The Manufacturers Life Insurance Co. (Phils.), Inc.

(A Wholly Owned Subsidiary of The Manufacturers Life Insurance Company - Canada)

Parent Company Financial Statements
December 31, 2018 and 2017

and

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
The Manufacturers Life Insurance Co. (Phils.), Inc.

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of The Manufacturers Life Insurance Co. (Phils.), Inc. (the Company), which comprise the parent company statements of financial position as at December 31, 2018 and 2017, and the parent company statements of income, parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company 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 parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Parent Company Financial Statements

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

In preparing the parent company financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

The supplementary information required under Revenue Regulations 15-2010 for purposes of filing with the Bureau of Internal Revenue is presented by the management of The Manufacturers Life Insurance Co. (Phils.), Inc. in a separate schedule. Revenue Regulations 15-2010 require the information to be presented in the notes to financial statements. Such information is not a required part of the basic financial statements. The information is also not required by Securities Regulation Code Rule 68. Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-4 (Group A),
November 13, 2018, valid until November 12, 2021
Tax Identification No. 163-257-145
BIR Accreditation No. 08-001998-61-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332515, January 3, 2019, Makati City

April 1, 2019

THE MANUFACTURERS LIFE INSURANCE CO. (PHILS.), INC.
(A Wholly-Owned Subsidiary of The Manufacturers Life Insurance Company - Canada)

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Cash and Cash Equivalents (Note 4)	**₱3,080,640,436**	₱1,810,466,019
Insurance Receivables (Note 25)	**140,660,107**	136,609,502
Financial Assets (Note 5)		
Financial assets at fair value through profit or loss	**45,451,845,602**	43,987,965,569
Available-for-sale financial assets	**37,355,870,822**	42,679,934,539
Loans and receivables	**6,279,732,258**	6,173,258,795
Accrued Income (Note 7)	**534,966,644**	549,137,344
Reinsurance Assets (Notes 13 and 26)	**1,064,318,029**	964,334,790
Investments in Subsidiaries (Note 8)	**1,427,329,688**	2,091,298,983
Property and Equipment (Note 9)	**560,062,939**	262,916,219
Intangible Assets (Note 10)	**29,883,200**	37,354,000
Other Assets (Note 11)	**174,612,701**	84,975,701
	₱96,099,922,426	₱98,778,251,461
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 12 and 13)	**₱74,767,348,135**	₱77,210,905,009
Policyholders' dividends (Note 25)	**3,617,297,406**	3,790,613,701
Insurance payables (Note 25)	**1,345,759,886**	822,975,000
Premium deposit fund (Note 25)	**36,653,595**	39,923,559
Accounts payable and accrued expenses (Note 14)	**1,924,181,718**	1,831,643,374
Due to related parties (Note 26)	**660,753,922**	411,431,928
Pension liability (Note 23)	–	14,775,243
Total Liabilities	**82,351,994,662**	84,122,267,814
Equity		
Capital stock (Notes 16 and 28)	**930,000,000**	930,000,000
Additional paid-in capital (Note 16)	**50,635,817**	50,635,817
Retained earnings	**18,327,101,258**	17,105,889,317
Appropriated surplus - Negative reserves (Notes 2 and 12)	**3,430,504,839**	2,813,484,391
Remeasurement loss on policy reserves (Notes 2 and 12)	**(850,806,510)**	(5,186,623,391)
Remeasurement gain on pension plan (Note 23)	**37,204,644**	12,997,291
Reserve for fluctuation in value of available-for-sale financial assets (Note 5)	**(8,176,712,284)**	(1,070,399,778)
Total Equity	**13,747,927,764**	14,655,983,647
	₱96,099,922,426	₱98,778,251,461

See accompanying Notes to Parent Company Financial Statements.

THE MANUFACTURERS LIFE INSURANCE CO. (PHILS.), INC.
(A Wholly-Owned Subsidiary of The Manufacturers Life Insurance Company - Canada)

PARENT COMPANY STATEMENTS OF INCOME

	Years Ended December 31	
	2018	2017
REVENUE		
Gross premiums earned on insurance contracts	**₱18,407,894,758**	₱18,192,474,472
Reinsurers' share of gross premiums earned on insurance contracts	**(726,820,908)**	(554,306,396)
Net insurance premiums earned (Note 17)	**17,681,073,850**	17,638,168,076
Investment income (Note 18)	**2,710,766,478**	2,636,696,181
Gain on sale of available-for-sale financial assets (Note 5)	**51,745,690**	284,102,976
Fair value gain (loss) on financial assets at FVPL (Note 5)	**(6,012,137)**	5,416,860
Foreign currency exchange gains	**70,171,020**	2,964,168
Fees and commission income	**1,666,444**	430,951
Other income (Note 19)	**3,110,748,763**	2,672,938,416
Total revenue	**23,620,160,108**	23,240,717,628
BENEFITS, CLAIMS AND OPERATING EXPENSES		
Gross benefits and claims incurred on insurance contracts (Note 20)	**3,423,299,765**	3,342,475,472
Reinsurers' share of benefits and claims incurred on insurance contracts (Note 20)	**(12,174,632)**	(16,491,862)
Gross change in legal policy reserves (Note 20)	**10,450,748,517**	10,310,581,849
Reinsurers' share of gross change in legal policy reserves (Note 20)	**(2,735,816)**	(2,737,133)
Dividends to policyholders	**486,431,418**	523,788,951
Net insurance benefits and claims	**14,345,569,252**	14,157,617,277
General and administrative expenses (Note 21)	**3,156,508,484**	2,772,058,864
Commissions and other direct expenses (Note 22)	**2,849,255,100**	2,564,321,206
Impairment loss on investment in subsidiary (Note 8)	**663,969,295**	–
Insurance and other taxes	**175,643,011**	104,288,194
Underwriting expenses	**10,696,993**	10,225,336
Interest on premium deposit fund	**142,062**	179,392
Total benefits, claims and operating expenses	**21,201,784,197**	19,608,690,269
INCOME BEFORE INCOME TAX	**2,418,375,911**	3,632,027,359
PROVISION FOR INCOME TAX (Note 24)	**580,143,522**	535,544,450
NET INCOME	**₱1,838,232,389**	₱3,096,482,909

See accompanying Notes to Parent Company Financial Statements.

THE MANUFACTURERS LIFE INSURANCE CO. (PHILS.), INC.
(A Wholly-Owned Subsidiary of The Manufacturers Life Insurance Company – Canada)

PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
NET INCOME	**₱1,838,232,389**	₱3,096,482,909
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that will be reclassified to profit or loss in subsequent periods:		
Net change in fair value of available-for-sale financial assets (Note 5)	**(7,106,312,506)**	(3,565,733,834)
Remeasurement gain on legal policy reserves (Note 12)	**4,335,816,881**	1,060,155,951
Item that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement gain (loss) on pension plan (Note 23)	**24,207,353**	(4,445,673)
	(2,746,288,272)	(2,510,023,556)
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱908,055,883)**	₱586,459,353

See accompanying Notes to Parent Company Financial Statements.

THE MANUFACTURERS LIFE INSURANCE CO. (PHILS.), INC.

(A Wholly-Owned Subsidiary of The Manufacturers Life Insurance Company - Canada)

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 16)	**Additional Paid-in Capital** (Note 16)	**Retained Earnings** (Notes 2)	**Appropriated Surplus - Negative Reserves** (Notes 2 and 12)	**Remeasurement Gain (Loss) on Policy Reserves** (Notes 2 and 12)	**Remeasurement Gain on Pension Plan** (Note 23)	**Reserve for Fluctuation in Value of Available-for-sale Financial Assets** (Note 5)	**Total**
As at January 1, 2018	**₱930,000,000**	**₱50,635,817**	**₱17,105,889,317**	**₱2,813,484,391**	**(₱5,186,623,391)**	**₱12,997,291**	**(₱1,070,399,778)**	**₱14,655,983,647**
Net income	**–**	**–**	**1,838,232,389**	**–**	**–**	**–**	**–**	**1,838,232,389**
Other comprehensive income (loss)	**–**	**–**	**–**	**–**	**4,335,816,881**	**24,207,353**	**(7,106,312,506)**	**(2,746,288,272)**
Total comprehensive income (loss)	**–**	**–**	**1,838,232,389**	**–**	**4,335,816,881**	**24,207,353**	**(7,106,312,506)**	**(908,055,883)**
Appropriation of negative policy reserves	**–**	**–**	**(617,020,448)**	**617,020,448**	**–**	**–**	**–**	**–**
As at December 31, 2018	**₱930,000,000**	**₱50,635,817**	**₱18,327,101,258**	**₱3,430,504,839**	**(₱850,806,510)**	**₱37,204,644**	**(₱8,176,712,284)**	**₱13,747,927,764**
As at January 1, 2017	₱930,000,000	₱50,635,817	₱14,294,185,034	₱2,528,705,765	(₱6,246,779,342)	₱17,442,964	₱2,495,334,056	₱14,069,524,294
Net income	–	–	3,096,482,909	–	–	–	–	3,096,482,909
Other comprehensive income (loss)	–	–	–	–	1,060,155,951	(4,445,673)	(3,565,733,834)	(2,510,023,556)
Total comprehensive income (loss)	–	–	3,096,482,909	–	1,060,155,951	(4,445,673)	(3,565,733,834)	586,459,353
Appropriation of negative policy reserves	–	–	(284,778,626)	284,778,626	–	–	–	–
As at December 31, 2017	₱930,000,000	₱50,635,817	₱17,105,889,317	₱2,813,484,391	(₱5,186,623,391)	₱12,997,291	(₱1,070,399,778)	₱14,655,983,647

See accompanying Notes to Parent Company Financial Statements.

THE MANUFACTURERS LIFE INSURANCE CO. (PHILS.), INC.
(A Wholly-Owned Subsidiary of The Manufacturers Life Insurance Company - Canada)

PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱2,418,375,911**	₱3,632,027,359
Adjustments for:		
Impairment loss on investment in subsidiary (Note 8)	**663,969,295**	–
Change in IBNR provision (Note 12)	**144,510,834**	72,099,347
Depreciation and amortization (Note 21)	**134,262,075**	123,487,909
Retirement costs (Note 23)	**36,183,263**	33,004,304
Change in legal policy reserves (Note 12)	**30,585,217**	(434,471,503)
Fair value loss (gain) on financial assets at fair value through profit or loss (Note 5)	**6,012,137**	(5,416,860)
Interest on premium deposit fund	**142,062**	179,392
Dividend income (Note 18)	**(24,353,180)**	(32,645,858)
Unrealized foreign currency exchange gains - net	**(46,517,826)**	(4,107,919)
Gains on sale of available-for-sale financial assets (Note 5)	**(51,745,690)**	(284,102,976)
Interest income (Note 18)	**(2,686,413,299)**	(2,604,050,323)
Operating income before changes in operating assets and liabilities	**625,010,799**	496,002,872
Decrease (increase) in:		
Insurance receivables	**(4,050,605)**	39,915,771
Loans and receivables	**(105,886,059)**	(59,340,329)
Reinsurance assets	**(99,983,239)**	(517,802,127)
Financial assets at fair value through profit or loss	**(1,421,593,123)**	(12,982,296,027)
Other assets	**(42,077,642)**	(13,304,107)
Increase (decrease) in:		
Insurance contract liabilities - unit-linked	**1,656,522,628**	11,792,834,577
Accounts payable and accrued expenses	**92,538,344**	186,760,542
Policy and contract claims, and other insurance contract liabilities (Note 12)	**60,641,328**	(20,791,774)
Policyholders' dividends	**(173,316,295)**	(295,918,615)
Insurance payables	**522,784,886**	470,906,952
Due to related parties	**249,321,994**	169,851,879
Premium deposit fund	**(3,269,964)**	(4,594,497)
Cash generated from (used in) operations	**1,356,643,052**	(737,774,883)
Interest paid	**(142,062)**	(179,392)
Contribution to retirement fund (Note 23)	**(32,284,279)**	(28,263,689)
Income taxes paid (including creditable withholding taxes)	**(622,757,158)**	(497,331,245)
Net cash provided by (used in) operating activities	**701,459,553**	(1,263,549,209)

(Forward)

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**₱2,776,275,239**	₱2,601,691,614
Proceeds from sales and/or maturities of available-for-sale financial assets (Note 5)	**1,833,917,449**	1,525,954,741
Dividends received	**23,887,565**	32,541,953
Proceeds from withdrawal of investment insurance fund - seed money	**1,700,953**	–
Acquisitions of:		
Available-for-sale financial assets (Note 5)	**(3,585,363,542)**	(3,105,783,072)
Property and equipment (Note 9)	**(423,937,995)**	(150,819,658)
Additional investment in insurance investment fund - seed money	**(50,000,000)**	(2,341,882)
Capital infusion to subsidiaries (Note 8)	–	(1,100,000,000)
Net cash provided by (used in) investing activities	**576,479,669**	(198,756,304)
EFFECT OF FOREIGN CURRENCY RATE CHANGES IN CASH AND CASH EQUIVALENTS	**(7,764,804)**	524,685
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,270,174,418**	(1,461,780,828)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,810,466,019**	3,272,246,847
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱3,080,640,436**	₱1,810,466,019

See accompanying Notes to Parent Company Financial Statements.

1. Corporate Information

The Manufacturers Life Insurance Co. (Phils.), Inc. (the Parent Company or Manulife Philippines) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on December 8, 1998. Manulife Philippines' products include life insurance, accident and other insurance products that are permitted to be sold by a life insurance company in the Philippines.

Manulife Philippines was a wholly owned subsidiary of the Philippine Branch of The Manufacturers Life Insurance Company of Canada (the Philippine Branch) until February 21, 2012.

In 2011, the Manulife Group of Insurance Companies undertook a global corporate reorganization. Pursuant to this, on September 27, 2011, the Board of Directors (BOD) of Manulife Philippines approved and ratified a resolution increasing its authorized capital stock from ₱1.00 billion, divided into 10.00 million common shares with a par value of ₱100 per share, to ₱2.00 billion, divided into 10.00 million common Class A shares with a par value of ₱100 per share, and 1.00 million common Class B shares with a par value of ₱1,000 per share. On the same date, the BOD and shareholders further approved and ratified the subscription of its principal stockholder, The Manufacturers Life Insurance Company of Canada (MLIC) for the new Common Class B shares with aggregate par value of ₱930.00 million. The Common Class B shares of ₱930.00 million will be issued by Manulife Philippines to MLIC by way of a tax free transfer of the following:

a. The 5,000,000 common Class A shares held by the Philippine Branch in exchange for 500,000 Manulife Philippines' common Class B shares with aggregate par value of ₱500.0 million;

b. Financial assets of the Philippine Branch consisting of government securities with fair value of ₱430.64 million, including accrued interest of ₱3.08 million, in exchange for 430,000 Manulife Philippines' common Class B shares with aggregate par value of ₱430.0 million.

On February 16, 2012, the SEC confirmed MLIC's subscription of ₱930.00 million common Class B shares of Manulife Philippines and the redemption of ₱500.00 million common Class A shares of Manulife Philippines.

On February 22, 2012, Manulife Philippines completed the above transaction and became a direct wholly owned subsidiary of MLIC.

On February 24, 2012, the BOD subsequently amended its authorized capital stock to reduce it from ₱2.00 billion, divided into 10.00 million common Class A shares with a par value of ₱100 per share, and 1.00 million common Class B shares with a par value of ₱1,000 per share, to 1.00 million common shares with a par value of ₱1,000 per share. The SEC approved the decrease in authorized capital stock on April 2, 2013 (see Note 16).

On July 2, 2012, MLIC, pursuant to the same global corporate reorganization, transferred the 930,000 Manulife Philippines common Class B shares to Manulife Century Holdings (Netherlands) B.V. ("MCHN") for additional shares issued by MCHN.

As of April 1, 2019, Manulife Philippines has not yet issued stock certificates in favor of MCHN pending the receipt of Certificate Authorizing Registration which will be issued by the Bureau of Internal Revenue (BIR). Under Philippine laws, MLIC still holds 100% of Manulife Philippines' issued and outstanding stocks.

As of December 31, 2018 and 2017, the Parent Company's subsidiaries are engaged in the following businesses:

Entity	Effective Percentage of ownership	Principal Place of Business and Country of Incorporation	Line of Business
Manulife China Bank Life Assurance Corporation (MCBLAC)	60%	Philippines	Life insurance
Manulife Financial Plans, Inc. (MFPI).	100%	Philippines	Pre-need
Manulife Asset Management and Trust Corporation (MAMTC)	100%	Philippines	Asset management

On February 1, 2017, MAMTC was incorporated and registered with the SEC to engage in the business of trust, other fiduciary business and investment management activities. MAMTC was granted by the Bangko Sentral ng Pilipinas (BSP) the Certificate of Authority on June 5, 2017 and received the official notification to operate and perform trust and other fiduciary business services on June 13, 2017. On September 14, 2017, MAMTC officially commenced its operations.

The ultimate parent of the Manulife Philippines is Manulife Financial Corporation, a company incorporated in Canada.

On July 5, 2018, the BOD approved the change in principal place of business of the Parent Company to 10th Floor, NEX Tower, 6786 Ayala Avenue, Makati City. The Parent Company officially moved to this address on February 26, 2019. Prior to such date, the registered office address of the Parent Company was 16th Floor, LKG Tower, 6801 Ayala Avenue, Makati City.

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

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

Basis of Preparation

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

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

The accompanying financial statements are the Parent Company's separate financial statements. The Parent Company did not present consolidated financial statements having met the following criteria set out in PFRS 10, *Consolidated Financial Statements*:

(a) The Parent Company is a wholly-owned subsidiary of The Manufacturers Life Insurance Company of Canada and its owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the Parent Company not presenting consolidated financial statements;

(b) The Parent Company's 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);

(c) The Parent Company 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

(d) The ultimate parent of the Parent Company produces consolidated financial statements that are available for public use that comply with International Financial Reporting Standards (IFRS).

Based on PIC Q&A No. 2006-02, *Clarification of Criteria for Exemption from Presenting Consolidated Financial Statements*, the Parent Company has met criterion (d) above and is exempt from preparing consolidated financial statements given its ultimate parent produces consolidated financial statements which are available for public use that comply with IFRS.

Manulife Financial Corporation, the Parent Company's ultimate parent, is a publicly traded life insurance company and prepares consolidated financial statements in accordance with IFRS. MFC's consolidated financial statements, which include the financial statements of the Parent Company, can be obtained from Manulife Financial Corporation Annual Report, which is available in www.manulife.com.

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

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

<u>Amendments</u>

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

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*

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

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

<u>*Philippine Interpretation*</u>
- IFRIC 22, *Foreign Currency Transaction and Advance Consideration*

<u>*New Standards*</u>
- PFRS 9, *Financial Instruments*

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

  The assessment on whether a reporting entity's activities are predominantly connected with insurance is based on the liabilities connected with insurance in proportion to the entity's total liabilities.

  The predominance assessment is performed using the carrying amounts of liabilities reported on the statement of financial position at the annual reporting date after March 31, 2015 and before April 1, 2016. Applying the requirements, the Parent Company performed the predominance assessment using the statement of financial position as of December 31, 2015. The Parent Company concluded that it qualified for the temporary exemption from PFRS 9 because its activities are predominantly connected with insurance. As of December 31, 2015, the Parent Company's gross liabilities arising from contracts within the scope of PFRS 4 represented 98% of the total carrying amount of all its liabilities. Since December 31, 2015, there has been no change in the activities of the Parent Company that requires reassessment of the use of the temporary exemption.

Fair value disclosures

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

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

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

	SPPI financial assets		Other financial assets	
	Fair value	Fair value change	Fair value	Fair value change
AFS financial assets				
Quoted debt securities:				
Government bonds	₱33,951,073,740	(₱6,622,416,412)	₱–	₱–
Corporate bonds	1,594,090,970	(216,494,451)	–	–
Unit Investment Trust Funds (UITFs)	–	–	183,813,074	(8,158,926)
Quoted equity securities:				
Common shares	–	–	1,562,743,038	(276,842,717)
Club shares	–	–	64,150,000	17,600,000
Financial assets designated at FVPL*				
Debt securities held in insurance investment funds (IIFs)				
Government bonds	–	–	12,027,961,218	(452,550,193)
Corporate bonds	–	–	1,171,603,026	(39,608,534)
UITFs	–	–	3,417,660,575	(216,153,992)
Equity securities held in IIFs				
Common stock	–	–	24,238,830,794	(2,702,902,385)
Other equity securities	–	–	4,595,789,989	(134,520,977)
Loans and receivables				
Policy loans	3,536,498,966	–	–	–
Due from related parties	1,809,597,891	–	–	–
Receivable from agents - net	242,372,759	–	–	–
Corporate loan	200,000,000	–	–	–
Security deposits	119,013,268	–	–	–
Due from officers and employees	53,118,180	–	–	–
Mortgage loans	4,627,874	–	–	–
Other receivables	314,503,320	–	–	–
	₱41,824,896,968	(₱6,838,910,863)	₱47,262,551,714	(₱3,813,137,724)

* *The fair value changes on financial assets designated at FVPL that are attributable to the unit-linked holders are recognized as part of "Due to unit-linked holders" (see Note 12). The fair value changes attributable to the seed capital is recognized in the Parent Company statements of income as "Fair value gain (loss) on financial assets at FVPL".*

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

		Credit Rating		
	Total	**BBB**	**BB/B**	**Unrated**
AFS debt financial assets				
Government bonds	₱33,951,073,740	₱33,951,073,740	₱–	₱–
Corporate bonds	1,594,090,970	702,331,287	891,759,683	–
Loans and receivables				
Policy loans	3,536,498,966	–	-	3,536,498,966
Due from related parties	1,809,597,891	–	-	1,809,597,891
Receivable from agents - gross	261,036,495	–	-	261,036,495
Corporate loan	200,000,000	200,000,000	-	–
Security deposits	119,013,268	–	-	119,013,268
Due from officers and employees	53,118,180	–	-	53,118,180
Mortgage loans	4,627,874	–	-	4,627,874
Other receivables	314,503,320	–	-	314,503,320
	₱41,843,560,704	₱34,853,405,027	₱891,759,683	₱6,098,395,994

- PFRS 15, *Revenue from Contracts with Customers*

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

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

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

Future Changes in Accounting Policies

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

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

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

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

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

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

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

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- *Annual Improvements to PFRSs* 2015-2017 Cycle
  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Effective beginning on or after January 1, 2020

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

Effective beginning on or after January 1, 2022

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:
  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted. The Parent Company is currently assessing the impact of adopting PFRS 17.

Deferred effectivity
- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.*

<u>Product Classification</u>
Insurance contracts are defined as those contracts under which the Parent Company (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder.

As a general guideline, the Parent Company defines significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index, or other variable. Investment contracts mainly transfer significant financial risk but can also transfer insignificant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or have expired. Investment contracts can, however, be reclassified as insurance contracts after inception if the insurance risk becomes significant.

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

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

Cash and Cash Equivalents

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

Insurance Receivables

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

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

Financial Instruments

Date of recognition

The Parent Company recognizes a financial asset or a financial liability in its parent company statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the trade date.

Initial recognition

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

The Parent Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Parent Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Parent Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial instruments at FVPL

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

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

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

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

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

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

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

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

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

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

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

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, nor designated as AFS or at FVPL. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the parent company statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

As of December 31, 2018 and 2017, the Parent Company's loans and receivables represent cash and cash equivalents, insurance receivables, accrued income, policy loans, mortgage loans, corporate loans, receivable from agents, due from related parties, accounts receivable, security deposits, due from officers and employees and other receivables.

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

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

The Parent Company's AFS financial assets consist of peso and dollar-denominated government and corporate debt securities, and quoted and unquoted equity securities.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the parent company statement of income. Other financial liabilities include the Parent Company's insurance payables, accounts payable and accrued expenses, premium deposit fund, policyholders' dividends, due to related parties and other liabilities.

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt if it has a contractual obligation to:

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

If the Parent Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the parent company statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset

and settle the liability simultaneously. This is not generally the case with master netting agreements, thus, the related assets and liabilities are presented gross in the parent company statement of financial position.

Impairment of Financial Assets

The Parent Company assesses at each reporting date whether there is objective evidence that 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 there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Parent 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 Parent Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

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

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

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

AFS Financial assets carried at fair value

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

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Investment income' in the parent company statement of income. If, in a subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the parent company statement of income, the impairment loss is reversed through the parent company statement of income.

AFS financial assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:
- the right to receive cash flows from the asset has expired;
- the Parent 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 Parent Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Parent 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 Parent 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 Parent Company could be required to repay.

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

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

Reinsurance Assets
The Parent Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

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

In modified coinsurance (quota share) treaties, the Parent Company records as reinsurance premiums the reinsurer's proportionate share in benefits reinsured for the covered policies. Reinsurance allowances due from the reinsurers, on the other hand, are recorded under "Other income" (see Note 19).

Investments in Subsidiaries
Investment in subsidiaries is accounted for using the cost method in the parent company financial statements. A subsidiary is an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent). 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 to direct the relevant activities of the entity.

The investment in subsidiary is carried in the statement of financial position at cost less any impairment in value. The Parent Company recognizes income from the investment only to the extent that the Parent Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as recovery of investment and are recognized as a reduction of the cost of the investment.

Whenever there's a change in the ownership interest of a subsidiary due to sale, any difference between the carrying amount of the subsidiary and the proceeds from disposal is recognized in profit or loss.

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

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

Depreciation and amortization are computed on a straight-line method over the estimated useful lives (EUL) of the properties as follows:

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

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

The assets’ useful lives and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the parent company statement of income in the year the item is derecognized.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. The Parent Company has no intangible assets with indefinite lives.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the parent company statement of income in the expense category consistent with the function of the intangible asset.

The Parent Company’s intangible assets pertain to the costs of assumed policies arising from Assumption Reinsurance Agreement. Such intangible assets have an estimated useful life of 20 years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the parent company statement of income when the asset is derecognized.

Creditable withholding tax

Creditable withholding tax pertains to the indirect tax paid by the Company that is withheld by suppliers, service providers and clients of the Company for purchase of goods or services. These CWTs are initially recorded at cost as an asset under “Other assets” account.

At each end of the tax reporting deadline, these CWTs may either be offset against future tax income payable or be claimed as a refund from the taxation authorities at the option of the Company.

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

Pension Asset

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

Accordingly, the Parent 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 Parent Company determines the net interest expense (income) on the net DB liability (asset) for the period by applying the discount rate used to measure the DB obligation at the beginning of the annual period to the then net DB liability (asset), taking into account any changes in the net DB liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the DB plan are recognized in profit or loss.

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

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

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

Impairment of Nonfinancial Assets
The carrying values of non-financial assets (i.e., property and equipment, intangible assets and investments in subsidiaries) are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the parent company statement of income.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the parent company statement of income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

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

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

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

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

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

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

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

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

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

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

IIFs primarily include investments in debt securities, equities, short-term investments and cash and cash equivalents. The methodology applied to determine the fair value of the investments held in these funds is consistent with that applied to investments held by general fund. Reserve for unit-linked liabilities is measured based on the value of the IIFs attributable to the policyholders.
The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to its total number of outstanding units multiplied by the net asset value per unit (NAVPU). The NAVPU is the market value of the fund divided by its total number of outstanding units.

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

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

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

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

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

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

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

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

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

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

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

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

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

Other income
Income from other sources is recognized when earned.

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

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

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

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

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

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

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

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

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

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

<u>Expense Recognition</u>
Expenses are recognized in the parent company statement of income when incurred. These are recognized in the parent company statement of income:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the parent company statement of financial position as an asset.

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

<u>Commission Expenses</u>
Commission expenses are charged against operations when incurred.

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

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

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

Company as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the profit and loss on a straight-line basis over the lease term. Indirect costs incurred in negotiating an

operating lease are added to the carrying value of the leased asset and recognized over the lease term on the same basis as the lease income. Minimum lease payments are recognized on a straight-line basis while the variable rent is recognized as an expense based the terms of the leased contract.

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

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

Nonmonetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of nonmonetary items measured at fair value is treated in line with the recognition of a gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

Income Tax
Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at the reporting date.

Deferred tax
Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income tax relate to the same taxable entity and the same taxation authority.

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

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

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

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

Operating lease - Parent Company as lessee
The Parent Company has entered into lease agreements related to various properties for its head office premises and agency offices. Based on an evaluation of the terms and conditions of the lease agreements, there will be no transfer of ownership of assets to the Parent Company at the end of the lease term. The lessors retain all significant risks and reward of ownership of these properties and so the Parent Company accounts for the agreements as operating leases (see Note 27).

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

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

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

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

In accordance with the provision of the Code, estimates for future deaths, voluntary terminations, investment returns and administration expenses are determined at the inception of the contract and are used to calculate the liability over the term of the contract. At each reporting date, these estimates are reassessed for adequacy and changes will be reflected in the adjustments to the liability. The interest rates used to discount future liabilities are based on the published rates by the Insurance Commission, which are in turn based on the BVAL PHP Reference Rates in 2018 (PDST-R2 Reference Rates in

2017) and International Yield Curve (IYC), for peso- and US dollar (USD)-denominated policies, respectively.

The carrying value of the legal policy reserves amounted to ₱73.66 billion and ₱76.31 billion as of December 31, 2018 and 2017, respectively (see Note 12).

Impairment of nonfinancial assets
The Parent Company assesses the impairment of its nonfinancial assets (i.e., property and equipment, intangible assets and investments in subsidiaries) whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

The factors that the Parent Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the assets; and
- significant negative industry or economic trends.

The Parent Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher between the asset's fair value less cost to sell and value in use. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

As of December 31, 2018 and 2017, the carrying values of investments in subsidiaries, property and equipment and intangible assets follow:

	2018	2017
Investments in subsidiaries (Note 8)	**₱1,427,329,688**	₱2,091,298,983
Property and equipment (Note 9)	**560,062,939**	262,916,219
Intangible assets (Note 10)	**29,883,200**	37,354,000

In 2018, the Parent Company recognized impairment loss on its investment in a subsidiary amounting to ₱663.97 million. Details of the assumptions used in calculating the recoverable amount are disclosed in Note 8.

Estimation of allowance for impairment losses
The Parent Company reviews its loans and receivables at each reporting date to assess whether an allowance for impairment losses should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The Parent Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, age of balances, financial status of counterparties, the length of the Parent Company's relationship with the debtors, the debtor's payment behavior, legal opinion on recoverability in case of legal disputes and known market factors. The Parent Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis.

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

As of December 31, 2018 and 2017, the carrying value of loans and receivables amounted to ₱6.28 billion and ₱6.17 billion, respectively after deducting allowance for impairment losses amounting to ₱18.66 million and ₱18.29 million, respectively (see Note 5).

Impairment of AFS equity investments
The Parent Company treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Parent Company treats 'significant' generally as 20% or more and 'prolonged' as greater than 12 months for quoted equity investments.

In addition, the Parent Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate also when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, changes in technology and operational and financing cash flows.

The amount and timing of recorded expenses for any period would differ if the Parent Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

As of December 31, 2018 and 2017, the carrying value of AFS equity investments amounted to ₱1.63 billion and ₱2.06 billion, respectively (see Note 5).

Estimated useful lives of property and equipment and intangible assets
The Parent Company reviews annually the estimated useful lives of property and equipment and intangible assets based on the period over which the assets are expected to be available for use. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment and intangible assets would increase recorded depreciation and amortization expense and decrease the related asset accounts.

As of December 31, 2018, the carrying values of property and equipment and intangible assets amounted to ₱560.06 million and ₱29.88 million, respectively. As of December 31, 2017, the carrying values of property and equipment and intangible assets amounted to ₱262.92 million and ₱37.35 million, respectively (see Notes 9 and 10).

Recognition of pension asset/liability
The cost of defined benefit pension plan as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The Parent Company recognized ₱4.95 million pension asset and ₱14.78 million pension liability as of December 31, 2018 and 2017, respectively (see Note 23).

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

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

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

Further details about the assumptions used are provided in Note 23.

Recognition of deferred tax assets
Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. See Note 24 for related balances.

Contingencies
The Parent Company is currently involved in various proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Parent Company's defense in these matters and is based upon an analysis of potential results. The Parent Company currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 15).

4. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand:		
Petty cash fund	**₱842,241**	₱829,982
Cash in commercial banks	**1,023,207,266**	577,144,063
Short-term deposits in commercial banks	**410,477,215**	66,781,700
	₱1,434,526,722	₱644,755,745
Cash held in IIFs (Note 6):		
Cash in banks	**₱1,287,825,185**	₱1,135,828,014
Short-term deposits	**358,288,529**	29,882,260
	1,646,113,714	1,165,710,274
	₱3,080,640,436	₱1,810,466,019

Cash in banks earns interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Parent Company and earn interest at the prevailing short-term deposit rates.

5. **Financial Assets**

The Parent Company's financial assets are summarized as follows:

	2018	2017
AFS financial assets	**₱37,355,870,822**	₱42,679,934,539
Financial assets designated at FVPL	**45,451,845,602**	43,987,965,569
Loans and receivables	**6,279,732,258**	6,173,258,795
	₱89,087,448,682	₱92,841,158,903

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

a) *AFS financial assets*

	2018	2017
Quoted debt securities:		
Government bonds	**₱33,951,073,740**	₱39,131,627,729
Corporate bonds	**1,594,090,970**	1,476,586,534
Unit investment trust funds (UITFs)	**183,813,074**	16,692,480
Quoted equity securities:		
Common shares	**1,562,743,038**	2,008,477,796
Club shares	**64,150,000**	46,550,000
	₱37,355,870,822	₱42,679,934,539

The rollforward analysis of AFS financial assets follows:

	2018	2017
Balance at beginning of year	**₱42,679,934,539**	₱44,437,750,576
Additions	**3,585,363,542**	3,105,783,072
Disposals/maturities	**(1,833,917,449)**	(1,525,954,741)
Net premium amortization	**(75,225,625)**	(59,513,079)
Fair value losses recognized in other comprehensive income	**(7,054,566,816)**	(3,281,630,858)
Foreign currency exchange adjustments	**54,282,631**	3,499,569
Balance at end of year	**₱37,355,870,822**	₱42,679,934,539

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

	2018	2017
Balance at beginning of year	**(₱1,070,399,778)**	₱2,495,334,056
Change in fair value of available-for-sale financial assets	**(7,054,566,816)**	(3,281,630,858)
Realized gains transferred to the statements of income	**(51,745,690)**	(284,102,976)
Net change during the year	**(7,106,312,506)**	(3,565,733,834)
Balance at end of year	**(₱8,176,712,284)**	(₱1,070,399,778)

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

		From	**To**
2018	**Government bonds**	**3.38%**	**18.25%**
	Corporate bonds	**3.92%**	**6.08%**
2017	Government bonds	3.63%	18.25%
	Corporate bonds	3.92%	5.28%

AFS government securities with total face value of ₱137.50 million and aggregate market value of ₱200.92 million and ₱282.04 million as of December 31, 2018 and 2017, respectively, are deposited with the Insurance Commission pursuant to the provisions of the Code as security for the benefit of policyholders and creditors of the Parent Company.

b) Loans and Receivables

This account consists of:

	2018	2017
Policy loans	**₱3,536,498,966**	₱3,671,267,984
Due from related parties (Note 26)	**1,809,597,891**	1,541,209,668
Receivable from agents	**261,036,495**	223,088,629
Corporate loan	**200,000,000**	200,000,000
Security deposits	**119,013,268**	102,098,114
Due from officers and employees	**53,118,180**	58,904,073
Mortgage loans	**4,627,874**	5,048,891
Accounts receivable held in IIFs (Note 6)	**–**	127,263,227
Other receivables	**314,503,320**	262,673,079
	6,298,395,994	6,191,553,665
Less allowance for impairment losses	**18,663,736**	18,294,870
	₱6,279,732,258	₱6,173,258,795

Policy loans pertain to loans issued to policyholders. A policy loan is secured by the cash surrender value of the policy. Interest rates charged range from 7% to 8% and 8% to 10% in 2018 and 2017, respectively.

Due from related parties pertain to the reinsurance agreements, cash advances for payment of operating expenses, and cost allocation for accounting and administrative expenses.

Receivable from agents pertain to amounts due from agents arising from car loans with tenors of five (5) years and interest of 8% per annum and non-interest bearing borrowings chargeable against agents' commissions.

On August 12, 2012, the Parent Company entered into a loan agreement with a local company that provides for a fixed interest rate of 5.42%. The corporate loan amounting to ₱200.00 million is collectible within seven (7) years from the date of availment. The local company may prepay all (but not part) of the loan, subject to prepayment penalty interests ranging from 0.188% to 0.375%, on any interest payment date provided, however, that there shall be no prepayment within two years from the drawdown date.

Security deposits are refundable at the end of the lease term.

Due from officers and employees consist of various loans provided to officers and employees with varying terms and interest rates. Due from officers and employees are settled through payroll deductions.

Mortgage loans earn interest ranging from 5% to 10% per annum and with maturity of 1 to 20 years.

Accounts receivable held in IIFs includes receivable on unsettled sales of equities and subscriptions. These are normally settled within one year.

Other receivables consist of inter-fund receivables, receivable from SSS and miscellaneous receivables. This also includes the outstanding non-interest bearing receivable from China Banking Corporation (CBC) for the sale in 2014 of the non-controlling interest in MCBLAC amounting to nil and ₱19.99 million as of December 31, 2018 and 2017, respectively. The receivable is collectible in sixteen (16) equal quarterly installments of ₱9,995,938, which shall be collected from MCBLAC via offsetting arrangement against the latter's commissions payable to CBC.

The rollforward analysis of the Parent Company's allowance for impairment losses based on the Parent Company's specific assessment of the individual balances of receivable from agents follows:

	2018	2017
At beginning of year	**₱18,294,870**	₱15,528,983
Provisions (Note 21)	**368,866**	2,765,887
At end of year	**₱18,663,736**	₱18,294,870

In 2018, the Parent Company directly wrote off uncollectible policy loans amounting to ₱25.25 million (see Note 21).

c) Financial assets designated at FVPL

	2018	2017
Debt securities held in IIFs (Note 6)		
Government bonds	**₱12,027,961,218**	₱13,105,437,987
Corporate bonds	**1,171,603,026**	1,866,915,217
UITFs	**3,417,660,575**	1,513,728,586
Equity securities held in IIFs (Note 6)		
Common shares	**24,238,830,794**	23,794,729,718
Other equity securities	**4,595,789,989**	3,707,154,061
	₱45,451,845,602	₱43,987,965,569

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

The net fair value change on financial assets at FVPL included in the parent company statements of income amounted to ₱6.01 million loss and ₱5.42 million gain in 2018 and 2017, respectively.

6. Insurance Investment Funds (IIFs)

The Parent Company issues unit-linked insurance contracts where the payments to policyholders are linked to investment funds set up by the Parent Company. As of December 31, 2018, the Parent Company has twenty-one (21) IIFs namely: Affluence Peso Bond Fund (Peso Fund), Affluence Peso Stable Fund (Stable Fund), Affluence Equity Fund (Equity Fund), Affluence Dollar Bond Fund (Dollar Fund), Peso Secure Fund, Peso Diversified Value Fund, Peso Growth Fund, US Dollar Secure Fund, Peso Balanced Fund, Dynamic Allocation Fund, Peso Target Income Fund, Peso Target Distribution Fund, Asia Pacific Bond Fund, Asean Growth Fund, Peso Cash Fund, Global Target Income Fund, Wealth Optimizer 2026 Fund, Wealth Optimizer 2031 Fund, Wealth Optimizer 2036 Fund, Peso Powerhouse and Emperor Fund.

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

The IIFs are set up using a fund-in-fund approach. Under this structure, the IIFs purchase units of a pool of assets, which are referred to as Underlying Funds (UFs). The UFs consist of Peso Bond Pool, Money Market Pool, Peso Equity Pool, Dollar Bond Pool, Asia Bond Pool, Asean Growth Peso Pool, Peso Cash Pool, Peso Powerhouse Pool, Global Target Income Pool, Emperor Pool (starting August 2018) and Wealth Premier Pool (until June 2018).

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

The details of the IIFs are as follows:

	December 31, 2018			
	Net assets	Due to unit-linked holders (Note 12)	Seed capital	Total
Peso Fund	**₱759,969,128**	**₱757,469,866**	**₱2,499,262**	**₱759,969,128**
Stable Fund	**711,898,037**	**709,299,365**	**2,598,672**	**711,898,037**
Equity Fund	**1,435,507,767**	**1,433,124,905**	**2,382,862**	**1,435,507,767**
Dollar Fund	**521,413,796**	**518,036,788**	**3,377,008**	**521,413,796**
Peso Secure Fund	**3,786,168,771**	**3,783,206,673**	**2,962,098**	**3,786,168,771**
Peso Diversified Value Fund	**3,890,368,152**	**3,886,934,077**	**3,434,075**	**3,890,368,152**
Peso Growth Fund	**14,077,819,992**	**14,071,382,607**	**6,437,385**	**14,077,819,992**
US Dollar Secure Fund	**1,428,200,215**	**1,420,253,447**	**7,946,768**	**1,428,200,215**
Peso Balanced Fund	**349,540,980**	**347,509,330**	**2,031,650**	**349,540,980**
Dynamic Allocation Fund	**4,493,984,709**	**4,491,982,283**	**2,002,426**	**4,493,984,709**
Peso Target Income Fund	**194,730,738**	**193,035,149**	**1,695,589**	**194,730,738**
Peso Target Distribution Fund	**2,202,793,142**	**2,201,117,519**	**1,675,623**	**2,202,793,142**
Asia Pacific Bond Fund	**887,044,705**	**884,871,275**	**2,173,430**	**887,044,705**
Asean Growth Fund	**3,253,350,308**	**3,250,901,059**	**2,449,249**	**3,253,350,308**
Peso Cash Fund	**₱169,236,461**	**₱168,231,555**	**1,004,906**	**₱169,236,461**
Global Target Income Fund	**3,961,868,238**	**3,959,626,005**	**2,242,233**	**3,961,868,238**
Wealth Optimizer 2026 Fund	**357,688,649**	**355,763,466**	**1,925,183**	**357,688,649**
Wealth Optimizer 2031 Fund	**100,025,015**	**98,085,988**	**1,939,027**	**100,025,015**
Wealth Optimizer 2036 Fund	**151,093,307**	**149,150,935**	**1,942,372**	**151,093,307**
Peso Powerhouse	**4,041,511,201**	**4,039,459,435**	**2,051,766**	**4,041,511,201**
Emperor Fund	**303,493,599**	**254,692,339**	**48,801,260**	**303,493,599**
	₱47,077,706,910	**₱46,974,134,066**	**₱103,572,844**	**₱47,077,706,910**

	December 31, 2017			
	Net assets	Due to unit-linked holders (Note 12)	Seed capital	Total
Peso Fund	₱820,335,630	₱817,749,071	₱2,586,559	₱820,335,630
Stable Fund	783,053,910	780,301,451	2,752,459	783,053,910
Equity Fund	1,690,190,153	1,687,434,630	2,755,523	1,690,190,153
Dollar Fund	555,728,609	552,435,791	3,292,818	555,728,609
Peso Secure Fund	3,950,381,899	3,947,308,645	3,073,254	3,950,381,899
Peso Diversified Value Fund	4,244,782,346	4,241,125,711	3,656,635	4,244,782,346
Peso Growth Fund	13,377,106,827	13,369,644,071	7,462,756	13,377,106,827
US Dollar Secure Fund	1,596,014,920	1,588,246,825	7,768,095	1,596,014,920
Peso Balanced Fund	433,012,317	430,759,820	2,252,497	433,012,317
Dynamic Allocation Fund	4,980,192,749	4,977,967,406	2,225,343	4,980,192,749
Peso Target Income Fund	199,044,466	197,192,949	1,851,517	199,044,466
Peso Target Distribution Fund	2,637,836,411	2,636,002,502	1,833,909	2,637,836,411
Asia Pacific Bond Fund	1,076,832,083	1,074,689,003	2,143,080	1,076,832,083
Asean Growth Fund	3,491,829,973	3,489,296,518	2,533,455	3,491,829,973
Peso Cash Fund	419,373,086	418,367,695	1,005,391	419,373,086
Wealth Premier Fund	31,791,668	30,090,715	1,700,953	31,791,668
Global Target Income Fund	2,728,637,806	2,726,183,982	2,453,824	2,728,637,806
Wealth Optimizer 2026 Fund	358,524,484	356,351,062	2,173,422	358,524,484
Wealth Optimizer 2031 Fund	59,864,667	57,635,302	2,229,365	59,864,667
Wealth Optimizer 2036 Fund	84,586,300	82,350,258	2,236,042	84,586,300
Peso Powerhouse	1,858,819,911	1,856,478,028	2,341,883	1,858,819,911
	₱45,377,940,215	₱45,317,611,435	₱60,328,780	₱45,377,940,215

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

	December 31, 2018											
	Peso Bond Pool	Peso Money Market Pool	Peso Equity Pool	Peso Cash Pool	USD Bond Pool	Asia Bond Pool	Asean Growth Pool	Global Target Income Pool	Peso Powerhouse Pool	Emperor Pool	Accrued Management Fees	Total
Peso Fund	₱760,953,055	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	(₱983,927)	₱759,969,128
Stable Fund	565,008,426	147,963,147	–	–	–	–	–	–	–	–	(1,073,536)	711,898,037
Equity Fund	1,437,984,217	–	–	–	–	–	–	–	–	–	(2,476,450)	1,435,507,767
Dollar Fund	–	–	–	–	522,195,215	–	–	–	–	–	(781,419)	521,413,796
Peso Secure Fund	3,791,872,675	–	–	–	–	–	–	–	–	–	(5,703,904)	3,786,168,771
Peso Diversified Value Fund	3,152,792,884	744,259,487	–	–	–	–	–	–	–	–	(6,684,219)	3,890,368,152
Peso Growth Fund	14,104,963,204	–	–	–	–	–	–	–	–	–	(27,143,212)	14,077,819,992
US Dollar Secure Fund	–	–	–	–	1,430,644,959	–	–	–	–	–	(2,444,744)	1,428,200,215
Peso Balanced Fund	139,308,998	–	210,835,009	–	–	–	–	–	–	–	(603,027)	349,540,980
Dynamic Allocation Fund	1,791,609,474	–	2,711,059,100	–	–	–	–	–	–	–	(8,683,865)	4,493,984,709
Peso Target Income Fund	75,912,931	55,851,513	63,300,204	–	–	–	–	–	–	–	(333,910)	194,730,738
Peso Target Distribution Fund	858,992,604	631,992,740	716,082,228	–	–	–	–	–	–	–	(4,274,430)	2,202,793,142
Asia Pacific Bond Fund	–	–	–	–	–	888,574,853	–	–	–	–	(1,530,148)	887,044,705
Asean Growth fund	–	–	–	–	–	–	3,259,771,756	–	–	–	(6,421,448)	3,253,350,308
Peso Cash Fund	–	–	–	169,262,483	–	–	–	–	–	–	(26,022)	169,236,461
Global Target Income Fund	–	–	–	–	–	–	–	3,969,550,067	–	–	(7,681,829)	3,961,868,238
Wealth Optimizer 2026 Fund	355,238,381	3,137,145	–	–	–	–	–	–	–	–	(686,877)	357,688,649
Wealth Optimizer 2031 Fund	100,063,318	151,054	–	–	–	–	–	–	–	–	(189,357)	100,025,015
Wealth Optimizer 2036 Fund	151,243,593	137,098	–	–	–	–	–	–	–	–	(287,384)	151,093,307
Peso Powerhouse	–	–	–	–	–	–	–	–	4,048,490,276	–	(6,979,075)	4,041,511,201
Emperor Fund	–	–	–	–	–	–	–	–	–	303,991,628	(498,029)	303,493,599
	₱27,285,943,760	₱1,583,492,184	₱3,701,276,541	₱169,262,483	₱1,952,840,174	₱888,574,853	₱3,259,771,756	₱3,969,550,067	₱4,048,490,276	₱303,991,628	(₱85,486,812)	₱47,077,706,910

	December 31, 2017											
	Peso Bond Pool	Peso Money Market Pool	Peso Equity Pool	Peso Cash Pool	USD Bond Pool	Asia Bond Pool	Asean Growth Pool	Wealth Premier Pool	Global Target Income Pool	Peso Powerhouse Pool	Accrued Management Fees	**Total**
Peso Fund	₱821,398,670	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	(₱1,063,040)	₱820,335,630
Stable Fund	449,160,620	157,364,306	177,703,348	–	–	–	–	–	–	–	(1,174,364)	783,053,910
Equity Fund	–	–	1,693,028,096	–	–	–	–	–	–	–	(2,837,943)	1,690,190,153
Dollar Fund	–	–	–	–	556,569,351	–	–	–	–	–	(840,742)	555,728,609
Peso Secure Fund	3,956,314,826	–	–	–	–	–	–	–	–	–	(5,932,927)	3,950,381,899
Peso Diversified Value Fund	2,396,698,159	786,032,220	1,069,298,472	–	–	–	–	–	–	–	(7,246,505)	4,244,782,346
Peso Growth Fund	–	–	13,402,107,707	–	–	–	–	–	–	–	(25,000,880)	13,377,106,827
US Dollar Secure Fund	–	–	–	–	1,598,773,474	–	–	–	–	–	(2,758,554)	1,596,014,920
Peso Balanced Fund	163,919,358	–	269,829,605	–	–	–	–	–	–	–	(736,646)	433,012,317
Dynamic Allocation Fund	1,889,944,356	–	3,099,680,280	–	–	–	–	–	–	–	(9,431,887)	4,980,192,749
Peso Target Income Fund	85,497,064	67,521,812	46,362,531	–	–	–	–	–	–	–	(336,941)	199,044,466
Peso Target Distribution Fund	1,133,653,922	895,310,620	613,921,275	–	–	–	–	–	–	–	(5,049,406)	2,637,836,411
Asia Pacific Bond Fund	–	–	–	–	–	1,079,137,463	–	–	–	–	(2,305,380)	1,076,832,083
Asean Growth fund	–	–	–	–	–	–	3,499,240,616	–	–	–	(7,410,643)	3,491,829,973
Peso Cash Fund	–	–	–	419,436,923	–	–	–	–	–	–	(63,837)	419,373,086
Wealth Premier Fund	–	–	–	–	–	–	–	31,791,668	–	–	–	31,791,668
Global Target Income Fund	–	–	–	–	–	–	–	–	2,733,753,829	–	(5,116,023)	2,728,637,806
Wealth Optimizer 2026 Fund	83,324,851	2,156,528	273,715,995	–	–	–	–	–	–	–	(672,890)	358,524,484
Wealth Optimizer 2031 Fund	4,729,241	56,908	55,188,825	–	–	–	–	–	–	–	(110,307)	59,864,667
Wealth Optimizer 2036 Fund	5,568,596	63,783	79,109,142	–	–	–	–	–	–	–	(155,221)	84,586,300
Peso Powerhouse	–	–	–	–	–	–	–	–	–	1,861,810,642	(2,990,731)	1,858,819,911
	₱10,990,209,663	₱1,908,506,177	₱20,779,945,276	₱419,436,923	₱2,155,342,825	₱1,079,137,463	₱3,499,240,616	₱31,791,668	₱2,733,753,829	₱1,861,810,642	(81,234,867)	₱45,377,940,215

The breakdown of net assets of the IIFs follows:

	2018		2017	
Financial assets designated at FVPL (Note 5)				
Debt securities	**₱16,617,224,819**	**35.30%**	₱16,486,081,790	36.33%
Equity securities	**28,834,620,783**	**61.25%**	27,501,883,779	60.61%
Cash and cash equivalents (Note 4)				
Cash in banks	**1,287,825,185**	**2.74%**	1,135,828,014	2.50%
Short-term deposits	**358,288,529**	**0.76%**	29,882,260	0.07%
Accounts receivable (Note 5)	–	**0.00%**	127,263,227	0.41%
Accrued income (Note 7)	**144,746,550**	**0.31%**	178,236,012	0.39%
Accounts payable (Note 14)	**(79,512,144)**	**-0.17%**	–	0.00%
Accrued management fees (Note 14)	**(85,486,812)**	**-0.19%**	(81,234,867)	-0.18%
	₱47,077,706,910	**100.00%**	₱45,377,940,215	100.00%

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

In 2018 and 2017, the IIFs incurred investment loss amounting to ₱3.62 billion and ₱4.64 billion, respectively. Redemptions amounted to ₱9.27 billion and ₱2.40 billion, respectively.

7. Accrued Income

This account consists of:

	2018	2017
Accrued interests:		
AFS debt financial assets		
Government bonds	**₱371,126,719**	₱357,030,165
Corporate bonds	**14,621,419**	10,421,738
Debt financial assets designated at FVPL (Note 6)	**133,898,992**	154,832,540
Corporate loan	**2,528,960**	2,023,168
Cash and cash equivalents	**51,124**	4
	522,227,214	524,307,615
Accrued dividends:		
Equity financial assets designated at FVPL (Note 6)	**10,847,558**	23,403,472
AFS equity securities	**1,891,872**	1,426,257
	12,739,430	24,829,729
	₱534,966,644	₱549,137,344

8. **Investments in Subsidiaries**

This account consists of:

	2018	2017
Investments in:		
MFPI		
Cost		
Balance at January 1	**₱2,050,000,000**	₱1,150,000,000
Addition	**–**	900,000,000
Balance at December 31	**2,050,000,000**	2,050,000,000
Allowance for impairment losses		
Balance at January 1	**(735,584,890)**	(735,584,890)
Provision for impairment loss	**(663,969,295)**	–
Balance at December 31	**(1,399,554,185)**	(735,584,890)
Net carrying amount	**650,445,815**	1,314,415,110
MAMTC		
Balance at January 1	**200,000,000**	–
Addition	**–**	200,000,000
Balance at December 31	**200,000,000**	200,000,000
MCBLAC		
Balance at January 1 and December 31	**576,883,873**	576,883,873
	₱1,427,329,688	₱2,091,298,983

As mentioned in Note 2, investments in subsidiaries are reviewed for impairment when circumstances indicate that the carrying amount is impaired. Impairment for investment in MFPI was assessed as of December 31, 2018 and 2017 due to circumstances that indicated that the recoverable amount of the asset may be less than the carrying amount. Impairment loss on the investment in MFP amounting to ₱663.97 million and nil was recognized in 2018 and 2017, respectively.

The recoverable amount of the investment in MFPI has been based on its fair value less costs to sell (FVLCS) and value-in-use (VIU) as of December 31, 2018 and 2017, respectively. VIU is calculated using cash flow projections from financial budgets covering the entire life of the entity, which last until the maturity of the existing policies while FVLCS is calculated using the adjusted net asset method which requires restating all of the assets and liabilities of the Parent Company from their historical cost basis to fair value, including those not reflected in the statement of financial position.

Key assumptions used in FVLCS calculation as of December 31, 2018

- Fair value of assets and liabilities - Investments in debt securities and trust funds were recognized at market values. The pre-need reserves were calculated based on estimated future maturity benefits required to settle the pre-need obligation with due consideration of different probabilities such as lapses and reinstatements. The pre-need reserves were discounted at 7.049%, based on current market rates. Fair values of other assets and liabilities were deemed to approximate their carrying amounts due to their short-term nature.
- Costs to sell - Estimated costs to sell include adviser's commission/retainer, documentary stamp tax, legal fees, due diligence fees, and other costs.

Key assumptions used in VIU calculation as of December 31, 2017

- Premiums - The forecast assumes that no new policies shall be issued. Premiums will come from the renewal premiums of MFPI's existing business.
- Maturities, surrenders, benefits payout and pre-need reserves - These are management's best estimate based on the most recent experience studies.
- Pre-tax discount rate - Discount rate represents the current market assessment of the risks of the subsidiary, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. This is also the benchmark used by management to assess operating performance. The discount rate is based on the investment's hurdle rate of 10.5%.

9. Property and Equipment

The rollforward analysis of this account follows:

	2018				
	EDP Equipment	**Leasehold Improvements**	**Transportation Equipment**	**Furniture and Fixtures**	**Total**
Cost					
At beginning of year	**₱437,677,919**	**₱609,951,759**	**₱97,110,040**	**₱167,975,961**	**₱1,312,715,679**
Additions	**236,881,051**	**165,711,281**	**5,949,283**	**15,396,380**	**423,937,995**
At end of year	**674,558,970**	**775,663,040**	**103,059,323**	**183,372,341**	**1,736,653,674**
Accumulated Depreciation and amortization					
At beginning of year	**368,873,524**	**487,143,167**	**52,692,934**	**141,089,835**	**1,049,799,460**
Depreciation and amortization (Note 21)	**34,457,704**	**60,746,600**	**9,820,914**	**21,766,057**	**126,791,275**
At end of year	**403,331,228**	**547,889,767**	**62,513,848**	**162,855,892**	**1,176,590,735**
Net Book Value	**₱271,227,742**	**₱227,773,273**	**₱40,545,475**	**₱20,516,449**	**₱560,062,939**

	2017				
	EDP Equipment	Leasehold Improvements	Transportation Equipment	Furniture and Fixtures	Total
Cost					
At beginning of year	₱367,470,440	₱553,619,808	₱92,673,040	₱148,132,733	₱1,161,896,021
Additions	70,207,479	56,331,951	4,437,000	19,843,228	150,819,658
At end of year	437,677,919	609,951,759	97,110,040	167,975,961	1,312,715,679
Accumulated Depreciation and Amortization					
At beginning of year	342,875,480	426,684,963	44,159,047	120,062,861	933,782,351
Depreciation and amortization (Note 21)	25,998,044	60,458,204	8,533,887	21,026,974	116,017,109
At end of year	368,873,524	487,143,167	52,692,934	141,089,835	1,049,799,460
Net Book Value	₱68,804,395	₱122,808,592	₱44,417,106	₱26,886,126	₱262,916,219

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

10. Intangible Assets

The rollforward analysis of this account follows:

	2018	2017
Cost	**₱149,416,000**	₱149,416,000
Accumulated amortization		
At beginning of year	**112,062,000**	104,591,200
Amortization for the year (Note 21)	**7,470,800**	7,470,800
At end of year	**119,532,800**	112,062,000
Net book value	**₱29,883,200**	₱37,354,000

The intangible assets resulted from the Assumption Reinsurance Agreement entered into in 2003.

11. Other Assets

This account consists of:

	2018	2017
Prepaid income taxes and creditable withholding taxes	**₱91,698,448**	₱49,084,812
Prepayments	**71,519,226**	29,835,938
Office supplies	**6,449,305**	6,054,951
Pension asset (Note 23)	**4,945,722**	–
	₱174,612,701	₱84,975,701

Prepayments include advanced salaries and local business taxes.

12. Insurance Contract Liabilities

This account consists of:

	2018	2017
Legal policy reserves	**₱73,661,593,737**	₱76,310,302,773
Policy and contract claims payable	**638,633,335**	646,945,008
IBNR	**316,688,765**	172,177,931
Other insurance contract liabilities	**150,432,298**	81,479,297
	₱74,767,348,135	₱77,210,905,009

Legal policy reserves may be analyzed as follows:

	2018			2017		
	Legal Policy Reserves	**Reinsurers' Share of Liabilities**	**Net of reinsurance**	Legal Policy Reserves	Reinsurers' Share of Liabilities	Net of reinsurance
Unit-linked						
Due to unit-linked holders (Note 6)	**₱46,974,134,066**	**₱–**	**₱46,974,134,066**	₱45,317,611,435	₱–	₱45,317,611,435
Legal policy reserves	**75,086,068**	**–**	**75,086,068**	72,200,064	–	72,200,064
Ordinary life	**₱26,280,615,342**	**₱28,514,634**	**₱26,252,100,708**	30,529,710,023	30,175,935	30,499,534,088
Group life	**275,724,482**	**706,295**	**275,018,187**	305,558,557	1,780,810	303,777,747
Accident and health	**85,254,708**	**–**	**85,254,708**	117,179,439	–	117,179,439
Total	**₱73,690,814,666**	**₱29,220,929**	**₱73,661,593,737**	₱76,342,259,518	₱31,956,745	₱76,310,302,773

	2018	2017
Gross		
Insurance contracts with discretionary participation features	**₱24,398,198,221**	₱27,570,798,910
Insurance contracts without discretionary participation features	**49,292,616,445**	48,771,460,608
	73,690,814,666	76,342,259,518
Recoverable from reinsurers		
Insurance contracts with discretionary participation features	**21,904,133**	23,912,864
Insurance contracts without discretionary participation features	**7,316,796**	8,043,881
	29,220,929	31,956,745
Net		
Insurance contracts with discretionary participation features	**24,376,294,088**	27,546,886,046
Insurance contracts without discretionary participation features	**49,285,299,649**	48,763,416,727
	₱73,661,593,737	₱76,310,302,773

The movements during the year in legal policy reserves are as follows:

	2018			2017		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities**	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
At January 1	**₱76,342,259,518**	**₱31,956,745**	**₱76,310,302,773**	₱66,046,789,528	₱34,693,878	₱66,012,095,650
Due to change in discount rates	**(4,335,816,881)**	**–**	**(4,335,816,881)**	(1,060,155,951)	–	(1,060,155,951)
Due to change in policies and assumptions	**27,849,401**	**(2,735,816)**	**30,585,217**	(437,208,636)	(2,737,133)	(434,471,503)
Due to change in segregated funds	**1,656,522,628**	**–**	**1,656,522,628**	11,792,834,577	–	11,792,834,577
At December 31	**₱73,690,814,666**	**₱29,220,929**	**₱73,661,593,737**	₱76,342,259,518	₱31,956,745	₱76,310,302,773

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

	2018	2017
At January 1	**₱5,186,623,391**	₱6,246,779,342
Arising during the year	**(4,335,816,881)**	(1,060,155,951)
At December 31	**₱850,806,510**	₱5,186,623,391

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

	2018	2017
At beginning of year	**₱900,602,236**	₱849,294,663
Additions during the year (Note 20)	**3,423,299,765**	3,342,475,472
Paid during the year	**(3,218,147,603)**	(3,291,167,899)
At end of year	**₱1,105,754,398**	₱900,602,236

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

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

Life Insurance Contracts

For life insurance contracts with fixed and guaranteed terms, estimates are made in two stages. At the inception of the contracts, the Parent Company determines assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. These assumptions are used for calculating the liabilities during the life of the contract. A margin for risk and uncertainty is added to these assumptions.

Terms

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

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

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

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

Key Assumptions

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

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

- *Mortality and morbidity*
  The mortality and morbidity assumptions are based on rates of mortality and morbidity that are appropriate to the nature of the risks covered based on the Parent Company's actual experience.

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

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

	2018	2017
Peso	**BVAL PHP Reference Yield Curve** **6.27% - 6.76%**	PDST-R2 Yield Curve 3.06% - 5.15%
Dollar	**International Yield Curve** **3.26% - 4.01%**	International Yield Curve 1.80% - 3.63%

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

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

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

The estimation of liabilities include margin for adverse deviations (MfADs) of +/-10% of the best estimate assumptions as prescribed by IC Circular Letter No. 2016-66.

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

The Parent Company has entered into a Quota Share Reinsurance Agreement with Munich RE (the Reinsurer) in January 2016 whereby the Parent Company will cede to the reinsurer proportionate share of premiums reinsured as stipulated in the agreement.

The proportionate share of the Reinsurer in the benefits reinsured are recorded by the Company as "Reinsurers' share of gross premiums earned on insurance contracts" in the parent company statements of income. Reinsurance allowance due from the Reinsurer are recorded as "Other income" in the parent company statements of income.

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

The Parent Company is neither dependent on a single reinsurer nor are the operations of the Parent Company substantially dependent upon any reinsurance contract.

As of December 31, 2018 and 2017, the balance of reinsurance assets amounted to ₱1.06 billion and ₱0.96 billion, respectively.

14. Accounts Payable and Accrued Expenses

This account consists of:

	2018	2017
Accounts and other payables	**₱756,579,613**	₱815,914,564
Accrued expenses	**665,767,675**	538,997,092
Commissions payable	**131,864,053**	134,953,131
Taxes payable	**99,318,390**	104,856,273
Held in IIFs (Note 6):		
Accrued management fees	**85,486,812**	81,234,867
Accounts payable	**79,512,144**	–
Provident fund	**12,658,683**	37,640,849
Secure account liability	**16,468,779**	16,698,066
Others	**76,525,569**	101,348,532
	₱1,924,181,718	₱1,831,643,374

Accounts and other payables includes payable to suppliers arising from purchases of various office supplies, equipment and other capital expenditures and advanced or excess premium collections.

Accrued expenses include accruals for agency-related expenses, utilities and bonus. These are normally settled within one year.

Commissions payable pertains to sales force commissions which are noninterest-bearing and payable every month.

Taxes payable includes fringe benefit taxes, premium taxes, value-added taxes, withholding taxes and documentary stamp taxes with varying due dates. These are normally settled within one year.

Accounts payable in held in IIFs includes payable on unsettled purchases of equities and redemptions. These are normally settled within one year.

The payable in respect of the provident fund consists of unpaid contributions to the provident fund of its agents (see Note 23).

Others include payables related to insurance policies for which underwriting have not yet been completed.

15. Contingencies

The Parent Company is contingently liable with respect to various lawsuits, assessments and other claims, which are being contested by the Parent Company and its legal counsel. The information usually required by PAS 37, is not disclosed on the ground that it may prejudice the outcome of these lawsuits, assessments and claims.

The Parent Company is subject to litigations including claims for punitive damages, in the normal course of its business. The Parent Company does not believe that such litigations, which are common to the insurance industry in general, will have a material effect on its operating results and financial condition.

16. Capital Stock

Capital stock of the Parent Company consists of the following:

	Number of shares		Amount	
	2018	2017	**2018**	2017
Authorized capital stock - par value ₱1,000	**1,000,000**	1,000,000	**₱1,000,000,000**	₱1,000,000,000
Issued capital stock - par value	**930,000**	930,000	**930,000,000**	930,000,000
Additional paid-in capital	**–**	–	**50,635,817**	50,635,817
			₱980,635,817	₱980,635,817

17. Net Insurance Premiums Earned

The details of net insurance premiums earned follow:

	2018	2017
Gross premiums earned on insurance contracts (Note 26):		
Unit-linked	**₱14,048,651,213**	₱12,775,115,758
Ordinary life insurance	**3,293,438,458**	4,416,998,915
Group life insurance	**923,701,826**	946,648,053
Accident and health	**142,103,261**	53,711,746
	18,407,894,758	18,192,474,472
Reinsurers' share of gross premiums earned on insurance contracts (Note 26):		
Unit-linked	**567,382,085**	389,913,986
Ordinary life insurance	**131,372,068**	117,694,632
Group life insurance	**28,065,595**	46,695,457
Accident and health	**1,160**	2,321
	726,820,908	554,306,396
Net insurance premiums earned	**₱17,681,073,850**	₱17,638,168,076

18. Investment Income

This account consists of:

	2018	2017
Interest income on:		
AFS financial assets	**₱2,391,405,469**	₱2,216,830,466
Loans and receivables	**290,799,502**	383,383,739
Cash and cash equivalents	**4,208,327**	3,836,118
	2,686,413,298	2,604,050,323
Dividend income	**24,353,180**	32,645,858
	₱2,710,766,478	₱2,636,696,181

Interest income pertains to the interest earned on government and corporate bonds, policy loans, mortgage loans, car loans to agents, cash in banks and time deposits.

19. Other Income

This account consists of:

	2018	2017
Revenue from contracts with customers:		
Management fee income	**₱1,003,497,863**	₱907,637,307
Service fee income (Note 26)	**168,275,526**	151,476,862
Others	**132,581,287**	79,459,145
	1,304,354,676	1,138,573,314
Revenue outside the scope of PFRS 15:		
Cost of insurance	**779,475,843**	581,383,642
Reinsurance allowance (Note 13)	**762,497,343**	719,010,837
Processing fee	**260,900,413**	224,434,741
Monthly load	**3,520,488**	9,535,882
	1,806,394,087	1,534,365,102
	₱3,110,748,763	₱2,672,938,416

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

Service fee income pertains to the charges to MCBLAC, MFPI and MAMTC for the administrative and other services provided by the Parent Company.

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

Reinsurance allowance are allowances given by reinsurers to cover upfront charges of back-end unit-linked products ceded (see Note 13).

Processing fee pertains to the policy charges used to cover administrative expenses.

Monthly load pertains to an upfront charge to policy owners to cover maintenance expenses. This is only available to the regular pay unit linked products.

Others include premium holiday charges and other management charges.

20. Benefits and Claims

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

	2018	2017
Surrenders	**₱1,485,311,824**	₱1,765,139,443
Death and hospitalization benefits	**1,375,584,595**	1,127,116,041
Maturities	**562,403,346**	450,219,988
	₱3,423,299,765	₱3,342,475,472

Gross insurance contracts benefits and claims incurred on insurance contracts are further analyzed as follows:

	2018	2017
Ordinary life insurance	**₱2,493,452,924**	₱2,663,349,669
Group life insurance	**622,473,161**	556,478,429
Accident and health	**299,376,949**	114,658,377
Unit-linked	**7,996,731**	7,988,997
	₱3,423,299,765	₱3,342,475,472

Reinsurers' share of benefits and claims incurred on insurance contracts during the year consist of:

	2018	2017
Ordinary life insurance	**₱40,533,751**	₱48,782,940
Group life insurance	**202,855**	–
Unit-linked	**(28,561,974)**	(32,291,078)
	₱12,174,632	₱16,491,862

Gross change in legal policy reserves, net of reinsurers' share, follows:

	2018	2017
Life insurance contract liabilities:		
Unit-linked	**₱10,420,313,491**	₱10,743,214,122
Ordinary life insurance	**88,383,501**	(585,519,518)
Group life insurance	**(28,759,560)**	114,526,189
Accident and health	**(31,924,731)**	35,623,923
Total change in life insurance contracts liabilities	**₱10,448,012,701**	₱10,307,844,716

21. **General and Administrative Expenses**

This account consists of:

	2018	2017
Employee expenses	**₱970,598,964**	₱880,634,609
Administration support	**434,096,392**	240,504,722
Agency-related expenses	**265,349,795**	280,924,213
Investment expenses	**218,675,768**	108,435,541
Service fees	**200,558,238**	211,552,893
Rent	**210,875,808**	194,044,309
Depreciation and amortization (Notes 9 and 10)	**134,262,075**	123,487,909
Communications	**113,798,119**	115,406,371
Utilities	**113,077,553**	113,127,660
Entertainment, amusement and recreation (EAR)	**72,456,753**	65,623,097
Bank charges	**64,788,109**	44,228,410
Advertising expenses	**54,837,402**	139,300,444
Supplies	**52,771,075**	53,495,058
Marketing support	**39,818,593**	28,252,592
Retirement costs (Note 23)	**36,183,263**	33,004,304
Professional fees	**35,316,276**	23,970,723
Provision for impairment losses and direct write-offs (Note 5)	**25,619,033**	2,765,887
Repairs and maintenance	**18,376,085**	71,983,858
Transportation and travel	**15,153,057**	16,291,503
Miscellaneous	**79,896,126**	25,024,761
	₱3,156,508,484	₱2,772,058,864

22. **Commissions and Other Direct Expenses**

This account consists of:

	2018	2017
Commissions on first year premiums	**₱1,190,027,375**	₱1,121,209,075
Bonuses	**1,024,567,971**	884,415,998
Commissions on renewal premiums	**323,716,200**	222,618,961
Single premium commissions	**102,615,487**	147,916,880
Other direct expenses	**208,328,067**	188,160,292
	₱2,849,255,100	₱2,564,321,206

Other direct expenses include service fees and provincial recruitment campaigns.

23. **Retirement Costs and Provident Fund**

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

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

The Parent Company established a formal defined contribution retirement plan for its regular employees. The plan does not require that employees contribute and is of the defined contribution type. It provides a benefit at normal retirement equal to one hundred percent (100%) of the Member's Account Balance (Company contributions ranging from 5% to 10% of Plan Salary plus employee optional contributions plus credited earnings depending on the tenure of eligible employees). The benefit is paid in a lump sum upon retirement or separation in accordance with the terms of the retirement plan. If the value of the Member's Company Account is less than the retirement benefits to which the Member is entitled under RA No. 7641, any forfeited Company contributions and earnings remaining in the retirement fund shall be used to satisfy the difference. Should such forfeited amounts be insufficient for the purpose, the Parent Company shall pay the amount of any remaining shortfall directly to the Member.

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

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

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

	2018	2017
DC obligation[1]	**₱152,165,720**	₱158,654,609
DB obligation[2]	**167,879,232**	175,871,362
Excess of DB over DC obligation	**₱15,713,512**	₱17,216,753

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

In 2018 and 2017, contributions made by the Parent Company amounted to ₱32.28 million and ₱28.26 million, respectively, while retirement expense amounted to ₱36.18 million and ₱33.00 million, respectively.

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

In 2017, certain employees of the Parent Company were transferred to MAMTC effective at the start of its operations. Consequently, the Parent Company transferred the defined benefit obligation and plan assets pertaining to the pension of the transferred employees. The difference between the transferred defined benefit obligation and plan assets was recognized as ‘Due to related parties’.

The following tables summarize the components of the net benefit expense recognized in the statements of income and amounts recognized in the statements of financial position for the plan:

Net benefits expense follows:

	2018	2017
Current service cost	**₱35,360,852**	₱32,636,980
Net interest cost	**822,411**	367,324
	₱36,183,263	₱33,004,304

Remeasurement effects recognized in OCI follow:

	2018	2017
Actuarial gains	**₱45,843,121**	₱5,544,724
Loss on return on plan assets	**(21,635,768)**	(9,990,397)
	₱24,207,353	(₱4,445,673)

The amounts recognized in the parent company statements of financial position follow:

	2018	2017
Present value of DB obligation	**₱167,879,232**	₱175,871,362
Fair value of plan assets	**(172,824,954)**	(161,096,119)
Pension liability (asset)	**(₱4,945,722)**	₱14,775,243

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

	2018	2017
At January 1	**₱175,871,362**	₱168,351,491
Current service cost	**35,360,852**	32,636,980
Interest cost on benefit obligation	**9,637,722**	8,484,706
Benefits paid	**(7,893,057)**	(12,509,522)
Actuarial loss (gain) arising from:		
Experience adjustments	**(23,747,152)**	(1,756,707)
Changes in demographic assumptions	**4,896,254**	(163,122)
Changes in financial assumptions	**(26,992,223)**	(3,624,895)
Acquired (Transferred) obligation	**745,474**	(15,547,569)
At December 31	**₱167,879,232**	₱175,871,362

Changes in the fair value of the plan assets follow:

	2018	2017
At January 1	**₱161,096,119**	₱160,973,337
Interest income included in net interest cost	**8,815,311**	8,117,382
Remeasurement losses	**(21,635,768)**	(9,990,397)
Actual contributions	**32,284,279**	28,263,689
Benefits paid	**(7,893,057)**	(12,509,522)
Acquired (Transferred) plan asset	**158,070**	(13,758,370)
At December 31	**₱172,824,954**	₱161,096,119
Actual return on plan assets	**(₱12,820,457)**	(₱1,873,015)

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

	2018	2017
Discount rate		
At January 1	**5.74%**	5.30%
At December 31	**7.34%**	5.74%
Annual rate of increase in compensation projection	**6.00%**	7.00%

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

	Change in basis points	**2018**	2017
Discount rate	+100	**(₱4,660,253)**	(₱6,684,943)
	-100	**7,619,476**	8,782,401
Salary increase rate	+100	**7,882,906**	7,986,457
	-100	**(4,910,594)**	(6,262,549)

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

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

As of December 31, 2018 and 2017, the plan assets pertaining to the Parent Company amounted to ₱172.82 million and ₱161.10 million, respectively.

The Parent Company's expects to contribute ₱39.17 million to the retirement plan in 2019.

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

	2018	2017
Less than one year	**₱15,451,151**	₱15,933,605
One to less than five years	**80,635,208**	81,324,053
Five to less than ten years	**208,323,614**	214,358,273
Ten to less than fifteen years	**376,804,049**	319,331,018
Fifteen to less than twenty years	**507,781,794**	353,765,727
Twenty years and above	**910,578,092**	511,995,015

The Parent Company also provides its agents with a contributory savings program ranging from 5% to 15% of agents' earnings which enrollment begins upon completion of the 36th month from contract effective date. In addition, the Parent Company contributes equivalent to 5% of agents' earnings up to maximum of ₱25,000 and ₱50,000 per year for insurance advisors and agency leaders, respectively.

As of December 31, 2018 and 2017, the Parent Company has a liability related to the provident fund for its agents amounting to ₱12.66 million and ₱37.64 million, respectively (see Note 14). The provident fund is administered and managed by a foreign bank under an investment agreement.

24. Income Taxes

The provision for income tax consists of:

	2018	2017
Final taxes on interest income	**₱477,784,556**	₱458,263,234
RCIT	**102,358,966**	–
MCIT	–	77,281,216
	₱580,143,522	₱535,544,450

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

	2018	2017
Deferred tax asset on:		
NOLCO	**₱67,000,325**	₱45,949,019
Deferred tax liability on:		
Unrealized foreign exchange gain	**67,000,325**	45,949,019
Net deferred tax assets	**₱–**	₱–

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

	2018	2017
Allowance for impairment losses	**₱1,399,554,185**	₱735,584,890
NOLCO	**1,027,429,761**	1,097,600,780
Remeasurement loss on legal policy reserves	**850,806,510**	5,186,623,391

(Forward)

	2018	2017
Provision for policyholder's dividends	**₱448,282,931**	₱515,481,192
Provision for IBNR	**316,688,765**	172,177,931
Accrued expenses	**109,356,271**	8,500,000
Allowance for doubtful accounts	**18,663,736**	18,294,870
Rent payable	**1,486,191**	11,440,261
MCIT	–	152,949,350

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

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

<u>NOLCO</u>

Year incurred	Amount	Used Amount	Expired Amount	Balance	Expiry Year
2016	₱1,250,764,177	₱–	₱–	₱1,250,764,177	2019

<u>MCIT</u>

Year incurred	Amount	Used Amount	Expired Amount	Balance	Expiry Year
2015	₱24,076,159	₱24,076,159	₱–	₱–	2018
2016	51,591,975	51,591,975	–	–	2019
2017	77,281,216	77,281,216	–	–	2020
	₱152,949,350	₱152,949,350	₱–	₱–	

The reconciliation of income tax expense computed based on the pre-tax income at the statutory tax rate to the provision for income tax in the parent company statements of income follows:

	2018	2017
Income before income tax	**₱2,418,375,911**	₱3,632,027,359
Income tax expense at statutory income tax rate	**725,512,773**	1,089,608,208
Additions to (reductions in) income tax expense resulting from:		
Effect of change in unrecognized deferred tax assets - net	**75,765,225**	(216,161,596)
Nondeductible expenses	**31,988,997**	17,865,916
Amortization of intangible assets	**2,241,240**	2,241,240
Intercorporate dividends	**(7,305,954)**	(9,793,757)
Gain on sale of investments exempt from tax	**(15,523,707)**	(55,959,976)
Investment income exempt from tax	**(21,183,090)**	(19,536,609)
Interest income - net of final tax	**(211,351,962)**	(272,718,976)
Provision for income tax	**₱580,143,522**	₱535,544,450

25. **Risk Management Policies**

Governance Framework

The Parent Company has established a risk management function with clear terms of reference and with the responsibility for developing group wide policies on insurance, investment and financial risks. It also supports the effective implementation of policies at the overall group and the individual business unit levels.

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

Insurance Risk

The risk under insurance contract is the possibility of the occurrence of an insured event and the uncertainty of the amount and timing of the resulting claim. The principal risk the Parent Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

Occurrence Risk

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

Severity Risk

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

Development Risk

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

The variability of risks is improved by the diversification of the risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio, as well as unexpected outcomes. The variability of risks will also be improved by careful selection and implementation of underwriting strategies and guidelines, as well as the use of reinsurance arrangements.

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

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

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

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

- Actuarial models based on past experience and statistical techniques aid in pricing decisions and monitoring claims patterns;
- Guidelines are issued for concluding insurance contracts and assuming insurance risks;

- Proactive claims handling procedures are followed to investigate and adjust claims thereby preventing settlement of dubious or fraudulent claims;
- Reinsurance is used to limit the Parent Company's exposure to large claims by placing risk with reinsurers providing high security; and
- Diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well-diversified in terms of type and amount of risk, industry and geography.

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

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

	2018	2017
Whole life insurance		
Gross	**₱67,513,556,034**	₱71,130,139,926
Net	**59,338,467,616**	62,832,129,497
Term policies		
Gross	**14,871,705,178**	15,526,476,060
Net	**8,452,254,245**	9,439,838,787
Endowment		
Gross	**16,324,967,185**	16,940,324,404
Net	**18,641,190,317**	19,233,840,552
Variable unit-linked policies		
Gross	**179,155,589,039**	143,365,715,168
Net	**142,354,544,331**	121,732,361,583
Accident and health		
Gross	**5,221,005,963**	5,076,591,750
Net	**5,280,069,649**	5,076,591,750
Group insurance		
Gross	**284,485,353,532**	272,941,178,390
Net	**280,357,165,498**	257,392,387,517
Total		
Gross	**567,572,176,931**	524,980,425,698
Net	**514,423,691,656**	475,707,149,686

Underwriting Risk

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

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

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

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

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

The table below sets out the Parent Company's concentration of insurance risk based on the type of life insurance product:

	2018		2017	
Type	**Number of Policies**	**Amount of Insurance**	Number of Policies	Amount of Insurance
Whole Life	**97,491**	**₱67,513,556,034**	103,543	₱71,130,139,926
Term	**6,584**	**14,871,705,178**	7,514	15,526,476,060
Endowment	**35,070**	**16,324,967,185**	37,189	16,940,324,404
Variable unit-linked	**247,845**	**179,155,589,039**	195,311	143,365,715,168
Accident and health	**1,836**	**5,221,005,963**	1,939	5,076,591,750
Group life	**1,422**	**284,485,353,532**	1,080	272,941,178,390
	390,248	**₱567,572,176,931**	346,576	₱524,980,425,698

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

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

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

Sensitivities

The following analysis is performed for a reasonably possible movement in key assumptions with all other assumptions held constant, on the parent company statements of income and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis. It should also be stressed that these assumptions are non-linear and larger or smaller impacts cannot easily be gleaned from these results. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. Options and guarantees are the main reason for the asymmetry of the sensitivities where the guarantee impacts to different extents under the different scenarios.

	December 31, 2018				
	Change in assumptions	**Increase (decrease) in gross liabilities**	**Increase (decrease) in net liabilities**	**Increase (decrease) in profit before tax**	**Increase (decrease) in equity***
			(In Thousands)		
Mortality	**+10%**	**₱286,502**	**₱286,502**	**(₱286,502)**	**₱–**
Valuation interest rate	**+1%**	**(4,729,845)**	**(4,729,845)**	**–**	**4,729,845**
	-1%	**4,729,845**	**4,729,845**	**–**	**(4,729,845)**

	December 31, 2017				
	Change in assumptions	Increase (decrease) in gross liabilities	Increase (decrease) in net liabilities	Increase (decrease) in profit before tax	Increase (decrease) in equity*
			(In Thousands)		
Mortality	+10%	₱315,432	₱325,546	(₱325,546)	₱–
Valuation interest rate	+1%	(5,869,422)	(6,356,177)	–	6,356,177
	-1%	5,869,442	6,356,177	–	(6,356,177)

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

The carrying values of insurance contract liabilities as of December 31, 2018 and 2017 amounted to ₱74.77 billion and ₱77.21 billion, respectively (see Note 12).

Investment Risk

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

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

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

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

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

Financial Risk

The Parent Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk.

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

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

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

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

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

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

	December 31, 2018		
	Non-Linked	**Unit-linked**	**Total**
Financial assets designated at FVPL			
Debt securities			
Government bonds	**₱–**	**₱12,027,961,218**	**₱12,027,961,218**
Corporate bonds	–	**1,171,603,026**	**1,171,603,026**
UITFs	–	**3,417,660,575**	**3,417,660,575**
Equity securities			
Common shares	–	**24,238,830,794**	**24,238,830,794**
Other equity securities	–	**4,595,789,989**	**4,595,789,989**
AFS financial assets			
Debt securities			
Government bonds	**₱33,951,073,740**	–	**₱33,951,073,740**
Corporate bonds	**1,594,090,970**	–	**1,594,090,970**
UITFs	**183,813,074**	–	**183,813,074**
Equity securities			
Common shares	**1,562,743,038**	–	**1,562,743,038**
Club shares	**64,150,000**	–	**64,150,000**
Cash and cash equivalents			
Cash in commercial banks	**1,023,207,266**	–	**1,023,207,266**
Short-term deposits in commercial banks	**410,477,215**	–	**410,477,215**
Cash and cash equivalents held in IIFs			
Cash in bank	–	**1,287,825,185**	**1,287,825,185**
Short-term deposits	–	**358,288,529**	**358,288,529**
Loans and receivables			
Insurance receivables	**140,660,107**	–	**140,660,107**
Policy loans	**3,536,498,966**	–	**3,536,498,966**
Due from related parties	**1,809,597,891**	–	**1,809,597,891**
Receivable from agents - net	**242,372,759**	–	**242,372,759**
Corporate loan	**200,000,000**	–	**200,000,000**
Security deposits	**119,013,268**	–	**119,013,268**
Due from officers and employees	**53,118,180**	–	**53,118,180**
Mortgage loans	**4,627,874**	–	**4,627,874**
Other receivables	**314,503,320**	–	**314,503,320**
Accrued income			
Accrued interests			
AFS debt financial assets	**385,748,138**	–	**385,748,138**
Debt financial assets designated at FVPL	–	**133,898,992**	**133,898,992**
Corporate loan	**2,528,960**	–	**2,528,960**
Cash and cash equivalents	**51,124**	–	**51,124**
Accrued dividends			
Equity financial assets designated at FVPL	–	**10,847,558**	**10,847,558**
AFS equity securities	**1,891,872**	–	**1,891,872**
Total financial assets	**₱45,600,167,762**	**₱47,242,705,866**	**₱92,842,873,628**

	December 31, 2017		
	Non-Linked	Unit-linked	Total
Financial assets designated at FVPL			
Debt securities			
Government bonds	₱–	₱13,105,437,987	₱13,105,437,987
Corporate bonds	–	1,866,915,217	1,866,915,217
UITFs	–	1,513,728,586	1,513,728,586
Equity securities			
Common shares	–	23,794,729,718	23,794,729,718
Other equity securities	–	3,707,154,061	3,707,154,061
AFS financial assets			
Debt securities			
Government bonds	39,131,627,729	–	39,131,627,729
Corporate bonds	1,476,586,534	–	1,476,586,534
UITFs	16,692,480	–	16,692,480
Equity securities			
Common shares	2,008,477,796	–	2,008,477,796
Club shares	46,550,000	–	46,550,000
Cash and cash equivalents			
Cash in commercial banks	577,144,063	–	577,144,063
Short-term deposits in commercial banks	66,781,700	–	66,781,700
Cash and cash equivalents held in IIFs			
Cash in bank	–	1,135,828,014	1,135,828,014
Short-term deposits	–	29,882,260	29,882,260
Loans and receivables			
Insurance receivables	136,609,502	–	136,609,502
Policy loans	3,671,267,984	–	3,671,267,984
Due from related parties	1,541,209,668	–	1,541,209,668
Receivable from agents - net	204,793,759	–	204,793,759
Corporate loan	200,000,000	–	200,000,000
Accounts receivable held in IIFs		127,263,227	127,263,227
Security deposits	102,098,114	–	102,098,114
Due from officers and employees	58,904,073	–	58,904,073
Mortgage loans	5,048,891	–	5,048,891
Other receivables	262,673,079	–	262,673,079
Accrued income			
Accrued interests			
AFS debt financial assets	367,451,903	–	367,451,903
Debt financial assets designated at FVPL	–	154,832,540	154,832,540
Corporate loan	2,023,168	–	2,023,168
Cash and cash equivalents	4	–	4
Accrued dividends			
Equity financial assets designated at FVPL	–	23,403,472	23,403,472
AFS equity securities	1,426,257	–	1,426,257
Total financial assets	₱49,877,366,704	₱45,459,175,082	₱95,336,541,786

The following table provides information regarding the credit risk exposure of the Parent Company by classifying financial assets according to credit ratings of the counterparties:

	December 31, 2018				
	Neither Past Due nor Impaired				
	Investment Grade	Non-investment Grade Satisfactory	Not rated	Past due or impaired	Total
Financial assets designated at FVPL					
Debt securities					
Government bonds	₱12,027,961,218	₱–	₱–	₱–	₱12,027,961,218
Corporate bonds	1,171,603,026	–	–	–	1,171,603,026
UITFs	–	–	3,417,660,575	–	3,417,660,575
Equity securities					
Common shares	–	–	24,238,830,794	–	24,238,830,794
Other equity securities	–	–	4,595,789,989	–	4,595,789,989
AFS financial assets					
Debt securities					
Government bonds	33,951,073,740	–	–	–	33,951,073,740
Corporate bonds	702,331,287	891,759,683	–	–	1,594,090,970
UITFs	–	–	183,813,074	–	183,813,074
Equity securities					
Common shares	–	–	1,562,743,038	–	1,562,743,038
Club shares	–	–	64,150,000	–	64,150,000
Cash and cash equivalents					
Cash in commercial banks	1,023,207,266	–	–	–	1,023,207,266
Short-term deposits in commercial banks	₱410,477,215	₱–	₱–	₱–	₱410,477,215
Cash and cash equivalents held in IIFs					
Cash in bank	1,287,825,185	–	–	–	1,287,825,185
Short-term deposits	358,288,529	–	–	–	358,288,529
Loans and receivables					
Insurance receivables	–	140,660,107	–	–	140,660,107
Policy loans	–	–	3,536,498,966	–	3,536,498,966
Due from related parties	–	–	1,809,597,891	–	1,809,597,891
Receivable from agents - net	–	–	–	242,372,759	242,372,759
Corporate loan	200,000,000	–	–	–	200,000,000
Security deposits	–	–	119,013,268	–	119,013,268
Due from officers and employees	–	–	53,118,180	–	53,118,180
Mortgage loans	–	–	4,627,874	–	4,627,874
Other receivables	–	–	314,503,320	–	314,503,320
Accrued income					
Accrued interests					
AFS debt financial assets	385,748,138	–	–	–	385,748,138
Debt financial assets designated at FVPL	133,898,992	–	–	–	133,898,992
Corporate loan	2,528,960	–	–	–	2,528,960
Cash and cash equivalents	51,124	–	–	–	51,124
Accrued dividends					
Equity financial assets designated at FVPL	–	–	10,847,558	–	10,847,558
AFS equity securities	–	–	1,891,872	–	1,891,872
Total financial assets	₱51,654,994,680	₱1,032,419,790	₱39,913,086,399	₱242,372,759	₱92,842,873,628

	December 31, 2017				
	Neither Past Due nor Impaired				
	Investment Grade	Non-investment Grade Satisfactory	Not rated	Past due or impaired	Total
Financial assets designated at FVPL					
Debt securities					
Government bonds	₱13,105,437,987	₱–	₱–	₱–	₱13,105,437,987
Corporate bonds	1,866,915,217	–	–	–	1,866,915,217
UITFs	–	–	1,513,728,586	–	1,513,728,586
Equity securities					
Common shares	–	–	23,794,729,718	–	23,794,729,718
Other equity securities	–	–	3,707,154,061	–	3,707,154,061
AFS financial assets					
Debt securities					
Government bonds	39,131,627,729	–	–	–	39,131,627,729
Corporate bonds	796,444,000	680,142,534	–	–	1,476,586,534
UITFs	–	–	16,692,480	–	16,692,480
Equity securities					
Common shares	–	–	2,008,477,796	–	2,008,477,796
Club shares	–	–	46,550,000	–	46,550,000
Cash and cash equivalents					
Cash in commercial banks	577,144,063	–	–	–	₱577,144,063
Short-term deposits in commercial banks	66,781,700	–	–	–	66,781,700
Cash and cash equivalents held in IIFs					
Cash in bank	1,135,828,014	–	–	–	1,135,828,014
Short-term deposits	29,882,260	–	–	–	29,882,260
Loans and receivables					
Insurance receivables	–	136,609,502	–	–	136,609,502
Policy loans	–	–	3,671,267,984	–	3,671,267,984
Due from related parties	–	–	1,541,209,668	–	1,541,209,668
Receivable from agents - net	–	–	–	204,793,759	204,793,759
Corporate loan	200,000,000	–	–	–	200,000,000
Accounts receivable held in IIFs	–	–	127,263,228	–	127,263,228
Security deposits	–	–	102,098,114	–	102,098,114
Due from officers and employees	–	–	58,904,073	–	58,904,073
Mortgage loans	–	–	5,048,891	–	5,048,891
Other receivables	–	–	262,673,078	–	262,673,078
Accrued income					
Accrued interests					
AFS debt financial assets	367,451,903	–	–	–	367,451,903
Debt financial assets designated at FVPL	154,832,540	–	–	–	154,832,540
Corporate loan	2,023,168	–	–	–	2,023,168
Cash and cash equivalents	4	–	–	–	4
Accrued dividends					
Equity financial assets designated at FVPL	–	–	23,403,472	–	23,403,472
AFS equity securities	–	–	1,426,257	–	1,426,257
Total financial assets	₱57,434,368,585	₱816,752,036	₱36,880,627,406	₱204,793,759	₱95,336,541,786

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

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

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

The Parent Company uses Standard and Poor's credit ratings as basis to determine whether a security is investment grade or non-investment grade. In the financial market, securities with credit rating of at least BBB are considered as investment grade securities while securities with credit rating lower than BBB are considered as non-investment grade. Investment grade financial assets are assets which have strong capacity to meet the Parent Company's financial commitments and are unsusceptible to adverse effects of changes in economic conditions. These investments include peso and dollar-denominated government securities. Non-investment grade financial assets are assets that are likely to be impaired in adverse economic conditions. None of the Parent Company's investments were classified under Non-investment grade.

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

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

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

Those accounts that are classified as not rated include UITFs, quoted equity securities, policy loans, due from related parties, due from officers and employees, receivable from agents, accounts receivable held in IIFs, mortgage loans and other receivables for which the Parent Company has not yet established a credit rating system.

As of December 31, 2018 and 2017, bulk of the Parent Company's FVPL and AFS financial assets pertain to Philippine government bonds (see Note 5).

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

The table below shows the analysis of age of financial assets that are past-due but are not impaired:

December 31, 2018

	Age Analysis of Financial Assets Past-Due but not Impaired					
	Less than 30 days	**31 to 90 days**	**More than 90 days**	**Total Past-Due but not Impaired**	**Past-Due and Impaired**	**Total**
Loans and receivables						
Receivables from agents	**₱57,832,691**	**9,484,981**	**175,055,087**	**242,372,759**	**18,663,736**	**261,036,495**

December 31, 2017

	Age Analysis of Financial Assets Past-Due but not Impaired					
	Less than 30 days	31 to 90 days	More than 90 days	Total Past-Due but not Impaired	Past-Due and Impaired	Total
Loans and receivables						
Receivables from agents	₱29,335,773	₱8,177,118	₱167,280,868	₱204,793,759	₱18,294,870	₱223,088,629

Liquidity Risk
Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a

contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Parent Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

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

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

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

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

	December 31, 2018						
	Up to a year	**1-3 years**	**3-5 years**	**Over 5 years**	**No Term**	**Variable Unit-Linked**	**Total**
Financial assets at FVPL							
Debt securities							
Government bonds	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱12,027,961,218**	**₱12,027,961,218**
Corporate bonds	–	–	–	–	–	**1,171,603,026**	**1,171,603,026**
UITFs	–	–	–	–	–	**3,417,660,575**	**3,417,660,575**
Equity securities							
Common shares	–	–	–	–	–	**24,238,830,794**	**24,238,830,794**
Other equity securities	–	–	–	–	–	**4,595,789,989**	**4,595,789,989**
AFS financial assets							
Debt securities							
Government bonds	**2,709,303,612**	**4,866,902,224**	**4,762,493,474**	**73,496,175,933**	–	–	**85,834,875,243**
Corporate bonds	**134,652,600**	**341,405,200**	**704,790,200**	**1,284,453,550**	–	–	**2,465,301,550**
UITFs	–	–	–	–	**183,813,074**	–	**183,813,074**
Equity securities							
Common shares	–	–	–	–	**1,562,743,038**	–	**1,562,743,038**
Club shares	–	–	–	–	**64,150,000**	–	**64,150,000**
Cash and cash equivalents							
Cash in commercial banks	**1,023,207,266**	–	–	–	–	–	**1,023,207,266**
Short-term deposits in commercial banks	**410,477,215**	–	–	–	–	–	**410,477,215**
Cash and cash equivalents held in IIFs							
Cash in bank	–	–	–	–	–	**1,287,825,185**	**1,287,825,185**
Short-term deposits	–	–	–	–	–	**358,288,529**	**358,288,529**
Loans and receivables							
Insurance receivables	**140,660,107**	–	–	–	–	–	**140,660,107**
Policy loans	**3,672,587,174**	–	–	–	–	–	**3,672,587,174**
Due from related parties	**1,809,597,891**	–	–	–	–	–	**1,809,597,891**
Receivable from agents - net	**116,631,827**	**90,399,675**	**35,341,257**	–	–	–	**242,372,759**
Corporate loan	**210,988,933**	–	–	–	–	–	**210,988,933**
Security deposits	**42,621,085**	**26,912,551**	**14,166,541**	**35,313,091**			**119,013,268**
Due from officers and employees	**32,716,837**	**5,534,600**	**14,866,743**	–	–	–	**53,118,180**
Mortgage loans	–	–	**4,627,874**				**4,627,874**
Other receivables	**314,503,320**	–	–	–	–	–	**314,503,320**
Accrued income							
Accrued interests							
AFS debt financial assets	**385,748,138**	–	–	–	–	–	**385,748,138**
Debt financial assets at FVPL	–	–	–	–	–	**133,898,992**	**133,898,992**
Corporate loan	**2,528,960**	–	–	–	–	–	**2,528,960**
Cash and cash equivalents	**51,124**	–	–	–	–	–	**51,124**
Accrued dividends							
Equity financial assets at FVPL	–	–	–	–	–	**10,847,558**	**10,847,558**
AFS equity securities	**1,891,872**	–	–	–	–	–	**1,891,872**
¤Total financial assets	**11,008,167,961**	**5,331,154,250**	**5,536,286,089**	**74,815,942,574**	**1,810,706,112**	**47,242,705,866**	**145,744,962,852**

	December 31, 2018						
	Up to a year	**1-3 years**	**3-5 years**	**Over 5 years**	**No Term**	**Variable Unit-Linked**	**Total**
Other financial liabilities							
Policy and contract claims payable	**638,633,335**	–	–	–	–	–	**638,633,335**
Other insurance contract liabilities	**150,432,298**	–	–	–	–	–	**150,432,298**
Policyholders' dividends	**3,617,297,406**	–	–	–	–	–	**3,617,297,406**
Insurance payables	**1,345,759,886**	–	–	–	–	–	**1,345,759,886**
Premium deposit fund	**36,653,595**	–	–	–	–	–	**36,653,595**
Accounts payable and accrued expenses*							
Accounts and other payables	**756,579,613**	–	–	–	–	–	**756,579,613**
Accrued expenses	**665,767,675**	–	–	–	–	–	**665,767,675**
Commissions payable	**131,864,053**	–	–	–	–	–	**131,864,053**
Provident fund	**12,658,683**	–	–	–	–	–	**12,658,683**
Secure account liability	**16,468,779**	–	–	–	–	–	**16,468,779**
Held in IIFs:							
Accounts payable	–	–	–	–	–	**79,512,144**	**79,512,144**
Accrued management fees	–	–	–	–	–	**85,486,812**	**85,486,812**
Others	**76,525,569**	–	–	–	–		**76,525,569**
Due to related parties	**660,753,922**	–	–	–	–	–	**660,753,922**
Total financial liabilities	**8,109,394,814**	–	–	–	–	**164,998,956**	**8,274,393,770**
Net excess liquidity (deficit)	**₱2,898,773,147**	**₱5,331,154,250**	**₱5,536,286,089**	**₱74,815,942,574**	**₱1,810,706,112**	**₱47,077,706,910**	**₱137,470,569,082**

**Amount excluding statutory liability.*

	December 31, 2017						
	Up to a year	1-3 years	3-5 years	Over 5 years	No Term	Variable Unit-Linked	Total
Financial assets at FVPL							
Debt securities							
Government bonds	₱–	₱–	₱–	₱–	₱–	₱13,105,437,987	₱13,105,437,987
Corporate bonds	–	–	–	–	–	1,866,915,217	1,866,915,217
UITFs	–	–	–	–	–	1,513,728,586	1,513,728,586
Equity securities							
Common shares	–	–	–	–	–	23,794,729,718	23,794,729,718
Other equity securities	–	–	–	–	–	3,707,154,061	3,707,154,061
AFS financial assets							
Debt securities							
Government bonds	2,366,288,410	4,639,933,070	4,639,933,070	73,871,645,530	–	–	85,517,800,080
Corporate bonds	75,645,000	151,290,000	301,290,000	1,476,834,650	–	–	2,005,059,650
UITFs	–	–	–	–	16,692,480	–	16,692,480
Equity securities							
Common shares	–	–	–	–	2,008,477,796	–	2,008,477,796
Club shares	–	–	–	–	46,550,000	–	46,550,000
Cash and cash equivalents							
Cash in commercial banks	577,144,063	–	–	–	–	–	577,144,063
Short-term deposits in commercial banks	66,781,700	–	–	–	–	–	66,781,700
Cash and cash equivalents held in IIFs							
Cash in bank	–	–	–	–	–	1,135,828,014	1,135,828,014
Short-term deposits	–	–	–	–	–	29,882,260	29,882,260
Loans and receivables							
Insurance receivables	136,609,502	–	–	–	–	–	136,609,502
Policy loans	3,812,797,876	–	–	–	–	–	3,812,797,876
Due from related parties	1,541,209,668	–	–	–	–	–	1,541,209,668
Receivable from agents - net	78,487,129	106,358,749	19,947,881	–	–	–	204,793,759
Corporate loan	10,988,933	210,988,933	–	–	–	–	221,977,866
Accounts receivable held in IIFs	–	–	–	–	–	127,263,228	127,263,228
Security deposits	18,722,872	44,698,863	8,424,990	30,251,389			102,098,114
Due from officers and employees	9,627,975	47,523,598	1,752,500	–	–	–	58,904,073
Mortgage loans	–	–	5,048,891	–	–	–	5,048,891
Other receivables	262,673,079	–	–	–	–	–	262,673,079
Accrued income							
Accrued interests							
AFS debt financial assets	367,451,903	–	–	–	–	–	367,451,903
Debt financial assets at FVPL	–	–	–	–	–	154,832,540	154,832,540
Corporate loan	2,023,168	–	–	–	–	–	2,023,168
Cash and cash equivalents	4	–	–	–	–	–	4
Accrued dividends							
Equity financial assets at FVPL	–	–	–	–	–	23,403,472	23,403,472
AFS equity securities	1,426,257	–	–	–	–	–	1,426,257
Total financial assets	9,327,877,539	5,200,793,213	4,976,397,332	75,378,731,569	2,071,720,276	45,459,175,083	142,414,695,012

	December 31, 2017						
	Up to a year	1-3 years	3-5 years	Over 5 years	No Term	Variable Unit-Linked	Total
Other financial liabilities							
Policy and contract claims payable	646,945,008	–	–	–	–	–	646,945,008
Other insurance contract liabilities	81,479,297	–	–	–	–	–	81,479,297
Policyholders' dividends	3,790,613,701	–	–	–	–	–	3,790,613,701
Insurance payables	822,975,000	–	–	–	–	–	822,975,000
Premium deposit fund	39,923,559	–	–	–	–	–	39,923,559
Accounts payable and accrued expenses*							
Accounts and other payables	815,914,564	–	–	–	–	–	815,914,564
Accrued expenses	538,997,092	–	–	–	–	–	538,997,092
Commissions payable	134,953,131	–	–	–	–	–	134,953,131
Provident fund	37,640,849	–	–	–	–	–	37,640,849
Secure account liability	16,698,066	–	–	–	–	–	16,698,066
Held in IIFs:							
Accrued management fees	–	–	–	–	–	81,234,867	81,234,867
Others	101,348,532	–	–	–	–	–	101,348,532
Due to related parties	411,431,928	–	–	–	–	–	411,431,928
Total financial liabilities	7,438,920,727	–	–	–	–	81,234,867	7,520,155,594
Net excess liquidity	₱1,888,956,812	₱5,200,793,213	₱4,976,397,332	₱75,378,731,569	₱2,071,720,276	₱45,377,940,216	₱134,894,539,418

**Amount excluding statutory liability.*

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

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

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

Market Risk

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

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

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

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

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

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

	2018		2017	
Assets	**US$**	**PHP**	US$	PHP
Cash and cash equivalents	**$22,442,436**	**₱1,180,023,285**	$6,136,358	₱306,388,339
AFS financial assets	**201,613,109**	**10,600,817,271**	25,576,384	1,277,028,846
Loans and receivables	**5,590,575**	**293,952,434**	4,857,964	242,558,128
	$229,646,120	**12,074,792,990**	36,570,706	1,825,975,313
Liabilities				
Insurance contract liabilities	**631,674**	**33,213,419**	535,032	26,714,168
Insurance payable	**1,139,326**	**59,905,761**	921,302	46,000,608
	1,771,000	**93,119,180**	1,456,334	72,714,776
Net exposure	**$227,875,120**	**₱11,981,673,810**	$35,114,372	₱1,753,260,537

  Foreign currency risk is monitored and analyzed systematically. The Parent Company's policy is to maintain foreign currency exposure within existing regulations, and within acceptable risk limits. The Parent Company believes in ensuring that its foreign currency is at all times within limits prescribed for companies who are engaged in the same type of businesses.

  The exchange rate used to restate the Parent Company's dollar-denominated assets and liabilities is ₱52.58 and ₱49.93 to $1 as of December 31, 2018 and 2017, respectively.

  The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rate, with all variables held constant, of the Parent Company's income before tax.

	2018	
	Change in Variable	**Impact on Income before Tax Increase (decrease)**
USD	**+4.14%**	**₱49,360,861**
	-4.14%	**(49,360,861)**

	2017	
	Change in Variable	Impact on Income before Tax Increase (decrease)
USD	+3.54%	₱35,405,127
	-3.54%	(35,405,127)

The sensitivity analysis has been determined assuming that the change in foreign currency exchange rate has occurred at the reporting date and has been applied to the Parent Company's exposure to currency risk for financial instruments in existence at that date, and all other variables, interest rates in particular, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date. Results of the analysis as presented in the above table represent the effects on the Parent Company's income before tax measured in US dollars using the closing foreign exchange rate at the reporting date.

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

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

  The following table shows the information relating to the Parent Company's fixed rate financial instruments presented by maturity profile.

	December 31, 2018					
Fixed Rate Instruments	**Interest Rate**	**<1 year**	**>1 - 2 years**	**>2 - 5 years**	**Over 5 years**	**Total**
Financial assets						
AFS financial assets						
Debt securities						
Government bonds	**3.38% - 18.25%**	**₱316,461,100**	**₱95,618,215**	**₱–**	**₱33,538,994,425**	**₱33,951,073,740**
Corporate bonds	**3.92% - 6.08%**	**–**	**–**	**606,478,130**	**987,612,840**	**1,594,090,970**
Loans and receivables						
Policy loans	**7.00% - 8.00%**	**3,536,498,966**	**–**	**–**	**–**	**3,536,498,966**
Short-term deposits	**0.50% - 1.50%**	**768,765,744**	**–**	**–**	**–**	**768,765,744**
Cash in banks	**0.25% - 1.50%**	**2,311,032,451**	**–**	**–**	**–**	**2,311,032,451**
Corporate loan	**5.42%**	**200,000,000**	**–**	**–**	**–**	**200,000,000**
Mortgage loans	**5.00% - 10.00%**	**–**	**–**	**4,627,874**	**–**	**4,627,874**
		₱7,132,758,261	**₱95,618,215**	**₱611,106,004**	**₱34,526,607,265**	**₱42,366,089,745**

	December 31, 2017					
Fixed Rate Instruments	Interest Rate	<1 year	>1 - 2 years	>2 - 5 years	Over 5 years	Total
Financial assets						
AFS financial assets						
Debt securities						
Government bonds	3.63% - 18.25%	₱–	₱–	₱–	₱39,131,627,729	₱39,131,627,729
Corporate bonds	3.92% - 5.28%	–	–	–	1,476,586,534	1,476,586,534
Loans and receivables						
Policy loans	8.00% - 10.00%	3,671,267,984	–	–	–	3,671,267,984
Short-term deposits	0.50% - 1.75%	96,663,960	–	–	–	96,663,960
Cash in banks	0.05% - 1.50%.	1,712,971,077	–	–	–	1,712,971,077
Corporate loan	5.42%	–	–	200,000,000	–	200,000,000
Mortgage loans	5.00% - 10.00%	–	–	5,048,891	–	5,048,891
		₱5,480,903,021	–	₱205,048,891	₱40,608,214,263	₱46,294,166,175

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

		Impact on OCI	
Currency	**Change in basis points**	**2018**	2017
Philippine Peso	+100	**(₱3,407,845,947)**	(₱4,447,237,849)
US Dollar	+100	**(133,942,529)**	(133,278,630)
Philippine Peso	-100	**3,407,845,947**	4,447,237,849
US Dollar	-100	**(133,942,529)**	133,278,630

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

- *Equity price risk*
The Parent Company's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, AFS equity financial assets.

Such financial assets are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan, and limits on investment in each country, sector and market.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on other comprehensive income (that reflects changes in fair value of AFS financial assets).

	2018	
Market index	**Change in yield rate**	**Impact on other comprehensive Income**
PSE index	+15.94%	**₱42,486,556**
PSE index	-15.94%	**(42,486,556)**

	2017	
Market index	Change in yield rate	Impact on other comprehensive Income
PSE index	+15.94%	₱41,275,440
PSE index	-15.94%	(41,275,440)

Financial Instruments - Fair Value Measurement

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

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

The fair values of mortgage loans, due from officers and employees, receivable from agents, corporate loan and security deposits are based on the discounted value of future cash flows using market rates for similar types of instruments.

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

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

	December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
AFS financial assets				
Debt securities				
Government bonds	**₱13,567,632,420**	**₱20,383,441,320**	**–**	**₱33,951,073,740**
Corporate bonds	**1,594,090,970**	**–**	**–**	**1,594,090,970**
UITFs	**183,813,074**	**–**	**–**	**183,813,074**
Quoted equity securities				
Common shares	**1,562,743,038**	**–**	**–**	**1,562,743,038**
Club shares	**–**	**64,150,000**	**–**	**64,150,000**
Financial Assets designated at FVPL				
Debt securities				
Held in IIFS				
Government bonds	**6,831,977,726**	**5,195,983,492**	**–**	**12,027,961,218**
Corporate bonds	**357,783,662**	**813,819,364**	**–**	**1,171,603,026**
UITFs	**3,417,660,575**	**–**	**–**	**3,417,660,575**
Equity securities - at market				
Common shares	**24,238,830,794**	**–**	**–**	**24,238,830,794**
Other equity securities	**4,595,789,989**	**–**	**–**	**4,595,789,989**
Loans and receivables				
Receivable from agents - net	**–**	**–**	**246,160,551**	**246,160,551**
Corporate loan	**–**	**–**	**197,185,919**	**197,185,919**
Security deposits	**–**	**–**	**114,496,917**	**114,496,917**
Mortgage loans	**–**	**–**	**4,758,844**	**4,758,844**
Due from officers and employees	**–**	**–**	**53,948,611**	**53,948,611**
Total	**₱56,350,322,248**	**₱26,457,394,176**	**₱616,550,842**	**₱83,424,267,266**

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
AFS financial assets				
Debt securities				
Government bonds	₱15,641,124,839	₱23,490,502,890	–	₱39,131,627,729
Corporate bonds	570,269,932	906,316,602	–	1,476,586,534
UITFs	16,692,480	–	–	16,692,480
Quoted equity securities				
Common shares	2,008,477,796	–	–	2,008,477,796
Club shares		46,550,000	–	46,550,000
Financial Assets designated at FVPL				
Debt securities				
Held in IIFs				
Government bonds	7,909,454,495	5,195,983,492	–	13,105,437,987
Corporate bonds	1,866,915,217	–	–	1,866,915,217
UITFs	1,513,728,586	–	–	1,513,728,586
Equity securities - at market				
Common shares	23,794,729,718	–	–	23,794,729,718
Other equity securities	3,707,154,061	–	–	3,707,154,061
Loans and receivables				
Receivable from agents - net	–	–	222,853,822	222,853,822
Corporate loan			201,340,469	201,340,469
Security deposits	–	–	111,101,798	111,101,798
Mortgage loans	–	–	5,194,523	5,194,523
Due from officers and employees	–	–	60,603,126	60,603,126
Total	₱57,028,547,124	₱29,639,352,984	₱601,093,738	₱87,268,993,846

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

26. Related Party Transactions

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

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

Significant transactions with related parties include the following:

December 31, 2018

	Entities	Financial Statement Account	Nature	Transactions during the year	Outstanding balance
Ultimate Parent	**Manulife Financial Corporation**	**Due from Related Parties**	**Actual time charges and/or cost of its officers and employees for the marketing support and branding awareness campaign.**	**(₱23,027)**	**₱16,505**
			Pre-operating expenses and advance charges of an entity under common control receivable from the Ultimate Parent	**133,673,187**	**133,673,187**
		Due to Related Parties	**Cost for the data management services provided by the ultimate parent.**	**749,813**	**13,867,263**
			Actual time charges and/or cost of its officers and employees for the marketing support and branding awareness campaign.	**275,371,738**	**590,291,688**
Subsidiaries	**Manulife Financial Plans, Inc.**	**Insurance Receivables**	**Actual premium payment for life coverage embedded in pre-need plans.**	**1,012,947**	**4,216,055**
		Due from Related Parties	**Funds borrowed by the subsidiary, non-interest bearing, net of collections and deposits.**	**40,704,579**	**359,908,226**
			Allocated costs to the subsidiary for management, accounting and other administrative services rendered plus 5% mark up and various fund transfer throughout the year.	**10,079,892**	**11,080,353**
	Manulife Chinabank Life Assurance Corporation	**Due from Related Parties**	**99% of inforce business assumed by the Parent Company and 1% retained by the subsidiary.**	**68,290,921**	**920,876,214**
			Assumed unit-linked management fee from subsidiary.	**94,816,499**	**177,962,065**
			Allocated costs to the subsidiary for management, accounting and other administrative services rendered plus 5% mark-up.	**(82,326,550)**	**172,305,096**

(Forward)

	Entities	Financial Statement Account	Nature	Transactions during the year	Outstanding balance
		Reserve for legal policy reserves	**No term**	**₱3,010,491,246**	**₱3,967,706,619**
Under Common Control	**Manulife International Limited**	**Due to Related Parties**	**Payment of reinsurance payable which consist of premium, recoverable and administrative charges.**	**(11,335,043)**	**-**
	Manulife Data Services, Inc.	**Due to Related Parties**	**Non-interest bearing cash advances.**	**(5,630)**	**352,345**
			Cost for the data management services provided by the affiliate.	**(2,769,867)**	**27,110,840**
	Manulife Asset Management and Trust Corporation	**Due to Related Parties**	**Management Fee**	**(3,948,473)**	**29,131,786**
			Assumed pension liability and other charges	**(8,740,546)**	**-**
		Due from Related Parties	**Service Fee**	**10,402,287**	**18,529,130**
			Pre operating expense and advance charges	**(7,229,564)**	**15,247,115**

December 31, 2017

	Entities	Financial Statement Account	Nature	Transactions during the year	Outstanding balance
Ultimate Parent	Manulife Financial Corporation	Due from Related Parties	Actual time charges and/or cost of its officers and employees for the marketing support and branding awareness campaign.	₱642,384	₱39,532
		Due to Related Parties	Cost for the data management services provided by the ultimate parent.	3,412,855	13,117,450
			Actual time charges and/or cost of its officers and employees for the marketing support and branding awareness campaign.	332,187,810	314,919,950
Subsidiaries	Manulife Financial Plans, Inc.	Insurance Receivables	Actual premium payment for life coverage embedded in pre-need plans.	18,540,548	3,203,108
		Due from Related Parties	Funds borrowed by the subsidiary, non-interest bearing, net of collections and deposits.	123,165,510	319,203,647
			Allocated costs to the subsidiary for management,	13,766,455	1,000,461

	Entities	Financial Statement Account	Nature	Transactions during the year	Outstanding balance
			accounting and other administrative services rendered plus 5% mark up and various fund transfer throughout the year.		
	Manulife Chinabank Life Assurance Corporation	Due from Related Parties	99% of inforce business assumed by the Parent Company and 1% retained by the subsidiary.	₱262,148,008	₱852,585,293
			Assumed unit-linked management fee from subsidiary.	231,753,192	83,145,566
			Allocated costs to the subsidiary for management, accounting and other administrative services rendered plus 5% mark-up.	216,925,058	254,631,646
		Reserve for legal policy reserves		–	957,215,373
Under Common Control	Manulife International Limited	Due to Related Parties	Payment of reinsurance payable which consist of premium, recoverable and administrative charges.	78,572,113	11,335,043
	Manulife Data Services, Inc.	Due to Related Parties	Non-interest bearing cash advances.	(249,773)	357,975
			Cost for the data management services provided by the affiliate.	10,924,682	29,880,707
	Manulife Asset Management and Trust Corporation	Due to Related Parties	Management Fee	57,033,532	33,080,259
			Assumed pension liability and other charges	8,740,546	8,740,546
		Due from Related Parties	Service Fee	8,126,843	8,126,843
			Pre operating expense and advance charges	22,476,679	22,476,679

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

Remuneration of Key Management Personnel

The Parent Company’s key management personnel include all management committee officers. The summary of compensation of key management personnel follows:

	2018	2017
Salaries and other short-term employee benefits	**₱306,386,296**	₱272,252,690
Post-employment and other long-term benefits	**14,054,845**	12,514,598
Others	**1,578,036**	1,321,592
	₱322,019,177	₱286,088,880

27. **Lease Commitments**

The Parent Company has various operating lease agreements for branch offices and other facilities. The operating lease agreements are for a period of 1 to 5 years with escalation rates on some of these leases ranging between 5% and 10%. Most leases contain renewal options. Future minimum lease payments under lease commitments existing as of December 31, 2018 and 2017 follow:

	2018	2017
Within one year	**₱101,203,863**	₱155,021,441
After one year but not more than five years	**265,834,962**	86,736,253
	₱367,038,825	₱241,757,694

In 2018 and 2017, rent expense recognized in the parent company statements of income amounted to ₱210.88 million and ₱194.04 million, respectively (see Note 21).

28. **Regulatory Requirements**

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

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

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

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

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

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

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

Networth	**Compliance Date**
₱250,000,000	June 30, 2013
550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

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

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

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

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

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

	2018 (Estimated)	2017 (Actual)
Loans and receivables	**₱201,311,957**	₱187,522,754
Property and equipment	**288,834,905**	194,111,821
Intangible asset	**29,883,199**	37,353,999
Other assets	**236,556,087**	185,981,881
	₱756,586,148	₱604,970,455

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

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

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

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

	2018 (Estimated)	2017 (Actual)
Total admitted assets	**₱95,854,435,286**	₱98,269,822,450
Total liabilities	**81,422,931,640**	84,197,571,068
Net worth	**14,431,503,646**	14,072,251,382
Required Minimum Capital / Net Worth	**550,000,000**	550,000,000
	₱13,881,503,646	₱13,522,251,382

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

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

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

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

	2018 (Estimated)	2017 (Actual)
Total Available Capital (TAC)	**17,469,592,626**	17,796,246,218
RBC requirement	**2,920,638,641**	2,951,719,073
RBC ratio	**598%**	603%

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

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

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

29. Current and Non-current Classification

As of December 31 2018 and 2017, the Parent Company's classification of its accounts is as follows:

	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
Cash and Cash Equivalents	₱3,080,640,436	₱–	₱3,080,640,436	₱1,810,466,019	₱–	₱1,810,466,019
Insurance Receivables	140,660,107	–	140,660,107	136,609,502	–	136,609,502
Financial Assets						
Available-for-sale financial assets	316,461,100	37,039,409,722	37,355,870,822	–	42,679,934,539	42,679,934,539
Financial assets at fair value through profit or loss	45,451,845,602	–	45,451,845,602	43,987,965,569	–	43,987,965,569
Loans and receivables	6,052,569,926	227,162,332	6,279,732,258	5,720,240,866	453,017,929	6,173,258,795
Accrued Income	534,966,644	–	534,966,644	549,137,344	–	549,137,344
Reinsurance Assets	1,064,318,029	–	1,064,318,029	964,334,790	–	964,334,790
Investments in Subsidiaries	–	1,427,329,688	1,427,329,688	–	2,091,298,983	2,091,298,983
Property and Equipment	–	560,062,939	560,062,939	–	262,916,219	262,916,219
Intangible Assets	–	29,883,200	29,883,200	–	37,354,000	37,354,000
Other Assets	82,914,253	91,698,448	174,612,701	35,890,890	49,084,811	84,975,701
Total Assets	56,724,376,097	39,375,546,329	₱96,099,922,426	₱53,204,644,980	₱45,573,606,481	₱98,778,251,461
Liabilities						
Insurance contract liabilities	₱46,451,328,574	₱28,316,019,561	₱74,767,348,135	₱45,307,072,273	₱31,903,832,736	₱77,210,905,009
Policyholders' dividends	3,617,297,406	–	3,617,297,406	3,790,613,701	–	3,790,613,701
Insurance payables	1,345,759,886	–	1,345,759,886	822,975,000	–	822,975,000
Premium deposit fund	36,653,595	–	36,653,595	39,923,559	–	39,923,559
Accounts payable and accrued expenses	1,924,181,718	–	1,924,181,718	1,831,643,374	–	1,831,643,374
Due to related parties	660,753,922	–	660,753,922	411,431,928	–	411,431,928
Pension liability	–	–	–	–	14,775,243	14,775,243
Total Liabilities	₱54,035,975,101	₱28,316,019,561	₱82,351,994,662	₱52,203,659,835	₱31,918,607,979	₱84,122,267,814