Subject: FW: Pru Life Insurance Corporation of U.K. - YE2019 Audited Financial Statements

From: ERMD FS2 <ermdfs2@sec.gov.ph>
Sent: Wednesday, 15 April 2020 10:07 am
To: Dante M. Marasigan <dante.marasigan@prulifeuk.com.ph>
Subject: Re: Pru Life Insurance Corporation of U.K. - YE2019 Audited Financial Statements

Securities and Exchange Commission PHILIPPINES

INFORMATION AND COMMUNICATIONS TECHNOLOGY DEPARTMENT

Name of Corporation : PRU LIFE INSURANCE CORPORATION OF U.K.

Name of Sender : DANTE MARASIGAN

SEC Registration No. : AS96000511

Email Address of Sender: **dante.marasigan@prulifeuk.com.ph**

This is to acknowledge the

( ) GENERAL INFORMATION SHEET for the period/s :

(/) AUDITED FINANCIAL STATEMENTS for the period/s: 12-31-2019

( ) OTHERS (*Pls. specify:*____ *)*

sent through email and received on: 04-15-2020 (NO STAMP OF BIR)

Note:

Receipt of the above-described document/s is subject to the provisions of MC No. 9 s. of 2020, MC No. 10 s. of 2020, The Revised Corporation Code and existing laws, rules and regulations implemented by concerned SEC departments and offices.

COVER SHEET
For
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

PRU LIFE INSURANCE CORPORATION OF U.K. (A Wholly-owned Subsidiary of Prudential Corporation Holdings Limited)

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
AAFS		

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

In preparing the financial statements, Management is responsible for assessing the 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 (the "Board") is responsible for overseeing the Company's financial reporting process.

The Board reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

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

HENRY JOSEPH M. HERRERA
Chairman of the Board

ANTONIO G. DE ROSAS
President & Chief Executive Officer

FRANCIS P. ORTEGA
Executive Vice President & Chief Financial Officer

DANTE M. MARASIGAN
Vice President & Financial Controller

Signed this ___ day of _______ 2020

PRU LIFE INSURANCE CORPORATION OF U.K.

SEPARATE FINANCIAL STATEMENTS
December 31, 2019 and 2018

With Independent Auditors' Report

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Website 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, 2019 and 2018, and the separate statements of profit or loss and other comprehensive (loss) 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 financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our 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 31 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.

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

March 26, 2020
Makati City, Metro Manila

R.G. Manabat & Co.
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REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY SEPARATE FINANCIAL STATEMENTS FOR FILING
WITH THE SECURITIES AND EXCHANGE COMMISSION

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, 2019, on which we have rendered our report dated March 26, 2020.

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

R.G. MANABAT & CO.

TIRESO RANDY F. LAPIDEZ
Partner
CPA License No. 0092183
IC Accreditation No. SP-2017/016-R, Group A, valid until August 26, 2020
SEC Accreditation No. 1472-AR-1, Group A, valid until July 2, 2021
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PTR No. MKT 8116769
Issued January 2, 2020 at Makati City

March 26, 2020
Makati City, Metro Manila

PRU LIFE INSURANCE CORPORATION OF U.K.
SEPARATE STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	Note	December 31 2019	2018
ASSETS			
Cash and cash equivalents	*7*	**P2,689,908**	P1,976,604
Interest receivable	*5*	**124,710**	124,896
Investments	*8*	**10,664,310**	9,279,727
Investment in subsidiary	*9*	**281,650**	341,803
Premiums due from policyholders	*5*	**15,449**	14,881
Policy loans receivables - net	*5, 10*	**370,089**	373,587
Coverage debt receivables - net	*5, 12*	**723,482**	436,595
Reinsurance assets	*5*	**57,221**	27,353
Property and equipment - net	*13*	**538,399**	640,839
Right-of-use assets - net	*27*	**884,089**	-
Deferred acquisition costs	*5, 14*	**8,948,805**	7,651,595
Other assets - net	*15*	**1,281,821**	971,991
Total General Assets		**26,579,933**	21,839,871
Assets Held to Cover Linked Liabilities	*11*	**89,868,377**	81,905,744
		P116,448,310	P103,745,615
LIABILITIES AND EQUITY			
General Liabilities			
Legal policy reserves	*5, 16*	**P5,354,876**	P5,334,105
Claims payable	*5, 17*	**604,483**	498,438
Reinsurance payable	*5, 18*	**126,206**	98,220
Deferred tax liabilities - net	*25*	**2,696,638**	2,109,251
Accounts payable, accrued expenses and other liabilities	*19*	**4,544,024**	3,826,610
Lease liabilities	*5, 27*	**934,882**	-
Total General Liabilities		**14,261,109**	11,866,624
Technical Provisions for Linked Liabilities	*5, 11*	**89,868,377**	81,905,744
Total Liabilities		**104,129,486**	93,772,368
Equity			
Capital stock	*28*	**500,000**	500,000
Additional paid-in capital	*28*	**462,000**	462,000
Total paid-up capital		**962,000**	962,000
Contributed surplus		**50,386**	50,386
Fair value reserve	*8*	**4,471**	2,771
Share in other comprehensive income of the subsidiary	*9*	**555**	-
Retirement fund reserve		**14,502**	30,731
Remeasurement on life insurance reserve		**(656,795)**	(254,516)
Retained earnings	*16, 28*	**11,943,705**	9,181,875
Total Equity		**12,318,824**	9,973,247
Total General Liabilities and Equity		**26,579,933**	21,839,871
		P116,448,310	P103,745,615

See Notes to the Separate Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.

SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE (LOSS) INCOME

(Amounts in Thousands)

		Years Ended December 31	
	Note	**2019**	2018
NET PREMIUMS			
Premiums	*20*	**P27,368,995**	P22,478,288
Premiums ceded to reinsurers	*18, 20*	**(403,869)**	(445,144)
		26,965,126	22,033,144
OTHER REVENUE			
Policy administration fees	*21*	**1,844,666**	1,693,657
Investment gain (loss) - net	*22*	**1,707,662**	(788,677)
Share in loss of the subsidiary	*9*	**(60,708)**	(18,445)
Others - net		**45,810**	54,494
		3,537,430	941,029
BENEFITS AND CLAIMS			
Costs on premiums of variable insurance	*11*	**5,571,893**	6,991,661
Gross benefits and claims	*23*	**11,212,686**	7,477,576
Reinsurer's share of gross benefits and claims	*23*	**(64,369)**	(30,451)
Gross change in legal policy reserves	*16, 23*	**(381,508)**	66,802
		16,338,702	14,505,588
OPERATING EXPENSES			
Commissions, bonuses and other agents' expenses		**5,074,211**	3,781,523
Salaries, allowances and employees' benefits		**1,424,380**	1,283,031
Trainings, seminars and contests		**926,673**	660,528
Depreciation and amortization	*13, 27*	**475,414**	203,413
Utilities		**420,154**	363,818
Advertising and marketing		**275,199**	264,058
Insurance taxes, licenses and fees		**169,003**	134,369
Professional fees		**149,931**	76,606
Communications		**149,662**	110,963
Dividends to policyholders		**132,070**	122,666
Office supplies		**131,797**	111,361
Representation and entertainment		**95,165**	78,644
Taxes and licenses		**83,537**	48,279
Interest expense related to lease liabilities	*27*	**74,641**	-
Security and janitorial services		**73,733**	65,071
Rent	*27*	**71,785**	352,202
Interest expense related to policies		**43,720**	42,516
Amortization of software development costs	*15*	**43,140**	36,469
Others		**114,205**	60,421
Deferred expenses - net	*14*	**(1,297,210)**	(1,153,232)
		8,631,210	6,642,706

Forward

		Years Ended December 31	
	Note	**2019**	2018
INCOME BEFORE INCOME TAX EXPENSE		**P5,532,644**	P1,825,879
INCOME TAX EXPENSE	*25*	**594,343**	531,771
NET INCOME		**4,938,301**	1,294,108
OTHER COMPREHENSIVE (LOSS) INCOME			
Items that may be reclassified to profit or loss			
Net gain on fair value changes of available-for-sale financial assets	*8*	**1,700**	2,670
Share in other comprehensive income of the subsidiary	*9*	**555**	-
Items that will not be reclassified to profit or loss			
Remeasurement on life insurance reserve	*16*	**(402,279)**	684,933
Remeasurement (loss) gain on retirement liability	*24*	**(23,185)**	4,786
Income tax effect	*25*	**6,956**	(1,436)
		(416,253)	690,953
TOTAL COMPREHENSIVE INCOME		**P4,522,048**	P1,985,061

See Notes to the Separate Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.

SEPARATE STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Amounts in Thousands)

									Retained Earnings			
	Note	**Capital Stock** (Note 28)	**Additional Paid-in Capital** (Note 28)	**Contributed Surplus**	**Fair Value Reserve** (Note 8)	**Share in Other Comprehensive Income of the Subsidiary** (Note 9)	**Retirement Fund Reserve**	**Remeasurement on Life Insurance Reserve**	**Appropriated** (Note 16)	**Unappropriated** (Note 28)	**Total**	**Total Equity**
Balance at January 1, 2019		**P500,000**	**P462,000**	**P50,386**	**P2,771**	**P -**	**P30,731**	**(P254,516)**	**P44,060**	**P9,137,815**	**P9,181,875**	**P9,973,247**
Total comprehensive income												
Net income		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,938,301**	**4,938,301**	**4,938,301**
Other comprehensive income (loss):												
Items that may be reclassified to profit or loss	*8, 9*	**-**	**-**	**-**	**1,700**	**555**	**-**	**-**	**-**	**-**	**-**	**2,255**
Items that will not be reclassified to profit or loss		**-**	**-**	**-**	**-**	**-**	**(16,229)**	**(402,279)**	**-**	**-**	**-**	**(418,508)**
Total comprehensive income		**-**	**-**	**-**	**1,700**	**555**	**(16,229)**	**(402,279)**	**-**	**4,938,301**	**4,938,301**	**4,522,048**
Transaction with owner of the Company												
Dividends	*28*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,176,471)**	**(2,176,471)**	**(2,176,471)**
Appropriation of reserves	*16*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,694**	**(14,694)**	**-**	**-**
Balance at December 31, 2019		**P500,000**	**P462,000**	**P50,386**	**P4,471**	**P555**	**P14,502**	**(P656,795)**	**P58,754**	**P11,884,951**	**P11,943,705**	**P12,318,824**
Balance at January 1, 2018		P500,000	P462,000	P50,386	P101	P -	P27,381	(P939,449)	P38,571	P9,025,666	P9,064,237	P9,164,656
Total comprehensive income												
Net income		-	-	-	-	-	-	-	-	1,294,108	1,294,108	1,294,108
Other comprehensive income:												
Item that may be reclassified to profit or loss	*8*	-	-	-	2,670	-	-	-	-	-	-	2,670
Items that will not be reclassified to profit or loss		-	-	-	-	-	3,350	684,933	-	-	-	688,283
Total comprehensive income		-	-	-	2,670	-	3,350	684,933	-	1,294,108	1,294,108	P1,985,061
Transaction with owner of the Company												
Dividends	*28*	-	-	-	-	-	-	-	-	(1,176,470)	(1,176,470)	(1,176,470)
Appropriation of reserves	*16*	-	-	-	-	-	-	-	5,489	(5,489)	-	-
Balance at December 31, 2018		P500,000	P462,000	P50,386	P2,771	P -	P30,731	(P254,516)	P44,060	P9,137,815	P9,181,875	P9,973,247

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	**2019**	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax expense		**P5,532,644**	P1,825,879
Adjustments for:			
Amortization of deferred acquisition costs	*14*	**1,003,654**	883,331
Depreciation and amortization	*13, 27*	**475,414**	203,413
Interest expense related to lease liabilities	*27*	**74,641**	-
Provision for impairment losses	*10, 12, 15*	**61,885**	32,349
Share in loss of the subsidiary	*9*	**60,708**	18,445
Interest expense related to policies		**43,720**	42,516
Amortization of software development costs	*15*	**43,140**	36,469
Foreign exchange loss (gain)		**29,854**	(63,153)
Loss on disposal of property and equipment		**76**	459
Reversal of provision for impairment losses	*10, 15*	**(7,616)**	(3,961)
(Gain) loss on disposal of investments	*8, 22*	**(17,560)**	20,858
Interest income	*22*	**(549,727)**	(522,277)
Unrealized (gain) loss on valuation of investments	*8, 22*	**(1,588,222)**	946,334
		5,162,611	3,420,662
Changes in:			
Accounts payable, accrued expenses and other liabilities		**788,960**	691,943
Claims payable		**106,045**	49,918
Reinsurance payable		**27,986**	13,834
Policy loans receivables		**9,840**	6,633
Premiums due from policyholders		**(568)**	(122)
Reinsurance assets		**(29,868)**	12,647
Other assets		**(232,876)**	(136,566)
Coverage debt receivables		**(346,794)**	(144,496)
Legal policy reserves	*16, 23*	**(381,508)**	66,802
Deferred acquisition costs		**(2,300,864)**	(2,036,563)
		2,802,964	1,944,692
Interest paid		**(42,371)**	(41,773)
Contributions to retirement fund	*24*	**(89,124)**	(85,224)
Income tax paid		**(6,956)**	(15,153)
Net cash provided by operating activities		**2,664,513**	1,802,542

Forward

		Years Ended December 31	
	Note	**2019**	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of investments	*8*	**(P2,648,487)**	(P1,945,103)
Proceeds from disposal of investments	*8*	**2,849,903**	1,491,151
Investment in subsidiary	*9*	**-**	(360,248)
Interest received		**549,913**	516,182
Acquisitions of property and equipment	*13*	**(221,306)**	(294,068)
Proceeds from disposal of property and equipment	*13*	**1,878**	1,520
Acquisitions of software costs	*15*	**(42,191)**	(40,056)
Net cash provided by (used in) investing activities		**489,710**	(630,622)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	*28*	**(2,176,471)**	(1,176,470)
Payment of lease liabilities	*27*	**(256,077)**	-
Net cash used in financing activities		**(2,432,548)**	(1,176,470)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**721,675**	(4,550)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,976,604**	1,971,024
EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS		**(8,371)**	10,130
CASH AND CASH EQUIVALENTS AT END OF YEAR	*7*	**P2,689,908**	P1,976,604

See Notes to the Separate Financial Statements.

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. 2019/69-R issued by the IC to transact in life insurance business until December 31, 2021.

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 19, 2020.

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

This is the first set of the Company's separate financial statements in which PFRS 16, *Leases,* has been applied. The related changes to significant accounting policies are described 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
Investment in subsidiary	Share in the net assets of the subsidiary less any impairment losses.
Investments in treasury notes, shares of stocks, and other funds under "Assets held to cover linked liabilities"	Fair value
Legal policy reserves	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.
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 New Standard, Amendments to Standards and Interpretation
The Company has adopted the following new standard, amendments to standards and interpretation starting January 1, 2019 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these new standard and amendments to standards and interpretation did not have any significant impact on the Company's separate financial statements.

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

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

The Company has applied PFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under PAS 17 and IFRIC 4, *Determining Whether an Arrangement Contains a Lease.*

The Company applied PFRS 16 with a date of initial application of January 1, 2019. As a result, the Company has changed its accounting policy for lease contracts as detailed below.

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

Under IFRIC 4, the Company assessed a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or control more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

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

As a Lessee
As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under PFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases - i.e. these leases are on the separate statement of financial position.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

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

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains option to extend or terminate the lease.

Impact of Transition
On transition to PFRS 16, the Company recognized right-of-use assets and lease liabilities amounting to P1.05 billion.

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rates at January 1, 2019. The weighted-average rates applied is 7.50% and 8.00% for leases with a remaining lease term as at transition date of 5 years and below and more than 5 years, respectively.

	January 1, 2019
Operating lease commitments at December 31, 2018	**P731,834**
Extension and termination options reasonably certain to be exercised	**618,515**
Discounted using the incremental borrowing rates at January 1, 2019	**(232,523)**
Recognition exemption for short-term leases	**(39,606)**
Value added tax component	**(30,705)**
Lease liabilities recognized at January 1, 2019	**P1,047,515**

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

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

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

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

  - Previously held interest in a joint operation (Amendments to PFRS 3, Business Combinations, and PFRS 11, Joint Arrangements). The amendments clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party maintains or obtains joint control, then the previously held interest is not remeasured. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.

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

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

<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 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 gross premium valuation (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, expenses, reserve method, and interest rate approved by the IC.

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.

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, together with future premiums and investment income, 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, as well as investment income from assets backing such liabilities are used. Any deficiency is immediately recognized under "Gross change in legal policy reserves" in profit or loss.

Reinsurance Contracts Held
Contracts entered into 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 is 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 fair value through profit or loss in accordance with this PFRS 10.

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

The Company's investment in a subsidiary is accounted for using the equity method, under which, the investment is initially recognized at cost in the separate statement of financial position. The carrying amount of investment is increased or decreased to recognize the Company's share of the profit or loss of the subsidiary after the date of acquisition. The Company's share of the subsidiary's profit or loss is recognized under "Share in the profit or loss of the subsidiary" account in the profit or loss. Distributions received from the subsidiary reduce the carrying amount of the investment. Adjustments to the carrying amount of the investment in subsidiary may also arise from changes in the Company's proportionate interest in the subsidiary arising from changes in the subsidiary's other comprehensive income and recognized under "Share in other comprehensive income of the subsidiary" account.

For an investment in a subsidiary accounted for using the equity method, goodwill that forms part of the carrying amount of the investment in the subsidiary is not tested for impairment separately. Instead, the entire carrying amount of the investment in the subsidiary is tested for impairment as a single asset in accordance with PAS 36, *Impairment of Assets*.

The investment is derecognized when the Company loses control over the subsidiary.

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 nondeliverable 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, 2019 and 2018, 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, with changes in fair value recorded in profit or loss.

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, 2019 and 2018, 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 under “Investments” in the separate statement of financial position amounted to P10.65 billion and P9.27 billion as at December 31, 2019 and 2018, respectively (see Note 8). Also, the Company’s held-for-trading investments portfolio under “Assets held to cover linked liabilities” amounted to P125.60 billion and P115.22 billion as at December 31, 2019 and 2018 (see Note 11).

As at December 31, 2019 and 2018, 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 P89.87 billion and P81.91 billion as at December 31, 2019 and 2018, 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, 2019 and 2018, 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 months (3) 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, 2019 and 2018, the Company's AFS financial assets amounted to P17.06 million and P14.36 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, amortization 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
Right-of-use assets	Term of lease
Leasehold improvements	3 - 5 or term of lease, whichever is shorter

The residual value, useful lives, and depreciation and amortization 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, amortization 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.

Software Development Costs

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 is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

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

Policy Applicable from January 1, 2019

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 "Property and equipment - net" and the corresponding liability in "Lease Liabilities" in the separate statement of financial position (see Note 27).

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.

Policy Applicable before January 1, 2019

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

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.

Revenue Recognition

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.

<u>Benefits, Claims and Expenses Recognition</u>
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.

<u>Taxes</u>
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.

<u>Foreign Currency Transactions</u>
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, 2020. However, the Company has not applied the following new or revised and 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, 2020

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

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

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

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

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

  (a) raising the threshold at which information becomes material by replacing the term ‘could influence’ with ‘could reasonably be expected to influence’;
  (b) including the concept of ‘obscuring information’ alongside the concept of ‘omitting’ and ‘misstating’ information in the definition;
  (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
  (d) clarifying the explanatory paragraphs accompanying the definition; and
  (e) aligning the wording of the definition of material across PFRSs and other publications.

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

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

To be Adopted January 1, 2023

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

  The Company availed the temporary exemption in the implementation of PFRS 9 as allowed by PFRS 4 above.

- *Prepayment Features with Negative Compensation (Amendments to PFRS 9).* The amendments cover the following areas:

  - *Prepayment features with negative compensation*. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination.

    The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

  - *Modification of financial liabilities*. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e., the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss.

    If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

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

  (a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract;
  (b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and
  (c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in other comprehensive income.

  Under PFRS 17, groups of insurance contracts are measured based on fulfilment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policy holders, and a contractual service margin, which represents the unearned profit the entity will recognize as it provides services over the coverage period. Subsequent to initial recognition, the liability of a group of insurance contracts represents the liability for remaining coverage and the liability for incurred claims, with the fulfilment cash flows remeasured at each reporting date to reflect current estimates.

Simplifications or modifications to the general measurement model apply to groups of insurance contracts measured using the 'premium allocation approach', investment contracts with discretionary participation features, and reinsurance contracts held.

PFRS 17 brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings.

PFRS 17 is effective for annual periods beginning on or after January 1, 2023. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. Early application is permitted for entities that apply PFRS 9 and PFRS 15 *Revenue from Contracts with Customers* on or before the date of initial application of PFRS 17.

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>

Significant Accounting Judgment Applicable from January 1, 2019

(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 5 years on its current long-term lease contract (see Note 27).

Significant Accounting Judgments Applicable before and from January 1, 2019

(a) *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, 2019 and 2018, 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, 2019 and 2018, the Company has recognized allowance for impairment loss amounting to P236.95 million and P182.68 million (see Notes 10, 12 and 15), respectively.

(b) *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, 2019 and 2018, the Company classified its financial instruments as financial instruments at FVPL, AFS financial assets, loans and receivables, lease liabilities, and other financial liabilities.

Estimates

Significant Accounting Estimate Applicable from January 1, 2019

(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.

Significant Accounting Estimates Applicable from and before January 1, 2019

(a) 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 P148.31 million and P93.15 million as at December 31, 2019 and 2018, respectively (see Note 17).

(b) 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, 2019 and 2018 computed under the requirements of PFRS 4, amounted to cash inflows of P38.36 billion and P22.19 billion, respectively. Accordingly, the recorded legal policy reserves which is calculated in accordance with the requirements of the Insurance Code amounting to P5.35 billion and P5.33 billion as at December 31, 2019 and 2018, respectively (see Note 16), is adequate using best estimate assumptions.

(c) 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, 2019 and 2018, the Company's financial instruments carried at fair value are classified as Level 1 and Level 2 in the fair value hierarchy.

(d) 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, 2019 and 2018, the carrying amounts of property and equipment and software development costs amounted to P715.63 million and P819.01 million, respectively (see Notes 13 and15).

(e) 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 are 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, 2019 and 2018, the carrying amount of deferred acquisition costs amounted to P8.95 billion and P7.65 billion, respectively (see Note 14).

(f) 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, 2019 and 2018, the carrying value of the Company's policy loans receivables, coverage debt receivables and advances to employees and agents amounted to P1.24 billion and P886.69 million, respectively. Provisions for impairment losses amounted to P61.89 million and P32.35 million in 2019 and 2018, respectively (see Notes 10, 12 and 15).

(g) *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, 2019 and 2018, the Company's net retirement liability amounted to P19.31 million and P8.78 million, respectively (see Note 24).

(h) *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, 2019 and 2018, the Company recognized deferred tax assets amounting to nil and P205.18 million, respectively. However, unrecognized deferred tax assets amounted to P970.84 and P805.59 million as at December 31, 2019 and 2018, respectively (see Note 25).

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, 2019 and 2018, 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 shall 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 shall be made effective January 1, 2017.

The following table shows the RBC ratio of the Company as at December 31, 2019 and 2018, using the RBC2 Framework:

	2019	2018
TAC	**P5,570,487**	P1,743,179
RBC requirement	**752,332**	389,780
RBC ratio	**740%**	447%

The figures above 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. As at December 31, 2019 and 2018, 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. These assets, which are subject to final determination by the IC, are as follows:

	Note	**2019**	2018
Deferred acquisition costs	*14*	**P8,948,805**	P7,651,595
Property and equipment - net		**454,701**	571,832
Other assets		**899,899**	708,069
		P10,303,405	P8,931,496

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.

- *Investment Return Risk* - risk of loss from actual return being different from expected.

- *Expense Risk* - risk of loss from expense experience being different from expected.

- *Lapse Risk* - risk of loss due to policyholder experiences (lapses and surrenders) 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	**2019**	2018
Whole and term life		**P3,719,087**	P3,701,668
Endowment		**1,009,695**	988,121
Term		**(43,745)**	(34,047)
Accident		**19,582**	25,796
Group		**15,884**	17,003
Variable		**385,371**	395,019
Riders and other products		**249,002**	240,545
	16	**P5,354,876**	P5,334,105

Classification by Attained Age
The table below presents the concentration of legal policy reserves by attained age as at December 31, 2019 and 2018. For individual insurance, exposure is concentrated on age brackets of 55 - 59 in 2019 and 2018.

	2019 Individual		2018 Individual	
Attained Age	**Exposure '000**	**Concentration (%)**	Exposure '000	Concentration (%)
<20	**P244,526**	**4.58%**	P269,059	5.06%
20 - 24	**161,238**	**3.02%**	171,656	3.23%
25 - 29	**187,933**	**3.52%**	188,579	3.55%
30 - 34	**214,627**	**4.02%**	228,298	4.29%
35 - 39	**258,407**	**4.84%**	294,200	5.53%
40 - 44	**538,170**	**10.08%**	587,739	11.05%
45 - 49	**730,908**	**13.69%**	758,026	14.26%
50 - 54	**760,272**	**14.24%**	789,994	14.86%
55 - 59	**825,942**	**15.47%**	798,584	15.02%
60 - 64	**646,018**	**12.10%**	575,646	10.83%
65 - 69	**408,433**	**7.65%**	351,282	6.61%
70 - 74	**245,594**	**4.60%**	203,312	3.82%
75 - 79	**84,356**	**1.58%**	71,414	1.34%
80 +	**32,568**	**0.61%**	29,313	0.55%
Total	**P5,338,992**	**100.00%**	P5,317,102	100.00%

For group insurance, exposure is concentrated on age bracket 35 - 39 in 2019 and 2018.

	2019			
	Group			
	Gross of Reinsurance		**Net Reinsurance**	
Attained Age	**Exposure '000**	**Concentration (%)**	**Exposure '000**	**Concentration (%)**
20 - 24	**P110**	**0.693%**	**P111**	**0.80%**
25 - 29	**713**	**4.486%**	**713**	**5.15%**
30 - 34	**701**	**4.414%**	**700**	**5.06%**
35 - 39	**8,942**	**56.296%**	**6,901**	**49.85%**
40 - 44	**832**	**5.235%**	**832**	**6.01%**
45 - 49	**1,130**	**7.115%**	**1,128**	**8.15%**
50 - 54	**1,035**	**6.517%**	**1,035**	**7.48%**
55 - 59	**1,378**	**8.678%**	**1,379**	**9.96%**
60 +	**1,043**	**6.566%**	**1,044**	**7.54%**
Total	**P15,884**	**100%**	**P13,843**	**P100%**

	2018			
	Group			
	Gross of Reinsurance		Net Reinsurance	
Attained Age	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
20 - 24	P93	0.54%	P93	0.64%
25 - 29	362	2.13%	362	2.48%
30 - 34	404	2.38%	404	2.77%
35 - 39	13,632	80.17%	11,222	76.90%
40 - 44	398	2.34%	398	2.73%
45 - 49	434	2.55%	434	2.97%
50 - 54	421	2.48%	421	2.88%
55 - 59	824	4.85%	824	5.65%
60 +	435	2.56%	435	2.98%
Total	P17,003	100.00%	P14,593	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 the rate at which a life insurance policy is surrendered or terminated as a result of premium holidays, partial withdrawals or failure to pay the premium due. 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.

		2019	2018
	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%*	***(P38.81)***	*(P45.49)*
	-5%	***39.26***	*47.55*
Valuation interest rate	*+ 100 basis points*	***236.98***	*535.04*
	- 100 basis points	***(263.54)***	*(687.00)*
Expense assumption	*+10%*	***(92.49)***	*(98.26)*
	-10%	***81.24***	*88.16*
Lapse rates	*+10%*	***(13.51)***	*25.92*
	-10%	***15.53***	*(27.97)*

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 Manager, Eastspring Investments (Singapore) Limited (Eastspring), which manages 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.

<u>Financial Risk</u>
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 P61.96 billion (90.22%) and P58.70 billion (91.61%) of the Company's total financial assets as at December 31, 2019 and 2018, respectively (see Notes 8 and 11).

The table below provides information regarding the credit risk exposure of the Company as at December 31, 2019 and 2018 by classifying assets according to the Company's credit grading of counterparties.

		2019				
		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		**P2,689,178**	**P -**	**P2,689,178**	**P -**	**P2,689,178**
Interest receivable		**124,710**	**-**	**124,710**	**-**	**124,710**
Coverage debt receivables	*12*	**-**	**723,482**	**723,482**	**224,523**	**948,005**
Financial assets at FVPL	*8*	**10,647,249**	**-**	**10,647,249**		**10,647,249**
Premiums due from policyholders		**-**	**15,449**	**15,449**	**-**	**15,449**
Policy loans receivables	*10*	**-**	**370,089**	**370,089**	**8,533**	**378,622**
Reinsurance assets		**-**	**57,221**	**57,221**	**-**	**57,221**
Other assets (excluding withholding tax receivables, software development costs, nonrefundable deposits and prepayments)		**-**	**491,922**	**491,922**	**3,891**	**495,813**
Assets Held to Cover Linked Liabilities						
Cash and cash equivalents	*11*	**1,085,715**	**-**	**1,085,715**	**-**	**1,085,715**
Interest receivable	*11*	**321,498**	**-**	**321,498**	**-**	**321,498**
Receivable from life fund	*11*	**210,758**	**-**	**210,758**	**-**	**210,758**
Investment in debt securities	*11*	**51,682,405**	**-**	**51,682,405**	**-**	**51,682,405**
Other assets	*11*	**138,461**	**-**	**138,461**	**-**	**138,461**
		P66,899,974	**P1,658,163**	**P68,558,137**	**P236,947**	**P68,795,084**

		2018				
		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		P1,975,896	P -	P1,975,896	P -	P1,975,896
Interest receivable		124,896	-	124,896	-	124,896
Coverage debt receivables	*12*	-	436,595	436,595	164,616	601,211
Financial assets at FVPL	*8*	9,265,366	-	9,265,366	-	9,265,366
Premiums due from policyholders		-	14,881	14,881	-	14,881
Policy loans receivables	*10*	-	373,587	373,587	14,875	388,462
Reinsurance assets		-	27,353	27,353	-	27,353
Other assets (excluding withholding tax receivables, software development costs, nonrefundable deposits and prepayments)		-	287,437	287,437	3,187	290,624
Assets Held to Cover Linked Liabilities						
Cash and cash equivalents	*11*	1,044,988	-	1,044,988	-	1,044,988
Interest receivable	*11*	325,820	-	325,820	-	325,820
Receivable from life fund	*11*	213,633	-	213,633	-	213,633
Investment in debt securities	*11*	49,668,150	-	49,668,150	-	49,668,150
Other assets	*11*	130,738	-	130,738	-	130,738
		P62,749,487	P1,139,853	P63,889,340	P182,678	P64,072,018

The Company has no past due but not impaired financial assets as at December 31, 2019 and 2018.

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, 2019 and 2018:

		2019			
			Contractual Cash Flow		
	Note	**Carrying Amount**	**Within One Year**	**Beyond One Year**	**Total**
Technical provision for linked liabilities	*11*	**P89,868,377**	**P89,868,377**	**P -**	**P89,868,377**
Claims payable	*17*	**604,483**	**604,483**	**-**	**604,483**
Reinsurance payable	*18*	**126,206**	**126,206**	**-**	**126,206**
Accounts payable, accrued expenses and other liabilities*		**3,905,774**	**3,905,774**	**-**	**3,905,774**
Lease liabilities	*27*	**934,882**	**202,188**	**732,694**	**934,882**
Assets Held to Cover Linked Liabilities					
Liability to life fund and other linked funds	*11*	**37,164,436**	**37,164,436**	**-**	**37,164,436**
Accrued expenses	*11*	**143,665**	**143,665**	**-**	**143,665**
Trade payable	*11*	**177,074**	**177,074**	**-**	**177,074**
		P132,924,897	**P132,192,203**	**P732,694**	**P132,924,897**

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

		2018			
			Contractual Cash Flow		
	Note	Carrying Amount	Within One Year	Beyond One Year	Total
Technical provision for linked liabilities	*11*	P81,905,744	P81,905,744	P -	P81,905,744
Claims payable	*17*	498,438	498,438	-	498,438
Reinsurance payable	*18*	98,220	98,220	-	98,220
Accounts payable, accrued expenses and other liabilities*		3,300,679	3,300,679	-	3,300,679
Assets Held to Cover Linked Liabilities					
Liability to life fund and other linked funds	*11*	34,643,540	34,643,540	-	34,643,540
Accrued expenses	*11*	105,568	105,568	-	105,568
Trade payable	*11*	278,667	278,667	-	278,667
		P120,830,856	P120,830,856	P -	P120,830,856

**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:

	2019	2018
Short-term time deposits	**$4,650**	$3,958
Investments	**391,050**	342,617
	395,700	346,575
Foreign exchange rate to the Philippine peso used*	**50.64**	52.58
	P20,038,248	P18,222,914

**Exchange rate used is based on Bankers Association of the Philippines foreign exchange rate as at December 28, 2019 and December 29, 2018.*

A 1% (2018: 3%) strengthening of U.S. dollar against Philippine peso as at December 31, 2019, 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 P.20 billion (2018: P0.55 billion). A 1% (2018: 3%) 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 2019 and 2018, 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	**2019** +100 bps	**2019** -100 bps	2018* +100 bps	2018* -100 bps
Philippine peso		**(P724,000)**	**P825,553**	(P539,231)	P612,613
U.S. dollar		**(67,867)**	**80,732**	(59,694)	71,170
Fair value sensitivity		**(P791,867)**	**P906,285**	(P598,925)	P683,783

**In 2018, the Company used 50bps in its sensitivity analysis. However, this was changed to 100bps in 2019 to be consistent with the valuation interest risk assumption in insurance risk as these assets are held to back up the Company's insurance liabilities.*

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	**2019** +100 bps	**2019** -100 bps	2018 +100 bps	2018 -100 bps
Philippine peso		**(P1,202,253)**	**P1,335,845**	(P1,043,033)	P1,149,691
U.S. dollar		**(587,567)**	**672,185**	(598,527)	684,949
Fair value sensitivity		**(P1,789,820)**	**P2,008,030**	(P1,641,560)	P1,834,640

In 2019 and 2018, 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 P73.92 billion and P65.55 billion (see Note 11) as at December 31, 2019 and 2018, 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).

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, nonrefundable 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).

	Note	2019 Level 1	Level 2	Total
Financial Assets				
Financial assets at FVPL	*8*	**P10,647,249**	**P -**	**P10,647,249**
AFS financial assets	*8*	**17,061**	**-**	**17,061**
Financial assets at FVPL under assets held to cover linked liabilities	*11*	**125,597,455**	**(335)**	**125,597,120**

	Note	2018 Level 1	Level 2	Total
Financial Assets				
Financial assets at FVPL	*8*	P9,265,366	P -	P9,265,366
AFS financial assets	*8*	14,361	-	14,361
Financial assets at FVPL under assets held to cover linked liabilities	*11*	115,216,495	1,845	115,218,340

The Company has no financial instruments categorized under Level 3. Also, there has been no transfer between levels in 2019 and 2018.

7. Cash and Cash Equivalents

	2019	2018
Cash on hand and in banks	**P1,350,490**	P1,244,026
Short-term placements	**1,339,418**	732,578
	P2,689,908	P1,976,604

Short-term placements are Philippine peso and U.S. dollar time deposits with various financial institutions with maturities ranging from overnight to thirty-two days and interest ranging from 0.80% to 2.30% and 0.20% to 2.10% per annum in 2019 and 2018, respectively.

Interest income recognized in profit or loss which is presented under "Investment gain (loss) - net" amounted to P22.75 and P16.55 million in 2019 and 2018, 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, 2019** AFS Financial Assets	Financial Assets at FVPL	Total Investments
Cost at January 1, 2019		**P11,590**	**P10,349,879**	**P10,361,469**
Unrealized gains (losses) at January 1, 2019		**2,771**	**(1,084,513)**	**(1,081,742)**
Fair value at January 1, 2019		**14,361**	**9,265,366**	**9,279,727**
Fair value gain recognized in:				
Profit or loss	*22*	**-**	**1,588,222**	**1,588,222**
Other comprehensive income		**1,700**	**-**	**1,700**
Foreign exchange loss	*22*	**-**	**(21,483)**	**(21,483)**
Purchases		**1,000**	**2,647,487**	**2,648,487**
Proceeds from disposal of financial assets		**-**	**(2,849,903)**	**(2,849,903)**
Gain on disposal of financial assets	*22*	**-**	**17,560**	**17,560**
Fair value at December 31, 2019	*5, 6*	**P17,061**	**P10,647,249**	**P10,664,310**
Cost at December 31, 2019		**P12,590**	**P10,165,023**	**P10,177,613**
Unrealized gains at December 31, 2019		**P4,471**	**P482,226**	**P486,697**

	Note	December 31, 2018 AFS Financial Assets	Financial Assets at FVPL	Total Investments
Cost at January 1, 2018		P11,590	P9,916,785	P9,928,375
Unrealized gains (losses) at January 1, 2018		101	(191,202)	(191,101)
Fair value at January 1, 2018		11,691	9,725,583	9,737,274
Fair value gain (loss) recognized in:				
Profit or loss	*22*	-	(946,334)	(946,334)
Other comprehensive income		2,670	-	2,670
Foreign exchange gain	*22*	-	53,023	53,023
Purchases		-	1,945,103	1,945,103
Proceeds from disposal of financial assets		-	(1,491,151)	(1,491,151)
Loss on disposal of financial assets	*22*	-	(20,858)	(20,858)
Fair value at December 31, 2018	*5, 6*	P14,361	P9,265,366	P9,279,727
Cost at December 31, 2018		P11,590	P10,349,879	P10,361,469
Unrealized gains (losses) at December 31, 2018		P2,771	(P1,084,513)	(P1,081,742)

The Company's investments consist of the following:

	Note	**2019**	2018
Government bonds	*5, 6*	**P10,280,996**	P9,029,425
Corporate debt securities	*5, 6*	**148,284**	143,470
Quasi government bonds	*5, 6*	**102,794**	92,471
Unit investment trust fund	*5, 6, 26*	**115,175**	-
Equity securities	*6*	**17,061**	14,361
		P10,664,310	P9,279,727

Interest rates range from 00.000% to 15.000% in 2019 and 2018.

In December 17, 2019, the Company invested in five (5) Unit Investment Trust Funds (UITF) of its wholly-owned subsidiary, Pru Life UK Asset Management and Trust Corporation (PAMTC). These funds are PruInvest Peso Liquid Fund, PruInvest USD Liquid Fund, PruInvest USD Global Market Balanced Fund of Funds, PruInvest USD Global Technology Equity Feeder Fund and PruInvest USD High Yield Asian Bond Feeder Fund (see Note 26).

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

	2019	2018
Balance at beginning of year	**P2,771**	P101
Fair value gain	**1,700**	2,670
Balance at end of year	**P4,471**	P2,771

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 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's registered address is at the 2/F Uptown Parade 2, 36th Street, Fort Bonifacio, Taguig City Fourth District, Philippines.

The movements in this account are as follows:

	2019	2018
Balance at beginning of year	**P341,803**	P -
Investments during the year	**-**	360,248
Share in loss of the subsidiary	**(60,708)**	(18,445)
Share in other comprehensive income of the subsidiary	**555**	-
Balance at end of year	**P281,650**	P341,803

The key financial information of the subsidiary as at and for the year ended December 31, 2019 is as follows:

	2019	2018
Total assets	**P334,332**	P360,604
Total liabilities	**52,682**	18,801
Net assets	**281,650**	341,803
Net loss	**60,708**	18,445
Other comprehensive income	**555**	-

10. Policy Loans Receivables

	Note	2019	2018
Policy loans receivables		**P378,622**	P388,462
Allowance for impairment losses		**(8,533)**	(14,875)
	5	**P370,089**	P373,587

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 P0.57 million and P3.81 million in 2019 and 2018, 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:

	2019	2018
Balance at beginning of year	**P14,875**	P11,069
Provision for impairment losses	**570**	3,806
Reversals taken up to profit or loss	**(6,912)**	-
Balance at end of year	**P8,533**	P14,875

11. Assets Held to Cover Linked Liabilities

The IC approved on September 11, 2002 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	**2019**	2018
Cash and cash equivalents	*5*	**P1,085,715**	P1,044,988
Interest receivable	*5*	**321,498**	325,820
Receivable from life fund	*5*	**210,758**	213,633
Investments in treasury notes and other funds	*6*	**125,597,120**	115,218,340
Other assets	*5*	**138,461**	130,738
Liability to life fund and other linked funds	*5*	**(37,164,436)**	(34,643,540)
Accrued expense	*5*	**(143,665)**	(105,568)
Trade payable	*5*	**(177,074)**	(278,667)
Net assets		**P89,868,377**	P81,905,744

Investments in treasury notes and other funds are composed of:

	Note	**2019**	2018
Investments in treasury notes	*5*	**P35,541,799**	P34,380,903
Investments in shares of stocks		**53,034,766**	46,268,481
Investment in other funds:			
Investment in bond fund	*5*	**16,140,606**	15,287,247
Investment in equity fund		**20,880,284**	19,279,864
Nondeliverable forward contract		**(335)**	1,845
Total investments	*6*	**P125,597,120**	P115,218,340

Total premiums and costs from the unit-linked product for the years ended December 31, 2019 and 2018 are as follows:

	Note	**2019**	2018
Linked premiums	*20*	**P26,779,590**	P21,830,639
Costs on premiums of variable insurance		**(5,571,893)**	(6,991,661)
Surrenders		**(10,387,159)**	(6,909,387)
Net linked premiums		**P10,820,538**	P7,929,591

12. Coverage Debt Receivables

	Note	**2019**	2018
Coverage debt receivables		**P948,005**	P601,211
Allowance for impairment losses		**(224,523)**	(164,616)
	5	**P723,482**	P436,595

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 P59.91 million and P26.51 million in 2019 and 2018, respectively, were recognized in profit or loss.

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

	2019	2018
Balance at beginning of year	**P164,616**	P138,103
Provision for impairment losses	**59,907**	26,513
Balance at end of year	**P224,523**	P164,616

13. Property and Equipment

The movements in this account are as follows:

	2019						
	Computer Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Condominium Unit	Leasehold Improvements	Office Improvement in Progress	Total
Gross Carrying Amount							
Beginning balance	**P239,457**	**P170,920**	**P102,222**	**P10,027**	**P804,697**	**P93,248**	**P1,420,571**
Additions	**58,984**	**17,133**	**32,232**	**-**	**41,471**	**71,486**	**221,306**
Disposals	**(6,061)**	**(6,178)**	**(15,332)**	**-**	**(21,359)**	**-**	**(48,930)**
Reclassification	**-**	**8,672**	**-**	**-**	**39,044**	**(126,323)**	**(78,607)**
Ending balance	**292,380**	**190,547**	**119,122**	**10,027**	**863,853**	**38,411**	**1,514,340**
Accumulated Depreciation and Amortization							
Beginning balance	**173,655**	**105,200**	**52,027**	**6,821**	**442,029**	**-**	**779,732**
Depreciation and amortization	**43,772**	**27,065**	**20,445**	**414**	**151,489**	**-**	**243,185**
Disposals	**(6,010)**	**(5,350)**	**(14,359)**	**-**	**(21,257)**	**-**	**(46,976)**
Ending balance	**211,417**	**126,915**	**58,113**	**7,235**	**572,261**	**-**	**975,941**
Carrying Amount Beginning balance	**P65,802**	**P65,720**	**P50,195**	**P3,206**	**P362,668**	**P93,248**	**P640,839**
Carrying Amount Ending balance	**P80,963**	**P63,632**	**P61,009**	**P2,792**	**P291,592**	**P38,411**	**P538,399**

The office improvement in progress amounting to P78.61 million which pertains to loan to agents, software maintenance and various office purchases and expenses was reclassified to advances to agents, development cost, other assets and office expenses.

Property and equipment with carrying amount of P1.95 million were disposed and sold during the year with proceeds amounting to P1.88 million resulting to a net loss of P0.76 million.

	2018						
	Computer Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Condominium Unit	Leasehold Improvements	Office Improvement in Progress	Total
Gross Carrying Amount							
Beginning balance	P211,515	P168,203	P88,438	P10,027	P631,564	P39,228	P1,148,975
Additions	28,705	15,791	22,347	-	173,205	54,020	294,068
Disposals	(763)	(13,074)	(8,563)	-	(72)	-	(22,472)
Ending balance	239,457	170,920	102,222	10,027	804,697	93,248	1,420,571
Accumulated Depreciation and Amortization							
Beginning balance	138,250	92,445	41,644	6,407	318,066	-	596,812
Depreciation and amortization	36,168	23,986	18,882	414	123,963	-	203,413
Disposals	(763)	(11,231)	(8,499)	-	-	-	(20,493)
Ending balance	173,655	105,200	52,027	6,821	442,029	-	779,732
Carrying Amount							
Beginning balance	P73,265	P75,758	P46,794	P3,620	P313,498	P39,228	P552,163
Carrying Amount Ending balance	P65,802	P65,720	P50,195	P3,206	P362,668	P93,248	P640,839

Property and equipment with carrying amount of P1.98 million were disposed and sold during the year with proceeds amounting to P1.52 million resulting to a net loss of P0.46 million.

14. Deferred Acquisition Costs

	Note	2019	2018
Beginning balance		**P7,651,595**	P6,498,363
Movements during the year:			
Deferred expenses		**2,300,864**	2,036,563
Amortization of deferred acquisition costs		**(1,003,654)**	(883,331)
		1,297,210	1,153,232
Ending balance	*5*	**P8,948,805**	P7,651,595

15. Other Assets

	Note	2019	2018
Receivable from unit linked fund		**P298,988**	P183,589
Prepayments		**337,182**	265,843
Software development costs - net		**177,226**	178,175
Nonrefundable deposits		**119,367**	116,145
Advances to employees and agents		**148,514**	79,694
Due from related parties	*26*	**30,126**	18,547
Others		**174,309**	133,185
		1,285,712	975,178
Allowance for impairment losses on advances to employees and agents		**(3,891)**	(3,187)
		P1,281,821	P971,991

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.

Prepayments consist of prepaid rent, insurance, and licenses.

Software development costs 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.

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

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

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:

	2019	2018
Balance at beginning of year	**P3,187**	P5,118
Provision for impairment losses	**1,408**	2,030
Reversals taken up to profit or loss	**(704)**	(3,961)
Balance at end of year	**P3,891**	P3,187

The Company collected advances to employees and agents that have been previously written off amounting to P0.70 million and P3.96 million in 2019 and 2018, respectively.

The movements of software development costs in 2019 and 2018 are as follows:

	2019	2018
Gross Carrying Amount		
Beginning balance	**P503,585**	P463,529
Acquisitions	**42,191**	40,056
Write-off	**-**	-
Ending balance	**545,776**	503,585
Accumulated Amortization		
Beginning balance	**325,410**	294,709
Amortization	**43,140**	36,469
Write-off	**-**	(5,768)
Ending balance	**368,550**	325,410
Net Carrying Amount		
Beginning balance	**P178,175**	P168,820
Ending balance	**P177,226**	P178,175

16. Legal Policy Reserves

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

	Note	**2019**	2018
Beginning balance		**P5,334,105**	P5,952,236
Gross change in reserves:			
New business		**130,150**	71,493
Net premiums written		**134,754**	108,675
Liabilities released for payments on death, surrenders and other terminations		**(541,673)**	(523,591)
Accretion of interest		**153,739**	281,836
Other movements		**(258,478)**	128,389
Total gross change in reserves	*23*	**(381,508)**	66,802
Remeasurement on life insurance reserve		**402,279**	(684,933)
Ending balance	*5*	**P5,354,876**	P5,334,105

The appropriated retained earnings for negative reserves amounted to P58.75 million and P44.06 million in 2019 and 2018, respectively.

17. Claims Payable

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

	Note	2019	2018
Beginning balance:			
Notified payable		**P405,290**	P367,999
IBNR		**93,148**	80,521
		498,438	448,520
Cash paid for claims settled during the year		**(928,263)**	(736,204)
Increase in liabilities		**1,034,308**	786,122
Ending balance		**P604,483**	P498,438
Notified claims payable		**P456,174**	P405,290
IBNR		**148,309**	93,148
	5	**P604,483**	P498,438

18. Reinsurance Payable

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

	Note	2019	2018
Beginning balance		**P98,220**	P84,386
Premium ceded to reinsurers	*20*	**403,869**	445,144
Paid during the year		**(375,883)**	(431,310)
Ending balance	*5*	**P126,206**	P98,220

19. Accounts Payable, Accrued Expenses and Other Liabilities

The account consists of the following:

	Note	2019	2018
Accrued expenses		**P1,565,287**	P871,255
Dividends payable to policyholders		**1,133,897**	1,086,498
Agent’s commission payable		**462,816**	534,995
Premium suspense account		**455,591**	352,951
Provident fund payable		**306,450**	252,929
Due to unit-linked funds		**210,954**	213,643
Due to related parties	*26*	**101,087**	244,268
Withholding tax payable		**53,628**	41,784
Premium tax payable		**49,036**	41,053
Premium deposit fund		**41,650**	48,293
Retirement liability	*24*	**19,313**	8,777
Other liabilities		**144,315**	130,164
		P4,544,024	P3,826,610

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

Accrued expenses primarily consist of performance and incentive bonuses payable.

Agent's commission payable pertains to unpaid commissions.

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.

Provident fund payable represents the retirement fund for agents.

Due to related parties account includes payables to Eastspring, Prudential Services Asia (PSA) and Prudential Holdings Limited (PHL) (see Note 26).

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.

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.

20. Net Premiums

Gross premiums on insurance contracts:

	Note	**2019**	2018
Unit-linked insurance	*11*	**P26,779,590**	P21,830,639
Group life insurance		**331,022**	393,346
Ordinary life insurance		**212,105**	212,154
Accident and health		**46,278**	42,149
		P27,368,995	P22,478,288

Reinsurer's share of gross premiums on insurance contracts:

	Note	**2019**	2018
Unit-linked insurance		**P136,974**	P138,377
Group life insurance		**256,552**	296,314
Ordinary life insurance		**10,343**	10,453
	18	**P403,869**	P445,144

Net premiums on insurance contracts:

	2019	2018
Unit-linked insurance	**P26,642,616**	P21,692,262
Group life insurance	**74,470**	97,032
Ordinary life insurance	**201,762**	201,701
Accident and health	**46,278**	42,149
	P26,965,126	P22,033,144

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:

	2019	2018
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%**	-

Policy administration fees amounted to P1.84 billion and P1.69 billion in 2019 and 2018, respectively.

22. Investment Gain (Loss)

The account consists of the following:

	Note	**2019**	2018
Interest income		**P549,727**	P522,277
Foreign exchange (loss) gain	*8*	**(21,483)**	53,023
Gain (loss) on disposal of investments	*8*	**17,560**	(20,858)
Final withholding tax		**(108,674)**	(95,991)
Unrealized gain (loss) on valuation of investments	*8*	**1,588,222**	(946,334)
Investment management expense		**(317,690)**	(300,794)
		P1,707,662	(P788,677)

23. Benefits and Claims

Gross benefits and claims on insurance contracts:

	2019		
	Gross Benefits and Claims	**Reinsurers' Share of Gross Benefits and Claims**	**Net**
Unit-linked insurance	**P10,906,997**	**(P62,206)**	**P10,844,791**
Ordinary life insurance	**279,075**	**(2,163)**	**276,912**
Group life insurance	**21,608**	**-**	**21,608**
Accident and health	**5,006**	**-**	**5,006**
	P11,212,686	**(P64,369)**	**P11,148,317**

	2018		
	Gross Benefits and Claims	Reinsurers' Share of Gross Benefits and Claims	Net
Unit-linked insurance	P7,189,322	(P27,013)	P7,162,309
Ordinary life insurance	274,401	(3,438)	270,963
Group life insurance	9,336	-	9,336
Accident and health	4,517	-	4,517
	P7,477,576	(P30,451)	P7,447,125

Gross change in increase in legal policy reserves:

	Note	**2019**	2018
Unit-linked insurance		**(P9,647)**	P21,782
Ordinary life insurance		**(375,744)**	39,240
Group life insurance		**998**	5,937
Accident and health		**2,885**	(157)
	16	**(P381,508)**	P66,802

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, 2019, the DB liability is more than the DC liability.

The Company's latest actuarial valuation date was as of December 31, 2019.

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

	2019		
	DBO	**FVPA**	**Net Defined Benefit Liability** (Note 19)
Balance at January 1, 2019	**P425,868**	**P417,091**	**P8,777**
Included in Profit or Loss			
Current service cost	**76,150**	**-**	**76,150**
Interest cost	**31,180**	**30,855**	**325**
	107,330	**30,855**	**76,475**
Included in Other Comprehensive Income			
Remeasurements loss:			
Actuarial loss arising from:			
Financial assumptions	**16,970**	**-**	**16,970**
Experience adjustment	**19,526**	**-**	**19,526**
Return on plan assets excluding interest income	**-**	**13,311**	**(13,311)**
	36,496	**13,311**	**23,185**
Others			
Contributions paid by the employer	**-**	**89,124**	**(89,124)**
Benefits paid	**(28,163)**	**(28,163)**	**-**
Transfers	**(13,121)**	**(13,121)**	**-**
	(41,284)	**47,840**	**(89,124)**
Balance at December 31, 2019	**P528,410**	**P509,097**	**P19,313**

	2018		
	DBO	FVPA	Net Defined Benefit Liability (Note 19)
Balance at January 1, 2018	P385,250	P370,597	P14,653
Included in Profit or Loss			
Current service cost	85,092	-	85,092
Interest cost	21,390	22,348	(958)
	106,482	22,348	84,134
Included in Other Comprehensive Income			
Remeasurements gain:			
Actuarial gain arising from:			
Financial assumptions	(11,767)	-	(11,767)
Experience adjustment	(29,621)	-	(29,621)
Return on plan assets excluding interest income	-	(36,602)	36,602
	(41,388)	(36,602)	(4,786)
Others			
Contributions paid by the employer	-	85,224	(85,224)
Benefits paid	(24,476)	(24,476)	-
	(24,476)	60,748	(85,224)
Balance at December 31, 2018	P425,868	P417,091	P8,777

The retirement expense under "Salaries, allowances and employees' benefits" account in profit or loss amounted to P76.48 million and P84.13 million in 2019 and 2018, respectively.

The Company's plan assets consist of the following:

	2019	2018
Cash and cash equivalents	**P20,344**	P41
Receivables	**16,515**	3,421
Government securities	**258,014**	243,975
Deposit instruments	**-**	20,196
Unit investment trust funds	**39,260**	1,013
Investment in mutual funds	**102,592**	83,465
Corporate bonds	**72,372**	65,399
Trust fee payable	**-**	(419)
	P509,097	P417,091

The expected contribution to the defined benefit retirement plan in 2020 is P84.03 million.

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

	2019	2018
Discount rate	**5.00%**	7.00%
Future salary growth	**6.00%**	6.00%

The weighted-average duration of the defined benefit obligation is 15.70 years and 14.21 years in December 31, 2019 and 2018, respectively.

Maturity analysis of the benefit payments:

	2019				
	Carrying Amount	**Contractual Cash Flows**	**Within 1 Year**	**Within 1-5 Years**	**More than 5 Years**
Retirement liability	**P528,410**	**P489,029**	**P30,292**	**P143,537**	**P315,200**

	2018				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
Retirement liability	P425,868	P427,184	P27,894	P115,115	P284,175

Sensitivity Analysis
Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the percentages shown below:

	Defined Benefit Obligation	
	Increase	**Decrease**
Discount rate (1% movement)	**(3.10%)**	**6.06%**
Future salary growth (1% movement)	**5.91%**	**(3.10%)**

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 defined benefit 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. Income Taxes

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

	2019	2018
Current tax expense	**P -**	P16,517
Deferred tax expense	**594,343**	515,254
	P594,343	P531,771

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

	2019	2018
Income before income tax expense	**P5,532,644**	P1,825,879
Income tax using the domestic corporation tax rate	**P1,659,793**	P547,764
Additions to (reduction in) income tax resulting from:		
Non-deductible expenses	**32,010**	18,820
Other income subjected to final tax	**(260,417)**	(216,023)
Non-taxable gain from disposal of investments	**(25,085)**	(19,382)
Interest income subjected to final tax	**(385,900)**	(385,846)
(Non-taxable gain) Non-deductible loss on valuation of investments	**(466,664)**	274,430
Deductible NOLCO	**(290,832)**	-
Effect of unrecognized deferred tax assets	**237,532**	101,478
Effect of reversal of deferred tax asset	**205,180**	-
MCIT benefit offset against current tax	**(111,274)**	-
Expired recognized NOLCO	**-**	194,013
Expired MCIT	**-**	16,517
	P594,343	P531,771

Deferred tax assets have not been fully recognized because it is not probable that future taxable profit will be available against which the Company can utilize the benefits from. The unrecognized deferred tax assets as at December 31, 2019 and 2018 are as follows:

	2019		2018	
	Tax Base	**Deferred Tax Assets**	Tax Base	Deferred Tax Assets
NOLCO	**P -**	**P -**	P285,510	P85,653
Accrued expenses	**1,584,601**	**475,380**	880,033	264,010
Agent's commission	**462,816**	**138,845**	534,995	160,499
Provident fund	**306,450**	**91,935**	252,929	75,879
IBNR	**148,309**	**44,493**	93,148	27,944
MCIT	**3,976**	**3,976**	115,250	115,250
Remeasurement on life insurance reserve	**656,795**	**197,039**	254,516	76,355
Others	**63,905**	**19,171**	-	-
	P3,226,852	**P970,839**	P2,416,381	P805,590

Below is the movement of the deferred tax assets and deferred tax liability recognized as at December 31, 2019 and 2018.

	2019			
	Beginning Balance	**Amount Charged to Profit or Loss**	**Amount Recognized in Other Comprehensive Income**	**Ending Balance**
NOLCO	**P205,180**	**(P205,180)**	**P -**	**P -**
Retirement liability	**(18,952)**	**-**	**6,956**	**(11,996)**
Deferred acquisition costs	**(2,295,479)**	**(389,163)**	**-**	**(2,684,642)**
Deferred tax liabilities - net	**(P2,109,251)**	**(P594,343)**	**P6,956**	**(P2,696,638)**

	2018			
	Beginning Balance	Amount Charged to Profit or Loss	Amount Recognized in Other Comprehensive Income	Ending Balance
NOLCO	P374,464	(P169,284)	P -	P205,180
Retirement liability	(17,516)	-	(1,436)	(18,952)
Deferred acquisition costs	(1,949,509)	(345,970)	-	(2,295,479)
Deferred tax liabilities - net	(P1,592,561)	(P515,254)	(P1,436)	(P2,109,251)

The details of the Company's MCIT available for offsetting against its current tax liabilities and remaining available MCIT available for offsetting against future tax liabilities are as follows:

Year Incurred	Amount	Application	Remaining Balance	Date of Expiration
2016	P25,046	P25,046	P -	December 31, 2019
2017	40,811	40,811	-	December 31, 2020
2018	49,393	45,417	3,976	December 31, 2021
	P115,250	P111,274	P3,976	

The carry-forward benefits of NOLCO which are offset against taxable income are as follows:

Year Incurred	Amount	Write-off/ Application	Remaining Balance	Date of Expiration
2016	P612,929	P612,929	P -	December 31, 2019
2017	113,581	113,581	-	December 31, 2020
2018	242,932	242,932	-	December 31, 2021
	P969,442	P969,442	P -	

26. 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)	Terms	Conditions
Eastspring (Under Common Control)								
▪ Investment management	**2019**	*a*	**P301,128**	**P76,462**	**P -**	**P -**	**30 days; noninterest - bearing**	**Unsecured**
	2018	*a*	285,079	69,452	-	-	30 days; noninterest - bearing	Unsecured
PSA (Under Common Control)								
▪ IT service costs	**2019**	*b*	**247,591**	**3,291**	**-**	**-**	**30 days; noninterest - bearing**	**Unsecured**
	2018	*b*	199,156	147,726	-	-	30 days; noninterest - bearing	Unsecured
PHL (Under Common Control)								
▪ Allocation of expenses	**2019**	*c*	**143,089**	**21,334**	**-**	**-**	**30 days; noninterest - bearing**	**Unsecured**
	2018	*c*	137,476	27,090	-	-	30 days; noninterest - bearing	Unsecured
Prudence Foundation Limited (Under Common Control)								
▪ Allocation of expenses	**2019**	*d*	**-**	**-**	**-**	**-**	**30 days; noninterest - bearing**	**Unsecured**
	2018	*d*	8,357	-	-	-	30 days; noninterest - bearing	Unsecured
PAMTC								
▪ Allocation of expenses	**2019**	*e*	**53,557**	**-**	**29,920**	**-**	**30 days; noninterest - bearing**	**Unsecured; not impaired**
	2018	*e*	-	-	18,547	-	30 days; noninterest - bearing	Unsecured; not impaired
▪ Shared service fee	**2019**	*e*	**206**	**-**	**206**	**-**	**30 days; noninterest- bearing**	**Unsecured; not impaired**
▪ Investments in PAMTC's UITFs	**2019**	*8*	**115,000**	**-**	**-**	**115,175**	**Noninterest- bearing**	**Unsecured**
TOTAL	**2019**			**P101,087**	**P30,126**	**P115,175**		
TOTAL	2018			P244,268	P18,547	P -		

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 and system capacity and resource monitoring.

c. These pertain to advances made by PHL on behalf of the Company for the expenses covering software maintenance, training for regional agency leaders and agents' conference. These are netted against the advances made by the Company on behalf of PHL for the settlement of certain administration costs.

d. Transactions with Prudence Foundation Limited (PFL) pertain to various advances made by the Company on behalf of PFL for activities related to corporate social responsibilities in the Philippines.

e. 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.

The entities from a to d 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 of the entity, directly or indirectly, including director, whether executive or otherwise, of the Company.

The KMP compensation is as follows:

	2019	2018
Short-term employee benefits	**P156,879**	P167,696
Post-employment benefits	**1,164**	11,357
	P158,043	P179,053

These expenses are recorded under “Salaries, allowances and employees’ benefits” in profit or loss.

27. Lease

As a Lessee

Property and equipment comprise of owned and leased assets that do not meet the definition of investment property.

	Note	**2019**
Property and equipment owned	*13*	**P538,399**
Right-of-use assets, except for investment property		**884,089**
		P1,422,488

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

	2019
Balance at January 1	**P1,047,515**
Additions	**68,803**
Depreciation	**(232,229)**
Balance at December 31	**P884,089**

Lease Liabilities

	Note	**2019**
Balance at January 1		**P1,047,515**
Additions		**68,803**
Interest		**74,641**
Payments		**(256,077)**
Balance at December 31	*5*	**P934,882**

	2019
Maturity analysis - contractual undiscounted cash flows	
Less than one year	**P266,216**
One to five years	**816,101**
More than five years	**-**
Total undiscounted lease liabilities at December 31	**1,082,317**
Lease liabilities included in the separate statement of financial position at December 31	**934,882**
Current	**202,188**
Non-current	**732,694**

Amounts Recognized in Profit and Loss

	2019
2019 - Leases under PFRS 16	
Depreciation of right-of-use assets	**P232,229**
Interest expense related to lease liabilities	**74,641**
Expenses relating to short-term leases including VAT on lease payments	**71,785**
2018 - Operating leases under PAS 17	
Rent expense	**352,202**

Amount Recognized in the Statement of Cash Flows

	2019
Total cash outflow for leases	**P256,077**

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 extension option of this lease is exercisable by the Company by notice to the lessor not later than one hundred and eighty (180) days prior to the expiration of the initial lease term.

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

28. Equity

The details of this account are as follows:

	2019	2018
Authorized		
Par value per share	**P100**	P100
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 March 14, 2019, the BOD of the Company declared cash dividends amounting to P1.18 billion or P235.29 per share. This was approved by the IC on May 3, 2019 and was paid on May 22, 2019.

On September 5, 2019, additional cash dividends were declared by the BOD of the Company amounting to P1.88 billion. Due to the requirement of the IC's to use the Company's 2018 Annual Synopsis as basis for the dividend remittance, the Company notified IC on October 25, 2019 that it will reduce its declared dividends to P1.00 billion or P200.00 per share. On October 30, 2019, the IC released CL No. 2019-60 which provides, among other things, that the declaration of dividends shall require no prior approval or clearance from the IC and that a post-distribution reportorial requirement shall be reported to the IC within thirty (30) days after dividend declaration or distribution. CL No. 2016-90 shall be made effective immediately. On November 14, 2019, the cash dividends of P1.00 billion was paid and on November 27, 2019, the corresponding post-distribution reportorial requirements were received by the IC. On December 10, 2019, the BOD approved to reduce the cash dividends declared in September 5, 2019 to P1.00 billion.

On March 22, 2018, the BOD of the Company declared cash dividends amounting to P1.18 billion or P235.29 per share. This was approved by the IC on April 13, 2018 and was paid on May 21, 2018.

As at December 31, 2019, the Company's unappropriated retained earnings of P11.88 billion is in excess of its paid-up capital of P962 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 43 of the Corporation Code. 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."

29. 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.

30. Event After the Reporting Period

On March 11, 2020, the World Health Organization declared the Coronavirus Disease (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 affected countries.

On March 16, 2020, Proclamation No. 929, Series of 2020, declared a state of calamity throughout the Philippines for a period of six (6) months and an Enhanced Community Quarantine was imposed throughout the entire Luzon until April 12, 2020, unless earlier lifted or extended as circumstances may warrant.

The COVID-19 coronavirus pandemic is affecting insurance companies in many ways. In addition to customer, people and operational considerations, volatile markets have affected investment portfolios. Stock markets have declined in value and bond yields are at record lows which might result to possible impairment in investment portfolios.

While implications in insurance liabilities will be mixed depending on the specific types of coverage provided and the accounting policies applied under PFRS 4. Impact will be on liabilities for reported claims and incurred but not reported claims with knock-on effects for assumptions about reinsurance recoveries and future claims. This will also affect the assumptions use in accounting for insurance liabilities, including the liability adequacy test, and balance sheets and capital ratios.

Likewise, the Company expects negative impact on premiums and policy administration fees, higher surrenders and withdrawals, and likely increase in management expenses and software development costs (i.e. digital workflow tools) due to the business interruption.

As part of closely monitoring the situation, the Company performed a stress-test to determine the possible impact of COVID-19 on liquidity and solvency and established feasible mitigating actions to manage the same. Based on the stress-test, the Company will still likely to expect a higher liquidity coverage ratio and solvency position over the minimum IC prescribed thresholds over a twelve-month period. Other financial impact could occur, though such potential impact will begin to manifest few months after the issuance of these financial statements. Thus, the Company has not yet quantified the overall potential impact of COVID-19 to these financial statements.

On the other hand, the IC through its various circular letters encouraged insurance companies to adopt and implement a relax claims management policies relative to processing and payment of COVID-19 related claims, to launch initiatives that aim to provide additional benefits or free insurance coverage to affected customers or stakeholders, to formulate and implement relief and assistance programs to aid the sales agents who earn on a commission basis for the duration of the COVID-19 emergency, and to launch initiatives that aim to sell the existing insurance products by utilizing information and communication technologies or any other technology via remote communication.

31. 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, 2019 (expressed in whole amounts):

A. Documentary Stamp Tax

On others	**P32,972,914**

B. Withholding Taxes

Creditable withholding taxes	**P514,007,248**
Final withholding taxes	**636,665,708**
Tax on compensation and benefits	**191,795,682**
	P1,342,468,638

C. All Other Taxes (Local and National)

Premiums tax	**P115,785,074**
License and permit fees	**39,783,814**
Fringe benefits tax	**38,346,636**
Real estate taxes	**109,474**
	P194,024,998

D. Tax Contingencies

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, 2019.

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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 year ended December 31, 2019, on which we have rendered our report dated March 26, 2020.

Our audit was 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.

The supplementary information is presented for purposes of complying with the Revised Securities Regulation Code (SRC) 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.

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

March 26, 2020
Makati City, Metro Manila

ANNEX 68-D
RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
AS OF DECEMBER 31, 2019

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	**P9,762,917,051**
Add: Net income actually earned/realized during the period	**4,938,297,032**
Net income during the period closed to Retained Earnings	**14,701,214,083**
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	**21,482,561**
Fair value adjustment (M2M gains)	**(1,588,222,247)**
Fair value adjustment of Investment Property Resulting to gain	**-**
Adjustment due to deviation from PFRS/GAAP - gain	**-**
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	**-**
Sub-total	**(1,566,739,686)**
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	**13,134,474,397**
Add (Less):	
Dividend declarations during the period	**(2,176,470,588)**
Appropriations of Retained Earnings during the period	**(14,694,272)**
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND	**P10,943,309,537**