PRU LIFE U.K.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Pru Life Insurance Corporation of U.K.** (the "Company"), is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, 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 is responsible for overseeing the Company's financial reporting process.

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

R.G. Manabat & Co., the independent auditors appointed by the Board of Directors, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the Board of Directors and 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

LEE C. LONGA
Executive Vice President & Chief Financial Officer

Signed this ___ day of ___

COVER SHEET

For

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	S	0	9	6	-	0	5	1	1	

COMPANY NAME

PRU LIFE INSURANCE CORPORATION
OF U.K. (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
A A F S		

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number
	(632) 683-9000	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
		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) 683-9203	(63) 917-835-6266

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 INSURANCE CORPORATION OF U.K.

SEPARATE FINANCIAL STATEMENTS
December 31, 2018 and 2017

KPMG

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
Email ph-inquiry@kpmg.com.ph

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, 2018 and 2017, and the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

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.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 11 2019
RECEIVED

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 PFRS, 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 30 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

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 7333620
Issued January 3, 2019 at Makati City

March 14, 2019
Makati City, Metro Manila

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 11 2019
RECEIVED
KARL AARON D. GACUTAN

KPMG

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226

Telephone	+63 (2) 885 7000
Fax	+63 (2) 894 1985
Internet	www.kpmg.com.ph
Email	ph-inquiry@kpmg.com.ph

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, 2018, on which we have rendered our report dated March 14, 2019.

In compliance with Securities Regulation Code Rule 68, As Amended, we are stating that the said Company has one (1) stockholder owning one hundred (100) or more 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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Issued January 3, 2019 at Makati City

March 14, 2019
Makati City, Metro Manila

LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 11 2019

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

	Note	December 31 2018	2017
ASSETS			
Cash and cash equivalents	*7*	**P1,976,604**	P1,971,024
Interest receivable	*5*	**124,896**	118,801
Investments	*8*	**9,279,727**	9,737,274
Investment in subsidiary	*9*	**341,803**	-
Premiums due from policyholders	*5*	**14,881**	14,759
Policy loans receivables - net	*5, 10*	**373,587**	384,026
Coverage debt receivables - net	*5, 12*	**436,595**	318,612
Reinsurance assets	*5*	**27,353**	40,000
Property and equipment - net	*13*	**640,839**	552,163
Deferred acquisition costs	*5, 14*	**7,651,595**	6,498,363
Other assets - net	*15*	**971,991**	829,835
Total General Assets		**21,839,871**	20,464,857
Assets Held to Cover Linked Liabilities	*11*	**81,905,744**	86,080,089
		P103,745,615	P106,544,946
LIABILITIES AND EQUITY			
General Liabilities			
Legal policy reserves	*5, 16*	**P5,334,105**	P5,952,236
Claims payable	*5, 17*	**498,438**	448,520
Reinsurance payable	*5, 18*	**98,220**	84,386
Deferred tax liability - net	*25*	**2,109,251**	1,592,561
Accounts payable, accrued expenses and other liabilities	*19*	**3,826,610**	3,222,498
Total General Liabilities		**11,866,624**	11,300,201
Technical Provisions for Linked Liabilities	*5, 11*	**81,905,744**	86,080,089
Total Liabilities		**93,772,368**	97,380,290
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*	**2,771**	101
Retirement fund reserve		**30,731**	27,381
Remeasurement on life insurance reserve		**(254,516)**	(939,449)
Retained earnings	*16, 28*	**9,181,875**	9,064,237
Total Equity		**9,973,247**	9,164,656
Total General Liabilities and Equity		**21,839,871**	20,464,857
		P103,745,615	P106,544,946

See Notes to the Separate Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.

SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Amounts in Thousands)

		Years Ended December 31	
	Note	**2018**	2017
NET PREMIUMS			
Premiums	*20*	**P22,478,288**	P19,606,756
Premiums ceded to reinsurers	*18, 20*	**(445,144)**	(385,550)
		22,033,144	19,221,206
OTHER REVENUE			
Policy administration fees	*21*	**1,693,657**	1,661,734
Investment loss - net	*22*	**(788,677)**	(343,808)
Share in loss of the subsidiary	*9*	**(18,445)**	-
Others - net		**54,494**	75,469
		941,029	1,393,395
BENEFITS AND CLAIMS			
Costs on premiums of variable insurance	*11*	**6,991,661**	5,029,506
Gross benefits and claims	*23*	**7,477,576**	8,144,789
Reinsurer's share of gross benefits and claims	*23*	**(30,451)**	(47,814)
Gross change in legal policy reserves	*16, 23*	**66,802**	(115,445)
		14,505,588	13,011,036
OPERATING EXPENSES			
Commissions, bonuses and other agents' expenses		**3,781,523**	3,127,244
Salaries, allowances and employees' benefits		**1,283,031**	1,015,685
Trainings, seminars and contests		**660,528**	732,233
Utilities		**363,818**	289,372
Rent	*27*	**352,202**	253,045
Advertising and marketing		**264,058**	105,972
Depreciation and amortization	*13*	**203,413**	193,597
Insurance taxes, licenses and fees		**134,369**	81,341
Dividends to policyholders		**122,666**	116,354
Office supplies		**111,361**	84,423
Communications		**110,963**	87,946
Representation and entertainment		**78,644**	53,931
Professional fees		**76,606**	40,390
Security and janitorial services		**65,071**	60,913
Taxes and licenses		**48,279**	73,540
Interest expense related to policies		**42,516**	43,129
Amortization of software development costs	*15*	**36,469**	36,422
Others		**60,421**	19,983
Deferred expenses - net	*14*	**(1,153,232)**	(904,553)
		6,642,706	5,510,967

Forward

	Note	Years Ended December 31 2018	2017
INCOME BEFORE INCOME TAX EXPENSE		**P1,825,879**	P2,092,598
INCOME TAX EXPENSE	*25*	**531,771**	463,985
NET INCOME		**1,294,108**	1,628,613
OTHER COMPREHENSIVE INCOME			
Item that may be reclassified to profit or loss			
Net gain on fair value changes of available-for-sale financial assets	*8*	**2,670**	4,360
Items that will not be reclassified to profit or loss			
Remeasurement on life insurance reserve	*16*	**684,933**	121,307
Gain on remeasurement of retirement liability	*24*	**4,786**	52,351
Income tax effect	*25*	**(1,436)**	(15,705)
		690,953	162,313
TOTAL COMPREHENSIVE INCOME		**P1,985,061**	P1,790,926

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, 2018 AND 2017
(Amounts in Thousands)

	Note	Capital Stock (Note 28)	Additional Paid-in Capital (Note 28)	Contributed Surplus	Fair Value Reserve (Note 8)	Retirement Fund Reserve	Remeasurement on Life Insurance Reserve	Retained Earnings Appropriated (Note 16)	Retained Earnings Unappropriated (Note 28)	Retained Earnings Total	Total Equity
Balance at January 1, 2018		P500,000	P462,000	P50,386	P101	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	P30,731	(P254,516)	P44,060	P9,137,815	P9,181,875	P9,973,247
Balance at January 1, 2017		P500,000	P462,000	P50,386	(P4,259)	(P9,265)	(P1,060,756)	P26,051	P9,115,456	P9,141,507	P9,079,613
Total comprehensive income											
Net income		-	-	-	-	-	-	-	1,628,613	1,628,613	1,628,613
Other comprehensive income:											
Item that may be reclassified to profit or loss	8	-	-	-	4,360	-	-	-	-	-	4,360
Items that will not be reclassified to profit or loss		-	-	-	-	36,646	121,307	-	-	-	157,953
Total comprehensive income		-	-	-	4,360	36,646	121,307	-	1,628,613	1,628,613	1,790,926
Transaction with owner of the Company											
Dividends	28	-	-	-	-	-	-	-	(1,705,883)	(1,705,883)	(1,705,883)
Appropriation of reserves	16	-	-	-	-	-	-	12,520	(12,520)	-	-
Balance at December 31, 2017		P500,000	P462,000	P50,386	P101	P27,381	(P939,449)	P38,571	P9,025,666	P9,064,237	P9,164,656

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	**2018**	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax expense		**P1,825,879**	P2,092,598
Adjustments for:			
Unrealized loss on valuation of investments	*8, 22*	**946,334**	484,639
Amortization of deferred acquisition costs	*14*	**883,331**	757,780
Depreciation and amortization	*13*	**203,413**	193,597
Interest expense related to policies		**42,516**	43,129
Amortization of software development costs	*15*	**36,469**	36,422
Provision for impairment losses	*10, 12, 15*	**32,349**	17,562
Reversal of provision for impairment losses	*10, 15*	**(3,961)**	(3,376)
Loss (gain) on disposal of property and equipment		**459**	(1,605)
Foreign exchange loss (gain)		**(63,153)**	3,690
Share in loss of the subsidiary	*9*	**18,445**	-
Interest income	*22*	**(522,277)**	(535,876)
Loss (gain) on disposal of investments	*8, 22*	**20,858**	(1,883)
		3,420,662	3,086,677
Changes in:			
Accounts payable, accrued expenses and other liabilities		**691,943**	197,066
Legal policy reserves	*16, 23*	**66,802**	(115,445)
Claims payable		**49,918**	129,067
Reinsurance payable		**13,834**	6,833
Reinsurance assets		**12,647**	(28,651)
Policy loans receivables		**6,633**	69,584
Premiums due from policyholders		**(122)**	14,834
Other assets		**(136,566)**	(61,720)
Coverage debt receivables		**(144,496)**	(113,831)
Deferred acquisition costs		**(2,036,563)**	(1,662,333)
		1,944,692	1,522,081
Interest paid		**(41,773)**	(42,253)
Contributions to retirement fund	*24*	**(85,224)**	(65,113)
Income tax paid		**(15,153)**	(9,445)
Net cash provided by operating activities		**1,802,542**	1,405,270

Forward

	Note	Years Ended December 31 2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of investments	8	**(P1,945,103)**	(P1,716,236)
Proceeds from disposal of investments	8	**1,491,151**	1,413,295
Investment in subsidiary	9	**(360,248)**	-
Interest received		**516,182**	545,341
Acquisitions of property and equipment	13	**(294,068)**	(147,341)
Proceeds from disposal of property and equipment		**1,520**	10,243
Acquisitions of software costs	15	**(40,056)**	(54,096)
Net cash provided by (used in) investing activities		**(630,622)**	51,206
CASH FLOW FROM A FINANCING ACTIVITY			
Dividends paid	28	**(1,176,470)**	(1,705,883)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(4,550)**	(249,407)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7	**1,971,024**	2,220,198
EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS		**10,130**	233
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	**P1,976,604**	P1,971,024

See Notes to the Separate Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

(Amounts in Thousands, except as indicated)

1. Reporting Entity

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

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

The Company has a Certificate of Authority No. 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 (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, 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 IFRS.

The separate financial statements were authorized for issue by the Board of Directors (BOD) on March 14, 2019.

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 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)

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 presented in Philippine peso has been rounded off to the nearest thousands (P'000s), except when otherwise indicated.

3. Summary of Significant Accounting Policies

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

Adoption of Amendments to Standards
The Company has adopted the following amendments to standards starting January 1, 2018. The adoption of these amendments to standards did not have any significant impact on the Company's separate financial statements.

- *Applying PFRS 9, Financial Instruments with PFRS 4 Insurance Contracts (Amendments to PFRS 4)*. The amendments provide a temporary exemption from PFRS 9, where an entity is permitted to defer application of PFRS 9 in 2018 and continue to apply PAS 39 *Financial Instruments: Recognition and Measurement* if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2022.

The amendments also provide an overlay approach to presentation when applying PFRS 9 where an entity is permitted to reclassify between profit or loss and other comprehensive income the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39 for designated financial assets. A financial asset is eligible for designation if it is not held for an activity that is unconnected with contracts in the scope of PFRS 4, and if it is measured at fair value through profit or loss under PFRS 9, but would not have been under PAS 39. An entity is generally permitted to start applying the overlay approach only when it first applies PFRS 9, including after previously applying the temporary exemption.

As permitted by the standard, the Company availed of the temporary exemption and deferred application of PFRS 9.

- *PFRS 15 Revenue from Contracts with Customers replaces PAS 11 Construction Contracts, PAS 18 Revenue, International Financial Reporting Interpretations Committee (IFRIC) 13 Customer Loyalty Programmes, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue - Barter Transactions Involving Advertising Services.* The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

Insurance Contracts

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, 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 IFRS 10, *Consolidated Financial Statements,* in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this IFRS 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.

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 losses 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, 2018 and 2017, 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 are 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, 2018 and 2017, 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 statements of financial position amounted to P9.27 billion and P9.73 billion as at December 31, 2018 and 2017, respectively (see Note 8). Also, the Company's held-for-trading investments portfolio under "Assets held to cover linked liabilities" amounted to P115.22 billion and P122.27 billion as at December 31, 2018 and 2017 (see Note 11).

As at December 31, 2018 and 2017, the Company's held-for-trading securities include government, quasi-government, corporate debt, equity securities and derivative financial instruments.

The Company's technical provisions for linked liabilities classified as financial liabilities at FVPL amounted to P81.91 billion and P86.08 billion as at December 31, 2018 and 2017, 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, 2018 and 2017, 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 affiliates 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, 2018 and 2017, the Company's AFS financial assets amounted to P14.36 million and P11.69 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). This category also includes liability to other 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 PFRS, 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
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 is 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.

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 represents 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 pertains 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 form part of receivable from unit linked fund under "Other assets - net" account in the separate statement of financial position.

Investment Income or Loss
Investment income 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;
- whether the Company has discretion in establishing prices; and
- whether the Company bears the credit risk.

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.

<u>Employee Benefits</u>
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 monthly salary payable to an employee with the required credited years of 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.

Leases
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.

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

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 fo 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 carryforward tax benefits of the net operating loss carryover (NOLCO) and excess of the minimum corporate income tax (MCIT) over the regular corporate income tax. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted at each reporting date.

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

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

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

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

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

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

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

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 or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted
A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2019. However, the Company has not applied the following new or revised and amended standards in preparing these separate financial statements. Except for PFRS 16, *Leases,* the Company is currently assessing the potential impact of these on its separate financial statements.

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

To be Adopted January 1, 2019

- *PFRS 16 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 introduced.

  Company as a lessee

  The Company will recognize new assets and liabilities for its leased property. The nature of expenses related to those leases will now change because the Company will recognize a depreciation charge for the right-of-use asset and interest expense on lease liabilities.

  Previously, the Company recognized operating lease expense on a straight-line basis over the term of the lease, and recognize assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognized.

  Based on the information currently available, the Company estimates that it will recognize lease assets and related liabilities of P637.63 million at January 1, 2019.

- *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 judgements 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.

  The amendments apply for plan amendments, curtailments or settlements that occur on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. Earlier application is permitted.

- Annual Improvements to PFRS 2015 - 2017 Cycle. This cycle of improvements contains amendments to:
  - Income tax consequences of payments on financial instruments classified as equity (Amendments to PAS 12). 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.

    The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. When an entity first applies those amendments, it shall apply them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

To be Adopted January 1, 2020

- Amendments to References to Conceptual Framework in PFRS sets out amendments to PFRS, 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 PFRS, 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 PFRS 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, 2022

- *PFRS 9 (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.

To be Adopted January 1, 2023

- PFRS 17 *Insurance Contracts*. The 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 on or before the date of initial application of PFRS 1.

4. Use of Judgments and Estimates

The Company makes judgments and key estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

(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, 2018 and 2017, 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, 2018 and 2017, the Company has recognized allowance for impairment loss amounting to P182.68 million and P154.29 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, 2018 and 2017, the Company classified its financial instruments as financial instruments at FVPL, AFS financial assets, loans and receivables, and other financial liabilities.

Estimates

(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 P93.15 million and P80.52 million as at December 31, 2018 and 2017, 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, 2018 and 2017 computed under the requirements of PFRS 4, amounted to cash inflows of P22.19 billion and P19.32 billion, respectively. Accordingly, the recorded legal policy reserves which is calculated in accordance with the requirements of the Insurance Code amounting to P5.33 billion and P5.95 billion as at December 31, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, the carrying amounts of property and equipment and software development costs amounted to P819.01 million and P720.98 million, respectively (see Notes 13 and 15).

(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, 2018 and 2017, the carrying amount of deferred acquisition costs amounted to P7.65 billion and P6.50 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, 2018 and 2017, the carrying value of the Company's policy loans receivables, coverage debt receivables and advances to employees and agents amounted to P886.69 million and P766.60 million, respectively. Provisions for impairment losses amounted to P32.35 million and P17.56 million in 2018 and 2017, 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, 2018 and 2017, the Company's net retirement liability amounted to P8.78 million and P14.65 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 re-measured 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, 2018 and 2017, the Company recognized deferred tax assets amounting to P205.18 million and P374.46 million, respectively. However, unrecognized deferred tax assets amounted to P805.59 million and P876.71 million as at December 31, 2018 and 2017, respectively (see Note 25).

5. Capital, Insurance and Financial Risks 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, 2018 and 2017, 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, 2018 and 2017, using the RBC2 Framework:

	2018	2017
TAC	**P1,743,179**	P2,325,939
RBC requirement	**389,780**	194,844
RBC ratio	**447%**	1,194%

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, 2018 and 2017, 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	2018	2017
Deferred acquisition costs	*14*	**P7,651,595**	P6,498,363
Property and equipment - net		**571,832**	475,278
Other assets		**708,069**	525,580
		P8,931,496	P7,499,221

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	**2018**	2017
Whole and term life		**P3,779,053**	P4,349,061
Endowment		**1,061,485**	1,142,525
Personal accident		**16,920**	17,157
Group and accident and health		**17,003**	10,320
Riders and others products		**459,644**	433,173
	16	**P5,334,105**	P5,952,236

Classification by Attained Age
The table below presents the concentration of legal policy reserves by attained age as at December 31, 2018 and 2017. For individual insurance, exposure is concentrated on age brackets of 55-59 in 2018 and 50-54 in 2017.

	2018 Individual		2017 Individual	
Attained Age	**Exposure '000**	**Concentration (%)**	Exposure '000	Concentration (%)
<20	**P269,059**	**5.06%**	P342,810	5.77%
20 - 24	**171,656**	**3.23%**	182,194	3.07%
25 - 29	**188,579**	**3.55%**	223,442	3.76%
30 - 34	**228,298**	**4.29%**	249,776	4.20%
35 - 39	**294,200**	**5.53%**	373,488	6.29%
40 - 44	**587,739**	**11.05%**	709,918	11.95%
45 - 49	**758,026**	**14.26%**	884,761	14.89%
50 - 54	**789,994**	**14.86%**	893,113	15.03%
55 - 59	**798,584**	**15.02%**	853,733	14.37%
60 - 64	**575,646**	**10.83%**	597,570	10.06%
65 - 69	**351,282**	**6.61%**	347,045	5.84%
70 - 74	**203,312**	**3.82%**	185,819	3.13%
75 - 79	**71,414**	**1.34%**	64,826	1.09%
80 +	**29,313**	**0.55%**	33,421	0.55%
Total	**P5,317,102**	**100.00%**	P5,941,916	100.00%

For group insurance, exposure is concentrated on age bracket 35 - 39 in 2018 and 2017.

	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%**

	2017			
	Group			
	Gross of Reinsurance		Net Reinsurance	
Attained Age	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
20 - 24	P -	-	P -	-
25 - 29	-	-	-	-
30 - 34	-	-	-	-
35 - 39	10,251	99.33%	7,935	99.14%
40 - 44	-	-	-	-
45 - 49	-	-	-	-
50 - 54	-	-	-	-
55 - 59	69	0.67%	69	0.86%
60 +	-	-	-	-
Total	P10,320	100.00%	P8,004	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 are 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 Rates* refer to the rate at which a life insurance policy is surrendered or terminated caused by the 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.

		2018	2017
	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%*	*(P45.49)*	*(P53.07)*
	-5%	*47.55*	*53.88*
Valuation interest rate	*+ 100 basis points*	*535.04*	*621.44*
	- 100 basis points	*(687.00)*	*(793.23)*
Expense assumption	*+10%*	*(98.26)*	*(106.85)*
	-10%	*88.16*	*96.23*
Lapse rates	*+10%*	*25.92*	*32.00*
	-10%	*(27.97)*	*(33.73)*

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

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 exist 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, who 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.

Financial Risk

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

- Credit Risk
- Liquidity Risk
- Market Risk

There has been no change to the Company's exposure to financial risks (i.e. credit risk, liquidity risk and market risks) 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 P58.70 billion (91.61%) and P58.14 billion (90.89%) of the Company's total financial assets as at December 31, 2018 and 2017, respectively (see Notes 8 and 11).

The table below provides information regarding the credit risk exposure of the Company as at December 31, 2018 and 2017 by classifying assets according to the Company's credit grading of counterparties.

		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 receivable	*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 receivable	*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 receivables	*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

		2017				
		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		P1,970,367	P -	P1,970,367	P -	P1,970,367
Interest receivable		118,801	-	118,801	-	118,801
Coverage debt receivable	*12*	-	318,612	318,612	138,103	456,715
Financial Assets at FVPL	*8*	9,725,583	-	9,725,583	-	9,725,583
Premiums due from policyholders		-	14,759	14,759	-	14,759
Policy loans receivable	*10*	-	384,026	384,026	11,069	395,095
Reinsurance assets		-	40,000	40,000	-	40,000
Other assets (excluding withholding tax receivables, software development costs, nonrefundable deposits and prepayments)		-	268,689	268,689	5,118	273,807
Assets Held to Cover Linked Liabilities						
Cash and cash equivalents	*11*	1,839,938	-	1,839,938	-	1,839,938
Interest receivables	*11*	347,960	-	347,960	-	347,960
Receivable from life fund	*11*	114,680	-	114,680	-	114,680
Investment in debt securities	*11*	48,633,515	-	48,633,515	-	48,633,515
Other assets	*11*	37,224	-	37,224	-	37,224
		P62,788,068	P1,026,086	P63,814,154	P154,290	P63,968,444

The Company has no past due but not impaired financial assets as at December 31, 2018 and 2017.

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 Company's financial liabilities are short-term and due within the next twelve (12) months. 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, 2018 and 2017:

		2018	
	Note	**Carrying Amount**	**Contractual Cash Flow**
Technical provision for linked liabilities	*11*	**P81,905,744**	**P81,905,744**
Claims payable	*17*	**498,438**	**498,438**
Reinsurance payable	*18*	**98,220**	**98,220**
Accounts payable, accrued expenses and other liabilities*		**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**
Accrued expenses	*11*	**105,568**	**105,568**
Trade payable	*11*	**278,667**	**278,667**
		P120,830,856	**P120,830,856**

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

		2017	
	Note	Carrying Amount	Contractual Cash Flow
Technical provision for linked liabilities	*11*	P86,080,089	P86,080,089
Claims payable	*17*	448,520	448,520
Reinsurance payable	*18*	84,386	84,386
Accounts payable, accrued expenses and other liabilities*		2,809,031	2,809,031
Assets Held to Cover Linked Liabilities			
Liability to life fund and other linked funds	*11*	38,309,798	38,309,798
Accrued expenses	*11*	103,637	103,637
Trade payable	*11*	115,066	115,066
		P127,950,527	P127,950,527

**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 the risk 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:

	2018	2017
Short-term time deposits	**$3,958**	$2,362
Investments	**342,617**	374,802
	$346,575	$377,164
Foreign exchange rate to the Philippine peso used*	**52.72**	49.92
	P18,271,434	P18,828,027

**Exchange rate used is based on Bangko Sentral ng Pilipinas foreign exchange rate as at December 28, 2018 and December 29, 2017.*

A 3% (2017: 3%) strengthening of U.S. dollar against Philippine peso as at December 31, 2018, with all other variables remaining constant, would have affected the measurement of financial instruments denominated in U.S. dollar and increased profit before tax and equity by P0.55 billion (2017: P0.56 billion). A 3% (2017: 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 2018 and 2017, 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 are 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.

Currency	Changes in Variables	2018		2017	
		+50 bps	-50 bps	+50 bps	-50 bps
Philippine peso		(P814,349)	P854,673	(P929,543)	P991,489
U.S. dollar		(339,694)	365,392	(415,989)	447,344
Fair value sensitivity		(P1,154,043)	P1,220,065	(P1,345,532)	P1,438,833

In 2018 and 2017, 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 P65.55 billion and P73.64 billion (see Note 11) as at December 31, 2018 and 2017, 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 Parent Company. Thus, the Parent Company has insignificant exposure to equity price risk.

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 receivables;
- 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 receivables, 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 other funds, accrued expense, 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 analyses 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	**2018 Level 1**	**2018 Level 2**	**2018 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**

	Note	2017 Level 1	2017 Level 2	2017 Total
Financial Assets				
Financial assets at FVPL	*8*	P9,725,583	P -	P9,725,583
AFS financial assets	*8*	11,691	-	11,691
Financial assets at FVPL under assets held to cover linked liabilities	*11*	122,268,788	-	122,268,788

The Company has no financial instruments categorized under Level 3. Also, there has been no transfer between levels in 2018 and 2017.

7. Cash and Cash Equivalents

	2018	2017
Cash on hand and in banks	**P1,244,026**	P842,411
Short-term placements	**732,578**	1,128,613
	P1,976,604	P1,971,024

Short-term placements are Philippine peso and U.S. dollar time deposits with various financial institutions with maturities ranging from overnight to ninety days and interest ranging from 0.20% to 2.10% and 0.10% to 0.95% per annum in 2018 and 2017, respectively.

Interest income recognized in profit or loss which is presented under "Investment income" amounted to P16.55 million and P13.48 million in 2018 and 2017, respectively.

8. Investments

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

		December 31, 2018		
	Note	AFS Financial Assets	Financial Assets at FVPL	Total Investments
Cost at January 1, 2018		**P11,590**	**P9,916,785**	**P9,928,375**
Unrealized (losses) gains 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)**

		December 31, 2017		
	Note	AFS Financial Assets	Financial Assets at FVPL	Total Investments
Cost at January 1, 2017		P11,590	P9,611,961	P9,623,551
Unrealized (losses) gains at January 1, 2017		(4,259)	297,360	293,101
Fair value at January 1, 2017		7,331	9,909,321	9,916,652
Fair value gain (loss) recognized in:				
Profit or loss	22	-	(484,639)	(484,639)
Other comprehensive income		4,360	-	4,360
Foreign exchange gain	22	-	(3,923)	(3,923)
Purchases		-	1,716,236	1,716,236
Proceeds from disposal of financial assets		-	(1,413,295)	(1,413,295)
Gain on disposal of financial assets	22	-	1,883	1,883
Fair value at December 31, 2017	5, 6	P11,691	P9,725,583	P9,737,274
Cost at December 31, 2017		P11,590	P9,916,785	P9,928,375
Unrealized gains (losses) at December 31, 2017		P101	(P191,202)	(P191,101)

The Company's investments consist of the following:

	Note	2018	2017
Government bonds	*5*	**P9,029,425**	P9,504,355
Corporate debt securities	*5*	**143,470**	121,502
Quasi government bonds	*5*	**92,471**	99,726
Equity securities	*5*	**14,361**	11,691
		P9,279,727	P9,737,274

Interest rates range from 00.000% to 15.000% in 2018 and 2017.

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

	2018	2017
Balance at beginning of year	**P101**	(P4,259)
Fair value gain	**2,670**	4,360
Balance at end of year	**P2,771**	P101

9. Investment in Subsidiary

The Monetary Board of the Bangko Sentral ng Pilipinas (BSP), in its Resolution No. 778 dated May 11, 2018, has approved the establishment of Pru Life UK Asset Management and Trust Corporation (PAMTC), a wholly-owned subsidiary. 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.

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

As at December 31, 2018, PAMTC is still in the process of securing the Certificate of Authority to Operate from BSP.

The movements in this account are as follows:

	2018
Balance at beginning of year	**P -**
Investments during the year	**360,248**
Share in loss of the subsidiary	**(18,445)**
Balance at end of year	**P341,803**

The key financial information of the subsidiary as at and for the year ended December 31, 2018 is as follows:

	2018
Total assets	**P360,604**
Total liabilities	**18,801**
Net assets	**341,803**
Net loss	**18,445**

10. Policy Loans Receivables

	Note	2018	2017
Policy loans receivables		**P388,462**	P395,095
Allowance for impairment losses		**(14,875)**	(11,069)
	5	**P373,587**	P384,026

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 P3.81 million and P0.85 million in 2018 and 2017, respectively, were recognized as expense under "Others" in profit or loss.

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

	2018	2017
Balance at beginning of year	**P11,069**	P11,724
Provision for impairment losses	**3,806**	850
Reversals taken up to profit or loss	**-**	(1,505)
Balance at end of year	**P14,875**	P11,069

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 statements 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	**2018**	2017
Cash and cash equivalents	*5*	**P1,044,988**	P1,839,938
Interest receivable	*5*	**325,820**	347,960
Receivable from life fund	*5*	**213,633**	114,680
Investments in treasury notes and other funds	*6*	**115,218,340**	122,268,788
Other assets	*5*	**130,738**	37,224
Liability to other funds	*5*	**(34,643,540)**	(38,309,798)
Accrued expense	*5*	**(105,568)**	(103,637)
Trade payable	*5*	**(278,667)**	(115,066)
Net assets		**P81,905,744**	P86,080,089

Investments in treasury notes and other funds are composed of:

	Note	**2018**	2017
Investments in treasury notes	*5*	**P34,380,903**	P34,976,677
Investments in shares of stocks		**46,268,481**	49,069,788
Investment in other funds:			
Investment in bond fund	*5*	**15,287,247**	13,656,838
Investment in equity fund		**19,279,864**	24,565,485
Nondeliverable forward contract		**1,845**	-
Total investments	*6*	**P115,218,340**	P122,268,788

Total premiums and costs from the unit-linked product for the years ended 2018 and 2017 are as follows:

	Note	**2018**	2017
Linked premiums	*20*	**P21,830,639**	P18,932,127
Costs on premiums of variable insurance		**(6,991,661)**	(5,029,506)
Surrenders		**(6,909,387)**	(7,487,444)
Net linked premiums		**P7,929,591**	P6,415,177

12. Coverage Debt Receivables

	Note	**2018**	2017
Coverage debt receivables		**P601,211**	P456,715
Allowance for impairment losses		**(164,616)**	(138,103)
	5	**P436,595**	P318,612

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 P26.51 million and P13.36 million in 2018 and 2017, respectively, were recognized in profit or loss.

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

	2018	2017
Balance at beginning of year	**P138,103**	P124,739
Provision for impairment losses	**26,513**	13,364
Balance at end of year	**P164,616**	P138,103

13. Property and Equipment

The movements in this account are as follows:

	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

	2017						
	Computer Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Condominium Unit	Leasehold Improvements	Office Improvement in Progress	Total
Gross Carrying Amount							
Beginning balance	P198,955	P161,229	P79,833	P10,027	P607,759	P12,038	P1,069,841
Additions	22,521	16,449	16,427	-	36,863	55,081	147,341
Disposals	(9,961)	(9,475)	(7,822)	-	(40,949)	-	(68,207)
Reclassifications	-	-	-	-	27,891	(27,891)	-
Ending balance	211,515	168,203	88,438	10,027	631,564	39,228	1,148,975
Accumulated Depreciation and Amortization							
Beginning balance	112,280	77,752	32,988	5,993	233,771	-	462,784
Depreciation and amortization	35,822	23,777	16,138	414	117,446	-	193,597
Disposals	(9,852)	(9,084)	(7,482)	-	(33,151)	-	(59,569)
Ending balance	138,250	92,445	41,644	6,407	318,066	-	596,812
Carrying Amount							
Beginning balance	P86,675	P83,477	P46,845	P4,034	P373,988	P12,038	P607,057
Carrying Amount							
Ending balance	P73,265	P75,758	P46,794	P3,620	P313,498	P39,228	P552,163

14. Deferred Acquisition Costs

	Note	2018	2017
Beginning balance		**P6,498,363**	P5,593,810
Movements during the year:			
Deferred expenses		**2,036,563**	1,662,333
Amortization of deferred acquisition costs		**(883,331)**	(757,780)
		1,153,232	904,553
Ending balance	5	**P7,651,595**	P6,498,363

15. Other Assets

	Note	2018	2017
Receivable from unit linked fund		**P183,589**	P193,936
Prepayments		**265,843**	191,007
Software development costs - net		**178,175**	168,820
Nonrefundable deposits		**116,145**	90,686
Advances to employees and agents		**79,694**	69,077
Due from related parties	26	**18,547**	-
Others		**133,185**	121,427
		975,178	834,953
Allowance for impairment losses on advances to employees and agents		**(3,187)**	(5,118)
		P971,991	P829,835

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 amounts capitalized for the development and launching of products for the Company's bank partner. These also include 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:

	2018	2017
Balance at beginning of year	**P5,118**	P3,641
Provision for impairment losses	**2,030**	3,348
Reversals taken up to profit or loss	**(3,961)**	(1,871)
Balance at end of year	**P3,187**	P5,118

The Company collected advances to employees and agents that have been previously written off amounting to P3.96 million and P1.87 million in 2018 and 2017, respectively.

The movements of software development costs in 2018 and 2017 are as follows:

	2018	2017
Gross Carrying Amount		
Beginning balance	**P463,529**	P409,433
Acquisitions	**40,056**	54,096
Write-off	**-**	-
Ending Balance	**503,585**	463,529
Accumulated Amortization		
Beginning balance	**294,709**	258,923
Amortization	**36,469**	36,422
Write-off	**(5,768)**	(636)
Ending Balance	**325,410**	294,709
Net Carrying Amount		
Beginning balance	**P168,820**	P150,510
Ending Balance	**P178,175**	P168,820

16. Legal Policy Reserves

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

	Note	2018	2017
Beginning balance		**P5,952,236**	P6,188,988
Gross change in reserves:			
New business		**71,493**	54,427
Net premiums written		**108,675**	178,744
Liabilities released for payments on death, surrenders and other terminations		**(523,591)**	(558,089)
Accretion of interest		**281,836**	102,950
Other movements		**128,389**	106,523
Total Gross Change in Reserves	*23*	**66,802**	(115,445)
Remeasurement on life insurance reserve		**(684,933)**	(121,307)
Ending balance	*5*	**P5,334,105**	P5,952,236

Starting January 1, 2017, the Company implemented the new valuation standards for traditional policies, using the GPV method is consistent with the CL No 2016-66 as issued by the IC last December 28, 2016.

The appropriated retained earnings for negative reserves amounted to P44.06 million and P38.57 million in 2018 and 2017, respectively.

17. Claims Payable

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

	Note	2018	2017
Beginning balance:			
Notified payable		**P367,999**	P298,143
IBNR		**80,521**	21,310
		448,520	319,453
Cash paid for claims settled during the year		**(736,204)**	(714,223)
Increase in liabilities		**786,122**	843,290
Ending balance		**P498,438**	P448,520
Notified claims payable		**P405,290**	P367,999
IBNR		**93,148**	80,521
	5	**P498,438**	P448,520

18. Reinsurance Payable

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

	Note	2018	2017
Beginning balance		**P84,386**	P77,553
Premium ceded to reinsurers	*20*	**445,144**	385,550
Paid during the year		**(431,310)**	(378,717)
Ending balance	*5*	**P98,220**	P84,386

19. Accounts Payable, Accrued Expenses and Other Liabilities

The account consists of the following:

	Note	2018	2017
Dividends payable to policyholders		**P1,086,498**	P1,029,071
Accrued expenses		**871,255**	855,824
Agent's commission payable		**534,995**	410,265
Premium suspense account		**352,951**	264,359
Provident fund payable		**252,929**	222,082
Due to related parties	*26*	**244,268**	124,496
Due to unit-linked funds		**213,643**	114,757
Premium deposit fund		**48,293**	47,785
Withholding tax payable		**41,784**	48,599
Premium tax payable		**41,053**	21,112
Retirement liability	*24*	**8,777**	14,653
Other liabilities		**130,164**	69,495
		P3,826,610	P3,222,498

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 Investments (Singapore) Limited, Inc. (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	2018	2017
Unit-linked insurance	11	**P21,830,639**	P18,932,127
Group life insurance		**393,346**	412,120
Ordinary life insurance		**212,154**	204,131
Accident and health		**42,149**	58,378
		P22,478,288	P19,606,756

Reinsurer's share of gross premiums on insurance contracts:

	Note	2018	2017
Unit-linked insurance		**P138,377**	P56,836
Group life insurance		**296,314**	324,198
Ordinary life insurance		**10,453**	4,327
Accident and health		**-**	189
	18	**P445,144**	P385,550

Net premiums on insurance contracts:

	2018	2017
Unit-linked insurance	**P21,692,262**	P18,875,291
Group life insurance	**97,032**	87,922
Ordinary life insurance	**201,701**	199,804
Accident and health	**42,149**	58,189
	P22,033,144	P19,221,206

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:

	2018	2017
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%**	-
Asian Balanced Fund	**1.95%**	1.95%

Policy administration fees amounted to P1.69 billion and P1.66 billion in 2018 and 2017, respectively.

22. Investment Loss

The account consists of the following:

	Note	2018	2017
Interest income		**P522,277**	P535,876
Foreign exchange gain (loss)	*8*	**53,023**	(3,923)
Gain (loss) on disposal of investments	*8*	**(20,858)**	1,883
Final withholding tax		**(95,991)**	(103,341)
Unrealized loss on valuation of investments	*8*	**(946,334)**	(484,639)
Investment management expense		**(300,794)**	(289,778)
Dividends		**-**	114
		(P788,677)	(P343,808)

23. Benefits and Claims

Gross benefits and claims on insurance contracts:

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	**9,336**	**-**	**9,336**
Group life insurance	**274,401**	**(3,438)**	**270,963**
Accident and health	**4,517**	**-**	**4,517**
	P7,477,576	**(P30,451)**	**P7,447,125**

2017

	Gross Benefits and Claims	Reinsurers' Share of Gross Benefits and Claims	Net
Unit-linked insurance	P7,643,758	(P43,471)	P7,600,287
Ordinary life insurance	439,905	(1,166)	438,739
Group life insurance	37,155	(3,017)	34,138
Accident and health	23,971	(160)	23,811
	P8,144,789	(P47,814)	P8,096,975

Gross change in increase in legal policy reserves:

	Note	2018	2017
Unit-linked insurance		**P21,782**	P27,082
Ordinary life insurance		**39,240**	(85,473)
Group life insurance		**5,937**	3,525
Accident and health		**(157)**	(60,579)
	16	**P66,802**	(P115,445)

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, 2018, the DB liability is more than the DC liability.

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

	2018		
	DBO	**FVPA**	**Net Defined Benefit Liability**
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**

	2017		
	DBO	FVPA	Net Defined Benefit Liability
Balance at January 1, 2017	P350,779	P284,787	P65,992
Included in Profit or Loss			
Current service cost	64,426	-	64,426
Interest cost	17,521	15,822	1,699
	81,947	15,822	66,125
Included in Other Comprehensive Income			
Remeasurements gain:			
Actuarial gain arising from:			
Financial assumptions	(6,378)	-	(6,378)
Experience adjustment	(16,874)	-	(16,874)
Return on plan assets excluding interest income	-	29,099	(29,099)
	(23,252)	29,099	(52,351)
Others			
Contributions paid by the employer	-	65,113	(65,113)
Benefits paid	(24,224)	(24,224)	-
	(24,224)	40,889	(65,113)
Balance at December 31, 2017	P385,250	P370,597	P14,653

The retirement expense under "Salaries, allowances and employees' benefits" account in profit or loss amounted to P84.13 million and P66.13 million in 2018 and 2017, respectively.

The Company's plan assets consist of the following:

	2018	2017
Cash and cash equivalents	**P41**	P -
Receivables	**3,421**	2,705
Government securities	**243,975**	209,676
Deposit instruments	**20,196**	-
Unit investments trust funds	**1,013**	25,296
Investment in mutual funds	**83,465**	71,250
Corporate bonds	**65,399**	62,100
Trust fee payable	**(419)**	(430)
	P417,091	P370,597

The expected contribution to the defined benefit retirement plan in 2019 is P75.27 million.

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

	2018	2017
Discount rate	**7.00%**	5.75%
Future salary growth	**6.00%**	6.00%

The weighted-average duration of the defined benefit obligation is 14 years and 16 years in December 31, 2018 and 2017, respectively.

Maturity analysis of the benefit payments:

	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**

	2017				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
Retirement liability	P385,250	P358,753	P26,514	P92,475	P239,764

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

	Defined Benefit Obligation	
	Increase	**Decrease**
Discount rate (1% movement)	**(0.94%)**	**2.02%**
Future salary growth (1% movement)	**2.02%**	**(0.96%)**

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:

	2018	2017
Current tax expense	**P16,517**	P18,282
Deferred tax expense	**515,254**	445,703
	P531,771	P463,985

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

	2018	2017
Income before income tax expense	**P1,825,879**	P2,092,598
Income tax using the domestic corporation tax rate	**P547,764**	P627,779
Additions to (reduction in) income tax resulting from:		
Non-deductible expenses	**18,820**	12,938
Other income subjected to final tax	**(216,023)**	(211,815)
Non-taxable gain from disposal of investments	**(19,382)**	(42,133)
Interest income subjected to final tax	**(385,846)**	(356,070)
Non-deductible loss on valuation of investments	**274,430**	145,172
Expired recognized NOLCO	**194,013**	170,908
Effect of unrecognized deferred tax assets	**101,478**	98,924
Expired MCIT	**16,517**	18,282
	P531,771	P463,985

Deferred tax assets has 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, 2018 and 2017 are as follows:

	2018		2017	
	Tax Base	**Deferred Tax Assets**	Tax Base	Deferred Tax Assets
NOLCO	**P285,510**	**P85,653**	P125,007	P37,502
Accrued expenses	**880,033**	**264,010**	870,477	261,143
Agent's commission	**534,995**	**160,499**	410,265	123,079
Provident fund	**252,929**	**75,879**	222,082	66,625
IBNR	**93,148**	**27,944**	80,521	24,156
MCIT	**115,250**	**115,250**	82,374	82,374
Remeasurement on life insurance reserve	**254,516**	**76,355**	939,449	281,835
	P2,416,381	**P805,590**	P2,730,175	P876,714

Below is the movement of the deferred tax assets and deferred tax liability recognized as at December 31, 2018 and 2017.

	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 liability - net	**(P1,592,561)**	**(P515,254)**	**(P1,436)**	**(P2,109,251)**

	2017			
	Beginning Balance	Amount Charged to Profit or Loss	Amount Recognized in Other Comprehensive Income	Ending Balance
NOLCO	P548,801	(P174,337)	P -	P374,464
Retirement liability	(1,811)	-	(15,705)	(17,516)
Deferred acquisition costs	(1,678,143)	(271,366)	-	(1,949,509)
Deferred tax liability - net	(P1,131,153)	(P445,703)	(P15,705)	(P1,592,561)

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

Year Incurred	Amount	Write-off/ Application	Remaining Balance	Date of Expiration
2015	P16,517	P16,517	P -	December 31, 2018
2016	25,046	-	25,046	December 31, 2019
2017	40,811	-	40,811	December 31, 2020
2018	49,393	-	49,393	December 31, 2021
	P131,767	P16,517	P115,250	

The carry-forward benefits of NOLCO which are available for offsetting against future taxable income are as follows:

Year Incurred	Amount	Write-off/ Application	Remaining Balance	Date of Expiration
2015	P646,711	P646,711	P -	December 31, 2018
2016	612,929	-	612,929	December 31, 2019
2017	113,581	-	113,581	December 31, 2020
2018	242,932	-	242,932	December 31, 2021
	P1,616,153	P646,711	P969,442	

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 of the Company are also considered to be related parties.

The Company's key management personnel (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)	Terms	Conditions
Eastspring (Under Common Control)							
• Investment management	**2018**	*a*	**P285,079**	**P69,452**	**P -**	**30 days; noninterest-bearing**	**Unsecured**
	2017		273,917	71,815	-	30 days; noninterest-bearing	Unsecured
PSA (Under Common Control)							
• IT service costs	**2018**	*b*	**199,156**	**147,726**	**-**	**30 days; noninterest-bearing**	**Unsecured**
	2017		247,160	32,912	-	30 days; noninterest-bearing	Unsecured
PHL (Under Common Control)							
• Allocation of expenses	**2018**	*c*	**137,476**	**27,090**	**-**	**30 days; noninterest-bearing**	**Unsecured; not impaired**
	2017		141,135	19,769	-	30 days; noninterest-bearing	Unsecured
Prudence Foundation Limited (Under Common Control)							
• Allocation of expenses	**2018**	*d*	**8,357**	**-**	**-**	**30 days; noninterest-bearing**	**Unsecured**
	2017		-	-	-		
PAMTC							
• Allocation of expenses	**2018**	*e*	**-**	**-**	**18,547**	**30 days; noninterest-bearing**	**Unsecured**
	2017		-	-	-		
TOTAL	**2018**			**P244,268**	**P18,547**		
TOTAL	2017			P124,496	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 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:

	2018	2017
Short-term employee benefits	**P167,696**	P169,148
Post-employment benefits	**11,357**	10,160
	P179,053	P179,308

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

27. Leases

The Company leases its head office and branches under operating lease. 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.

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

Lease related transactions are as follows:

	2018	2017
Rent expense	**P352,202**	P253,045
Nonrefundable security deposits	**94,181**	70,962
Prepaid rent	**87,885**	76,258

Future minimum lease payments are payable as follows:

	2018	2017
Less than one year	**P318,793**	P195,580
Between one and five years	**451,869**	289,172
	P770,662	P484,752

28. Equity

The details of this account are as follows:

	2018	2017
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 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.

On March 30, 2017, the BOD of the Company declared cash dividends amounting to P764.71 million or P152.94 per share. This was approved by the IC on April 20, 2017 and was paid on May 26, 2017. On September 22, 2017 additional cash dividends were declared by the BOD of the Company amounting to P941.18 million or P188.24 per share. This was approved by the IC on October 10, 2017 and was paid on November 14, 2017.

As at December 31, 2018, the Company's unappropriated retained earnings of P9.14 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 indicate 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. Supplementary Information Required by the Bureau of Internal Revenue (BIR) based on Revenue Regulation No. 15-2010

In addition to the disclosures mandated under PFRS, 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 PFRS.

The following is the tax information required for the taxable year ended December 31, 2018:

A. Documentary Stamp Tax

On others	**P20,741,970**

B. Withholding Taxes

Creditable withholding taxes	**P398,402,743**
Final withholding taxes	**413,703,815**
Tax on compensation and benefits	**201,658,469**
	P1,013,765,027

C. All Other Taxes (Local and National)

Premiums tax	**P93,712,356**
License and permit fees	**36,215,150**
Fringe benefits tax	**7,884,285**
Real estate taxes	**85,919**
	P137,897,710

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, 2018.

KPMG

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
Email ph-inquiry@kpmg.com.ph

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, 2018, on which we have rendered our report dated March 14, 2019.

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 following accompanying additional components is the responsibility of the Company's management.

- Reconciliation of Retained Earnings Available for Dividend Declaration; and
- Schedule of Philippine Financial Reporting Standards

The supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, 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 7333620
Issued January 3, 2019 at Makati City

March 14, 2019
Makati City, Metro Manila

ANNEX 68-C
RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION AS OF DECEMBER 31, 2018

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	**P10,544,080,060**
Add: Net income actually earned/realized during the period	**1,294,107,146**
Net income during the period closed to Retained Earnings	**11,838,187,206**
Less: Non-actual/unrealized income net of tax	-
Equity in net income if associate/joint venture	-
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents) Unrealized actuarial gain	**53,022,758**
Fair value adjustment (M2M gains)	**(946,333,695)**
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	**(893,310,937)**
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	**10,944,876,269**
Add (Less):	
Dividend declarations during the period	**(1,176,470,588)**
Appropriations of Retained Earnings during the period	**(5,488,630)**
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND	**P9,762,917,051**

PRU LIFE INSURANCE CORPORATION OF U.K.

LIST OF EFFECTIVE STANDARDS AND INTERPRETATIONS SCHEDULE OF ALL PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRSs) [WHICH CONSIST OF PFRSs, PHILIPPINE ACCOUNTING STANDARDS (PASs) AND PHILIPPINE INTERPRETATIONS] EFFECTIVE AND NOT EFFECTIVE AS AT DECEMBER 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of DECEMBER 31, 2018		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: First-time Adoption of Philippine Financial Reporting Standards - Repeated Application of PFRS 1			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Borrowing Cost Exemption			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: PFRS version that a first-time adopter can apply			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Deletion of short-term exemptions for first-time adopters			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Meaning of 'vesting condition'			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Classification and measurement of contingent consideration			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope exclusion for the formation of joint arrangements			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of DECEMBER 31, 2018		Adopted	Not Adopted	Not Applicable
PFRS 4	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts	✓		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Changes in method for disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: 'Continuing involvement' for servicing contracts			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Offsetting disclosures in condensed interim financial statements			✓
PFRS 8	Operating Segments			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Disclosures on the aggregation of operating segments			✓
PFRS 9	Financial Instruments (2014)		✓*	
	Amendments to PFRS 9: Prepayment Features with Negative Compensation		✓*	
PFRS 10	Consolidated Financial Statements	✓**		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓

** This standard will be effective for annual periods beginning on or after January 1, 2023 and was not adopted by the Company. The Company availed of the temporary deferment of this standard.*

*** The Company adopted this standard but availed of the exemption for consolidation.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of DECEMBER 31, 2018		Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Clarification of the scope of the standard			✓
PFRS 13	Fair Value Measurement	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Measurement of short-term receivables and payables	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope of portfolio exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓***		
PFRS 16	Leases		✓****	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of Financial Statements - Comparative Information beyond Minimum Requirements			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes			✓
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		

**** The Company adopted this standard however, none of the Company's current revenue streams is within the scope of this standard.*

***** This standard will be effective for annual periods beginning on or after January 1, 2019 and was not adopted early by the Company.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of DECEMBER 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
PAS 16	Property, Plant and Equipment	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Property, Plant and Equipment - Classification of Servicing Equipment			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue			✓
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Discount rate in a regional market sharing the same currency - e.g. the Eurozone			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Definition of 'related party'	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of DECEMBER 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Measuring an associate or joint venture at fair value			✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Financial Instruments Presentation - Income Tax Consequences of Distributions			✓
PAS 33	Earnings per Share			✓
PAS 34	Interim Financial Reporting			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Interim Financial Reporting - Segment Assets and Liabilities			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Disclosure of information "elsewhere in the interim financial report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of DECEMBER 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40 (Amendment to PAS 40)			✓
	Amendments to PAS 40: Transfers of Investment Property			✓
PAS 41	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of DECEMBER 31, 2018		Adopted	Not Adopted	Not Applicable
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration			✓
IFRIC 23	Uncertainty over Income Tax Treatments		✓****	
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓
Philippine Interpretations Committee Questions and Answers				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 - Revenue recognition for sales of property units under pre-completion contracts			✓
PIC Q&A 2006-02	PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements	✓		
PIC Q&A 2007-01-Revised	PAS 1.103(a) - Basis of preparation of financial statements if an entity has not applied PFRSs in full			✓
PIC Q&A 2007-02	PAS 20.24.37 and PAS 39.43 - Accounting for government loans with low interest rates [see PIC Q&A No. 2008-02]			✓
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)			✓
PIC Q&A 2007-04	PAS 101.7 - Application of criteria for a qualifying NPAE			✓
PIC Q&A 2008-01-Revised	PAS 19.78 - Rate used in discounting post-employment benefit obligations	✓		
PIC Q&A 2008-02	PAS 20.43 - Accounting for government loans with low interest rates under the amendments to PAS 20			✓
PIC Q&A 2009-01	Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern			✓
PIC Q&A 2009-02	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines	✓		

***** This standard will be effective for annual periods beginning on or after January 1, 2019 and was not adopted early by the Company.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of DECEMBER 31, 2018		Adopted	Not Adopted	Not Applicable
PIC Q&A 2010-01	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines	✓		
PIC Q&A 2010-02	PAS 1R.16 - Basis of preparation of financial statements	✓		
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term loan			✓
PIC Q&A 2011-01	PAS 1.10(f) - Requirements for a Third Statement of Financial Position			✓
PIC Q&A 2011-02	PFRS 3.2 - Common Control Business Combinations			✓
PIC Q&A 2011-03	Accounting for Inter-company Loans			✓
PIC Q&A 2011-04	PAS 32.37-38 - Costs of Public Offering of Shares			✓
PIC Q&A 2011-05	PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost			✓
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property - Acquisition of Investment properties - asset acquisition or business combination?			✓
PIC Q&A 2012-01	PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements			✓
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building			✓
PIC Q&A 2013-01	Applicability of SMEIG Final Q&As on the Application of IFRS for SMEs to Philippine SMEs			✓
PIC Q&A 2013-02	Conforming Changes to PIC Q&As - Cycle 2013			✓
PIC Q&A 2013-03 (Revised)	PAS 19 - Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law	✓		
PIC Q&A 2015-01	Conforming Changes to PIC Q&As - Cycle 2015			✓
PIC Q&A 2016-01	Conforming Changes to PIC Q&As - Cycle 2016			✓
PIC Q&A 2016-02	PAS 32 and PAS 38 - Accounting Treatment of Club Shares Held by an Entity	✓		
PIC Q&A 2016-04	Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-Completion Contracts			✓
PIC Q&A 2017-01	Conforming Changes to PIC Q&As - Cycle 2017			✓
PIC Q&A 2017-02	PAS 2 and PAS 16 - Capitalization of operating lease cost as part of construction costs of a building			✓
PIC Q&A 2017-03	PAS 28 - Elimination of profits and losses resulting from transactions between associates and/or joint ventures			✓
PIC Q&A 2017-04	PAS 24 - Related party relationships between parents, subsidiary, associate and non-controlling shareholder	✓		
PIC Q&A 2017-05	PFRS 7 - Frequently asked questions on the disclosure requirements of financial instruments under PFRS 7, Financial Instruments: Disclosures	✓		
PIC Q&A 2017-06	PAS 2, 16 and 40 - Accounting for Collector's Items			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of DECEMBER 31, 2018		Adopted	Not Adopted	Not Applicable
PIC Q&A 2017-07	PFRS 10 - Accounting for reciprocal holdings in associates and joint ventures			✓
PIC Q&A 2017-08	PFRS 10 - Requirement to prepare consolidated financial statements where an entity disposes of its single investment in a subsidiary, associate or joint venture			✓
PIC Q&A 2017-09	PAS 17 and Philippine Interpretation SIC-15 - Accounting for payments between and among lessors and lessees	✓		
PIC Q&A 2017-10	PAS 40 - Separation of property and classification as investment property			✓
PIC Q&A 2017-11	PFRS 10 and PAS 32 - Transaction costs incurred to acquire outstanding non-controlling interest or to sell non-controlling interest without a loss of control			✓
PIC Q&A 2017-12	Subsequent Treatment of Equity Component Arising from Intercompany Loans			✓
PIC Q&A 2018-01	Voluntary changes in accounting policy			✓
PIC Q&A 2018-02	Non-controlling interests and goodwill impairment test			✓
PIC Q&A 2018-03	Fair value of PPE and depreciated replacement cost			✓
PIC Q&A 2018-04	Inability to measure fair value reliably for biological assets within the scope of PAS 41			✓
PIC Q&A 2018-05	Maintenance requirement of an asset held under lease			✓
PIC Q&A 2018-06	Cost of investment in subsidiaries in SFS when pooling is applied			✓
PIC Q&A 2018-07	Cost of an associate, joint venture, or subsidiary in separate financial statements			✓
PIC Q&A 2018-08	Accounting for the acquisition of non-wholly owned subsidiary that is not a business			✓
PIC Q&A 2018-09	Classification of deposits and progress payments as monetary or non-monetary items			✓
PIC Q&A 2018-10	Scope of disclosure of inventory write-down			✓
PIC Q&A 2018-11	Classification of land by real estate developer			✓
PIC Q&A 2018-12	PFRS 15 implementation issues affecting the real estate industry			✓
PIC Q&A 2018-13	Conforming Changes to PIC Q&As - Cycle 2018			✓
PIC Q&A 2018-14	PFRS 15 - Accounting for Cancellation of Real Estate Sales			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of DECEMBER 31, 2018		Adopted	Not Adopted	Not Applicable
PIC Q&A 2018-15	AS 1- Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current			✓
PIC Q&A 2018-16	PFRS 13 - Level of fair value hierarchy of government securities using Bloomberg's standard rule on fair value hierarchy	✓		

Legend:

Adopted *- means a particular standard or interpretation is relevant to the operations of the entity (even if it has no effect or no material effect on the financial statements), for which there may be a related particular accounting policy made in the financial statements and/or there are current transactions the amounts or balances of which are disclosed on the face or in the notes of the financial statements.*

Not Adopted *- means a particular standard or interpretation is effective but the entity did not adopt it due to either of these two reasons: 1) The entity has deviated or departed from the requirements of such standard or interpretation; or 2) The standard provides for an option to early adopt it but the entity decided otherwise.*

Not Applicable *- means the standard or interpretation is not relevant at all to the operations of the entity.*