment	5
Condominium unit	25
Leasehold improvements	3 - 5 or term of lease, whichever is shorter

The residual value, useful lives, and depreciation methods for items of property and equipment are reviewed, and adjusted if appropriate, at each reporting date.

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and the related accumulated depreciation and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss.

Office improvement in progress relates to the progress billings of unfinished projects. Such projects include renovations, various installations and system upgrades. When a certain project is finished, the account is credited and capitalized to the appropriate asset account.

No depreciation is recognized for office improvement in progress account because it is not yet available for use by the Company.

Fully depreciated assets are retained in the accounts until they are no longer in use, at which time, the cost and the related accumulated depreciation and amortization are written off.

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

<u>Software Development Costs</u>
Costs directly associated with the development of identifiable computer software that is not an integral part of the hardware that generate expected future benefits to the Company are recognized as intangible asset. All other costs of developing and maintaining computer software are recognized as expense when incurred. Software development costs are recognized under “Other assets” (see Note 15).

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Software development costs are amortized from the date they are available for use, not to exceed five (5) years.

Impairment of Nonfinancial Assets
At each reporting date, the Company assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists, the Company estimates the recoverable amount of the impaired assets. The recoverable amount is the higher of the fair value less costs of disposal and value in use. Value in use is the present value of future cash flows expected to be derived from an asset while fair value less costs of disposal is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties less cost of disposal. 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.

Where the carrying amount of an asset exceeds its recoverable amount, the impaired asset is written down to its recoverable amount.

An impairment loss is recognized in profit or loss in the period in which it arises.

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. The reversal can be made only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Deferred Acquisition Costs
Direct and indirect costs incurred to sell, underwrite and initiate new unit-linked insurance contracts are deferred to the extent that these costs are recoverable out of profit margins of future premiums from these new insurance contracts.

Subsequent to initial recognition, deferred acquisition costs are amortized on a straight-line basis over the period over which significant amount of profit margins from future premiums are expected to be recoverable. Changes in the pattern of future economic benefits for the deferred acquisition costs are accounted for by changing the amortization period and are treated as change in accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognized in profit or loss. Deferred acquisition costs are also considered in the liability adequacy test for each reporting period. Deferred acquisition costs are derecognized when the related contracts are either pre-terminated or have matured before the end of amortization period.

Leases
At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:

    - the Company has the right to operate the asset; or
    - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

As a Lessee
The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measure using the index rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes is assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in "Right-of-use assets" and the corresponding liability in "Lease liabilities" in the separate statement of financial position (see Note 29).

Short-term Leases and Leases of Low-value Assets
The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of office and parking space that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

COVID-19-related Rent Concessions
The Company applies practical expedient related to COVID-19-Related Concessions allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Company applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Company chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Company determines whether there is a lease modification.

Equity

Capital Stock
Capital stock is composed of common shares, determined using the nominal value of shares that have been issued. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects.

Additional Paid-in Capital (APIC)
APIC pertains to the amount that the Company received in excess of the par value of capital stock.

Contributed Surplus
Contributed surplus represents additional contribution of shareholders as provided under the Insurance Code.

Fair Value Reserve
Fair value reserve pertains to the cumulative amount of gains and losses due to the revaluation of AFS financial assets.

Retirement Fund Reserve
This pertains to the cumulative amount of remeasurement of the retirement liability arising from actuarial gains and losses due to experience and demographic assumptions as well as gains and losses in the plan assets.

Remeasurement on Life Insurance Reserve
This represents the increase or decrease of the reserves brought by changes in discount rates.

Retained Earnings
Retained earnings are classified as unappropriated and appropriated. Unappropriated retained earnings represent profit attributable to the equity holders of the Company and reduced by dividends. It may also include effect of changes in accounting policy as may be required by the transitional provision of the standard.

Appropriated retained earnings pertain to the aggregate amount of negative reserves on a per policy basis as a result of GPV prescribed by the IC.

<u>Revenue Recognition</u>
The Company's revenue streams arising from insurance contracts falls under PFRS 4 while interest income falls under PFRS 9 and other income under PFRS 15 *Revenue from Contracts with Customers*. The following specific criteria must also be met before revenue is recognized:

Premiums
Premiums arising from insurance contracts are recognized as income on the effective date of the insurance policies for the first-year premiums. For the succeeding premiums, gross earned recurring premiums on life insurance contracts are recognized as revenue when these become due from the policyholders.

The investment component received from the unit-linked insurance contracts is shown as part of premiums.

Premiums ceded to reinsurers on traditional and variable contracts are recognized as an expense when the policy becomes effective. This is presented net of experience refund received from reinsurers.

Policy Administration Fees
Policy administration fees are recognized as revenue in profit or loss when these become due from the policyholder. Receivable portion of policy administration fees forms part of receivable from unit linked fund under "Other assets - net" account in the separate statement of financial position.

Investment Gain or Loss
Investment gain or loss consists of fair value changes of financial assets at FVPL, interest income from all interest-bearing investments and gain or loss on disposal of investments. Investment income which is net of investment management fees, is presented net of final tax.

Interest income for all interest-bearing financial instruments, including financial assets measured at FVPL, is recognized in profit or loss using the effective interest method.

Determining whether the Company is Acting as Principal or an Agent
The Company assesses its revenue arrangements against the following criteria to determine whether it is acting as a principal or an agent:

- whether the Company has primary responsibility for providing the services; and
- whether the Company has discretion in establishing prices.

If the Company has determined it is acting as a principal, the Company recognizes revenue on gross basis with the amount remitted to the other party being accounted as part of cost and expenses. If the Company has determined it is acting as an agent, only the net amount retained is recognized as revenue.

The Company has determined that it is acting as principal in its revenue arrangements.

Benefits, Claims and Expenses Recognition

Cost on Premiums of Variable Insurance

Cost on premiums of variable insurance represents the investment component of the unit-linked insurance contracts portion, net of withdrawals. Cost on premiums of variable insurance are recognized consequently as premiums are earned which is on the effective date of the insurance policy for first year premiums and when premiums become due for succeeding premiums.

Benefits and Claims

Claims consist of benefits and claims paid to policyholders, which include, among others, excess gross benefit claims for unit-linked insurance contract, and movement of incurred but not reported (IBNR) claims and movement of legal policy reserves. Death claims, surrenders and withdrawals are recorded on the basis of notifications received. Maturities are recorded when due. Provision for IBNR is made for the cost of claims incurred as of each reporting date but not reported until after the reporting date based on the Company's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in profit or loss of subsequent years. Reinsurer's share of gross benefits and claims are accounted for in the same period as the underlying claim.

Operating Expenses

Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

Employee Benefits

Retirement Benefits

The Company maintains a defined contribution (DC) plan with minimum defined benefit (DB) guarantee that covers all regular full-time employees. Under its retirement plan, the Company pays fixed contributions based on the employees' monthly salaries, however, the retirement plan also provides for its qualified employees a DB minimum guarantee which is equivalent to a certain percentage of the final monthly salary payable to an employee for each year of credited service based on the provisions of the Company's retirement plan.

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 or income on the net DB liability or 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 any margin on asset returns 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.

Short-term Employee Benefits
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Taxes
Current tax and deferred income tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

The Company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under PAS 37.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at each reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, and the carry forward tax benefits of the net operating loss carryover (NOLCO) and excess of the minimum corporate income tax (MCIT) over the regular corporate income tax. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted at each reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow all or part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the reporting date.

Foreign Currency Transactions

Transactions in foreign currencies are initially recorded using the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rates prevailing at reporting date.

Exchange gains or losses arising from foreign exchange transactions are credited to or charged against operations for the year. For income tax reporting purposes, foreign exchange gains or losses are treated as taxable income or deductible expenses, in the period such are realized.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Contingencies

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

Related Parties

Related party relationships exist when one party has the ability to control or influence the other party, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely legal form.

Events After the Reporting Date

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

New Standards and Amendments to Standards Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2022. However, the Company has not applied the following new or amended standards in preparing these separate financial statements. The Company is currently assessing the potential impact of these on its separate financial statements.

The Company will adopt the new standards and amendments to standards in the respective effective dates:

To be Adopted January 1, 2023

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

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

- Disclosure of Accounting Policies (Amendments to PAS 1, *Presentation of Financial Statements* and PFRS Practice Statement 2 *Making Materiality Judgements*). The amendments are intended to help companies provide useful accounting policy disclosures. The key amendments to PAS 1 include:

  - requiring companies to disclose their material accounting policies rather than their significant accounting policies;

  - clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and

  - clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company’s financial statements.

  The amendments to PFRS Practice Statement 2 include guidance and additional examples on the application of materiality to accounting policy disclosures.

  The amendments are effective from January 1, 2023. Earlier application is permitted.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to PAS 12, *Income Taxes*). The amendments clarify that that the initial recognition exemption does not apply to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning obligations. The amendments apply for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities will be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other appropriate component of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

- PFRS 17, *Insurance Contracts*. PFRS 17 replaces PFRS 4, *Insurance Contracts* and is effective for annual periods beginning on or after January 1, 2025 with early adoption permitted. The Company will early adopt IFRS 17 beginning January 1, 2023 to be consistent with the Parent Company and for consolidation purposes. This standard will bring significant changes to the accounting for insurance and reinsurance contracts and are expected to have a material impact of the Company's separate financial statements.

  Summarized below are the qualitative impact to Company's accounting policy.

  i. *Identifying Contracts in the Scope of PFRS 17*

     PFRS 17 sets out the requirements to determine what contracts are in scope of the standard. The definition of an insurance contract and insurance risk as included in the Appendix of PFRS 17 are unchanged from PFRS 4 but some additional exemptions and new guidance around what constitutes significant insurance risk have been added to the application guidance of PFRS 17 such as the discounting requirement and level on which the assessment takes place. This may have an impact in the way the Company has historically performed the quantitative assessment under PFRS 4 and potentially the risk that contracts classified as insurance contracts under PFRS 4 will not meet the qualifying scoping criteria under PFRS 17.

     The definition of insurance contracts, reinsurance contracts and insurance risk under PFRS 17 are similar. However, in the application guidance of PFRS 17, there are two key changes:

     - PFRS 17 has added the requirement that the significant insurance risk assessment shall be performed on a discounted cash flow basis; and

     - The optionality under PFRS 4 to perform the assessment on a book of contracts if this book consists of "homogeneous book of small contracts", has been removed. Under PFRS 17, contracts shall be assessed contract-by-contract.

     In addition, there is also a new requirement that contracts with DPF are only in scope of PFRS 17 if the issuing the Company also issues insurance contracts.

Insurance contracts and investment contracts with DPF, as explained in the paragraph above, are under the scope of PFRS 17. However, there may be contracts that the Company issues or components of these contracts that would be in the scope of another standard as they fail the significant insurance risk test or need to be accounted for separately which are:

- Distinct Investment components of insurance contracts (PFRS 9)
- Distinct Embedded derivatives (PFRS 9)
- Distinct goods and services components (PFRS 15)
- Investment contracts without DPF

Where a contract or a component of that contract is out of scope of PFRS 17, the Company should assess whether PFRS 15 or PFRS 9 applies. Broadly speaking PFRS 9 would apply to contracts or components which meet the definition of a financial instrument, which in would be the case in most situations. If distinct goods and services are bifurcated, then likely PFRS 15 applies.

The Company did not identify any components satisfying the above, hence the Company have no distinct non-insurance components separated from the contract. Moreover, we conclude that the investment component is the minimum amount that is always paid to policyholders, which for contracts where this exists is the surrender value.

ii. Level of Aggregation

PFRS 17 requires that the Company identifies portfolios of insurance contracts which comprise of contracts that are “subject to similar risks” and are “managed together”. Further, it required to divide portfolios into annual cohorts, measurement model type and a minimum number of Groups of insurance contracts to differentiate contracts which are “onerous at initial recognition” from those having “no significant possibility of becoming onerous subsequently” and “other” contracts, if any.

Once the Company has established a Group of insurance contracts, that Group becomes the unit of account to which the Company applies the requirements of PFRS 17. The calculation of the expected profitability (i.e., the contractual service margin, or “CSM”) of contracts at inception, as well as their subsequent measurement, are performed at this Group of contracts level.

To determine this CSM Group level, the Company needs to address the following key considerations:

- What constitutes a contract in scope of PFRS 17?
- What contracts should be categorized under the same “portfolio” because they are “subject to similar risks” and are “managed together”?
- Which contracts are onerous at inception and hence need to be grouped separately?
- How should the Company group the remaining profitable contracts within a cohort of up to one year which have “no significant possibility of becoming onerous subsequently”? These contracts can be measured together in one or more Groups of contracts and the Company needs to consider appropriate criteria to allocate contracts to these Groups.
- Are there any other contracts that are profitable, but with a significant possibility of becoming onerous subsequently, and therefore need to be measured separately in one or more Groups?

iii. Contract Boundaries

PFRS 17 requires assessment of the contract boundary at an individual contract level. The standard explicitly refer to the “boundary of each contract” and assessment of the boundary of individual contracts. Therefore, in theory within a single Group there could be contracts with different boundaries. However, the reassessment of risks referred to in the standard is at the portfolio level and therefore for this part of the contract boundary assessment it is necessary to consider all risks within the portfolio (rather than only in the contract).

The standard describes when cash flows are within the boundary of an insurance contract, that is, if they arise from substantive rights and obligations that exist during the reporting period in which:

- the Company can compel the policyholder to pay the premiums; or
- the Company has a substantive obligation to provide the policyholder with insurance contract services.

A substantive obligation to provide insurance contract services ends when:

- the Company has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
- both of the following criteria are satisfied:

  a) the Company has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and
  b) the pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

Given the interpretation above, the Company assessed the Unit-Linked products as long contract-bounded. Meanwhile, Traditional products are also long contract-bounded except for yearly renewable term (YTR) and Group products.

Reinsurance Contracts
PFRS 17 notes that the same guidance on contract boundaries applies to both reinsurance contracts held and insurance contracts issued. Therefore, the same guidance for contract boundary of underlying contracts applies to reinsurance contracts held, subject to the following exceptions:

- the contract boundary of a reinsurance contract held may include future (unrecognized) underlying insurance contracts issued; and
- the portfolio-level contract boundary assessment does not apply to reinsurance contracts held.

For the latter point, contract boundaries are assessed from the cedant’s perspective on a contract-by-contract basis, since the cedant cannot assess whether the reinsurer can reassess risk on a portfolio level.

The following discuss when the cedant's substantive obligation to pay premiums and substantive right to receive reinsurance services end. The obligation to pay premiums ends when the cedant has the unilateral right to terminate the reinsurance contract held on pre-determined terms. Terms are pre-determined if the cedant can exercise the right without having to negotiate further with the reinsurer. Meanwhile, the right to receive reinsurance services ends when the reinsurer has the practical ability to terminate or reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks.

There are effectively two contract boundary "Dimensions" that the Company needs to consider for reinsurance contracts held:

- Future new, underlying business: How many months' worth of projected, new, underlying business is included within the reinsurance contract's cash flows?
- Projection term of in-force business: For in-force, underlying business that is covered by the reinsurance contract held, up to what point are cash flows from this underlying business included in the reinsurance contract boundary?

The Company should then adopt the following simplifications to avoid operational challenges:

A group of proportionate, accounting reinsurance contracts held incepts immediately after the prior group is closed to new business.

The Dimension 1 contract boundary of the 1st accounting contract to incept for a given reinsurance contract held is shortened so that that a new accounting reinsurance contract, belonging to the same overall reinsurance contract, incepts on the first day of the next annual reporting period. Therefore, at 31 December reporting dates, no future, underlying business is included within the contract boundary of in-force accounting reinsurance contracts held.

iv. Measurement - Overview

PFRS 17 has a specific approach (called the "Variable Fee Approach", or "VFA") for accounting for insurance contracts with "direct participation features". This approach enables insurers to adjust the CSM for changes in estimates of financial assumptions.

An insurance contract with direct participation features is defined in the standard as an insurance contract that is a substantially investment-related service contract for which, at inception:

a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
b) the Company expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
c) the Company expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

The standard specifies that each individual contract needs to be assessed against the above criteria, with the quantitative criteria assessed on a present value probability-weighted average basis. The standard also clarifies that one assessment should be sufficient for an entity to determine whether the criteria are met for each contract in a set of homogenous contracts issued in the same market conditions and priced on the same basis.

With these requirements from the standard, a qualitative assessment is conducted for (a) and quantitative assessments are conducted for (b) and (c). Under (a) qualitative assessment, for Unit Linked Products, it is clearly stated in the contract that the benefit of the policyholder is directly linked to the fund value based on the number of units in each fund. In addition, all Unit Linked policyholders will receive the total value of the units in the policy, upon death or if the life insured is alive on the policy maturity date. As such, Unit Linked products pass criteria (a) and has to be further assessed on (b) and (c).

Meanwhile, for traditional products, the Health and Protection and Group products, they clearly do not participate in any type of underlying item since they only provide guaranteed benefits to the beneficiaries at maturity or an insurable event. On the other hand, Traditional Other Protection products pay non-guaranteed dividends to the policyholders (dividend paying products) which can be paid through cash bonus, applied to any premium due, or left to accumulate with interest set by the company. However, these products do not have clearly identified pool of underlying items since their assets are not ring fenced and hence, not managed separately from other assets. Hence, Traditional products do not pass criteria (a) and are not further assessed for (b) and (c).

Reinsurance contacts issued or held are explicitly excluded from the VFA, regardless of the classification of the underlying contract, hence General Measurement Model (GMM) is applied.

Premium Allocation Approach (PAA)
The PAA may be used to measure both underlying contracts and reinsurance contracts held. In general, the same requirements apply to both, with some small amendments for reinsurance contracts held.

The PAA is applied at the Group of insurance contracts level. If the coverage period for a Group of contracts is one year or less, those contracts are automatically eligible to use the PAA simplification with no further assessment required. For Groups of contracts that do not meet the coverage period definition, eligibility for PAA adoption is possible if:

- the Company reasonably expects the liability for remaining coverage (LRC) calculated using the PAA to not differ materially from its measurement under either the general model or VFA (whichever is applicable); and
- the Company does not expect significant variability in the LRC fulfilment cash flows. This assessment is only required on inception of the Group of contracts.

The PAA simplification does not apply to the Liability for Incurred Claims (LIC) including IBNR relating to past service at the end of each reporting period. However, different requirements (versus those under the general model or VFA are used to determine the LIC discount rate.

The Company does not apply PAA in the measurement of underlying contracts/reinsurance contracts as we have already established GMM models.

v. *Measurement - Life Contracts*

Insurance contracts and investment contracts with DPF
The PFRS 17 liability for a Group of insurance contracts consists of four key components, namely: estimates of future cash flows; an adjustment to reflect the time value of money and financial risks; the Risk Adjustment for non-financial risk; and the Contractual Service Margin.

The estimates of future cash flows that have been adjusted for the time value of money and financial risk (PFRS 17 BEL) is calculated on a best-estimate and (broadly) market consistent basis. In general, the requirements to calculate the BEL under PFRS 17 will be aligned to the current ECap methodology. We note that the PFRS 17 BEL can be calculated using either a direct (i.e., PV outgo - PV income) or indirect approach (i.e., underlying item less the variable fee), we consider these to be equally technically correct.

PFRS17 outlines that for insurance contracts that qualify for VFA, that for insurance contracts with direct participation features, the entity's obligation to the policyholder is effectively the difference between the value of the underlying item and the variable fee (termed the indirect approach).

We view that the direct and indirect approach will produce an equivalent result and so this equivalence between the direct and indirect approach can be extended to all business that contains an underlying item. In cases where the indirect approach is applied, note that this does not preclude the need for obtaining expected cash flows for disclosure and revenue presentation purposes.

The Company is required to include a risk adjustment for non-financial risk as part of the fulfilment cash flows. The standard defines the risk adjustment as an explicit adjustment to "the estimate of the present value of the future cash flows to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk".

The CSM as defined in PFRS 17 is a component of the asset or liability for the Group of insurance contracts that represents the unearned profit the entity will recognize as it provides insurance contract services in the future. The CSM measured on initial recognition for a Group of contracts is the amount that results in no income or expenses arising from:

- initial recognition of an amount for the fulfilment cash flows;
- any cash flows arising from the contract in the Group at that date; and
- the derecognition at the date of initial recognition of insurance acquisition cash flows and any asset or liability previously recognized for cash flows related to this Group before the recognition.

Once the CSM is established at initial recognition, the subsequent measurement at the end of a reporting period equals the carrying amount at the start of the reporting period with adjustments. PFRS 17 sets out the various adjustments that need to be made to arrive at the CSM at subsequent measurement. However, the standard is silent on what order an entity should make these adjustments, except that amortization to profit or loss must be the last step. The order of analysis is therefore a key area of judgement and decisions are driven by financial and operational considerations, underpinned by the need to have a align closely with other metrics across the Group.

The CSM on initial recognition is set equal to the amount that, unless the Group of contracts is onerous, results in no income or expenses arising from the sum of:

- the fulfilment cash flows (FCF) as defined under PFRS 17.32 of the Group measured on initial recognition;
- any cash flows arising from the contracts in the Group at the initial recognition date;
- the derecognition of any asset for insurance acquisition cash flows incurred before the date of initial recognition; and
- the derecognition of any other asset or liability for cash flows other than insurance acquisition cash flows incurred before the date of initial recognition.

The CSM determined on initial recognition is adjusted by changes in the fulfilment cash flows during the year. The standard sets out the various adjustments that need to be made to calculate the CSM on subsequent measurement. It should be noted that only changes in the LRC adjust the CSM, and any changes in the liability for incurred claims do not.

Reinsurance Contracts
The guidance for underlying contracts issued is applicable to reinsurance contracts held. In addition, the standard requires the estimates of the present value of future cash flows for a Group of accounting reinsurance contracts held to include the effect of any risk of non-performance by the issuer of the reinsurance contract (i.e., the reinsurer), including the effects of collateral and losses from disputes.

CSM is calculated at the unit of account level for reinsurance contracts held. A Group of accounting reinsurance contracts held is in a net cost position if, at initial recognition, expected cash outflows exceed expected cash inflows plus risk adjustment. Or they may be presented in a net gain position, where expected inflows plus the risk adjustment exceed outflows. Note that there is no concept of “onerous contracts” as defined for underlying Groups, so the CSM for a Group of accounting reinsurance contracts held may be negative.

PFRS 17 indicates that a portion of reinsurance CSM may be recognized to offset losses on onerous, underlying Groups of contracts when they are initially recognized or subsequently added to a Group of accounting reinsurance contracts held. This is provided that:

- the reinsurance contract held is entered into before or at the same time as the onerous underlying insurance contracts are recognized; and
- the adjustment to the CSM of a Group of accounting reinsurance contracts held and the resulting income is calculated by multiplying:

  a) the loss recognized on the underlying insurance contracts; and
  b) the percentage of claims on the underlying insurance contracts the Company expects to recover from the Group of accounting reinsurance contracts held.

The Company shall establish (or adjust) a loss-recovery component of the asset for remaining coverage for a Group of accounting reinsurance contracts held depicting the recovery of losses recognized. Where only a portion of underlying contracts in an onerous Group are reinsured, the Company shall apply a systematic and rational method of allocation to determine what portion of these losses is eligible for a loss-recovery.

The loss-recovery component determines the amounts that are presented in profit or loss as reversals of recoveries of losses from reinsurance contracts held and are consequently excluded from the allocation of premiums paid to the reinsurer.

After the Company has established a loss-recovery component, the Company shall adjust the loss-recovery component to reflect changes in the loss component of an onerous Group of underlying insurance contracts. The carrying amount of the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous Group of underlying insurance contracts that the Company expects to recover from the Group of accounting reinsurance contracts held.

Insurance acquisition Cash Flows
The standard describes insurance acquisition cash flows as expenses incurred to sell, underwrite and start new insurance contracts. As per the Company principles, the following are considered to be acquisition expenses:

- initial commissions;
- sales bonus and upfront payment to agents linked to sales performance;
- distribution fees;
- underwriting costs, marketing and advertising expenses that are directly attributable;
- other overhead expenses for departments and staff involved directly in acquisition tasks; and
- renewal commissions paid to agents who only provide acquisition services and no other administration and maintenance services.

Most pre-recognition cash outflows are expected to be insurance acquisition expenses. However, if the pre-recognition cash outflows do not meet the definition of insurance acquisition cash flows (expected to be rare), they should not follow the four-step approach described below. Instead, they should be fully derecognized when the related Group of contracts is recognized.

Pre-recognition acquisition cash flows can be divided into payments for the following categories:

- incurred for multiple future Groups of contracts (e.g., product development cost which are spreads over the current Group and future Groups); and
- incurred for current renewal period and future anticipated renewal contracts (e.g., commissions paid for short contract boundary products with anticipated renewals).

The first category covers all possible products (e.g., product development expenses for unit linked, universal life, with-profit, YRT medical, etc.) and the second category is only commissions paid for products with renewal features which are short term bounded (e.g., bounded medical YRT business). The split between the two categories is important because it drives:

- the impairment methodology for the related pre-recognition acquisition cash flows; and
- the method to allocate the pre-recognition acquisition cash flows to current and future Groups.

vi. Measurement - Significant Judgements and Estimates

Estimates of future cash flows
PFRS 17 defines fulfilment cash flows as "an explicit, unbiased and probability-weighted estimate (i.e., expected value) of the present value of the future cash outflows minus the present value of the future cash inflows that will arise as the Company fulfils insurance contracts, including a risk adjustment for non-financial risk."

The principles for determining the estimates of future cash flows under PFRS 17 are to:

- incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows;
- reflect the perspective of the Company, provided that the estimates of any relevant market variables are consistent with observable market prices for those variables;
- be current -the estimates shall reflect conditions existing at the measurement date, including assumptions at that date about the future; and
- be explicit -the Company shall estimate the adjustment for non-financial risk separately from the other estimates. The Company also shall estimate the cash flows separately from the adjustment for the time value of money and financial risk, unless the most appropriate measurement technique combines these estimates.

The objective of estimating future cash flows is to determine the expected value, or probability-weighted mean, of the full range of possible outcomes, considering all reasonable and supportable information available at the reporting date without undue cost or effort. Reasonable and supportable information available at the reporting date without undue cost or effort includes information about past events and current conditions, and forecasts of future conditions. Information available from the Company's own information systems is considered to be available without undue cost or effort.

The starting point for an estimate of the cash flows is a range of scenarios that reflects the full range of possible outcomes. Each scenario specifies the amount and timing of the cash flows for a particular outcome, and the estimated probability of that outcome. The cash flows from each scenario are discounted and weighted by the estimated probability of that outcome to derive an expected present value. Consequently, the objective is not to develop a most likely outcome, or a more-likely-than-not outcome, for future cash flows.

Discount Rates

The discount rate used for PFRS 17 valuation should reflect the liquidity characteristics of the insurance contracts. However, the rules do not provide firm guidance on how to estimate the liquidity premium, beyond defining two overall approaches: ‘top-down’, which involves directly estimating the discount rate from a reference portfolio of financial instruments with appropriate liability characteristics; and, ‘bottom-up’, setting the discount rate as the sum of a risk-free curve estimated using liquid financial instruments and a separate ‘liquidity premium’ that adjusts for the difference in liquidity between the liquid financial instruments and the underlying insurance liabilities. The rules go on to clarify that while the discount rate should reflect appropriate liquidity premiums, it should not include any premiums for market risk or credit risk.

The bottom-up approach is conceptually the methodology that is purest. However, as set out in the PFRS 17 guidance, no practical methodology is proposed, and any implementation would require significant expert judgement in the setting of the liquidity premium. As such, the top-down approach is proposed to be used as a practical methodology to derive a liquidity premium that reflects the liability characteristics albeit that this is conceptually then applied on a bottom-up basis, which is the approach applied by the Company.

Risk Adjustments for Non-financial Risk

The risk adjustment is defined as “the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk”.

The standard requires that the risk adjustment conveys information to users of financial statements about the amount charged by the entity for the uncertainty arising from non-financial risk about the amount and timing of cash flows” but paragraph BC211(c) of the basis for conclusions notes that the Financial Accounting Standards Board (FASB) decided that a separate risk adjustment should “faithfully represent circumstances in which the Company has charged insufficient premiums for bearing the risk that the claims might ultimately exceed expected premiums”. This implies that the risk adjustment need not reflect the way the entity actually prices risk, as certain non-financial risks may not be priced for but are still required to be included within the risk adjustment.

The May 2018 Transition Resource Group noted that the Company does not typically charge the policyholder an explicit separate amount for bearing non-financial risk. Rather, this is implicit within the overall actual amount charged by the Company which would include other factors as well. Therefore, the TRG concluded that the risk adjustment for non-financial risk represents the compensation that the Company would require if it was to charge the policyholder an explicit separate amount for bearing non-financial risk.

As the Company has no single policy that quantitatively defines the compensation required for risk, so it is necessary to consider a range of sources. Given the requirement for a statistical measurement of the risk adjustment, the compensation required for risk needs to be defined in terms of a confidence level. It is proposed to use a Value at Risk approach (VaR) because it is simpler, better aligned to disclosure requirements, and is expected to be less volatile compared to a Cost of Capital Approach (CoC). TailVaR measures have limited use within Prudential and using them as the basis for the risk adjustment methodology would clearly not be consistent with how the Group considers compensation for uncertainty.

A general principle in PFRS is that revenue can only be recorded in the profit or loss statement to the extent that the promised goods or services are transferred to the customers in that period. PFRS 17 requires the use of the 'coverage units' approach to identify the 'insurance contract services' provided in any period and based on that release the CSM as revenue.

The total coverage units of a Group of contracts is a function of a) the 'quantity of benefits' a policyholder receives (e.g., an insurer's obligation to pay a sum assured when an insured event takes place) and b) the 'expected coverage period' over which the benefits are received. The period and quantity of benefits depend on what services are provided: insurance services only or both insurance and investment return/related services. At the ending of each reporting period the CSM is released to the profit or loss based on the coverage units for the reporting period compared to the coverage units over the total remaining coverage periods.

The quantity of benefits for insurance service is the maximum amount that the policyholder can claim. However, if the contract is assessed to provide investment-return services or investment related services, the return of the account value (or surrender value where there is no account value) to the policyholder should be excluded from the insurance quantity of benefits as that amount represent the level of investment service. For contracts which have investment related or investment-return services, the proxy for investment services is Account Value (or Surender Value where there is no account value).

The following table summarizes the most common types of benefits and what the maximum benefit could be, without considering duration of coverage period:

Type of Benefits within Group of Contracts	**Example of Quantity of Benefits**
Death Benefits	
▪ Lump sum payment only (e.g., term)	▪ Sum Assured
▪ Higher of lump sum and account/surrender value	▪ Death benefit less account/surrender value (sum at risk)
▪ Lump sum plus account/surrender value	▪ Sum Assured
▪ Higher of accumulated premium and account/surrender value	▪ Death benefit less account/surrender value (sum at risk)

vii. Presentation and Disclosure

PFRS 17 introduces a comprehensive set of new presentation and disclosure requirements, which include guidance on:

- what to present on the face of the primary statements (e.g., balance sheet and profit or loss statement);
- what to include in the notes to explain the recognized amounts in more detail (e.g., detailed reconciliations, CSM run off analysis);
- what additional notes are required to explain key judgments, assumptions used and risk exposures (e.g., sensitivity analysis); and
- specific requirements on how to calculate and present amounts in certain financial statement line items (e.g., determination and subsequent presentation of movements in loss components, split between past and current, treatment of foreign currency translation in the movements).

The Company shall present in profit or loss insurance revenue arising from the Groups of insurance contracts issued. Insurance revenue shall depict the provision of coverage and other services arising from the group of insurance contracts at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

The Company shall present in profit or loss insurance service expenses arising from a group of insurance contracts issued, comprising incurred claims (excluding repayments of investment components), other incurred insurance service expenses and other amounts as described in paragraph 103(b) of the standard.

Insurance revenue and insurance service expenses presented in profit or loss shall exclude any investment components. The Company shall not present premium information in profit or loss if that information is inconsistent with paragraph 83.

PFRS 17 recognizes that insurance contracts may provide investment-related (or investment-return) services as well as insurance services. The PFRS 17 income statement includes expected claims (as part of insurance revenue) and actual claims incurred (as part of insurance service expenses). In order to present profit arising from insurance and investment-related (or investment-return) services separately, the standard requires that at the point a claim is incurred, the investment component is identified and subtracted from the insurance revenue and from the amount paid out in order to present pure insurance revenue and expenses in the income statement. Any variance in the amount of investment component payable in the period adjusts the CSM.

PFRS 17 requires all expenses to be assessed as “directly attributable” or not. Only directly attributable expenses are included in the estimates of future cash flows and are capitalized on day one in the CSM. Classification of expenses as attributable will ensure that insurance service revenue and insurance service expenses are better matched over time. The net impact on the profit or loss statement of classifying expenses as non-attributable versus attributable, will be the difference between recognizing the expenses when incurred and the sum of:

- the implicit release of directly attributable expenses as part of the CSM release (following the profit pattern based on the determination of coverage units);

- the difference between the expected expenses (release from the BEL of expected ‘directly attributable’ expenses) and the actual incurred ‘directly attributable’ expenses; and
- Classifying expenses as attributable would likely lead to a smoother profit or loss statement with differences in the profit emergence pattern unlikely to be material.

viii. Transition

The standard requires PFRS 17 to be applied retrospectively the “fully retrospective approach” (FRA) unless impracticable. If a FRA is impracticable there is a free option to choose either a modified retrospective approach or a fair value approach. If reasonable and supportable information necessary to apply the modified retrospective approach is not available, the fair value approach must be applied. A combination of approaches can be used for different Groups of contracts - for example different approaches could be used for different portfolios or for different annual cohorts of business.

An FRA will only be used where there is data available and that data can be used to support a reasonable estimate of the CSM without undue cost and effort, based on the facts and circumstances at the point of recognition (i.e., without using hindsight). The main judgement required to apply FRA concerns the use of estimation in deriving the CSM.

For some portfolios of in-force business, the original data required to perform full model runs to estimate fulfilment cash flows (and therefore the CSM) at historic dates may not be available at the required level of granularity or in a usable format after making every reasonable effort. However, it may be possible to derive reasonable estimates of these cash flows using pre-existing data that is based on the facts and circumstances at those historic dates.

For example, the Company expects that for some areas of the business, the estimated future cash flows (and hence CSM) at initial recognition can be calculated by making adjustments to new business contribution figures originally prepared for embedded value purposes. Where these adjustments are based on reasonable assumptions, then this method should be considered to be acceptable under the FRA.

If the calculation approach or underlying assumptions do not result in a reasonable estimate of the retrospectively calculated CSM, or require hindsight (i.e., are not purely based on the circumstances that existed at the time), then either the modified retrospective or fair value approaches will be applied.

When calculating the CSM under a FRA the historic risk adjustment will need to be calculated based on the facts and circumstances that existed at the point of recognition or subsequent adjustment of the CSM as required under the standard.

Insurance contracts, reinsurance contracts and investment contracts with DPF.

We apply the following approaches to Life contracts on transition to PFRS 17.

Year of Issue	Transition Approach to Life Contracts
2010 onwards	▪ All Groups: Fully retrospective approach
1996-2009	▪ All Groups: Fair value approach

Impracticability is defined as the inability to apply the standard after making "every reasonable effort" to apply the PFRS 17 standard retrospectively. If FRA is impracticable for a particular Group of contracts, there is a free choice between Modified Retrospective Approach (MRA) and Fair Value Approach (FVA). Further definition on impracticability can be referred to PAS 8.

For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

- the effects of the retrospective application or retrospective restatement are not determinable.
- the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or
- the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

  i. provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured, or disclosed; and
  ii. would have been available when the financial statements for that prior period were authorized for issue from other information.

PAS 8 defined the conditions for impracticability, as interpreted by the Company:

a) data in prior periods that is required to perform FRA is not available at any level of granularity; or
b) hindsight information is required to determine prior period balances; or
c) no reasonable estimates are available to recreate significant historical missing data.

Under FRA, the requirement is to identify, recognize and measure each Group of insurance contracts as if PFRS 17 had always applied. This involves calculating the CSM on inception of the Group of contracts and rolling it forward to the transition date in line with PFRS 17 requirements - i.e., adjusting the CSM in each year to reflect historic impacts as required by the standard (e.g., the impact of experience adjustments and changes in assumptions in each year).

Calculating a CSM in line with this approach requires historical data, including:

- initial premium, benefits and charging structure, along with best estimate assumptions (demographic and economic, including discount rate) on day 1, to calculate the initial CSM
- the impact of experience adjustments and assumption changes for each year from inception of the Group of contracts to the transition date, in order to calculate the CSM at the transition date
- this data is required at a level of granularity consistent with the relevant unit of account and able to be utilised by valuation models.

Modified Retrospective Approach
If the FRA is shown to be impracticable, the MRA is intended to allow the CSM to be calculated in a way that reduces the onerousness of data requirements, making greater use of data available at the transition date. The standard requires that entities "maximise the use of information that would have been used to apply a FRA but need only use information available without undue cost or effort".

For the general model, the MRA allows a number of specific modifications to the FRA, where information for the FRA is not available. In order to meet the requirement of maximising the use of available information, this involves using as few modifications as possible. In general, these modifications allow certain areas to be set using data as at the transition date, rather than going back to inception of the group of contracts.

Fair Value Approach
Under the fair value approach, the CSM at the transition date is the difference between the fair value of the Group of contracts at that date (determined in accordance with PFRS 13) and the fulfilment cash flows (BEL + RA) measured at that date. This method applies to Groups under the general model or VFA.

Fair value on transition follows the Grouping requirements set out in the standard, which can be summarized as:

- portfolios can be determined either as at inception or at the date of transition (free choice)
- profitability buckets can be determined either as at inception or at the date of transition (free choice)
- annual cohorts are not required unless reasonable and supportable information exists to include this divide

These requirements allow the assessment of portfolios to be based on how the business is currently managed rather than how it was previously managed, and the assessment of "similar risks" to be based in the current status of contracts.

No guidance is provided in the standard as to how the assessment of whether a contract is onerous would be done using "reasonable and supportable information available at the transition date." In the absence of specific guidance, it is interpreted that the assessment should be conducted by comparing the fair value and the fulfilment cash flows, in the same way as the CSM is set when using the fair value approach for transition.

Similarly, no guidance is provided in the standard on how to assess which of the two profitable buckets contracts in a portfolio should be part of. In the absence of reasonable and supportable information (e.g., determination of a transaction price at a level below the portfolio) it is expected that a single profitability bucket will be used, however, this will need to be justified on a case-by-case basis.

Insurance Acquisition Cash Flows

Insurance acquisition cash flows are cash flows arising from the costs of selling, underwriting and starting a Group of insurance contracts that are directly attributable to the portfolio of insurance contracts to which the Group belongs. Such cash flows include cash flows that are not directly attributable to individual contracts or Groups of insurance contracts within the portfolio. Under the FRA, the asset for insurance acquisition cashflows are required to be calculated at transition in order to calculate the CSM. However, as with all other aspects of transition calculation, companies are allowed to apply MRA or FVA if it is impracticable to measure this retrospectively.

The FRA requires retrospective calculation of fulfilment cash flows. It is assumed that where data is not available or usable to calculate the initial CSM or subsequent adjustments from full model runs of the fulfilment cash flows, then reasonable estimates of these cash flows based on pre-existing data will be permissible. This is consistent with the measurement of liabilities under current accounting, in line with PAS 8.

It is to be noted that the transition approach for the asset for insurance acquisition cashflows can be distinct to the approach taken for other elements of transition. It is permitted to independently assess whether a FRA is possible for calculating the asset for insurance acquisition cashflows. The Group will apply the full retrospective approach to all other assets for insurance acquisition cash flows on transition to PFRS 17.

Modified Retrospective Approach

If applying a modified retrospective approach with respect to asset for insurance acquisition cashflows:

- entities are required to identify the amount of insurance acquisition cashflows that were paid before the transition date and use a systematic and rational approach to allocate it between Groups of insurance contracts recognized at transition and Groups that are recognized after the transition date.
- the portion of the insurance acquisition cashflows that are allocated to Groups of insurance contracts recognized at transition date is deducted from the CSM relating to these contracts
- the remaining portion of the insurance acquisition cashflows is recognized as an asset for the Groups of contracts that are recognized after transition date.

However, if reasonable and supportable information is not available to make the modifications described above, then both the adjustments to the CSM and the asset recognized for insurance acquisition cashflows could be zero.

Fair Value Approach
If a fair value approach is being applied with respect to the asset for insurance acquisition cashflows, entities are required to recognize the asset for insurance acquisition cashflows that would be incurred at the transition date if the company had not already paid those insurance acquisition cash flows to obtain the rights to:

- recover acquisition cashflows from contracts that have been issued but not yet recognized at Transition
- obtain future contracts recognized after transition without re-incurring acquisition costs.

The volume of business affected is expected to be immaterial as the fair value approach will generally only be used for older cohorts which will have no asset for insurance acquisition cash flows remaining at the transition date.

The Company will apply PFRS 17 for the first time on January 1, 2023. This standard will bring significant changes to the accounting for insurance and reinsurance contracts and financial instruments and are expected to have a material impact on the Company's separate financial statements in the period of initial application.

- PFRS 9. PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after January 1, 2018. The Company has met the relevant criteria and has applied the temporary exemption from PFRS 9 for annual periods before January 1, 2023. Consequently, the Company will apply PFRS 9 for the first time on January 1, 2023 concurrent with PFRS 17.

  i. *Financial Assets - Classification*

  The classification of financial assets under PFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. PFRS 9 includes three principal measurement categories for financial assets - measured at amortized cost, fair value through other comprehensive income (FVOCI) and FVPL - and eliminates the previous PAS 39 categories of HTM investments, loans and receivables, and AFS financial assets.

  A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as measured at FVPL:

  - it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
  - its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as measured at FVPL:

  - it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
  - its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVPL. In addition, on initial recognition the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as measured at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Nevertheless, on initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income (OCI). The election is made on an instrument-by-instrument basis.

Under PFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of PFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Impact Assessment
PFRS 9 will affect the classification and measurement of financial assets held at January 1, 2023 as follows.

- most underlying items of participating contracts and certain other financial investments are designated as at FVPL under PAS 39. They will also be measured at FVPL under PFRS 9.
- derivative assets, which are generally classified as held-for-trading and measured at FVPL under PAS 39, will also be measured at FVPL under PFRS 9.
- debt investments that are classified as AFS under PAS 39 may, under PFRS 9, be measured at amortized cost, FVOCI or FVPL, depending on the particular circumstances.
- the majority of equity investments that are classified as AFS under PAS 39 will be measured at FVPL under PFRS 9. However, some of these equity investments are held for long-term strategic purposes and will be designated as at FVOCI on January 1, 2023; consequently, all fair value gains and losses will be reported in OCI, no impairment losses will be recognized in profit or loss, and no gains or losses will be reclassified to profit or loss on disposal of these investments.
- HTM investments and loans and receivables measured at amortized cost under PAS 39 will generally also be measured at amortized cost under PFRS 9.

Because a majority of the Company’s financial assets are measured at fair value both before and after transition to PFRS 9, the new classification requirements are not expected to have an impact on the Company’s total equity as at January 1, 2023.

ii. Financial Assets - Impairment

PFRS 9 replaces the ‘incurred loss’ model in PAS 39 with a forward-looking ‘expected credit loss’ model. This will require considerable judgement about how changes in economic factors affect Expected Credit Loss (ECL), which will be determined on a probability-weighted basis.

The new impairment model will apply to the Company’s financial assets measured at amortised cost and debt investments at FVOCI.

PFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECL or lifetime ECL. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument; 12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Company will measure loss allowances at an amount equal to lifetime ECL, except in the following cases, for which the amount recognized will be 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date, which the Company considers to be the case when the security's credit risk rating is equivalent to the globally understood definition of 'investment grade'; and
- other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company will consider reasonable and supportable information that is relevant and available without undue cost or effort. This will include both qualitative and quantitative information and analysis based on the Company's experience, expert credit assessment and forward-looking information. As a backstop, the Company will consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

The key inputs into the measurement of ECL are the term structures of the Probability of default (PD), Loss given default (LGD) and Exposure at default (EAD). ECL for financial assets for which credit risk has not significantly increased are calculated by multiplying the 12-month PD by the respective LGD and EAD. Lifetime ECL are calculated by multiplying the lifetime PD by the respective LGD and EAD.

To determine lifetime and 12-month PDs, the Company will use the PD tables supplied by the rating agency based on the default history of obligors in the same industry and geographic region with the same credit rating. The Company will adopt the same approach for unrated investments by mapping its internal risk grades to the equivalent external credit ratings. The PDs will be recalibrated based on current bond yields and Credit default swap (CDS) prices and adjusted to reflect forward-looking information. Changes in the rating for a counterparty or exposure will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Company will adopt the Prudential's guidance in the computation of LGD at 45% for all assets where there are no days past due and an individual ECL assessment at the local level for assets which are in default beyond 1 day past due.

EAD represents the expected exposure in the event of a default. The Company will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortization, and prepayments. The EAD of a financial asset is its gross carrying amount at the time of default.

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company will measure ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period.

Where modelling of a parameter is carried out on a collective basis, the financial instruments will be grouped on the basis of shared risk characteristics, which include:

- instrument type;
- credit risk grade;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings will be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

When ECL are measured using parameters based on collective modelling, a significant input into the measurement of ECL is the external benchmark information that the Company will use to derive the default rates of its portfolios. This includes the PDs and LGDs provided in the rating agency's default and recovery studies, respectively.

Impact Assessment
The Company estimates that application of the PFRS 9 impairment requirements at January 1, 2023 will not result in additional loss allowances. This is because majority of the Company's financial assets are measured at FVPL both before and after transition to PFRS 9. For financial assets measured at amortized cost, the Company will follow zero impairment approach wherein if the impairment calculated is below the materiality level, zero impairment is recorded for the purpose of group reporting and local reporting.

iii. Financial Liabilities

PFRS 9 largely retains the requirements in PAS 39 for the classification and measurement of financial liabilities. However, under PAS 39 all fair value changes of financial liabilities designated as at FVPL are recognized in profit or loss, whereas under PFRS 9 these fair value changes will generally be presented as follows.

- the amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI.
- the remaining amount of the change in the fair value will be presented in profit or loss.

The Company expects an immaterial impact from adopting the requirements above. Following the Prudential's guidance, the Company has designated investment contract liabilities as at FVPL because these liabilities as well as the related assets are managed and their performance is evaluated on a fair value basis. All investment contract liabilities have a unit-linking feature whereby the amount due to contract holders is contractually determined on the basis of specified assets. The effect of the unit-linking feature on the fair value of the liability is asset-specific performance risk and not credit risk, and the liabilities are fully collateralized.

The Company does not expect that any residual credit risk will have a significant impact on the fair value of the liabilities.

iv. Transition

Following the Prudential's guidance, the Company will use the modified retrospective approach and will not restate comparative period December 31, 2022 based on following considerations:

- PFRS 17 requires a restatement of at least one comparative period (i.e. 2022). The current working assumption is to go with the minimum required and not restate any further prior periods.
- There is no mandatory requirement to restate comparatives for PFRS 9. While a restatement is permitted, PFRS 9 stipulated that an entity can only restate if, and only if, it can do so without the use of hindsight.
- Even when an entity chooses to restate comparative information, the restatement is based on the results of the assessments (business model, designation, fair value etc.) as at the date of initial application.

Basis the above as per PFRS 9 requirements and adopting the Prudential's guidance, the Company shall recognize any difference between previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings. The transitional adjustments only include accounts covered by PFRS 9.

To be Adopted January 1, 2024

▪ *Classification of Liabilities as Current or Noncurrent - 2020 amendments and Non-Current Liabilities with Covenants - 2022 amendments (Amendments to PAS 1, Presentation of Financial Statements).* To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:

  - removed the requirement for a right to defer settlement of a liability for at least twelve months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;

  - clarified that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current and covenants with which the entity must comply after the reporting date do not affect a liability's classification at that date;

- provided additional disclosure requirements for non-current liabilities subject to conditions within twelve months after the reporting period to enable the assessment of the risk that the liability could become repayable within twelve months; and

- clarified that settlement of a liability includes transferring an entity's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

The amendments will apply retrospectively for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. Entities that have early applied the 2020 amendments may retain application until the 2022 amendments are applied. Entities that will early apply the 2020 amendments after issue of the 2022 amendments must apply both amendments at the same time.

4. Use of Judgments and Estimates

In preparing the separate financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

<u>Judgments</u>

(a) Determining the Lease Term of Contracts with Renewal and Termination Options - the Company as Lessee

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or terminate.

The Company included the renewal period as part of the lease term after securing a certification from Mega World Corporation that the Company has an option to renew for another term of five (5) years on its current long-term lease contract (see Note 29).

(b) Impairment of Financial Assets

Investments at Fair Value
The Company considers that investments are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share/market price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

As at December 31, 2022 and 2021, the Company has not recognized any impairment loss on its investments.

Receivables
The Company reviews its receivables to assess impairment at least on an annual basis, or as the need arises due to significant movements on certain accounts. Receivables from policyholders and reinsurance that are individually significant are assessed to determine whether objective evidence of impairment exists on an individual basis, while those that are not individually significant are assessed for objective evidence of impairment either on an individual or on collective basis. In determining whether an impairment loss should be recorded in the profit or loss, the Company makes judgment as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio.

As at December 31, 2022 and 2021, the Company has recognized allowance for impairment loss amounting to P574.86 million and P446.13 million (see Notes 10, 12 and 15), respectively.

(c) Classifying Financial Instruments

The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the separate statement of financial position. In addition, the Company classifies assets by evaluating among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

As at December 31, 2022 and 2021, the Company classified its financial instruments as financial instruments at FVPL, AFS financial assets, loans and receivables, and other financial liabilities.

Estimates

(a) Leases - Estimating the Incremental Borrowing Rate

The Company uses its incremental borrowing rate as the discount rate in measuring its lease liability. As the Company's financial obligations are guaranteed by its Parent Company, the Company considers its Parent Company's incremental borrowing rate which reflects the underlying interest rate for the currency in which the lease is denominated. The incremental borrowing rate used is the sum of the reference rate and a credit spread for senior unsecured debt.

(b) Liabilities Arising from Claims Made under Insurance Contracts

There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for such claims. Although the ultimate liability arising from life insurance contracts is largely determined by the face amount of each individual policy, the Company also issues accident and health policies and riders where the claim amounts may vary.

Claims estimation by the Company considers many factors such as industry average mortality or morbidity experience, with adjustments to reflect Company's historical experience. These liabilities form part of the Company's IBNR which amounted to P277.44 million and P159.30 million as at December 31, 2022 and 2021, respectively (see Note 17).

(c) Legal Policy Reserves

At inception of the contract, the Company determines assumptions in relation to mortality, morbidity, persistency, investment returns and administration expenses. Assumptions are also set in relation to inflation rates, tax, dividend scale and sales commissions plus other incentives. A margin for risk and uncertainty is added to these assumptions. In every reporting period, the Company ensures that the assumptions used are best estimates, taking into account current experience at each reporting date to determine whether liabilities are adequate in the light of the latest current estimates and taking into consideration the provision of PFRS 4.

The liability adequacy test was performed using current best estimates on interest, mortality, lapsation and expenses. The net present value of future cash flows as at December 31, 2022 and 2021 computed under the requirements of PFRS 4, amounted to cash inflows of P67.49 billion and P54.16 billion, respectively. Accordingly, the recorded legal policy reserves which is calculated in accordance with the requirements of the Insurance Code amounting to P4.27 billion and P5.61 billion as at December 31, 2022 and 2021, respectively (see Note 16), is adequate using best estimate assumptions.

(d) *Fair Value Estimation*

The fair value of financial instruments traded in active markets (such as financial assets at FVPL and AFS financial assets) is based on quoted market prices or quoted prices for similar assets or liabilities at the reporting date. If the financial instrument is not traded in an active market, the fair value is determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

As at December 31, 2022 and 2021, the Company's financial instruments carried at fair value are classified as Level 1 and Level 2 in the fair value hierarchy.

(e) *Estimating Useful Lives of Property and Equipment and Software Development Costs*

The Company estimates useful lives of property and equipment and software development costs based on the period over which the assets are expected to be available for use and are updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence. The useful lives, and depreciation and amortization methods are reviewed periodically to ensure that the method and periods of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment, and software development costs.

As at December 31, 2022 and 2021, the carrying amounts of property and equipment and software development costs amounted to P898.44 million and P613.79 million, respectively (see Notes 13 and 15).

(f) *Estimating Amortization Period of Deferred Acquisition Costs*

The amortization period of deferred acquisition costs depends on the period over which the acquisition costs will be recovered through the future profits of the insurance contracts. Deferred acquisition costs of unit linked single premium are amortized over 10 years while unit linked regular premium are amortized over 15 years. The recoverability of the deferred acquisition costs is reviewed annually to ensure that the period of amortization is consistent with the profit pattern of the products and that the deferred acquisition costs are recoverable against the present value of future profits over the entire amortization period.

As at December 31, 2022 and 2021, the carrying amount of deferred acquisition costs amounted to P14.56 billion and P12.46 billion, respectively (see Note 14).

(g) *Estimating Impairment of Financial Assets*

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the receivables when scheduling future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

As at December 31, 2022 and 2021, the carrying value of the Company's policy loans receivables, coverage debt receivables and advances to employees and agents amounted to P1.58 billion and P1.52 billion, respectively. Provisions for impairment losses amounted to P130.39 million and P83.34 million in 2022 and 2021, respectively (see Notes 10, 12 and 15).

(h) *Estimating Retirement and Other Employee Benefits*

The determination of DB obligation relating to minimum guarantee and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, mortality rates and future salary increase rate. Due to the long-term nature of these benefits, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields of Philippine government bonds with terms consistent with the expected employee benefit payout as at the separate statement of financial position date.

As at December 31, 2022 and 2021, the Company's net retirement (asset)/liability amounted to (P43.92 million) and P41.82 million, respectively (see Note 24).

(i) *Estimating Realizability of Deferred Tax Assets*

The Company reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Any deferred tax asset will be remeasured if it might result to derecognition where the expected tax law to be enacted has a possible risk on the realization.

As at December 31, 2022 and 2021, the Company recognized deferred tax assets amounting to P1.43 billion and P1.33 billion, respectively. As at December 31, 2022 and 2021, the Company assessed that future taxable profit will be available to realized any recognized deferred tax assets. Thus, there were no unrecognized deferred tax assets in 2022 and 2021 (see Note 27).

5. Capital, Insurance and Financial Risk Management Objectives and Policies

The Company's activities expose it to a variety of risks such as capital, financial and insurance risks. The overall objective of risk management is to focus on the unpredictability of financial markets and insurance contingencies to minimize potential adverse effects on the financial position of the Company.

The Company has established a risk management functions with clear cut responsibilities and with the mandate to develop company-wide policies on market, credit, liquidity, insurance and operational risk management. It also supports the effective implementation of risk management policies at the individual business unit and process levels.

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

Regulatory Framework

Regulators are interested in protecting the rights of the policyholders and maintain close monitoring to ensure that the Company is satisfactorily managing its affairs for their benefit. At the same time, regulators are also interested in ensuring that the Company maintains appropriate liquidity and solvency positions to meet maturing liabilities arising from claims and acceptable level of risks.

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

Capital Management

The Company's capital includes capital stock, APIC, contributed surplus and retained earnings.

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 always higher than the minimum capital requirement set by the IC and the amount computed under the RBC model.

The Company manages capital through a process that determines future projected capital requirements through the development of long-term financial plans and projections that consider the impact on surplus of new businesses, profitability of in-force business and other major corporate initiatives that will affect capitalization requirements.

There were no changes made to the Company's capital base, objectives, policies and processes from previous year.

Networth Requirements

Under Section 194 of the Insurance Code, insurance company doing business in the Philippines shall have a networth of P250.00 million by June 30, 2013. Furthermore, said company must have an additional P300.00 million in networth by December 31, 2016; an additional P350.00 million in networth by December 31, 2019; and an additional P400.00 million in networth by December 31, 2022.

As at December 31, 2022 and 2021, the Company has complied with the minimum networth requirements.

RBC Requirements

The IC issued Circular Letter (CL) 2016-68, the Amended RBC2 Framework, effective January 1, 2017. This framework provides for the amended formula in computing for the RBC Ratio, which is calculated, by dividing Total Available Capital (TAC) by the RBC requirement. 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. Trend test has failed in the event that all have occurred:

- the RBC ratio computed for the period (i.e. first quarter) is less than 125% but is not below 100%;
- the RBC ratio has decreased over the past period; and
- the difference between RBC ratio so computed and the decrease in the RBC ratio over the past period is less than 100

On December 28, 2016, the IC released CL No. 2016-69 which provides, among other things, that the level of sufficiency for the RBC2 Framework should be at 95th percentile level of sufficiency for the year 2017, 97.5th percentile for the year 2018, and 99.5th percentile for the year 2019. RBC2 Framework was made effective January 1, 2017.

The following table shows the RBC ratio of the Company as at December 31, 2022 and 2021, using the RBC2 Framework:

	2022	2021
TAC	**P8,146,097**	P9,476,562
RBC requirement	**1,296,129**	843,872
RBC ratio	**628%**	1,123%

The figures above for 2022 are internally computed by the Company and the final amount of the RBC ratio can be determined only after the accounts of the Company have been reviewed by IC specifically as to determination of admitted and non-admitted assets as defined under the Insurance Code while the figures above for 2021 are based on final amount reviewed by IC. As at December 31, 2022 and 2021, the Company has complied with the minimum RBC ratio of 100%.

The estimated non-admitted assets as defined in the Insurance Code are included in the separate statement of financial position. The amounts of assets below for 2022 are subject to final determination by the IC while the 2021 balances are based on final amount reviewed by IC:

	Note	**2022**	2021
Deferred acquisition costs	*14, 32*	**P14,558,939**	P12,455,967
Property and equipment - net		**405,599**	373,307
Other assets		**2,448,447**	2,133,715
		P17,412,985	P14,962,989

Insurance Risk

The Company issues contracts that transfer insurance risk. This section summarizes the risks and the way the Company manages them.

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.
The main risks that the Company is exposed to are as follows:

- *Mortality Risk* - risk of loss due to policyholder death experience being different from expected.

- *Morbidity Risk* - risk of loss due to policyholder health and disability experience being different from expected.

The Company manages these risks through its underwriting strategy and reinsurance agreements. The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of the type of risk and level of insured benefits. This is largely achieved through 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 retention limit of the Company varies per product type.

For contracts where death or disability 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.

Concentration of Insurance Risk
The table below sets out the concentration of legal policy reserves by type of life insurance contract (in thousands):

	Note	**2022**	2021
Whole and term life		**P3,369,899**	P4,230,275
Endowment		**154,893**	652,178
Term		**(23,195)**	(25,270)
Accident		**25,288**	22,500
Group		**22,499**	33,624
Variable		**472,295**	444,979
Riders and other products		**247,279**	253,518
	16, 32	**P4,268,958**	P5,611,804

Classification by Attained Age
The table below presents the concentration of legal policy reserves by attained age as at December 31, 2022 and 2021. For individual insurance, exposure is concentrated on age brackets of 55 - 59 in 2022 and 2021.

	2022 Individual		2021 Individual	
Attained Age	**Exposure '000**	**Concentration (%)**	Exposure '000	Concentration (%)
<20	**P81,982**	**1.93%**	P128,458	2.30%
20 - 24	**100,514**	**2.37%**	172,920	3.10%
25 - 29	**152,564**	**3.59%**	190,541	3.42%
30 - 34	**179,396**	**4.23%**	224,510	4.02%
35 - 39	**186,990**	**4.40%**	259,256	4.65%
40 - 44	**275,961**	**6.50%**	430,439	7.72%
45 - 49	**516,971**	**12.17%**	713,864	12.80%
50 - 54	**628,331**	**14.80%**	840,011	15.06%
55 - 59	**627,788**	**14.78%**	857,178	15.37%
60 - 64	**595,156**	**14.02%**	752,270	13.49%
65 - 69	**411,124**	**9.68%**	500,843	8.98%
70 - 74	**257,481**	**6.06%**	272,473	4.88%
75 - 79	**162,031**	**3.82%**	176,571	3.16%
80 +	**70,170**	**1.65%**	58,846	1.05%
Total	**P4,246,459**	**100.00%**	P5,578,180	100.00%

For group insurance, exposure is concentrated on age bracket 35 - 39 in 2022 and 2021.

	2022			
	Group			
	Gross of Reinsurance		Net Reinsurance	
Attained Age	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
20 - 24	**P102**	**0.45%**	**P102**	**0.45%**
25 - 29	**694**	**3.09%**	**694**	**3.09%**
30 - 34	**16,078**	**71.46%**	**16,078**	**71.46%**
35 - 39	**941**	**4.18%**	**941**	**4.18%**
40 - 44	**878**	**3.90%**	**878**	**3.90%**
45 - 49	**800**	**3.56%**	**800**	**3.56%**
50 - 54	**983**	**4.37%**	**983**	**4.37%**
55 - 59	**1,147**	**5.10%**	**1,147**	**5.10%**
60 +	**876**	**3.89%**	**876**	**3.89%**
Total	**P22,499**	**100.00%**	**P22,499**	**100.00%**

	2021			
	Group			
	Gross of Reinsurance		Net Reinsurance	
Attained Age	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
20 - 24	P102	0.30%	P102	0.30%
25 - 29	1,621	4.82%	1,629	4.87%
30 - 34	2,440	7.26%	2,452	7.33%
35 - 39	10,022	29.80%	9,751	29.13%
40 - 44	2,951	8.78%	2,966	8.86%
45 - 49	3,372	10.03%	3,389	10.13%
50 - 54	4,196	12.48%	4,217	12.60%
55 - 59	5,036	14.98%	5,061	15.12%
60 +	3,884	11.55%	3,903	11.66%
Total	P33,624	100.00%	P33,470	100.00%

Key Assumptions
The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

(a) *Risk-free Discount Rates* refer to the rates used in determining the value of life insurance liabilities. The value of life insurance liabilities is determined as the sum of the present value of future benefits and expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate risk-free discount rate. The risk-free discount rates are based on the Bloomberg Valuation reference rates for peso and international yield curve from Bloomberg, with matching duration.

(b) *Mortality and Morbidity Assumptions*. Mortality refers to the rate at which death occurs for a defined group of people while morbidity refers to the rate at which accident or sickness, and recovery therefrom, for a defined group of people. For the purpose of liability valuation, expected future cash flows are determined using best estimate mortality and morbidity assumptions with due regard to significant recent experience and appropriate margin for adverse deviation from the expected experience.

(c) *Lapse Assumptions* refer to rates at which a life insurance policy is surrendered or terminated as a result of failure to pay the premium due; avails of the premium holiday option, and avails of partial withdrawals against the insurance policy. For the purpose of liability valuation, expected future cash flows are determined using best estimate lapse assumptions with due regard to significant recent experience and appropriate margin for adverse deviation from the expected experience.

(d) *Expense Assumptions* refer to the expected future administrative and maintenance costs related to the issuance and maintenance of a life insurance policy with consideration of inflation. For the purpose of liability valuation, expected future cash flows are determined using best estimate expense assumptions with due regard to significant recent experience and appropriate margin for adverse deviation from the expected experience.

Sensitivities
The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on the Company's income 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, assumptions had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear.

		2022	2021
	Changes in Assumptions/ Variables	**Impact on Income before Income Tax and Equity Increase (Decrease)**	Impact on Income before Income Tax and Equity Increase (Decrease)
		(Amounts in Millions)	
Mortality and morbidity	+5%	**(P35.56)**	(P39.82)
	-5%	**32.52**	36.38
Interest rate	+ 100 basis points	**192.60**	255.98
	- 100 basis points	**(211.27)**	(281.26)
Expense	+10%	**(72.79)**	(95.94)
	-10%	**64.47**	83.28
Lapse	+10%	**(4.42)**	16.22
	-10%	**6.70**	(14.42)

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

The analysis detailing the impact of changes in market interest rate to the fair value of the Company's investment in fixed-rate debt instrument is disclosed in the Currency Risk section.

Investment Risk
The investment risk represents the exposure to loss resulting from cash flows from invested assets primarily for long-term fixed rate investments, being less than the cash flows to meet the obligations of the expected policy and contract liabilities and the necessary return on investments. Additionally, there exists a future investment risk associated with certain policies currently in-force which will have premium receipts in the future.

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

The Company adopts the Prudential's investment strategy to invest primarily in high quality securities while maintaining diversifications to avoid significant exposure to issuer and industry.

The Company invests in equity and debt instruments as dictated by the Company's investment management strategy. Asset allocation is determined by the Company's Fund Managers, Eastspring Investments (Singapore) Limited (Eastspring) and Pru Life UK Asset Management and Trust Corporation, who manage the distribution of assets to achieve the investment objectives. Divergence from target asset allocations and the composition of the Company's portfolio is monitored by the Investment Committee.

For unit-linked contracts, the Company does not retain the price, currency, credit, or interest rate risk for these contracts as contractual arrangements are such that the linked fund policyholders bear the risks and rewards of the fund's investment performance.

There has been no change to the Company's exposure to investment risk or the manner in which it manages and measures the risk since prior financial year.

Financial Risk

The Company has significant exposure to the following financial risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

There has been no change to the Company's exposure to financial risks (i.e. credit risk, liquidity risk and market risk) or the manner in which it manages and measures the risks since prior financial year.

(a) *Credit Risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause another party to incur a financial loss. The Company is exposed to credit risk primarily through its cash and cash equivalents, investments and loans granted to policyholders. The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date.

The Company's concentration of credit risk arises from its investments in government securities since the said investments amounted to P60.18 billion (78.86%) and P66.10 billion (88.43%) of the Company's total financial assets as at December 31, 2022 and 2021, respectively.

The table below provides information regarding the credit risk exposure of the Company as at December 31, 2022 and 2021 by classifying assets according to the Company's credit grading of counterparties.

		2022				
		Neither Past Due nor Impaired				
	Note	**Investment High-grade**	**Non-investment Grade - Satisfactory**	**Total Financial Assets Neither Past Due nor Impaired**	**Past Due and Impaired**	**Total**
Cash in bank and cash equivalents*	*7, 32*	**P5,929,874**	**P -**	**P5,929,874**	**P -**	**P5,929,874**
Interest receivable	*32*	**126,855**	**-**	**126,855**	**-**	**126,855**
Coverage debt receivables	*12, 32*	**-**	**1,065,080**	**1,065,080**	**559,122**	**1,624,202**
Financial assets at FVPL	*8*	**9,623,888**	**-**	**9,623,888**	**-**	**9,623,888**
Premiums due from policyholders	*32*	**-**	**8,716**	**8,716**	**-**	**8,716**
Policy loans receivables	*10, 32*	**-**	**315,202**	**315,202**	**5,793**	**320,995**
Reinsurance assets	*32*	**-**	**134,179**	**134,179**	**-**	**134,179**
Other assets (excluding withholding tax receivables, software development costs, nonrefundable deposits and prepayments)		**644,237**	**501,158**	**1,145,395**	**9,948**	**1,155,343**
Assets Held to Cover Linked Liabilities						
Cash and cash equivalents	*11*	**5,126,973**	**-**	**5,126,973**	**-**	**5,126,973**
Interest receivable	*11*	**262,429**	**-**	**262,429**	**-**	**262,429**
Receivable from life fund	*11*	**518,906**	**-**	**518,906**	**-**	**518,906**
Investment in debt securities	*11*	**51,088,702**	**-**	**51,088,702**	**-**	**51,088,702**
Other assets	*11*	**388,996**	**-**	**388,996**	**-**	**388,996**
		P73,710,860	**P2,024,335**	**P75,735,195**	**P574,863**	**P76,310,058**

** Excluding Petty Cash*

		2021				
		Neither Past Due nor Impaired				
	Note	Investment High-grade	Non-investment Grade - Satisfactory	Total Financial Assets Neither Past Due nor Impaired	Past Due and Impaired	Total
Cash in bank and cash equivalents*	*7, 32*	P2,573,420	P -	P2,573,420	P -	P2,573,420
Interest receivable	*32*	132,241	-	132,241	-	132,241
Coverage debt receivables	*12, 32*	-	960,404	960,404	435,291	1,395,695
Financial assets at FVPL	*8*	12,307,684	-	12,307,684	-	12,307,684
Premiums due from policyholders	*32*	-	10,831	10,831	-	10,831
Policy loans receivables	*10, 32*	-	369,607	369,607	5,793	375,400
Reinsurance assets	*32*	-	53,439	53,439	- -	53,439
Other assets (excluding withholding tax receivables, software development costs, nonrefundable deposits and prepayments)		567,810	446,125	1,013,935	5,047	1,018,982
Assets Held to Cover Linked Liabilities						
Cash and cash equivalents	*11*	1,965,566	-	1,965,566	-	1,965,566
Interest receivable	*11*	260,916	-	260,916	-	260,916
Receivable from life fund	*11*	233,427	-	233,427	-	233,427
Investment in debt securities	*11*	54,332,518	-	54,332,518	-	54,332,518
Other assets	*11*	93,085	-	93,085	-	93,085
		P72,466,667	P1,840,406	P74,307,073	P446,131	P74,753,204

** Excluding Petty Cash*

The Company has no past due but not impaired financial assets as at December 31, 2022 and 2021.

The Company uses a credit grading system based on the borrowers and counterparties overall credit worthiness, as described below:

Investment High-grade - This pertains to accounts with a very low probability of default as demonstrated by the borrower's strong financial position and reputation. The borrower has the ability to raise substantial amounts of funds through credit facilities with financial institutions. The borrower has a strong debt service record and a moderate use of leverage.

Non-investment Grade - Satisfactory - This pertains to current accounts with no history of default or which may have defaulted in the past, but the conditions and circumstances directly affecting the borrower's ability to pay has abated already. The borrower is expected to be able to adjust to the cyclical downturns in its operations. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues. The use of leverage may be above industry or credit standards but remains stable.

Past Due and Impaired - This pertains to the allowance for impairment losses that the Company recognizes due to the uncertainty of the collectability of the Company's receivables.

In compliance with the Insurance Code, the Company extends loans to its policyholders only up to the cash surrender value of their policy, pursuant to the provisions of the policy contract.

Credit risk arising from transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used. The Company monitors the credit ratings of the brokers to further mitigate this risk.

A substantial portion of the Company's total investments, including cash in bank, are held by Standard Chartered Bank, a reputable financial institution with high credit rating, under a custodianship agreement.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

To effectively manage liquidity risk, the Company ensures that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unnecessary costs or risking damage to the Company's reputation. Further, the Company's policy is to maintain sufficient liquidity to meet normal operating requirements.

The tables below summarize the maturity profile of the financial liabilities of the Company based on remaining contractual obligations or on the estimated timing of net cash flows as at December 31, 2022 and 2021:

		2022			
			Contractual Cash Flow		
	Note	**Carrying Amount**	**Within One Year**	**Beyond One Year**	**Total**
Technical provision for linked liabilities	*11, 32*	**P108,522,565**	**P -**	**P108,522,565**	**P108,522,565**
Claims payable	*17, 32*	**1,320,050**	**1,320,050**	**-**	**1,320,050**
Reinsurance payable	*18, 32*	**226,036**	**226,036**	**-**	**226,036**
Accounts payable, accrued expenses and other liabilities*		**7,046,993**	**7,046,993**	**-**	**7,046,993**
Lease liabilities	*29, 32*	**691,858**	**22,742**	**669,116**	**691,858**
Assets Held to Cover Linked Liabilities					
Liability to life fund and other linked funds	*11*	**37,552,421**	**37,552,421**	**-**	**37,552,421**
Accrued expenses	*11*	**192,927**	**192,927**	**-**	**192,927**
Trade payable	*11*	**1,450,813**	**1,450,813**	**-**	**1,450,813**
		P157,003,663	**P47,811,982**	**P109,191,681**	**P157,003,663**

**Excluding premium suspense account, premium deposit fund, retirement liability and liabilities to government agencies.*

		2021			
			Contractual Cash Flow		
	Note	Carrying Amount	Within One Year	Beyond One Year	Total
Technical provision for linked liabilities	*11, 32*	P106,573,549	P -	P106,573,549	P106,573,549
Claims payable	*17, 32*	1,042,874	1,042,874	-	1,042,874
Reinsurance payable	*18, 32*	124,788	124,788	-	124,788
Accounts payable, accrued expenses and other liabilities*		6,155,676	6,155,676	-	6,155,676
Lease liabilities	*29, 32*	687,802	22,670	665,132	687,802
Assets Held to Cover Linked Liabilities					
Liability to life fund and other linked funds	*11*	39,246,922	39,246,922	-	39,246,922
Accrued expenses	*11*	161,641	161,641	-	161,641
Trade payable	*11*	728,981	728,981	-	728,981
		P154,722,233	P47,483,552	P107,238,681	P154,722,233

**Excluding premium suspense account, premium deposit fund, retirement liability and liabilities to government agencies.*

(c) Market Risk

Market risk embodies the potential for both gains and losses and includes currency risk, interest rate risk and equity price risk.

The Company's market risk is managed on a daily basis by the Fund manager in accordance with policies and procedures in place. The Company's overall market positions are monitored, at least, on a quarterly basis by the Investment Committee of the Company.

Details of the nature of the Company investment portfolio at the reporting date are disclosed in Notes 8 and 11 to the separate financial statements.

Currency Risk

Currency risk is the risk that changes in foreign exchange rates will affect the fair values or cash flow of a recognized financial instrument. The Company may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Company is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Company's assets or liabilities denominated in currencies other than in Philippine peso.

The Company's main exposure to fluctuations in foreign currency exchange rates arise through the following assets denominated in U.S. dollar:

	2022	2021
Investments	**\$397,920**	\$453,712
Foreign exchange rate to the Philippine peso used*	**55.76**	50.99
	P22,188,019	P23,134,775

**Exchange rate used is based on Bankers Association of the Philippines foreign exchange rate as at December 29, 2022 and December 31, 2021.*

An 8% (2021: 1%) strengthening of U.S. dollar against Philippine peso as at December 31, 2022, with all other variables remaining constant, would have affected the measurement of financial instruments denominated in U.S. dollar and increased profit before tax and equity by P0.24 billion (2021: P0.23 billion).

An 8% (2021: 1%) weakening of the U.S. dollar in relation to the Philippine peso, with all other variables held constant, would have an equal but opposite effect on the Company's profit before tax and equity.

In 2022 and 2021, the Company determined the reasonably possible change in foreign currency exchange rates based on the historical fluctuation of the assets denominated in U.S. dollar.

Interest Rate Risk
There are two types of interest rate risk:

- *Fair Value Interest Rate Risk* - the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and

- *Cash Flow Interest Rate Risk* - the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Significant portion of the Company's investments is composed mainly of interest-bearing debt instruments carried at fair value. As a result, the Company is subject to exposure to fair value interest rate risk.

The Company does not carry debt instrument with variable interest rate and, thus, is not exposed to cash flow interest rate risk.

Fair value interest rate risk is mitigated by the Company's Fund Manager by constructing a portfolio of debenture instruments with diversified maturities. Any excess cash of the Company is invested in short-term time deposits with original terms of three months or less.

The analysis below details the impact of changes in market interest rate (stated in basis points or bps) to the fair value of the Company's investment in fixed-rate debt instruments. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

The table below sets out the impact of changes in market interest rate to the fair value of the Company's investments classified as General Assets:

Currency	Changes in Variables	**2022** +100 bps	**2022** -100 bps	2021 +100 bps	2021 -100 bps
Philippine peso	**P -**	**(P1,331,305)**	**P1,457,866**	(P1,585,676)	P1,753,447
U.S. dollar	**-**	**(2,991,988)**	**3,456,268**	(571,577)	660,820
Fair value sensitivity	**P -**	**(P4,323,293)**	**P4,914,134**	(P2,157,253)	P2,414,267

The table below presents the impact of changes in market interest rate to the fair value of the Company's investments classified as Assets Held to Cover Linked Liabilities:

Currency	Changes in Variables	**2022** +100 bps	**2022** -100 bps	2021 +100 bps	2021 -100 bps
Philippine peso	**P -**	**(P787,605)**	**P849,760**	(P897,459)	P976,678
U.S. dollar	**-**	**(362,725)**	**413,821**	(509,066)	587,028
Fair value sensitivity	**P -**	**(P1,150,330)**	**P1,263,581**	(P1,406,525)	P1,563,706

In 2022 and 2021, the Company determined the reasonably possible change in interest rate based on the historical percentage changes in weighted average yield rates of outstanding investments of the Company.

Equity Price Risk
Equity price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

The Company's equity investments are mainly composed of the investments in equity securities under "Assets Held to Cover Linked Liabilities" amounting to P90.29 billion and P89.93 billion (see Note 11) as at December 31, 2022 and 2021, respectively. However, any fair value changes in these equity investments has corresponding increase or decrease in "Technical Provisions for Linked Liabilities" and will not affect the equity and profit before income tax of the Company. Thus, the Company has insignificant exposure to equity price risk.

Moreover, any fair value changes in these equity investments will affect the net asset value of the investment account of the policyholders which is the basis of the policy administration fees charged to the fund (see Note 21).

Deferral of PFRS 9
The Company applies the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4, *Applying PFRS 9 with PFRS 4* and has elected to defer the application of PFRS 9 until the Company adopts PFRS 17.

Under the amended PFRS 4, an entity has to prove that its activities are predominantly connected with insurance. This condition is met if the carrying amount and the percentage of its liabilities arising from contracts within the scope of PFRS 4 is significant or greater than 90% relative to the total carrying amount of all its liabilities.

The Company performed the predominance assessment and concluded that it qualified for the temporary exemption from PFRS 9. As at December 31, 2015, the Company's total carrying amount of liabilities connected with insurance amounted to P74.55 billion which represented more than 90% of its total liabilities of P76.82 billion. The Company did not subsequently reassess its eligibility for the temporary exemption from PFRS 9 as there was no change in the Company's activities for the year ended December 31, 2022.

The following table provides an overview of the fair values as at December 31, 2022 and 2021, and the amounts of change in the fair values during the reporting period separately for financial assets that meet the solely payments of principal and interest (SPPI) criterion (i.e. financial assets with contractual terms that give rise on specified dates to cash flows that are SPPI on the principal amount outstanding, excluding any financial asset that meets the definition of held for trading in PFRS 9, or that is managed and whose performance is evaluated on a fair value basis) and all other financial assets:

	2022			
	Financial Assets that Meet the SPPI Criteria*		**All Other Financial Assets**	
	Fair Value	**Fair Value Change during the Reporting Period**	**Fair Value**	**Fair Value Change during the Reporting Period**
Cash in bank and cash equivalents	**P5,930,837**	**P -**	**P -**	**P -**
Interest receivable	**126,855**	**-**	**-**	**-**
Financial assets at FVPL	**-**	**-**	**9,623,888**	**(1,312,173)**
AFS financial assets	**-**	**-**	**42,858**	**8,650**
Loans and receivables	**816,360**	**-**	**-**	**-**
Rental and other deposits	**136,550**	**-**	**-**	**-**
Assets Held to Cover Linked Liabilities				
Cash and cash equivalents	**5,126,973**	**-**	**-**	**-**
Interest receivable	**262,429**	**-**	**-**	**-**
Receivable from life fund	**518,906**	**-**	**-**	**-**
Financial assets at FVPL	**-**	**-**	**141,421,422**	**(5,296,710)**
Other assets	**388,996**	**-**	**-**	**-**
	P13,307,906	**P -**	**P151,088,168**	**(P6,600,233)**

**Excluding any financial asset that meets the definition of held for trading in PFRS 9, or that is managed and whose performance is evaluated on a fair value basis.*

	2021			
	Financial Assets that Meet the SPPI Criteria*		All Other Financial Assets	
	Fair Value	Fair Value Change during the Reporting Period	Fair Value	Fair Value Change during the Reporting Period
Cash in bank and cash equivalents	P2,573,420	P -	P -	P -
Interest receivable	132,241	-	-	-
Financial assets at FVPL	-	-	12,307,684	(963,631)
AFS financial assets	-	-	32,628	2,200
Loans and receivables	815,732	-	-	-
Rental and other deposits	136,967	-	-	-
Assets Held to Cover Linked Liabilities				
Cash and cash equivalents	1,965,566	-	-	-
Interest receivable	260,916	-	-	-
Receivable from life fund	233,427	-	-	-
Financial assets at FVPL	-	-	144,158,099	(281,896)
Other assets	93,085	-	-	-
	P6,211,354	P -	P156,498,411	(P1,243,327)

**Excluding any financial asset that meets the definition of held for trading in PFRS 9, or that is managed and whose performance is evaluated on a fair value basis.*

The information about the credit risk exposures for financial assets with contractual terms that meet the SPPI criterion at December 31, 2022 and 2021 is consistent with the credit risk disclosure above under PAS 39.

6. Fair Value Measurements and Disclosures

The fair value of the following financial assets and financial liabilities approximate their carrying amounts at the end of each accounting period due to their short-term nature:

- Cash and cash equivalents;
- Interest receivable;
- Coverage debt receivables;
- Premiums due from policyholders;
- Policy loans receivables;
- Reinsurance assets;
- Other assets except for withholding tax receivables, software development costs, investments in ASF, non-refundable deposits and prepayments;
- Cash and cash equivalents, interest receivable, receivable from life fund and other assets under assets held to cover linked liabilities;
- Claims payable;
- Reinsurance payable;
- Accounts payable, accrued expenses and other liabilities except for liabilities payable to government agencies, premium suspense account, premium deposit fund and retirement liability; and
- Liability to life and other linked funds, accrued expenses, and trade payable under assets held to cover linked liabilities.

The recurring fair values of financial assets at FVPL including those under assets held to cover linked liabilities, AFS financial assets, and technical provisions for linked liabilities are determined by reference to quoted market prices, at the close of business on the reporting date.

Fair Value Hierarchy
The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

		2022		
	Note	**Level 1**	**Level 2**	**Total**
Financial Assets				
Financial assets at FVPL	*8*	**P9,623,888**	**P -**	**P9,623,888**
AFS financial assets	*8*	**42,858**	**-**	**42,858**
Financial assets at FVPL under other assets	*15*	**644,237**	**-**	**644,237**
Financial assets at FVPL under assets held to cover linked liabilities	*11*	**141,378,897**	**42,525**	**141,421,422**

	Note	2021		
		Level 1	Level 2	Total
Financial Assets				
Financial assets at FVPL	*8*	P12,307,684	P -	P12,307,684
AFS financial assets	*8*	32,628	-	32,628
Financial assets at FVPL under other assets	*15*	567,810	-	567,810
Financial assets at FVPL under assets held to cover linked liabilities	*11*	144,258,465	(100,366)	144,158,099

The Company has no financial instruments categorized under Level 3. Also, there has been no transfer between levels in 2022 and 2021.

7. Cash and Cash Equivalents

	Note	**2022**	2021
Cash on hand and in banks		**P2,964,195**	P1,563,426
Short-term placements		**2,966,642**	1,010,909
	5, 32	**P5,930,837**	P2,574,335

Short-term placements are Philippine peso and U.S. dollar time deposits with various financial institutions with maturities ranging from overnight to ninety days and interest ranging from 0.11% to 3.10% and 0.06% to 0.20% per annum in 2022 and 2021, respectively.

Interest income recognized in profit or loss which is presented under "Investment gain - net" amounted to P17.38 million and P2.88 million in 2022 and 2021, respectively.

8. Investments

Reconciliation of the carrying amount of the investments at the beginning and end of the year is shown below.

	Note	**December 31, 2022**		
		AFS Financial Assets	**Financial Assets at FVPL**	**Total Investments**
Cost at January 1, 2022		**P26,957**	**P11,930,423**	**P11,957,380**
Unrealized gains at January 1, 2022		**5,671**	**377,261**	**382,932**
Fair value at January 1, 2022		**32,628**	**12,307,684**	**12,340,312**
Fair value gain (loss) recognized in:				
Profit or loss	*22*	**-**	**(1,312,173)**	**(1,312,173)**
Other comprehensive income		**8,650**	**-**	**8,650**
Foreign exchange gain	*22*	**-**	**41,962**	**41,962**
Purchases		**1,580**	**3,791,908**	**3,793,488**
Proceeds from disposal of financial assets		**-**	**(5,187,340)**	**(5,187,340)**
Gain on disposal of financial assets	*22*	**-**	**(18,153)**	**(18,153)**
Fair value at December 31, 2022	*5, 6, 32*	**P42,858**	**P9,623,888**	**P9,666,746**
Cost at December 31, 2022		**P28,537**	**P10,516,838**	**P10,545,375**
Unrealized gains at December 31, 2022		**P14,321**	**(P892,950)**	**(P878,629)**

		December 31, 2021		
	Note	AFS Financial Assets	Financial Assets at FVPL	Total Investments
Cost at January 1, 2021		P25,585	P12,374,828	P12,400,413
Unrealized gains at January 1, 2021		3,471	1,307,812	1,311,283
Fair value at January 1, 2021		29,056	13,682,640	13,711,696
Fair value gain (loss) recognized in:				
Profit or loss	*22*	-	(963,631)	(963,631)
Other comprehensive income		2,200	-	2,200
Foreign exchange gain	*22*	-	33,080	33,080
Purchases		1,372	3,624,629	3,626,001
Proceeds from disposal of financial assets		-	(4,096,533)	(4,096,533)
Gain on disposal of financial assets	*22*	-	27,499	27,499
Fair value at December 31, 2021	*5, 6, 32*	P32,628	P12,307,684	P12,340,312
Cost at December 31, 2021		P26,957	P11,930,423	P11,957,380
Unrealized gains at December 31, 2021		P5,671	P377,261	P382,932

The Company's investments consist of the following:

	Note	**2022**	2021
Government bonds	*5, 6*	**P8,992,317**	P11,666,270
Unit investment trust fund (UITF)	*5, 6, 28*	**376,611**	379,505
Corporate debt securities	*5, 6*	**155,367**	158,521
Quasi government bonds	*5, 6*	**99,593**	103,388
Equity securities	*6*	**42,858**	32,628
	32	**P9,666,746**	P12,340,312

Interest rates range from 00.000% to 13.000% in 2022 and 2021.

The rollforward analysis of the fair value reserve on AFS financial assets is as follows:

	2022	2021
Balance at beginning of year	**P5,671**	P3,471
Fair value gain	**8,650**	2,200
Balance at end of year	**P14,321**	P5,671

9. Investment in Subsidiary

The Monetary Board of the Bangko Sentral ng Pilipinas (BSP), in its Resolution No. 778 dated May 11, 2018, has approved the establishment of Pru Life UK Asset Management and Trust Corporation (PAMTC). PAMTC was incorporated and registered with the Philippine SEC on November 26, 2018, primarily to carry and engage in trust business activities, other fiduciary business and investment management activities; to have and exercise all authority and powers, to do and perform all acts, and to transact all business which may legally be done by trust corporations organized under and in accordance with the General Banking Law and its Implementing Rules and Regulations and such other applicable laws, rules and regulations on trust corporations, and to do all other things incident thereto and necessary and proper in connection with said purposes as may be determined by the Monetary Board of the BSP. On March 12, 2019, the BSP issued the Certificate of Authority to Operate to PAMTC.

PAMTC is a wholly-owned subsidiary of the Company. PAMTC's registered address is at the 2/F Uptown Parade 2, 36th Street, Fort Bonifacio, Taguig City Fourth District, Philippines.

In 2018, the Company made a capital infusion to PAMTC amounting to P360.25 million. On December 24, 2021, the company made an additional capital infusion to PAMTC of P169.00 million.

Investments in subsidiary are reviewed for impairment when circumstances indicate that the carrying amount is impaired. Impairment for investment in subsidiary was assessed as at December 31, 2022 due to circumstances that indicated that the recoverable amount of the assets may be less than the carrying amount particularly the significant decline in the net assets of PAMTC as at December 31, 2022 as a result of its operations and the changes of the Company's future business plan for the subsidiary. Accordingly, the Company estimated the recoverable amount of investment in subsidiary based on PAMTC's net assets as at October 2022 to be P239.19 million against the carrying value of investment in subsidiary of P529.25 million which resulted to an impairment loss on its investment in subsidiary amounting to P290.06 million in 2022 presented under "Others" in profit or loss.

The investment in subsidiary was written down to its recoverable amount which was determined by reference to the fair value of PAMTC's net assets. The fair value of the financial assets and financial liabilities of PAMTC approximate their carrying amounts at the end of each accounting period due to their short-term nature. Moreover, the recurring fair values of debt instruments at FVOCI are determined by reference to quoted market prices, at the close of business on the reporting date, which is classified as a level 1 fair value. The Company also considered the fair value of PAMTC's debt Instruments currently measured at amortized cost to determine the recoverable amount which the Company assessed to have immaterial difference in comparison to its carrying value.

There were no impairment loss recognized in 2021. As at December 31, 2022 and 2021, the carrying value of the investment in subsidiary amounted to P239.19 million and P529.25 million, respectively.

The key financial information of the subsidiary as at and for the years ended December 31 is as follows:

	2022	2021
Total assets	**P305,277**	P342,452
Total liabilities	**71,988**	66,635
Net assets	**233,289**	275,817
Net loss	**37,444**	78,841
Other comprehensive income (loss)	**5,084**	(219)

10. Policy Loans Receivables

	Note	**2022**	2021
Policy loans receivables		**P320,995**	P375,400
Allowance for impairment losses		**(5,793)**	(5,793)
	5, 32	**P315,202**	P369,607

Policy loans receivables account pertains to the outstanding balances of loans granted to policyholders, fully secured by the cash surrender value of the underlying insurance policy at the time of issuance. These may be in the form of a cash loan applied by the policyholder or automatic policy loan to cover premiums due on the policy.

The Company provides an allowance for policy loans and the related capitalized interest periodically to reflect the estimated realizable value of the receivables as at each reporting date.

Provision for impairment losses on policy loans receivables amounting to nil and P1.80 million in 2022 and 2021, respectively, were recognized as expense under "Others" in profit or loss.

The rollforward analysis of the allowance for impairment losses in policy loans receivables is as follows:

	2022	2021
Balance at beginning of year	**P5,793**	P10,161
Provision for impairment losses	**-**	1,767
Reversals taken up to profit or loss	**-**	(6,135)
Balance at end of year	**P5,793**	P5,793

11. Assets Held to Cover Linked Liabilities

On September 11, 2002, the IC approved the Company's license to sell variable unit-linked insurance policies, a life insurance product that is linked to investment funds (see Note 1). The premium of this product is divided into two parts: the insurance portion and the investment portion. The investment portion of the premium, net of withdrawals, is recognized as "Costs on premiums of variable insurance" in the profit or loss and invested in a separately identifiable fund. The fund is valued regularly and is divided into units which represent the unit-linked policyholder's share in the fund. The value of the fund divided by the number of units is called the unit price. An amount equal to the "Assets held to cover linked liabilities" (representing the managed funds) is shown under the "Technical provisions for linked liabilities" account in the separate statement of financial position, a representation that the funds belong to the unit-linked policyholders.

Linked funds is a line of business in which the Company issues a contract where the benefit amount is directly linked to the fair value of the investments held in the particular segregated fund. Although the underlying assets are registered in the name of the Company and the linked fund contract holder has no direct access to the specific assets, the contractual arrangements are such that the linked fund policyholders bear the risks and rewards of the fund's investment performance. The Company derives fee income from linked funds, which is included in "Policy administration fees" in profit or loss.

Separate financial statements are prepared for the linked funds. Linked fund assets are carried at recurring fair value. Fair values are determined using the valuation method discussed in Note 6.

Assets held to cover linked liabilities are composed of:

	Note	**2022**	2021
Cash and cash equivalents	*5*	**P5,126,973**	P1,965,566
Interest receivable	*5*	**262,429**	260,916
Receivable from life fund	*5*	**518,906**	233,427
Investments in treasury notes and other funds	*6*	**141,421,422**	144,158,099
Other assets	*5*	**388,996**	93,085
Liability to life fund and other linked funds	*5*	**(37,552,421)**	(39,246,922)
Accrued expense	*5*	**(192,927)**	(161,641)
Trade payable	*5*	**(1,450,813)**	(728,981)
Net assets	*32*	**P108,522,565**	P106,573,549

Investments in treasury notes and other funds are composed of:

	Note	**2022**	2021
Investments in treasury notes	*5*	**P21,950,898**	P24,240,207
Investments in shares of stocks	*5*	**63,479,104**	63,378,114
Investment in other funds:			
Investment in bond fund	*5*	**14,860,155**	15,543,927
Investment in equity fund	*5*	**22,611,393**	23,642,832
Investment in offshore fund (IOF) - Bonds	*5*	**13,677,339**	14,548,384
IOF - Equities	*5*	**3,295,080**	2,467,006
UITF - Equities	*5*	**904,618**	437,995
UITF - Money Market	*5*	**600,310**	-
Non-deliverable forward contract		**42,525**	(100,366)
Total investments	*6*	**P141,421,422**	P144,158,099

Total premiums and costs from the unit-linked product for the years ended December 31, 2022 and 2021 are as follows:

	Note	**2022**	2021
Linked premiums	*20*	**P41,431,678**	P37,936,915
Costs on premiums of variable insurance		**(17,981,410)**	(16,538,479)
Surrenders		**(6,433,790)**	(6,238,593)
Net linked premiums		**P17,016,478**	P15,159,843

12. Coverage Debt Receivables

	Note	**2022**	2021
Coverage debt receivables		**P1,624,202**	P1,395,695
Allowance for impairment losses		**(559,122)**	(435,291)
	5, 32	**P1,065,080**	P960,404

Coverage debt receivables pertain to policy charges billed against the investment account of unit-linked policyholders.

These receivables normally arise from policy charges covering mortality risk, taxes and administrative fees due from new unit-linked policyholders who have not accumulated enough investments to cover these fees.

The Company provides an allowance for uncollectible coverage debt charges for lapsed and terminated policies.

Provision for impairment losses on coverage debt receivables amounting to P123.83 million and P77.70 million in 2022 and 2021, respectively, were recognized in profit or loss.

The rollforward analysis of the allowance for impairment losses on coverage debt receivables is as follows:

	2022	2021
Balance at beginning of year	**P435,291**	P357,593
Provision for impairment losses	**123,831**	77,698
Balance at end of year	**P559,122**	P435,291

13. Property and Equipment

The movements in this account are as follows:

	2022						
	Computer Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Condominium Unit	Leasehold Improvements	Office Improvement in Progress	Total
Gross Carrying Amount							
Beginning balance	**P308,379**	**P198,394**	**P127,148**	**P10,027**	**P961,619**	**P105,396**	**P1,710,963**
Additions	**33,750**	**8,340**	**17,840**	**-**	**192,947**	**108,904**	**361,781**
Disposals	**(55,491)**	**(8,898)**	**(10,541)**	**-**	**-**	**-**	**(74,930)**
Reclassification	**44**	**(44)**	**-**	**-**	**(940)**	**(168,815)**	**(169,755)**
Ending balance	**286,682**	**197,792**	**134,447**	**10,027**	**1,153,626**	**45,485**	**1,828,059**
Accumulated Depreciation							
Beginning balance	**268,409**	**171,995**	**60,574**	**8,063**	**786,681**	**-**	**1,295,722**
Depreciation	**30,514**	**12,117**	**22,935**	**413**	**86,524**	**-**	**152,503**
Disposals	**(55,428)**	**(8,644)**	**(7,240)**	**-**	**-**	**-**	**(71,312)**
Reclassification	**273**	**93**	**745**	**-**	**(29)**	**-**	**1,082**
Ending balance	**243,768**	**175,561**	**77,014**	**8,476**	**873,176**	**-**	**1,377,995**
Carrying Amount							
Beginning balance	**P39,970**	**P26,399**	**P66,574**	**P1,964**	**P174,938**	**P105,396**	**P415,241**
Carrying Amount							
Ending balance	**P42,914**	**P22,231**	**P57,433**	**P1,551**	**P280,450**	**P45,485**	**P450,064**

Office improvement in progress amounting to P165.02 million and P3.79 million were reclassified to leasehold improvements and furniture, fixtures and equipment, respectively, and formed part of the additions to leasehold improvements and furniture, fixtures and equipment amounting to P192.95 million and P8.34 million during the year. Office improvement in progress is capitalized upon completion of a project.

Property and equipment with carrying amount of P3.62 million were disposed and sold during the year with proceeds amounting to P3.97 million resulting to a net gain of P0.35 million which formed part of “Others - net” in profit or loss.

	2021						
	Computer Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Condominium Unit	Leasehold Improvements	Office Improvement in Progress	Total
Gross Carrying Amount							
Beginning balance	P332,683	P190,246	P126,994	P10,027	P894,248	P98,261	P1,652,459
Additions	6,057	8,962	35,821	-	75,643	61,323	187,806
Disposals	(30,344)	(814)	(35,667)	-	(7,807)	-	(74,632)
Reclassification	(17)	-	-	-	(465)	(54,188)	(54,670)
Ending balance	308,379	198,394	127,148	10,027	961,619	105,396	1,710,963
Accumulated Depreciation							
Beginning balance	255,229	154,474	75,852	7,649	704,761	-	1,197,965
Depreciation	38,487	18,200	21,957	414	90,181	-	169,239
Disposals	(25,747)	(814)	(35,667)	-	(7,807)	-	(70,035)
Reclassification	440	135	(1,568)	-	(454)	-	(1,447)
Ending balance	268,409	171,995	60,574	8,063	786,681	-	1,295,722
Carrying Amount							
Beginning balance	P77,454	P35,772	P51,142	P2,378	P189,487	P98,261	P454,494
Carrying Amount							
Ending balance	P39,970	P26,399	P66,574	P1,964	P174,938	P105,396	P415,241

Office improvement in progress amounting to P54.19 million were reclassified to leasehold improvements upon completion of a project. This formed part of the additions to leasehold improvements amounting to P75.64 million during the year.

Property and equipment with carrying amount of P4.60 million were disposed and sold during the year with proceeds amounting to P14.91 million resulting to a net gain of P10.32 million which is part of “Others - net” in profit or loss.

14. Deferred Acquisition Costs

	Note	2022	2021
Beginning balance		**P12,455,967**	P10,408,686
Movements during the year:			
Deferred expenses		**3,447,165**	3,226,922
Amortization of deferred acquisition costs		**(1,344,193)**	(1,179,641)
		2,102,972	2,047,281
Ending balance	*5, 32*	**P14,558,939**	P12,455,967

15. Other Assets

	Note	2022	2021
Investments in ASF	*6,* 28	**P644,237**	P567,810
Software development costs - net		**448,377**	198,550
Receivable from unit linked fund		**253,995**	201,887
Advances to employees and agents		**187,515**	187,508
Prepayments		**137,308**	194,423
Nonrefundable deposits		**136,550**	136,967
Retirement asset	*24*	**43,919**	-
Due from related parties	*28*	**43,329**	46,627
Others		**160,935**	118,533
		2,056,165	1,652,305
Allowance for impairment losses on advances to employees and agents		**(9,948)**	(5,047)
	32	**P2,046,217**	P1,647,258

Investments in ASF pertain to the agents' savings funds which is managed and is under the custodianship of PAMTC pursuant to an Investment Management Agreement signed by the Company and PAMTC in 2020.

Software development costs mainly consist of costs for the development of major enhancements in the policy administration system used by the Company. These assets are amortized on a straight-line basis over five (5) years. This also includes costs for building the health management app used by the Company.

Receivable from unit linked fund pertains to the amount to be received by the Company from Pru Link funds as reimbursement for the settlement of withdrawals or surrenders made from unit-linked policies.

Advances to employees and agents are collected through payroll deductions or through expense liquidation.

Prepayments consist of prepaid rent, insurance, and licenses.

Nonrefundable deposits consist mainly of security lease deposits that can be applied at the end of the lease term.

Due from related parties includes receivables from PAMTC, Prudence Foundation Limited (PFL) and Prudential Hong Kong Limited (PHKL) (see Note 28).

Others consist mainly of corporate give away inventories, gifts, income tax withheld and prudential guarantees.

The rollforward analysis for allowance for impairment losses on advances to employees and agents are as follows:

	2022	2021
Balance at beginning of year	**P5,047**	P5,335
Provision for impairment losses	**6,558**	3,874
Reversals taken up to profit or loss	**(1,657)**	(4,162)
Balance at end of year	**P9,948**	P5,047

The Company collected advances to employees and agents that have been previously written off amounting to P1.66 million and P4.16 million in 2022 and 2021, respectively.

The movements of software development costs in 2022 and 2021 are as follows:

	2022	2021
Gross Carrying Amount		
Beginning balance	**P660,344**	P609,322
Acquisitions	**306,218**	67,022
Disposals	**-**	(16,000)
Ending balance	**966,562**	660,344
Accumulated Amortization		
Beginning balance	**461,794**	410,078
Amortization	**56,391**	67,716
Disposals	**-**	(16,000)
Ending balance	**518,185**	461,794
Net Carrying Amount		
Beginning balance	**P198,550**	P199,244
Ending balance	**P448,377**	P198,550

Software development costs with carrying amount of P16.00 million were disposed and sold in 2021 with proceeds amounting to P17.21 million resulting to a net gain of P1.21 million which is part of “Others - net” in profit or loss. No similar transaction occurred in 2022.

16. Legal Policy Reserves

Reconciliation of the carrying amount of the liability at the beginning and end of the year is shown below:

	Note	2022	2021
Beginning balance		**P5,611,804**	P6,390,632
Gross change in reserves:			
New business		**74,171**	68,792
Net premiums written		**82,440**	107,532
Accretion of interest		**86,418**	87,190
Liabilities released for payments on death, surrenders and other terminations		**(531,414)**	(492,082)
Other movements		**(106,223)**	28,691
Total gross change in reserves	*23*	**(394,608)**	(199,877)
Remeasurement on life insurance reserve		**(948,238)**	(578,951)
Ending balance	*5, 32*	**P4,268,958**	P5,611,804

The appropriated retained earnings for negative reserves amounted to P53.01 million and P60.91 million in 2022 and 2021, respectively.

17. Claims Payable

Reconciliation of the carrying amount of the liability at the beginning and end of the year is shown below:

	Note	2022	2021
Beginning balance:			
Notified payable		**P883,577**	P478,962
IBNR		**159,297**	130,923
		1,042,874	609,885
Cash paid for claims settled during the year		**(2,327,957)**	(1,734,932)
Increase in liabilities		**2,605,133**	2,167,921
Ending balance		**P1,320,050**	P1,042,874
Notified claims payable		**1,042,611**	883,577
IBNR		**277,439**	159,297
	5, 32	**P1,320,050**	P1,042,874

18. Reinsurance Payable

Reconciliation of the carrying amount of the liability at the beginning and end of the year is shown below:

	Note	2022	2021
Beginning balance		**P124,788**	P101,009
Premium ceded to reinsurers	*20*	**363,005**	394,161
Paid during the year		**(261,757)**	(370,382)
Ending balance	*5, 32*	**P226,036**	P124,788

19. Accounts Payable, Accrued Expenses and Other Liabilities

The account consists of the following:

	Note	2022	2021
Accrued expenses		**P3,231,661**	P2,658,961
Dividends payable to policyholders		**1,097,214**	1,182,040
Premium suspense account		**903,507**	705,061
Due to related parties		**747,590**	451,051
Provident fund payable		**692,401**	613,381
Agent's commission payable		**686,945**	585,053
Due to unit-linked funds		**535,640**	203,516
Other tax payables		**328,749**	64,099
Income tax payable		**118,686**	171,283
Withholding tax payable		**82,682**	78,434
Premium deposit fund		**11,947**	15,625
Dividends payable to parent company		**-**	340,000
Retirement (asset) liability	*24*	**-**	41,823
Other liabilities		**105,404**	123,827
	32	**P8,542,426**	P7,234,154

Accrued expenses primarily consist of performance and incentive bonuses payable.

Dividends payable to policyholders pertains to supplementary discretionary returns through participation in the surplus of the Company arising from participating business.

Premium suspense account pertains to amounts received from the policyholders who are in the process of policy application and unidentified collections. These collections will be applied to premiums due.

Due to related parties account includes payables to Eastspring, Prudential Services Asia (PSA), Prudential Corporation Holdings Limited (PCHL), Prudential Services Singapore (PSS), Pulse Ecosystem Private Limited (PEPL), Prudential Assurance Company Singapore Pte (PACS), PFL and PAMTC (see Note 28).

Provident fund payable represents the retirement fund for agents.

Agent's commission payable pertains to unpaid commissions.

Due to unit-linked fund pertains to the investment portion of premiums received from the policyholders that are yet to be invested in the separately identifiable funds.

Other tax payables pertain to unpaid documentary stamp tax, premium tax and other taxes payable.

Withholding tax payable pertains to the taxes withheld that are due to the government.

Premium deposit fund represents advance payment from policyholders which will be used for payment of any future unpaid premiums under the policy. The fund earns interest which is credited to the fund. The accumulated fund shall not exceed the total future premium payments under the policy.

Dividends payable to parent company pertains to dividends declared but are still due for remittance.

20. Net Premiums

Gross premiums on insurance contracts:

	Note	**2022**	2021
Unit-linked insurance	*11*	**P41,431,678**	P37,936,915
Ordinary life insurance		**198,177**	235,085
Group life insurance		**164,977**	219,319
Accident and health		**66,333**	55,463
		P41,861,165	P38,446,782

Reinsurer's share of gross premiums on insurance contracts:

	Note	**2022**	2021
Unit-linked insurance		**P247,491**	P219,242
Group life insurance		**102,616**	154,217
Ordinary life insurance		**12,898**	20,702
	18	**P363,005**	P394,161

Net premiums on insurance contracts:

	2022	2021
Unit-linked insurance	**P41,184,187**	P37,717,673
Ordinary life insurance	**185,279**	214,383
Group life insurance	**62,360**	65,102
Accident and health	**66,333**	55,463
	P41,498,159	P38,052,621

21. Policy Administration Fees

Policy administration fees are charged against the daily net asset value of the investment account of the policyholders based on the following rates per annum as specified in the policy document:

	2022	2021
Managed Fund	**1.79%**	1.79%
Bond Fund (Philippine peso)	**1.53%**	1.53%
Bond Fund (U.S. dollar)	**1.53%**	1.53%
Growth Fund	**2.25%**	2.25%
Equity Fund	**2.25%**	2.25%
Proactive Fund	**2.25%**	2.25%
Money Market Fund	**0.50%**	0.50%
Asian Local Bond Fund	**1.80%**	1.80%
Asia Pacific Equity Fund	**2.05%**	2.05%
Global Emerging Fund	**2.05%**	2.05%
Cash Flow Fund (U.S. dollar)	**1.95%**	1.95%
Cash Flow Fund (Philippine peso)	**1.95%**	1.95%
Asian Balanced Fund	**1.95%**	1.95%
Global Market Navigator Fund	**2.25%**	2.25%
Equity Index Tracker Fund	**1.75%**	1.75%
Global Equity Navigator Fund	**2.25%**	2.25%
Peso Cash Flow Fund Plus	**1.95%**	-

Policy administration fees amounted to P2.22 billion and P2.08 billion in 2022 and 2021, respectively.

22. Investment Loss

The account consists of the following:

	Note	**2022**	2021
Interest income		**P575,883**	P543,056
Foreign exchange gain	*8*	**41,962**	33,080
Gain (loss) on disposal of investments	*8*	**(18,153)**	27,499
Final withholding tax		**(106,468)**	(109,377)
Investment management expense		**(357,627)**	(338,560)
Unrealized loss on valuation of investments	*8*	**(1,312,173)**	(963,631)
		(P1,176,576)	(P807,933)

23. Benefits and Claims

Gross benefits and claims on insurance contracts:

	2022		
	Gross Benefits and Claims	**Reinsurers' Share of Gross Benefits and Claims**	**Net**
Unit-linked insurance	**P7,768,148**	**(P48,402)**	**P7,719,746**
Ordinary life insurance	**833,455**	**(59,996)**	**773,459**
Group life insurance	**39,070**	**(812)**	**38,258**
Accident and health	**7,658**	**(417)**	**7,241**
	P8,648,331	**(P109,627)**	**P8,538,704**

	2021		
	Gross Benefits and Claims	Reinsurers' Share of Gross Benefits and Claims	Net
Unit-linked insurance	P7,606,226	(P50,812)	P7,555,414
Ordinary life insurance	456,840	9,530	466,370
Group life insurance	14,688	(800)	13,888
Accident and health	4,213	(18)	4,195
	P8,081,967	(P42,100)	P8,039,867

Gross change in increase in legal policy reserves:

	Note	**2022**	2021
Unit-linked insurance		**P27,316**	P14,709
Ordinary life insurance		**(441,038)**	(215,420)
Group life insurance		**16,326**	1,127
Accident and health		**2,788**	(293)
	16	**(P394,608)**	(P199,877)

24. Retirement Plan

As discussed in Note 3, the Company maintains a DC plan with minimum DB guarantee and is accounted for as a DB plan. As at December 31, 2022, the DB liability is more than the DC liability.

The Company's latest actuarial valuation date was as of December 31, 2022.

The following tables show reconciliation from the opening balances to the closing balances for net DB liability and its components.

	2022		
	DBO	**FVPA**	**Net Defined Benefit Asset** (Note 15)
Balance at January 1, 2022	**P691,769**	**P649,946**	**P41,823**
Included in Profit or Loss			
Current service cost	**85,875**	**-**	**85,875**
Interest cost (income)	**32,435**	**32,715**	**(280)**
	118,310	**32,715**	**85,595**
Included in Other Comprehensive Income			
Remeasurements loss:			
Actuarial loss arising from:			
Financial assumptions	**(32,837)**	**-**	**(32,837)**
Experience adjustment	**(62,215)**	**-**	**(62,215)**
Return on plan assets excluding interest income		**(33,125)**	**33,125**
Loss due to transfers	**(31)**	**-**	**(31)**
	(95,083)	**(33,125)**	**(61,958)**
Others			
Contributions paid by the employer	**-**	**109,379**	**(109,379)**
Benefits paid	**(78,110)**	**(78,110)**	**-**
Transfers	**(4,934)**	**(4,934)**	**-**
	(83,044)	**26,335**	**(109,379)**
Balance at December 31, 2022	**P631,952**	**P675,871**	**(P43,919)**

	2021		
	DBO	FVPA	Net Defined Benefit Liability (Note 19)
Balance at January 1, 2021	P591,906	P583,488	P8,418
Included in Profit or Loss			
Current service cost	81,028	-	81,028
Interest cost	23,370	23,062	308
	104,398	23,062	81,336
Included in Other Comprehensive Income			
Remeasurements loss:			
Actuarial loss arising from:			
Financial assumptions	5,747	-	5,747
Experience adjustment	(7,524)	-	(7,524)
Return on plan assets excluding interest income	-	(33,580)	33,580
	(1,777)	(33,580)	31,803
Others			
Contributions paid by the employer	-	79,734	(79,734)
Benefits paid	(1,747)	(1,747)	-
Transfers	(1,011)	(1,011)	-
	(2,758)	76,976	(79,734)
Balance at December 31, 2021	P691,769	P649,946	P41,823

The retirement expense under “Salaries, allowances and employees’ benefits” account in profit or loss amounted to P85.60 million and P81.34 million in 2022 and 2021, respectively.

The Company's plan assets consist of the following:

	2022	2021
Cash and cash equivalents	**P7,141**	P23,446
Receivables	**12,804**	97
Government securities	**459,373**	413,438
Unit investment trust funds	**105,627**	24,308
Investment in mutual funds	**64,271**	158,176
Corporate bonds	**26,655**	30,481
	P675,871	P649,946

The expected contribution to the DB retirement plan in 2023 is P105.27 million.

The following were the principal actuarial assumptions at the reporting date:

	2022	2021
Discount rate	**7.25%**	5.00%
Future salary growth	**6.00%**	6.00%

The weighted-average duration of the DBO is 13.27 years and 14.70 years in December 31, 2022 and 2021, respectively.

Maturity analysis of the benefit payments:

	2022				
	Carrying Amount	**Contractual Cash Flows**	**Within 1 Year**	**Within 1 - 5 Years**	**More than 5 Years**
Retirement liability	**P631,952**	**P683,687**	**P36,390**	**P187,450**	**P459,847**

	2021				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1 - 5 Years	More than 5 Years
Retirement liability	P691,769	P605,006	P105,389	P144,907	P354,710

<u>Sensitivity Analysis</u>
Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the DBO by the percentages shown below:

	Defined Benefit Obligation	
	Increase	**Decrease**
Discount rate (1% movement)	**8.25%**	**6.25%**
Future salary growth (1% movement)	**7.00%**	**5.00%**

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

These DB plans expose the Company to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk.

The asset allocation of the plan is set and reviewed from time to time by the Plan Trustees taking into account the membership profile, the liquidity requirements of the plan and risk appetite of the plan sponsor. This also considers the expected benefit cash flows to be matched with asset durations.

25. Taxes and Licenses

The account consists of the following:

	2022	2021
Provisions	**P205,621**	P -
Business tax	**57,485**	54,784
Fringe benefits tax	**12,291**	33,715
Other taxes	**1,701**	1,221
	P277,098	P89,720

Provisions pertain to the estimated potential tax exposure arising from the 2018 tax audit.

Business tax involves taxes and fees charged by local government units to the Company in obtaining business permits.

Fringe benefits tax pertain to taxes incurred for special form of benefits provided to employees.

Other taxes include regulatory body fees, property tax, other documentary stamp taxes and duty taxes.

26. Other Operating Expenses

The account consists of the following:

	2022	2021
Provisions for impairment losses	**P422,300**	P5,956
IFRS 17 implementation costs	**220,057**	77,353
Support service charges	**212,270**	233,750
Bank collection fees and charges	**140,118**	91,840
Property insurance	**18,907**	17,432
Membership fees	**6,187**	7,128
Other expenses	**5,203**	4,322
	P1,025,042	P437,781

Provision for impairment losses covers the impairment losses recognized by the Company on its investment in subsidiary amounting to P290.06 million (see Note 9) as well as impairment losses of recognized on long outstanding cash floats equal to P126.03 million and P6.21 million for bad debts written off on advances to employees and agents.

IFRS 17 implementation costs refer to costs incurred by the Company in the implementation of IFRS 17 including charges from its parent company PCHL for significant enhancements to IT, actuarial and finance systems of the group.

Support services charges involve services provided by PCHL to the Company related to insurance, regional partnership distribution, IT, anti-money laundering system, human resources, financial and actuarial, internal audit, and brand and corporate affairs, among others.

Bank collection fees and charges pertain to charges imposed by banks to the Company for handling collections and other transactions.

Property insurance include fire, motor and liability insurance incurred by the Company in the ordinary course of business.

Membership fees are fees for club membership incurred by the Company for its senior management.

Other expenses include other expenses for transportation, travel and business recovery.

27. Income Taxes

The components of the Company's income tax expense in profit or loss are as follows:

	2022	2021
Current tax expense	**P956,397**	P857,818
Deferred tax expense (benefit)	**191,933**	(862,314)
	P1,148,330	(P4,496)

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

	2022	2021
Income before income tax expense	**P3,601,311**	P4,349,461
Income tax using the domestic corporation tax rate	**P900,328**	P1,087,365
(Reductions in) additions to income tax resulting from:		
(Non-taxable gain) non-deductible loss on valuation of investments	**317,373**	231,924
Interest income subjected to final tax	**(117,354)**	(109,735)
(Non-taxable income) non-deductible expenses	**44,849**	(4,839)
Change in unamortized past service cost	**(5,946)**	-
(Non-taxable gain) non-deductible loss from disposal of investments	**9,080**	3,631
Adjustment to current tax expense due to CREATE Act	**-**	(85,948)
Adjustment to deferred tax expense due to CREATE Act	**-**	(359,603)
Effect of fully recognizing deferred tax assets from previous years	**-**	(767,291)
	P1,148,330	(P4,496)

Deferred tax assets from previous years have been fully recognized in 2021 as it was deemed probable that future taxable profit will be available against which the Company can utilize the benefits from.

Below is the movement of the deferred tax assets and deferred tax liability recognized as at December 31, 2022 and 2021.

	2022			
	Beginning Balance	**Amount Charged to Profit or Loss**	**Amount Recognized in Other Comprehensive Income**	**Ending Balance**
Retirement liability	**(P3,122)**	**P -**	**(P15,490)**	**(P18,612)**
Deferred acquisition costs	**(3,113,992)**	**(525,743)**	**-**	**(3,639,735)**
Accrued expenses	**675,195**	**100,588**	**-**	**775,783**
Agent's commission	**146,262**	**25,473**	**-**	**171,735**
Provident fund	**153,344**	**19,755**	**-**	**173,099**
Provision for impairment losses	**-**	**153,484**	**-**	**153,484**
IBNR	**39,823**	**29,535**	**-**	**69,358**
Remeasurement on life insurance reserve	**274,881**	**-**	**(237,060)**	**37,821**
PFRS 16-related expenses	**35,727**	**217**	**-**	**35,944**
Unamortized past service cost	**3,864**	**4,758**	**-**	**8,622**
Deferred tax liabilities - net	**(P1,788,018)**	**(P191,933)**	**(P252,550)**	**(P2,232,501)**

	2021			
	Beginning Balance	Amount Charged to Profit or Loss	Amount Recognized in Other Comprehensive Income	Ending Balance
Retirement liability	(P13,287)	P -	P10,165	(P3,122)
Deferred acquisition costs	(3,122,606)	8,614	-	(3,113,992)
Accrued expenses	114,421	560,774	-	675,195
Agent's commission	19,547	126,715	-	146,262
Provident fund	46,929	106,415	-	153,344
IBNR	(5,216)	45,039	-	39,823
Remeasurement on life insurance reserve	306,504	-	(31,623)	274,881
PFRS 16-related expenses	22,803	12,924	-	35,727
Unamortized past service cost	2,031	1,833	-	3,864
Deferred tax liabilities - net	(P2,628,874)	P862,314	(P21,458)	(P1,788,018)

In 2022 and 2021, the Company opted to claim itemized deductions in determining its tax expense.

On April 08, 2021, the Bureau of Internal Revenue (BIR) issued the following implementing revenue regulations that are effective immediately upon publication:

1. BIR Revenue Regulations (RR) No. 2-2021, Amending Certain Provisions of Revenue Regulations No. 2-98, As Amended, to Implement the Amendments Introduced by Republic Act No. 11534, or the "Corporate Recovery and Tax Incentives for Enterprises Act" (CREATE), to the National Revenue Code of 1997, as Amended, Relative to the Final Tax on Certain Passive Income;

2. BIR RR No. 3-2021, Rules and Regulations Implementing Section 3 of Republic Act (RA). No. 11534, Otherwise Known as the "Corporate Recovery and Tax Incentives for Enterprises Act" or "CREATE", Amending Section 20 of the National Internal Revenue Code of 1997, As Amended;

3. BIR RR No. 4-2021, Implementing the Provisions on Value-Added Tax (VAT) and Percentage Tax Under Republic Act (RA) No. 11534, Otherwise Known as the "Corporate Recovery and Tax Incentives for Enterprises Act" (CREATE) Which Further Amended the National Revenue Code of 1997, as Amended, as Implemented by Revenue Regulations (RR) No. 16-2005 (Consolidated Value-Added Tax Regulations of 2005), As Amended; and

4. BIR RR No. 5-2021, Implementing the New Income Tax Rates on the Regular Income of Corporations, on Certain Passive Incomes, Including Additional Allowable Deductions from Gross Income of Persons Engaged in Business or Practice of Profession Pursuant to Republic Act (RA) No. 11534 or the “Corporate Recovery and Tax Incentives for Enterprises Act” (CREATE), Which Further Amended the National Revenue Code (NIRC) of 1997.

Further, the BIR has issued its RR No. 5-2021 to promulgate the implementation of the new income tax rates on the regular income of corporations, on certain passive incomes and additional allowable deductions of persons engaged in business or practice of profession as provided for in CREATE Law.

28. Related Party Transactions

Parties are considered related if one party has control, joint control, or significant influence over the other party in making financial and operating decisions. The key management personnel (KMP) of the Company are also considered to be related parties.

The Company’s KMP are composed of the senior management and directors.

The following are the significant related party transactions by the Company:

Category/Transaction	Year	*Note*	Amount of the Transaction	Due to Related Parties (Note 19)	Due from Related Parties (Note 15)	Investments in UITF (Note 8)	Investments in ASF (Note 15)	Terms	Conditions
Eastspring (Under Common Control)									
▪ Investment management	**2022**	*a*	**P326,353**	**P79,228**	**P -**	**P -**	**P -**	**30 days; noninterest - bearing**	**Unsecured**
	2021	*a*	311,176	82,249	-	-	-	30 days; noninterest - bearing	Unsecured
PSA (Under Common Control)									
▪ IT service costs	**2022**	*b*	**156,222**	**32,886**	**-**	**-**	**-**	**30 days; noninterest - bearing**	**Unsecured**
	2021	*b*	226,241	197,296	-	-	-	30 days; noninterest - bearing	Unsecured
Prudence Foundation Limited (Under Common Control)									
▪ Cost reimbursements	**2022**	*c*	**7,412**	**7,412**	**-**	**-**	**-**	**30 days; noninterest - bearing**	**Unsecured; not impaired**
	2021	*c*	8,000	-	8,000	-	-	30 days; noninterest - bearing	Unsecured; not impaired
PAMTC (Subsidiary)									
▪ Allocation of expenses	**2022**	*d*	**46,352**	**-**	**39,904**	**-**	**-**	**30 days; noninterest - bearing**	**Unsecured; not impaired**
	2021	*d*	89,973	-	36,874	-	-	30 days; noninterest - bearing	Unsecured; not impaired
▪ Shared service fee	**2022**	*d*	**3,365**	**-**	**3,425**	**-**	**-**	**30 days; noninterest-bearing**	**Unsecured; not impaired**
	2021	*d*	3,717	-	1,616	-	-	30 days; noninterest-bearing	Unsecured; not impaired
▪ Investments in	**2022**	*d, 8*	**(2,894)**	**-**	**-**	**376,611**	**-**	**Noninterest-bearing**	**Unsecured**
PAMTC’s UITFs	2021	*d, 8*	105,484	-	-	379,505	-	Noninterest-bearing	Unsecured
▪ Investments in ASF	**2022**	*d, 15*	**76,427**	**-**	**-**	**-**	**644,237**	**Noninterest-bearing**	**Unsecured**
	2021	*d, 15*	142,078	-	-	-	567,810	Noninterest-bearing	Unsecured
▪ Investment	**2022**	*d*	**11,850**	**12,610**	**-**	**-**	**-**	**Noninterest-bearing**	**Unsecured**
Management	2021	*d*	8,938	1,786	-	-	-	Noninterest-bearing	Unsecured
▪ Investment	**2022**	*d*	**-**	**-**	**-**	**-**	**-**	**Noninterest-bearing**	**Unsecured**
service fee	2021	*d*	10,627	10,627	-	-	-	Noninterest-bearing	Unsecured

Forward

Category/Transaction	Year	*Note*	Amount of the Transaction	Due to Related Parties (Note 19)	Due from Related Parties (Note 15)	Investments in UITF (Note 8)	Investments in ASF (Note 15)	Terms	Conditions
PCHL or Prudential Corporation Holdings Limited (Parent)									
▪ Support services and allocation of expenses	**2022**	*e*	**P500,309**	**P94,886**	**P -**	**P -**	**P -**	**30 days; noninterest - bearing**	**Unsecured**
	2021	*e*	564,521	356,752	-	-	-	30 days; noninterest - bearing	Unsecured
PSS or Prudential Services Singapore Pte Ltd (Under Common Control)									
▪ IT security costs	**2022**	*f*	**109,167**	**39,523**	**-**	**-**	**-**	**30 days; noninterest - bearing**	**Unsecured**
	2021	*f*	57,894	17,418	-	-	-	30 days; noninterest - bearing	Unsecured
PEPL or Pulse Ecosystem Private Limited (Under Common Control)									
▪ Cost reimbursements	**2022**	*g*	**493,516**	**489,813**	**-**	**-**	**-**	**30 days; noninterest - bearing**	**Unsecured**
	2021	*g*	4,091	2,265	-	-	-	30 days; noninterest - bearing	Unsecured
PHKL or Prudential Hong Kong Limited (Under Common Control)									
▪ Cost reimbursements	**2022**	*h*	**-**	**-**	**-**	**-**	**-**	**30 days; noninterest - bearing**	**Unsecured; not impaired**
	2021	*h*	137	-	137	-	-	30 days; noninterest - bearing	Unsecured; not impaired
Singapore - PACS or Prudential Assurance Company Singapore Pte									
Cost reimbursements	**2022**	*i*	**10,839**	**10,839**	**-**	**-**	**-**	**30 days; noninterest - bearing**	**Unsecured**
	2021	*i*	-	-	-	-	-	30 days; noninterest - bearing	Unsecured
TOTAL	**2022**			**P767,197**	**P43,329**	**P376,611**	**P644,237**		
TOTAL	2021			P668,393	P46,627	P379,505	P567,810		

Outstanding receivables from and payables to related parties which are expected to be settled in cash, are included under “Other assets” (see Note 15) and “Accounts payable, accrued expenses and other liabilities” (see Note 19) accounts, respectively.

a. In the normal course of business, the Company has an investment management services agreement with Eastspring, whereby the latter shall act as investment advisor to the Company on the management of both the Company’s investments and the investment funds (see Note 11) in consideration for a quarterly service fee as may be mutually agreed upon on an annual basis.

b. The Company entered into a Service Level Agreement with PSA to provide infrastructure services aligned to agreed service hours and delivery performance targets. The services involve system availability and operation, service desk, network availability, back-up and recovery, change management, disaster recovery plans, system capacity, resource monitoring, among others. As at December 31, 2022 and 2021, the Company has an outstanding payable to PSA amounting to P1.43 million and P152.39 million, respectively, which is presented as part of "Accrued expenses" in the separate statement of financial position.

c. Transactions with PFL pertain to advances made by the Company on behalf of PFL for activities related to corporate social responsibilities in the Philippines.

d. Transactions with PAMTC pertain to various advances made by the Company on behalf of PAMTC for the cost incurred during the set-up of the latter. The Company also entered into a Shared Services Agreement with PAMTC, whereby the Company shall outsource labor services to PAMTC in consideration for a monthly fee for the labor and overhead charges. Moreover, the Company entered into Fund Management agreements with PAMTC whereby PAMTC will manage some of the Company's investment funds as well as its agents' savings funds. The Company also invested in PAMTC's UITF.

   The Company also has a financial advisory/marketing services agreement with PAMTC, whereby the latter shall act as financial advisor to the Company by conducting industry briefings and seminars that will benefit the Company. As at December 31, 2022 and 2021, the Company has an outstanding payable to PAMTC amounting to P2.24 million and P10.63 million, respectively, which is presented as part of "Accrued expenses" in the separate statement of financial position.

   Investments in Policy Reserve amounted to P7.85 billion and P8.61 billion and investments in Investment-Linked Policy of P1.52 billion and P.44 billion are managed under the custodianship of the PAMTC pursuant to an Investment Management Agreement signed by the Company and PAMTC in 2022 and 2021, respectively.

e. These pertain to advances made by PCHL on behalf of the Company for the expenses covering software licenses and maintenance, training for regional agency leaders, agents' conference, among others. These are netted against the advances made by the Company on behalf of PCHL for the settlement of certain administration costs. Moreover, these also pertain to support services provided by PCHL to the Company related to insurance, regional partnership distribution, IT, anti-money laundering system, human resources, financial and actuarial, internal audit, and brand and corporate affairs, among others. As at December 31, 2021, the Company has an outstanding payable to PCHL amounting to P54.13 million which is presented as part of "Accrued expenses" in the separate statement of financial position.

f. The Company entered into a Master Services Agreement with PSS whereby PSS will provide IT security services to the Company such as identity services & access management, data security, vulnerability management, cloud infrastructure security, network security, endpoint security, application security, cyber awareness and readiness, threat monitoring & response and emergency support. As at December 31, 2022 and 2021, the Company has an outstanding payable to PCHL amounting to P15.93 million and P0.19 million, respectively, which is presented as part of "Accrued expenses" in the separate statement of financial position.

g. Transactions with PEPL pertain to charges incurred in building the health management app used by the Company as well advances made by PEPL on behalf of the Company. These are netted against the advances made by the Company on behalf of PEPL for the settlement of certain costs.

h. Transactions with PHKL pertain to advances made by the Company on behalf of PHKL.

i. Transactions with PACS pertain to advances made by the Company on behalf of PHKL.

The entities from a to c and e to g above are wholly-owned subsidiaries of Prudential while PAMTC is wholly-owned by the Company.

Compensation of KMP

KMP are those persons having authority and responsibility for planning, directing and controlling the activities, directly or indirectly, including director, whether executive or otherwise, of the Company.

The KMP compensation is as follows:

	2022	2021
Short-term employee benefits	**P160,810**	P177,266
Post-employment benefits	**8,462**	9,851
	P169,272	P187,117

These expenses are recorded under "Salaries, allowances and employees' benefits" in profit or loss.

Transactions with the DB plan

The DB plan is a related party. The plan does not hold shares in the Company and the only transaction with the plan relate to the contributions paid (see Note 24).

29. Lease

As a Lessee

The following assets do not meet the definition of investment property.

	Note	**2022**	2021
Property and equipment owned	*13, 32*	**P450,064**	P415,241
Right-of-use assets - net, except for investment property	*32*	**423,557**	533,003
		P873,621	P948,244

The Company leases its head office, branches and parking space. Information about leases for which the Company is a lessee is presented below.

Right-of-Use Assets

	Note	**2022**	2021
Balance at January 1		**P533,003**	P711,814
Additions		**133,563**	61,818
Depreciation		**(243,009)**	(240,629)
Balance at December 31	*32*	**P423,557**	P533,003

Lease Liabilities

	Note	**2022**	2021
Balance at January 1		**P634,939**	P797,714
Additions		**133,563**	61,818
Interest		**44,454**	52,356
Payments		**(301,933)**	(276,949)
Balance at December 31		**P511,023**	P634,939

	Note	**2022**	2021
Maturity Analysis - Contractual Undiscounted Cash Flows			
Less than one (1) year		**P22,742**	P22,670
One to five (5) years		**669,116**	665,132
Total Undiscounted Lease Liabilities at December 31	*5, 32*	**691,858**	687,802
Lease Liabilities Included in the Separate Statement of Financial Position at December 31		**511,023**	634,939
Current		**175,741**	221,429
Non-current		**P335,282**	P413,510

Amounts Recognized in Profit and Loss

	2022	2021
Leases under PFRS 16		
Depreciation of right-of-use assets	**P243,009**	P240,629
Interest expense related to lease liabilities	**44,454**	52,356
Expenses relating to short-term leases including VAT on lease payments	**101,166**	93,137

Amount Recognized in the Statement of Cash Flows

	2022	2021
Total cash outflow for leases	**P301,933**	P276,949

Extension Options
Extension options are included in the Company's lease of its head office. On November 6, 2014, the Company entered into a lease contract with Mega World Corporation for office space at Uptown Bonifacio Tower 1 for a period of five (5) years commencing on September 15, 2015 subject to a 5.00% escalation effective on the third year of the lease term and compounded annually thereafter at the same rate. The lease contract was renewed on September 15, 2020 for a period of additional five (5) years.

The extension option of this lease is exercisable by the Company by notice to the lessor not later than 180 days prior to the expiration of the initial lease term.

Leases for branches are for a period of three (3) to five (5) years. None of the leases include contingent rentals and restrictions.

30. Equity

The details of this account are as follows:

	2022	2021
Authorized		
Par value per share	**100**	100
Number of shares	**5,000,000**	5,000,000
Issued and Outstanding		
Number of shares	**5,000,000**	5,000,000
Capital stock	**P500,000**	P500,000
Additional paid-in capital	**462,000**	462,000
Total paid-up capital	**P962,000**	P962,000

On May 20, 2022, the BOD of the Company declared cash dividends amounting to P940.00 million which shall not be remitted earlier than May 31, 2022. In May 31, 2022, the declared cash dividends of P940.00 million was paid along with the remaining P340.00 million cash dividends already declared in May 19, 2021 but not yet paid. The Company submitted the corresponding post dividend distribution reportorial requirements to the IC on June 27, 2022 and the contents of the submission were found to be in order by the IC in a letter dated January 6, 2023.

On January 5, 2021, the Company remitted cash dividends amounting to P2.00 billion. Such cash dividends were declared by the BOD of the Company on October 23, 2020. The IC issued CL No. 2021-02 Revised Guidelines on Declaration and/or Distribution of Dividends on January 7, 2021 to supersede CL No. 2019-60 which requires companies to seek prior approval from the institution to declare and/or distribute dividends. The latest CL requires no prior approval or clearance from IC on the declaration of dividends but only requires insurance companies to submit reportorial requirements post dividend distribution. Hence, the Company paid the dividend on January 25, 2021 and submitted the corresponding post dividend distribution reportorial requirements to the IC on February 24, 2021.

On May 19, 2021, the BOD of the Company declared cash dividends amounting to P2.23 billion which shall not be remitted earlier than June 03, 2021. Of the dividends declared, P1.83 billion was paid on June 03, 2021. The Company submitted the corresponding post dividend distribution reportorial requirements to the IC on July 02, 2021 and the contents of the submission were found to be in order by the IC in a letter dated October 20, 2021.

As at December 31, 2022, the Company’s unappropriated retained earnings of P16.86 billion is in excess of its paid-up capital of P962.00 million. However, the Company plans to use the excess retained earnings to comply with the increasing capital and new regulatory requirements by the IC, as well as the Company’s plan for new investment initiatives. The Company, being an insurance company, has special circumstances due to special reserve requirements of the IC, thus, exempted from prohibition of retaining surplus profits in excess of one hundred (100%) percent of paid-in capital stock, under Section 42 of the Revised Corporation Code of the Philippines. The exemption provision indicates that "when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is need for special reserve for probable contingencies.”

31. Contingent Liabilities

In the normal course of the Company's operations, there are outstanding contingent liabilities which are not reflected in the separate financial statements. The management of the Company does not anticipate losses that will materially affect the separate financial statements as a result of these contingencies.

32. Maturity Profile of Assets and Liabilities

The following table presents all assets and liabilities as at December 31, 2022 and 2021 analyzed according to when they are expected to be recovered or settled (based on contractual maturity).

		2022				2021			
	Note	**Within One Year**	**Beyond One Year**	**No Term**	**Total**	Within One Year	Beyond One Year	No Term	Total
Assets									
Cash and cash equivalents	7	**P5,930,837**	**P -**	**P -**	**P5,930,837**	P2,574,335	P -	P -	P2,574,335
Interest receivables	*5*	**4,390**	**122,431**	**34**	**126,855**	10,447	121,760	34	132,241
Investments	*6, 8*	**880,198**	**8,367,079**	**419,469**	**9,666,746**	2,168,683	9,759,496	412,133	12,340,312
Investment in subsidiary	*9*	**-**	**-**	**239,189**	**239,189**	-	-	529,248	529,248
Premiums due from policyholders	*5*	**8,716**	**-**	**-**	**8,716**	10,831	-	-	10,831
Policy loans receivables - net	*5, 10*	**-**	**315,202**	**-**	**315,202**	-	369,607	-	369,607
Coverage debt receivables - net	*5, 12*	**1,065,080**	**-**	**-**	**1,065,080**	960,404	-	-	960,404
Reinsurance assets	*5*	**134,179**	**-**	**-**	**134,179**	53,439	-	-	53,439
Property and equipment - net	*13*	**-**	**-**	**450,064**	**450,064**	-	-	415,241	415,241
Right-of-use assets - net	*29*	**-**	**-**	**423,557**	**423,557**	-	-	533,003	533,003
Deferred acquisition costs	*5, 14*	**1,511,532**	**13,047,407**	**-**	**14,558,939**	1,344,193	11,111,774	-	12,455,967
Other assets - net	*15*	**817,053**	**136,550**	**1,092,614**	**2,046,217**	743,932	136,967	766,359	1,647,258
Assets Held to Cover Linked Liabilities	*11*	**4,671,123**	**21,452,930**	**82,398,512**	**108,522,565**	1,571,286	23,859,619	81,142,644	106,573,549
		P15,023108	**P43,441,599**	**P85,023,439**	**P143,488,146**	P9,437,550	P45,359,223	P83,798,662	P138,595,435
Liabilities									
Legal policy reserves	*5, 16*	**P61,190**	**P4,207,768**	**P -**	**P4,268,958**	P59,578	P5,552,226	P -	P5,611,804
Claims payable	*5, 17*	**1,320,050**	**-**	**-**	**1,320,050**	1,042,874	-	-	1,042,874
Reinsurance payable	*5, 18*	**226,036**	**-**	**-**	**226,036**	124,788	-	-	124,788
Deferred tax liabilities - net	*27*	**2,232,501**	**-**	**-**	**2,232,501**	(711,710)	2,499,728	-	1,788,018
Accounts payable, accrued expenses and other liabilities	*19*	**8,542,426**	**-**	**-**	**8,542,426**	7,234,154	-	-	7,234,154
Lease liabilities	*5, 29*	**-**	**-**	**511,023**	**511,023**	22,670	665,132	-	687,802
Technical Provisions for Linked Liabilities	*5, 11*	**-**	**108,522,565**	**-**	**108,522,565**	-	-	106,573,549	106,573,549
		P12,382,203	**P112,730,333**	**P511,023**	**P125,623,559**	P7,772,354	P8,717,086	P106,573,549	P123,062,989

33. Supplementary Information Required by the Bureau of Internal Revenue (BIR) based on Revenue Regulation No. 15-2010

In addition to the disclosures mandated under PFRSs, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the separate financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the notes to the separate financial statements which were prepared in accordance with PFRSs.

The following is the tax information required for the taxable year ended December 31, 2022 (expressed in whole amounts):

A. Value Added Tax

The details of the Company's output VAT declared in 2022 are as follows:

Other income - shared service fees	**987,655**
Output VAT rate	**12%**
	118,519

The Company does not have input VAT in 2022 since it does not have any transactions which are subject to input VAT.

B. Documentary Stamp Tax

On life insurance policies and others	**P39,557,206**

C. Withholding Taxes

Creditable withholding taxes	**P700,311,671**
Final withholding taxes	**200,965,667**
Tax on compensation and benefits	**320,990,342**
	P1,222,267,680

D. Taxes on Importation

The Company does not have any customs duties or tariff fees in 2022 since it does not have any importation.

E. Excise Tax

The Company does not have any excise tax in 2022 since it does not have any transactions which are subject to excise tax.

F. All Other Taxes (Local and National)

Premiums tax	**P403,287,840**
License and permit fees	**57,483,410**
Fringe benefits tax	**15,155,551**
Real estate taxes	**210,388**
	P476,137,189

G. Other Matters

Pursuant to sections 6(A) and 10(C) of the National Internal Revenue Code of 1997, as amended, the Company received a Letter of Authority (LOA) from BIR to examine its books of accounts and other accounting records for all internal revenue taxes including documentary stamp tax and other taxes for the period covering January 1, 2019 to December 31, 2019 on October 15, 2021. The results of the abovementioned examination has yet to be determined as at December 31, 2022.

The Company also received a LOA from the BIR for the period covering January 1, 2018 to December 31, 2018 on August 12, 2020. On December 9, 2022, the Company received a Preliminary Assessment Notice from the BIR. The final assessment for the abovementioned examination has yet to be determined as at December 31, 2022.

On February 28, 2023, the Company received a Final Assessment Notice from the BIR for the period covering January 1, 2018 to December 31, 2018. On the same day, the Company settled the amount of the abovementioned assessment amounting to P205.31 million.

The Company has no deficiency tax assessment or any tax case, litigation, and/or prosecution in courts or bodies outside the BIR as at December 31, 2022 other than the aforementioned.

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

REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders
Pru Life Insurance Corporation of U.K.
9/F Uptown Place Tower 1
1 East 11th Drive, Uptown Bonifacio
Taguig City 1634, Metro Manila
Philippines

We have audited the accompanying separate financial statements of Pru Life Insurance Corporation of U.K. (the Company) as at and for the years ended December 31, 2022 and 2021, on which we have rendered our report dated April 25, 2023.

Our audits were made for the purpose of forming an opinion on the basic separate financial statements of the Company taken as a whole. The supplementary information included in the Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management.

Firm Regulatory Registration & Accreditation:
PRC-BOA Registration No. 0003, valid until November 21, 2023
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

The supplementary information is presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and is not a required part of the basic separate financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic separate financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic separate financial statements taken as a whole.

R.G. MANABAT & CO.

FLORIZZA C. SIMANGAN
Partner
CPA License No. 0147917
IC Accreditation No. 147917-IC, Group A, valid for five (5) years
  covering the audit of 2021 to 2025 financial statements
SEC Accreditation No. 147917-SEC, Group A, valid for five (5) years
  covering the audit of 2021 to 2025 financial statements
Tax Identification No. 429-267-284
BIR Accreditation No. 08-001987-150-2022
  Issued January 27, 2022; valid until January 26, 2025
PTR No. MKT 9563847
  Issued January 3, 2023 at Makati City

April 25, 2023
Makati City, Metro Manila

ANNEX 68-D
RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
AS OF DECEMBER 31, 2022

PRU LIFE INSURANCE CORPORATION OF U.K.
9/F Uptown Tower 1, 1 East 11th Drive, Uptown Bonifacio, 1634 Taguig City

Unappropriated Retained Earnings, as adjusted to available for dividend distribution beginning	**P13,403,290,357**
Add: Net income actually earned/realized during the period	**2,452,979,630**
Net income during the period closed to Retained Earnings	**15,856,269,987**
Less: Non-actual/unrealized income net of tax	**-**
Equity in net income if associate/joint venture	**-**
Unrealized foreign exchange loss - net (except those attributable to Cash and Cash Equivalents) Unrealized actuarial gain	**(31,471,193)**
Fair value adjustment (M2M gains)	**984,129,927**
Fair value adjustment of Investment Property Resulting to gain	**-**
Adjustment due to deviation from PFRS/GAAP - gain	**-**
Amount of deferred ta asset that reduced the amount of income tax expense and increased the net income and retained earnings until realized	**191,933,640**
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	**-**
Sub-total	**1,144,592,374**
Add: Non Actual Losses	
Depreciation on revaluation increment (after tax)	**-**
Adjustment due to deviation from PFRS/GAAP - loss	**-**
Loss on fair value adjustment of investment property (after tax)	**-**
Sub-total	**-**
Net income actually earned during the period	**14,711,677,613**
Add (Less):	
Dividend declarations during the period	**(940,000,000)**
Appropriations of Retained Earnings during the period	**7,899,256**
Sub-total	**(932,100,744)**
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND	**P27,182,867,226**