We are Five

Annual Report 2019

At FWD, we're a different kind of insurance company.

Led by our customers. Driven by technology.

Looking outwards at what people need, rather than what the industry has always offered.

This means we offer a new kind of insurance. It's easier to buy, easier to claim, and easier to understand. This isn't the way insurance usually feels. But we're not your usual insurance company.

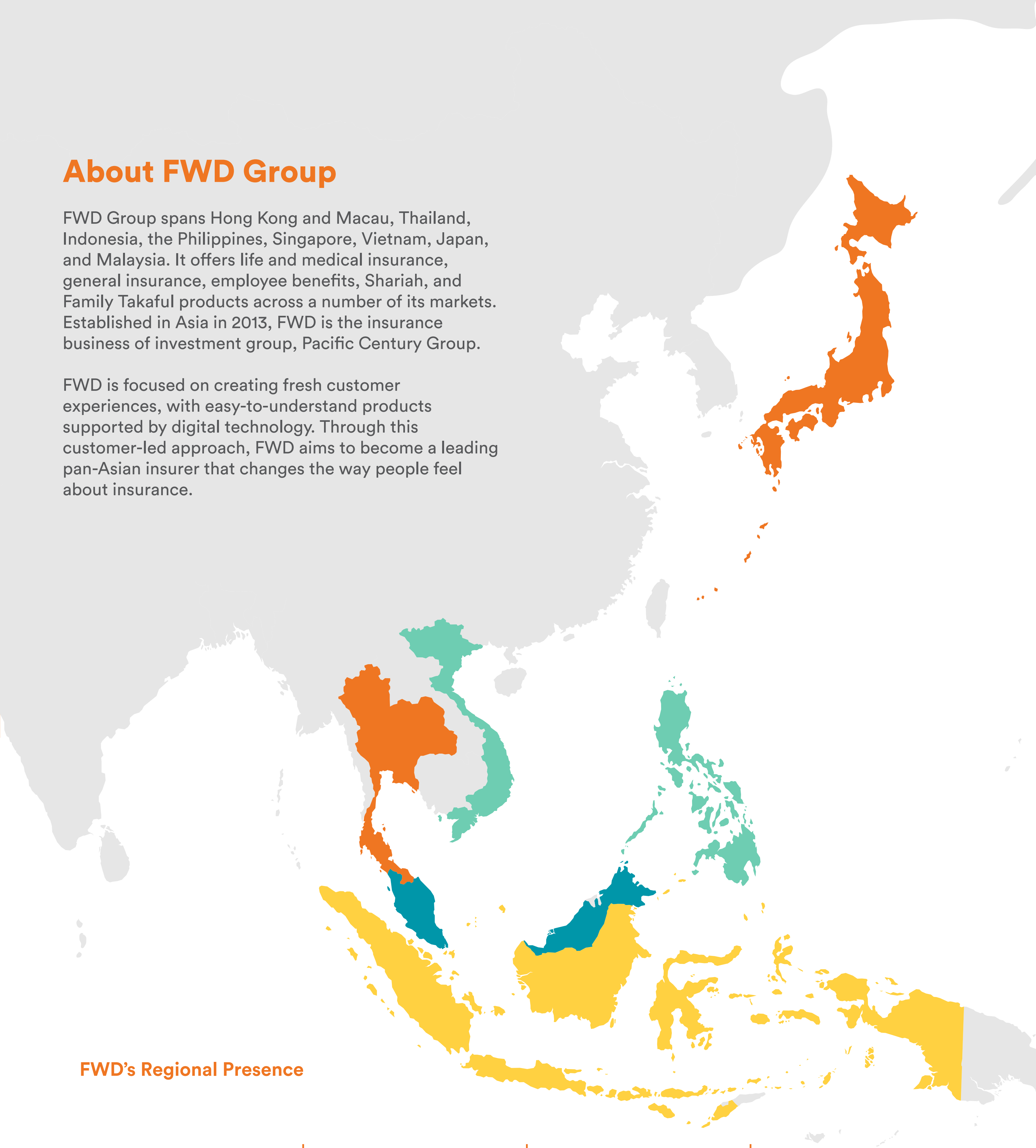
At FWD, our vision is simple:

We want to change the way people feel about insurance.

About FWD Group

FWD Group spans Hong Kong and Macau, Thailand, Indonesia, the Philippines, Singapore, Vietnam, Japan, and Malaysia. It offers life and medical insurance, general insurance, employee benefits, Shariah, and Family Takaful products across a number of its markets. Established in Asia in 2013, FWD is the insurance business of investment group, Pacific Century Group.

FWD is focused on creating fresh customer experiences, with easy-to-understand products supported by digital technology. Through this customer-led approach, FWD aims to become a leading pan-Asian insurer that changes the way people feel about insurance.



FWD's Regional Presence

Customers:	Employees:	Agents:	Assets:
More than **7.5 million***	More than **6,000****	More than **22,000**	Around **US$50Bn**

*Includes more than 2.5 million group members
**Includes Group Office employees

About FWD Life Philippines

FWD Life Insurance Corporation (FWD Life Philippines or the Company) launched its commercial operations in September 2014. As of year-end 2019, FWD Life Philippines ranks third (3rd) and eighth (8th) in terms of Paid-Up Capital[1] and New Business Annual Premium Equivalent[2] (APE).

[1] www.insurance.gov.ph > Statistics > Life > 2019 > Based on Paid-Up Capital
[2] www.insurance.gov.ph > Statistics > Life > 2019 > Based on New Business Annual Premium Equivalent

Our Vision & Mission

FWD Life Philippines' vision is to change the way people feel about insurance. Our brand promise is to celebrate living. In doing so, we want to empower Filipinos to do more and fear less.

FWD Life Philippines believes in making insurance as accessible, straightforward, and easy as possible. We are committed to understanding what customers really need and as a result of this, to design products that are truly people-centered

2019 FWD Life Philippines Milestones

August 2019

Unveiled our new Set for Life Variable Unit-Linked (VUL) add-ons and Lifestyle Bundles, products that are tailor-made for our customers' evolving needs and changing lifestyles

September 2019

Launched our partnership with HMO Intellicare. Together with Aventus Medical Care Inc. (Aventus), we're now extending our individual and group insurance products through these new channels

November 2019

Launched our new online sales platform with an online-exclusive product suite, KanDüü

November 2019

Opened our latest business hub in Angeles City, Pampanga

December 2019

Announced the renaming of the MCX expressway—the FWD-MCX—as part of an eight-year partnership with the Ayala Corporation

December 2019

Opened our new business hubs in Valencia City, Bukidnon and Binondo, Manila

Messages

"We remained in the same ranking from 2018 to 2019. Our number eight position means we remain firmly in the top 10 life insurance companies in the Philippines."

Message from the Chairman of the Board

When I look at our figures for 2019, I'm hugely proud that once again, FWD Life Philippines is a standout performer in the industry. Compared to our peers, we enjoyed a growth rate that was three times the 4.3% rate recorded as an average benchmark. We also saw an impressive 25% increase in our Annual Premium Equivalent (APE) and in a relatively flat market, we achieved a 19% increase in Value of New Business (VNB).

Now in our fifth year, we remained in the same ranking from 2018 to 2019. Our number eight position means we remain firmly in the top 10 life insurance companies in the Philippines[3].

But perhaps our biggest achievement of all is that for the first time, we ended the year with a profit of over PhP350 million.[4] This is significantly ahead of our target which projected profits considerably later, in Year 7. This outstanding performance is tribute to the hard work, focus, and commitment of everyone across the organization.

And as 2019 has shown, this hard work and productivity extended beyond our own efforts. Our bancassurance partner, Security Bank Corporation, recorded an average sale of more than 10 cases per Financial Solutions Consultant (FSC), which is truly remarkable.

Looking at the bigger picture, the Philippines recorded a GDP growth rate of 5.9% this past year, lower than in 2018. This makes our efforts even more impressive.

Of course, one solid indication of our progression is the recent move of our first President and CEO, Mr. Peter Grimes. Following his stellar work here in the Philippines, Peter has been given even bigger responsibilities as FWD Thailand Country Chief Executive Officer. This is a clear reflection of his excellent work in the Philippines and the results we've all enjoyed. I'm supremely confident that Peter will bring the same strategy and success to our colleagues in Thailand. With that in mind, I'd like to take this opportunity to give him my sincerest thanks for a job extremely well done—and to wish him all the best in his new role.

With this development, I'm delighted to welcome our new President and CEO, Mr. Li Hao Zhuang. I was present at the Board meeting where Li Hao presented his dynamic five-year vision for our company, and it's clear that we couldn't have picked a better person to take the mantle at FWD Life Philippines. Li Hao's vision sets out exactly how he intends to steepen our upward trajectory and propel us to the top ranks of our industry. His plan is bold, exciting, and very achievable.

Please extend your unwavering support to our new President and CEO. We are now in a great position to move forward and fulfill our brand vision of changing the way people feel about insurance. Together, let's work hard to protect every Filipino—and create a future with a difference for all.

Thank you.

Mabuhay ang Pilipinas! Mabuhay ang FWD Life Philippines!

Amb. Jose L. Cuisia Jr.

Chairman of the Board

FWD Life Philippines

[3] www.insurance.gov.ph > Statistics > 2019 > Based on New Business Annual Premium Equivalent

[4] Philippine Financial Reporting Standards (PFRS)

Message from the 2019 President and Chief Executive Officer

Dear friends,

In 2014, we entered the Philippine insurance market with a bold vision: to change the way people feel about insurance. After five full years, not only has FWD Life Philippines become one of the country's fastest-growing insurers, we are also one of the most exciting and talked-about brands. We've focused on fresh customer experiences; the latest digital technology; and simple, accessible, relevant products. In doing so, we've successfully navigated our way in positioning ourselves as an exciting challenger brand. We've also given our customers a brand promise that truly resonates: "Celebrate Living." We are indeed a different kind of insurance company.

And just as the Group's reach expanded throughout 2019, so did we. FWD Life Philippines has now solidified its place as a Top 10 insurer in the country.

As I hand over the reins to Li Hao, there are many other milestones that I'm proud to share:

- Our total premium income has increased to PhP9.6 billion, up 25% from 2018.
- Our assets under management has increased to PhP17.8 billion as of 31 December 2019, 13x bigger than when we started in 2014.
- In 2019, we saw the continued expansion of our footprint with three new business hubs: Angeles City (Pampanga), Binondo (Manila), and Valencia City (Bukidnon).
- We launched our partnership with Intellicare, together with Aventus Medical Care Inc. (Aventus), to offer individual and group insurance products to further expand our channels.
- We released our new Set for Life Variable Unit-Linked (VUL) add-ons and lifestyle bundles.
- We launched a new online sales platform (shop.fwd.com.ph) and our exclusive new online product suite, KanDüü.
- We announced our Expressway Sponsorship Program with AC Infrastructure Holdings Corporation and unveiled the newly renamed FWD Muntinlupa-Cavite Expressway (FWD-MCX).
- We received notable recognitions from the Insurance Asia Awards, Philippine Quill, and the Asia CEO Awards. And for the fourth consecutive year, FWD Life Philippines was recognized as one of "Asia's Best Employer Brands."
- In support of our Community Care vision to empower disabled people to live more fulfilled lives, we continued our successful partnerships with Special Olympics Philippines and Humanity & Inclusion.

These feats were achieved through the hard work and dedication of our employees, distribution partners, and business partners—all of whom believe in our inspiring vision, and took bold steps to make it happen.

"We've given our customers a brand promise that truly resonates: 'Celebrate Living'. We are indeed a different kind of insurance company."

In the coming years, I have no doubt that FWD Life Philippines will remain as committed as ever to the challenger mindset that has led us this far. I wish Li Hao the very best and encourage all of you to give him your utmost support as he leads the company to even greater heights. I'm confident that with his unique leadership and expertise, FWD Life Philippines will succeed in our mission to becoming a top life insurer in the Philippines.

Thank you for all your hard work and support. I sincerely wish FWD Life Philippines continued success.

Peter Grimes

2019 President and Chief Executive Officer
FWD Life Philippines

“FWD Life Philippines has grown to become a formidable first-tier insurer that is changing the way Filipinos feel about insurance.”

Message from the 2020 President and Chief Executive Officer

Dear FWD Life Philippines family and friends,

In five short years, FWD Life Philippines has grown to become a formidable first-tier insurer that is changing the way Filipinos feel about insurance. Customers love our innovative products, from our unique Fight Plan that protects against cancer, to our KanDüü digital-first plan that’s simple and affordable. They also love what our brand represents—innovation, freshness, and excitement in the way we do life planning.

Peter Grimes, founding FWD Life Philippines President and Chief Executive Officer, and his team built a strong, growing, and sustainable business. Under his leadership, FWD Life Philippines reached a number of key milestones in 2019: We grew twice as fast as the industry in the first three quarters, became a top eight (8) insurer, and turned profitable for the first time. At the same time, our relationship with our strategic bank partner, Security Bank Corporation, has never been stronger. To Peter and the team he built: congratulations and a sincere thank you.

2020 marks the beginning of a new decade, my new role as President and Chief Executive Officer, as well as a new journey for us. A journey that began from being a start-up to maturity, and now towards leadership in customer care, product innovation, and purchase-to-claims experiences. The next few years will likewise see us set new standards of professionalism, productivity, and digital connectivity for the industry.

In short, we are building a stronger company to lead the industry. We aim to do this in three ways:

1. **Stronger Focus on Our Customers**
   We are remapping how we serve our customers to fine-tune every part of their experience with us. From new digital channels to serve them, better advice to guide their financial planning, to better handholding when they need us most (claims), we will find new ways to do better. We are here to build a stronger company with *malasakit*.

   We'll continue to do what we love to do most: developing products that our customers love and need. Our Pro series plan riders give our customers immense flexibilities in getting the protection they need and deserve. We will further refine and make them even better. For the first time, we are joining forces with our strategic bank partner, Security Bank Corporation, to develop new solutions that will meet our customers' total financial and protection needs.

   We have also identified new customer segments that we believe can be better served, and where we can take leadership positions. We have started work on addressing customers' needs, and I look forward to reporting these exciting developments to you soon.

2. **Stronger Team**
   We have strengthened our top executive team (EXCOMM) with a new Chief Agency Officer (Jun Marasigan), Chief Information and Transformation Officer (Adnelle Valeza), and promoted our Chief Partnership Officer (Irene Andas). All of them are leaders in their own right, and will add to our bench strength.

   We are also putting in place programs to attract, develop, and retain top talent. In the works are management associate and internship programs to groom top university graduates. Our FutureWise program will develop our staff into effective Senior Management team members. Our partnership with INSEAD, a top global business school, prepares our top agency leaders to change the industry and provides them a development path to corporate C-Suite positions if they aspire to. This is an industry first.

3. **Stronger Technology Enablement**
   Technology innovation is at the core of our DNA. We have pioneered a number of key technologies that set us apart, from AI2, an assisted-intelligence advisory tool to help clients make planning decision; UnderwriteMe that gives instant underwriting results; to TAPP that gives customers direct access to their policy status, fund performance, and their advisors.

   We are pushing the technology boundaries with new machine learning capabilities. Our *Enzo* chatbot is winning fans widely and is currently rated 4.5 stars by customers. We will be expanding these capabilities into training, client servicing, and engagements. Our operations will be increasingly automated to make transacting with us smoother and faster.

The Philippines has tremendous growth opportunities. It has a young, vibrant population, a fast-growing economy, and an emerging middle class. More importantly, it is underserved and has started to realize so.

Even with the pandemic and challenges in 2020, we remain confident about the country's future, and FWD Life Philippines is here to stay for good.

It is my honor and privilege to take over the helm of FWD Life Philippines. In the spirit of *bayanihan*, and with you, I look forward to building a stronger company that serves the country's protection needs and changes the way Filipinos feel about insurance.

Li Hao Zhuang

2020 President and Chief Executive Officer
FWD Life Philippines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Business Review

FWD Life Philippines is deeply committed to innovation. As such, we have become one of the country's most exciting insurance brands. Now in our fifth year, we continue to empower people to live fulfilled lives, to live out their passions, and to live without fear or worry.

We believe in quality growth through a multi-channel elite distribution. We've made our products available in more places—and in more ways—than ever before. We have expanded our footprint with 17 established business hubs in the Philippines. And as a digitally empowered business, we have harnessed the power of technology to continually meet our customers' evolving needs.

And we've accomplished all this through the hard work, competence, and dedication of our highly skilled and passionate sales force and leadership teams. Together, we work relentlessly to build a business that grows sustainably, sets new standards in the insurance industry, and stays true to our vision: to change the way people feel about insurance.

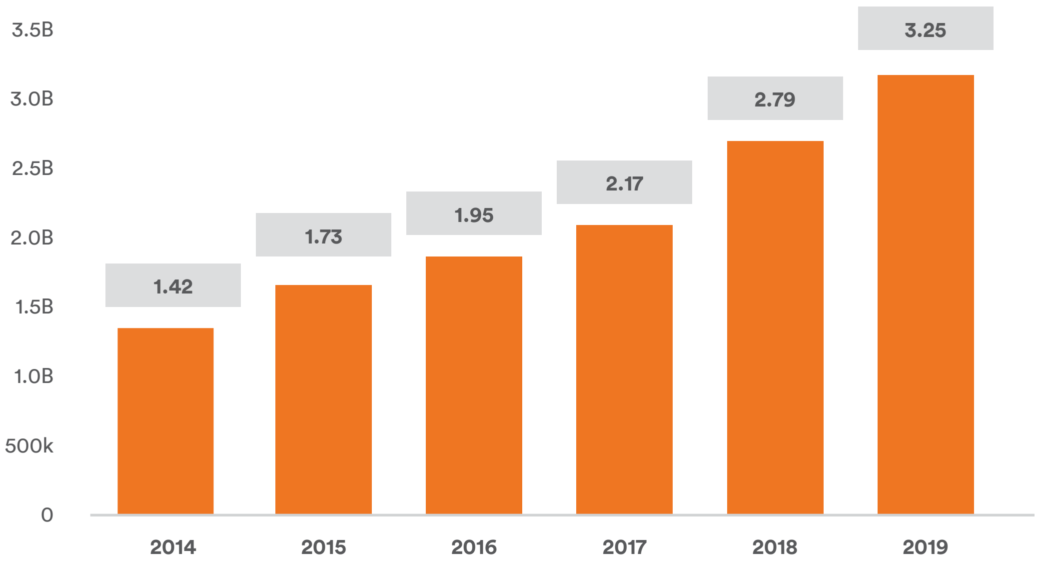
Financial Highlights

In just five years, FWD Life Philippines is already posting positive net income—a significant achievement for a newly established licensed player in the Philippines insurance industry.

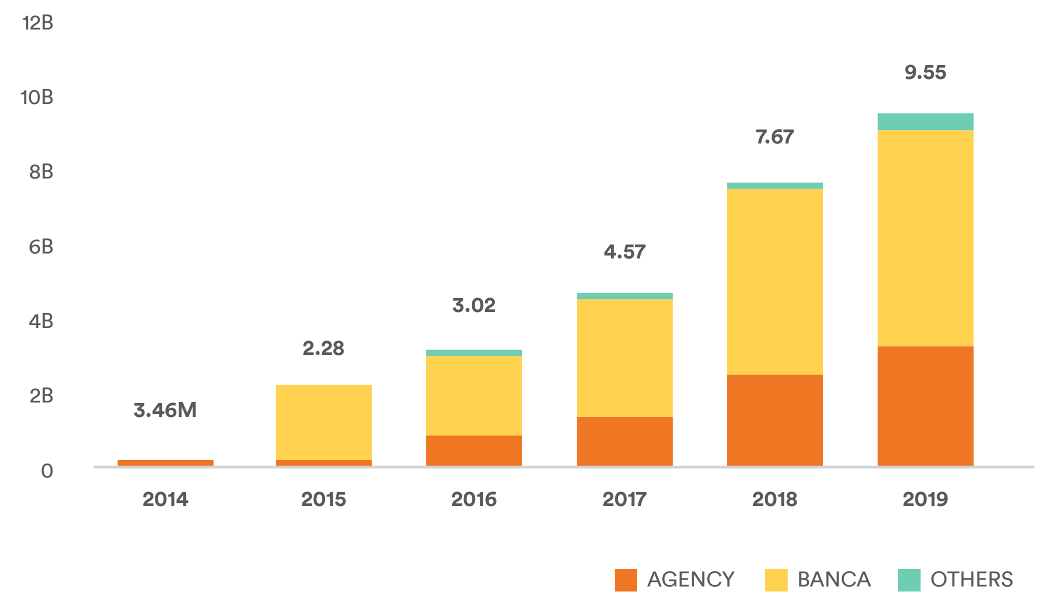
FWD Life Philippines net worth increased by 16% from PhP2.8Bn to PhP3.2Bn, all internally generated through net income. This performance was driven by strong growth in both sales of new business and renewals; a successful focus on protection-oriented products; and prudent expense management.

Premium Income reached PhP9.6Bn, 25% higher than the previous year, driven by the strong performance of both bancassurance and agency channels.

Net Worth (PhP Billion)

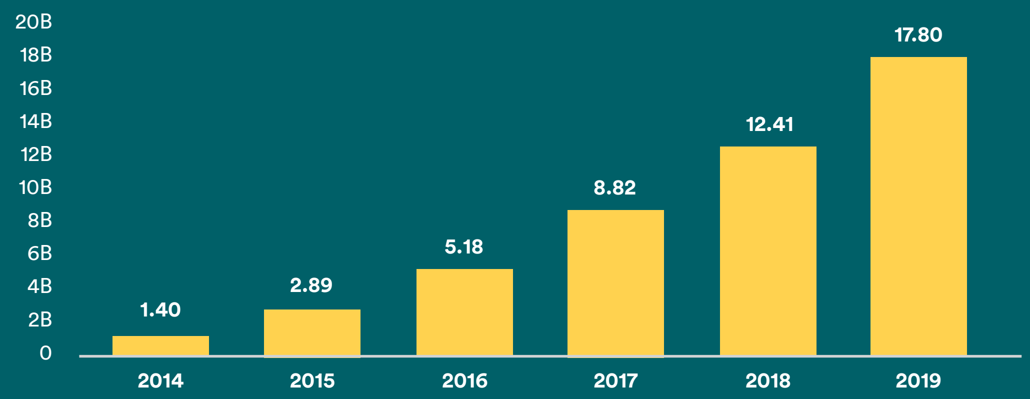


Premium Income (PhP Billion)

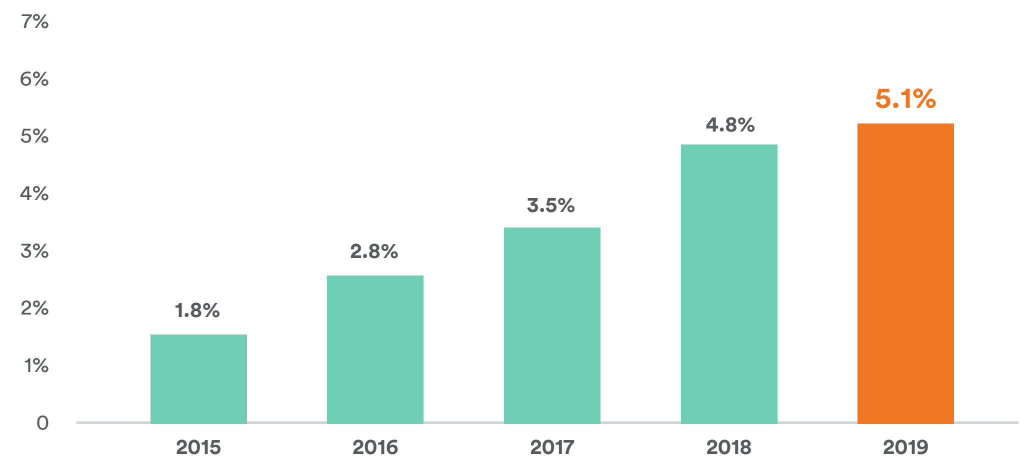


Total Assets in 2019 increased by 43% to PhP21.1Bn. This was directly driven by Assets Under Management, which also grew 43% to PhP17.8Bn due to continued sales growth and favorable retention of our portfolio.

AUM (PhP Billion)



FWD market share for new business APE is at 5.1%, as of 31 December 2019.



Net Income (PhP Million)

The Company's 2019 Audited Financial Statements are included in this report, beginning on page 68.

Building a Multi-Channel 'Elite' Distribution Network

FWD Life Philippines always talks to customers to learn more about the kinds of products they want to buy. It's just as important for us to know how and where they want to buy them. So we've made our insurance available in more places—and in more ways—than ever before: online and offline, direct to customers, or through our partners and agents.

At the heart of our sales force is the FWD Elite Agency, which offers industry-leading training, innovative technology, a compelling career path, and a completely new approach to the agency model.

We have also deepened our strategic partnership with Security Bank Corporation and established new relationships with online and offline retailers and key service providers.

All of which brings us closer to having rewarding, long-term relationships with our customers, as we change the way they feel about insurance.

The FWD Elite Agency

FWD Life Philippines' Elite Agency had a record year with 19% growth in premiums. Some of our key achievements include:

- **Growing our MDRT (Million Dollar Round Table) Team:** In 2019, we grew our MDRT (Million Dollar Round Table) and Elite Agents to over 160 strong, an impressive feat and definitive step towards building a truly market-leading agency.

- **Participating in the FWD Elite Signature at INSEAD Program:** Five of our agency leaders participated in the inaugural Elite Signature at INSEAD Program. This program was developed in partnership with INSEAD, a leading global business school, to develop next generation agency leaders to transform the industry.

- **Winning the #1 Top Producer at FWD Group Elite Agency HiVE:** Ronna Estanislao, one of FWD Life Philippines' Financial Wealth Managers, won the prestigious Top 1 Producer at FWD's Group Elite Agency HiVE. This is the highest regional honor awarded to the top producer (among six markets) in the FWD Group.

The year-long INSEAD program, which takes place in Asia and at the INSEAD campus in France, teaches our Elite agents fundamental skills in leadership and entrepreneurial strength. This includes successful management of a fast-growth sales organization in the digital world, and fine-tuning their skills in accelerated business planning. Additionally, participants learn from leading European fintech companies and are personally mentored by FWD Senior Management.

FWD Elite Bancassurance

Our Elite Bancassurance similarly had a record year, marked by our strong and deepening relationship with our strategic partner, Security Bank Corporation.

Here are 2019's key highlights:

- **Strong APE Growth Year-on-Year:** Our bancassurance delivered a total APE of more than PhP2Bn, a 23% growth over 2018.
- **Outperformed 2019 APE targets:** We've significantly outperformed our APE and fee income targets for the bank and fulfilled our five-year milestone 18 months ahead of schedule.
- **Financial Solutions Consultants:** We have more financial consultants covering over 300 Security Bank branches across the Philippines.

FWD Elite Corporate Care

Our Corporate Care (CorpCare) recorded growth for the third year running and reported the following highlights for 2019:

- **Robust 2019 Growth:** Total annual premiums grew by 119% to PhP432M. Our total number of clients grew by 79% and total number of group insured members grew by 256%
- **Extended Partnership with HMO (Health Maintenance Organization):** We extended our partnership with Intellicare, one of the country's leading HMOs, via a new agreement to cross-sell our group and individual life insurance products to existing and prospective HMO customers
- **Partnership Agreement with Swiss Life Network:** We signed a regional partnership agreement with Swiss Life Network to further strengthen our position in the APAC region

New Direct-to-Consumer Digital Platform

In 2019, we launched the FWD Online Shop, our new online sales platform that offers digital insurance solutions with exclusive rewards. This can be accessed via www.shop.fwd.com.ph.

Through this new digital platform, customers can instantly and directly buy FWD insurance in just a few minutes via a simple one-page application form.

Partnership with Intellicare and Aventus

In August 2019, we further strengthened our partnership with Intellicare and Aventus Medical Care Inc. (Aventus) through a new distribution agreement. This agreement enables us to expand our reach to Intellicare and Aventus' direct clients, giving them access to our market-leading protection and investment propositions, with Set for Health as our flagship protection product.

Expanding our Footprint with New Business Hubs

FWD Life Philippines has continued to expand our reach and engagement across the country. In 2019, we added three new FWD business hubs in:

- Angeles, Pampanga
- Binondo, Manila
- Valencia, Bukidnon

This has brought our total established business hubs in the Philippines to 17.

Delivering New Products to Customers

In 2019, we've continued in our strategic focus to improve our products and look for new ways to better meet our customers' evolving needs. To that end, we launched a number of new protection plans to add to our comprehensive product suite—spanning protection, savings, and investments.

New Variable Unit-Linked (VUL) Protection Add-Ons and Lifestyle Bundles

In August 2019, we launched a portfolio of Protection Add-Ons to enhance our customers' coverage. These include:

- **HealthPro,** a multiple-claim critical illness add-on that covers 42 major illnesses, 15 minor illnesses, and death. It pays 100% of the benefit amount upon diagnosis of a major illness, 20% of the benefit amount for minor illness, and 100% of the benefit amount for death.
- **LifePro**, a life insurance add-on that covers death and terminal illnesses. It pays 100% of the benefit amount upon the insured's death or diagnosis of a terminal illness and provides an additional 20% of the benefit amount if the death happens abroad.
- **SafetyPro**, an accident insurance add-on that covers the insured up to 75 years old. It pays 100% of the benefit amount if the insured dies due to an accident.
- **SurePro**, an add-on that waives premiums if the insured is diagnosed with a critical illness or total and permanent disability.

These new Protection Add-Ons can be layered with Set for Life, our variable unit-linked (VUL) product. FWD Life Philippines markets these as insurance lifestyle "bundles" that are based on customers' different needs. The Proactive Lifestyle Bundle, for example, comes with SafetyPro and SurePro and features competitive premiums starting from PhP2,066 a month[5].

Online-Exclusive Product: KanDüü

Launched in November 2019, KanDüü is FWD Life Philippines' suite of digital life insurance products. Designed for affordability and flexibility, this portfolio is aimed at digitally connected customers. For only PhP1,799 a year, customers can choose from the three KanDüü variants:

- **KanMend** provides a critical illness benefit of PhP100,000. Covering 42 critical illnesses, it also comes with six months free access to KonsultaMD reward, a health hotline service that provides 24/7 unlimited access to licensed doctors in the Philippines.
- **KanLive** provides a death benefit of PhP200,000. It also includes a one-year unlimited medical consultation reward, courtesy of our partner Aventus Medical Care Inc. (Aventus). Aventus is a healthcare service provider with 12 branches spanning Metro Manila, Cebu, Laguna, and Pampanga.
- **KanGuard** provides a cash benefit of PhP500,000 in case of the insured's death, or total and permanent disability following an accident or terrorist attack anywhere in the world. It comes with a one-year subscription reward to Assist America Global Emergency Services, a provider of emergency medical services for travelers worldwide.

[5] All premium rates quoted are for 30-year-old male customers with 10 years of premium payments.

Using Technology to Enhance the Customer Experience

Digital technology is deeply rooted in the DNA of FWD Life Philippines.

As a challenger brand, we understand the shift of power from brand to consumer and we can see the exponential growth of the experience economy. Good customer experience (CX) is not about pushing product; experiences have the competitive advantage. Therefore, we leverage the transformative power of new technology.

We use technology to design better products and to engage more effectively with our customers. This means forming a deeper understanding of their needs so we can create a more enjoyable (and memorable) brand experience.

As part of this mindset, we've built an entire corporate culture around this key driver to create a best-in-class CX.

Our aim is for any person who engages with FWD Life Philippines to feel understood, cared for, and appreciated.

In doing so, we can increase brand loyalty and build brand affinity.

Voice of Customer (VoC) Medallia Partnership

In 2019, FWD Life Philippines launched the Voice of Customer (VoC) program in partnership with Medallia, a global leader in Customer Experience Management. This strengthens our capability to better listen, understand, and respond to our customers' feedback.

With this program, Medallia helps us capture each and every response throughout the customer journey, while their technology enables us to respond to our customers in real time. This is critical to our business because creating the right emotional response helps us build trust, create loyalty, and generate sales. This is part of our strategy to be an entirely customer-led organization, and that's why we call it our "Voice of the Customer."

Creating the right emotional response helps us build trust, create loyalty, and generate sales.

TAPP

FWD TAPP is our mobile customer service app; it acts as our customers' personal 24/7 information gateway and service center. Its features include:

- Instant access to policy details, including the facility to update information and download forms
- Online payments, which means no paperwork, no waiting in line
- Premium due date reminders
- Access to our contact center via live chat
- Claims submission and advance payments

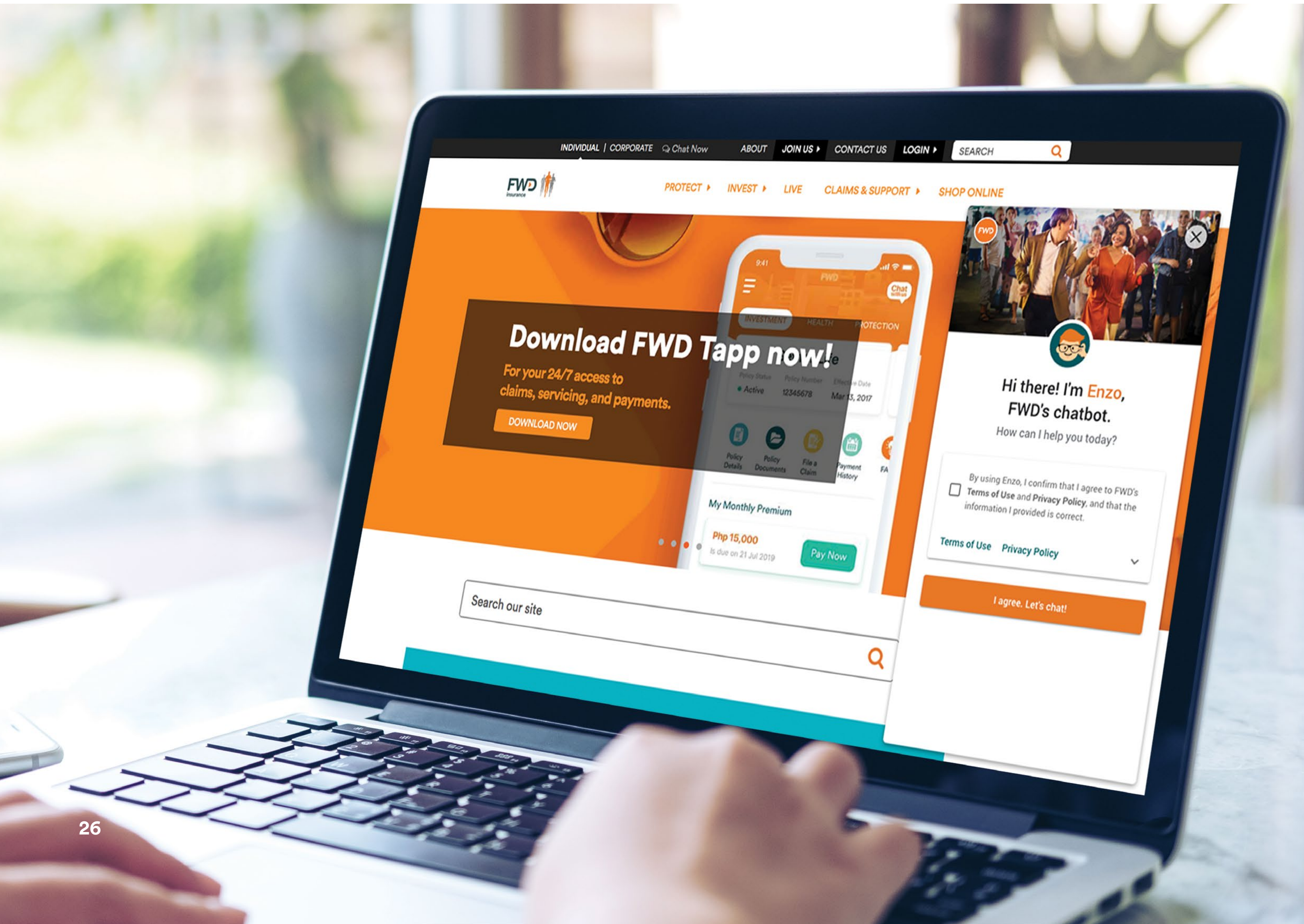
Since the initial launch of TAPP in October 2018, it has become a leading life insurance app in the Philippine market. As of December 2019, TAPP has been rated 4.4 on Google Play and 4.7 on iOS App Store.

We upgraded TAPP in 2019 to include several unique features:

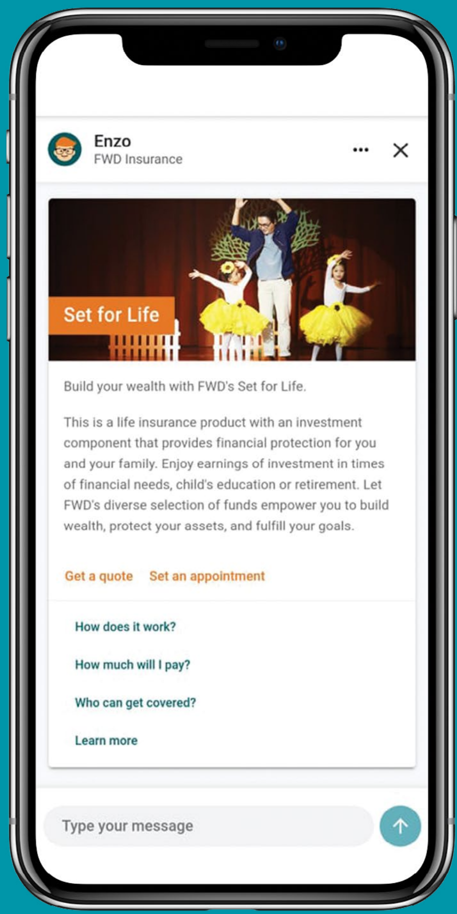
Ability to track and change investments

48-hour claim advances on hospital care benefit

Expanded payment options such as GCash



Enzo has extended our 24/7 contact center's ability to answer more customer inquiries and to support leads generation.



UnderwriteMe

In 2019, FWD Life Philippines became the first country in the FWD Group to introduce UnderwriteMe. UnderwriteMe uses data analytics to simplify the sales process and give instant underwriting decisions and policy issuance.

UnderwriteMe's features include:

- Advanced data analytics to improve risk assessment, meaning more relevant and accurate underwriting decisions
- Faster new business processing rates so our customers can receive instant decisions
- Data-led technology to create a greater understanding of our customer profiles

UnderwriteMe enables FWD Life Philippines to:

- Reduce unnecessary medical exams
- Customize the risk rating questions
- Personalize our quotes
- Expedite insurance approvals for customers (from weeks to minutes)

Enzo

Enzo, the FWD Life Philippines chatbot, went live in December 2019. It was developed using Google's Dialogflow platform and Amazon Web Services, and in partnership with FWD Group's "Innovation Kitchen."

Enzo has the capability to offer product recommendations that are tailored to customers' financial goals and to generate quick responses to product inquiries. Customers can now dynamically search key features of our products and obtain assistance in scheduling appointments with our financial advisors—anytime, anywhere.

Since its launch, Enzo has extended our 24/7 contact center's ability to answer more customer inquiries and to support leads generation. It can be scaled to service more than 72,000 messages at any one time.

Bringing the FWD Brand to Life

FWD Life Philippines is a different kind of insurer with a vision to change the way people feel about insurance. Our core values reflect this vision, and so do our brand campaigns and initiatives. Here's a snapshot of what we did in 2019:

Everyday Heroes

In 2019, we launched our regional brand campaign, "Everyday Heroes," which features people who are challenged to make big, bold decisions in order to live their best lives. This campaign reinforces FWD's brand promise across nine markets: we are here to empower our customers to go ahead and "celebrate living." Because whatever happens, FWD Life Philippines will provide the protection and security our customers need.

The FWD 78° North Marathon

Following the unforeseen cancellation of the 2019 FWD North Pole Marathon, FWD Life Philippines arranged its own 42-kilometer marathon, The FWD 78° North Marathon.

Our very own Financial Wealth Officer, Joyette Jopson, represented FWD Life Philippines. Joyette ended up winning the women's category and enjoyed third best overall result, with an impressive time of four hours, 10 minutes, and 59 seconds.

FWD Life Philippines formed an all-new FWD Squad to provide holistic support to Joyette during her training for the marathon. The team included long distance cyclist Carmela Pearson, professional street skateboarder Margielyn Didal, and mountain climber Romi Garduce. Everyone in the squad proudly embodied the energizing spirit and work ethic of Filipinos.

Celebrating Filipinos' Passion

As part of our philosophy to encourage Filipinos to live life to the fullest, in 2019, FWD Life Philippines partnered with La Union Surf Club, Inc. (LUSC), the only government-recognized surf club in La Union. Known as the "Surfing Capital of the North," La Union hosts a community of people with a shared passion for surfing. This community also works towards sustainable living and environmental stewardship.

With the donation of surfboards and surf tents, FWD Life Philippines enabled the local community to generate funding for LUSC field athletes representing the Philippines in international surfing competitions.

Customers' Greatest Stories

Our Customers' Greatest Stories video series connected with customers by demonstrating the value of insurance. It did this by featuring real stories of real customers whose lives have changed with our help.

As part of the series, we introduced Hazel Ancheta, a Philippine Basketball Association (PBA) employee who has been battling cancer for two years. With a critical illness benefit claim from FWD Life Philippines, she was able to pay for cancer treatments and continue on with her battle against cancer with no worries.

We also featured Chescka Lacandazo. Despite being visually impaired, she works hard both at school and on her other passions in life, such as music. Concerned for her future, her mother Verna tried applying for a life insurance policy but was denied three times by other insurance companies. With Chescka now covered by FWD Life Philippines, Verna is assured that her daughter's future is secured.

FWD-MCX: Encouraging Progress on the Roads of Manila

In December 2019, FWD Life Philippines secured naming rights of the Muntinlupa-Cavite Expressway (FWD-MCX), an exclusive Expressway Partnership Program with the Ayala Corporation subsidiary, AC Infrastructure Holdings Corporation.

The Muntinlupa-Cavite Expressway, known as the MCX, is a 4km expressway in the Philippines. It links the southern Luzon province of Cavite to Muntinlupa City and the National Capital Region, and is a gateway to some of the most exclusive villages south of Metro Manila.

With this newly signed agreement, the first of its kind for a Philippine insurer, FWD Life Philippines has been granted exclusive rights for branding, promotions, and marketing initiatives using FWD-MCX as a platform to symbolize the country's "road to progress."

Our People, Our Values

A Strong Leadership Team

Behind the success of FWD Life Philippines is an experienced and dynamic leadership team that demonstrates a pioneering mindset and highly skilled approach. With the team's vision and expert guidance, the Company promotes a culture of innovation and empowerment.

The leadership team works hard to build a company that:

- Sets new standards for customer experience and innovation
- Grows sustainably and with strict financial discipline
- Attracts and grooms the best talent in the industry
- Is firmly grounded in our five core values: committed, open, proactive, innovative, and caring

David Rowley	**Jasper Hendrik Cheng**	**John Johnson**	**Atty. Juan Sotero Roman**	**Judith Baliton**
Chief Risk Officer	Chief Financial Officer	Chief Distribution Officer	General Counsel	Chief Life Operations Officer

2019 Executive Committee

Judith Field
Chief Marketing Officer

Mervin Pobre
Chief of Staff

Peter Grimes
President and Chief Executive Officer

Rogelio Umali, Jr.
Chief Technology Officer

Rozanne Parungo
Chief People and Culture Officer

2019 Operations Committee

Adam Spencer Cagaoan
Head of Customer Connect

Ana Katrina Guarin
Head of Talent Management

Camilo Velasco
Head of Distribution Operations

Christopher Young
Chief Actuary

Edward Ang
Financial Controller

Erwin Go
Head of Corporate Care

Glenn Mar Agduyeng
Lead, Internal Audit

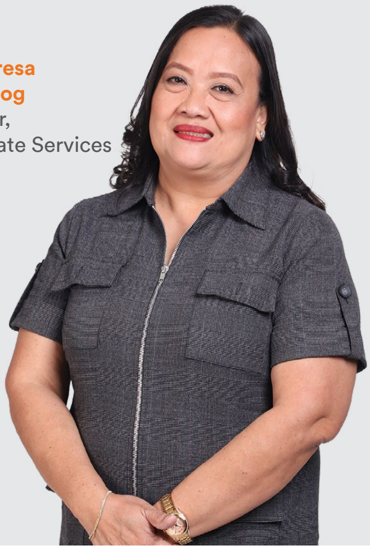
Irene Andas
Head of Bancassurance

Jericho Bautista
Head of Product
Propositions

Joy Cabugon
Head of Data
Science

**Atty. Lea
Royale Kabanlit**
Head of Compliance

**Ma. Teresa
Cabantog**
Director,
Corporate Services



Maricel Paygane
Head of Customer
Experience

**Mark Anthony
Catambacan**
Head of IT Project
Delivery

**Mary
Caroline Santos**
Head of New
Business

**Mary Grace
Yap-Aguinaldo**
Head of New
Markets and Channel
Development

Michelle Lumabi
Head of Investment Operations

Narcisa Placido
Head of People Rewards and Solutions

Queenie Chua
Head of Business Intelligence

Rochelle Vandenberghe
Head of Marketing

Rolando De Castro
Head of Business Solutions Delivery

Investing in Our Most Important Asset

As our business grew, so did our team. We ended 2019 with an increase of 15% in total employee headcount.

We believe in an inclusive workforce. To this end, we maintained a gender balance of 44% female and 56% male. Our average employee age is 34.

The workplace across the Philippines is evolving, and in response, we invested heavily to attract, groom, and retain the very best talent. This is part of our wider strategy to differentiate ourselves as an organization.

Our key employee initiatives for 2019 included:

- **Flexible Work Arrangements:** We launched our Flexible Work Arrangements policy, which offers alternate types of employee contracts to enable acquisition of best available talent in the market.

- **Work from Anywhere (WFA):** We refined our WFA program, introduced in 2018 and improved in 2019. We now give employees the option to take up to five days each quarter to work from the location of their choice.

- **Performance Management:** We enhanced our Performance Management system, which now incorporates interactive feedback mechanism to improve the conversations that already exist between manager and direct reports.

- **Employee Retirement Program:** In partnership with Bank of the Philippine Islands Asset Management Group, we delivered financial wellness programs that emphasized the importance of investing. Our employees were also given the flexibility to choose their fund investment depending on their risk appetite. They can be conservative, moderate, or aggressive in their investments.

- **Group Health Insurance - Extended Benefits:** We provided more security not only to our employees but to their families and dependents as well. Benefits can now be extended to their domestic partners, siblings, children, or parents as dependents, regardless of gender and marital status.

As a result of our efforts, FWD Life Philippines was recognized for the fourth year in a row as one of Asia's Best Employer Brand at the 14th Employer Branding Awards.

Diversity and Inclusion

At FWD Life Philippines, we promote a workplace that feels safe and inclusive so that everyone can do their best work. We therefore do our best to ensure that everyone feels respected and empowered, regardless of ethnicity, race, age, disability, gender identity, sexual orientation, mental health condition or socio-economic status.

The Company worked closely with our Group's diversity and inclusion (D&I) retained expert to grow our awareness, understanding, and appreciation of D&I in the workplace. In 2019, therefore, we organized the following training initiatives:

- **Gender Sensitivity Awareness workshop, held in June 2019**

- **Diversity and Inclusion Awareness training sessions, held in August and December 2019**

- **Mental Health Awareness workshop, held in October 2019**

Our Passion Communities

2019 was a busy year in more ways than one. We formed "passion communities" and organized a series of activities designed to encourage teamwork and promote our brand promise to "celebrate living." Activities included sports and wellness events for staff and family members and celebration of our successes and milestones.

Our Commitment to Corporate Social Responsibility

Empowering Everyone in Our Community

Since 2018, FWD Life Philippines has been working with Humanity & Inclusion (H&I), an international non-profit organization and co-winner of the Nobel Peace Prize, to increase economic opportunities for youth with disabilities.

In 2019, we co-launched a project with FWD in Indonesia: Forward Together. Aimed to empower youth with disabilities in Asia, the program offers life skills coaching and vocational training in business development and financial literacy.

Within FWD Life Philippines, we have also carried out specific activities to foster inclusion:

- **Assessing our Physical Accessibility:** On 28 January 2019, we commissioned a physical accessibility audit, conducted by the United Architects of the Philippines (UAP) and Architect Jaime Silva, Committee Chairman of UAP Committee on Accessibility.

- **Assessing our Digital Accessibility:** We conducted a digital accessibility audit in partnership with ATRIEV (Adaptive Technology for Rehabilitation, Integration and Empowerment of the Visually Impaired).

- **Hiring interns:** On 4 July 2019, we launched our partnership with De La Salle – College of Saint Benilde School of Deaf Education and Applied Studies.

In addition to the partnership with Humanity & Inclusion, FWD Life Philippines worked closely with several charitable organizations and on other community projects in 2019:

- **Young Athletes Play Day, July 2019:** Together with Special Olympics Philippines, FWD Life Philippines hosted the FWD Young Athletes Play Day at the Company business hub in Alabang, Muntinlupa City. Staff members engaged young athletes with intellectual disabilities in an afternoon of mini-obstacle games. The day also included a talk by Joyette Jopson, our FWD 78° North Marathon women's race champion.

- **Financial Sustainability Training, May 2019:** Since 2015, FWD Life Philippines has supported the *Tanging Tanglaw* initiative, helping raise money and create sustainable change for the local Aeta community living in the remote mountains of Luzon. In collaboration with the BAYAN Academy for Social Entrepreneurship and Human Resource Development, a financial sustainability training was delivered to combine the Aeta's tribal wisdom with education on the value of financial literacy.

- **International Day of Persons with Disabilities, December 2019:** The Company celebrated the International Day of Persons with Disabilities with a *Paskong Pinoy*-themed event at the University of the Philippines in Bonifacio Global City, Taguig City. Together with our Community Care partners, Special Olympics Philippines, and Humanity & Inclusion, we marked the occasion with an afternoon of traditional Filipino games. It included a performance from our staff choir and a ceremonial Christmas tree lighting to symbolize solidarity and inclusion.

- **Forward Together, December 2019:** In December 2019, we hosted a "*Pagbabalik Tanaw*: Sharing of Lessons" event, which was attended by everyone involved in our Forward Together project: local government representatives, volunteers, and project beneficiaries. The event aimed to allow people to share experiences and lessons from their own journeys in becoming more inclusive.

Corporate Governance

Good corporate governance is critical to managing our company, our people, and our brand. FWD Life Philippines' approach to corporate governance is driven by the same values that drive everything else that we do: putting our customers first; using the latest technology; and empowering our people.

FWD Life Philippines supports and implements a robust corporate governance policy that allows us to safeguard our stakeholder interests in an effective and transparent manner. The Company is committed to practicing and promoting accountability and acting in accordance with the highest performance standards and ethical guidelines. We comply with the Securities and Exchange Commission's (SEC) Revised Code of Corporate Governance, Insurance Commission's Circular Letter No. 31-2005, and all other relevant laws, rules, regulations, and best practices on corporate governance. In addition, the Company continues to update our Corporate Governance Scorecard in compliance with the relevant IC Circular Letters.

Shareholders

FWD Life Philippines is a wholly owned subsidiary of FWD Group Financial Services Pte. Ltd.

This entity is registered in the Republic of Singapore, as part of the Pacific Century Group (PCG). PCG is an Asia-based private investment group established in 1993 with interests across three core business pillars: Technology, Media & Telecommunications (TMT); Financial Services; and Property. PCG has demonstrated a strong track record of successful investing. It also has a long-term sustainable network in Asia and across its core business pillars.

Capital Structure	
Authorized Capital Stock	PhP5,000,000,000.00
Class	Common Shares
Subscribed and Paid Up	PhP2,300,000,000.00
No. of Shares Issued and Outstanding	2,300,000,000 shares
Treasury Shares	None as of March 2020
Par Value	PhP1.00/share

List of Shareholders

Name	Nationality	Position	No. of Shares	Subscribed and Paid (Php)	% Equity
FWD Group Financial Services Pte. Ltd.	Singaporean	N/A	2,299,999,993	2,299,999,993.00	99.999%
Jose L. Cuisia, Jr.	Filipino	Chairman of the Board	1.00	1.00	Nil
Arthur Lee	Singaporean	Non-Executive Director	1.00	1.00	Nil
Binayak Dutta	Indian	Non-Executive Director	1.00	1.00	Nil
Leo G. Dominguez	Filipino	Independent Director	1.00	1.00	Nil
Vicente B. Castillo	Filipino	Independent Director	1.00	1.00	Nil
Lilia De Lima	Filipino	Independent Director	1.00	1.00	Nil
Li Hao Zhuang*	Singaporean	President and CEO/Director	1.00	1.00	Nil

* The share registered in the name of Mr. Zhuang was previously held by Peter Karl Grimes as President & CEO of the Company until 31 December 2019.

Shareholder Rights

FWD Life Philippines upholds all basic Shareholder rights as stated in the Corporation Code of the Philippines, the SEC Code of Corporate Governance, and all other relevant laws, rules, regulations, and documents. All Shareholders have the right to:

- Effectively participate and vote in Shareholders' meetings;
- Nominate and elect candidates for Directors;
- Approve renumerations of Directors;
- Participate in the amendments of the Company's constitution;
- Transfer all or substantially all assets of the Company;
- Exercise their pre-emptive right and participate in additional stock issuances of the Company;
- Inspect corporate books and records;
- Receive dividends when declared by the Board of Directors; and
- Exercise their appraisal rights over certain matters.

These rights are exercised through a rigorous voting process, conducted at Shareholders' meetings.

Conduct of Shareholders' Meetings

FWD Life Philippines strongly encourages Shareholders' active participation in corporate affairs by ensuring their presence in Shareholders' meetings. The Company consults Shareholders at the beginning of the calendar year and prioritizes a flexible schedule to ensure most, if not all, Shareholders are present in person or by proxy. The formal notice ("Notice") for Shareholders' meetings is circulated at least 21 days prior to the meeting. The Notice is accompanied by the Agenda to encourage active participation in the meeting. Likewise, a proxy form is attached to the Notice to allow unavailable Shareholders to vote in absentia, or through a representative. The reference materials for the Shareholders' meeting are also sent to the Shareholders in advance to ensure that they are acquainted with the rationale and explanation for each agenda item.

The Shareholders are also reminded of the governing rules and voting procedures during the Shareholders' meetings. Before the meeting, the Shareholders are reminded that each share is equivalent to one vote.

All meetings of Shareholders and Directors are held at the Company's main office in Taguig City.

Annual Shareholders' Meeting on 20 March 2020

After consultation with the Shareholders, the Company scheduled our annual Shareholders' meeting on 20 March 2020, instead of 27 March 2020 (4th Friday of March). The formal Notice and Agenda, together with proxy forms, were routed to the Shareholders on 29 February 2020, 21 days before the scheduled meeting. The reference materials for the Shareholders' meeting were also sent to the Shareholders in advance to ensure that they were apprised of the rationale and explanation for each agenda item.

In view of Presidential Proclamation No. 929 and the imposition of the Enhanced Community Quarantine throughout Luzon effective 16 March 2020, the Annual Shareholders' Meeting was held entirely through electronic communications pursuant to SEC circular 2020-09.

The following Shareholders attended the Annual Shareholders Meeting on 20 March 2020 via teleconferencing and videoconferencing:

- **FWD Group Financial Services Pte. Ltd.**
  with Jasper Hendrik Cheng as proxy
- **Security Bank Corporation**
  with Harold de Leon as proxy
- **Ambassador Jose L. Cuisia, Jr.**
  Chairman of the Board
- **Li Hao Zhuang**
  Executive Director, President and Chief Executive Officer
- **Atty. Leo G. Dominguez**
  Independent Director and Chairman of the Nomination Committee
- **Atty. Lilia B. De Lima**
  Independent Director
- **Arthur Lee**
  Non-Executive Director and Chairman of Risk Management and Actuarial and Remuneration Committees
- **Binayak Dutta**
  Non-Executive Director

Shareholders ratified the holding of the meeting on a different date than that specified in the by-laws. The outgoing Directors likewise consented to their shortened term of office.

Board of Directors

Our Board of Directors oversees our Management, our strategic direction and ensures the highest standards in our business.

Overview of the Board's Role, Protocols, and Responsibilities

The Board of Directors sits regularly to set our commercial strategy and to review our mission and vision.

The Board is able to exercise discretionary powers and is accountable to our Shareholders. It is guided by the Corporation Code of the Philippines, the Company's by-laws, the Corporate Governance Manual, and all other relevant laws, rules, and regulations.

Voting protocol and requirements are strictly followed by the Board. An affirmative vote (from the Directors and those present in any meeting) is required to decide a matter. Generally, this refers to a majority of those present. An exception to this is where the law or any by-law requires a higher number. Prior to any votes being taken at a meeting, the Directors and Committee members are reminded of the applicable rules.

The number of directorships shall be generally related to the capacity of a Director. If this number falls below the indicative recommended limit (four or lower), Directors are required to disclose this to the Board, with an explanation on how they can diligently carry out their duties.

The Chairman of the Board

The Chairman's roles and responsibilities include:

- Scheduling meetings to enable the Board to responsibly perform its duties while not interfering with the flow of the Company's operations;
- Preparing meeting agendas in coordination with the CEO;
- Presiding over meetings to ensure Directors actively participate, pose questions or clarifications, and discuss issues to the satisfaction of the Board;
- Exercising control over quality, quantity, and timeliness of the flow of information between Management and the Board; and
- Assisting in ensuring compliance with the Company's guidelines on corporate governance.

Independent Directors

Each Independent Director meets the guidelines set in the Revised Code of Corporate Governance of the Securities and Exchange Commission (SEC) and Company's Corporate Governance Manual. These Directors have no business or significant financial interest in the Company or any of our subsidiaries and are therefore considered independent. The Company adheres to the ASEAN Corporate Governance Best Practices as well as the Insurance Commission's revised rules on Independent Directors and adopts a term limit of nine years or less for our Independent Directors.

Board Diversity Policy

FWD Life Philippines is committed to increasing diversity at the Board level as an essential element in improving governance and performance, and to create a competitive advantage. We endorse diversity in a range of areas including skill, gender, age, ethnicity, background, and experience.

Nomination, Qualification, Election, and Remuneration of Directors

All Shareholders (including non-controlling Shareholders) individually nominate and elect candidates for the Board of Directors. Candidates for Directors, whether for first election or re-election, undergo an orientation program on the Company's vision and strategic objectives. This orientation also covers other key areas such as organizational structure, the Corporate Governance manual, Code of Ethics and Business Conduct, and other relevant policies. Candidates provide relevant data for their biography information (biodata).

The Nomination Committee assesses the candidates' qualifications before they are presented during the annual Shareholders' meeting. The Nomination Committee evaluates their skills, expertise, and experience, and whether these align with FWD Life Philippines' vision and strategic objectives. The Nomination Committee also checks whether the candidates possess all the qualifications stated and none of the disqualifications identified in the Company's by-laws.

The profiles of the qualified candidates are then presented to the Shareholders for election together with the Notice and Agenda for the Shareholders' meeting. Elected candidates hold office for a period of one year, provided their successors are duly elected and qualified. Candidates may be re-elected every year, if they are deemed to be qualified.

The Remuneration Committee reviews the candidates' remuneration packages and certifies that these are within the Company-approved tier limits. Directors' and senior executives' remuneration packages are then presented to the Shareholders and Directors for approval at their respective meetings.

Composition of the Board

- **Ambassador Jose L. Cuisia**
  Chairman
- **Arthur Lee**
  Non-Executive Director
- **Binayak Dutta**
  Non-Executive Director
- **Leo G. Dominguez**
  Independent Director
- **Li Hao Zhuang**
  President and CEO
- **Lilia De Lima**
  Independent Director
- **Vicente B. Castillo**
  Independent Director

Board of Directors

Ambassador Jose L. Cuisia, Jr.

Chairman of the Board and Non-Executive Director

Atty. Leo G. Dominguez

Independent Director

Peter Karl Grimes

2019 President & Chief Executive Officer

Atty. Lilia B. De Lima
Independent Director

Vicente B. Castillo
Independent Director

Li Hao Zhuang
2020 President & Chief Executive Officer

Arthur Lee
Non-Executive Director

Binayak Dutta
Non-Executive Director

Jose L. Cuisia Jr.
Chairman of the Board

Age: **75**

Date of First Appointment: **17 June 2016**

Qualifications:
Ambassador Cuisia, Jr. graduated Magna Cum Laude from De La Salle University, Manila, Philippines, with a degree in BA/BS Commerce. He earned his MBA in Finance from The Wharton School, University of Pennsylvania, USA.

Trainings:
SEC's Corporate Governance and Finance Department granted Amb. Jose L. Cuisia, Jr. a permanent exemption from the corporate governance training requirement under SEC Memorandum Circular No. 20-2013 on 08 December 2015.

Relevant Experiences:
Amb. Cuisia, Jr. has held corporate directorships in Philippine conglomerates since 1996. Apart from FWD Life Philippines, he is also Chairman of the Board in four (4) other corporations: The Covenant Car Company Inc. (Chevrolet Philippines), Adlemi Properties, Inc., JVC Holdings, Inc., and Five Js Diversified Holdings. He is Vice Chairman and Independent Director of SM Prime Holdings and an Independent Director in PHINMA Corp., Manila Water Company Inc., Century Properties Group Inc., AIG Shared Services Inc., and PHINMA Inc.

He took his official diplomatic post as Ambassador Extraordinary and Plenipotentiary to the United States of America from 2011 to 2016.

Arthur Lee
Non-Executive Director

Age: **59**

Date of First Appointment: **24 January 2018**

Qualifications:
Mr. Lee holds a Bachelor's degree of Arts from San Francisco State University, USA and earned his Juris Doctorate from Santa Clara University, California, USA.

Trainings:
He attended the Corporate Governance Course conducted by the Institute of Corporate Directors in Philippines on 6 June 2018.

Relevant Experiences:
Prior to joining FWD Group, Mr. Lee held concurrent roles: a member of the Executive Office of Tokio Marine Holdings (Tokyo) from 2013 to 2017 and Chief Executive of Tokio Marine Asia Pte. Ltd. from 2009 to 2017. He was also the Managing Director of Asia General Holdings Ltd. from 2004 to 2017 and Chief Financial Officer of Tokio Marine Asia Pte. Ltd. from 2008 to 2009. He also worked at TM Asia Insurance Singapore Ltd., InSites Pte. Ltd., and Price Waterhouse in China.

Binayak Dutta
Non-Executive Director

Age: **47**

Date of First Appointment: **15 March 2018**

Qualifications:
Mr. Dutta graduated with honors from Jadavpur University, India, with a degree in BA Economics. He earned his Post-Graduate Diploma in Business Management (MBA) from the Institute of Management Technology in 1996.

Trainings:
He attended the Corporate Governance Course conducted by the Institute of Corporate Directors in Philippines on 6 June 2018.

Relevant Experiences:
Mr. Dutta has held prime positions in the insurance industry for over 16 years. He was most recently Chief Executive Officer of Prudential Life Assurance, Public Company Ltd. Thailand from 2008 to 2016. Prior to that, he was Chief Executive Officer of Prudential Vietnam Assurance Pte. Ltd. from 2007 to 2008 and Chief of Sales and Distribution for ICICI Prudential Life Insurance Company India from 2006 to 2007. He likewise held managerial positions in Microland Ltd. India, ICICI Bank India, and Bank of America India.

Atty. Leo Dominguez
Independent Director

Age: **64**

Date of First Appointment: **6 December 2013**

Qualifications:
Atty. Dominguez graduated with a degree in A.B. Philosophy from Ateneo de Manila University in the Philippines and earned his Bachelor of Laws from the Ateneo Law School in 1980. He was admitted to the Philippine Bar in 1981.

Trainings:
He completed the Orientation on Corporate Governance and Professional Directors Program of the Institute of Corporate Directors, Makati, Philippines in 2017 and the Baker & Mckenzie Partner Program of the Kellog Graduate School of Management, Northwestern University, Illinois, USA in 2000.

Relevant Experiences:
A law veteran of 42 years, Atty. Dominguez was an Associate in two firms: Quisumbing Torres & Evangelista in Manila, Philippines and Baker & Mckenzie in Singapore, where he was involved in cross-transactions, merger and acquisitions, and advising multinational clients on their operations in several countries in the Asia Pacific region. He was also a Partner at Quisumbing Torres from 1991 to 2010.

Atty. Lilia B. De Lima
Independent Director

Age: 79

Date of First Appointment: 21 June 2018

Qualifications:
Atty. De Lima graduated with an Associate in Arts degree from Centro Escolar University in 1958. Four years later, she earned her Bachelor of Laws from Manuel L. Quezon University. She earned her fellowship in American and International Law at The Center of American & International Law in Texas, USA in 1974 and her Doctor of Laws (Honoris Causa) at Manuel L. Quezon University in 2014. She was called to the Philippine Bar in 1963.

Trainings:
Atty. De Lima attended the Corporate Governance Course conducted by the Institute of Corporate Directors on 5 September 2018.

Relevant Experiences:
Atty. De Lima sits in the Board of Directors of Dusit Thani Manila, Science Park of the Philippines, RFM Science Park of the Philippines, and Rizal Commercial Banking Corporation. She is an Executive-in-Residence at Asia Institute of Management (AIM) and a Member of Board of Trustees of TOWNS Foundation Inc. and Fatima Center for Human Development. She likewise acts as an Independent Director for PHINMA Corp., EMS Inc., and Ionics Inc.

Vicente B. Castillo
Independent Director

Age: 65

Date of First Appointment: 21 April 2015

Qualifications:
Mr. Castillo holds a degree in AB Economics from De La Salle University, Manila, Philippines.

Trainings:
He attended the ASEAN Corporate Governance Scorecard Orientation conducted by Institute of Corporate Directors in 2015.

Relevant Experiences:
Mr. Castillo was President and CEO of Philippine Dealing System for 10 years. From 1995 to 2003, he worked with Banco Santander Philippines, Inc. as President and CEO. Mr. Castillo was SVP and Group Treasurer of Bank of the Philippine Islands in 1989. He held other prime posts in Bank of the Philippines Islands from 1980 to 1989.

Peter Karl Grimes
2019 President and CEO

Age: **60**

Date of First Appointment: **6 November 2014**

Qualifications:
Mr. Grimes earned his English Language, Literature and History (A Levels) degree from Coldham College in Nairobi, Kenya.

Trainings:
He attended the Orientation on Corporate Governance conducted by The Institute of Corporate Directors, Makati, Philippines in 2015.

Relevant Experiences:
Mr. Grimes has 19 years of experience in the insurance industry. Before joining FWD Life Philippines, he was a Senior Partner at Shoreline Asia, an international financial services consulting firm in Hong Kong, from 2010 to 2013. He was also President and CEO of Pru Life UK from 2009 to 2010; Regional Director of Prudential Corp. Asia from 2000 to 2009; and Chief Executive at Pru One Asia from 2000 to 2001.

Li Hao Zhuang
Executive Director, 2020 President and CEO

Age: **49**

Date of First Appointment: **1 January 2020**

Qualifications:
Mr. Zhuang holds a Masters in Business Administration from Massachusetts Institute of Technology (MIT), USA and a Bachelors of Engineering (Hons) from Loughborough University, UK.

Trainings:
He attended the Orientation on Corporate Governance conducted by The Institute of Corporate Directors, Makati, Philippines on 5 March 2020.

Relevant Experiences:
Mr. Zhuang leads our Life business in the Philippines. He has over 25 years of leadership experience in insurance, banking, and consulting across Asia, the Middle East, the UK, and the United States. Mr. Zhuang was previously our Group Head of Agency Distribution. In this time, he developed FWD's Elite Agency strategy, and successfully rolled out a number of key initiatives that lifted Elite Agency's productivity, digital capabilities, and professionalism.

*effective 01 January 2020 subject to relevant regulatory approvals. On 14 January 2020, Mr. Zhuang's Provisional Work Permit was secured.

The Development of Our Directors

The Corporate Secretary provides the regular orientation for Directors to explain the organizational profile, the Corporate Governance Manual, Committee Terms of Reference, and policies and procedures of the Company.

The Company also utilizes online learning management systems, where Directors and Officers access annual development training and certification modules, such as the following:

- Code of Ethics and Business Conduct
- Gifts and Entertainment, Anti-Bribery, and Anti-Fraud
- Anti-Money Laundering and Counter-Terrorist Financing
- Whistleblower and Conflicts of Interest
- Information Security and Data Privacy

Within six months of their election and/or appointment, all Directors and Officers are mandated to attend Corporate Governance training seminars conducted by organizations accredited by the Insurance Commission. This is in order to fully equip themselves with the latest updates on corporate governance and matters of best practice.

The Company also utilizes online learning management systems, where Directors and Officers access annual development training and certification modules.

The Process of Our Directors' Evaluations and Appraisal

FWD Life Philippines has established our own annual performance evaluation for our Directors, Committee members, and President & Chief Executive Officer. The assessment criteria are based on the Insurance Commission circulars on corporate governance, the Company's Corporate Governance Manual, and each Committee Charter/Terms of Reference.

The Board and Committee Performance Assessments were distributed on 10 December 2019. The Office of the Corporate Secretary tallied and summarized the results. On 20 March 2020, the results of the assessments were presented to the Board and Committees, and recommendations were noted and considered.

Assessment Criteria for the Board and its Committees:

1. Exercise of responsibilities
2. Conduct of operations
3. Effectiveness of the Board or the Committee
4. Effectiveness of the Chairman of the Board or the Committee

Assessment Criteria for the Chairman of the Board and his Committees:

1. Conduct of the meetings
2. Compliance with Company guidelines on corporate governance

Assessment Criteria for the President & Chief Executive Officer:

1. Creating and implementing Company strategy, policies, and mission statements
2. Monitoring and managing risk processes
3. Building strong relationships with the Board and Management
4. Enhancing knowledge on the industry and the laws affecting the industry
5. Reporting significant matters to the Board

Assessment Criteria for Individual Directors:

1. Acting fairly with no conflict of interest
2. Acting with loyalty to the Company he/she serves
3. Devoting time and attention in the discharge of his/her duties and responsibilities
4. Acting judiciously
5. Exercising independent judgment
6. Possessing a sound working knowledge of the statutory regulatory requirements which do and could affect the Company
7. Observing confidentiality
8. Ensuring soundness, effectiveness, and adequacy of Company's control environment

2019 Board Meetings and Attendance

The 2019 meetings were proposed, scheduled, and approved by the Board of Directors at its Regular Meeting on 10 December 2019.

Notices of these meetings, their Agenda and reference materials, plus minutes from the previous meeting and all other documents for discussion were sent to the Directors one week before the actual meeting.

Meetings were held on the following dates, as planned to ensure Directors' attendance:

Q1	March 21 and 22 (4th Friday of March per the Company's by-laws)
Q2	July 3
Q3	September 19 and 20
Q4	December 10

The Directors' attendance at the Board meetings is as follows:

Director	Outgoing meeting on March 22	Organizational meeting on March 22	Regular meeting on July 03	Regular meeting on September 20	Regular meeting on December 10	% Attendance
Jose L. Cuisia, Jr.	✓	✓	✓	✓	✓	100%
Arthur Lee	✓	✓	✓	✓	✓	100%
Binayak Dutta	✓	✓	✓	✓	✓	100%
Leo G. Dominguez	✓	✓	✓	✓	✓	100%
Vicente B. Castillo	✓	✓	✓	✓	✓	100%
Lilia De Lima	✓	✓	✓	✓	✓	100%
Peter Karl Grimes	✓	✓	✓	✓	✓	100%
% of Attendance	**100%**	**100%**	**100%**	**100%**	**100%**	

Board Committees

Together with the Board of Directors, the Company's Board Committees address relevant issues and offer strategic recommendations to ensure the delivery and achievement of business goals.

Audit Committee

The Audit Committee performs the following functions among other tasks enumerated in the Company's by-laws, the Committee Charter and Terms of Reference, and all other instructions of the Board:

- Approve and review financial reporting;
- Review, approve, and make recommendations regarding internal audit;
- Manage the external audit; and
- Review, approve, and evaluate Company's standards, policies, and procedures.

The Audit Committee also approves and oversees the engagement, removal, and fees of the external auditor as well as the appointment and removal of the Company's Head of Internal Audit. The Committee reports significant matters to the Board of Directors.

In 2019, the Audit Committee met four times:

Director		March 21	July 03	September 19	December 10	% Attendance
Vicente B. Castillo	Chairman & Independent Director	-	✓	✓	✓	75%
Leo G. Dominguez	Independent Director	✓	✓	✓	✓	100%
Arthur Lee	Non-Executive Director	✓	-	✓	✓	75%
% of Attendance		66.7%	66.7%	100%	100%	

Remuneration Committee

The Remuneration Committee is responsible for reviewing and approving remuneration policies and packages. The Committee then submits Directors' and Company Officers' policies and packages to the Shareholders and the Directors for their approval. Through this process of approving, reviewing, and recommending, the Committee ensures that remuneration packages offered to the Directors and Company Officers are competitive and in line with industry standards. The Committee also conducts an annual review of the remuneration packages to ensure they are updated and satisfactory.

The Remuneration Committee met twice in 2019:

Director		March 21	December 10	% Attendance
Arthur Lee	Chairman & Non-Executive Director	✓	-	50%
Vicente B. Castillo	Independent Director	-	✓	50%
Leo G. Dominguez	Independent Director	✓	✓	100%
% of Attendance		**66.7%**	**66.7%**	

Nomination Committee

The Nomination Committee oversees the review of the qualifications of the candidates to be elected or appointed as Directors and Company Officers. The Company pools our internal recommendations with recommendations from several external search consultancies in order to build out the candidates for Director and Company Officer positions.

The procedure in the selection and confirmation process begins with the submission of the candidates' biodata (key professional and personal information), as prescribed by the Insurance Commission. This biodata then forms the basis of the Committee's discussion. The Committee then confirms the qualifications of each candidate and submits its recommendations to the Shareholders and the Board. The Committee's Terms of Reference highlights that its primary objective is to find the most suitable candidates for the Board and Management, specifically those who have views in line with the Company's vision. The Nomination Committee adheres to the criteria for selection of Directors and Company Officers as stated in the Insurance Commission Circular Letter No. 31-2005 dated 26 September 2005.

The Nomination Committee met twice in 2019:

Director		March 21	December 10	% Attendance
Leo G. Dominguez	Chairman & Independent Director	✓	✓	100%
Arthur Lee	Non-Executive Director	✓	-	50%
Vicente B. Castillo	Independent Director	-	✓	50%
% of Attendance		66.7%	66.7%	

Related Party Transactions Committee

The Related Party Transactions Committee was constituted by the Board of Directors to assess all related party transactions on a quarterly and ongoing basis to ensure transactions with related parties are identified, monitored, and handled in commercially fair and reasonable terms, and that appropriate disclosures are made.

In 2019, the Related Party Transactions Committee met four times:

Director		March 21	July 03	September 19	December 10	% Attendance
Vicente B. Castillo	Chairman & Independent Director	-	✓	✓	✓	75%
Leo G. Dominguez	Independent Director	✓	✓	✓	✓	100%
Arthur Lee	Non-Executive Director	✓	-	✓	-	50%
% of Attendance		66.7%	66.7%	100%	66.7%	

Risk Management and Actuarial Committee

The Risk Management and Actuarial Committee is responsible for providing direction, policy, and oversight on the Company's compliance and risk management. This includes the design and execution of a risk management and compliance infrastructure that provides reasonable assurance that all risks (strategic, financial, investment, insurance, and operational) are identified and properly managed.

In 2019, the Risk Management and Actuarial Committee met four times:

Director		March 21	July 03	September 19	December 10	% Attendance
Arthur Lee	Chairman & Non-Executive Director	✓	✓	✓	-	75%
Lilia de Lima	Independent Director	✓	✓	✓	✓	100%
Jose L. Cuisia, Jr.	Chairman of the Board	✓	✓	✓	✓	100%
% of Attendance		100%	100%	100%	66.7%	

Office of the Corporate Secretary

The Office of the Corporate Secretary (OCS) commits to the integrity of the corporate governance framework and facilitates the resources needed for the Board and its Committees to diligently fulfill their duties.

Roles and Responsibilities

The Office of the Corporate Secretary ensures the proper conduct of Shareholders', Board, and Committee meetings. Their responsibilities also include the following:

1. Coordination with Shareholders and Directors for their availability;
2. Preparation and timely release of the Notices and Agenda at least 21 days prior to Shareholders' meetings and at least seven days prior to Directors' meetings;
3. Completion and circulation of reference materials at least five business days prior to meetings;
4. Preparation and safekeeping of minutes recording the attendance (in person, through e-conferencing, or by proxy) of Shareholders, Directors, and Presenters; the discussions and voting on agenda items; and the resolutions passed;
5. Keeping custody of Company records in compliance with internal and regulatory standards; and
6. Other functions described in the Company's by-laws.

In addition to the functions of the Corporate Secretary as prescribed by the Company's by-laws and Corporation, the OCS also oversees the execution of the Company's corporate governance policy. This includes dealings with Directors, including their nomination, qualification, election, remuneration, development, and appraisal.

Qualification

In compliance with applicable rules and regulations, the Corporate Secretary must be a Filipino citizen and a resident of the Philippines. Considering their varied functions and duties, they must possess administrative and interpersonal skills, including legal, financial, or accounting skills.

Composition

Atty. Juan Sotero Roman
Corporate Secretary

Age:
50

Date of First Appointment:
25 July 2014

Qualifications:
Atty. Roman holds a BA Political Science degree from De La Salle University, Manila, Philippines. He earned his Bachelor of Laws from the San Beda College of Law in the Philippines. He was admitted to the Philippine Bar in 1999.

Trainings:
He completed the Orientation on Corporate Governance conducted by The Institute of Corporate Directors, Makati, Philippines in 2016.

Relevant Experiences:
Atty. Roman has more than a decade of experience in the insurance industry. He was most recently with Manulife Philippines as Vice-President – Legal and Compliance (2011 to 2014); Asst. Vice President, Officer-In-Charge (January to June 2011); and Senior Compliance Officer (2010 to 2011). He was also previously with Pru Life UK as Claims Head (2007 to 2010) and Sales Compliance Manager (2006 to 2007).

Atty. Donna C. Duque-Pastoral
Assistant Corporate Secretary

Age:
40

Date of First Appointment:
20 September 2019

Qualifications:
Atty. Duque-Pastoral graduated from the University of the Philippines with a degree in B.A. Political Science (2000) and Bachelor of Laws (2006). She was called to the Philippine Bar in 2007.

Trainings:
She is an Associate, Life Management Institute (2017), and Associate, Insurance Regulatory Compliance (2015) of LOMA.

She attended the Orientation on Corporate Governance conducted by The Institute of Corporate Directors, Makati, Philippines in 2018. She has earned her Certificate on Trust Operations and Investment Management course (2018) conducted by the Trust Institute Foundation of the Philippines.

Relevant Experiences:
Prior to joining FWD Life Philippines, Atty. Duque-Pastoral was the Assistant Corporate Secretary of Sun Life of Canada (Philippines), Inc. from 2017 to 2019. She also served as Legal Counsel for Sun Life and Sun Life Grepa Financial, Inc. She was also Legal & Compliance Senior Manager and Assistant Corporate Secretary of Manulife Philippines, Manulife Financial Plans, Inc., and Manulife Chinabank Life Assurance Corporation from 2008 to 2013. Prior to Manulife, she was an Associate at Soo Gutierrez Leogardo & Lee Law Offices from 2006 to 2008.

Compliance at FWD Life Philippines

FWD Life Philippines is committed to running an ethical and compliant business. It is central to our long-term commercial success and this ethos underpins all our work, including how we serve customers. The Company has established a compliance framework that abides by the highest code of ethics. This helps us manage risks and ensures that all our employees know how to conduct themselves in any situation and when and how to escalate any issues.

Code of Conduct and Business Ethics

FWD Life Philippines' Shareholders, Directors, Officers, employees, and distributors are fully committed to observing the highest code of professional ethics. Our aim is to ensure that our policyholders and the public are always protected at all costs. In order to "do the right things right," we are always guided by the following principles: act with honesty and integrity; be informed and act responsibly; be open and clear; act with professionalism and respect; and be socially and environmentally responsible. To reinforce these standards and core values, we facilitate extensive training on a regular basis. We also ensure that our employees are continually educated on our Code of Conduct.

Overview of Our Policies

- **Trading and Conflict of Interests Policy**
  FWD Life Philippines strictly adheres to fair trading practices. Our Corporate Governance Manual requires all FWD Life Philippines Officers, Directors, and employees to disclose any conflict of interest that may display bias for or against the Company or any entity within three days from discovery. If a conflict of interest is perceived or actually exists, Directors must abstain from the related discussions and activities. Further, they may not participate in any activity involving information that is not readily available to the public.

- **Related Party Transactions**
  Our Related Party Transactions (RPT) Policy ensures that RPTs are conducted in the regular course of business and are not undertaken in economic terms that are favorable to any related parties. In line with this, a Board level RPT Committee exists to assist the Board in its assessment of all RPTs. This Committee ensures that RPTs are handled with prudence and integrity and that they are fair, impartial, objective, and fully compliant with all applicable laws and regulations. RPTs, and any other applicable filings required by the Insurance Commission, are properly disclosed in our audited financial statements.

- **Gifts, Entertainment, and Anti-Bribery Policy**
  FWD Life Philippines is completely against bribery and corruption. The Gifts, Entertainment, and Anti-Bribery policy prohibits the acceptance or offering of gifts that may be used to gain undue business advantage or an undeserved favorable treatment. We guide our employees on what gifts and entertainment are acceptable and in compliance with regulatory requirements. This includes gifts and entertainment that are received from and/or to existing and prospective clients, third parties, regulatory bodies or public officials. Even if employees intend to decline a gift and particularly if it might be construed as a bribe, they are required to submit a Gifts and Entertainment Report Form and disclose all details to their line manager and the Compliance team. Regardless of the identity or position of either the sender or receiver of the gift, all FWD Life Philippines employees and contractors are obliged to observe these guidelines and exercise their own due diligence in relation to the offering and accepting of gifts or other personal benefits.

- **Complaints Policy**
  FWD Life Philippines is committed to managing complaints in an accountable, transparent, timely, and fair manner. Our Complaints Policy is designed to make certain that any concerns raised are treated seriously and addressed promptly and fairly. We consider all feedback to be a valuable resource to help us improve what we do and how we do it.

- **Whistleblower Policy**
  We believe that good governance can only be made possible by the mandate and cooperation of all stakeholders. This includes Directors, Officers, employees, financial advisors, business partners, and relevant third-party suppliers. Therefore, it is important to foster a culture where speaking up about any wrongdoing is actively encouraged. We do however also recognize that there are circumstances in which discretion is required. For this reason, we engage an independent third-party service provider, Convercent.

  Reports may be filed through these two routes:

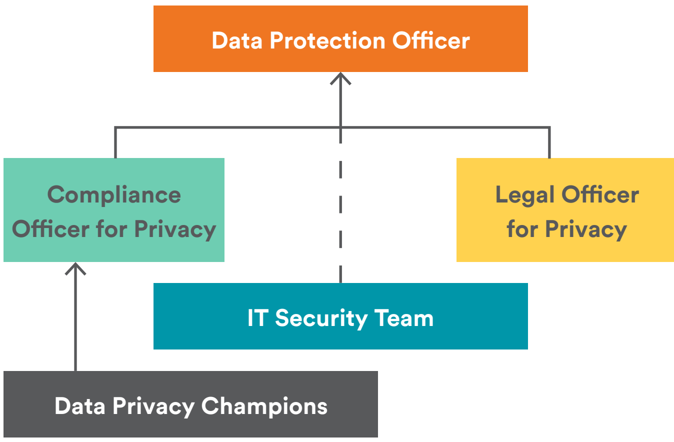
  Calling the Whistleblower Hotline Number: (02) 8626 3210 or

  Submitting an online report via https://convercent.com/report (enter FWD in search bar)

  All our employees and Senior Management have access to the online platform enabling everyone to raise or escalate issues. Following any reports through any channels, all whistleblowing concerns are then investigated thoroughly and independently.

- **Data Protection**
  In July 2019, in compliance with Republic Act No. 10173 (otherwise known as the “Data Privacy Act of 2012”) along with all other applicable data protection laws and regulations, our Board of Directors approved the creation of a Data Protection Office (“Office”). This Office aims to reasonably ensure that all personal data of clients, employees, and other third-party data we obtain and process during the course of our business activities are properly safeguarded. It also means that the rights of the owners of this data are respected while ensuring the free flow of information for our strategic goals.

  The Office is composed of the following:



  Another component of the Office is the Data Privacy Champions (DPCs). DPCs receive specialized data protection training and ensure their teams comply with data protection requirements. For the year 2019, the Company had 18 DPCs across various functions.

Consolidated Awareness Week

Every year, the Compliance team organizes a week-long program of activities that help reinforce the Company's compliance program. In September 2019, Compliance joined hands with Risk, Information Security, and Data Governance teams to generate a wider range of appealing activities.

Following the theme "FWD Heroes," highlights of the program included:

- **Tell Us Who Your Compliance Hero Is:** Employees nominated colleagues who exhibit the mantra of "doing the right things right" at work, and have gone above and beyond to live the Company's five guiding principles in relation to corporate governance.

- **Mine Field: A Minesweeper Risk Edition:** Participants played a game of minesweeper on their risk appetite to understand the pros and cons of their choices.

- **Information Security and Data Privacy Course:** Employees who completed the eLearning course early received prizes.

- **Big Data Revolution:** A speaker from Amazon Web Services provided his insights on big data.

- **End Game:** By answering questions on various topics provided by Compliance, Risk, Information Security, and Data Governance teams, employees raced to secure various infinity stones: Data Stone, Privacy Stone, Cyber Stone, Incident Stone, Hero Stone, and Speak up Stone.

Overview of Our Risk Management

While we have positioned ourselves as a challenger brand, focused on reinventing and evolving with market trends, we also have to manage many uncertainties and constraints, including risks. Therefore, we've spent considerable time extrapolating our goals and responsibilities in order to create a strong, diligent, and proactive risk culture.

The FWD Life Philippines Enterprise Risk Management (ERM) program clearly defines our risk appetite, along with our processes and culture, and the reliable practices which support these.

The Board of Directors first approved our ERM in 2015 with subsequent annual review and updates as necessary. Delegated authority is given by the Board to the Executive Committee to ensure that the ERM program is implemented according to agreed directives.

Additionally, the Risk Management and Actuarial Committee (RMAC), a Board level committee, meets on a quarterly basis, and invites a Group representative, to discuss risk-related matters. The RMAC is briefed on the progress of the ERM program on a quarterly basis, with updates from the Investment and Compliance & Operational Risk Management level committees.

The RMAC and the Board of Directors of FWD Life Philippines have an approved risk appetite, which outlines the Company's tolerance levels in relation to Value, Capital, Earnings, and Brand Value. These four areas are monitored using a set of key risk indicators which are reported to the Executive Committee and Group office on a monthly basis, with any deviation from expected results escalated to Management.

The Risk Management team is proactively involved in many aspects of the business decisions and in several Management committees.

Our risk profile is split into two sections. The financial risk looks at the liability, asset, and product risk profile of the Company with metrics that include the SAA/TAA, target capital, investment restrictions, assumption setting, and financial metrics. The non-financial risk segment covers the business strategy and operations with subprograms, including the risk register update, key control self-assessment, and incident/issue management.

The Risk Register Update Process is performed on an annual basis for the identification, assessment, response, monitoring and review, along with all communication on all risks affecting the Company. For this, the Archer GRC tool is used for documentation. This annual exercise is then reviewed by the Executive Committee on a monthly and quarterly basis to determine any changes to our top risks, and these changes are communicated to the Board of Directors on a quarterly basis for their agreement.

Risk management culture is an ongoing journey that embeds the risk consideration into our Management's day-to-day operations. The Risk Management team encourages this with an integrated and holistic training approach that combines one-on-one, classroom, and online training—all reinforced with risk management awareness events.

The Risk Management team is proactively involved in many aspects of the business decisions and in several Management committees. This includes but is not limited to business planning, product development, claims, and customer feedback.

The RMAC found the ERM program is sufficient in monitoring and managing the Company's key risks.

The key risk areas we regularly monitor include:

- Our wider macroeconomic environment—local and regional—primarily on risks related to both customer and company investments, such as fluctuation in equity prices, interest rates, and potential defaults of credit instruments. We have a strong focus on customers with VUL products.
- Changes to the political and regulatory environment. These are tracked to identify any potential changes that will have an adverse effect on either customers or the Company. We liaise closely with our regulator in relation to any proposed changes while still in the discussion stage.

- Given that customer information is key to our business, we also closely monitor all technological changes and potential threats. We are aware of the threat of cybercrime and the rapid rise in data theft, and work hard to mitigate these with the support of Group office. Our business and operational risks are managed with programs such as our key control self-assessment, which helps Management identify and remediate any potential control weaknesses.

On a monthly and quarterly basis, the Executive Committee reviews the key risks facing the Company to discuss emerging risks and determine any changes in the risk profile or mitigating actions. This management review is then escalated to the RMAC for approval.

Given the potential of natural disasters impacting the Company, the Risk Management team has also created and tested a business continuity program that covers all our critical functions. A Crisis Management team is also in place to respond to events as they happen.

In 2019, FWD Life Philippines closely monitored these specific key risk areas:

- The Philippine stock market performance and its impact on our customer and company investments
- Changes to the political and regulatory investments
- Data protection
- Our general business and operational risks

Internal Audit

FWD Life Philippines' Internal Audit evaluates the effectiveness of the Company's risk management, governance, and internal control processes. The Audit Committee establishes the roles and responsibilities of the Internal Audit, whose primary purpose is to provide the Board and Management with an independent and objective assurance on the effectiveness of the Company's internal control system.

To maintain the Internal Audit's objectivity and independence, the Head of Internal Audit (HIA), Mr. Glenn Mar Agduyeng, reports directly to the Audit Committee, functionally to the Group Head of Internal Audit, and administratively to the President and Chief Executive Officer.

Likewise, the HIA conducts regular meetings with the Audit Committee without the presence of the Management. The appointment and removal of the HIA require the recommendation of the Audit Committee and approval of the Board of Directors.

On an annual basis, Internal Audit develops a flexible work plan using an appropriate risk-based methodology, including risk or control concerns identified by Management, and submits the plan to the Audit Committee for review and approval to ensure its sufficiency. The implementation of the plan includes understanding and identifying key risk areas and testing of controls to address these risks. The audit results form the basis of all major improvements and adjustments to be discussed with the Management. Internal Audit tracks and monitors the implementation of each action item and reports to Senior Management and the Audit Committee.

We are pleased to report that the Audit Committee found that Internal Audit sufficiently identified and monitored the Company's key improvements for 2019.

Audited Financial Statements

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
FWD Life Insurance Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of FWD Life Insurance Corporation (the Company), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 30 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of FWD Life Insurance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-AR-1 (Group A),
September 18, 2018, valid until September 17, 2021
Tax Identification No. 216-950-288
BIR Accreditation No. 08-001998-107-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 8125208, January 7, 2020, Makati City

March 20, 2020

FWD LIFE INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	Notes	December 31 2019	2018
ASSETS			
Cash and cash equivalents	**4,26**	**₱863,025,139**	₱852,632,294
Financial assets			
Available-for-sale (AFS) financial assets	**5,26**	**810,377,017**	842,596,760
Financial assets at fair value through profit and loss (FVPL)	**5,6,26**	**252,663,473**	228,487,695
Assets held to cover unit-linked liabilities	**5,6**	**15,874,283,525**	10,495,020,186
Loans and receivables - net	**5,26**	**712,618,588**	193,180,903
Receivable from related parties	**24,26**	**2,968,219**	19,808,151
Accrued income	**7,26**	**7,378,340**	7,995,091
Property and equipment	**8**	**177,222,862**	175,688,654
Right-of-use assets	**9**	**315,583,367**	–
Prepaid assets	**10,27**	**990,953,914**	1,217,470,853
Intangible assets	**11**	**263,381,061**	283,013,979
Insurance contract assets – net	**13**	**702,004,187**	301,085,984
Deferred tax assets	**25**	**55,288,635**	11,301,586
Other assets	**12**	**43,373,995**	56,491,307
TOTAL ASSETS		**₱21,071,122,322**	₱14,684,773,443
LIABILITIES AND EQUITY			
Liabilities			
Unit-linked liabilities	**5,6**	**₱15,874,283,525**	₱10,495,020,186
Insurance payables	**14,26**	**104,177,417**	76,685,767
Accounts payable and accrued expenses	**15,26**	**978,950,432**	749,150,330
Taxes payable	**15**	**62,329,828**	200,661,390
Lease liabilities	**9**	**297,811,860**	–
Payable to related parties	**24,26**	**490,075,244**	364,308,474
Pension liability	**22**	**14,907,115**	5,732,525
		17,822,535,421	11,891,558,672
Equity			
Capital stock	**16**	**2,300,000,000**	2,300,000,000
Additional paid-in capital	**16**	**327,599,568**	327,599,568
Contributed surplus	**16**	**1,335,000,000**	1,335,000,000
Contingency surplus	**16**	**2,600,000,000**	2,600,000,000
Remeasurement gain on life insurance reserves	**13**	**54,153,443**	24,571,713
Reserve on share-based payment	**21**	**30,741,949**	–
Remeasurement gain on pension obligation	**22**	**13,041,231**	20,645,880
Unrealized fair value gain (loss) on AFS financial assets	**5**	**1,830,654**	(48,442,734)
Deficit	**16**	**(3,413,779,944)**	(3,766,159,656)
		3,248,586,901	2,793,214,771
TOTAL LIABILITIES AND EQUITY		**₱21,071,122,322**	₱14,684,773,443

See accompanying Notes to Financial Statements.

FWD LIFE INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Years Ended December 31 2019	2018
REVENUES			
Gross insurance premiums	**17**	**₱9,551,928,764**	₱7,666,870,245
Reinsurers' share of gross insurance premiums	**17**	**(80,253,329)**	(33,445,124)
Net insurance premiums	**17**	**9,471,675,435**	7,633,425,121
Reinsurance allowance	**19**	**669,780,410**	156,883,450
Fair value gain on FVPL and assets held to cover unit-linked liabilities	**6**	**614,842,324**	–
Management fee income	**18**	**219,839,993**	142,640,473
Interest income	**18**	**43,251,886**	56,190,147
Other income		**21,972,648**	6,965,424
Gain on sale and exchange of property and equipment	**8**	**653,745**	541,667
Other revenues		**1,570,341,006**	363,221,161
Total revenues		**11,042,016,441**	7,996,646,282
BENEFITS, CLAIMS, EXPENSES AND LOSSES			
Gross benefits and claims	**20**	**1,062,600,448**	355,252,258
Reinsurers' share on benefits and claims incurred	**20**	**(18,654,620)**	–
Gross change in insurance contract assets		**(420,281,641)**	(363,467,323)
Reinsurers' share of gross change in insurance contract liabilities		**(10,528,380)**	(8,432,036)
Increase in unit-linked liabilities		**5,379,263,339**	3,851,422,732
Net insurance expense		**5,992,489,146**	3,834,775,631
General and administrative expenses	**21**	**2,100,085,503**	1,670,955,319
Commission expense and commission-related expenses	**21**	**2,524,738,610**	2,145,732,577
Fair value loss on FVPL and assets held to cover unit-linked liabilities	**6**	**–**	871,632,860
Investment expenses		**22,774**	11,999
Foreign currency exchange losses	**23**	**63,245,544**	17,051,697
Total operating expenses		**4,688,092,431**	4,705,384,452
Total expenses		**10,680,581,557**	8,540,160,083
INCOME (LOSS) BEFORE INCOME TAX		**361,434,864**	(543,513,801)
Provision for income tax	**25**	**9,055,152**	11,083,678
NET INCOME (LOSS)		**352,379,712**	(554,597,479)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified to profit or loss in subsequent periods:			
Unrealized fair value gain (loss) on AFS financial assets	**5**	**50,273,388**	(26,767,849)
Remeasurement gain on life insurance reserves	**13**	**29,581,730**	28,984,094
Item that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement gain (loss) on pension obligation	**22**	**(7,604,649)**	7,262,228
TOTAL COMPREHENSIVE INCOME (LOSS)		**₱424,630,181**	(₱545,119,006)

See accompanying Notes to Financial Statements.

FWD LIFE INSURANCE CORPORATION
STATEMENTS OF CHANGES EQUITY

	Capital Stock (Note 16)	Additional Paid-in Capital (Note 16)	Contributed Surplus (Note 16)	Contingency Surplus (Note 16)	Remeasurement Gain on Life Insurance Reserves (Note 13)	Reserve on Share-Based Payment (Note 21)	Remeasurement Gain on Pension Obligation (Note 22)	Unrealized Fair Value Gain (Loss) on AFS Financial Assets (Note 5)	Deficit (Note 16)	Total Equity
Balances at January 1, 2019	**₱2,300,000,000**	**₱327,599,568**	**₱1,335,000,000**	**₱2,600,000,000**	**₱24,571,713**	**₱–**	**₱20,645,880**	**(₱48,442,734)**	**(₱3,766,159,656)**	**₱2,793,214,771**
Unrealized fair value loss on AFS financial assets	–	–	–	–	–	–	–	**50,273,388**	–	**50,273,388**
Remeasurement loss on pension obligation	–	–	–	–	–	–	**(7,604,649)**	–	–	**(7,604,649)**
Impact of Gross Premium Valuation (GPV) reserves	–	–	–	–	**29,581,730**	–	–	–	–	**29,581,730**
Net income	–	–	–	–	–	–	–	–	**352,379,712**	**352,379,712**
Total comprehensive income	–	–	–	–	**29,581,730**	–	**(7,604,649)**	**50,273,388**	**352,379,712**	**424,630,181**
Reserve on share-based payment	–	–	–	–	–	**30,741,949**	–	–	–	**30,741,949**
Balances at December 31, 2019	**₱2,300,000,000**	**₱327,599,568**	**₱1,335,000,000**	**₱2,600,000,000**	**₱54,153,443**	**₱30,741,949**	**₱13,041,231**	**₱1,830,654**	**(₱3,413,779,944)**	**₱3,248,586,901**
Balances at January 1, 2018	₱2,300,000,000	₱327,599,568	₱1,335,000,000	₱1,430,000,000	(₱4,412,381)	₱–	₱13,383,652	(₱21,674,885)	(₱3,211,562,177)	₱2,168,333,777
Unrealized fair value loss on AFS financial assets	–	–	–	–	–	–	–	(26,767,849)	–	(26,767,849)
Remeasurement gain on pension obligation	–	–	–	–	–	–	7,262,228	–	–	7,262,228
Impact of Gross Premium Valuation (GPV) reserves	–	–	–	–	28,984,094	–	–	–	–	28,984,094
Net loss	–	–	–	–	–	–	–	–	(554,597,479)	(554,597,479)
Total comprehensive loss	–	–	–	–	28,984,094	–	7,262,228	(26,767,849)	(554,597,479)	(545,119,006)
Additional contribution	–	–	–	1,170,000,000	–	–	–	–	–	1,170,000,000
Balances at December 31, 2018	₱2,300,000,000	₱327,599,568	₱1,335,000,000	₱2,600,000,000	₱24,571,713	₱–	₱20,645,880	(₱48,442,734)	(₱3,766,159,656)	₱2,793,214,771

See accompanying Notes to Financial Statements.

FWD LIFE INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Notes	Years Ended December 31 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax		**₱361,434,864**	(₱543,513,801)
Adjustments for:			
Increase in unit-linked liabilities	**6**	**5,379,263,339**	3,851,422,732
Net change in insurance contract assets	**13**	**(430,810,020)**	(371,899,359)
Fair value loss (gain) on fair value through profit or loss asset and assets held to cover unit-linked liabilities	**6**	**(614,842,324)**	871,632,860
Amortization of prepaid assets	**10**	**643,893,474**	577,226,682
Depreciation of property and equipment	**8**	**82,235,337**	82,559,802
Depreciation of right-of-use assets	**9**	**95,475,506**	–
Amortization of intangible assets	**11**	**63,393,639**	86,523,331
Share-based payment	**21**	**30,741,949**	–
Interest expense on lease liability	**9**	**23,062,258**	–
Provision for bad debts	**5**	**1,703,733**	–
Gain on sale and exchange of property and equipment	**8**	**(653,745)**	(541,667)
Interest income	**18**	**(43,251,886)**	(56,190,147)
Operating income before working capital changes		**5,591,646,124**	4,497,220,433
Decrease (increase) in:			
Loans and receivables	**5,26**	**(521,141,418)**	(124,363,741)
Receivable from related parties	**24**	**16,839,932**	(4,289,318)
Financial assets at fair value through profit and loss	**5,6,26**	**(24,175,778)**	19,913,406
Assets held to cover unit-linked liabilities	**6,26**	**(4,764,421,015)**	(4,723,055,592)
Insurance contract assets	**13**	**59,473,547**	58,119,143
Prepaid assets	**10**	**(444,495,684)**	(1,446,768,593)
Other assets	**12**	**13,117,312**	(8,926,546)
Increase (decrease) in:			
Accounts payable and accrued expenses	**15**	**229,800,103**	171,662,225
Insurance payables	**14**	**27,491,650**	29,640,142
Pension liability	**22**	**1,569,941**	3,884,619
Payable to related parties	**24**	**125,766,770**	102,972,422
Taxes payable	**15**	**(182,318,611)**	159,272,980
Net cash generated from (used in) operations		**129,152,873**	(1,264,718,420)
Income taxes paid		**(9,055,152)**	(11,083,678)
Net cash provided by (used in) operating activities		**120,097,721**	(1,275,802,098)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Available-for-sale financial assets	**5,26**	**(125,652,933)**	(299,718,213)
Property and equipment	**8**	**(84,471,160)**	(89,611,181)
Intangible assets	**11**	**(43,760,721)**	(72,693,679)
Proceeds from maturity, disposal or exchange of:			
Short-term investments		**–**	37,000,000
Available-for-sale financial assets	**5,26**	**206,114,000**	724,260,000
Property and equipment	**8**	**1,355,359**	850,000
Interest received		**45,900,701**	57,687,600
Net cash provided by (used in) investing activities		**(₱514,754)**	₱357,774,527

(Forward)

		Years Ended December 31	
	Notes	**2019**	2018
CASH FLOWS FROM FINANCING ACTIVITIES			
Addition to contingency surplus	**16**	**₱–**	₱1,170,000,000
Payment of principal portion of lease liabilities	**9**	**(109,190,122)**	–
Net cash provided by (used in) financing activities		**(109,190,122)**	1,170,000,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		**10,392,845**	251,972,429
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4**	**852,632,294**	600,659,865
CASH AND CASH EQUIVALENTS AT END OF YEAR		**₱863,025,139**	₱852,632,294

FWD LIFE INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

FWD Life Insurance Corporation (the "Company") was incorporated and domiciled in the Philippines and is registered with the Securities and Exchange Commission (SEC) on November 19, 2013. The registered principal office of the Company is at 19th floor W Fifth Avenue Bldg., 5th Avenue, Corner 32nd Street, Bonifacio Global City, Taguig City. The Company is a wholly-owned subsidiary of FWD Group Financial Services Pte. Ltd (the Parent Company), a company domiciled in Singapore engaged in private investment activities.

The Company was organized to primarily engage in and carry on the business of life insurance and to undertake and write insurance upon lives of individuals and every insurance appertaining thereto or connected therewith, including reinsurance; to make contracts for insurance and re-insurance for all risks, hazards, guarantees and contingencies to which life, accident or health insurance is applicable, to indemnify against legal liability, to compute endowments and grant, purchase or dispose annuities; to procure or acquire re-insurance of its risks; to issue policies stipulated to be with or without participation in profits and to purchase for its own benefit or for its obligations any policy of insurance, and perform such other powers related to or incidental to the business of life insurance.

On April 2, 2014, the Company was granted a Certificate of Authority by the Insurance Commission (IC) to operate as a life insurance company. The Company started its commercial operations on September 15, 2014.

On July 17, 2014, the Company received IC approval to sell variable unit-linked (VUL) products. On April 6, 2015, the Company received IC approval to sell traditional products, on which the first policy was issued on April 23, 2015. The Company currently sells both variable life and traditional life products.

On September 15, 2014, the Company and Security Bank Corporation (SBC) signed an agreement which appoints SBC to sell exclusively the life insurance products of the Company. The agreement was filed on November 11, 2014 with the Bangko Sentral ng Pilipinas (BSP) and the IC for their respective approvals. On December 22, 2014, SBC received the approval of BSP through its Resolution No. 2073. On January 12, 2015, the Company received the approval of the agreement from IC.

The financial statements of the Company were approved and authorized for issuance by the Board of Directors (BOD) on March 20, 2020.

2. Significant Accounting Policies

Basis of Preparation and Presentation

The financial statements of the Company have been prepared on the historical cost basis, except for available-for-sale (AFS) financial assets and financial assets at fair value through profit or loss (FVPL), which have been measured at fair value. The financial statements are presented in Philippine Peso (₱), which is the Company's presentation and functional currency. All amounts are rounded to the nearest Peso unless otherwise indicated.

Statement of Compliance
The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Company adopted the following new accounting pronouncements starting January 1, 2019. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance (unless otherwise indicated).

- PFRS 16, *Leases*

  PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

  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. Therefore, PFRS 16 did not have an impact for leases where the Company is the lessor.

  The Company adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elected to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

  The effect of adoption of PFRS 16 as at January 1, 2019 is, as follows:

	Increase (decrease)
Statement of financial position:	
Property, plant and equipment (right-of-use assets)	**₱172,857,164**
Lease liability	**164,870,583**
Prepayments	**7,986,581**

  The Company entered into commercial leases on certain offices for its head office and branches, including parking spaces taken separately from the office leases. The Company has also entered into leases contracts on various motor vehicles for use of qualified employees under the Company's executive car program, as well as office equipment. Before the adoption of PFRS 16, the Company classified each of its leases (as lessee) at the inception date as an operating lease.

  Upon adoption of PFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.

Leases previously accounted for as operating leases
The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets is based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized.

Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application

The lease liability at as January 1, 2019 as can be reconciled to the operating lease commitments as of December 31, 2018 follows:

Operating lease commitments as at December 31, 2018	**₱185,188,026**
Less: Commitments relating to short term leases	**(1,909,856)**
Gross lease liabilities as at January 1, 2019	**₱183,278,170**
Weighted average incremental borrowing rate at January 1, 2019	**10.01%**
Lease liabilities recognized at January 1, 2019	**₱164,870,583**

The adoption of PFRS 16 did not have an impact on equity on January 1, 2019, since the Company elected to measure the right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Company has assessed whether it has any uncertain tax position. The Company applies significant judgement in identifying uncertainties over its income tax treatments. The Company determined that there are no uncertain tax positions present on all revenue and expense accounts considered for income tax purposes. Accordingly, the interpretation did not have an impact on the consolidated financial statements of the Company.

- 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*

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*

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 these pronouncements will have a significant impact on the Company's financial statements. The Company intends to adopt the following pronouncements when they become effective.

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, 2023
- 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.

  On December 28, 2018, the Insurance Commission (IC) issued IC Circular Letter No. 2018-69 where in the implementation of PFRS 17 for life insurance and non-life insurance industries is hereby deferred to January 1, 2023, granting an additional one-year period from the date of effectivity proposed by the International Accounting Standards Board (IASB). Regulated entities which are willing and ready to comply with PFRS 17 are not precluded to implement the same.

  The Company started a project to implement PFRS 17 and has been performing an impact assessment of the new standard. The Company expects that the new standard will result in a significant change to its accounting policies for insurance contract liabilities and is likely to have a significant impact on profit and total equity together with the presentation and disclosure.

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*

Accounting Standard Effective but not yet Adopted

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted.

  Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets but will have no impact on the classification and measurement of the Company's financial liabilities.

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

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard, before implementing the new insurance contracts 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.

Qualifying for temporary exemption from PFRS 9
The Company applied the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4 *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts* issued in September 2016. The temporary exemption permits entities whose activities are predominantly connected with insurance to continue applying PAS 39 rather than PFRS 9 for annual periods beginning before January 1, 2022.

The assessment for 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. An entity may elect the temporary exemption if, and only if:

– The carrying amount of its liabilities arising from contracts within the scope of PFRS 4 is significant compared to the total carrying amount of all its liabilities; and
– The percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all of its liabilities is:
  - Greater than 90 percent; or
  - Less than or equal to 90 percent but greater than 80 percent, and the insurer does not engage in a significant activity unconnected with insurance.

The predominance assessment is performed using the carrying amounts of liabilities reported on the statement of financial position at the annual reporting date December 31, 2015. Applying the requirements, the Company performed the predominance assessment using the Company's statement of financial position as of December 31, 2015.

The Company concluded that it qualified for the temporary exemption from PFRS 9 because its activities are predominantly connected with insurance. As at December 31, 2015, the Company's gross liabilities arising from contracts within the scope of PFRS 4 represented 88% of the total carrying amount of all its liabilities, and the Company did not engage in any significant activities not connected with insurance. Since December 31, 2015, there has been no change in the activities of the Company that requires reassessment of the use of the temporary exemption.

Fair value disclosures
The table below presents an analysis of the fair value of classes of financial assets as of December 31, 2019, as well as the corresponding change in fair value for the year ended December 31, 2019. In the table, the amortized cost of cash and cash equivalents and short-term receivables has been used as a reasonable approximation to fair value. 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 financial assets other than those specified in SPPI above (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).

Non-linked

	SPPI financial assets		Other financial assets	
	Fair value	Fair value change	Fair value	Fair value change
Cash and cash equivalents	₱863,025,139	₱–	₱–	₱–
Loans and receivables:				
Loans and receivables - net	712,618,588	–	–	–
Receivable from related parties	2,968,219	–	–	–
Accrued income	7,378,340	–	–	–
AFS financial assets:				
Government and corporate debt securities	810,377,017	50,273,388	–	–
	₱2,396,367,303	₱50,273,388	₱–	₱–

Unit-linked

	SPPI financial assets		Other financial assets	
	Fair value	Fair value change	Fair value	Fair value change
Cash and cash equivalents	₱–	₱–	₱169,890,083	₱–
Loans and receivables:				
Receivables	–	–	127,838,890	–
Accrued income	–	–	12,429,530	–
Financial assets at FVPL:				
Debt securities	–	–	807,474,827	–
Equity securities	–	–	4,008,623,355	–
Unit investment trust fund	–	–	11,101,566,942	614,842,324
	₱–	₱–	₱16,227,823,627	₱614,842,324

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 (with credit risk rating conventions detailed in Note 26). 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 losses.

Non-linked

	A	BBB	BB	Unrated	Total
Cash and cash equivalents	₱58,865,243	₱800,933,507	₱–	₱3,226,389	₱863,025,139
Loans and receivables:					
Loans and receivables - net	–	–	–	712,618,588	712,618,588
Receivable from related parties	–	–	–	2,968,219	2,968,219
Accrued income	–	–	–	7,378,340	7,378,340
AFS financial assets:					
Government and corporate debt securities	–	810,377,017	–	–	810,377,017
	₱58,865,243	₱1,611,310,524	₱–	₱726,191,536	₱2,396,367,303

The following table provides information on the fair value and carrying amount under PAS 39 for those SPPI assets that do not have low credit risk as determined by the Company. 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.

	Non-linked	
	Fair value	Carrying amount
Cash and cash equivalents	₱863,025,139	₱863,025,139
Loans and receivables:		
Loans and receivables -net	712,618,588	712,618,588
Receivable from related parties	2,968,219	2,968,219
Accrued income	7,378,340	7,378,340

(Forward)

	Non-linked	
	Fair value	Carrying amount
AFS financial assets:		
Government and corporate debt securities	₱810,377,017	₱810,377,017
Financial assets at FVPL:		
Debt securities	–	–
Equity securities	–	–
Unit investment trust fund	–	–
	₱2,396,367,303	₱2,396,367,303

Product Classification
Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk and insignificant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired. Investment contracts can, however, be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Insurance contracts are classified with or without a Discretionary Participation Feature (DPF). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- likely to be a significant portion of the total contractual benefits;
- 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, 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 or when the host insurance contract itself is measured as financial assets or liabilities at FVPL. As such, the Company does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). Likewise, the embedded derivative in unit-linked insurance contracts linking the payments on the contract to units of an internal investment fund meets the definition of an insurance contract and is not therefore accounted for separately from the host insurance contract.

Based on the Company guidelines, all products in its portfolio meet the definition of insurance contracts, including unit-linked products which have certain features that make use of funds specifically segregated for the benefit of unit-linked policyholders.

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 date of placement and that are subject to an insignificant risk of changes in value.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and in banks, including time deposits, which are not restricted as to use.

Financial Instruments

Date of recognition

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. The Company follows the trade accounting where an asset to be received and liability to be paid are recognized on the trade date and derecognition of an asset that is sold and the recognition of a receivable from the buyer is recognized on the trade date.

Initial Recognition and Measurement

Financial assets

Financial assets within the scope of PAS 39 are classified into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS financial assets and loans and receivables. The Company determines the classification of its financial assets at initial recognition. Financial assets designated upon initial recognition as at FVPL are designated at the date of initial recognition only if the criteria under PAS 39 are satisfied.
When financial assets are recognized initially, they are measured at fair value including transaction costs, except in the case of financial assets recorded at FVPL.

The Company's financial assets include loans and receivables, AFS financial assets, financial assets at FVPL, and assets held to cover unit-linked liabilities.

Financial liabilities

Financial liabilities within the scope of PAS 39 are classified as financial liabilities at FVPL and other financial liabilities. The Company determines the classification of its financial liabilities at initial recognition. Financial liabilities at FVPL are designated at the date of initial recognition and only if the criteria of PAS 39 are satisfied. All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, include directly attributable transaction costs.

The Company's financial liabilities include unit-linked liabilities and other financial liabilities.

'Day 1' profit or loss

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets

Financial assets at FVPL and assets held to cover unit-linked liabilities

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Financial assets designated upon initial recognition at FVPL are designated only if the criteria under PAS 39 are satisfied.

Financial assets at FVPL are carried in the statement of financial position at fair value with net changes in fair value recognized in the profit or loss.

The Company evaluates its financial assets at FVPL (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect to reclassify them. The reclassification from financial assets at FVPL to loans and receivables, AFS financial assets or HTM investments depends on the nature of the assets.

This evaluation does not affect any financial assets designated at FVPL using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

The Company's financial assets at FVPL pertains to the Company's seed capital on its unit-linked investment funds. The unit-linked investment funds set by the Company underlying the unit-linked insurance contracts are designated as financial assets at FVPL. This is consistent with the valuation basis of the reserve for variable units held by policyholders.

AFS financial assets
AFS financial assets are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, AFS financial assets are subsequently measured at fair value, with unrealized gains or losses recognized in other comprehensive income in the "Unrealized fair value gain or loss on AFS financial assets" in equity until the investment is de-recognized, at which time the cumulative gain or loss is recognized in profit or loss, or until the investment is determined to be impaired, where the cumulative loss is reclassified to profit or loss. For AFS financial debt securities, the difference between their cost and par value is amortized using the effective interest rate method.

Interest and dividends earned while holding the AFS financial assets are reported as interest income and dividend income, respectively, in profit or loss as part of investment income.

The Company evaluates whether the ability and intention to sell its AFS financial assets in the near term are still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets and management's intent to do so in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets.

Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Company has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the HTM category is permitted only when the Company has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the AFS category, the fair value amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on that asset that has been recognized in other comprehensive income is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in other comprehensive income is reclassified to profit or loss.

The Company's AFS financial assets pertain to government and corporate debt securities.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization and the loss arising from impairment are included in "Interest income" in profit or loss.

Financial liabilities
Financial liabilities at FVPL
Financial liabilities at FVPL includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial liabilities designated upon initial recognition at fair value through profit or loss are so designated only if the criteria of PAS 39 are satisfied. Gains or losses on liabilities held for trading are recognized in profit or loss. The net fair value gain or loss recognized in profit or loss does not include any interest charged on these financial liabilities.

The Company's financial liabilities at FVPL pertain to its unit-linked liabilities.

Other financial liabilities
Other financial liabilities are stated at amortized cost, with any difference between net proceeds and redemption value recognized in the profit or loss over the period using the effective interest method.

The Company's other financial liabilities include insurance payables, accounts payables and accrued expenses (which also includes amounts payable on redemption) and payable to related parties.

Reinsurance Assets
The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

The impairment loss is recorded in the profit or loss under "General and administrative expenses". The impairment loss is calculated following the same method used for these financial assets.

In modified coinsurance (quota share) treaties, the Company records as reinsurance premiums the reinsurer's proportionate share in benefits reinsured for the covered policies. Reinsurance allowances due from the reinsurers, on the other hand, are recorded as a separate line item in the statements of comprehensive income in accordance with the Company's reinsurance policy.

Fair Value Measurement

The Company measures its debt and equity instruments classified as AFS financial assets and financial assets at FVPL at the end of each reporting period. Fair value is the price that would be received in the sale of an asset or the price 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 by the Company.

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

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

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

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

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

Level 2 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly.

Level 3 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing 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.

The Company’s management determines the policies and procedures for both the recurring fair value measurement and for non-recurring measurement. At each reporting date, the management analyses the movement in the value of assets and liabilities which are required to be re-measured or re-assessed as per the Company’s accounting policy. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents with relevant external sources to determine whether the change is reasonable.

Derecognition of Financial Instruments

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognized when:

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

When the Company has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

Financial liabilities are derecognized when the obligation under the liability is discharged or cancelled, or has expired.

When 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 de-recognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Offsetting of Financial Instruments

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

Impairment of Financial Assets

The Company assesses at the end of each reporting period 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, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event 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 a debtor or a group of debtors 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 observable data indicating that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an 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 them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of 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 estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through direct write off or through the use of an allowance and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been realized.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other income in profit or loss.

AFS financial assets carried at fair value
For AFS financial assets, the Company assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is removed from other comprehensive income and recognized in the profit or loss. As of December 31, 2019 and 2018, the Company only has AFS debt instruments.

Impairment of AFS debt securities are assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of investment income. Impairment losses on debt instruments are reversed through profit or loss if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss.

<u>Insurance Receivables</u>
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 profit or loss. Insurance receivables are derecognized when derecognition criteria for financial assets have been met.

Prepayments
Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as these are consumed in operations or expire with the passage of time depending on the terms of the related agreements, if covered by a contract.

Property and Equipment
Property and equipment are measured at cost less any subsequent accumulated depreciation, amortization and impairment losses. The cost of an asset consists of its purchase price, restoration cost and costs directly attributable to bringing the asset to its working condition for its intended use.

Subsequent expenditures relating to an item of property and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditures are recognized as expenses in the period in which those are incurred.

Depreciation and amortization are computed using straight-line method over the estimated useful live (EUL) of the assets. Leasehold improvements are amortized over the term of the lease or the EUL of five (5) years of the improvement, whichever is shorter. The EUL of the different categories of property and equipment are as follows:

	Years
Motor vehicles	5
Electronic data processing equipment	3
Office equipment	3
Furniture and fixtures	3

The useful life and depreciation and amortization methods are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from these assets.

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the profit or loss.

Intangible Assets
Intangible assets are carried at cost less accumulated amortization and impairment in value, if any. Intangible assets, consisting mainly of access rights, and software (not an integral part of its related hardware), are capitalized at cost. These costs are amortized on a straight-line basis over their estimated useful lives ranging from three (3) to fifteen (15) years. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

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 profit or loss when the asset is derecognized.

Impairment of Non-financial Assets
Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated formally by the Company. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value, less costs to dispose, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated.

A previously recognized impairment loss on an asset is reversed only if there has been a change in the estimate used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation and amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Insurance Contract Liabilities
Life insurance contract liabilities
Life insurance contract liabilities represent the accumulated total liability for policies in force as of the reporting date. Such reserves are established at amounts adequate to meet the estimated future obligations of all life insurance policies in force. These are recognized when the contracts are entered into and the premiums are recognized. The provision for life insurance contracts, other than investment linked contracts, is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing at the valuation date. Assumptions and actuarial valuation methods are also subject to provisions of the Insurance Code (the Code) and guidelines set by IC under Circular Letter No. 2016-66 (Valuation of Life Insurance Policy Reserves).
For investment linked contracts, contract liabilities are directly linked to the underlying investment assets, which are portfolios maintained to meet specific investment objectives of policyholders who generally bear the credit and market risks on those investments. The liabilities are carried at fair value determined with reference to the accumulation value (current unit value). The costs of asset management fee inclusive of applicable taxes assessed against customers' account balances are presented in the profit or loss as part of "Management fee income".

Life insurance contract with fixed and guaranteed terms
A liability for contractual benefits that are expected to be incurred in the future is recorded under "Insurance contract liabilities" in the statement of financial position when the premiums are recognized. The liability is determined as the expected discounted value of the benefit payments and expenses less the expected discounted value of the gross premiums based on the best estimate assumptions with provision for adverse deviations. The liability is based on mortality, morbidity,

lapse and expense assumptions with due regard to the company's recent experience studies. However, liabilities for contractual benefits are computed to comply with statutory requirements, which require discount rates to be compliant with the approved rate issued by IC. Reserves are computed on a seriatim basis and depend on the issue age and policy duration.

Unit-linked insurance contracts

The Company issues unit-linked insurance contracts. In addition to providing life insurance coverage, a unit-linked contract links payment to units of internal investment funds (unit-linked funds) set up by the Company with the consideration received from the policyholders. As allowed by PFRS 4, the Company chose not to unbundle the investment portion of its unit-linked products.

Premiums received from the issuance of unit-linked insurance contracts are recognized as premium revenue. These are separated to fund assets from which the Company withdraws administrative and cost of insurance charges in accordance with the policy provisions of the unit-linked insurance contracts. After deduction of these charges together with applicable surrender fees, the remaining amounts in the fund assets are equal to the surrender value of the unit-linked policies and could be withdrawn anytime.

The assets and liabilities of the unit-linked funds have been segregated and reflected in "Assets held to cover unit-linked liabilities" and "Unit-linked liabilities" in the statement of financial position. Income or loss arising from the unit-linked funds are classified under "Fair value gain (loss) on FVPL and assets held to cover unit-linked liabilities" in the profit or loss.

Investments under assets held to cover unit-linked liabilities are valued at market price. Changes in the assets held to cover unit-linked liabilities due to investment earnings or market value fluctuations result to the same corresponding change in the unit-linked liabilities. Such changes in fund value are presented as part of "Fair value gain (loss) on FVPL and assets held to cover unit-linked liabilities" in the Company's profit or loss. As of end of the reporting period, unit-linked liabilities are computed on the basis of the number of units allocated to the policyholders multiplied by the unit price of the underlying funds.

The account value of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the account value of each unit-linked insurance contract in the fund is equal to the 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 the total number of outstanding units.

Equity

Capital stock

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value.

Additional paid-in capital

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

Contributed surplus

Contributed surplus represents the contribution of the stockholders of the Company, in addition to the paid-up capital stock, in order to comply with the pre-licensing and capital requirements as provided under the Code.

Contingency surplus
Contingency surplus represents contributions of the stockholders to cover any unexpected deficiency in the Margin of Solvency (MOS) as required under the Code.

Deficit
Deficit represent accumulated net losses of the Company.

Revenue Recognition (within the scope of PFRS 15)
Upon adoption of PFRS 15, revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

The following specific recognition criteria must also be met before income is recognized:

Management fee income
Unit-linked funds are charged for fund management and administration. These fees are recognized as revenue in the period in which the performance obligation of pooling together into a fund by the Company's designated fund manager of the investment portion of premium payments of policyholders based on its respective insurance contracts, and deduction of the management fees from the policyholders' premium payments are simultaneously completed.

Other income
Other income is recognized in the profit or loss as it is earned.

Revenue Recognition (outside the scope of PFRS 15)
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Premium income
Gross recurring premiums from life insurance contracts are recognized as revenue when payable by the policyholder. 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.

Interest income
Investment income which pertains to interest income is recognized in profit or loss as it accrues, taking into account the effective yield of the asset. 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.

Reinsurance allowance
Reinsurance allowance due from the reinsurer is computed based on the quota share that was agreed upon by the Company and its reinsurer, including any reinsurance recovery, profit share, loss carried forward balances and interest. This is recorded as income in accordance with the Company's reinsurance policy.

Benefits and Expenses
Expenses, in general, are recognized in the profit or loss in the period these are incurred.

Benefits and claims
Life insurance benefit claims reflect the cost of all claims arising during the year. Death claims and surrenders are recorded on the basis of notifications received. Benefits recorded are then accrued as liabilities.

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

General and administrative expenses
General and administrative expenses are costs attributable to administrative and other business activities of the Company. These are recognized as expense in the period these are incurred.

Commission and agency related expenses
Commission and agency related expenses are charged against operations when the insurance contracts are entered into and related premiums are recognized. Commissions are paid to agents and financial executives for selling individual and group policies. Rates applied on collected premiums vary depending on the type of product and payment terms, and policy year of the contract.

<u>Leases (prior to January 1, 2019)</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 fulfilment 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 fulfilment is dependent on a specified asset;
(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 profit or loss on a straight-line basis over the lease term.

<u>Leases (beginning January 1, 2019)</u>
The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets
The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated

depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the lease term.

Right-of-use assets are subject to impairment. Refer to the accounting policies in section impairment of non-financial assets.

Lease liabilities
At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases that are considered of low value.
Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Foreign Currency-denominated Exchange Transactions and Translations
Transactions in currencies other than Philippine Peso are recorded at the rate of exchange prevailing on the date of the transaction. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rate prevailing at the end of each reporting period. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rate prevailing at the date the fair value was determined. Gains and losses arising on retranslation are included in profit or loss for the year.

Nonmonetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the date of transaction and are not subsequently restated.

Foreign exchange gains or losses are considered as taxable income or deductible expense, respectively, only upon realization.

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, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carry forward of NOLCO 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 assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow all or part of the deferred tax assets to be recovered.

Current tax and deferred tax relating to items recognized directly in other comprehensive income are likewise recognized in other comprehensive income.

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

Movements in the deferred tax assets and liabilities arising from changes in the rates are charged or credited to profit or loss for the period.

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

Provisions and Contingencies

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Where the Company expects a provision to be reimbursed, for example under an insurance contract held, the reimbursement is recognized as a separate asset only when the reimbursement is probable. The Company recognizes a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. Provision are reviewed at each reporting date and adjusted to reflect the current best estimates.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the expected future expenditures required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit or loss.

Contingencies are disclosed if material and if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event, but either a payment is not probable or the amount cannot be reliably estimated.

Related Party Transactions
A related party transaction is a transfer of resources, services or obligations between the Company and a related party, regardless of whether a price is charged.

Employee Benefits
Long-term employee incentives
Certain employees of the Company are eligible for long-term incentives based on the duration of their service to the Company as defined in their employment contracts. The Company is liable to make such payments in the event that the employee meets the circumstances specified in those employment contracts.

Short-term employee benefits
Short-term employee benefits include items such as salaries and wages, social security contributions and nonmonetary benefits, if expected to be settled wholly within twelve months after the end of the reporting period in which the employees rendered the related services. Short-term employee benefits are recognized as expense as incurred. When an employee has rendered service to the Company during the reporting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid.

Share-based compensation
FWD Group Management Holdings Pte. Ltd., (hereinafter referred to as "FWD Group"), an affiliate of the Company, offers a share-option award plan for the Company's certain key employees as part of a compensation plan aligned with services provided in achieving shareholder value targets. This share-based compensation plan is an equity-settled plan and the compensation expense being re-charged by FWD Group to the Company is based on the fair value of the shares granted, the vesting period and the vesting conditions. The cost of the plans is recognised as an expense in profit or loss over the vesting period with a corresponding amount recorded in the Company's equity as reserve.

At each period end, FWD Group assesses the number of shares and share-options that are expected to vest from those so far granted. Any impact arising from revisions to original estimates is recognised in profit or loss with a corresponding adjustment to equity. Where awards of share-based payment arrangements have graded vesting terms, each tranche is recognised as a separate award, and the fair value of each tranche is recognised over the applicable vesting period.

FWD Group estimates the fair value of share options using the Black-Scholes model and an assessment of performance of conditions (internal rate of return or IRR achievement) to calculate the fair value of the share-option awards, taking into account the terms and conditions upon which the awards were granted.

Pension obligation
The Company operates a funded, non-contributory defined benefit pension plan, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit (PUC) valuation method.

The net defined benefit asset or liability is the aggregate of the present value of the defined benefit obligation at the reporting date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The defined benefit obligation is calculated annually by an independent actuary. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on government bonds that have terms to maturity approximating the terms of the related retirement asset or liability. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
a. service cost;
b. net interest on the net defined benefit liability or asset; and
c. remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on Philippine government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to creditors of the Company nor can they be paid directly to the Company. Fair value is based on market price information and, in the case of quoted securities, it is the published bid price. The value of any net defined benefit asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Events after the Reporting Date
Post year-end events that provide additional information about the Company's financial position at the end of the reporting date (adjusting event) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

Recognition of income taxes
Significant management judgment on the future tax treatment of certain transactions is required in determining income tax provisions. The Company carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account developments in tax laws. Tax laws evolve over time, and in some cases taxation positions are uncertain because the tax laws are subject to varied interpretation. When this is the case, management seeks to adopt a supportable and prudent tax treatment after consultation with professional tax advisers. However, as judicial and non-judicial interpretations develop, these taxation positions may change in the future.

Impairment of nonfinancial assets
The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

There were no impairment indicators identified on the Company's property and equipment and intangible assets as of December 31, 2019 and 2018. The carrying values of property and equipment and intangible assets are disclosed in Note 8 and Note 11, respectively.

Determination of lease term of contracts with renewal and termination options - Company as a lessee
The Company has several lease contracts that include extension and termination options. The Company applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

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 components of the claims liability are mostly based on the company's claims inventory report with the exception of the incurred but not reported (IBNR) claims. Estimates of IBNR are made as to the expected number of deaths, illnesses and injuries for each of the years in which the Company is exposed to risk. The Company bases these estimates on standard mortality and morbidity tables as used in the determination of the statutory reserves. The estimated number of deaths, illnesses and injuries determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves.

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. The carrying value of the claims liabilities amounted to ₱142.54 million and ₱75.86 million as of December 31, 2019 and 2018, respectively (see Note 13).

Estimation of allowance for impairment losses
The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts.

These factors include, but are not limited to, the length of the Company's relationship with the debtors, the debtor's payment behaviour and known market factors. The Company reviews the age and status of receivables and identifies accounts that are to be provided with allowance on a continuous basis.

In addition to specific allowance against individually significant loans and receivables, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired.

Allowance for credit losses amounted to ₱4.09 million and ₱2.38 million as of December 31, 2019 and 2018, respectively. The carrying value of loans and receivables amounted to ₱712.62 million and ₱193.18 million as of December 31, 2019 and 2018, respectively (see Note 5).

Share-based compensation - share-option award plan
FWD Group has adopted a share-option award plan to retain, motivate and align the interests of eligible officers of the Company. This share-based compensation plan is accounted for as equity-settled plans under which share-options are awarded.

FWD Group estimates the fair value of share options using the Black-Scholes model and an assessment of performance of conditions (IRR achievement) to calculate the fair value of the share-option awards, taking into account the terms and conditions upon which the awards were granted.

FWD Group determines the fair value of share options by following inputs:
- Dividend yield
- Expected share price volatility
- Risk-free interest rate
- Expected life of the share options
- Appraisal value per share, using the same valuation methodology as is used in the share award plan

The judgments exercised in the determination of share-option fair value and the assessment of IRR achievement affect the amounts recognised in the financial statements as share-based payment expense and share-based payment reserve. Further details of the related accounting policies and movements in outstanding awards are provided in Note 2.

As of December 31, 2019 and 2018, reserve for share-based payment amounted to ₱30.74 million and nil, respectively (see Note 22).

Estimated useful lives of property and equipment, intangible assets, prepaid assets and right-of-use assets

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

The depreciable amount of intangible assets and the prepaid assets shall be allocated on a systematic basis over their useful lives. The amortization method shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the Company. These methods include the straight-line method and the unit of production method (UOP). On the other hand, software (not an integral part of its related hardware) which is included as part of intangible assets, are capitalized at cost and amortized over their estimated useful lives of three (3) years. In this regard, UOP method of amortization which is based on quantifiable and reliable source(Actual over Target production) will be used for the subsequent measurements of the Prepaid Expense Asset, while the Intangible Assets will be amortized using a straight-line method on its economic life of fifteen (15) years.

The recognized right-of-use assets are depreciated on a straight-line basis over the shorter of the its estimated useful life and the lease term.

As of December 31, 2019 and 2018, the carrying values of property and equipment amounted to ₱177.22 million and ₱175.69 million, respectively (see Note 8), the carrying values of prepaid assets amounted to ₱990.95 million and ₱1,217.47 million, respectively (see Note 10), the carrying values of intangible assets amounted to ₱263.38 million and ₱283.01 million, respectively (see Note 11) and the carrying amount of right-of-use assets amounted to ₱315.58 million and nil, respectively.

Leases - Estimating the incremental borrowing rate
When the Company cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for entities that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the entity's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the entity's stand-alone credit rating).

The Company's lease liabilities amounted to ₱297.81 million as of December 31, 2019 (see Note 9).

Employee benefits
The determination of pension obligation and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rate, expected return on plan assets, salary increase rate, mortality rate, disability rate and turnover rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

The cost of defined benefit plan and the present value of the pension obligation are determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate; future salary increases and mortality rates. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.

While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation. All assumptions are reviewed at each reporting date.
As of December 31, 2019 and 2018, the present value of pension obligation amounted to ₱14.91 million and ₱5.73 million, respectively (see Note 22).

Deferred tax assets
Deferred tax assets are computed for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The Company did not recognize deferred tax assets on NOLCO as of December 31, 2019 and 2018 since management believes that the benefits will not be realized prior to their expiry dates.

As of December 31, 2019 and 2018, the Company recognized accumulated deferred tax assets on minimum corporate income (MCIT) amounting to ₱55.29 million and ₱11.30 million, respectively (see Note 25).

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

4. Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash on hand	**₱2,018,540**	₱1,337,823
Cash in banks	**575,506,599**	164,102,699
Cash equivalents	**285,500,000**	687,191,772
	₱863,025,139	₱852,632,294

Cash in banks earn annual interest at the prevailing bank deposit rates ranging from 0.10% to 2.50% in 2019 and from 0.10% to 0.25% in 2018. Cash equivalents are made for varying periods not exceeding three (3) months depending on the immediate cash requirements of the Company and earn annual interest at the prevailing short-term deposit rates ranging from 0.38% to 6.13% in 2019 and from 0.25% to 6.28% in 2018. Interest income earned on cash and cash equivalents in 2019 and 2018 amounted to ₱10.42 million and ₱19.08 million, respectively (see Note 18). Interest accrued on cash and cash equivalents amounted to ₱0.53 million and ₱0.86 million as of December 31, 2019 and 2018, respectively (see Note 7).

5. **Financial Assets**

The Company's financial assets are summarized as follows:

	2019	2018
AFS financial assets	**₱810,377,017**	₱842,596,760
Financial assets at FVPL (Note 6)	**252,663,473**	228,487,695
Assets held to cover unit-linked liabilities (Note 6)	**15,874,283,525**	10,495,020,186
Loans and receivables – net	**712,618,588**	193,180,903
	₱17,649,942,603	₱11,759,285,544

AFS financial assets
This account consists of:

	At Amortized Cost		**At Fair value**	
	2019	2018	**2019**	2018
Government debt securities	**₱720,210,169**	₱799,366,274	**₱723,189,774**	₱759,600,566
Corporate debt securities	**88,336,194**	91,673,220	**87,187,243**	82,996,194
	₱808,546,363	₱891,039,494	**₱810,377,017**	₱842,596,760

Movements in AFS financial assets follow:

	2019	2018
At January 1	**₱842,596,760**	₱1,294,943,086
Additions	**125,652,933**	299,718,213
Maturities	**(206,114,000)**	(724,260,000)
Fair value gains (losses)	**50,273,388**	(26,767,849)
Amortization of discount	**(2,032,064)**	(1,036,690)
At December 31	**₱810,377,017**	₱842,596,760

AFS debt securities bear annual interest ranging from 3.38% to 6.80% in 2019 and 2018. Interest earned amounted to ₱32.83 million in 2019 and ₱37.00 million in 2018 (see Note 18). Interest accrued amounted to ₱6.85 million and ₱7.13 million as of December 31, 2019 and 2018, respectively (see Note 7).

As of December 31, 2019 and 2018, AFS financial assets with par value of ₱250.00 million and fair value of ₱252.66 million and ₱222.49 million , respectively, is held as security for the benefit of policyholders and creditors of the Company in accordance with the provisions of the Insurance Code.

The rollforward analyses of unrealized fair value gain (loss) on AFS financial assets follow:

	2019	2018
At January 1	**(₱48,442,734)**	(₱21,674,885)
Unrealized fair value gain (loss)	**50,273,388**	(26,767,849)
At December 31	**₱1,830,654**	(₱48,442,734)

"Unrealized fair value gain (loss) on AFS financial assets" pertains to the difference between the amortized cost and fair value of AFS debt securities.

Financial assets at FVPL
Financial assets at FVPL represent the seed capital of the Company in its three (3) Peso VUL Funds and one (1) USD VUL Fund at initial amount of ₱220.00 million and USD0.50 million respectively.

The carrying amount of financial assets at FVPL amounted to ₱252.66 million and ₱228.49 million as of December 31, 2019 and 2018, respectively (see Note 6).

Loans and receivables
This account consists of:

	2019	2018
Reinsurance recoverable on paid losses	**₱423,202,808**	₱32,457,694
Premiums due and uncollected – net	**135,097,233**	37,160,601
Receivable from agents	**42,217,128**	22,931,090
Premiums receivable	**41,667,709**	34,755,573
Fund management fee receivable	**29,294,475**	40,140,389
Employee loans and advances	**24,672,115**	10,313,861
Receivable from VUL funds	**20,553,577**	17,804,419
	716,705,045	195,563,627
Less: Allowance for credit losses	**4,086,457**	2,382,724
	₱712,618,588	₱193,180,903

Reinsurance recoverable on paid losses represents the amount recoverable from reinsurers under treaty agreements as their share in paid losses and loss adjustment expenses net of recoveries.

Premium due and uncollected - net pertains to premium earned, net of loadings, awaiting collection within the grace period from the date premium is due.

Receivable from agents includes amounts to be recovered from agents resulting from clawback of prepaid developmental fees paid for failure to meet the contractual obligations as stated in contract and loans, cost of lost tablets, cost of trainings and memberships.
Premium receivable pertains to premiums of issued group insurance policies for remittance to the Company which is collected within a year.

Fund management fee receivable pertains to unpaid fees relating to VUL funds of the Company and is accrued daily and collected from the BPI and SBC managed funds monthly and quarterly basis, respectively.

Employee loans and advances are non-interest bearing and are settled through payroll deductions.

Receivable from VUL funds consist of uncollected proceeds from surrenders and withdrawals of cost of insurance (COI) and cost of rider (COR).

The rollforward analysis of allowance for credit losses follow:

	2019	2018
At January 1	**₱2,382,724**	₱2,382,724
Provision for credit losses (Note 21)	**1,703,733**	–
At December 31	**₱4,086,457**	₱2,382,724

The Company provides for bad debts on receivable from agents based on specific assessment of outstanding balances.

The Company classifies its non-linked and unit-linked financial assets at fair value as follows:

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets measured at fair value:				
AFS financial assets	**₱810,377,017**	**₱–**	**₱–**	**₱810,377,017**
Financial assets at FVPL (Note 7)	**252,663,473**	**–**	**–**	**252,663,473**
Assets held to cover unit-linked liabilities (Note 7)	**15,874,283,525**	**–**	**–**	**15,874,283,525**
	₱16,937,324,015	**₱–**	**₱–**	**₱16,937,324,015**

	2018			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
AFS financial assets	₱842,596,760	₱–	₱–	₱842,596,760
Financial assets at FVPL (Note 7)	228,487,695	–	–	228,487,695
Assets held to cover unit-linked liabilities (Note 7)	10,495,020,186	–	–	10,495,020,186
	₱11,566,104,641	₱–	₱–	₱11,566,104,641

As of December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

6. Unit-Linked Funds

The unit-linked funds of the Company are allocated as follows:

BPI Funds

	2019			
	Balanced Fund	**Equity Fund**	**Fixed Income**	**Total**
Financial assets at FVPL (Note 5)	**₱85,289,000**	**₱–**	**₱89,573,000**	**₱174,862,000**
Assets held to cover unit-linked liabilities (Note 5)	**602,072,234**	**2,436,660,924**	**204,562,485**	**3,243,295,643**
	₱687,361,234	**₱2,436,660,924**	**₱294,135,485**	**₱3,418,157,643**

SBC Funds

	2019					
	FWD Peso Stable Fund	**FWD Peso Bond Fund**	**FWD Peso Growth Fund**	**FWD Peso High Dividend Equity**	**FWD Equity Index Fund**	**Total**
Financial assets at FVPL (Note 5)	**₱–**	**₱–**	**₱–**	**₱–**	**₱48,357,500**	**₱48,357,500**
Assets held to cover unit-linked liabilities (Note 5)	**810,882,775**	**570,416,442**	**4,687,561,830**	**2,891,409,102**	**1,498,621,849**	**10,458,891,998**
	₱810,882,775	**₱570,416,442**	**₱4,687,561,830**	**₱2,891,409,102**	**₱1,546,979,349**	**₱10,507,249,498**

Dollar Equity Index Fund

	2019 FWD Global Dollar Equity Index Fund
Financial assets at FVPL (Note 5)	**₱29,443,973**
Assets held to cover unit-linked liabilities (Note 5)	**2,172,095,884**
	₱2,201,539,857

BPI Funds

	2018			
	Balanced Fund	Equity Fund	Fixed Income	Total
Financial assets at FVPL (Note 5)	₱77,794,550	₱–	₱79,727,450	₱157,522,000
Assets held to cover unit-linked liabilities (Note 5)	350,088,869	1,489,021,853	138,254,680	1,977,365,402
	₱427,883,419	₱1,489,021,853	₱217,982,130	₱2,134,887,402

SBC Funds

	2018					
	FWD Peso Stable Fund	FWD Peso Bond Fund	FWD Peso Growth Fund	FWD Peso High Dividend Equity	FWD Equity Index Fund	Total
Financial assets at FVPL (Note 5)	₱–	₱–	₱–	₱–	₱46,213,500	₱46,213,500
Assets held to cover unit-linked liabilities (Note 5)	539,253,042	280,288,555	3,518,247,358	2,030,100,775	819,585,603	7,187,475,333
	₱539,253,042	₱280,288,555	₱3,518,247,358	₱2,030,100,775	₱865,799,103	₱7,233,688,833

Dollar Equity Index Fund

	2018 FWD Global Dollar Equity Index Fund
Financial assets at FVPL (Note 5)	₱24,752,195
Assets held to cover unit-linked liabilities (Note 5)	1,330,179,451
	₱1,354,931,646

The unit-linked funds' net asset values consist of the following:

	2019			
BPI Funds	**Balanced Fund**	**Equity Fund**	**Fixed Income**	**TOTAL**
Asset				
Cash and cash equivalents	**₱11,873,030**	**₱112,480,809**	**₱3,745,548**	**₱128,099,387**
Debt securities	**525,871,856**	**–**	**281,602,971**	**807,474,827**
Equity securities	**130,453,814**	**2,344,066,516**	**–**	**2,474,520,330**
Accrued income	**7,503,469**	**1,196,162**	**3,723,919**	**12,423,550**
Other receivables	**14,116,404**	**13,453,010**	**5,921,710**	**33,491,124**
Total Assets	**689,818,573**	**2,471,196,497**	**294,994,148**	**3,456,009,218**
Liabilities				
Amounts payable on redemption of units	**304,772**	**26,888,673**	**22,651**	**27,216,096**
Other payables	**2,152,567**	**7,646,900**	**836,012**	**10,635,479**
Total Liabilities	**2,457,339**	**34,535,573**	**858,663**	**37,851,575**
Net Asset Value	**₱687,361,234**	**2,436,660,924**	**294,135,485**	**₱3,418,157,643**

SBC Funds	FWD Peso Stable Fund	FWD Peso Bond Fund	FWD Peso Growth Fund	FWD Peso High Dividend Equity	FWD Equity Index Fund	TOTAL
	2019					
ASSET						
Cash and cash equivalents	**₱–**	**₱–**	**₱–**	**₱–**	**₱30,129,408**	**₱30,129,408**
Other investments - feeder fund	**802,239,563**	**561,452,664**	**4,675,152,300**	**2,872,312,076**	**–**	**8,911,156,603**
Equity securities	**–**	**–**	**–**	**–**	**1,534,103,025**	**1,534,103,025**
Accrued income	**–**	**–**	**–**	**–**	**5,980**	**5,980**
Other receivables	**9,647,632**	**9,658,510**	**22,912,434**	**22,808,510**	**16,754,740**	**81,781,826**
Total Assets	**₱811,887,195**	**₱571,111,174**	**₱4,698,064,734**	**₱2,895,120,586**	**₱1,580,993,153**	**₱10,557,176,842**
Liabilities						
Amounts payable on redemption of units	**₱389,500**	**₱216,001**	**₱7,050,652**	**₱1,440,255**	**₱678,644**	**₱9,775,052**
Other payables	**614,920**	**478,733**	**3,452,252**	**2,271,229**	**33,335,158**	**40,152,292**
Total Liabilities	**1,004,420**	**694,734**	**10,502,904**	**3,711,484**	**34,013,802**	**49,927,344**
Net Asset Value	**₱810,882,775**	**₱570,416,440**	**₱4,687,561,830**	**₱2,891,409,102**	**₱1,546,979,351**	**₱10,507,249,498**

Dollar Equity Funds	2019 **FWD Global Dollar Equity Index Fund**
Asset	
Cash and cash equivalents	**₱11,661,288**
Other investments - feeder fund	**2,190,410,339**
Other receivables	**12,565,940**
Total Assets	**₱2,214,637,567**
Liabilities	
Amounts payable on redemption of units	**₱3,416,171**
Other payables	**9,681,539**
Total Liabilities	**13,097,710**
Net Asset Value	**₱2,201,539,857**

BPI Funds	Balanced Fund	Equity Fund	Fixed Income	TOTAL
	2018			
Asset				
Cash and cash equivalents	₱29,213,782	₱229,145,939	₱2,895,732	₱261,255,453
Debt securities	340,881,356	–	212,795,408	553,676,764
Equity securities	53,993,758	1,270,529,574	–	1,324,523,332
Accrued income	3,269,806	366,474	2,486,679	6,122,959
Other receivables	3,402,422	10,439,632	802,984	14,645,038
Total Assets	₱430,761,124	₱1,510,481,619	₱218,980,803	₱2,160,223,546
Liabilities				
Amounts payable on redemption of units	₱935,139	₱16,326,399	₱80,525	₱17,342,063
Other payables	1,942,565	5,133,366	918,150	7,994,081
Total Liabilities	2,877,704	21,459,765	998,675	25,336,144
Net Asset Value	₱427,883,420	₱1,489,021,854	₱217,982,128	₱2,134,887,402

SBC Funds	2018 FWD Peso Stable Fund	FWD Peso Bond Fund	FWD Peso Growth Fund	FWD Peso High Dividend Equity	FWD Equity Index Fund	TOTAL
ASSET						
Cash and cash equivalents	₱–	₱–	₱–	₱–	₱13,225,993	₱13,225,993
Other investments - feeder fund	537,947,180	279,743,553	3,515,076,392	2,023,858,245	–	6,356,625,370
Equity securities	–	–	–	–	857,234,129	857,234,129
Accrued income	–	–	–	–	3,731	3,731
Other receivables	3,846,793	1,441,196	12,570,936	14,920,465	7,000,566	39,779,956
Total Assets	₱541,793,973	₱281,184,749	₱3,527,647,328	₱2,038,778,710	₱877,464,419	₱7,266,869,179
Liabilities						
Amounts payable on redemption of units	₱1,148,301	₱142,444	₱2,513,333	₱2,134,389	₱1,039,834	₱6,978,301
Other payables	1,392,630	753,750	6,886,637	6,543,546	10,625,482	26,202,045
Total Liabilities	2,540,931	896,194	9,399,970	8,677,935	11,665,316	33,180,346
Net Asset Value	₱539,253,042	₱280,288,555	₱3,518,247,358	₱2,030,100,775	₱865,799,103	₱7,233,688,833

Dollar Equity Funds	2018 FWD Global Dollar Equity Index Fund
Asset	
Cash and cash equivalents	₱18,497,890
Other investments - feeder fund	1,338,901,596
Other receivables	10,605,545
Total Assets	₱1,368,005,031
Liabilities	
Amounts payable on redemption of units	₱4,666,596
Other payables	8,406,789
Total Liabilities	13,073,385
Net Asset Value	₱1,354,931,646

The movements in the unit-linked fund's net assets follow:

	2019	2018
At January 1	**₱10,723,507,881**	₱6,891,998,555
Contributions	**5,944,279,310**	5,514,196,216
Redemptions	**(1,155,682,517)**	(811,054,030)
Fair value gain (loss)	**614,842,324**	(871,632,860)
At December 31	**₱16,126,946,998**	₱10,723,507,881

Investment in debt securities in the unit-linked funds bear an annual interest ranging from 3.92% to 15.00% in 2019 and 3.50% to 15.00% in 2018.

All financial assets at FVPL represent seed capital invested by the Company in VUL funds while assets held to cover unit-linked liabilities represent policyholders' money invested into these funds.

Breakdown of the fair value gain (loss) pertaining to net income (loss) of unit-linked funds in 2019 and 2018 are as follow:

	2019	2018
Dividend income	**₱49,000,589**	₱23,575,008
Interest income	**46,341,528**	26,658,217
Unrealized gain (loss) on investments	**647,640,030**	(819,430,691)
Realized loss on investments	**(4,609,227)**	(31,562,527)
Total gain (loss)	**738,372,920**	(800,759,993)
Management fees	**(113,833,872)**	(65,358,884)
Other operating expenses	**(376,215)**	(515,535)
Total expenses	**(114,210,087)**	(65,874,419)
Net income (loss) before final tax	**624,162,833**	(866,634,412)
Provision for final tax	**(9,320,509)**	(4,998,448)
Unit-linked gain (loss) after final tax	**₱614,842,324**	(₱871,632,860)

7. Accrued Income

This account consists of:

	2019	2018
AFS financial assets (Note 5)	**₱6,850,612**	₱7,131,074
Cash and cash equivalents (Note 4)	**527,728**	864,017
	₱7,378,340	₱7,995,091

8. Property and Equipment

The rollforward analysis of this account follow:

	2019						
	EDP Equipment	**Office Equipment**	**Motor Vehicles**	**Leasehold Improvements**	**Furniture and Fixtures**	**Construction in Progress**	**Total**
Cost							
At January 1	**₱188,036,430**	**₱11,389,540**	**₱11,347,725**	**₱218,326,041**	**₱28,544,680**	**₱253,666**	**457,898,082**
Additions	**37,884,007**	**9,478,875**	**4,948,000**	**26,614,175**	**5,546,103**	**–**	**84,471,160**
Transfers	**–**	**–**	**–**	**253,666**	**–**	**(253,666)**	**–**
Disposals and exchanges	**–**	**–**	**(7,712,830)**	**–**	**–**	**–**	**(7,712,830)**
At December 31	**225,920,437**	**20,868,415**	**8,582,895**	**245,193,882**	**34,090,783**	**–**	**534,656,412**
Accumulated depreciation							
At January 1	**150,215,563**	**8,349,884**	**7,003,496**	**100,962,647**	**15,677,838**	**–**	**282,209,428**
Depreciation (Note 21)	**26,737,619**	**4,222,399**	**1,813,618**	**41,333,417**	**8,128,284**	**–**	**82,235,337**
Disposals and exchanges	**–**	**–**	**(7,011,215)**	**–**	**–**	**–**	**(7,011,215)**
At December 31	**176,953,182**	**12,572,283**	**1,805,899**	**142,296,064**	**23,806,122**	**–**	**357,433,550**
Net Book Value	**₱48,967,255**	**₱8,296,132**	**₱6,776,996**	**₱102,897,818**	**₱10,284,661**	**₱–**	**₱177,222,862**

	2018						
	EDP Equipment	Office Equipment	Motor Vehicles	Leasehold Improvements	Furniture and Fixtures	Construction in Progress	Total
Cost							
At January 1	₱165,423,716	₱10,534,640	₱9,562,830	₱164,837,505	₱19,778,210	₱–	₱370,136,901
Additions	22,612,714	854,900	3,634,895	53,488,536	8,766,470	253,666	89,611,181
Disposals	–	–	(1,850,000)	–	–	–	(1,850,000)
At December 31	188,036,430	11,389,540	11,347,725	218,326,041	28,544,680	253,666	457,898,082
Accumulated depreciation							
At January 1	117,888,399	5,852,299	6,496,348	63,686,303	7,267,944	–	201,191,293
Depreciation (Note 21)	32,327,164	2,497,585	2,048,815	37,276,344	8,409,894	–	82,559,802
Disposals	–	–	(1,541,667)	–	–	–	(1,541,667)
At December 31	150,215,563	8,349,884	7,003,496	100,962,647	15,677,838	–	282,209,428
Net Book Value	₱37,820,867	₱3,039,656	₱4,344,229	₱117,363,394	₱12,866,842	₱253,666	₱175,688,654

The costs of fully depreciated property and equipment that are still being used as of December 31, 2019 and 2018 amounted to ₱211.12 million and ₱195.40 million, respectively.

Various property and equipment with carrying amount of ₱0.22 million and ₱0.31 million were sold for ₱0.26 million and ₱0.85 million in 2019 and 2018, respectively. Recognized gain on disposal of property and equipment amounted to ₱0.04 million and ₱0.54 million in 2019 and 2018, respectively. A motor vehicle with a carrying amount of ₱0.48 million and was assessed by the buyer with a trade-in value of ₱1.10 million was exchanged with cash payment difference for another vehicle with an acquisition cost of ₱4.95 million in 2019. Recognized gain on exchange of property and equipment amounted to ₱0.65 million in 2019.

9. Leases

Company as a lessee

The Company entered into commercial leases on certain offices for its head office and branches. These leases have terms ranging between one (1) to five (5) years with renewal terms included in some of these contracts. Certain lease contracts also include escalation clauses. Renewals are at the option of the Company. There are no restrictions placed upon the lessee by entering into these leases.

The Company had an existing five (5) year lease term agreement for its head office on the 19th Floor W Fifth Building, commencing on June 1, 2014 to May 31, 2019, renewable at the option of the Company subject to mutually agreeable terms by parties. The rental charges shall be subject to 6% escalation each year over the five-year term of the lease.

The Company exercised its renewal option on May 31, 2019, with the extended lease term to commence on June 1, 2019 to May 31, 2024.

In addition, herewith, the Company started to lease an office space on the 9th Floor of W Fifth Building covering the period March 1, 2017 to February 28, 2022, renewable at the option of the Company subject to mutually agreeable terms by parties. The rental charges shall be subject to 6% escalation each year over the five-year term of the lease.

The Company also entered into lease agreements pertaining to its branch offices, with terms ranging between one (1) to five (5) years with renewal terms included in some of these contracts. Some of the leases entered by the Company include parking spaces within the office buildings. Lease term of these parking spaces are usually parallel with the lease term of their counterpart office premises and have similar escalation rates. These, however, have separate parking rental rates from their counterpart office premises, and hence, accounted for separately.

The Company has also entered into leases contracts on various motor vehicles for use of qualified employees under the Company's executive car program, generally with a total lease term of 5 years.

The Company's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Company is restricted from assigning and subleasing the leased assets.

The Company also has certain leases of office premises and parking spaces with lease terms of 12 months or less and/or with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

The rollforward analysis of right-of-use assets in 2019 follows:

	Head Office & Branch Premises	Parking Spaces	Office Equipment	Motor Vehicles	Total
Cost					
At January 1, as previously reported	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
Effect of adoption of PFRS 16	**139,054,198**	**4,774,740**	**4,085,675**	**24,942,550**	**172,857,163**
At January 1, as restated	**139,054,198**	**4,774,740**	**4,085,675**	**24,942,550**	**172,857,163**
Additions	**205,437,954**	**16,974,323**	**–**	**15,789,433**	**238,201,710**
At December 31	**344,492,152**	**21,749,063**	**4,085,675**	**40,731,983**	**411,058,873**
Accumulated amortization					
At January 1	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
Depreciation (Note 21)	**79,853,808**	**3,998,651**	**1,984,051**	**9,638,996**	**95,475,506**
At December 31	**79,853,808**	**3,998,651**	**1,984,051**	**9,638,996**	**95,475,506**
Net Book Value	**₱264,638,344**	**₱17,750,412**	**₱2,101,624**	**₱31,092,987**	**₱315,583,367**

The following are the amounts recognized in statement of income in 2019:

Depreciation expense of right-of-use assets (Note 21)	₱95,475,506
Interest expense on lease liabilities (Note 21)	23,062,258
Total amount recognized in statement of income	₱118,537,764

The rollforward analysis of lease liabilities follows:

Balance as at January 1, 2019	₱164,870,583
Additions	219,069,141
Interest expense (Note 21)	23,062,258
Payments	(109,190,122)
Balance as at December 31, 2019	₱297,811,860

Prior to adoption of PFRS 16, rentals charged against profit or loss under these lease contracts (included in 'General and administrative expenses') amounted to ₱120.94 million and ₱109.15 million in 2018 and 2017, respectively.

The Company has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Company's business needs. Management exercises significant judgment in determining whether these extension and termination options are reasonably certain to be exercised (see Note 3).

Shown below is the maturity analysis of the undiscounted lease payments:

	2019	2018
Within one year	**₱118,739,987**	₱75,011,537
After one year but not more than five years	**235,356,850**	110,176,489
	₱354,096,837	₱185,188,026

10. Prepaid Assets

The rollforward analysis of this account as of December 31 is as follow:

	2019				
	SBC Access fee	Developmental fees	Prepaid Commission	Prepayments	Total
Cost					
At January 1	**₱1,300,000,000**	**₱678,015,312**	**₱6,372,789**	**₱487,041,753**	**₱2,471,429,854**
Additions	**–**	**159,836,716**	**5,580,206**	**259,058,552**	**424,475,474**
Reclassifications	**–**	**(61,110,723)**	**–**	**–**	**(61,110,723)**
At December 31	**1,300,000,000**	**776,741,305**	**11,952,995**	**746,100,305**	**2,834,794,605**
Accumulated amortization					
At January 1	**353,759,896**	**475,591,089**	**–**	**424,608,016**	**1,253,959,001**
Amortization (Note 21)	**160,413,588**	**203,224,669**	**10,885,371**	**269,369,846**	**643,893,474**
Reclassifications	**–**	**(54,011,784)**	**–**	**–**	**(54,011,784)**
At December 31	**514,173,484**	**624,803,974**	**10,885,371**	**693,977,862**	**1,843,840,691**
Net Book Value	**₱785,826,516**	**₱151,937,331**	**₱1,067,624**	**₱52,122,443**	**₱990,953,914**

	2018				
	SBC Access fee	Developmental fees	Prepaid Commission	Prepayments	Total
Cost					
At January 1	₱300,000,000	₱464,507,769	₱1,424,200	₱272,006,624	₱1,037,938,593
Additions	1,000,000,000	238,557,580	4,948,589	215,035,129	1,458,541,298
Reclassifications	–	(25,050,037)	–	–	(25,050,037)
At December 31	1,300,000,000	678,015,312	6,372,789	487,041,753	2,471,429,854
Accumulated amortization					
At January 1	221,130,080	240,821,842	–	228,057,729	690,009,651
Amortization (Note 21)	132,629,816	248,046,579	–	196,550,287	577,226,682
Reclassifications	–	(13,277,332)	–	–	(13,277,332)
At December 31	353,759,896	475,591,089	–	424,608,016	1,253,959,001
Net Book Value	₱946,240,104	₱202,424,223	₱6,372,789	₱62,433,737	₱1,217,470,853

SBC access fee pertains to refundable portion of the Exclusive Access fees and the Initial Milestone fee stated in the Distribution Agreement (DA) between the Company and SBC, in case of early termination of the DA and non-achievement of the Annualized New Premium (ANP) targets stated in the DA. This is amortized based on UOP and presented under “Commission expense and commission-related expenses” in the profit or loss (see Note 21).

Prepaid developmental fees paid to agency leaders are to be used exclusively in building and maintaining an agency organization for the purpose of selling solely the Company’s products. This is to be amortized based on the agents’ contractual obligation to the Company as indicated in the agreement (see Note 27).

Failure to meet the contractual obligations indicated in the agreement, the Company is authorized by the agents to clawback the unamortized amount of prepaid development fees paid. This will be converted to receivable from the agent and will be reported under “Loans and receivables” in the statements of financial position (see Note 5). Amortization expense is reported under “Commission expense and agency-related expenses” in the statements of income (see Note 21).

Prepaid commission pertains to fees deducted in advance by Distribution Partner when remitting premium collected in behalf of the Company. This will be amortized once the policy is issued and recorded as premium (see Note 21).

Prepayments consist mainly of property rental advances, software maintenance fee advances and license fees with terms over one (1) year.

11. **Intangible Assets**

The rollforward analyses of this account as of December 31 follow:

	2019		
	SBC Access fee	**Software**	**Total**
Cost			
At January 1	**₱300,000,000**	**₱178,172,881**	**₱478,172,881**
Additions	**–**	**43,760,721**	**43,760,721**
At December 31	**300,000,000**	**221,933,602**	**521,933,602**
Accumulated Amortization			
At January 1	**80,000,000**	**115,158,902**	**195,158,902**
Amortization (Note 21)	**20,000,000**	**43,393,639**	**63,393,639**
At December 31	**100,000,000**	**158,552,541**	**258,552,541**
Net book value	**₱200,000,000**	**₱63,381,061**	**₱263,381,061**

	2018		
	SBC Access fee	Software	Total
Cost			
At January 1	₱300,000,000	₱115,217,316	₱415,217,316
Additions	–	72,693,679	72,693,679
Written-off	–	(9,738,114)	(9,738,114)
At December 31	300,000,000	178,172,881	478,172,881
Accumulated Amortization			
At January 1	60,000,000	58,373,685	118,373,685
Amortization (Note 21)	20,000,000	66,523,331	86,523,331
Written-off	–	(9,738,114)	(9,738,114)
At December 31	80,000,000	115,158,902	195,158,902
Net book value	₱220,000,000	₱63,013,979	₱283,013,979

SBC access fee pertains to the non-refundable portion of Exclusive Access Fees paid to SBC on January 22, 2015. This is not a direct compensation for the production, but rather a purchase of a right and amortized until the estimated economic life of DA which is fifteen (15) years. Amortization expense is reported under "Commission expense and commission-related expenses" in the statement of income (see Note 21).

Software includes system applications purchased from third parties. In 2017, impairment loss was recognized as a result of Company's assessment that the purchased system application is no longer used for its intended purpose. This was subsequently written-off in 2018.

12. **Other Assets**

This account consists of:

	2019	2018
Rental deposits	**₱41,953,422**	₱36,774,151
Sundry deposits	**678,432**	15,679,710
Creditable withholding taxes	**653,550**	3,946,437
Security fund	**70,089**	70,089
Others	**18,502**	20,920
	₱43,373,995	₱56,491,307

Rental deposits include security and reservation deposits. These items were transacted by the Company with W Fifth Avenue, Inc. for its Head Office, and various lessors for its branch offices. These rental deposits are refundable to the Company within (3) months following the expiry of their respective lease terms.

Sundry deposits pertain mainly to construction bonds refundable from contractors upon completion of construction period.

Creditable withholding taxes represent taxes withheld from the Company by its life insurance clients and collection partners. The amount is fully realizable and could be applied against future income tax liability of the Company.

Security fund pertains to contribution of the Company to the Security Fund - Life Account as required by the Insurance Commission on all insurance companies authorized to do business in the Philippines.

13. **Insurance Contract Assets** - net

This account consists of:

	2019	2018
Policy and contract claims reserve	**(₱142,539,892)**	(₱75,875,656)
Legal policy reserves	**844,544,079**	376,961,640
Insurance contract assets - net	**₱702,004,187**	₱301,085,984

The movements during the year in policy and contract claims reserve are as follows:

	2019	2018
At January 1	**₱75,875,656**	₱28,954,195
Provision during the year	**66,664,236**	46,921,461
At December 31	**₱142,539,892**	₱75,875,656

Details of the legal policy reserves follow:

	2019	2018
Gross legal policy reserves		
Unearned premium reserves from group life insurance contracts	**₱82,019,492**	₱46,167,311
Unearned premium reserves from unit-linked insurance contracts	**20,058,947**	14,683,176
Unearned premium reserves from individual life insurance contracts	**₱27,247,312**	₱4,970,306
Gross premium reserves from individual life insurance contracts	**(951,658,172)**	(431,099,155)
	(₱822,332,421)	(₱365,278,362)
Reinsurer's share in legal policy reserves		
Unearned premium reserves from group life insurance contracts	**(3,900,377)**	(5,799)
Unearned premium reserves from unit-linked insurance contracts	**(1,104,048)**	(658,366)
Unearned premium reserves from individual life insurance contracts	**(17,207,233)**	(11,019,113)
	(22,211,658)	(11,683,278)
Legal policy reserves	**(₱844,544,079)**	(₱376,961,640)

Details of gross legal policy reserves follow:

	2019	2018
Negative legal policy reserves	**(₱999,489,899)**	(₱433,857,323)
Positive legal policy reserves	**47,831,727**	2,758,168
	(951,658,172)	(431,099,155)
Unearned premium reserves	**129,325,751**	65,820,793
Gross legal policy reserves	**(₱822,332,421)**	(₱365,278,362)

The movements during the year in remeasurement gain (loss) on life insurance reserves follow:

	2019	2018
At January 1	**₱24,571,713**	(₱4,412,381)
Due to change in discount rates	**29,581,730**	28,984,094
At December 31	**₱54,153,443**	₱24,571,713

On December 28, 2016, Insurance Commission (IC) released Circular Letter No. 2016-66 on the Valuation Standards for the Life Insurance Policy Reserves which mandated the change in the basis of valuation of the life insurance policy reserves from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV). The cumulative prior year impact of the changes, as well as any change in the assumptions under GPV computed is recognized in retained earnings except for the increase or decrease of the reserves brought about by change in discount rates which is recognized under "remeasurement gain and loss on legal policy reserves". On January 1, 2017, the Company has adopted GPV in valuing its life insurance policy reserves and the valuation result in a negative reserve. The Company has appropriated from the unassigned surplus an amount equal to the aggregate of the negative re serves calculated on a per policy basis (Note 16).

The movement in negative legal policy reserves for 2019 can be attributed to the following: a) new issues and the aging of the in-force policies of the individual health products, and b) impact of the change in the IC-prescribed discount rates.

14. Insurance Payables

Insurance payables consist of premiums received for which the policy contract has yet to be issued or policy claims yet to be paid amounting to ₱104.18 million and ₱76.69 million as of December 31, 2019 and 2018, respectively.

15. Accounts Payables and Accrued Expenses and Taxes Payable

Accounts Payable and Accrued Expenses

This account consists of:

	2019	2018
Accruals for:		
Distribution compensation	**₱396,670,599**	₱358,008,503
Employee incentives	**166,816,358**	164,032,885
Unit-linked purchases	**124,093,582**	62,388,506
Suppliers' invoices	**115,855,071**	86,039,778
Reinsurance payable	**98,825,186**	53,553,360
Commissions payable	**39,481,671**	12,544,143
Others	**37,207,965**	12,583,155
	₱978,950,432	₱749,150,330

Accrued distribution compensation includes agency and bancassurance channel-related sales expenses, such as commissions, bank fees, variable pay, bonuses and incentives. These are normally settled within one (1) year.

Accrued employee incentives represent estimated amount of short-term incentives (STI) and long-term incentives (LTI). STI is payable within one (1) year while LTI is payable after three (3) years.

Accrued unit-linked purchases pertain to subscriptions to be transferred to unit-linked funds. These are non-interest bearing and payable the following month.

Accrued suppliers' invoices include unpaid invoices for distribution and operating related expenses, utilities and capital expenditures and are normally settled within one (1) year.

Reinsurance payable pertains to premiums due to reinsurers which are non-interest bearing.

Commissions payable pertain to agency sales force commissions which are non-interest bearing and are payable on a weekly basis.

Other payables include deposits paid by the agents for their IC licensing fee, trust fees and payments due to PhilHealth, SSS and HDMF which are to be remitted the following month.

Taxes Payable

This account consists of:

	2019	2018
Income tax payable	**₱23,964,233**	₱4,321,548
Expanded withholding tax	**20,068,799**	166,387,631
Premium tax payable	**7,574,389**	18,069,108
Withholding tax on compensation	**5,841,207**	4,317,802
Withholding VAT payable	**4,379,970**	2,710,775
Documentary stamp tax payable	**372,180**	–
Final withholding tax	**129,050**	4,854,526
	₱63,329,828	₱200,661,390

Taxes payable are normally settled the following month after year-end.

16. Equity

Capital Stock
This account consists of common shares of stock as of December 31, 2019 and 2018 as follows:

Authorized - 5,000,000,000 shares, ₱1 par value	₱5,000,000,000
Issued and outstanding - 2,300,000,000 shares	2,300,000,000

There were no movements in Company's common share in 2019 and 2018.

Contingency Surplus
The BOD approved the infusion of additional contingency surplus amounting to nil and ₱1,170.00 million in 2019 and 2018, respectively.

Deficit
Life insurance companies shall value their policy reserves for life business at the end of each calendar year as required by IC pursuant to Sections 216 and 423 of the Amended Insurance Code (RA 10607), in accordance with valuation standards, which was implemented on January 1, 2017.

The reserves for traditional life insurance policies shall be valued, where appropriate, using gross premium valuation. However, should the calculation result in a negative reserve, the Company shall appropriate from the unassigned surplus an amount equal to the aggregate of the negative reserves calculated on per policy basis.

The Company's deficit follows:

	2019	2018
Deficit	**(₱4,413,269,843)**	(₱4,200,016,979)
Appropriation for negative reserves (Note 13)	**999,489,899**	433,857,323
Deficit per statement of financial position	**(₱3,413,779,944)**	(₱3,766,159,656)

17. Net Insurance Premiums

This account consists of:

	2019	2018
Premium revenue arising from contracts issued		
Unit-linked insurance contracts	**₱8,339,460,254**	₱7,130,150,825
Life insurance contracts	**1,212,468,510**	536,719,420
	9,551,928,764	7,666,870,245
Premium revenue ceded to reinsurers on contracts issued		
Unit-linked insurance contracts	**(23,176,145)**	(20,915,438)
Life insurance contracts	**(57,077,184)**	(12,529,686)
	(80,253,329)	(33,445,124)
Net insurance premiums	**₱9,471,675,435**	₱7,633,425,121

18. Interest and Management Fee Income

This account consists of:

	2019	2018
Interest income on:		
AFS financial assets (Note 5)	**₱32,827,911**	₱37,002,870
Cash and cash equivalents (Note 4)	**10,423,975**	19,079,360
Short-term investments	**–**	107,917
	₱43,251,886	₱56,190,147
Management fee on:		
Seed capital	**₱4,146,221**	₱4,055,925
Policyholder's fund asset value	**215,693,772**	138,584,548
	₱219,839,993	₱142,640,473
	₱263,091,879	₱198,830,620

Interest income pertains to the interest earned on government and corporate debt securities, time deposits and short-term investments.

Management fee income pertains to fees earned for managing the VUL funds.

19. Reinsurance Allowance

The Company entered into a modified coinsurance agreement with Munich Re (the Reinsurer) in October 2018. Under the agreement, the balance due shall be the Reinsurer's proportionate share on the benefits reinsured less the reinsurance allowance. If the balance is positive, the amount shall be due from the Company to the Reinsurer and shall be accounted for as reinsurance premium. If the balance is negative, the absolute value of that amount shall be due from the Reinsurer to the Company and shall be accounted for as reinsurance allowance.

Reinsurance allowance amounted to ₱669.78 million and ₱156.88 million in 2019 and 2018, respectively.

20. **Benefits and Claims**

This account consists of:

	2019	2018
Death and hospitalization benefits	**₱302,938,181**	₱135,973,127
Surrenders	**759,662,267**	219,279,131
Gross benefits and claims	**1,062,600,448**	355,252,258
Reinsurers' share on claims and benefits incurred	**(18,564,620)**	–
Net benefits and claims	**₱1,044,035,828**	₱355,252,258

21. **Operating Expenses**

General and administrative expenses

General and administrative expenses consist of:

	2019	2018
Salaries, wages and employees' benefits	**₱1,011,486,236**	₱851,191,807
Information technology costs	**193,824,216**	83,681,044
Depreciation (Note 8 and 9)	**177,710,843**	82,559,802
Professional fees	**178,295,081**	155,264,845
Marketing expenses	**129,800,629**	102,327,773
Taxes, licenses and fees	**93,473,931**	63,665,701
Building rental and related expenses (Note 27)	**59,443,078**	120,944,303
Software amortization (Note 11)	**43,393,639**	66,793,834
Communication, light and water	**42,634,488**	31,749,411
Transportation and travel	**32,462,572**	33,813,021
Distribution training	**26,200,387**	22,926,757
Supplies	**23,258,408**	18,701,807
Interest expense on lease liability (Note 9)	**23,062,258**	–
Entertainment	**6,638,377**	14,320,057
Reversal of impairment losses	–	(6,714,664)
Others	**58,401,360**	29,729,821
	₱2,100,085,503	₱1,670,955,319

Salaries, allowances and benefits consist of:

	2019	2018
Salaries and wages	**₱814,018,047**	₱704,568,076
Benefits and allowances	**165,156,299**	142,739,112
Share-based payments	**30,741,949**	–
Net pension expense (Note 22)	**1,569,941**	3,884,619
	₱1,011,486,236	₱851,191,807

Share-based payments
FWD Group operates share-option award plans that provides FWD Group Limited share-options to participants from the Company upon vesting. Eligible employees are granted share-option awards to reward service and the achievement of shareholder value targets. These awards are in the form of a contingent right to receive share-options or a conditional allocation of share-options. These share-

option awards have vesting periods of up to three years and are at nil cost to the employee. Vesting of certain awards is conditional upon the employee being in active employment at the time of vesting. Each share-option grant has a 10-year exercise period and confers the right to the award holder to subscribe for an ordinary share of FWD Group Limited at a nominal exercise price of US$0.01.

The following table shows the movement of number of share-options under the award plans charged to the Company:

	2019
At January 1	–
Granted	**20,913**
Vested	**(7,000)**
At December 31	**13,913**

FWD Group utilises an appraisal value methodology (embedded value plus a multiple of value of new business) and an assessment of performance conditions (IRR achievement) for calculation of share awards and the Black-Scholes model and an assessment of performance conditions (IRR achievement) for calculation of share-options, taking into account the terms and conditions upon which the awards were granted. The expected volatility reflects the assumption that historical volatility patterns continue, which may not be the actual outcome. The expected life of the share options is derived from the output of the valuation model and is calculated based on an analysis of expected exercise behaviour of the Company's employees. Weighted average share price is determined by appraisal value per share.

The fair value calculated for share options is inherently subjective due to the assumptions made and the limitations of the model utilized.

	2019
Risk-free interest rate (in %)	**0.84**
Volatility (in %)	**30.00**
Dividend yield (in %)	–
Expected life of share-options (in years)	**1.5 years**
Exercise price per share	**US$0.01**
Weighted average price per share	**121.83**

The total recognised share-based payments related to share-option award by the Group charged to the Company amounted to ₱30.74 million in 2019.

Commission and commission-related expenses

Commission expense and commission-related expenses consist of:

	2019	2018
Commission expense	**₱1,510,319,306**	₱1,144,807,603
Commission-related expenses (CRE)	**609,301,450**	590,469,451
Prepaid asset (Developmental fees) (Note 10)	**203,224,669**	248,046,579
Prepaid asset (SBC access fee) (Note 10)	**160,413,588**	132,629,816
Intangible asset (SBC access fee) (Note 11)	**20,000,000**	20,000,000
Distribution operation expenses	**19,775,861**	9,779,128
Provision for credit losses (Note 5)	**1,703,736**	–
	₱2,524,738,610	₱2,145,732,577

Commission-related expenses consist mainly of bonuses such as annual performance bonus and annual over-achievement bonus given to bancassurance agents, and incentives and allowances given to agents for the issuance of policy contracts (see Note 27).

Provision for credit losses amounting to ₱1.70 million in 2019 is based on specific assessment of outstanding balance of agent's receivable (see Note 5).

Distribution operation allowance represents expenses incurred by Agency and Bancassurance channel such as trainings, sales events and sales tool.

22. Employee Benefits

The Company has a non-contributory defined benefit retirement plan, covering all employees from the start of the date of employment which requires contributions to be made to a separately administered retirement fund. The plan is effective January 1, 2016 and was approved by the Bureau of Internal Revenue (BIR) last May 3, 2017. Under the plan, the Company makes contributions on behalf of the employees, but it allows employees to participate in the plan by way of voluntary contributions.

Upon normal retirement, the employee shall be entitled to a lump sum benefit equal to the following:

1) One hundred percent (100%) of individual account balance in the defined benefit plan attributable to employee voluntary contributions as of the most recent valuation date prior to normal retirement date and adjusted for subsequent contributions, if any,
2) And the higher of:
   a) One hundred percent (100%) of individual account balance in the defined benefit plan attributable to employer voluntary contributions as of the most recent valuation date prior to normal retirement date and adjusted for subsequent contributions, if any,
   b) One hundred percent (100%) of employee's monthly salary for every year of service or the minimum statutory requirement at the time of the employee's retirement whichever is higher.

The Company recognized pension expense relating to its defined benefit plan included in the statement of comprehensive income which consists of:

	2019	2018
Current service cost	**₱1,122,804**	₱3,356,231
Net interest expense	**447,137**	528,388
	₱1,569,941	₱3,884,619

As of December 31, 2019 and 2018, the present value of the obligation as shown in the statement of financial position amounted to ₱14.91 million and ₱5.73 million, respectively.

The reconciliation of the present value of the pension benefit obligation follows:

	2019	2018
At January 1	**₱5,732,525**	₱9,110,134
Interest expense	**447,137**	528,388
Current service cost	**1,122,804**	3,356,231
Actuarial loss (gain) on obligation	**7,604,649**	(7,262,228)
At December 31	**₱14,907,115**	₱5,732,525

The rollforward analysis of remeasurement gain on pension obligation follows:

	2019	2018
At January 1	**₱20,645,880**	₱13,383,652
Actuarial gain on obligation		
Experience adjustment	**124,267**	61,509
Change in demographic assumptions	**52,591**	–
Change in financial assumptions	**(7,781,507)**	7,200,719
	(7,604,649)	7,262,228
At December 31	**₱13,041,231**	₱20,645,880

The principal actuarial assumptions used in determining net pension cost for the Company's retirement plan are shown below:

	2019	2018
Salary increase rate	**7.00%**	8.00%
Discount rate	**4.70%**	7.80%
Expected average remaining working lives	**9 years**	15 years

The following tables demonstrate the sensitivity to a reasonably possible change in discount rates and salary increase for the next financial year, with all other variables held constant, of the Company's total comprehensive income using the projected unit cost (PUC) method:

	Change in Assumptions	Impact on total comprehensive income
Discount rate	**+1.00%**	**(₱9,692,254)**
	-1.00%	**21,559,630**
Salary rate	**+1.00%**	**(21,122,868)**
	-1.00%	**9,897,095**

The Company's defined benefit liabilities, in excess of the projected defined contribution balances, based on the remaining period as of December 31, 2019 amounted to ₱8.55 million, ₱4.61 million, and ₱148.23 million for 1 to 5 years, 6 to 10 years, and more than 10 years, respectively. As of December 31, 2018, it amounted to ₱8.12 million, ₱5.05 million, and ₱1,162.48 million for 1 to 5 years, 6 to 10 years, and more than 10 years, respectively.

23. Foreign Currency Exchange Losses

This account consists of unrealized foreign currency exchange losses amounting to ₱63.24 million and ₱17.05 million in 2019 and 2018, respectively.

24. Related Party Disclosures

Transactions between related parties are based on terms similar to those offered to nonrelated parties. Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Related party transactions consist of the following:

Category	2019 Amount	2019 Outstanding Balances	2018 Amount	2018 Outstanding Balances	Terms	Conditions
Receivable from Affiliates:						
FWD Group Management Holdings Ltd.	**(₱16,017,313)**	**₱2,899,415**	₱4,528,806	₱18,916,728	Interest-free, settlement in cash; annual	Unsecured
FWD Thailand (SCB Life)	**47,804**	**47,804**	–	–	Interest-free, settlement in cash; annual	Unsecured
FWD Vietnam	**(870,423)**	**21,000**	(47,563)	891,423	Interest-free, settlement in cash; annual	Unsecured
	(₱16,839,932)	**₱2,968,219**	₱4,481,243	₱19,808,151		
Payable to Affiliates:						
FWD Group Management Holdings Ltd. (a) (Note 21)	**₱160,995,368**	**₱454,924,001**	₱93,226,520	₱350,186,014	Interest-free, settlement in cash; annual	Unsecured
Valdimir Pte. Ltd. (b)	**32,828,848**	**35,151,243**	9,815,681	14,122,460	Interest-free, settlement in cash; annual	Unsecured
	₱125,766,770	**₱490,075,244**	₱103,042,201	₱364,308,474		

In the normal course of business, the Company has various transactions with its related companies as follows:

a. The amount due to FWD Group Management Holdings Ltd. is in respect of expenditure incurred on behalf of the Company and comprised mainly of the costs of purchasing and installing IT systems of the Company.

   The amount due to Valdimir Pte. Ltd. is in respect of brand licensing agreement (royalty fees) for the Company's use of the FWD brand name which is based in the Company's production for the year and expenditure on behalf of the Company. The royalty fees is based on the Company's production for the year.

b. The outstanding receivable from FWD Group Management Holdings Ltd. includes group initiated projects and initiatives costs which was locally launched in 2017. Other receivables to affiliates pertains to meetings and travel-related expenses incurred by Company officers for initially shouldered by the Company and will be recovered upon charge-back

Outstanding balances are non-interest bearing, unsecured and will be settled in cash on an annual basis. No guarantees had been received or given.

Remunerations of Key Management Personnel

The Company's key management personnel include all management committee officers. The summary of compensation of key management personnel is as follows:

	2019	2018
Salaries and other short-term employee benefits	**₱140,423,488**	₱153,656,132
Other long-term benefits	**28,898,982**	11,386,008
Pension expense	**6,985,657**	5,057,277
	₱176,308,127	₱170,099,417

25. **Income Taxes**

Provision for income tax consists of:

	2019	2018
Current		
MCIT	**₱43,987,049**	₱11,301,586
Final	**9,055,152**	11,083,678
	53,042,201	22,385,264
Deferred	**(43,987,049)**	(11,301,586)
	₱9,055,152	₱11,083,678

Reconciliation between provision for income tax and the income tax at statutory income tax rate follows:

	2019	2018
Provision for income tax at statutory tax rate	**₱108,430,459**	(₱163,054,140)
Tax effects of:		
Interest income subjected to final tax	**(4,527,726)**	(6,084,373)
Non-taxable income	−	(7,371,514)
Non-deductible expenses	**15,808,475**	262,018,184
Expired NOLCO	**132,076,220**	13,950,911
Change in unrecognized deferred tax assets	**(242,732,276)**	(88,375,390)
Effective income tax	**₱9,055,152**	₱11,083,678

Under Republic Act No. 8424, the Company is subject to regular corporate income tax (RCIT) of 30% or 2% Minimum Corporate Income Tax (MCIT), whichever is higher. However, the Company is required to file MCIT beginning on the 4th taxable year immediately following the taxable year in which such corporation commenced its business operations. MCIT computed for 2019 and 2018 amounted to ₱23.96 million and ₱11.30 million, respectively.

Details of the Company's NOLCO that can be claimed as deduction from future taxable profit are as follows:

Year Incurred	**NOLCO**	**Application and Expired**	**Balance**	**Year of Expiry**
2017	₱1,695,298,931	₱–	₱1,695,298,931	2020
2016	881,489,739	881,489,739	–	2019
	₱2,576,788,670	₱881,489,739	₱1,695,298,931	

NOLCO incurred in 2016 and 2015 amounting to ₱440.25 million and ₱46.50 million expired in 2019 and 2018, respectively.

Details of the Company's MCIT that can be claimed as tax credits from future regular corporate income tax are as follows:

Year Recognized	**MCIT**	**Application and Expired**	**Balance**	**Year of Expiry**
2019	₱43,987,049	₱–	₱43,987,049	2022
2018	11,301,586	–	11,301,586	2021
	₱55,288,635	₱–	₱55,288,635	

The Company did not recognize deferred tax assets on the following temporary differences since management believes that the benefits will most likely not be realized prior to their expiry dates.

	2019	2018
NOLCO	**₱1,695,298,931**	₱2,576,788,670
Provision for IBNR reserves	**85,749,678**	75,875,655
Net unrealized foreign exchange loss	**62,624,501**	–
Provision for staff retirement fund	**14,907,115**	5,732,525
Provision for credit losses	**1,703,734**	–
Deferred rent payable	**–**	10,994,695
	₱1,860,283,959	₱2,658,396,850

26. Capital Management and Management of Insurance and Financial Risk

Governance Framework

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

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

Regulatory Framework

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

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

Capital Management Framework

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

Fixed capitalization requirements

Pursuant to the provision of Section 194 of the New Insurance Code ("the Code"), no new life or non-life insurance business will be licensed in the Philippines unless it has paid-up capital of One Billion Pesos (₱1,000,000,000).

The Code also provided the new capitalization requirement of all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required net worth and the schedule of compliance:

Net worth	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

The Company fully complied with the externally imposed capital requirements with Statutory Net Worth amounting to ₱2.05 billion and ₱1.16 billion as of December 31, 2019 and 2018, respectively. The December 31, 2019 Statutory Net Worth amount is still subject for examination of Insurance Commission.

Unimpaired capital requirement
IMC 22-2008 provided that for the purpose of determining compliance with the law, rules and regulations requiring that the paid-up capital should remain intact and unimpaired at all times, the statement of financial position should show that the net worth or equity is at least equal to the actual paid-up capital. The Company has complied with the unimpaired capital requirement.

RBC requirements
IC CL No. 2016-68 (Amended Risk-Based Capital (RBC2) Framework) provides the three pillar risk-based approach to solvency that is adopted by IC: (a) Pillar 1 includes the quantitative requirements in relation to the calculation of capital requirements and recognition of eligible capital; (b) Pillar 2 covers the governance and risk management requirement that consist of a supervisory review process which may include a supervisory adjustment to capital; and (c) Pillar 3 comprises the disclosure requirements designed to encourage market discipline.

Every life insurance company is quarterly required to maintain a minimum RBC ratio of 100% and not to fail the trend test. Trend Test has failed, in the event that all have occurred:
a) The RBC ratio computed for the period (i.e. first quarter) is less than 125% but is not below 100%,
b) The RBC ratio has decreased over the past period, and
c) The difference between RBC ratio (presented in (i) above) and the decrease in the RBC ratio (presented in (ii) above) over the past period is less than 100%.

Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

In addition, IC issued CL No. 2016-69 (Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended RBC2 Framework) which states RBC2 shall take effect beginning January 1, 2017. This CL also provided for relaxed requirements for initial implementation for RBC2 as follows:

	Level of sufficiency
2017	95^{th} percentile
2018	97.5^{th} percentile
2019	99.5^{th} percentile

The RBC ratio shall be calculated as Total Available Capital (TAC) divided by the RBC requirement. TAC, which is the aggregate of Tier 1 and Tier 2 capital minus deductions, and RBC requirement are defined in Section 2 of ICL 2016-68.

The following table shows how the RBC ratio was determined by the Company based on its calculations:

	2019	2018
Total Available Capital	**₱2,557,474,483**	₱1,639,121,114
RBC requirement	**1,244,536,293**	533,120,983
RBC Ratio	**205%**	307%

The final RBC Ratio for 2019 can be determined only after the accounts of the Company have been examined by IC specifically as to admitted and non-admitted assets as defined under the Code. The RBC ratio for 2018 was the final ratio after examination and verification of the IC.

Product Design and Pricing Risk

Product design risk refers to potential defects in the development of a particular insurance product. The Company manages product design risk through its product approval process where products are reviewed against pricing, design and operational risk parameters. All new products and product enhancements are reviewed and approved by the Group Office and are certified by the Company's Chief Actuary.

Product pricing phase starts with reinsurance negotiation, assumption-setting, preparation of product approval report, review and sign-off by the Group Office of pricing model, key product metrics based on target range set by Group, and risk assessment and mitigation measures consistent with the risk management policy of Group. Approved products are then filed with IC and BSP (for Bancassurance products).

The Company closely monitors the performance of new products and actively manages the product portfolio to minimize risks in the in-force book and new products.

Insurance Risk

Nature of Risk

The risk under an insurance contract is the risk that an insured event will occur, including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency and severity of claims and actual benefit amount at the time of claim, and subsequent development of long-term claims.

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

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 risks insured by the Company while undue concentration by amounts could have an impact on the severity of benefit payments.

Terms and conditions
The Company principally writes life insurance where the life of policyholder is insured against death, illness, injury or permanent disability, usually for a pre-determined amount. Life insurance contracts currently offered by the Company are mainly unit-linked, accident and health and group life insurance products. Unit-linked products differ from conventional policies in that a pre-determined percentage of each premium is allocated to units in a pooled investment fund and the policyholder benefits directly from the total investment growth and income of the fund.

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

The Company has an objective to control and manage insurance risk, and to maintain a strong capital base to safeguard the Company's ability to continue as a going-concern. The Company manages insurance risk through the following mechanism:

- The use and maintenance of sophisticated management information systems that provide up to date, accurate and reliable data on risk exposure at any point in time;
- Actuarial models based on industry past experience and sound actuarial formulations;
- Guidelines for concluding insurance contracts and assuming insurance risks;
- Pro-active compliance of claims handling procedures to investigate and adjust claims, thereby ensuring payment of valid claims;
- Reinsurance to limit the Company's exposure to large claims by placing risk with reinsurers providing high security; and
- Eventually, diversification strategy will be implemented 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, and cease to pay premiums. Thus, the insurance risk is subject to the behaviour and decisions of the policyholders.

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

	2019	2018
Variable unit-linked		
Gross	**₱69,942,046,478**	₱50,136,045,520
Net	**59,346,119,006**	44,372,475,716
Accident and health		
Gross	**13,867,897,560**	9,952,775,013
Net	**8,192,330,280**	7,563,669,177
Ordinary life		
Gross	**4,855,631,726**	537,805,000
Net	**3,277,742,112**	431,605,000
Group life		
Gross	**169,044,185,679**	100,829,956,867
Net	**156,538,507,923**	86,736,451,993
Total		
Gross	**₱257,709,761,443**	₱161,456,582,400
Net	**227,354,699,321**	139,104,201,886

The risks associated with the life and accident and health products are underwriting risk and investment risk.

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 from the policyholders' death experience being different than expected.
- Morbidity risk - risk of loss arising from the 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 from the policyholder behavior (lapses and surrenders) being different than expected.

The Company's underwriting strategy is designed to ensure that risks are evaluated and rate appropriately. This is largely achieved through the use of health questionnaires and medical screening in order to ensure that pricing takes account of current health conditions 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.

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 contract liabilities and the necessary return on investments.

Additionally, there exists a future investment risk associated with certain policies currently in force which will have premium receipts in the future. That is, the investment of those future premium receipts may be at a yield below that required to meet future policy liabilities. To maintain an adequate yield to match the interest necessary to support future policy liabilities, management focus is required to reinvest the proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality.

The Company utilizes dynamic asset allocation strategies consistent with its risk appetite framework to manage investment risk and to ensure sustainable investment returns.

Financial Instruments
The following table sets forth the carrying values and fair values of non-linked and unit-linked financial assets recognized as of December 31:

	December 31, 2019			
	Non-Linked		**Unit Linked**	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets:				
Loans and receivables:				
Cash and cash equivalents	**₱863,025,139**	**₱863,025,139**	**₱169,890,083**	**₱169,890,083**
Loans and receivables - net	**712,618,588**	**712,618,588**	**127,838,890**	**127,838,890**
Receivable from related parties	**2,968,219**	**2,968,219**	–	–
Accrued income	**7,378,340**	**7,378,340**	**12,429,530**	**12,429,530**
AFS financial assets				
Government and corporate debt securities	**808,546,363**	**810,377,017**	–	–
Financial assets at FVPL				
Debt securities	–	–	**807,474,827**	**807,474,827**
Equity securities	–	–	**4,008,623,355**	**4,008,623,355**
Unit investment trust fund	–	–	**11,101,566,942**	**11,101,566,942**
Total financial assets	**₱2,394,536,649**	**₱2,396,367,303**	**₱16,227,823,627**	**₱16,227,823,627**

(Forward)

	December 31, 2019			
	Non-Linked		Unit Linked	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial liabilities:				
Insurance payables	**₱104,177,417**	**₱104,177,417**	**₱–**	**₱–**
Accounts payables and accrued expenses	**978,950,432**	**978,950,432**	**100,876,629**	**100,876,629**
Payable to related parties	**490,075,244**	**490,075,244**	–	–
Total financial liabilities	**₱1,573,203,093**	**₱1,573,203,093**	**₱100,876,629**	**₱100,876,629**

	December 31, 2018			
	Non-Linked		Unit Linked	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Loans and receivables:				
Cash and cash equivalents	₱852,632,294	₱852,632,294	₱292,979,336	₱292,979,336
Loans and receivables – net	193,180,903	193,180,903	65,030,539	65,030,539
Receivable from related parties	19,808,151	19,808,151	–	–
Accrued income	7,995,091	7,995,091	6,126,690	6,126,690
AFS financial assets	–	–	–	–
Government and corporate debt securities	891,039,494	842,596,760	–	–
Financial assets at FVPL	–	–	–	–
Debt securities	–	–	553,676,764	553,676,764
Equity securities	–	–	2,181,757,461	2,181,757,461
Unit investment trust fund	–	–	7,695,526,966	7,695,526,966
Total financial assets	₱1,964,655,933	₱1,916,213,199	₱10,795,097,756	₱10,795,097,756
Financial liabilities:				
Insurance payables	₱76,685,767	₱76,685,767	₱–	₱–
Accounts payables and accrued expenses	749,150,330	749,150,330	71,589,875	71,589,875
Payable to related parties	364,308,474	364,308,474	–	–
Total financial liabilities	₱1,190,144,571	₱1,190,144,571	₱71,589,875	₱71,589,875

Fair values of financial assets and financial liabilities are estimated as follows:

- Due to the short-term nature of cash and cash equivalents, short-term investments, receivables, accrued income, insurance payables, accrued payables and accrued expenses, payable to related parties, and amounts payable on redemption, their carrying values reasonably approximate their fair values at year end.
- The fair value of financial assets at FVPL and AFS financial assets that are actively traded in organized financial markets is determined by reference to quoted market prices (BVAL/BSP 813 Reference rate for bonds and PSE closing price for equities), at the close of business on the reporting date, or the last trading day as applicable.

Financial Risk

The Company is exposed to financial risk through its financial assets and financial 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. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

The Company has established a risk management function with terms of reference and with responsibility for developing policies on market, credit, liquidity, insurance and operational risk.

The investment policies define the Company's limit structure to ensure the appropriate quality and diversification of assets, in accordance with the Code.

Credit Risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages the level of credit risk it accepts through a credit risk policy which focuses on minimizing credit risk exposures. The credit risk policies are set as follows:

a. Concentration limit - The Company sets maximum exposure to an individual issuer and to a particular sector.

b. Counterparty ratings - The Company reviews and recommends financial institutions that will complement over-all investment objectives and service requirements.

Reporting of credit risk exposures, monitoring compliance with credit risk policy and review of credit risk policy is done on a regular basis.

A credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements. The Company selects only domestic and foreign companies with strong financial standing and excellent track records which are allowed to participate in the Company's reinsurance programs. The Company also set maximum exposure for deposit products of accredited banks which will be the equivalent to the maximum allocation for the said instruments.

As of December 31, 2019 and 2018, the Company's maximum exposure to credit risk from its financial assets (loans and receivables, AFS financial assets and financial assets at FVPL) is equal to their carrying amount. In addition, there is no significant concentration of credit risk identified. The gross maximum exposure to credit risk of the Company approximates its net maximum exposure. There were no amounts that are set-off in accordance with the criteria in PAS 32, *Financial Instruments: Presentation*. There were no amounts subject to an enforceable master netting arrangement or similar agreement as of December 31, 2019 and 2018.

Credit quality of financial assets
It is the Company's policy to maintain accurate and consistent risk ratings across the financial assets. The Company utilizes an internal credit rating system based on its assessment of the quality of the financial assets.

The Company uses conventions which have been adapted to conform to the various ratings as follows:

Standard and Poor's	Moody's	Reported as
AAA	AAA	AAA
AA+ to AA-	Aa1 to Aa3	AA
A+ to A-	A1 to A3	A
BBB+ to BBB-	Baa1 to Baa3	BBB
BB+ and below	Ba1 and below	Below investment grade

The tables below show the credit quality of the Company's financial assets as of December 31:

Non-linked

	2019				
	A	**BBB**	**BB**	**Not Rated**	**Total**
Financial Assets:					
Loans and receivables:					
Cash and cash equivalents	**₱58,865,243**	**₱800,933,507**	**₱–**	**₱3,226,389**	**₱863,025,139**
Loans and receivables - net	–	–	–	**712,618,588**	**712,618,588**
Receivable from related parties	–	–	–	**2,968,219**	**2,968,219**
Accrued income	–	–	–	**7,378,340**	**7,378,340**
AFS financial assets					
Government and corporate debt securities	–	**810,377,017**	–	–	**810,377,017**
	₱58,865,243	**₱1,611,310,524**	**₱–**	**₱726,191,536**	**₱2,396,367,303**

Unit- linked

	2019				
	A	**BBB**	**BB**	**Not Rated**	**Total**
Financial Assets:					
Loans and receivables:					
Cash and cash equivalents	**₱139,760,675**	**₱30,129,408**	**₱–**	**₱–**	**₱169,890,083**
Receivables	–	–	–	**127,838,890**	**127,838,890**
Accrued income	–	–	–	**12,429,530**	**12,429,530**
Financial assets as FVPL:					
Debt securities	–	**762,592,756**	–	**44,882,071**	**807,474,827**
Equity securities	–	–	–	**4,008,623,355**	**4,008,623,355**
Unit investment trust fund	–	–	–	**11,101,566,942**	**11,101,566,942**
	₱139,760,675	**₱792,722,164**	**₱–**	**₱15,295,340,788**	**₱16,227,823,627**

Non-linked

	2018				
	A	BBB	BB	Not Rated	Total
Financial Assets:					
Loans and receivables:					
Cash and cash equivalents	₱44,940,464	₱805,687,782	₱–	₱2,004,048	₱852,632,294
Loans and receivables – net	–	–	–	193,180,903	193,180,903
Receivable from related parties	–	–	–	19,808,151	19,808,151
Accrued income	–	–	–	7,995,091	7,995,091
AFS financial assets					
Government and corporate debt securities	–	842,596,760	–	–	842,596,760
	₱44,940,464	₱1,648,284,542	₱–	₱222,988,193	₱1,916,213,199

Unit-linked

	2018				
	A	BBB	BB	Not Rated	Total
Financial Assets:					
Loans and receivables:					
Cash and cash equivalents	₱279,753,342	₱13,225,994	₱–	₱–	₱292,979,336
Receivables	–	–	–	65,030,539	65,030,539
Accrued income	–	–	–	6,126,690	6,126,690
Financial assets as FVPL:					
Debt securities	–	503,124,560	–	50,552,204	553,676,764
Equity securities	–	–	–	2,181,757,461	2,181,757,461
Unit investment trust fund	–	–	–	7,695,526,966	7,695,526,966
	₱279,753,342	₱516,350,554	₱–	₱9,998,993,860	₱10,795,097,756

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 a counterparty failing on repayment of a contractual obligation; or the insurance liabilities falling due for payment earlier than expected; or the inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts and operating expenses. The Company manages liquidity by forecasting cash flow requirements. Investments are made in assets with maturities or interest payments which are matched against expected pay-outs of claims benefits (i.e., amount and duration of assets are matched against amount and duration of liabilities). In addition, significant outflows due to operating expenses (e.g., salaries, bonuses, IT expenditures, etc.) are scheduled based on an agreed budget timeline.

It is unusual for a company primarily transacting insurance business to predict the requirements of funding with absolute certainty as 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 actuarial techniques and past experience.

The table below summarizes the maturity profile of the Company's financial assets and liabilities based on the remaining period at the end of the reporting period. Most of the Company's financial assets are used to support its insurance contract liabilities which are not shown in the table below. Refer to Note 14 for additional information on the Company's insurance contract liabilities as well as to the Insurance Risks Section.

Non-linked

		December 31, 2019				
		Maturity Breakdown				
	Up to a year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets:						
Loans and receivables:						
Cash and cash equivalents	₱863,025,139	₱–	₱–	₱–	₱–	₱863,025,139
Loans and receivables – net	712,618,588	–	–	–	–	712,618,588
Receivable from related parties	2,968,219	–	–	–	–	2,968,219
Accrued income	7,378,340	–	–	–	–	7,378,340
AFS financial assets						
Government and corporate debt securities	365,935,416	308,984,031	120,824,761	14,632,809	–	810,377,017
Total financial assets	₱1,951,925,702	₱308,984,031	₱120,824,761	₱14,632,809	₱–	₱2,396,367,303
Other financial liabilities:						
Accounts payable and accrued expenses	₱954,671,247	₱24,279,185	₱–	₱–	₱–	₱978,950,432
Insurance payable	104,177,417	–	–	–	–	104,177,417
Payable to related parties	490,075,244	–	–	–	–	490,075,244
Total financial liabilities	₱1,548,923,908	₱24,279,185	₱–	₱–	₱–	₱1,573,203,093

Unit-linked

		December 31, 2019				
		Maturity Breakdown				
	Up to a year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets:						
Loans and receivables:						
Cash and cash equivalents	₱169,890,083	₱–	₱–	₱–	₱–	₱169,890,083
Receivables	127,838,890	–	–	–	–	127,838,890
Accrued income	12,429,530	–	–	–	–	12,429,530
Financial assets at FVPL						
Debt securities	56,610,141	92,013,919	145,850,168	513,000,599	–	807,474,827
Equity securities	–	–	–	–	4,008,623,355	4,008,623,355
Other Investment:						
Feeder Fund (UITF)	–	–	–	–	11,101,566,942	11,101,566,942
Total financial assets	₱366,768,644	₱92,013,919	₱145,850,168	₱513,000,599	₱15,110,190,297	₱16,227,823,627
Financial liabilities:						
Other financial liabilities:						
Accounts payable and accrued expenses	100,876,629	–	–	–	–	100,876,629
Total financial liabilities	₱100,876,629	₱–	₱–	₱–	₱–	₱100,876,629

Non-linked

		December 31, 2018				
		Maturity Breakdown				
	Up to a year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets:						
Loans and receivables:						
Cash and cash equivalents	₱852,632,294	₱–	₱–	₱–	₱–	₱852,632,294
Loans and receivables – net	193,180,903	–	–	–	–	193,180,903
Receivable from related parties	19,808,151	–	–	–		19,808,151
Accrued income	7,995,091	–	–	–	–	7,995,091
AFS financial assets						
Government and corporate debt securities	78,695,266	559,609,016	180,005,958	24,286,520	–	842,596,760
Total financial assets	₱1,152,311,705	₱559,609,016	₱180,005,958	₱24,286,520	₱–	₱1,916,213,199
Other financial liabilities:						
Accounts payable and accrued expenses	₱692,769,085	₱23,897,489	₱32,483,756	₱–	₱–	₱749,150,330
Insurance payable	76,685,767	–	–	–	–	76,685,767
Payable to related parties	364,308,474	–	–	–	–	364,308,474
Total financial liabilities	₱1,133,763,326	₱23,897,489	₱32,483,756	₱–	₱–	₱1,190,144,571

Unit-linked

		December 31, 2018				
		Maturity Breakdown				
	Up to a year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets:						
Loans and receivables:						
Cash and cash equivalents	₱292,979,336	₱–	₱–	₱–	₱–	ws1
Receivables	65,030,539	–	–	–	–	65,030,539
Accrued income	6,126,690	–	–	–	–	6,126,690
Financial assets at FVPL						
Debt securities	83,590,006	139,919,483	176,847,500	153,319,775	–	553,676,764
Equity securities	–	–	–	–	2,181,757,461	2,181,757,461
Other Investment:						
Feeder Fund (UITF)	–	–	–	–	7,695,526,966	7,695,526,966
Total financial assets	₱447,726,571	139,919,483	176,847,500	153,319,775	₱9,877,284,427	₱10,795,097,756
Financial liabilities:						
Other financial liabilities:						
Accounts payable and accrued expenses	₱71,589,875	₱–	₱–	₱–	₱–	₱71,589,875
Total financial liabilities	₱71,589,875	₱–	₱–	₱–	₱–	₱71,589,875

Market Risk

- *Currency risk*

  Currency risk is the risk that the value of the Company's financial instruments will decrease resulting from changes in the foreign currency exchange rates. The Company's financial assets are predominantly denominated in the same currencies as its insurance and other financial liabilities, which serves to mitigate the foreign currency exchange risks on its intercompany payables.

  The following tables show the details of the Company's foreign currency-denominated monetary transactions and their Philippine peso equivalents:

	2019			
	USD	**PHP**	**HKD**	**PHP**
Assets				
Cash and cash equivalents	**$835,203**	**₱42,302,872**	**HK$–**	**₱–**
Assets held to cover unit-linked liabilities	**43,487,810**	**2,202,649,458**	**–**	**–**
Loans and receivables	**489,098**	**24,772,708**	**–**	**–**
	$44,812,111	**₱2,269,725,039**	**HK$–**	**₱–**
Liabilities				
Accounts payable and accrued expenses	**($352,324)**	**(17,845,143)**	**HK$–**	**₱–**
Insurance contract liabilities	**(42,894,100)**	**(2,172,592,783)**	**–**	**–**
Insurance payables	**(22,104)**	**(1,119,548)**	**–**	**–**
Payable to related parties	**(3,774,305)**	**(191,167,843)**	**(54,335,484)**	**(353,444,954)**
	($47,042,833)	**(₱2,382,725,317)**	**(HK$54,335,484)**	**(₱353,444,954)**

	2018			
	USD	PHP	HKD	PHP
Assets				
Cash and cash equivalents	$266,035	₱13,966,976	HK$–	₱–
Assets held to cover unit-linked liabilities	25,807,993	1,354,930,923	–	–
Loans and receivables	520,884	27,346,619	–	–
	$26,594,912	₱1,396,244,518	HK$–	₱–
Liabilities				
Accounts payable and accrued expenses	($196,667)	(9,686,672)	HK$–	₱–
Insurance contract liabilities	(25,347,450)	(1,330,752,216)	–	–
Insurance payables	(21,277)	(1,117,026)	–	–
Payable to related parties	(10,907)	(572,622)	(54,335,484)	(364,234,063)
	($25,576,301)	(₱1,342,128,536)	(HK$54,335,484)	(₱ 364,234,063)

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rates, with all other variables held constant, of the Company's income before tax.

	2019		2018	
Currency	**Changes in foreign exchange rates**	**Impact on income before tax**	**Changes in foreign exchange rates**	**Impact on income before tax**
Hong Kong Dollar	**9.00%**	**₱4,890,194**	11.00%	₱5,976,903
	(9.00%)	**(4,890,194)**	(11.00%)	(5,976,903)
US Dollar	**1.00%**	**2,052,264**	1.00%	947,309
	(1.00%)	**(2,052,264)**	(1.00%)	(947,309)

- *Equity price risk*
  Equity price risk is the risk that the fair value of equities will decrease resulting from changes in the levels of equity indices and the value of individual stocks. The Company is exposed to equity price risks arising from equity investments. Equity investments are held for the Company's variable unit linked funds. Exposure is being managed through equity asset class allocation target and range defined in the Investment Policy of the funds and is being monitored on a monthly basis.

  The effect on profit or loss (as a result of a change in fair value of instruments held in the unit-linked assets) due to a reasonably possible change in indices, with all other variables held constant, is as follows:

	2019		2018	
	Changes in equity price (%)	**Impact on income before tax**	**Changes in foreign exchange rates**	**Impact on income before tax**
Equity securities	**10%**	**₱400,862,335**	10%	₱218,175,746
	-10%	**(400,862,335)**	-10%	(218,175,746)

  The Company determined the reasonably possible change in equity pricing percentage changes in the fair value for the past three years.

- *Interest rate risk*
  Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company's investments classified as AFS financial assets and financial assets at FVPL in particular are exposed to such risk. The Company's investment policy manages interest rate risk by aiming to match the maturities of

interest-bearing financial assets and interest-bearing financial liabilities. The amount, duration and yield to maturity of assets are matched against the amount and duration of the liabilities.

The Company's exposure to interest rate risk arises from its investment in government bonds and corporate bonds for the VUL funds. Exposure is being managed through asset class allocation and ranges defined in the Investment Policy of the funds.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates for the next financial year, with all other variables held constant, of the Company's total comprehensive income follows:

2019

	Change in Yield (bps)	**Effect on profit or loss Increase (Decrease)**
Debt securities	**+50 bps**	(₱26,259,711)
	-50 bps	26,398,663

2018

	Change in Equity Price (%)	Effect on profit or loss Increase (Decrease)
Debt securities	+50 bps	(₱13,766,257)
	-50 bps	13,799,281

The Company determined the reasonably possible change in interest rate using the percentage changes in floating rates for the past (4) quarters for the year ended December 31, 2018 and 2017.

27. Commitments

Developmental Fees

The Company entered into Deeds of Undertaking (DOU) with the agency leaders to assist in building and maintaining of the agencies for the purpose of exclusively selling the Company's life insurance products. The remaining developmental fees shall be released monthly based on the first year commissions (FYC) requirement as defined in the DOU. In the event that the FYC requirement is not met in any given month, the pay-out of the monthly developmental fees will be suspended (see Note 10).

Developmental fee commitments are as follows:

	2019	2018
Within one year	**₱158,655,361**	₱268,610,800
After one year but not more than five years	**663,162,621**	676,664,828
	₱821,817,982	₱945,275,628

Distribution Agreement

On September 15, 2014, FWD Life and Security Bank Corporation (SBC) signed a Distribution Agreement (DA) under which SBC will sell exclusively FWD Life products. The terms of the Agreement provides for payment by FWD Life of an Upfront Fee and Exclusive Access Fee amounting to a total of ₱600 million in consideration for FWD Life's exclusive access to the distribution network. The DA also provides for payment of Initial Milestone Fee (IMF), if the cumulative ANP reaches the target of ₱3.886 billion and Subsequent Milestone Fee (SMF), if the cumulative ANP reaches the target of ₱16.854 billion. On December 10, 2018, the Company paid SBC the Initial Milestone Fee amounting to ₱1.00 billion.

Amortization of the ₱300.00 million Intangible Asset shall be amortized over its economic life of fifteen (15) years while the amortization of the Prepaid Asset for the remaining ₱300.00 million and ₱1.00 billion shall be expressed in terms of Unit of Production (UOP), at the rate of 7.7% of actual ANP production.

The bancassurance agents are given annual performance bonus and over-achievement bonus under the DA with SBC. Annual performance bonus is given in the event that the ANP generated from eligible sales during the year achieves the annual performance target of the bancassurance agent for the financial year. Annual over-achievement performance bonus is provided to bancassurance agents in the event that the ANP generated from eligible sales during the year achieves the annual over-achievement performance target.

Management Fee Income

The Company entered into a Discretionary Investment Management Agreement with BPI wherein the Company availed of the services of BPI as investment manager relative to the management and investment of the funds of the Company for its unit-linked products. Currently, the Company has 3 Funds that are managed by BPI.

The Company also entered into a Participating Trust Agreement with SBC wherein the Company agrees to participate in the Unit Investment Trust Fund established by SBC for the purpose of providing investment opportunities for higher investment yields through a diversified portfolio of investments for the Company's unit-linked products. Currently, the Company has participation in 4 Funds.

In 2017, the Company entered into a Discretionary Investment Management Agreement with SBC wherein the company availed of the services of SBC as investment manager relative to the management and investment of funds of the Company for its unit-linked products. The Company has 1 fund that is managed by SBC under this arrangement.

In 2017, the Company has also set up a US dollar denominated equity index-linked fund. The fund replicates an index-based strategy and is administered by the Company.

Management fees ranging from 1.92% up to 2.20% of the Net Asset Value are collected from the fund wherein the Company's share ranges from 1.60% up to 1.88%. Management fees are collected on a monthly and quarterly basis from the funds managed by BPI and SBC, respectively. The remaining shares/portions goes to the Fund managers /Fund administrators.

28. Contingencies

The Company has not been involved in any lawsuit arising from the normal course of carrying out its insurance business.

29. Subsequent Event

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until May 15, 2020, unless earlier lifted or extended. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. The Company is committed to slowing the spread of this virus and to prioritizing the health and safety of employees around the world.

The Company considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Company cannot determine at this time the impact to its financial position, performance and cash flows. The Company will continue to monitor the situation.

30. Supplementary Tax Information Required Under Revenue Regulation (RR) 15-2010

The following supplementary information under RR 15-2010 is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

Output VAT

Details of the Company's output VAT declared are as follows:

Fee income:	
Management fee income on assets held to cover unit-linked liabilities	**₱225,256,567**
Output VAT rate	**12%**
	₱27,030,788

Documentary stamp tax

The Company's documentary stamp tax paid or accrued in 2018 follows:

Source	Payment
Life insurance premiums/coverage	**₱5,483,410**
Other documents	**180,274**
Total	**₱6,023,684**

Other taxes and licenses

This includes all local taxes including licenses and permit fees under the account "Taxes and Licenses" and under "General and Administration" expenses.

Local Taxes	
Business registration fees	**₱5,025,140**
Real property tax	**25,743**
Community tax certificate	**10,500**
National Taxes	
Percentage taxes	**81,363,621**
Insurance commission license	**1,466,913**
Notarial fee	**88,604**
BIR annual registration	**9,000**
Other taxes	**1,000**
Total	**₱87,990,521**

Withholding taxes

Details of the Company's withholding taxes paid and accrued during the year are as follows:

	Total remittance	Balance
Tax on compensation and benefits	₱230,998,972	₱5,841,207
Expanded withholding tax	211,950,515	20,068,799
Final withholding tax	12,379,164	129,049
Value added tax	27,030,789	4,379,970
Fringe benefit tax	45,531,250	1,054,335
	₱527,890,690	₱31,473,360

Tax assessments

The Company has no pending tax case outside the administration of the BIR.

insurance

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