COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	0	4	1	7	4	3	0

Company Name

SUN LIFE PROSPERITY GS FUND, INC.

Principal Office (No./Street/Barangay/City/Town)Province)

SUN LIFE CENTRE, 5TH AVE. COR. RIZAL DRIVE, BONIFACIO GLOBAL CITY, TAGUIG CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	CRMD	NA

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
www.sunlife.com	(632) 8555-8888	N/A

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
2,015	Every Fourth Monday of June	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
CANDY S. ESTEBAN	Candy.Esteban@sunlife.com	8555-8888	N/A

Contact Person's Address

5F SUN LIFE CENTRE, 5TH AVE. COR. RIZAL DRIVE, BONIFACIO GLOBAL CITY, TAGUIG CITY

Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commimission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Futher, non-receipt of Notice of Defeciencies shall not excuse the corporation from liability for its deficiencies.

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BOA/PRC Reg. No. 0004
SEC Accreditation No. 0001-FR-5

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
SUN LIFE PROSPERITY GS FUND, INC.
(An Open-end Investment Company)
Sun Life Centre, 5th Avenue corner Rizal Drive
Bonifacio Global City, Taguig City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sun Life Prosperity GS Fund, Inc. (the "Company") which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2019, 2018 and 2017 and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years ended December 31, 2019, 2018 and 2017 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' 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 these financial statements in accordance with PFRS, 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.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA 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 financial statements.

As part of an audit in accordance with PSA, 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the 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 audits.

Report on Other Legal and Regulatory Requirements

Report on the Supplementary Information Required by the Bureau of Internal Revenue

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 22 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 supplementary information is the responsibility of Management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Navarro Amper & Co.
BOA Registration No. 0004, valid from November 12, 2018 to July 16, 2021
SEC Accreditation No. 0001-FR-5, issued on January 15, 2019; effective until January 14, 2022, Group A
TIN 005299331

By:

Avis B. Manlapaz
Partner
CPA License No. 0074249
SEC A.N. 1669-A, issued on March 13, 2018; effective until March 12, 2021, Group A
TIN 120964002
BIR A.N. 08-002552-008-2019, issued on July 03, 2019; effective until July 02, 2022
PTR No. A-4689428, issued on January 2, 2020, Taguig City

Taguig City, Philippines
March 10, 2020

SUN LIFE PROSPERITY GS FUND, INC.
(An Open-End Investment Company)

STATEMENTS OF FINANCIAL POSITION

		December 31	
	Notes	**2019**	2018
ASSETS			
Current Assets			
Cash and cash equivalents	6	**P 18,536,249**	P 36,968,409
Financial assets at fair value through profit or loss	8	**205,882,754**	183,518,367
Accrued interest receivable	7	**2,969,457**	3,383,167
Prepayments and other current assets		**501**	7,418
		P227,388,961	P223,877,361
LIABILITIES AND EQUITY			
Current Liabilities			
Accrued expenses and other payables	9	**P 201,438**	P 132,541
Due to brokers	10	**-**	5,832,919
Income tax payable		**-**	15,544
Payable to fund manager	11	**240,595**	84,144
Total Current Liabilities		**442,033**	6,065,148
Equity			
Share capital	12	**4,031,453**	4,031,453
Additional paid-in capital	13	**501,240,150**	493,484,231
Retained earnings		**144,367,781**	121,423,494
		649,639,384	618,939,178
Treasury shares	12	**(422,692,456)**	(401,126,965)
Total Equity		**226,946,928**	217,812,213
		P227,388,961	P223,877,361
Net Asset Value Per Share	14	**P 1.7011**	P 1.5399

See Notes to Financial Statements.

SUN LIFE PROSPERITY GS FUND, INC.
(An Open-end Investment Company)

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	2019	2018	2017
		For the Years Ended December 31		
Investment Income - net				
Net realized gains (losses) on investments	8	**P 7,550,243**	(P 3,411,676)	(P 6,348,568)
Interest income	15	**11,243,874**	10,005,473	10,931,320
Other income		**9,544**	35,916	62,767
		18,803,661	6,629,713	4,645,519
Operating Expenses				
Management fees	11	**3,048,652**	3,190,327	5,074,643
Directors' fees	11	**273,706**	230,371	180,000
Professional fees		**181,133**	127,759	123,810
Taxes and licenses		**126,305**	143,950	72,650
Custodianship fees		**39,932**	21,610	90,756
Printing and supplies		**7,894**	47,725	9,229
Miscellaneous		**28,404**	30,658	41,405
		3,706,026	3,792,400	5,592,493
Profit (Loss) Before Net Unrealized Gains (Losses) on Investments		**15,097,635**	2,837,313	(946,974)
Net Unrealized Gains (Losses) on Investments	8	**9,634,573**	(4,349,049)	9,445,795
Profit (Loss) Before Tax		**24,732,208**	(1,511,736)	8,498,821
Income Tax Expense	18	**1,787,921**	409,820	679,857
Total Comprehensive Income for the Year		**P22,944,287**	(P 1,921,556)	P 7,818,964
Basic Earnings (Loss) per Share	16	**P 0.158**	(P 0.012)	P 0.044
Diluted Earnings (Loss) per share	16	**P 0.158**	(P 0.012)	P 0.044

See Notes to Financial Statements.

SUN LIFE PROSPERITY GS FUND, INC.
(An Open-end Investment Company)

STATEMENTS OF CHANGES IN EQUITY

		For the Years Ended December 31				
	Notes	**Share Capital**	**Additional Paid-in Capital**	**Retained Earnings**	**Treasury Shares**	**Total**
Balance, January 1, 2017	12	P4,031,453	P492,743,797	P115,526,086	(P334,882,982)	P277,418,354
Total comprehensive income for the year		-	-	7,818,964	-	7,818,964
Transactions with owners:	12					
Reissuance of treasury shares during the year		-	346,510	-	40,807,918	41,154,428
Acquisition of treasury shares during the year		-	-	-	(64,380,639)	(64,380,639)
Total transactions with owners		-	346,510	-	(23,572,721)	(23,226,211)
Balance, December 31, 2017	12	4,031,453	493,090,307	123,345,050	(358,455,703)	262,011,107
Total comprehensive income for the year		-	-	(1,921,556)	-	(1,921,556)
Transactions with owners:	12					
Reissuance of treasury shares during the year		-	393,924	-	37,119,321	37,513,245
Acquisition of treasury shares during the year		-	-	-	(79,790,583)	(79,790,583)
Total transactions with owners		-	393,924	-	(42,671,262)	(42,277,338)
Balance, December 31, 2018	12, 13	4,031,453	493,484,231	121,423,494	(401,126,965)	217,812,213
Total comprehensive income for the year		-	-	22,944,287	-	22,944,287
Transactions with owners:	12					
Reissuance of treasury shares during the year		-	7,755,919	-	94,238,563	101,994,482
Acquisition of treasury shares during the year		-	-	-	(115,804,054)	(115,804,054)
Total transactions with owners		-	7,755,919	-	(21,565,491)	(13,809,572)
Balance, December 31, 2019	**12, 13**	**P4,031,453**	**P501,240,150**	**P144,367,781**	**(P422,692,456)**	**P226,946,928**

See Notes to Financial Statements.

SUN LIFE PROSPERITY GS FUND, INC.
(An Open-end Investment Company)

STATEMENTS OF CASH FLOWS

		For the Years Ended December 31		
	Notes	**2019**	2018	2017
Cash Flows from Operating Activities				
Profit (Loss) before tax		**P 24,732,208**	(P 1,511,736)	P 8,498,821
Adjustments for:				
Net unrealized (gains) losses on investments	8	**(9,634,573)**	4,349,049	(9,445,795)
Net realized (gains) losses on investments	8	**(7,550,243)**	3,411,676	6,348,568
Interest income	15	**(11,243,874)**	(10,005,473)	(10,931,320)
Operating cash flows before working capital changes		**(3,696,482)**	(3,756,484)	(5,529,726)
Decrease (Increase) in Prepayments and other current assets		**6,917**	1,808	(9,226)
Increase (Decrease) in:				
Accrued expenses and other payables		**68,897**	(223,400)	210,578
Payable to fund manager		**156,451**	(391,914)	(16,958)
Cash used in operations		**(3,464,217)**	(4,369,990)	(5,345,332)
Acquisition of financial assets at fair value through profit or loss		**(316,427,203)**	(9,322,440,410)	(4,712,113,305)
Proceeds from disposals and maturities of financial assets at fair value through profit or loss		**305,414,713**	9,395,118,451	4,730,014,289
Interest received		**11,657,584**	9,587,865	11,309,703
Income taxes paid		**(1,803,465)**	(394,276)	(681,531)
Net cash generated from (used in) operating activities		**(4,622,588)**	77,501,640	23,183,824
Cash Flows from Financing Activities				
Proceeds from reissuance of treasury shares	12	**101,994,482**	37,513,245	41,154,428
Payments on acquisition of treasury shares	12	**(115,804,054)**	(79,790,583)	(64,380,639)
Net cash used in financing activities		**(13,809,572)**	(42,277,338)	(23,226,211)
Net Increase (Decrease) in Cash and Cash Equivalents		**(18,432,160)**	35,224,302	(42,387)
Cash and Cash Equivalents, Beginning		**36,968,409**	1,744,107	1,786,494
Cash and Cash Equivalents, End		**P 18,536,249**	P 36,968,409	P 1,744,107

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2019 AND 2018 AND FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 and 2017

1. CORPORATE INFORMATION

Sun Life Prosperity GS Fund, Inc. (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on November 3, 2004 and started commercial operations on March 1, 2005. The Company is a registered open-end investment company under the Investment Company Act (Republic Act "R.A." No. 2629) and the Securities Regulation Code (R.A. No. 8799), formerly known as the Revised Securities Act (B.P. No. 178). It is engaged in the sale of redeemable shares and is designed to generate total returns consisting of current income and capital preservation through investments in fixed-income instruments denominated in Philippine peso issued by the Republic of the Philippines. As an open-end investment company, its shares are redeemable anytime based on the Net Asset Value Per Share (NAVPS) at the time of redemption.

The Company appointed Sun Life Asset Management Company, Inc. (SLAMCI), an investment management company incorporated in the Philippines and a wholly owned subsidiary of Sun Life of Canada (Philippines), Inc. (SLOCPI), as its fund manager, adviser, administrator, distributor and transfer agent and provides management, distribution and all required operational services, as disclosed in Note 11.

The Company's registered office address and principal place of business is at the Sun Life Centre, 5th Avenue corner Rizal Drive, Bonifacio Global City, Taguig City.

2. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), which include all applicable PFRS, Philippine Accounting Standards (PAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and the Board of Accountancy (BOA), and adopted by the SEC.

Basis of Preparation and Presentation

The financial statements of the Company have been prepared on the historical cost basis, except for certain financial assets measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Functional Currency

These financial statements are presented in Philippine peso, the currency of the primary economic environment in which the Company operates. All amounts are recorded to the nearest peso, except when otherwise indicated.

3. ADOPTION OF NEW AND REVISED ACOUNTING STANDARDS

Adoption of New and Revised Accounting Standards Effective in 2019

The new and revised accounting standards and interpretations that have been published by the International Accounting Standards Board (IASB) and approved by the FRSC in the Philippines were adopted by the Company as at December 31, 2019 and assessed as not applicable and have no impact on the Company's financial statements.

New Accounting Standards Effective after the Reporting Period Ended December 31, 2019

The Company will adopt the following standards when these become effective:

PFRS 17, *Insurance Contracts*

PFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of PFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

The key principles in PFRS 17 are that an entity:

- identifies as insurance contracts those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder;
- separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts;
- divides the contracts into groups that it will recognize and measure;
- recognizes and measures groups of insurance contracts at:
    i. a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset)
    ii. an amount representing the unearned profit in the group of contracts (the contractual service margin);
- recognizes the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognizes the loss immediately;
- presents separately insurance revenue (that excludes the receipt of any investment component), insurance service expenses (that excludes the repayment of any investment components) and insurance finance income or expenses; and
- discloses information to enable users of financial statements to assess the effect that contracts within the scope of PFRS 17 have on the financial position, financial performance and cash flows of an entity.

PFRS 17 includes an optional simplified measurement approach, or premium allocation approach, for simpler insurance contracts.

The standard is effective for periods beginning on or after January 1, 2023. Earlier application is permitted.

The future adoption of the standard will have no effect on the Company's financial statements as the Company does not issue insurance contracts.

Amendments to PAS 1 and PAS 8, *Definition of Material*

The amendments relate to a revised definition of 'material':

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Three new aspects of the new definition include (i) obscuring; (ii) could reasonably be expected to influence; and (iii) primary users.

The amendments stress especially five ways material information can be obscured:

- if the language regarding a material item, transaction or other event is vague or unclear;
- if information regarding a material item, transaction or other event is scattered in different places in the financial statements;
- if dissimilar items, transactions or other events are inappropriately aggregated;
- if similar items, transactions or other events are inappropriately disaggregated; and
- if material information is hidden by immaterial information to the extent that it becomes unclear what information is material.

The amendments are effective for periods beginning on or after January 1, 2020. Earlier application is permitted.

The Company will continue its assessment and will finalize the same upon the effectivity of this standard.

Amendments to PFRS 3, *Definition of Business*

The amendments are to:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

The Company will continue its assessment and will finalize the same upon the effectivity of this standard.

PIC Q&A No. 2019-02, *Accounting for Cryptographic Assets*

The interpretation provides guidance regarding accounting treatment for cryptographic assets. In classifying cryptographic assets, two relevant factors to consider are (i) its primary purpose, and (ii) how these assets derive its inherent value. The interpretation provided two (2) cryptographic classifications based on the aforementioned factors, these are (a) cryptocurrency, or (b) cryptographic assets other than cryptocurrencies, which are (b.1) asset-based token, (b.2) utility token, and (b.3) security token, or collectively the "security tokens".

From the holder of these assets' point-of-view, in the absence of a definitive accounting and reporting guidance from the IASB, the interpretation suggested to report cryptographic assets in the financial statements as either (i) cryptocurrencies held by an entity, or (ii) cryptographic assets other than cryptocurrencies.

From the issuer of these assets' point of view, as a consensus, the following accounting treatments are suggested:

- Cryptocurrencies held by an entity can be treated either as (i) inventory under PAS 2, or (ii) intangible asset under PAS 38.
- Cryptographic assets other than Cryptocurrencies, the interpretation suggested the following relevant accounting frameworks for consideration:
    i. If the token meets the definition of a financial liability, apply guidance in PFRS 9;
    ii. If the token meets the definition of an equity instrument, apply guidance in PAS 32;
    iii. If the token is a prepayment for goods and services from a contract with a customer, apply guidance in PFRS 15; and
    iv. If the token does not meet any of the aforementioned, consider other relevant guidance.

The interpretation is effective for periods beginning on or after February 13, 2019.

The future adoption of the interpretation will have no effect on the Company's financial statements since the Company does not have cryptographic assets.

New Accounting Standards Effective in 2019 - Adopted by FRSC but pending for approval by the BOA

PIC Q&A No. 2019-04, *Conforming Changes to PIC Q&As – Cycle 2019*

The interpretation sets out the changes (i.e., amendments or withdrawal) to certain interpretations. These changes are made as a consequence of the issuance of new PFRS that become effective starting January 1, 2019 and other relevant developments.

<u>PIC Q&As Amended</u>

The following table summarizes the changes made to the amended interpretations:

PIC Q&A Amended	Amendment
PIC Q&A No. 2011-05: PFRS 1 – Fair Value or Revaluation as Deemed Cost	Updated because of applying PFRS 16, Leases, for the first time starting January 1, 2019
PIC Q&A No. 2011-06: Acquisition of investment properties – asset acquisition or business combination?	Reference to PAS 40, Investment Property, has been updated because of applying PFRS 16 for the first time starting January 1, 2019.
PIC Q&A No. 2012-02: Cost of a new building constructed on the site of a previous building	Reference to PAS 40 has been updated because of applying PFRS 16 for the first time starting January 1, 2019.
PIC Q&A No. 2017-02: PAS 2 and PAS 16 - Capitalization of operating lease cost as part of construction costs of a building	Updated to comply with the provisions of PFRS 16 and renamed as PIC Q&A No. 2017-02: PAS 2 and PAS 16 - Capitalization of depreciation of right-of-use asset as part of construction costs of a building
PIC Q&A No. 2017-10: PAS 40 - Separation of property and classification as investment property	Reference to PAS 40 has been updated because of applying PFRS 16 for the first time starting January 1, 2019.
PIC Q&A No. 2018-05: PAS 37 - Liability arising from maintenance requirement of an asset held under a lease	Updated to comply with the provisions of PFRS 16
PIC Q&A No. 2018-15: PAS 1- Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current	Reference to PAS 40 (included as an attachment to the Q&A) has been updated because of applying PFRS 16 for the first time starting January 1, 2019.

<u>PIC Q&A Withdrawn</u>

PIC Q&A Withdrawn	Basis for Withdrawal
PIC Q&A No. 2017-09: PAS 17 and Philippine Interpretation SIC-15 - Accounting for payments between and among lessors and lessees	This PIC Q&A is considered withdrawn starting January 1, 2019, which is the effective date of PFRS 16. PFRS 16 superseded PAS 17, Leases, and Philippine Interpretation SIC-15, Operating Leases— Incentives
PIC Q&A No. 2018-07: PAS 27 and PAS 28 - Cost of an associate, joint venture, or subsidiary in separate financial statements	This PIC Q&A is considered withdrawn upon publication of IFRIC agenda decision - Investment in a subsidiary accounted for at cost: Step acquisition (IAS 27 Separate Financial Statements) in January 2019.

The effective date of the amendments is included in the affected interpretations.

The future adoption of the interpretation will have no effect on the Company's financial statements since the Company does not have any leased property and asset classified as investment property.

PIC Q&A No. 2019-06, *Accounting for Step Acquisition of a Subsidiary in a Parent*

The interpretation clarifies how a parent should account for the step acquisition of a subsidiary in its separate financial statements.

Salient points of the interpretation are the following:

IFRIC concluded either of the two approaches may be applied:

- Fair value as deemed cost approach

  Under this approach, the entity is exchanging its initial interest (plus consideration paid for the additional interest) for a controlling interest in the investee (exchange view). Hence, the entity's investment in subsidiary is measured at the fair value at the time the control is acquired.
- Accumulated cost approach

  Under this approach, the entity is purchasing additional interest while retaining the initial interest (non-exchange view). Hence, the entity's investment in subsidiary is measured at the accumulated cost (original consideration).

Any difference between the fair value of the initial interest at the date of obtaining control of the subsidiary and its original consideration is taken to profit or loss, regardless of whether, before the step acquisition transaction, the entity had presented subsequent changes in fair value of its initial interest in profit or loss or other comprehensive income (OCI).

The interpretation is effective for periods beginning on or after October 19, 2019.

The future adoption of the interpretation will have no effect on the Company's financial statements since the Company is not engaged in acquisition of a subsidiary.

PIC Q&A No. 2019-07, *Classification of Members' Capital Contributions of Non-Stock Savings and Loan Associations (NSSLA)*

Background:

The Bangko Sentral ng Pilipinas (BSP) issued Circular No. 1045 on August 29, 2019 to amend the Manual of Regulations for Non-Bank Financial Institutions Applicable to Non-Stock Savings and Loan Associations (MORNBFI-S) – Regulatory Capital of Non-Stock Savings and Loan Associations (NSSLAs) and Capital Contributions of Members.

Under the Circular, each qualified member of an NSSLA shall maintain only one capital contribution account representing his/her capital contribution. While only one capital account is maintained, the Circular breaks down a member's capital contributions as follows:

a. Fixed capital which cannot be reduced for the duration of membership except upon termination of membership. The minimum amount of fixed capital is Php1,000, but a higher minimum can be prescribed under the NSSLA's by-laws.
b. Capital contribution buffer, which pertains to capital contributions in excess of fixed capital. The capital contribution buffer can be withdrawn or reduced by the member without affecting his membership. However, the NSSLA shall establish and prescribe the conditions and/or circumstances when the NSSLA may limit the reduction of the members' capital contribution buffer, such as, when the NSSLA is under liquidity stress or is unable to meet the capital-to-risk assets ratio requirement under Sec. 4116S of the MORNBFI-S Regulations. Such conditions and/or circumstances have to be disclosed to the members upon their placement of capital contribution buffer and in manners as may be determined by the Board.

For purposes of identifying and monitoring the fixed capital and capital contribution buffer of a member's capital contribution, NSSLAs shall maintain subsidiary ledgers showing separately the fixed and capital contribution buffer of each member. Further, upon receipt of capital contributions from their members, NSSLAs shall simultaneously record the amount contributed as fixed and capital contribution buffer in the aforementioned subsidiary ledgers. However, NSSLAs may use other systems in lieu of subsidiary ledgers provided that that the system will separately show the fixed and capital contribution buffer of each member.

The interpretation assessed and concluded that both Fixed Capital and the Capital contribution buffer qualify as "equity" in the NSSLA's financial statements as they both meet all the requirements of paragraphs 16A and 16B of PAS32, Financial Instruments: Presentation.

The interpretation is effective for periods beginning on December 11, 2019, and should be applied retrospectively.

The future adoption of the interpretation will have no effect on the Company's financial statements since the Company is not classified as a non-bank financial institution under non-stock savings and loan associations.

PIC Q&A No. 2019-08, *PFRS 16, Leases - Accounting for Asset Retirement or Restoration Obligation ("ARO")*

The interpretation clarifies the recognition of ARO under the following scenarios:

1) Accounting for ARO at lease commencement date

   The cost of dismantling and restoration (i.e., the ARO) should be calculated and recognized as a provision in accordance with PAS 37, with a corresponding adjustment to the related right-of-use (ROU) asset as required by PFRS 16.24(d). As such, the lessee will add the amount of ARO to the cost of the ROU asset on lease commencement date, which will then form part of the amount that will be amortized over the lease term.

2) Change in ARO after initial recognition

   2.1) Because ARO is not included as a component of lease liability, the measurement of such ARO is outside the scope of PFRS 16. Hence, its measurement is generally not affected by the transition to PFRS 16. Except in cases where the reassessment of lease-related assumptions (e.g., lease term) would affect the measurement of ARO-related provision, the amount of ARO existing at transition date would not be remeasured; rather, the balance of the ARO provision and any related asset will remain as previously measured. The asset will simply be reclassified from property and equipment to the related ROU asset as required under PFRS 16.24(d).

   2.2) Assuming there is a change in lease-related assumptions that would impact the ARO measurement (e.g., change in lease term due to the new PFRS 16 requirements), the following will be the accounting treatment depending on the method used by the lessee in adopting PFRS 16:

   a. *Modified retrospective approach* - Under this approach, the lessee uses the remaining lease term to discount back the amount of provision to transition date. Any adjustment is recognized as an adjustment to the ROU asset and ARO provision. This adjustment applies irrespective of which of the two methods in measuring the ROU asset will be chosen under the modified retrospective approach.

   b. *Full retrospective approach* - The ARO provision and related asset, which gets adjusted to the ROU asset, should be remeasured from commencement of the lease, and then amortized over the revised or reassessed lease term. Because full retrospective approach is chosen, it is possible that the amount of cumulativeadjustment to the ARO provision and the ROU asset at the beginning of the earliest period presented will not be the same; hence, it is possible that it might impact retained earnings.

The future adoption of the interpretation will have no effect on the Company's financial statements since the Company does not have leased property with any related ARO.

PIC Q&A No. 2019-09, *Accounting for Prepaid Rent or Rent Liability Arising from Straight-lining under PAS 17 on Transition to PFRS 16 and the Related Deferred Tax Effects*

The interpretation aims to provide guidance on the following:

- How a lessee should account for its transition from PAS 17 to PFRS 16 using the modified retrospective approach. Specifically, this aims to address how a lessee should, on transition, account for any existing prepaid rent or rent liability arising from straight-lining of an operating lease under PAS 17, and
- How to account for the related deferred tax effects on transition from PAS 17 to PFRS 16.

The future adoption of the interpretation will have no effect on the Company's financial statements since the Company does not have prepaid rent or rent liability recognized for leased property.

PIC Q&A No. 2019-10, *Accounting for variable payments with rent review*

Some lease contracts provide for market rent review in the middle of the lease term to adjust the lease payments to reflect a fair market rent for the remainder of the lease term. This Q&A provides guidance on how to measure the lease liability when the contract provides for a market rent review.

The future adoption of the interpretation will have no effect on the Company's financial statements since the Company does not enter into any lease agreement.

PIC Q&A No. 2019-11, *Determining the current portion of an amortizing loan/lease liability*

The interpretation aims to provide guidance on how to determine the current portion of an amortizing loan/lease liability for proper classification/presentation between current and non-current in the statement of financial position.

The future adoption of the interpretation will have no effect on the Company's financial statements since the Company does not enter into any lease agreement.

PIC Q&A No. 2019-12, *PFRS 16, Leases – Determining the lease term*

The interpretation provides guidance how an entity determine the lease term under PFRS 16.

A contract would be considered to exist only when it creates rights and obligations that are enforceable. Therefore, any non-cancellable period or notice period in a lease would meet the definition of a contract and, thus, would be included as part of the lease term. To be part of a contract, any option to extend or terminate the lease that are included in the lease term must also be enforceable.

If optional periods are not enforceable (e.g., if the lessee cannot enforce the extension of the lease without the agreement of the lessor), the lessee does not have the right to use the asset beyond the non-cancellable period. Consequently, by definition, there is no contract beyond the non-cancellable period (plus any notice period) if there are no enforceable rights and obligations existing between the lessee and lessor beyond that term.

In assessing the enforceability of a contract, an entity should consider whether the lessor can refuse to agree to a request from the lessee to extend the lease. Accordingly, if the lessee has the right to extend or terminate the lease, there are enforceable rights and obligations beyond the initial noncancellable period and thus, the parties to the lease would be required to consider those optional periods in their assessment of the lease term. In contrast, a lessor's right to terminate a lease is ignored when determining the lease term because, in that case, the lessee has an unconditional obligation to pay for the right to use the asset for the period of the lease, unless and until the lessor decides to terminate the lease.

In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, an entity shall consider all relevant facts and circumstances (i.e., including those that are not indicated in the lease contract) that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

The future adoption of the interpretation will have no effect on the Company's financial statements since the Company does not enter into any lease agreement.

PIC Q&A No. 2019-13, *PFRS 16, Leases – Determining the lease term of leases that are renewable subject to mutual agreement of the lessor and the lessee*

The interpretation provides guidance how an entity determine the lease term under PFRS 16. This interpretation focuses on lease contracts that are renewable subject to mutual agreement of the parties.

A renewal option is only considered in determining the lease term if it is enforceable. A renewal that is still subject to mutual agreement of the parties is legally unenforceable under Philippine laws until both parties come to an agreement on the terms.

In instances where the lessee have known to be, historically, renewing the lease contract after securing mutual agreement with the lessor to renew the lease contract, the lessee's right to use the underlying asset does not go beyond the one-year period covered by the current contract, as any renewal still has to be agreed on by both parties. A renewal is treated as a new contract.

The future adoption of the interpretation will have no effect on the Company's financial statements since the Company does not enter into any lease agreement.

4. SIGNIFICANT ACCOUNTING POLICIES

Financial Assets

Initial Recognition and Measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset.

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss (FVTPL), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss.

Classification and Subsequent Measurement

The Company classifies its financial assets in the following measurement categories:

- FVTPL
- Fair value through other comprehensive income (FVTOCI); and
- Amortized cost

As at December 31, 2019 and 2018, the Company does not have financial assets classified as FVTOCI.

Classification of financial assets will be driven by the entity's business model for managing the financial assets and the contractual cash flows of the financial assets.

A financial asset is to be measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument represent solely payment of principal and interest (SPPI).

All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognized at fair value.

All fair value movements on financial assets are taken through the statement of comprehensive income, except for equity investments that are not held-for-trading, which may be recorded in the statement of comprehensive income or in reserves (without subsequent recycling to profit or loss).

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the group classifies its debt instruments:

- Amortized cost. Assets that are held for collection of contractual cash flows where those cash flows represent SPPI are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- FVTPL. Assets that do not meet the criteria for amortized cost are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of comprehensive income within other gains/(losses) in period in which it arises. Interest income from these financial assets is included in finance income.

The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired (POCI) financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses (ECL), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost. For financial instruments other than POCI financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Company subsequently measures all equity investments at FVTPL, except where the Company's Management has elected, at initial recognition, to irrevocably designate an equity instrument at FVTOCI. The Company's policy is to designate equity investments as FVTOCI when those investments are held for the purposes other than to generate investment returns. When the election is used, fair value gains and losses are recognized in other comprehensive income (OCI) and are not subsequently reclassified to profit or loss, including disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Company's right to receive payment is established.

Changes in the fair value of financial assets at FVTPL are recognized in net realized gains (losses) on investments in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

As at December 31, 2019 and 2018, the Company does not have financial assets at FVTOCI.

Impairment of financial assets

The Company recognizes a loss allowance for ECL on investments in debt instruments that are measured at amortized cost. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

With the exception of POCI financial assets, ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Company under the contract and the cash flows that the Company expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate.

The Company measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original effective interest rate, regardless of whether it is measured on an individual basis or a collective basis.

The Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12 month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

The Company monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Company will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument (e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost);
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;

- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

A financial instrument is determined to have low credit risk if:

- it has a low risk of default;
- the borrower is considered, in the short term, to have a strong capacity to meet its obligations; and
- the Company expects, in the longer term, that adverse changes in economic and business conditions might, but will not necessarily, reduce the ability of the borrower to fulfill its obligations.

The Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Company considers the following as constituting an event of default:

- the borrower is past due more than 1 day on any material credit obligation to the Company; or
- the borrower is unlikely to pay its credit obligations to the Company in full.

When assessing if the borrower is unlikely to pay its credit obligation, the Company takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Company uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Write-off

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, such as when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner.

Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Derecognition

The Company derecognizes a financial asset only when the contractual rights to the asset's cash flows expire or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognized in OCI and accumulated in equity is recognized in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

Financial Liabilities and Equity Instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held-for-trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with any gains/losses arising on remeasurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in profit or loss.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

In making the determination of whether recognizing changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Company assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

Since the Company does not have financial liabilities classified at FVTPL, all financial liabilities are subsequently measured at amortized cost.

Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

The Company's financial liabilities classified under this category include accrued expenses and other payables, due to brokers and payable to fund manager.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

A right to offset must be available today rather than being contingent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

<u>Equity instruments</u>

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Share capital

Share capital consisting of ordinary shares is classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax. Any excess of proceeds from issuance of shares over its par value is recognized as additional paid-in capital.

Retained earnings

Retained earnings represent accumulated profit attributable to equity holders of the Company after deducting dividends declared. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Repurchase, disposal and reissuance of share capital (treasury shares)

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable cost, net of any tax effects, is recognized as a reduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own share account. When treasury shares are sold or reissued subsequently, the amount received is recognized as increase in equity, and the resulting surplus or deficit on the transaction is presented as additional paid-in capital.

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.

Prepayments are classified in the statements of financial position as current asset when the cost of services related to the prepayments are expected to be incurred within one (1) year or the Company's normal operating cycle, whichever is longer. Otherwise, prepayments are classified as non-current assets.

Revenue Recognition

Income is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Income is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business.

Transaction price

The Company considers the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

<u>Dividend income</u>

Dividend income from investments is recognized when the shareholders' rights to receive payments have been established, usually at ex-dividend rate, provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

<u>Interest income</u>

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

<u>Realized gains or losses</u>

Gains or losses arising on the disposal of investments are determined as the difference between the sales proceeds and the carrying amount of the investments and is recognized in profit or loss.

Fair value gains or losses

Gains or losses arising from changes in fair values of investments are disclosed under the policy on financial assets.

Other income

Other income is income generated outside the normal course of business and is recognized when it is probable that the economic benefits will flow to the Company and it can be measured reliably.

Expense Recognition

Expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss on the basis of: (i) a direct association between the costs incurred and the earning of specific items of income; (ii) systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or, (iii) immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

Expenses in the statements of comprehensive income are presented using the function of expense method. Operating expenses are costs attributable to administrative and other business expenses of the Company including management fees and custodianship fees.

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis.

In addition, for financial reporting purposes, fair value measurements are categorized into Levels 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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.

Parties are considered related if one party has control, joint control, or significant influence over the other party in making financial and operating decisions. An entity that is a post-employment benefit plan for the employees of the Company and the key management personnel of the Company are also considered to be related parties.

Taxation

Income tax expense represents the sum of the current tax, final tax and deferred tax expense.

Current tax

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's current tax expense is calculated using 30% regular corporate income tax (RCIT) rate or 2% minimum corporate income tax (MCIT) rate, whichever is higher.

Final tax

Final tax expense represents final taxes withheld on interest income from cash in banks, special savings deposits and fixed-income securities and final taxes withheld on proceeds from sale of listed equity securities.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liability is generally recognized for all taxable temporary differences. Deferred tax asset is generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax asset and liability are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax asset is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Deferred tax asset and liability are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and these relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in OCI or directly in equity, in which case, the current and deferred taxes are also recognized in OCI or directly in equity, respectively.

Earnings (Loss) per Share

The Company computes its basic earnings (loss) per share by dividing profit or loss for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

For the purpose of calculating diluted earnings (loss) per share, profit or loss for the year attributable to ordinary equity holders of the Company and the weighted average number of shares outstanding are adjusted for the effects of deposit for future stock subscriptions which are dilutive potential ordinary shares.

Net Asset Value per Share (NAVPS)

The Company computes its NAVPS by dividing the total net asset value as at the end of the reporting period by the number of issued and outstanding shares and shares to be issued on deposit for future stock subscriptions.

Events After the Reporting Period

The Company identifies events after the end of the reporting period as those events, both favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue. The financial statements of the Company are adjusted to reflect those events that provide evidence of conditions that existed at the end of the reporting period. Non-adjusting events after the end of the reporting period are disclosed in the notes to the financial statements when material.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on the historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Judgments in Applying Accounting Policies

The following are the critical judgments, apart from those involving estimations, that Management has made in the process of applying the Company's accounting policies that have the most significant effect on the amounts recognized in the financial statements.

<u>Business model assessment</u>

Classification and measurement of financial assets depend on the results of the SPPI and the business model test. The Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Company monitors financial assets measured at amortized cost that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

The Company measures its financial assets at amortized cost if the financial asset qualifies for both SPPI and business model test. The Company's business model is to hold the asset and to collect its cash flows which are SPPI. All other financial assets that do not meet the SPPI and business model test are measured at FVTPL.

As at December 31, 2019 and 2018, the Company's financial assets measured at FVTPL amounted to P205,882,754 and P183,518,367, respectively, as disclosed in Note 8, and financial assets at amortized cost amounted to P21,505,706 and P40,351,576, respectively.

<u>Significant increase in credit risk</u>

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. PFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Company takes into account qualitative and quantitative reasonable and supportable forward looking information.

The Company considers a financial instrument to have experienced a significant increase in credit risk when one or more of the qualitative and quantitative criteria have been met as disclosed in Note 20.

As at December 31, 2019 and 2018, the Company's financial instrument measured at amortized cost has not experienced a significant increase in its credit risk.

<u>Models and assumptions used</u>

The Company uses various models and assumptions in measuring the fair value of financial assets as well as in estimating ECL. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

The Company's model and assumptions used in measuring the fair value and estimating ECL of financial assets are disclosed in Notes 17 and 20, respectively.

<u>Functional currency</u>

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso (PHP). The PHP is the currency of the primary economic environment in which the Company operates. It is the currency being used to report the Company's results of operations.

<u>Puttable shares designated as equity instruments</u>

The Company designated its redeemable share capital as equity instruments since the Company's share capital met the specified criteria as prescribed by PAS 32, *Financial Instruments: Presentation* to be presented as equity.

A puttable financial instrument includes a contractual obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset on exercise of the put. As an exception to the definition of a financial liability, an instrument that includes such an obligation is classified as an equity instrument if it has met all the following features:

a. it entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation. The entity's net assets are those assets that remain after deducting all other claims on its assets;

b. it is in the class of instruments that is subordinate to all other classes of instruments;

c. all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;

d. apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity, and it is not a contract that will or may be settled in the entity's own equity instruments; and

e. the total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument (excluding any effects of the instrument).

As at December 31, 2019 and 2018, the recognized amount of share capital representing puttable shares in the statements of financial position amounted to P4,031,453 as disclosed in Note 12.

Key Sources of Estimation Uncertainty

The following are the Company's key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Probability of default (PD)

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
As at December 31, 2019 and 2018, the Company assessed a nil probability of default for all of its financial assets measured at amortized cost. The assumptions used by the Company in estimating PD is disclosed in Note 20.

Loss Given Default (LGD)

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

The Company uses portfolio averages from external estimates sourced out from Standard and Poor's (S&P) as the LGD estimates. The categorization of LGD estimates per financial asset measured at amortized cost is disclosed in Note 20.

Estimating loss allowance for ECL

The measurement of the ECL allowance for financial assets measured at amortized cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 20 Credit Risk - ECL measurement, which also sets out the key sensitivities of the ECL to changes in these elements.

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing the number and relative weightings of forward-looking scenarios and the associated ECL.

As at December 31, 2019 and 2018, the Company estimated a loss allowance amounting to nil for all of its financial assets measured at amortized cost. The assumptions used by the Company in estimating loss allowance is disclosed in Note 20.

Deferred tax asset

The Company reviews the carrying amount at the end of each reporting period and reduces deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. However, there is no assurance that the Company will generate sufficient taxable profit that will allow all or part of its deferred tax asset to be utilized.

Based on Management's expectation of the Company's future taxable income, the Company did not recognize deferred tax asset as at December 31, 2019 and 2018, as disclosed in Note 18.

Determining fair value of investments in debt securities and special savings deposits classified as financial assets at FVTPL

The Company carries its investments in traded debt securities and special savings deposits at fair value, which requires the use of accounting estimates and judgment. Since market interest rate is a significant component of fair value measurement, fair value would differ if the Company applied a different set of reference rates in the valuation methodology. Any change in the fair value of these financial assets would affect profit or loss and equity.

As at December 31, 2019 and 2018, the carrying amounts of investments in debt securities classified as financial assets at FVTPL amounted to P199,249,440 and P173,132,684, respectively, as disclosed in Note 8.

6. CASH AND CASH EQUIVALENTS

This account consists of:

	2019	2018
Cash in banks	**P 1,636,249**	P 1,068,409
Cash equivalents	**16,900,000**	35,900,000
	P18,536,249	P36,968,409

Cash in banks earned interest amounting to P6,110, P7,070 and P3,786 at average rates of 0.16%, 0.15% and 0.21% in 2019, 2018 and 2017, respectively, as disclosed in Note 15.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Company classifies an investment as cash equivalents if that investment has a maturity of three months or less from the date of acquisition.

Cash equivalents earned interest amounting to P939,291, P765,800 and nil at average rates of 2.10%, 1.31% and nil in 2019, 2018 and 2017, respectively, as disclosed in Note 15.

7. ACCRUED INTEREST RECEIVABLE

This account consists of accrued interest on the following:

	2019	2018
Fixed-income securities	**P2,964,950**	P2,675,092
Cash equivalents	**4,507**	-
Special savings deposits	**-**	708,075
	P2,969,457	P3,383,167

Collection of interest depends on the scheduled interest payments of each asset held.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account consists of:

	2019	2018
Investments in fixed-income securities	**P199,249,440**	P142,001,084
Investments in UITF	**6,633,314**	10,385,683
Special savings deposits	**-**	31,131,600
	P205,882,754	P183,518,367

Investments in fixed income securities are composed of treasury notes.

Investments in UITF are placed in universal banks and are redeemable anytime. Meanwhile, the special savings deposits are deposits with contractual maturity of more than three months.

Interest income earned from fixed income securities amounted to P10,298,473, P8,199,455 and P8,980,275 during 2019, 2018 and 2017, respectively, and from special savings deposits amounted to nil, P1,033,148 and P1,947,259 during 2019, 2018 and 2017, respectively, as disclosed in Note 15. The average interest rates earned on these investments are also disclosed in Note 15.

Net gains (losses) on investments recognized in profit or loss arising from financial assets at FVTPL are as follows:

	2019	2018	2017
Net realized gains (losses) on investments:			
Fixed-income securities	**P 6,902,841**	(P3,541,636)	(P6,453,103)
UITF	**647,402**	129,960	104,535
	7,550,243	(3,411,676)	(6,348,568)
Net unrealized gains (losses) on investments:			
Fixed-income securities	**10,130,925**	(4,097,813)	9,426,814
UITF	**(496,352)**	(251,236)	18,981
	9,634,573	(4,349,049)	9,445,795
	P17,184,816	(P7,760,725)	P3,097,227

The following presents the breakdown of the maturity profile of special savings deposits and fixed-income securities:

	2019	2018
Due in one year or less	**P -**	P 31,131,600
Due after one year through five years	**81,000,000**	116,000,000
Due after five years through ten years	**75,000,000**	31,630,000
Due after ten years	**24,000,000**	-
	P180,000,000	P178,761,600

9. ACCRUED EXPENSES AND OTHER PAYABLES

This account consists of:

	2019	2018
Professional fees	**P 94,856**	P 81,222
Due to investors	**73,371**	19,293
Withholding and documentary stamp taxes	**27,406**	18,194
Custodianship fees	**5,805**	8,784
Miscellaneous	**-**	5,048
	P201,438	P132,541

Due to investors account pertains to amounts payable to investors for the redemption of their investments processed on or before the reporting period, which are usually paid three days after the transaction date. Other payables are non-interest bearing and are normally settled within one year.

10. DUE TO BROKERS

Due to brokers account pertains to amounts payable to brokers for the purchase of investments processed on or before the reporting period, which are settled three days after the transaction date.

11. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company transacts with companies which are considered related parties under PAS 24, *Related Party Disclosures.*

The details of transactions and balances with related parties are set out below:

Nature of Transaction	Transactions During the Year			Outstanding Balances Receivable (Payable)		Terms	Condition	Notes
	2019	2018	2017	**2019**	2018			
SLAMCI - Fund Manager								
Management Distribution and Transfer fees	**P3,048,652**	P 3,190,327	P 5,074,643	**(P240,595)**	(P84,144)	Non-interest bearing; Annual rate of 1.65% of average daily net assets; settled in cash on or before the 15th day of the following month	Unsecured; unguaranteed	a
Key Management Personnel								
Directors' fees	**273,706**	230,371	180,000	**-**	-	Payable on Demand; settled in cash	Unsecured; Unguaranteed	b
Entities Under Common Control								
Sun Life Prosperity Money Market Fund, Inc.								
Sale	**30,713,875**	12,000,000	115,265,175	**-**	-			
Purchase	**-**	31,131,600	-					
Sun Life of Canada Philippines, Inc.								
Sale	**17,416,873**	11,506,000	45,145,302					
Purchase	**-**	-	6,447,391					
Sun Life of Canada Prosperity Bond Fund, Inc.								
Sale	**14,796,338**	-	-		-			
Sun Life of Canada Prosperity Balanced Fund, Inc.								
Purchase	**3,204,102**	-	-	**-**	-			
Sun Life Grepa Financial, Inc.								
Sale	**-**	-	35,142,567					
Grepalife Fixed Income Fund Corp.								
Sale	**-**	-	4,768,071	**-**	-			
Purchase	**-**	-	13,048,971					
Sun Life Prosperity Dynamic Fund, Inc.								
Purchase	**-**	-	9,844,083	**-**	-	Non-interest bearing; Settled in cash on the day of transaction	Unsecured	c

Details of the Company's related party transactions are as follows:

a. Investment Management

The Company appointed SLAMCI as its fund manager, adviser, administrator, distributor and transfer agent that provides management, distribution and all required operational services. Under the Management and Distribution Agreement (MDA), SLAMCI receives aggregate fees for these services at an annual rate of 1.5% (exclusive of VAT) of the net assets attributable to shareholders on each valuation day. Moreover, under the Transfer Agency Agreement, SLAMCI receives aggregate fees for these services at an annual rate of 0.15% (exclusive of VAT) of the net assets attributable to shareholders on each valuation day.

On September 18, 2018, the Company and SLAMCI amended its MDA and Transfer Agency Agreement based on the provisions of ICA 2018 IRR (Implementing Rules and Regulations of the Investment Company Act 2018) published by the SEC on January 11, 2018. The agreements shall remain in effect for a period of 2 years from September 18, 2018 and shall continue in effect from year to year as approved by the respective Board of Directors of the Company and SLAMCI.

Management fees charged by SLAMCI to the Company in 2019, 2018 and 2017 amounted to P3,048,652, P3,190,327 and P5,074,643, respectively. Accrued management fees as at December 31, 2019 and 2018 amounting to P240,595 and P84,144, respectively, shown as "Payable to Fund Manager" in the statements of financial position, is usually paid to SLAMCI on or before the 15th day of the following month. The amounts are unsecured, non-interest bearing and will be settled in cash.

b. Remuneration of Directors

Remuneration of directors is presented in the statements of comprehensive income under "Directors' Fees" amounting to P273,706, P230,371 and P180,000 in 2019, 2018 and 2017, respectively, which are usually paid to directors based on the meetings held and attended. Accrued directors' fees amounted to nil as at December 31, 2019 and 2018.

Except for the Board of Directors, the Company has no key management personnel and employees. Pursuant to the Company's MDA with SLAMCI, the latter provides all the staff of the Company, including executive officers and other trained personnel.

c. Purchase and Sale of Investments

These types of transactions are buy and sell of the same security between portfolios of two separate affiliated legal entities of and whose assets are managed by Investments Department. Portfolio Managers determine that this is appropriate and in the best interest of certain portfolios and ensure that the trade will be executed in a manner that is fair and equitable to both parties involved in the cross trade.

12. EQUITY

Movements of share capital are as follows:

	2019		2018		2017	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Authorized: P0.01 par value At December 31	**1,000,000,000**	**P 10,000,000**	1,000,000,000	P 10,000,000	1,000,000,000	P 10,000,000
Fully paid: At December 31	**403,145,317**	**P 4,031,453**	403,145,317	P 4,031,453	403,145,317	P 4,031,453
Treasury shares:						
At January 1	**261,698,171**	**P401,126,965**	234,072,890	P358,455,703	219,013,874	P334,882,982
Acquired during the year	**69,674,482**	**115,804,054**	51,864,334	79,790,583	41,747,444	64,380,639
Reissuance	**(61,636,244)**	**(94,238,563)**	(24,239,053)	(37,119,321)	(26,688,428)	(40,807,918)
At December 31	**269,736,409**	**P422,692,456**	261,698,171	P401,126,965	234,072,890	P358,455,703

Fully paid ordinary shares with a par value of P0.01 carry one vote per share and a right to dividends.

Incorporation

The Company was incorporated on November 3, 2004 with 200,000,000 authorized shares at a par value of P0.01 per share.

Approved changes

On June 27, 2011, the shareholders approved the blanket increase of the Company's authorized share capital by 800,000,000 shares (from 200,000,000 shares to 1,000,000,000 shares both with par value of P0.01).

On May 24, 2010, the Board of Directors approved the increase of share capital by 800,000,000 shares (from 200,000,000 shares to 1,000,000,000 shares both with par value of P0.01). The SEC approved the increase on December 18, 2013 and the registration statements on February 28, 2014.

Current state

As at December 31, 2019, the Company has 1,000,000,000 authorized and registered shares with a par value of P0.01 per share.

The annual summary of the transactions of the Company's outstanding shares is as follows:

Year	NAVPS, end	Issuances	Redemptions	Transfers	Balances
2011	P1.4002	495,113,783	(495,268,641)	-	199,843,589
2012	P1.4848	47,816,072	(47,766,793)	-	199,892,877
2013	P1.5185	104,383,813	(108,662,283)	203,145,317	398,759,724
2014	P1.5330	53,485,560	(118,334,360)	-	333,910,924
2015	P1.5240	14,155,896	(145,777,657)	-	202,289,163
2016	P1.5066	14,005,647	(32,163,367)	-	184,131,443
2017	P1.5497	26,688,428	(41,747,444)	-	169,072,427
2018	P1.5399	24,239,053	(51,864,334)	-	141,447,146
2019	P1.7011	61,481,929	(69,520,167)	-	133,408,908

The total number of shareholders as at December 31, 2019, 2018 and 2017 are 2,015, 1,800 and 1,743, respectively.

Redeemable shares

Redeemable shares carry one vote each, and are subject to the following:

a. Distribution of dividends

   Each shareholder has a right to any dividends declared by the Company's Board of Directors and approved by 2/3 of its outstanding shareholders of the Company.

b. Denial of pre-emptive rights

   No shareholder shall, because of his ownership of the shares, has a pre-emptive or other right to purchase, subscribe for, or take any part of shares or of any other securities convertible into or carrying options or warrants to purchase shares of the registrant.

c. Right of redemption

   The holder of any share, upon its presentation to the Company or to any of its duly authorized representatives, is entitled to receive, by way of redemption, approximately his proportionate share of the Company's current net assets or the cash equivalent thereof. Shares are redeemable at any time of their net asset value less any applicable sales charges and taxes.

13. ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital of P501,240,150, P493,484,231 and P493,090,307 as at December 31, 2019, 2018 and 2017, respectively, pertains to excess payments over par value from investors, including those from reissuance of treasury shares.

14. NET ASSET VALUE PER SHARE (NAVPS)

NAVPS is computed as follows:

	Note	**2019**	2018
Total equity		**P226,946,928**	P217,812,213
Outstanding shares	12	**133,408,908**	141,447,146
NAVPS		**P 1.7011**	P 1.5399

NAVPS is based on issued, outstanding and fully paid shares. The expected cash outflow on redemption of these shares is equivalent to computed NAVPS as at reporting period.

15. INTEREST INCOME

This account consists of interest income on the following:

	Notes	2019	2018	2017
Fixed-income securities	8	**P10,298,473**	P 8,199,455	P 8,980,275
Cash equivalents	6	**939,291**	765,800	-
Cash in banks	6	**6,110**	7,070	3,786
Special savings deposits	8	**-**	1,033,148	1,947,259
		P11,243,874	P10,005,473	P10,931,320

Interest income is recorded gross of final withholding tax which is shown as "Income Tax Expense" account in the statements of comprehensive income.

Average interest rates of investments and cash in banks in 2019, 2018 and 2017 are as follows:

	Note	2019	2018	2017
Fixed-income securities		**6.47%**	4.98%	4.66%
Cash equivalents	6	**2.10%**	1.31%	-
Cash in banks	6	**0.16%**	0.15%	0.21%
Special savings deposits		**-**	0.55%	1.01%

Interest income earned on financial assets, analyzed by category, is as follows:

	Notes	2019	2018	2017
Financial assets at FVTPL	8	**P10,298,473**	P9,232,603	P10,927,534
Cash and cash equivalents	6	**945,401**	772,870	3,786
		P11,243,874	P10,005,473	P10,931,320

16. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	2019	2018	2017
Total comprehensive income for the year	**P 22,944,287**	(P 1,921,556)	P 7,818,964
Weighted outstanding shares for the purpose of computing diluted earnings per share	**145,105,321**	162,626,078	178,616,598
Basic earnings (loss) per share	**P 0.158**	(P 0.012)	P 0.044
Diluted earnings (loss) per share	**P 0.158**	(P 0.012)	P 0.044

As at December 31, 2019, 2018 and 2017, the Company has no potential dilutive ordinary shares.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

Assets and liabilities measured at fair value on a recurring basis

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the inputs to fair value are observable:

	Note	Level 1	Level 2	Total
December 31, 2019				
Fixed-income securities	8	**P199,249,440**	**P -**	**P199,249,440**
Investments in UITF	8	**6,633,314**	**-**	**6,633,314**
		P205,882,754	**P -**	**205,882,754**
December 31, 2018				
Fixed-income securities	8	P 142,001,084	P -	P 142,001,084
Investments in UITF	8	10,385,683	-	10,385,683
Special savings deposits	8	-	31,131,600	31,131,600
		P 152,386,767	P31,131,600	P 183,518,367

The fair value of the special savings deposit is based on discounted cash flow analysis using prevailing market interest rates.

The fair values of fixed-income securities classified as Level 1 are based on quoted prices of either done deals or bid rates while the fair value of fixed-income securities classified as Level 2 are based on interpolated yields derived from benchmark reference rates.

UITFs are valued at their published Net Asset Value Per Unit (NAVPUs) as at reporting date.

No transfers in fair value hierarchy were made as at December 31, 2019. Total unrealized gain or loss on investments relating to financial assets that are measured at fair value at the end of the reporting period are presented separately in the statements of comprehensive income and disclosed in Note 8.

Financial assets and liabilities not measured at fair value

The following financial assets and financial liabilities are not measured at fair values on recurring basis but the fair value disclosure is required:

		2019		2018	
	Notes	**Carrying Amounts**	**Fair Values**	Carrying Amounts	Fair Values
Financial Assets					
Cash and cash equivalents	6	**P18,536,249**	**P18,536,249**	P36,968,409	P36,968,409
Accrued interest receivable	7	**2,969,457**	**2,969,457**	3,383,167	3,383,167
		P21,505,706	**P21,505,706**	P40,351,576	P40,351,576
Financial Liabilities					
Accrued expenses and other payables	9	**P 174,032**	**P 174,032**	P 114,347	P 114,347
Due to brokers	10	**-**	**-**	5,832,919	5,832,919
Payable to fund manager	11	**240,595**	**240,595**	84,144	84,144
		P 414,627	**P 414,627**	P6,031,410	P6,031,410

The difference between the carrying amount of accrued expenses and other payables disclosed in the statements of financial position and the amount disclosed in this note pertains to withholding and documentary stamp taxes that are not considered financial liabilities.

Cash and cash equivalents, accrued interest receivable, accrued expenses and other payables, due to brokers and payable to fund manager have short-term maturities, hence, their carrying amounts approximate their fair values.

18. INCOME TAXES

Details of income tax expense are as follows:

	2019	2018	2017
Final tax	**P1,786,223**	P392,192	P656,920
MCIT	**1,698**	17,628	22,937
	P1,787,921	P409,820	P679,857

The reconciliation between tax expense (benefit) and the product of accounting profit (loss) multiplied by 30% is as follows:

	2019	2018	2017
Accounting profit (loss)	**P24,732,208**	(P1,511,736)	P8,498,821
Tax expense (benefit) at 30%	**P 7,419,662**	(P 453,521)	P2,549,646
Adjustment for income subject to lower tax rate	**(1,561,281)**	(2,298,074)	(2,089,015)
Tax effects of :			
Unrecognized Net operating loss carry-over (NOLCO)	**1,083,287**	815,569	1,125,456
Unrecognized MCIT	**1,698**	17,628	22,937
Net realized (gains) losses on investment	**(2,265,073)**	1,023,503	1,904,571
Net unrealized (gains) losses on investments	**(2,890,372)**	1,304,715	(2,833,738)
	P1,787,921	P 409,820	P 679,857

Details of the Company's NOLCO are as follows:

Year Incurred	Year of Expiry	Beginning Balance	Addition	Expired	2019 Balance
2016	2019	P 4,755,273	P -	P4,755,273	P -
2017	2020	3,751,521	-	-	3,751,521
2018	2021	2,718,563	-	-	2,718,563
2019	2022	-	3,610,957	-	3,610,957
		P11,225,357	P3,610,957	P4,755,273	P10,081,041

Details of MCIT are as follows:

Year Incurred	Year of Expiry	Beginning Balance	Addition	Expired	2019 Balance
2016	2019	P 2,245	P -	P2,245	P -
2017	2020	22,938	-	-	22,938
2018	2021	17,628	-	-	17,628
2019	2022	-	1,698	-	1,698
		P42,811	P1,698	P2,245	P42,264

Deferred tax asset on NOLCO and MCIT was not recognized since Management believes that future taxable income will not be available against which the deferred tax asset can be utilized.

The Company's interest income from special savings deposits and fixed-income securities are already subjected to final tax and are therefore excluded from the computation of taxable income subject to RCIT or MCIT.

19. CONTINGENCY

The Company has no pending legal cases as at December 31, 2019 and 2018 that may have a material effect on the Company's financial position and results of operations.

20. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk, which includes interest rate and equity price risk, credit risk and liquidity risk. The Fund Manager exerts best efforts to anticipate events that would negatively affect the value of the Company's assets and takes appropriate actions to counter these risks. However, there is no guarantee that the strategies will work as intended. The policies for managing specific risks are summarized below.

Market risk

The Company's activities expose it primarily to the financial risks of changes in interest rates and movements in NAVPU of investments in UITF. There has been no change on the manner in which the Company manages and measures the risk.

Interest rate risk

Interest rate risk refers to the possibility that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest.

The primary source of the Company's interest rate risk relates to cash and cash equivalents, special savings deposits and fixed-income securities. Interest rates of the financial assets are disclosed in Notes 6 and 15.

The risk is managed by the Fund Manager by actively monitoring the prevailing interest rate environment. The duration of the portfolio is reduced during periods of rising rates and widening credit spreads to maximize interest income potential. Conversely, the same is increased during periods of falling rates and narrowing credit spreads.

A 50 basis points increase or decrease in the interest rates had been determined for sensitivity analysis based on the exposure to interest rates for financial assets at FVTPL at the end of each reporting period. The same is used for reporting interest rate risk internally to key management personnel and represents Management's assessment of the reasonable effect of the maximum possible movement in interest rates.

The following table details the increase or decrease in net profit after tax if interest rates had been 50 basis points higher or lower and all other variables are held constant for the years ended 2019, 2018, and 2017:

Change in Interest Rates	**Increase (Decrease) in Net Profit/Loss or Equity**		
	2019	2018	2017
+50 basis	**(P5,082,343)**	(P1,836,334)	(P4,546,858)
-50 basis	**5,294,981**	1,881,056	4,649,949

In Management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk because the exposure at the end of the reporting period does not reflect the exposure during the year.

Equity price risk

The Company is exposed to equity price risks arising from investments in UITF.

The risk is managed by the Fund Manager by actively monitoring the movements in NAVPU of investments in UITF.

Based on the exposure to equity price risks at the end of each reporting period, if NAVPU of investments in UITF had been 2% higher or lower, profit or loss for the years ended December 31, 2019, 2018 and 2017 would have increased or decreased by P130,958, P205,038 and P22,503, respectively.

Other than interest and equity price risks discussed above, there are no other market risks which significantly affect the Company's performance.

In Management's opinion, the sensitivity analysis is unrepresentative of the inherent equity price risk because the exposure at the end of the reporting period does not reflect the exposure during the year.

Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of dealing only with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults, and transacts only with entities that are rated with the equivalent of investment grade of "High" down to "Low". This information is supplied by independent rating agencies, when available. If the information is not available, the Company uses other publicly available financial information and its own trading records to rate its major counterparties. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread among approved counterparties.

The carrying amounts of financial assets recorded in the financial statements represent the Company's maximum exposure to credit risk:

	Notes	2019	2018
Cash and cash equivalents	6	**P 18,536,249**	36,968,409
Financial assets at FVTPL	8	**199,249,440**	P173,132,684
Accrued interest receivable	7	**2,969,457**	3,383,167
		P220,755,146	P213,484,260

ECL measurement

In 2019 and 2018, ECLs are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument.

PFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition. The Company's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognizing expected credit losses
Stage 1	The counterparty has a low risk of default and does not have any past-due amounts or that the financial instrument is not credit-impaired on initial recognition	12m ECL
Stage 2	There has been a significant increase in credit risk since initial recognition but not yet deemed to be credit-impaired	Lifetime ECL - not credit-impaired
Stage 3	There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery or that the financial instrument is credit-impaired	Lifetime ECL - credit-impaired

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is determined by projecting the PD, LGD and exposure at default (EAD) for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

Given that the Company currently has no history of default on their portfolio, a model which incorporates internal default experience is not feasible. For the 12M and Lifetime PD, the Company uses external benchmarking of current internal credit ratings to Standard and Poor's using one-year transition matrices in S&P's Annual Global Corporate Default Study and Rating Transition reports. From the transition matrices, cumulative PDs are identified. The overall PD for a specific time horizon is calculated from the cumulative PD, by determining the marginal PD and taking the conditional probability of default given that it has not yet defaulted prior to the said time horizon. The resulting overall PDs are the values that will act as components in ECL calculation. The Lifetime PD is developed by analysis of the transition matrices over the maximum life of active loans, which is 15 years.

The table below summarizes the current internal credit rating equivalence system of the Company.

Summary rating	**Internal credit rating**	**S&P rating**
High	AAA	AAA
High	AAA	AA
High	AAA	A
High	AAA	BBB
Satisfactory	AA	BB
Acceptable	B	B
Low	CCC/C	CCC/C

The 12M and lifetime EADs are determined based on the contractual repayments owed by the borrower over the 12month or lifetime basis. This will also be adjusted for any expected overpayments made by the borrower. The Company does not have an undrawn component for any of its debt instruments.

For the 12M and lifetime LGDs, considering the availability of related information, the Company use the external estimates sourced from Standard and Poor's.

Forward-looking information incorporated in the ECL models

The assessment of significant increase in credit rating and the calculation of ECL both incorporate forward-looking information. The Company has performed historical analysis and identified the key economic variables impacting credit risk and ECL for each portfolio. The Company assessed that the key economic variables are gross domestic product (GDP) and unemployment rates.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are based on the economic data from the International Monetary Fund (IMF) from year 2017 until 2022. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of EAD and LGD.

In addition to the base economic scenario, the best value economically spanning from the historical years is taken (upside forecasts). A similar approach applies for the downside forecasts. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The per-scenario Forward Looking Adjustments were assigned probability weights of 50% for the base scenario, and 25% for each of the upside and downside forecast.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Company's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

The following table details the credit quality of the Company's financial assets and other items, as well as the Company's maximum credit exposure to credit risk by credit risk rating grades as at December 31, 2019 and 2018:

	Notes	Credit rating	Category	12m or lifetime ECL?	Gross carrying amount	Loss allowance	Net carrying amount
2019							
Cash in banks	6	**AAA**	**Stage 1**	**12-month ECL**	**P 1,636,249**	**P -**	**P 1,636,249**
Cash equivalents	6	**AAA**	**Stage 1**	**12-month ECL**	**16,900,000**	**-**	**16,900,000**
Accrued interest receivable	7	**AAA**	**Stage 1**	**12-month ECL**	**2,969,457**	**-**	**2,969,457**
					P21,505,706	**P -**	**P21,505,706**
2018							
Cash in banks	6	AAA	Stage 1	12-month ECL	P 1,068,409	P -	P 1,068,409
Cash equivalents	6	AAA	Stage 1	12-month ECL	35,900,000		35,900,000
Accrued interest receivable	7	AAA	Stage 1	12-month ECL	3,383,167	-	3,383,167
					P40,351,576	P -	P40,351,576

Liquidity risk

Liquidity risk arises when the Company encounters difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company aims to maintain an appropriate level of liquidity which means having sufficient liquidity to be able to meet all obligations promptly under foreseeable adverse circumstances, while not having excessive liquidity.

The Company maintains at least five percent of the fund in liquid/semi-liquid assets in the form of cash and cash equivalents, special savings or time deposits and investments in UITF to assure necessary liquidity. This is also in compliance to SEC Circular 12 series of 2013, Amendments to ICA Rule 35-1.

The Fund Manager manages liquidity risks by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities. The table had been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

	Less than One Month	One Month to One Year	Total
2019			
Accrued expenses and other payables	**P 79,176**	**P94,856**	**P 174,032**
Payable to fund manager	**240,595**	**-**	**240,595**
	P 319,771	**P94,856**	**P 414,627**
2018			
Accrued expenses and other payables	P19,294	P 95,053	P114,347
Due to brokers	5,832,919	-	5,832,919
Payable to fund manager	84,144	-	84,144
	P5,936,357	P 95,053	P6,031,410

The difference between the carrying amount of accrued expenses and other payables disclosed in the statements of financial position and the amount disclosed in this note pertains to withholding and documentary stamp taxes that are not considered financial liabilities.

The following table details the Company's expected maturity for its financial assets. The table had been drawn up based on the contractual maturities of the financial assets including interest that will be earned on those assets, except when the Company anticipates that the cash flows will occur in a different period.

	Average Effective Interest Rate	Less than One Year	One to Five Years	Five to Ten Years	More than Ten Years	Total
2019						
Cash in banks	**0.16%**	**P 1,636,249**	**P -**	**P -**	**P -**	**P 1,636,249**
Cash equivalents	**2.10%**	**16,900,022**				**16,900,022**
Financial assets at FVTPL	**6.47%**	**35,454,250**	**185,704,087**	**33,648,973**	**14,708,712**	**269,516,022**
Accrued interest receivable		**2,969,457**	**-**	**-**	**-**	**2,969,457**
		P56,959,978	**P185,704,087**	**P33,648,973**	**P14,708,712**	**P291,021,750**
2018						
Cash in banks	0.15%	P 1,068,409	P -	P -	P -	P 1,068,409
Cash equivalents	1.31%	35,900,000				35,900,000
Financial assets at FVTPL	3.44%	38,619,517	133,588,315	36,633,937	-	208,841,769
Accrued interest receivable		3,383,167	-	-	-	3,383,167
		P 78,971,093	P 133,518,315	P 36,633,937	P -	P 249,193,345

The Company expects to meet its obligations from operating cash flows, proceeds from maturing financial assets and sale of financial assets at FVTPL.

21. CAPITAL RISK MANAGEMENT

The Fund Manager manages the Company's capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the mix of high-quality debt from domestic issuers.

The Company is guided by its Investment Policies and Legal Limitations. All the proceeds from the sale of shares, including the original subscription payments at the time of incorporation constituting the paid-in capital, is held by the pertinent custodian banks.

The capital structure of the Company consists of issued capital as disclosed in Note 12.

The Fund Manager manages the Company's capital and NAVPS, as disclosed in Notes 12, 13 and 14 to ensure that the Company's net asset value remains competitive and appealing to prospective investors.

The Company is also governed by the following fundamental investment policies:

a. It does not issue senior securities;

b. It does not intend to incur any debt or borrowing. In the event that borrowing is necessary, it can do so only if, at the time of its incurrence or immediately thereafter, there is asset coverage of at least 300% for all its borrowings;

c. It does not participate in any underwriting or selling group in connection with the public distribution of securities, except for its own share capital;

d. It generally maintains a diversified portfolio. Industry concentrations may vary at any time depending on the investment manager's view on the prospects;

e. It does not invest directly in real estate properties and developments;

f. It does not purchase or sell commodity futures contracts;

g. It does not engage in lending operations to related parties such as the members of the Board of Directors, officers of the Company and any affiliates, or affiliated corporations of the Company;

h. The asset mix in each type of security is determined from time to time, as warranted by economic and investment conditions; and

i. It does not change its investment objectives without the prior approval of a majority of its shareholders.

The Investment Policies refer to the following:

a. Investment Objective - to provide regular returns through investments in credit risk-free government debt securities issued by the Philippine government.

b. Benchmark - 95% Bloomberg Sovereign Bond Index 1 to 5 Year and 5% 30-day Special Savings Account (SSA).

c. Asset Allocation Range - the Company allocates its funds available for investments among cash and other deposit substitutes and fixed-income securities based on certain proportion as approved by Management.

Other matters covered in the investment policy include the fees due to be paid to the Fund Manager with management and distribution fees each set at an annual rate of 1.5% of the net assets attributable to shareholders on each valuation day.

As at December 31, 2019 and 2018, the Company is in compliance with the above requirements and minimum equity requirement of the SEC of P50,000,000.

The equity ratio at year-end is as follows:

	2019	2018
Equity	**P226,946,928**	P217,812,213
Total assets	**227,388,961**	223,877,361
Equity ratio	**0.99:1**	0.97:1

Management believes that the above ratios are within the acceptable range.

22. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE (BIR) UNDER REVENUE REGULATIONS NO. 15-2010

The following information on taxes, duties and license fees paid or accrued during the 2019 taxable year is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

Documentary stamp tax

Documentary stamp taxes paid by the Company during 2019 amounted to P7,500 representing taxes paid in connection with the issuance of stock certificates by the Company to its shareholders. The documentary stamp tax being paid by the Company to the BIR includes those charged against the shareholders' investment for stock certificate issuances in excess of four inter-fund transfers per calendar year.

Other taxes and licenses

Details of other taxes and licenses and permit fees paid or accrued in 2019 are as follows:

Charged to Operating Expenses	
Business tax	**P 84,287**
Filing and registration fees	**33,075**
Miscellaneous	**1,443**
	P118,805

Withholding taxes

Withholding taxes paid and accrued and/or withheld consist of:

	Paid	**Accrued**	**Total**
Expanded withholding taxes	**P250,395**	**P26,908**	**P277,303**

23. APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the Company were reviewed and endorsed by the Audit and Compliance Committee for the approval of the Board of Directors on March 10, 2020.

The Board of Directors approved the issuance of the financial statements also on March 10, 2020.

* * *

NavarroAmper&Co.

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www.deloitte.com/ph

BOA/PRC Reg. No. 0004
SEC Accreditation No. 0001-FR-5

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

To the Board of Directors and Shareholders
SUN LIFE PROSPERITY GS FUND, INC.
(An Open-end Investment Company)
Sun Life Centre, 5th Avenue corner Rizal Drive
Bonifacio Global City, Taguig City

We have audited the financial statements of Sun Life Prosperity GS Fund, Inc. (the "Company") as at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017 in accordance with Philippine Standards on Auditing, on which we have rendered an unqualified opinion dated March 10, 2020.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on the attached schedule showing the reconciliation of the retained earnings available for dividend declaration and interpretations and other supplementary information shown in Schedules A-G as at and for the year ended December 31, 2019, as required by the Securities and Exchange Commission under Revised SRC Rule 68, is presented as additional analysis and is not a required part of the basic financial statements. Such supplementary information is the responsibility of Management and has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Navarro Amper & Co.
BOA Registration No. 0004, valid from November 12, 2018 to July 16, 2021
SEC Accreditation No. 0001-FR-5, issued on January 15, 2019; effective until January 14, 2022, Group A
TIN 005299331

By:

Avis B. Manlapaz
Partner
CPA License No. 0074249
SEC A.N. 1669-A, issued on March 13, 2018; effective until March 12, 2021, Group A
TIN 120964002
BIR A.N. 08-002552-008-2019, issued on July 03, 2019; effective until July 02, 2022
PTR No. A-4689428, issued on January 2, 2020, Taguig City

Taguig City, Philippines
March 10, 2020

RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DECLARATION
As at December 31, 2019

SUN LIFE PROSPERITY GS FUND, INC.
Sun Life Centre, 5th Avenue corner Rizal Drive, Bonifacio Global City, Taguig City

Items		Amount
Unappropriated Retained Earnings, beginning	**P**	**121,423,494**
Adjustments:		
Accumulated unrealized fair value loss as at December 31, 2018		3,670,970
Treasury shares as of December 31, 2018		(401,126,965)
Unappropriated Retained Earnings, as adjusted, beginning	**P**	**(276,032,501)**
Net loss based on the face of AFS		22,944,287
Adjustments for non-actual (gains) losses		
Effect of movements in accumulated unrealized gains during the year		(9,634,573)
Net Income Actual/Realized		**13,309,714**
Less: Treasury shares acquired during the year		**(21,565,491)**
Unappropriated Retained Earnings, as adjusted, ending	**P**	**(284,288,278)**

SUN LIFE PROSPERITY GS FUND, INC.
Schedule of Financial Soundness Indicators and Financial Ratios
December 31, 2019 and December 31, 2018

	Formula	**2019**	2018
Current/ Liquidty Ratios			
a. Current ratio	Current Assets/Current Liabilities	**514.42:1**	36.91:1
b. Quick ratio	Quick Assets/Current Liabilities	**514.42:1**	36.91:1
c. Cash ratio	Cash/Current Liabilities	**41.93:1**	6.10:1
d. Days in receivable	Receivable/Revenue * No. of days	**N/A**	N/A
e. Working capital ratio	(Current Assets/Current Liabilities)/Current Assets	**1.00:1**	0.97:1
f. Net working capital to sales ratio	Working Capital / Total Revenue	**12.07:1**	32.85:1
g. Defensive Interval Ratio	360* (Quick Assets / Proj. Daily Operting Expense)	**22088.31:1**	21251.23:1
Solvency Ratios			
a. Long-term debt to equity ratio	Noncurrent Liabilities/Total Equity	**N/A**	N/A
b. Debt to equity ratio	Total Liabilities/Total Equity	**0.00**	0.03
c. Long term debt to total asset ratio	Noncurrent Liabilities/Total Assets	**N/A**	N/A
d. Total debt to asset ratio	Total Liabilities/Total Assets	**0.00**	0.03
Asset to equity ratio	Total Assets/Total Equity	**1.00:1**	1.03:1
Interest rate coverage ratio	Earning Before Income Tax/Interest Expense	**N/A**	N/A
Profitability Ratio			
a. Earnings before interest and taxes (EBIT) margin	EBIT/Revenue	**131.53%**	-22.80%
b. Earnings before interest, taxes and depreciation and amortization (EBITDA) margin	EBITDA/Revenue	**131.53%**	-22.80%
c. Pre-tax margin	EBIT/Revenue	**131.53%**	-22.80%
d. Effective tax rate	Income Tax/EBIT	**7.23%**	-27.11%
e. Post-tax margin	Net Income After Tax/Revenue	**122.02%**	-28.98%
f. Return on equity	Net Income After Tax/Average Common Equity	**10.32%**	-0.80%
g. Return on asset	NIAT/Average Total Assets	**10.17%**	-0.79%
Capital intensity ratio	Total Assets/Revenue	**12.09:1**	33.77:1
Fixed assets to total assets	Fixed assets/Total assets	**N/A**	N/A
Dividend payout ratio	Dividends paid/Net Income	**N/A**	N/A

Sun Life Prosperity GS Fund Inc.

i. Percentage of Investment in a Single Enterprise to Net Asset Value

As of December 31, 2019 and December 31, 2018

	2019			2018		
	Investment (Market Value)	Net Asset Value	% over NAV	Investment (Market Value)	Net Asset Value	% over NAV
Treasury Notes (ISIN)						
US718286BJ59	19,185,820.00	226,946,928	8.45%	65,809,410.00	217,812,213	30.21%
US718286BX44	-	-	-	27,961,800.00	217,812,213	12.84%
PIID0522L114	-	-	-	3,742,400.00	217,812,213	1.72%
PIBD1028C635	-	-	-	13,402,480.00	217,812,213	6.15%
PIBD0523C752	-	-	-	14,361,000.00	217,812,213	6.59%
PIBD0725D618	-	-	-	16,723,994.30	217,812,213	7.68%
PIBD1029A644	61,139,740.00	226,946,928	26.94%	-	-	-
PIBD2039A232	28,206,000.00	226,946,928	12.43%	-	-	-
PIID0524C129	66,692,780.00	226,946,928	29.39%	-	-	-
PIBD0726B627	24,025,100.00	226,946,928	10.59%	-	-	-
Special savings deposits						
Citibank NA Manila Branch	16,900,000	226,946,928	7.45%	35,900,000	217,812,213	16.48%
Standard Chartered	-	-	-	31,131,600	217,812,213	14.29%
Investments in UITF						
BPI MONEY MARKET FUND	5,521,453	226,946,928	2.43%	5,291,148	217,812,213	2.43%
RIZAL PESO CASH MANAGEMENT FUND	1,111,861	226,946,928	0.49%	5,094,535	217,812,213	2.34%

ii. Total Investment of the Fund to the Outstanding Securities of an Investee Company

As of December 31, 2019 and December 31, 2018

	2019			2018		
	Investment of the Fund	Outstanding Securities of an Investee Company	% over Investee	Investment of the Fund	Outstanding Securities of an Investee Company	% over Investee
Treasury Notes (ISIN)						
US718286BJ59	19,185,820	**	-	65,809,410	**	-
US718286BX44	-	**	-	27,961,800	**	-
PIID0522L114	-	255,359,340,000	0.00%	3,742,400	255,359,340,000	0.00%
PIBD1028C635	-	7,990,000,000	0.00%	13,402,480	7,990,000,000	0.17%
PIBD0523C752	-	12,039,000,000	0.00%	14,361,000	12,039,000,000	0.12%
PIBD0725D618	-	7,932,000,000	0.00%	16,723,994	7,932,000,000	0.21%
PIBD1029A644	61,139,740	40,000,000,000.00	0.15%	-	-	-
PIBD2039A232	28,206,000	31,504,000,000.00	0.09%	-	-	-
PIID0524C129	66,692,780	235,916,440,000.00	0.03%	-	-	-
PIBD0726B627	24,025,100	30,000,000,000.00	0.08%	-	-	-
Special savings deposits						
Citibank NA Manila Branch	16,900,000	**	-	35,900,000	**	-
Standard Chartered	-	-	-	31,131,600	**	-
Investments in UITF						
BPI MONEY MARKET FUND	5,521,453	23,980,610,000	0.02%	5,291,148	8,331,490,000	0.06%
RIZAL PESO CASH MANAGEMENT FUND	1,111,861	1,440,230,000	0.08%	5,094,535	1,585,460,000	0.32%

iii Total Investment in Liquid or Semi-Liquid Assets to Total Assets

As of December 31, 2019 and December 31, 2018

	2019	2018
Total Liquid and Semi-Liquid Assets	227,388,460	223,869,943
Total Assets	227,388,961	223,877,361
	100.00%	100.00%

iv. Total Operating Expenses to Total Net Worth

As of December 31, 2019 and December 31, 2018

	2019	2018
Total Operating Expenses	3,706,026	3,792,400
Average Daily Net Worth	236,697,269	247,687,758
Total Operating Expenses to Total Net Worth	1.57%	1.53%

v. Total Assets to Total Borrowings

As of December 31, 2019 and December 31, 2018

	2019	2018
Total Assets	227,388,961	223,877,361
Total Borrowings	442,033	6,065,148
Total Assets to Total Borrowings	51442%	3691%

<u>SUN LIFE PROSPERITY GS FUND, INC.</u>
<u>Sun Life Centre, 5th Avenue, Corner Rizal Drive, Bonifacio Global, Taguig City</u>

Additional Requirements for Issuers of Securities to the Public
Required by the Securities and Exchange Commission
As at December 31, 2019

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SUN LIFE PROSPERITY GS FUND, INC.
Sun Life Centre, 5th Avenue, Corner Rizal Drive, Bonifacio Global, Taguig City

SCHEDULE A - FINANCIAL ASSETS
As at December 31, 2019

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Income Received and Accrued
Treasury Bonds and Notes Issued by the Nat'l. Government	180,000,000	P199,249,440	P10,298,473
Investments in UITFs			
RIZAL PESO CASH MANAGEMENT FUND	991,051	1,111,861	
BPI MONEY MARKET FUND	21,768	5,521,453	
	1,012,819	6,633,314	-
TOTAL	**181,012,819**	**205,882,754**	**10,298,473**

SUN LIFE PROSPERITY GS FUND, INC.
Sun Life Centre, 5th Avenue, Corner Rizal Drive, Bonifacio Global, Taguig City

SCHEDULE E - INDEBTEDNESS TO RELATED PARTIES
As at December 31, 2019

Name of Related Party	Relationship	Balance at beginning of period	Balance at end of period
Sun Life Asset Management Company, Inc.	Fund Manager	P84,144	P240,595
TOTAL		**P84,144**	**P240,595**

SUN LIFE PROSPERITY GS FUND, INC.
Sun Life Centre, 5th Avenue, Corner Rizal Drive, Bonifacio Global, Taguig City

SCHEDULE G - CAPITAL STOCK
As at December 31, 2019

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares reserved for options, warrants, conversion and other rights	Number of Shares Held By		
				Related Parties	Directors, Officers and Employees	Others
Share Capital						
Ordinary Shares	1,000,000,000	403,145,317	-	-	5	403,145,312
Treasury Shares	-	(269,736,409)	-	-	-	(269,736,409)
TOTAL	**1,000,000,000**	**133,408,908**	**-**	**-**	**5**	**133,408,903**