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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
FWD Life Insurance Corporation
19/F, W Fifth Avenue Building,
5th Avenue corner 32nd Street,
Bonifacio Global City, Taguig City

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, 2018 and 2017, 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, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 29 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.

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March 22, 2019

APR 29 2019

FWD LIFE INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

		December 31	
	Notes	2018	2017
ASSETS			
Cash and cash equivalents	4,26	**₱852,632,294**	₱600,659,865
Short-term investments	5,26	**–**	37,000,000
Financial assets			
Available-for-sale (AFS) financial assets	6,26	**842,596,760**	1,294,943,086
Financial assets at fair value through profit and loss (FVTPL)	6,7,26	**228,487,695**	248,401,101
Assets held to cover unit-linked liabilities	6,7	**10,495,020,186**	6,643,597,454
Loans and receivables - net	6,26	**193,180,903**	68,817,162
Receivable from related parties	24	**19,808,151**	15,518,833
Accrued income	8,26	**7,995,091**	8,455,854
Property and equipment - net	9	**175,688,654**	168,945,608
Prepaid assets	10,27	**1,217,470,853**	347,928,942
Intangible assets - net	11	**283,013,979**	296,843,631
Insurance contract assets - net	13	**301,085,984**	–
Other assets	12	**67,792,893**	47,564,761
TOTAL ASSETS		**₱14,684,773,443**	₱9,778,676,297
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities - net	14	**₱–**	₱41,678,326
Unit-linked liabilities	6,7	**10,495,020,186**	6,643,597,454
Insurance payables	14,26	**76,685,767**	47,045,625
Accounts payable and accrued expenses	15,26	**749,150,330**	577,488,105
Taxes payable	15	**200,661,390**	30,086,824
Payable to related parties	24,26	**364,308,474**	261,336,052
Pension liability	22	**5,732,525**	9,110,134
		11,891,558,672	7,610,342,520
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**	1,430,000,000
Remeasurement gain on pension obligation	22	**20,645,880**	13,383,652
Remeasurement gain (loss) on life insurance reserves	13	**24,571,713**	(4,412,381)
Deficit		**(3,766,159,656)**	(3,211,562,177)
Unrealized fair value loss on available-for-sale (AFS) financial assets	6	**(48,442,734)**	(21,674,885)
		2,793,214,771	2,168,333,777
TOTAL LIABILITIES AND EQUITY		**₱14,684,773,443**	₱9,778,676,297

See accompanying Notes to Financial Statements.

FWD LIFE INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Years Ended December 31 2018	2017
REVENUES			
Gross insurance premiums	17	₱7,666,870,245	₱4,571,265,940
Reinsurers' share of gross insurance premiums	17	(33,445,124)	(21,399,482)
Net insurance premiums	17	7,633,425,121	4,549,866,458
Fair value gain on FVTPL and assets held to cover unit-linked liabilities	7	–	855,634,716
Interest income	18	56,190,147	41,937,545
Management fee income	18	142,640,473	75,320,555
Reinsurance allowance	19	156,883,450	–
Gain on sale of property and equipment	9	541,667	–
Other income		6,965,424	14,595,062
Other revenues		363,221,161	987,487,878
Total revenues		7,996,646,282	5,537,354,336
BENEFITS, CLAIMS, EXPENSES AND LOSSES			
Benefits and claims	20	355,252,258	467,436,039
Gross change in insurance contract liabilities		(363,467,323)	(31,902,317)
Reinsurers' share of gross change in insurance contract liabilities		(8,432,036)	(2,736,299)
Increase in unit-linked liabilities		3,851,422,732	3,237,621,332
Net insurance expense		3,834,775,631	3,670,418,755
General and administrative expenses	21	1,670,955,319	1,410,235,409
Commission expense and commission-related expenses	21	2,145,732,577	1,393,660,357
Fair value loss on FVTPL and assets held to cover unit-linked liabilities	7	871,632,860	–
Investment expenses		11,999	–
Foreign currency exchange losses	23	17,051,697	11,146,697
Total operating expenses		4,705,384,452	2,815,042,463
Total expenses		8,540,160,083	6,485,461,218
LOSS BEFORE INCOME TAX		543,513,801	948,106,882
Provision for income tax	25	11,083,678	8,895,901
NET LOSS		554,597,479	957,002,783
OTHER COMPREHENSIVE LOSS			
Items that will be reclassified to profit or loss in subsequent periods:			
Unrealized fair value loss on available-for-sale (AFS) financial assets	6	26,767,849	5,433,125
Remeasurement loss (gain) on life insurance reserves	13	(28,984,094)	4,525,940
Item that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement gain on pension obligation	22	(7,262,228)	(7,934,261)
TOTAL COMPREHENSIVE LOSS		₱545,119,006	₱959,027,587

See accompanying Notes to Financial Statements.

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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 Pension Obligation (Note 22)	Remeasurement on Gain (loss) Life Insurance Reserves (Note 13)	Deficit (Note 16)	Unrealized Fair Value Loss on AFS Financial Assets (Note 6)	Total Equity
Balance at January 1, 2018	₱2,300,000,000	₱327,599,568	₱1,335,000,000	₱1,430,000,000	₱13,383,652	(₱4,412,381)	(₱3,211,562,177)	(₱21,674,885)	₱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	–	–	–	–	7,262,228	28,984,094	(554,597,479)	(26,767,849)	(545,119,006)
Additional contribution	–	–	–	1,170,000,000	–	–	–	–	1,170,000,000
At December 31, 2018	**₱2,300,000,000**	**₱327,599,568**	**₱1,335,000,000**	**₱2,600,000,000**	**₱20,645,880**	**₱24,571,713**	**(₱3,766,159,656)**	**(₱48,442,734)**	**₱2,793,214,771**
Balance at January 1, 2017	₱1,000,000,000	₱327,599,568	₱1,335,000,000	₱1,550,000,000	₱5,449,391	₱113,559	(₱2,254,559,394)	(₱16,241,760)	₱1,947,361,364
Unrealized fair value loss on AFS financial assets	–	–	–	–	–	–	–	(5,433,125)	(5,433,125)
Remeasurement gain on pension obligation	–	–	–	–	7,934,261	–	–	–	7,934,261
Impact of GPV reserves	–	–	–	–	–	(4,525,940)	–	–	(4,525,940)
Net loss	–	–	–	–	–	–	(957,002,783)	–	(957,002,783)
Total comprehensive loss	–	–	–	–	7,934,261	(4,525,940)	(957,002,783)	(5,433,125)	(959,027,587)
Issuance of stocks through conversion of contingency surplus	1,300,000,000	–	–	(1,300,000,000)	–	–	–	–	–
Additional contribution	–	–	–	1,180,000,000	–	–	–	–	1,180,000,000
At December 31, 2017	₱2,300,000,000	₱327,599,568	₱1,335,000,000	₱1,430,000,000	₱13,383,652	(₱4,412,381)	(₱3,211,562,177)	(₱21,674,885)	₱2,168,333,777

See accompanying Notes to Financial Statements.

FWD LIFE INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Notes	Years Ended December 31 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		(₱543,513,801)	(₱948,106,882)
Adjustments for:			
Net change in insurance contract liabilities	13	(32,281,456)	(36,320,375)
Increase in unit-linked liabilities	7	3,851,422,732	3,237,621,332
Depreciation of property and equipment	9	82,559,802	83,670,840
Amortization of prepaid assets	10	577,226,682	437,701,131
Amortization of intangible assets	11	86,523,331	53,210,570
Provision for credit losses	6	–	2,382,724
Provision for impairment losses	11	–	6,714,664
Gain on sale of property and equipment	9	(541,667)	–
Fair value loss (gain) on fair value through profit or loss asset and assets held to cover unit-linked liabilities	7	871,632,860	(855,634,716)
Interest income	18	(56,190,147)	(41,937,545)
Operating income before working capital changes		4,836,838,336	1,939,301,743
Decrease (increase) in:			
Loans and receivables	6	(124,363,741)	(45,695,959)
Receivable from related parties	23	(4,289,318)	–
Financial assets at fair value through profit and loss	6,7,26	19,913,406	(33,829,662)
Assets held to cover unit-linked liabilities	7,26	(4,723,055,592)	(2,381,986,616)
Insurance contract assets		(310,482,852)	–
Prepaid assets	10	(1,446,768,595)	(390,755,600)
Other assets	12	(20,228,134)	(18,773,496)
Increase (decrease) in:			
Insurance contract liabilities		28,984,095	22,629,712
Accounts payable and accrued expenses	15	171,662,225	98,296,540
Insurance payables	14	29,640,142	9,728,173
Pension liability	22	3,884,619	3,826,915
Payable to related parties	24	102,972,422	89,469,107
Taxes payable	15	170,574,566	(4,630,449)
Cash used in operations		(1,264,718,421)	(712,419,592)
Income taxes paid		(11,083,678)	(8,895,901)
Net cash used in operating activities		(1,275,802,099)	(721,315,493)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Available-for-sale financial assets	6,26	(299,718,213)	(460,431,426)
Property and equipment	9	(89,611,181)	(76,367,398)
Intangible assets	11	(72,693,679)	(46,367,017)
Short-term investments	5	–	(37,000,000)
Proceeds from maturity or disposal of:			
Short-term investments	5	37,000,000	–
Available-for-sale financial assets	6,26	724,260,000	165,000,000
Property and equipment	9	850,000	–
Interest received		57,687,601	45,969,574
Net cash used in investing activities		₱357,774,528	(₱409,196,267)

(Forward)

	Notes	Years Ended December 31 2018	2017
CASH FLOWS FROM FINANCING ACTIVITY			
Contingency surplus	16	**₱1,170,000,000**	₱1,180,000,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		**₱251,972,429**	₱49,488,240
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4	**600,659,865**	551,171,625
CASH AND CASH EQUIVALENTS AT END OF YEAR		**₱852,632,294**	₱600,659,865

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 22, 2019.

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 has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- 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, 2021.

  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, 2018, as well as the corresponding change in fair value for the year ended December 31, 2018. 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
Loans and receivables:				
Cash and cash equivalents	₱852,632,294	₱–	₱–	₱–
Loans and receivables - net	193,180,903	–	–	–
Receivable from related parties	19,808,151			
Accrued income	7,995,091	–	–	–
AFS financial assets:				
Government and corporate debt securities	842,596,760	(26,767,849)	–	–
	₱1,916,213,199	(₱26,767,849)	₱–	₱–

Unit-linked

	SPPI financial assets		Other financial assets	
	Fair value	Fair value change	Fair value	Fair value change
Loans and receivables:				
Cash and cash equivalents	₱–	₱–	₱292,979,336	₱–
Receivables	–	–	65,030,539	–
Accrued income	–	–	6,126,690	–
Financial assets at FVPL:				
Debt securities	–	–	553,676,764	–
Equity securities	–	–	2,181,757,461	–
Unit investment trust fund	–	–	7,695,526,966	(871,632,860)
	₱–	₱–	₱10,795,097,756	(₱871,632,860)

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
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	1,867	7,993,224	–	–	7,995,091
AFS financial assets:					
Government and corporate debt securities	–	842,596,760	–	–	842,596,760
	₱44,942,331	₱1,656,277,766	₱–	₱214,993,102	₱1,916,213,199

Unit-linked

	A	BBB	BB	Unrated	Total
Loans and receivables:					
Cash and cash equivalents	₱255,900,000	₱11,193,000	₱–	₱25,886,336	₱292,979,336
Receivables	–	–	–	65,030,539	65,030,539
Accrued income	–	–	–	6,126,690	6,126,690
Financial assets at FVPL:					
Debt securities	–	503,124,560	–	50,552,204	553,676,764
Equity securities	–	–	–	2,181,757,461	2,181,757,461
nit investment trust fund	–	–	–	7,695,526,966	7,695,526,966
	₱255,900,000	₱514,317,560	₱–	₱10,024,880,196	₱10,795,097,756

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		Unit-linked	
	Fair value	Carrying amount	Fair value	Carrying amount
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	**842,596,760**	**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**
	₱1,916,213,199	**₱1,916,213,199**	**₱10,795,097,756**	**₱10,795,097,756**

- PFRS 15, *Revenue from Contracts with Customers*
  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required.

  Applicability of PFRS 15
  An assessment was conducted during 2018 to determine whether the Company's revenues are within the scope of PFRS 15. Based on the assessment, the Company has applied the standard to all contracts with customers, except for the following specified by the standard:
  (a) lease contracts within the scope of PFRS 16 *Leases*;
  (b) contracts within the scope of PFRS 4, *Insurance Contracts* and upon its effectivity, PFRS 17 *Insurance Contracts*. The Company may however choose to apply this Standard to insurance contracts that have as their primary purpose the provision of services for a fixed fee in accordance with PFRS 17;
  (c) financial instruments and other contractual rights or obligations within the scope of PFRS 9 *Financial Instruments*, PFRS 10 *Consolidated Financial Statements*, PFRS 11 *Joint Arrangements*, PAS 27 *Separate Financial Statements*, and PAS 28 *Investments in Associates and Joint Ventures*; and
  (d) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

  The Company is predominantly engaged in the business of life insurance wherein it enters into insurance contracts with customers. Gross premiums revenue earned and other insurance-related revenue from these insurance contracts are within the scope of PFRS 4 and upon effectivity date, PFRS 17; therefore, these are not covered by PFRS 15.

  However, management fee income for the policyholder and shareholder funds are not covered by the exemption because its cash flows will not be included when estimating the cash flows that will arise as the entity fulfils an existing insurance contract as specified by PFRS 4 and PFRS 17. In the absence of any exemption, management fee income for the policyholder and shareholder fund shall apply PFRS 15.

  Furthermore, management fee income meet the criteria of applying PFRS 15 based on the Company's assessment as follows:

  (a) the policyholder, as a customer of the Company, has agreed to be charged with management fee for the services rendered by the Company through its investment fund managers for the management of the seed capital and policyholders' fund. These are included in the provisions in the insurance contract between the policyholder and the Company;
  (b) the policyholder has the ultimate right of ownership over the policyholders' fund, while the Company's fund managers has the right to manage the fund for the benefit of the policyholder, as a service being transferred to the policyholder
  (c) the policyholder, based on his/her policy contract, has clearly indicated the portion of his/her contribution that will be set aside as payment for the management fee billed by the Company;

(d) the contract has commercial substance, because it has indicated that the risk, timing or amount of the Company's future cash flows is expected to change based on the provisions of the contract; and
(e) the probability is very high that the Company will collect the consideration to which it will be entitled to in exchange for the goods or services that will be transferred to the customer, for as long as it is included in the premium payments being paid by the policyholder.

Identification of performance obligations
The standard specifies that at contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either:
(a) a good or service (or a bundle of goods or services) that is distinct; or
(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer

Performance obligations do not include activities that an entity must undertake to fulfil a contract unless those activities transfer a good or service to a customer.

Based on the Company's assessment, the performance obligation for management fee income is the 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, of which time the management fee income is recognized as revenue in the profit or loss. The Company does not expect also that there will be a significant gap on the time required to complete the performance obligation and payment of the services rendered by the fund manager for the management of the funds, as these transactions usually occur daily. Therefore, the Company concluded that management fee income shall be recognized upon simultaneous completion of the performance obligation and deduction of the management fees from the policyholders' premium payments. As such, the adoption of PFRS 15 did not materially affect the Company's financial statements as at December 31, 2018 and January 1, 2018.

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

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

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

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

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

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

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  <u>Transition to PFRS 16 *Leases*</u>
  As at December 31, 2018, the Company has non-cancellable operating lease commitments of ₱170.62 million (see Note 27). A preliminary assessment made by the Company during 2018 indicates that these arrangements will meet the definition of a lease. Upon application of PFRS 16, the Company will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for short-term leases.

  In addition, the Company currently considers refundable rental deposits paid of ₱36.77 million as rights and obligations under leases to which PAS 17 applies (see Note 12). Based on the definition of lease payments under PFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortized cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of- use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

  The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Company intends to elect the practical expedient application of PFRS 16 to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4 *Determining whether an Arrangement contains a Lease.* On the other hand, the Company will not apply this standard to contracts that were not previously identified as containing a lease applying PAS 17 and IFRIC-4. Therefore, the Company will not reassess whether the contracts are, or contain, a lease which already existed prior to the date of initial application.

  Furthermore, the Company intends to elect the modified retrospective approach for the application of PFRS 16 as lessee and will recognize the cumulative effect of initial application to opening retained earnings without restating comparative information.

The Company will also elect to use the exemptions proposed by PFRS 16 for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. As of December 31, 2018, the Company has non-cancellable operating lease commitments of ₱20.50 million which qualify for that exemption under PFRS 16.

The Company will also apply a single discount rate to be applied to portfolios of leases with reasonably similar characteristics. The groupings of leases will be classified by the Company based on type of the underlying asset present in the lease and based on lease term which will form basis of applying a single discount rate to the classified portfolios of leases.

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

Effective beginning on or after January 1, 2020
- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

Effective beginning on or after January 1, 2021

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

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

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

  The Company is currently assessing the impact of adopting the standard.

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*

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,
  - realised and or unrealised 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.

Short-term Investments

These are placements in time deposits and other money market instruments with original maturities of more than three (3) months but less than one (1) year and 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, assets held to cover unit-linked liabilities, and refundable security deposits.

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 "Investment 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 under "Other 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, 2018 and 2017, 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.

Insurance Receivables

Insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortized cost, using the effective interest rate method. The carrying value of insurance receivables are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the profit or loss. Insurance receivables are derecognized when the 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 inception of the contract. Assumptions and actuarial valuation methods are also subject to provisions of the Insurance Code (the Code) and guidelines set by IC, subject to the minimum liability adequacy test.

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.

Liability adequacy test
Liability adequacy tests are performed semi-annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

<u>Unit-linked insurance contracts</u>
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 "Investment income" 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 "Investment income" 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)

Policy applicable beginning January 1, 2018

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. In addition, the following specific recognition criteria must be also met before revenue is recognized:

Policy applicable prior to January 1, 2018

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when payment is being made. Revenue is being measured at the fair value of the consideration received or receivable, excluding discounts, rebates and other sales taxes and duties. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or as an agent. The Company has concluded that it is acting as principal in all its revenue arrangements.

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

Investment 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.

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.

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 other income in accordance with the Company's reinsurance policy.

<u>Revenue Recognition (outside the scope of PFRS 15)</u>
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.

<u>Benefits and Expenses</u>
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, including claims handling costs. 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. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

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.

Leases
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.

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.

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.

Remeasurements, comprising actuarial gains and losses and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of the date of the plan amendment or curtailment or the date that the Company recognizes related restructuring costs or termination benefits.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

The net defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate) less the fair value of plan assets out of which the obligations are to be settled directly. 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.

Operating lease- the Company as lessee

The Company has entered into lease agreements related to various properties for its head office premises and branch offices. Based on an evaluation of the terms and conditions of the lease agreements, there will be no transfer of ownership of assets to the Company at the end of the lease term. The lessors retain all significant risks and rewards of ownership of these properties and so the Company accounts for the agreements as operating leases (see Note 26).

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 AFS financial assets

The Company treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

The carrying values of AFS assets as of December 31, 2018 and 2017 amounted to ₱842.60 million and ₱1,294.94 million, respectively (see Note 6).

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.

The Company recognized provision for impairment losses on intangible asset in 2017 amounting to ₱6.7 million (see Note 11). There was no impairment indicator identified on the Company's property and equipment as of December 31, 2018 and 2017. The carrying values of property and equipment and intangible assets are disclosed in Note 9 and Note 11, respectively.

Liability adequacy testing
The Company evaluates the adequacy of its insurance contract liabilities at least semi-annually. Significant judgment is exercised in determining the level of aggregation at which liability adequacy testing is performed and in selecting best estimate assumptions. Liability adequacy is assessed on a portfolio of contracts in accordance with the Company's manner of acquiring, servicing and measuring the profitability of its insurance contracts.

The judgments exercised in liability adequacy testing affect amounts recognized in the financial statements such as commission and other acquisition related expenses, insurance contract benefits and liabilities.

<u>Estimates and Assumptions</u>
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.

Fair values of financial assets and liabilities
Fair value determinations for financial instruments are based generally on listed or quoted market prices. Where the fair values of financial assets and financial liabilities recorded in the statement of financial position or disclosed in the notes to the financial statements cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Any indication of deterioration in the above factors can have a negative impact on the fair value. The fair values of financial assets and liabilities are shown in Note 26.

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 ₱75.88 million and ₱28.95 million as of December 31, 2018 and 2017, 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.

As of December 31, 2018 and 2017, allowance for credit losses amounted to ₱2.38 million. The carrying value of loans and receivables amounted to ₱193.18 million and ₱63.82 million as of December 31, 2018 and 2017, respectively (see Note 6).

Estimated useful lives of property and equipment and intangible assets and prepaid 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.

As of December 31, 2018 and 2017, the carrying values of property and equipment amounted to ₱175.69 million and ₱168.95 million, respectively (see Note 9) and the carrying values of intangible assets amounted to ₱283.01 million and ₱296.84 million, respectively (see Note 11).

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, 2018 and 2017, the present value of pension obligation amounted to ₱5.73 million and ₱9.11 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, 2018 and 2017 since management believes that the benefits will not be realized prior to their expiry dates.

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:

	2018	2017
Cash on hand	**₱165,000**	₱145,000
Cash in banks	**165,275,522**	217,714,865
Cash equivalents	**687,191,772**	382,800,000
	₱852,632,294	₱600,659,865

Cash in banks earn annual interest at the prevailing bank deposit rates ranging from 0.10% to 0.25% in 2018 and from 0.25% to 0.75% in 2017. 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 0.25% to 6.28% in 2018 and from 0.25% to 4.48% in 2017. Interest income earned on cash and cash equivalents in 2018 and 2017 amounted to ₱19.08 million and ₱3.81 million, respectively (see Note 18). Interest accrued on cash and cash equivalents amounted to ₱0.86 million and ₱0.30 million as of December 31, 2018 and 2017, respectively (see Note 8).

5. Short-term Investments

Short-term investments consist of time deposits with maturity of more than three (3) months but less than one (1) year from date of placement amounting to nil and ₱37.00 million as of December 31, 2018 and 2017, respectively. The annual interest rate is 1.75% and 0.80% in 2018 and 2017, respectively.

Interest income earned in 2018 and 2017 amounted to ₱0.11 million and₱0.22 million, respectively (see Note 18). Accrued interest income amounted to nil and ₱0.18 million as of December 31, 2018 and 2017, respectively (see Note 8).

6. Financial Assets

The Company's financial assets are summarized as follows:

	2018	2017
Available-for-sale (AFS) financial assets	**₱842,596,760**	₱1,294,943,086
Financial assets at fair value through profit or loss (FVPL) (Note 7)	**228,487,695**	248,401,101
Assets held to cover unit-linked liabilities (Note 7)	**10,495,020,186**	6,643,597,454
Loans and receivables - net	**193,180,903**	63,817,162
	₱11,759,285,544	₱8,250,758,803

<u>AFS financial assets</u>
This account consists of:

	At Amortized Cost		At Fair value	
	2018	2017	**2018**	2017
Government debt securities	**₱799,366,274**	₱1,223,932,824	**₱759,600,566**	₱1,205,552,883
Corporate debt securities	**91,673,220**	92,685,147	**82,996,194**	89,390,203
	₱891,039,494	₱1,316,617,971	**₱842,596,760**	₱1,294,943,086

The carrying values of AFS financial assets have been determined as follows:

	2018	2017
At January 1	**₱1,294,943,086**	₱1,007,475,085
Additions	**299,718,213**	460,431,426
Disposals/maturities	**(724,260,000)**	(165,000,000)
Fair value losses	**(26,767,849)**	(5,433,125)
Amortization of discount	**(1,036,690)**	(2,530,300)
At December 31	**₱842,596,760**	₱1,294,943,086

AFS debt securities bear annual interest ranging from 3.38% to 6.80% in 2018 and 2.13% to 7.00% in 2017. Interest earned amounted to ₱37.00 million in 2018 and ₱37.90 million in 2017 (see Note 18). Interest accrued amounted to ₱7.13 million and ₱7.98 million as of December 31, 2018 and 2017, respectively (see Note 8).

As of December 31, 2018 and 2017, AFS financial assets amounting to ₱250.00 million are deposited with the IC in accordance with the provisions of the Code as security for the benefit of policyholders and creditors of the Company.

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

	2018	2017
At January 1	**₱21,674,885**	₱16,241,760
Unrealized fair value loss	**26,767,849**	5,433,125
At December 31	**₱48,442,734**	₱21,674,885

"Unrealized fair value 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 ₱228.49 million and ₱248.40 million as of December 31, 2018 and 2017, respectively (see Note 7).

Loans and receivables
This account consists of:

	2018	2017
Fund management fee receivable	₱40,140,389	₱23,944,994
Premiums due and uncollected-net	37,160,601	4,670,079
Premiums receivable	34,755,573	12,016,832
Reinsurance recoverable on paid losses	32,457,694	632,779
Receivable from agents	22,931,090	14,884,968
Receivable from VUL funds	17,804,419	8,776,347
Employee loans and advances	10,313,861	6,273,887
	195,563,627	71,199,886
Less allowance for credit losses	2,382,724	2,382,724
	₱193,180,903	₱68,817,162

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.

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

Premium receivable pertains to premiums of issued group insurance policies for remittance to the Company which is collected within the year.

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.

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.

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

Employee loans and advances are non-interest bearing and are settled through payroll deductions. Provision for credit losses amounted to nil and ₱2.38 million in 2018 and 2017, respectively (see Note 21). The Company provides for bad debts based on specific assessment of outstanding balances.

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

	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

	2017			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
AFS financial assets	₱1,294,943,086	₱–	₱–	₱1,294,943,086
Financial assets at FVPL (Note 7)	248,401,101	–	–	248,401,101
Assets held to cover unit-linked liabilities (Note 7)	6,643,597,454	–	–	6,643,597,454
	₱8,186,941,641	₱–	₱–	₱8,186,941,641

As of December 31, 2018 and 2017, 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.

7. Unit-Linked Funds

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

BPI Funds

	2018			
	Balanced Fund	Equity Fund	Fixed Income	Total
Financial assets at FVPL (Note 6)	₱77,794,550	₱–	₱79,727,450	₱157,522,000
Assets held to cover unit-linked liabilities (Note 6)	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 6)	₱–	₱–	₱–	₱–	₱46,213,500	₱46,213,500
Assets held to cover unit-linked liabilities (Note 6)	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	**Total**
Financial assets at FVPL (Note 6)	**₱24,752,195**	**₱24,752,195**
Assets held to cover unit-linked liabilities (Note 6)	**1,330,179,451**	**1,330,179,451**
	₱1,354,931,646	**₱1,354,931,646**

BPI Funds

	2017			
	Balanced Fund	Equity Fund	Fixed Income	Total
Financial assets at FVPL (Note 6)	₱84,677,117	₱–	₱84,046,281	₱168,723,398
Assets held to cover unit-linked liabilities (Note 6)	234,362,578	833,689,078	134,539,589	1,202,591,245
	₱319,039,695	₱833,689,078	₱218,585,870	₱1,371,314,643

SBC Funds

	2017					
	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 6)	₱–	₱–	₱–	₱–	₱53,167,093	₱53,167,093
Assets held to cover unit-linked liabilities (Note 6)	411,528,530	210,808,050	2,596,347,884	1,707,559,803	196,787,791	5,123,032,058
	₱411,528,530	₱210,808,050	₱2,596,347,884	₱1,707,559,803	₱249,954,884	₱5,176,199,151

Dollar Equity Index Fund

	2017	
	FWD Global Dollar Equity Index Fund	Total
Financial assets at FVPL (Note 6)	₱26,510,610	₱26,510,610
Assets held to cover unit-linked liabilities (Note 6)	317,974,151	317,974,151
	₱344,484,761	₱344,484,761

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

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

BPI Funds	2017 Balanced Fund	Equity Fund	Fixed Income	TOTAL
Asset				
Cash and cash equivalents	₱18,426,004	₱74,868,487	₱6,073,165	₱99,367,656
Debt securities	225,674,689	–	210,138,178	435,812,867
Equity securities	61,096,509	749,067,828	–	810,164,337
Accrued income	3,215,205	587,240	2,977,314	6,779,759
Other receivables	12,134,435	13,667,116	799,626	26,601,177
Total Assets	₱320,546,842	₱838,190,671	₱219,988,283	₱1,378,725,796
Liabilities				
Amounts payable on redemption of units	₱238,816	₱1,566,026	₱533,738	₱2,338,580
Other payables	1,268,331	2,935,567	868,675	5,072,573
Total Liabilities	1,507,147	4,501,593	1,402,413	7,411,153
Net Asset Value	₱319,039,695	₱833,689,078	₱218,585,870	₱1,371,314,643

SBC Funds

SBC Funds	2017 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	₱–	₱–	₱–	₱–	₱14,792,010	₱14,792,010
Other investments - feeder fund	411,528,530	210,808,050	2,596,347,884	1,707,559,803	–	4,926,244,267
Equity securities	–	–	–	–	242,287,385	242,287,385
Accrued income	–	–	–	–	175,381	175,381
Other receivables	–	–	–	–	6,538,154	6,538,154
Total Assets	₱411,528,530	₱210,808,050	₱2,596,347,884	₱1,707,559,803	₱263,792,930	₱5,190,037,197

(Forward)

Liabilities						
Amounts payable on redemption of units	₱–	₱–	₱–	₱–	₱153,576	₱153,576
Other payables	–	–	–	–	13,684,470	13,684,470
Total Liabilities	–	–	–	–	13,838,046	13,838,046
Net Asset Value	₱411,528,530	₱210,808,050	₱2,596,347,884	₱1,707,559,803	₱249,954,884	₱5,176,199,151

Dollar Equity Funds	2017	
	FWD Global Dollar Equity Index Fund	TOTAL
Asset		
Cash and cash equivalents	₱47,500,094	₱47,500,094
Other Investments - Feeder Fund	311,240,889	311,240,889
Other receivables	30,943,787	30,943,787
Total Assets	₱389,684,770	₱389,684,770
Liabilities		
Amounts payable on redemption of units	₱44,575,027	₱44,575,027
Other payables	624,982	624,982
Total Liabilities	45,200,009	45,200,009
Net Asset Value	₱344,484,761	₱344,484,761

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

	2018	2017
At January 1	**₱6,891,998,555**	₱3,620,547,561
Contributions	**5,514,196,216**	3,228,172,017
Redemptions	**(811,054,030)**	(812,355,739)
Fair value gain (loss)	**(871,632,860)**	855,634,716
At December 31	**₱10,723,507,881**	₱6,891,998,555

Investment in debt securities in the unit-linked funds bear an annual interest ranging from 3.50% to 15.00% in 2018 and 3.13% to 12.13% in 2017.

In 2017, the Company has launched additional VUL funds, FWD Peso Equity Index Fund and FWD Global Dollar Equity Index Fund which are both invested in equity securities.

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 2018 and 2017 are as follow:

	2018	2017
Dividend income	**₱23,575,008**	₱10,148,812
Interest income	**26,658,217**	18,631,867
Unrealized gain (loss) on investments	**(819,430,691)**	901,159,376
Realized gain (loss) on investments	**(31,562,527)**	17,462,510
Total loss	**(800,759,993)**	947,402,565
Management fees	**(65,358,884)**	(71,334,009)
Other operating expenses	**(515,535)**	(16,316,216)
Total expenses	**(65,874,419)**	(87,650,225)
Net loss before final tax	**(866,634,412)**	859,752,340
Provision for final tax	**(4,998,448)**	(4,117,624)
Unit-linked gain (loss) after final tax	**(₱871,632,860)**	₱855,634,716

8. Accrued Income

This account consists of:

	2018	2017
Cash and cash equivalents (Note 4)	₱864,017	₱297,286
Short-term investments (Note 5)	–	175,544
AFS financial assets (Note 6)	7,131,074	7,983,024
	₱7,995,091	₱8,455,854

9. Property and Equipment - net

The rollforward analyses of this account follow:

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	253,667	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	₱253,667	₱175,688,654

2017

	EDP Equipment	Office Equipment	Motor Vehicles	Leasehold Improvements	Furniture and Fixtures	Total
Cost						
At January 1	₱141,662,669	₱6,797,812	₱9,562,830	₱126,963,948	₱8,782,244	₱293,769,503
Additions	23,761,047	3,736,828	–	37,873,557	10,995,966	76,367,398
At December 31	165,423,716	10,534,640	9,562,830	164,837,505	19,778,210	370,136,901
Accumulated depreciation						
At January 1	74,142,320	3,058,894	4,583,782	33,773,874	1,961,583	117,520,453
Depreciation (Note 21)	43,746,079	2,793,405	1,912,566	29,912,429	5,306,361	83,670,840
At December 31	117,888,399	5,852,299	6,496,348	63,686,303	7,267,944	201,191,293
Net Book Value	₱47,535,317	₱4,682,341	₱3,066,482	₱101,151,202	₱12,510,266	₱168,945,608

During 2018, a motor vehicle with acquisition cost of ₱1.85 million and net book value of ₱0.31 million was sold for ₱0.85 million. Recognized gain on disposal of motor vehicle amounted to ₱0.54 million in 2018.

10. Prepaid Assets

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

	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 to receivable from agents (Note 6)	–	(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 to receivable from agents (Note 6)	–	(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

	2017				
	SBC Access fee	Developmental fees	Prepaid Commission	Prepayments	Total
Cost					
At January 1	₱300,000,000	₱ 253,613,343	₱–	₱93,569,650	₱647,182,993
Additions	–	210,894,426	1,424,200	178,436,974	390,755,600
At December 31	300,000,000	464,507,769	1,424,200	272,006,624	1,037,938,593
Accumulated amortization					
At January 1	129,861,549	80,154,984	–	42,291,987	252,308,520
Amortization (Note 21)	91,268,531	160,666,858	–	185,765,742	437,701,131
At December 31	221,130,080	240,821,842	–	228,057,729	690,009,651
Net Book Value	₱78,869,920	₱223,685,927	₱1,424,200	₱43,948,895	₱347,928,942

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 agency-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". Amortization expense is reported under "Commission expense and agency-related expenses" in the profit or loss (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.

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

11. **Intangible Assets** - net

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

	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

	2017		
	SBC Access fee	Software	Total
Cost			
At January 1	₱300,000,000	₱68,850,299	₱368,850,299
Additions	–	46,367,017	46,367,017
At December 31	300,000,000	115,217,316	415,217,316
Accumulated Amortization			
At January 1	40,000,000	18,448,451	58,448,451
Amortization (Note 21)	20,000,000	33,210,570	53,210,570
Impairment losses (Note 21)	–	6,714,664	6,714,664
At December 31	60,000,000	58,373,685	118,373,685
Net book value	₱240,000,000	₱56,843,631	₱296,843,631

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 agency-related expenses" in the profit or loss (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 reversed during 2018 when the purchased system application was derecognized from the Company's books.

12. Other Assets

This account consists of:

	2018	2017
Rental deposits	**₱36,774,151**	₱33,657,412
Sundry deposits	**15,679,710**	11,289,567
Deferred tax asset	**11,301,586**	–
Creditable withholding taxes	**3,946,437**	2,547,693
Security fund	**70,089**	70,089
Others	**20,920**	–
	₱67,792,893	₱47,564,761

Rental deposits include security and reservation deposits. These items were transacted by the Company with W Fifth Building for its Head Office, Limketkai Sons, Inc. for CDO branch office, Asian I-Office Properties Inc. for Cebu branch office, Development Bank of the Philippines for Baguio branch office, MDI Group Holdings, Inc. for SGA BGC branch office, BDO Unibank Inc. for Makati branch office, Bormaheco Incorporated for Davao branch office, 21st Drive Land Corporation for Del Rosario branch office, Mango Suites for Santiago branch office and V. Ladia Rental Space for Malolos branch office (see Note 27).

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

Deferred tax asset consists mainly of Minimum Corporate Income Tax that will be applied against future Regular Income Tax within the next three (3) years.

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 or Liabilities - net

This account consists of:

	2018	2017
Policy and contract claims reserve	**₱75,875,656**	₱28,954,195
Legal policy reserves	**(376,961,640)**	12,724,131
Insurance contract liabilities (assets) - net	**(₱301,085,984)**	₱41,678,326

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

	2018	2017
At January 1	**₱28,954,195**	₱3,189,234
Provision during the year	**46,921,461**	25,764,961
At December 31	**₱75,875,656**	₱28,954,195

Details of the legal policy reserves follow:

	2018	2017
Gross legal policy reserves		
Unearned premium reserves from group life insurance contracts	**₱46,167,311**	₱17,240,190
Unearned premium reserves from unit-linked insurance contracts	**14,683,176**	117,811,790
Unearned premium reserves from individual life insurance contracts	**4,970,306**	1,539,696
Gross premium reserves from individual life insurance contracts	**(431,099,155)**	(120,616,303)
	(₱365,278,362)	₱15,975,373
Reinsurer's share in legal policy reserves		
Unearned premium reserves from group life insurance contracts	**5,799**	402,294
Unearned premium reserves from unit-linked insurance contracts	**658,366**	2,573,256
Unearned premium reserves from individual life insurance contracts	**11,019,113**	275,692
	11,683,278	3,251,242
Legal policy reserves	**(₱376,961,640)**	₱12,724,131

Details of gross legal policy reserves follow:

	2018	2017
Negative legal policy reserves	**(₱433,857,323)**	(₱121,029,352)
Positive legal policy reserves	**2,758,168**	413,049
	(431,099,155)	(120,616,303)
Unearned premium reserves	**65,820,793**	136,591,676
Gross legal policy reserves	**(₱365,278,362)**	₱15,975,373

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

	2018	2017
At January 1	**(₱4,412,381)**	₱113,559
Due to change in discount rates	**28,984,094**	(4,525,940)
At December 31	**₱24,571,713**	(₱4,412,381)

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 reserves calculated on a per policy basis (Note 16).

The movement in negative legal policy reserves for 2018 can be attributed to the following: a) new issues and the aging of the in-force policies of the individual health products, b) release of additional expense reserves; and c) 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 ₱76.69 million and ₱47.05 million as of December 31, 2018 and 2017, respectively.

15. Accounts Payables and Accrued Expenses and Taxes Payable

Accounts Payable and Accrued Expenses

This account consists of:

	2018	2017
Accruals for:		
Distribution compensation	**₱358,008,503**	₱215,442,720
Employee incentives	**164,032,885**	105,466,886
Suppliers' invoices	**86,039,778**	93,247,476
Unit linked purchases	**62,388,506**	85,603,102
Reinsurance payable	**53,553,360**	23,409,462
Commissions payable	**12,544,143**	40,073,440
Deferred rental payable	**10,994,695**	13,195,032
Others	**1,588,460**	1,049,987
	₱749,150,330	₱577,488,105

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

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

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.

Deferred rental payable pertains to the lease rate differential adjustment to align lease expense with PAS 17, *Leases*.

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:

	2018	2017
Expanded withholding tax	**₱166,387,631**	₱13,131,747
Premium tax payable	**18,069,108**	4,123,784
Final withholding tax	**4,854,526**	1,391,799
Income tax payable	**4,321,548**	–
Withholding tax on compensation	**4,317,802**	9,678,876
Withholding VAT payable	**2,710,775**	1,760,618
	₱200,661,390	₱30,086,824

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, 2018 and 2017 as follows:

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

The movements of the Company's common share follow:

	2018	2017
At January 1	**2,300,000,000**	1,000,000,000
Issuance of shares	–	1,300,000,000
At December 31	**2,300,000,000**	2,300,000,000

The Company has only one (1) class of common shares which carry no right to fixed income.

On March 21, 2017, the Company issued additional shares of 1,300.00 million through the conversion of ₱1,300.00 million contingency surplus. The approval for the conversion of contingency surplus to additional subscription of capital stock was granted by the Insurance Commission on September 26, 2016.

Contingency Surplus

The BOD approved the infusion of additional contingency surplus amounting to ₱1,170.00 million and ₱1,180.00 million in 2018 and 2017, respectively.

On March 21, 2017, ₱1,300.00 million was converted to capital stock at ₱1.00 par value.

Deficit

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

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 movements of the Company's deficit follow:

	2018	2017
Deficit - gross	₱4,200,016,979	₱3,332,591,529
Appropriation for negative reserves (Note 13)	(433,857,323)	(121,029,352)
Deficit - net	₱3,766,159,656	₱3,211,562,177

17. Net Insurance Premiums

This account consists of:

	2018	2017
Premium revenue arising from contracts issued		
Unit-linked insurance contracts	₱7,130,150,825	₱4,430,898,242
Life insurance contracts	536,719,420	140,367,698
	7,666,870,245	4,571,265,940
Premium revenue ceded to reinsurers on contracts issued		
Unit-linked insurance contracts	(20,915,438)	(14,839,510)
Life insurance contracts	(12,529,686)	(6,559,972)
	(33,445,124)	(21,399,482)
Net insurance premiums	₱7,633,425,121	₱4,549,866,458

18. Interest and Management Fee Income

This account consists of:

	2018	2017
Interest income on:		
AFS financial assets (Note 6)	₱37,002,870	₱37,904,549
Cash and cash equivalents (Note 4)	19,079,360	3,813,566
Short-term investments (Note 5)	107,917	219,430
	56,190,147	41,937,545
Management fee on:		
Seed capital	4,055,925	3,986,546
Policyholder's fund asset value	138,584,548	71,334,009
	142,640,473	75,320,555
	₱198,830,620	₱117,258,100

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.

As of December 31, 2018 and 2017, reinsurance allowance amounted to ₱156.88 million and nil, respectively.

20. Benefits and Claims

This account consists of:

	2018	2017
Death and hospitalization benefits	**₱135,973,127**	₱43,005,877
Surrenders	**219,279,131**	424,430,162
Gross/net benefits and claims	**₱355,252,258**	₱467,436,039

In 2018 and 2017, there were no reinsurance share on benefits and claims.

21. Operating Expenses

General and administrative expenses consist of:

	2018	2017
Salaries, wages and employees' benefits	**₱851,191,807**	₱688,098,544
Professional fees	**155,264,845**	114,646,375
Building rental and related expenses (Note 27)	**120,944,303**	109,149,548
Marketing expenses	**102,327,773**	122,919,391
Information technology costs	**83,681,044**	80,234,794
Depreciation (Note 9)	**82,559,802**	83,670,840
Amortization (Note 11)	**66,523,331**	33,210,570
Taxes, licenses and fees	**63,665,701**	40,314,499
Transportation and travel	**33,813,021**	35,375,847
Communication, light and water	**31,749,411**	26,867,185
Distribution training	**22,926,757**	16,832,262

(Forward)

	2018	2017
Supplies	**₱18,701,807**	₱26,508,265
Entertainment	**14,320,057**	10,743,223
Provision for (reversal of) impairment losses (Note 11)	**(6,714,664)**	6,714,664
Others	**30,000,324**	14,949,402
	₱1,670,955,319	₱1,410,235,409

Salaries, allowances and benefits consist of:

	2018	2017
Salaries and wages	**₱704,568,076**	₱548,046,354
Benefits and allowances	**142,739,112**	136,225,275
Net pension expense (Note 22)	**3,884,619**	3,826,915
	₱851,191,807	₱688,098,544

Commission expense and commission-related expenses consist of:

	2018	2017
Commission expense	**₱1,144,807,603**	₱761,969,504
Commission-related expenses (CRE)	**590,469,451**	329,466,579
Prepaid asset (Developmental fees (Note 10)	**248,046,579**	160,666,858
Prepaid asset (SBC access fee) (Note 10)	**132,629,816**	91,268,531
Intangible asset (SBC access fee) (Note 11)	**20,000,000**	20,000,000
Provision for credit losses (Note 6)	**–**	2,382,724
Distribution operation expenses	**9,779,128**	27,906,161
	₱2,145,732,577	₱1,393,660,357

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 ₱2.38 million in 2017 is based on specific assessment of outstanding balance of agent's receivable.

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:

	2018	2017
Current service cost	₱3,356,231	₱3,086,736
Net interest expense	528,388	740,179
	₱3,884,619	₱3,826,915

As of December 31, 2017 and 2016, the present value of the obligation as shown in the statement of financial position amounted to ₱5.73 million and ₱9.11 million, respectively.

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

	2018	2017
At January 1	₱9,110,134	₱13,217,480
Additional transition liability	–	–
Interest expense	528,388	740,179
Current service cost	3,356,231	3,086,736
Actuarial gain on obligation	(7,262,228)	(7,934,261)
At December 31	₱5,732,525	₱9,110,134

The rollforward analysis of remeasurement gain on pension obligation follows:

	2018	2017
At January 1	₱13,383,652	₱5,449,391
Actuarial gain on obligation		
Experience adjustment	61,509	7,065,028
Change in financial assumptions	7,200,719	869,233
	7,262,228	7,934,261
At December 31	₱20,645,880	₱13,383,652

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

	2018	2017
Salary increase rate	8.00%	8.00%
Discount rate	7.80%	5.80%
Expected average remaining working lives	15 years	14 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%	(₱5,492,194)
	-1.00%	7,554,294
Salary rate	+1.00%	(7,453,338)
	-1.00%	5,549,764

The table below summarizes the maturity profile of the Company's benefit liabilities based on the remaining period at the end of the reporting period.

Year	2018	2017
1-5 years	₱8,123,280	₱7,376,243
6-10 years	5,054,871	7,317,568
11-15 years	51,321,223	47,102,764
16 years and up	1,111,163,678	835,475,070
	₱1,175,663,052	₱897,271,645

23. Foreign Currency Exchange Losses

This account consists of realized foreign currency exchange losses amounting to ₱17.05 million and ₱11.15 million as of December 31, 2018 and 2017, 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	2018 Amount	2018 Outstanding Balances	2017 Amount	2017 Outstanding Balances	Terms	Conditions
Receivable from Affiliates:						
FWD Group Management Holdings Ltd.	**₱4,528,806**	**₱18,916,728**	₱13,560,875	₱14,387,922	Interest-free, settlement in cash; annual	Unsecured
FWD Vietnam	**(47,563)**	**891,423**	1,905	933,496	Interest-free, settlement in cash; annual	Unsecured
FWD Thailand			–	98,533	Interest-free, settlement in cash; annual	Unsecured
FWD Singapore			–	83,104	Interest-free, settlement in cash; annual	Unsecured
FWD Indonesia			–	15,778	Interest-free, settlement in cash; annual	nsecured
	₱4,481,243	**₱19,808,151**	₱13,562,780	₱15,518,833		

Category	2018 Amount	2018 Outstanding Balances	2017 Amount	2017 Outstanding Balances	Terms	Conditions
Payable to Affiliates:						
FWD Group Management Holdings Ltd. (a) (Note 21)	**₱93,226,520**	**₱350,186,014**	₱88,095,481	₱257,029,273	Interest-free, settlement in cash; annual	Unsecured
Valdimir Pte. Ltd. (b)	**9,815,681**	**14,122,460**	4,306,779	4,306,779	Interest-free, settlement in cash; annual	Unsecured
	₱103,042,201	**₱364,308,474**	₱92,402,260	₱261,336,052		

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.

b. 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 in the Company's production for the year.

c. The outstanding receivable from FWD Group Management Holdings Ltd. includes group initiated projects and initiatives costs which was locally launch 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:

	2018	2017
Salaries and other short-term employee benefits	**₱153,656,132**	₱196,863,913
Other long-term benefits	**11,386,008**	15,658,791
Pension expense	**5,057,277**	1,502,988
	₱170,099,417	₱214,025,692

25. Income Taxes

Provision for income tax consists of:

	2018	2017
Current		
MCIT	**₱11,301,586**	₱–
Final	**11,083,678**	8,895,091
	22,385,264	8,895,091
Deferred	**(11,301,586)**	–
	₱11,083,678	₱8,895,091

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

	2018	2017
Provision for income tax at statutory tax rate	**(₱163,054,140)**	(₱284,432,065)
Tax effects of:		
Interest income subjected to final tax	**(6,084,373)**	(4,444,452)
Non-taxable income	**(7,371,514)**	(256,690,415)
Non-deductible expenses	**262,018,184**	2,300,123
Expired NOLCO	**13,950,911**	93,289,140
Change in unrecognized deferred tax assets	**(88,375,390)**	458,873,570
Effective income tax	**₱11,083,678**	₱8,895,901

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 2018 amounted to ₱11.30 million.

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	Tax Effect	Year of Expiry
2017	₱1,695,298,931	₱–	₱1,695,298,931	₱508,589,679	2020
2016	881,489,739	–	881,489,739	264,446,922	2019
2015	307,695,940	307,695,940	–	–	2018
	₱2,884,484,610	₱307,695,940	₱2,576,788,670	₱773,036,601	

NOLCO incurred in 2015 amounting to ₱46.50 million expired in 2018.

<u>Deferred Tax Assets</u>

The Company did not recognize deferred tax assets amounting to ₱917.38 million and ₱1,007.93 million as of December 31, 2018 and 2017, respectively, from the following temporary differences since management believes that the benefits will most likely not be realized prior to their expiry dates.

	2018	2017
NOLCO	**₱2,576,788,670**	₱2,884,484,610
Accrued expenses	**388,540,983**	424,035,416
Provision for staff retirement fund	**5,732,525**	9,110,134
Provision for IBNR reserves	**75,875,655**	28,954,195
Deferred rent payable	**10,994,695**	13,195,031
	₱3,057,932,528	₱3,359,779,386

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

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

In 2018, the Company fully complied with the externally imposed capital requirements with Statutory Net Worth amounting to ₱1.16 billion. This 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 2016-66.

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

	2018	2017
Total Available Capital	**₱2,028,609,880**	₱1,184,071,259
RBC requirement	**572,732,207**	146,725,063
RBC Ratio	**354%**	807%

The final RBC Ratio for 2018 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. RBC ratio for 2017 is based on the Synopsis of the Annual Statement as approved by the Insurance Commission dated October 15, 2018.

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:

	2018	2017
Variable unit-linked		
Gross	**₱50,136,045,520**	₱31,835,060,088
Net	**44,372,475,716**	26,442,065,716
Term insurance		
Gross	**9,952,775,013**	2,554,959,950
Net	**7,557,059,177**	1,801,388,724
Group life		
Gross	**537,805,000**	–
Net	**431,605,000**	–
Total		
Gross	**100,829,956,867**	21,710,032,571
Net	**86,736,451,993**	20,481,562,658

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, 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
(Forward)				
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

	December 31, 2017			
	Non-Linked		Unit Linked	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Loans and receivables:				
Cash and cash equivalents	₱600,659,865	₱600,659,865	₱161,659,760	₱161,659,760
Short-term investments	37,000,000	37,000,000	–	–
Loans and receivables - net	68,817,162	68,817,162	64,083,118	64,083,118
Receivable from related parties	15,518,833	15,518,833	–	–
Accrued income	8,455,854	8,455,854	–	–
AFS financial assets:				
Government and corporate debt securities	1,316,617,971	1,294,943,086	435,812,867	435,812,867

(Forward)

	December 31, 2017			
	Non-Linked		Unit Linked	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets at FVPL:				
Equity securities	₱–	₱–	₱1,052,451,722	₱1,052,451,722
Unit investment trust fund	–	–	5,237,485,156	5,237,485,156
Total financial assets	₱2,047,069,685	₱2,025,394,800	₱6,951,492,623	₱6,951,492,623
Financial liabilities:				
Insurance payables	₱47,045,625	₱47,045,625	₱–	₱–
Accounts payables and accrued expenses	577,488,105	577,488,105	66,449,208	66,449,208
Payable to related parties	261,336,052	261,336,052	–	–
Total financial liabilities	₱885,869,782	₱885,869,782	₱66,449,208	₱66,449,208

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 (PDST R2/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, 2018 and 2017, 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, 2018 and 2017.

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

	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

	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

Non-linked

	2017				
	A	BBB	BB	Not Rated	Total
Financial Assets:					
Loans and receivables:					
Cash and cash equivalents	₱17,471,471	₱470,355,781	₱111,300,475	₱1,532,138	₱600,659,865
Short-term investments	–	37,000,000	–	–	37,000,000
Loans and receivables – net	–	–	–	68,817,162	68,817,162
Receivable from related parties	–	–	–	15,518,833	15,518,833
Accrued income	–	–	–	8,455,854	8,455,854
AFS financial assets					
Government and corporate debt securities	–	1,294,943,086	–	–	1,294,943,086
	₱17,471,471	₱1,802,298,867	₱111,300,475	₱94,323,987	₱2,025,394,800

Unit-linked

Financial Assets:					
Loans and receivables:					
Cash and cash equivalents	₱161,659,760	₱–	₱–	₱–	₱161,659,760
Receivables	–	–	–	64,083,118	64,083,118
Financial assets as FVPL:					
Debt securities	–	435,812,867	–	–	435,812,867
Equity securities	–	–	–	1,052,451,722	1,052,451,722
Unit investment trust fund	–	–	–	5,237,485,156	5,237,485,156
	₱161,659,760	₱435,812,867	₱–	₱6,354,019,996	₱6,951,492,623

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, 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

	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	₱–	₱–	₱–	₱–	₱292,979,336
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)

Non-linked

	December 31, 2017					
		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	₱600,659,865	₱–	₱–	₱–	₱–	₱600,659,865
Short-term investments	37,000,000	–	–	–	–	37,000,000
Loans and receivables - net	68,817,162	–	–	–	–	68,817,162
Receivables from related parties	15,518,833	–	–	–	–	15,518,833
Accrued income	8,455,854	–	–	–	–	8,455,854
AFS financial assets						
Government and corporate debt securities	571,900,132	440,648,324	227,565,444	54,829,186	–	1,294,943,086
Total financial assets	₱1,302,351,846	₱440,648,324	₱227,565,444	₱54,829,186	₱–	₱2,025,394,800
Other financial liabilities:						
Accounts payable and accrued expenses	(₱535,849,917)	(₱14,726,159)	(₱26,912,029)	₱–	₱–	(₱577,488,105)
Insurance payable	(47,045,625)	–	–	–	–	(47,045,625)
Payable to related parties	(261,336,052)	–	–	–	–	(261,336,052)
Total financial liabilities	(₱844,231,594)	(₱14,726,159)	(₱26,912,029)	₱–	₱–	(₱885,869,782)

Unit-linked

Financial assets:						
Loans and receivables:						
Cash and cash equivalents	₱161,659,760	₱–	₱–	₱–	₱–	161,659,760
Receivables	64,083,118	–	–	–	–	64,083,118
Financial assets at FVPL						
Debt securities	4,072,207	64,399,335	76,673,508	290,667,817	–	435,812,867
Equity securities	–	–	–	–	1,052,451,722	1,052,451,722
Other Investment:						
Feeder Fund (UITF)	–	–	–	–	5,237,485,156	5,237,485,156
Total financial assets	₱229,815,085	64,399,335	76,673,508	290,667,817	6,289,936,878	6,951,492,623
Financial liabilities:						
Other financial liabilities:						
Accounts payable and accrued expenses	(₱66,449,208)	₱–	₱–	₱–	₱–	(₱66,449,208)
Total financial liabilities	(₱66,449,208)	₱–	₱–	₱–	₱–	(₱66,449,208)

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.

- *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:

	Change in Equity Price (%)	**Effect on profit or loss Increase (Decrease)**
	2018	
Equity securities	10%	**₱218,175,746**
	-10%	**(218,175,746)**
	2017	
	10%	₱81,016,434
	-10%	(81,016,434)

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:

	Change in Equity Price (%)	**Effect on profit or loss Increase (Decrease)**
	2018	
Equity securities	10%	**₱17,863,312**
	-10%	**(17,863,312)**
	2017	
	10%	₱10,405,919
	-10%	(10,405,919)

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

Operating Lease Commitments

Company as lessee

The Company entered into commercial leases on certain offices for its head office and branches. These leases have terms ranging between 1 to 5 years with renewal terms included in the 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.

Future minimum rental payments under non-cancellable operating leases are as follows:

	2018	2017
Within one year	**₱64,732,255**	₱76,592,416
After one year but not more than five years	**105,885,519**	104,753,737
	₱170,617,774	₱181,346,153

The Company has an existing five (5) year lease term agreement for its head office with W Fifth Building, commencing on June 1, 2014 to May 31, 2019, renewable at the option of the Company for another 3 years term subject to mutually agreeable terms by parties. 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. 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 offices in other locations, details follow:

Office Location	Contract Start Date	Lessor	Escalation Rate
Cebu	October 21, 2015	Asian I-Office Properties Inc.	7% beginning June 2016
Baguio	April 17, 2016	Development Bank of the Philippines	5% starting on the second year
SGA BGC	May 1, 2016	MDI Group Holdings Inc.	6% starting on the second year
Makati	June 1, 2016	BDO Unibank Inc.	5% staring on the second year
Davao	July 18, 2016	Bormaheco Incorporated	5% starting on the second year
Santiago	January 1, 2017	Mango Suites	5% starting on the second year
BGC	January 1, 2017	21st Drive Land Corporation	6% starting on the second year
Malolos	December 1, 2017	V. Ladia Rental Space	None
Cagayan de Oro	May 1, 2018	Limketkai Sons, Inc.	10% starting on the second year
Ortigas	May 1, 2018	Capital Commons Corporation	5% starting on the second year
Alabang	May 1, 2018	Excel Towers Inc.	5% starting on the second year
Davao 2	August 1, 2018	Bormaheco Incorporated	5% starting on the third year
Cebu 2	August 1, 2018	China Banking Corporation	5% starting on the second year
Imus	September 1, 2018	Justo Victor P. Ibay	5% starting on the second year

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:

	2018	2017
Within one year	**₱268,610,800**	₱199,944,761
After one year but not more than five years	**676,664,828**	330,000,001
	₱945,275,628	₱529,944,762

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. 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	**₱103,148,539**
Output VAT rate	**12%**
	₱12,377,825

Documentary stamp tax

The Company's documentary stamp tax paid or accrued in 2018 follows:

Source	Payment
Life insurance premiums/coverage	₱3,904,500
Other documents	140,929
Total	₱4,045,429

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	₱3,748,759
Real property tax	123,209
Community tax certificate	10,500
National Taxes	
Percentage taxes	54,730,529
Insurance commission license	989,243
Notarial fee	148,024
BIR annual registration	5,000
Other taxes	5,937
Total	₱59,761,201

Withholding taxes

Details of the Company's withholding taxes paid and accrued during the year are as follows:

Tax on compensation and benefits	₱182,597,111
Expanded withholding tax	332,767,441
Final withholding tax	7,361,226
Value added tax	11,792,694
Fringe benefit tax	4,516,652
	₱539,035,124

Tax assessments

The Company has no pending tax case outside the administration of the BIR.