

# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

CLIENT'S COPY

SEC Registration Number

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Company Name

S	U	N	L	I	F	E	F	I	N	A	N	C	I	A	L	P	L	A	N	S	,	I	N	C	.	

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

2	N	D	F	L	R	.	S	U	N	L	I	F	C	E	N	T	R	E									
5	TH	AVENUE		COR.		RIZAL	DRIVE																				
B	O	N	I	F	A	C	I	O		G	L	O	B	A	L		C	I	T	Y							
T	A	G	U	I	G		C	I	T	Y																	

Form Type

A	A	F	S
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Department requiring the report

C	R	M	D
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Secondary License Type, If Applicable

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### COMPANY INFORMATION

Company's Email Address

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Company's Telephone Number/s

5	5	5	-	8	8	8	8
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Mobile Number

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No. of Stockholders

6
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Annual Meeting  
Month/Day

every	last	Friday	of	May
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Fiscal Year  
Month/Day

1	2	3	1
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### CONTACT PERSON INFORMATION

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

Name of Contact Person

Sherwin S. Sampang
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Email Address

sherwin.sampang@sunlife.com
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Telephone Number/s

555-8888
----------

Mobile Number

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Contact Person's Address

2nd Flr Sun Life Centre Bldg 5th Avenue cor. Rizal Drive Bonifacio Global City Taguig City
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Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

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



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The Management of Sun Life Financial Plans, Inc. is responsible for all information and representations contained in the financial statements for the years ended December 31, 2018 and 2017. The financial statements have been prepared in conformity with rules and regulations of the Insurance Commission on accounting and reflect amounts that are based on the best estimates and informed judgment of Management with an appropriate consideration to materiality.

In this regard, Management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The Management likewise discloses to the Company's Audit Committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the Company.

Navarro Amper & Co., the independent auditors, appointed by the stockholders, has examined the financial statements of the Company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of the presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

A handwritten signature in cursive script, appearing to read "Lucy Chou".

**CHIA-LING CHOU aka LUCY CHOU**  
Chairman of the Board

A handwritten signature in cursive script, appearing to read "Alexander S. Narciso".

**ALEXANDER S. NARCISO**  
President

A handwritten signature in cursive script, appearing to read "Sherwin S. Sampang".

**SHERWIN S. SAMPANG**  
Treasurer

Signed this 5<sup>th</sup> day of March, 2019

TAGUIG CITY

Subscribed and sworn to before me, a Notary Public for and in \_\_\_\_\_, this **APR 11 2019** day of \_\_\_\_\_ 2019

at \_\_\_\_\_ by affiants, who personally exhibiting as proof of their identity the

following competent evidence of identification:

<u>Name</u>	<u>Competent Evidence of Identity</u>
Chia- Ling Chou aka Lucy Chou	Passport No.KJ0310193 09-24-13/China
Alexander S. Narciso	Passport No.EC4560877 07-01-15/Manila
Sherwin S. Sampang	Passport No.P9427178A 11-06-18/Manila

Doc. No. 49  
Page No. 11  
Book No. 05  
Series of 2019

  
**ATTY. LETICIA M. AMON**

NOTARY PUBLIC FOR TAGUIG CITY

APPT. NO. 2 UNTIL DEC. 31, 2019

ROLL OF ATTY. NO. 22188

MCLE COMPLIANCE NO. VI-0004659/12-5-2017

IBP O.R No. 574709-LIFETIME MEMBER/1-9-2003

PTR#No.4842975- JAN 03, 2019- PASIG CITY

11 PARADISE ST., UPPER BICUTAN, TAGUIG CITY



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The Management of Sun Life Financial Plans, Inc. (the "Company") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the financial reporting standards in the Philippines for pre-need companies set forth in the amended Securities and Exchange Commission (SEC) Rule 31, Accounting Standards for Pre-need Plans and Pre-Need Uniform Chart of Accounts (PNUCA), as required by the rules and regulations of the Securities and Exchange Commission (SEC) and adopted by the Insurance Commission (IC), 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.

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

Navarro Amper & Co, the independent auditors appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

A handwritten signature in cursive script, appearing to read "Lucia Chou".

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**CHIA-LING CHOU aka LUCY CHOU**  
Chairman of the Board

A handwritten signature in cursive script, appearing to read "Alexander S. Narciso".

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**ALEXANDER S. NARCISO**  
President

A handwritten signature in cursive script, appearing to read "Sherwin S. Sampang".

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**SHERWIN S. SAMPANG**  
Treasurer

Signed this 5<sup>th</sup> day of March, 2019

## SUPPLEMENTAL WRITTEN STATEMENT OF AUDITORS

The Board of Directors and Shareholders  
SUN LIFE FINANCIAL PLANS, INC.  
[A Wholly Owned Subsidiary of Sun Life of Canada (Philippines), Inc.]  
2<sup>nd</sup> Floor, Sun Life Centre, 5<sup>th</sup> Avenue corner Rizal Drive  
Bonifacio Global City, Taguig City

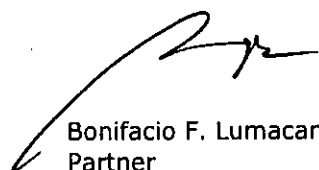
Gentlemen:

We have examined the financial statements of Sun Life Financial Plans, Inc. as at and for the year ended December 31, 2018, on which we have rendered the attached report dated March 5, 2019.

In compliance with SRC Rule 68, we are stating that the said Company only has one (1) shareholder owning one hundred (100) or more shares.

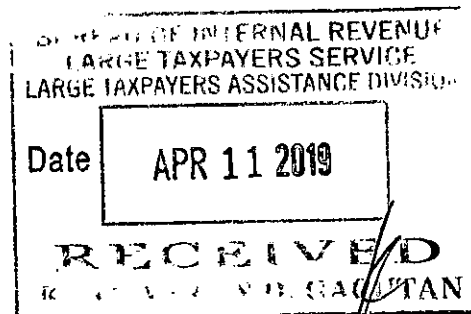
Navarro Amper & Co.  
BOA Registration No. 0004, valid from November 12, 2018 to July 16, 2021  
SEC Accreditation No. 0001-FR-5, issued on January 15, 2019; effective until January 14, 2022, Group A  
IC A. N. F-2017-001-R, issued on February 24, 2017; effective until February 23, 2020  
TIN 005299331

By:



Bonifacio F. Lumacang, Jr.  
Partner  
CPA License No. 0098090  
SEC A.N. 0526-AR-3, issued on April 21, 2016; effective until April 21, 2019, Group A  
IC A. N. SP-2017-003-O, issued on February 24, 2017; effective until February 23, 2020  
TIN 170035681  
BIR A.N. 08-002552-18-2018, issued on January 26, 2018; effective until January 26, 2021  
PTR No. A-4255733, issued on January 10, 2019, Taguig City

Taguig City, Philippines  
March 5, 2019



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders  
SUN LIFE FINANCIAL PLANS, INC.  
[A Wholly Owned Subsidiary of Sun Life of Canada (Philippines), Inc.]  
2<sup>nd</sup> Floor, Sun Life Centre, 5<sup>th</sup> 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 Financial Plans, Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

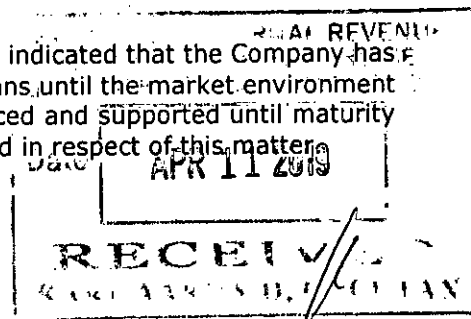
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the financial reporting standards in the Philippines for pre-need companies set forth in the amended Securities and Exchange Commission (SEC) Rule 31, Accounting Standards for Pre-need Plans and Pre-need Uniform Chart of Accounts (PNUCA), as required by the rules and regulations of the SEC and adopted by the Insurance Commission (IC).

#### *Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *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.

#### *Emphasis of Matter*

We draw attention to Note 1 to the financial statements, which indicated that the Company has decided to temporarily discontinue actively selling pre-need plans until the market environment improves. All existing pre-need plans will continue to be serviced and supported until maturity by the Company's trust fund assets. Our opinion is not modified in respect of this matter.



*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 the financial reporting standards in the Philippines for pre-need companies set forth in the amended SEC Rule 31, Accounting Standards for Pre-need Plans and PNUCA, as required by the rules and regulations of SEC and adopted by the IC, 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.

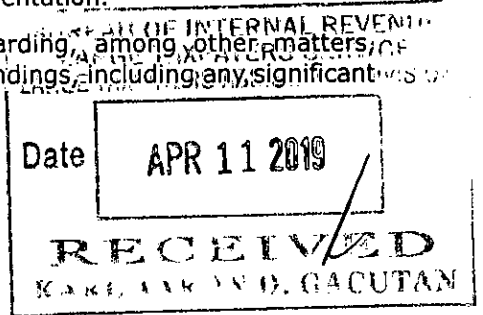
*Auditors' Responsibilities for the Audit of the Financial Statements*

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 PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 audit.



## 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 34 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 audit 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

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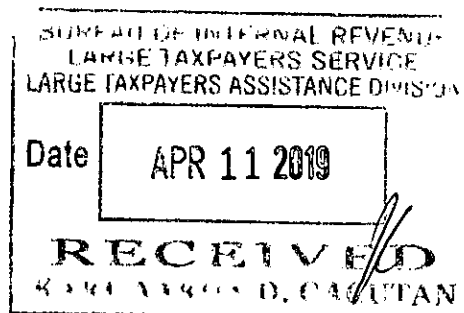
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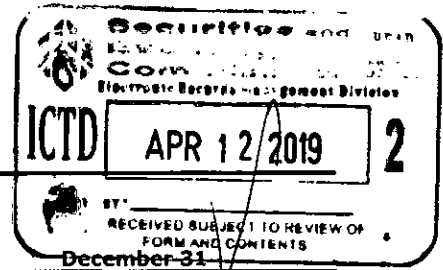
March 5, 2019





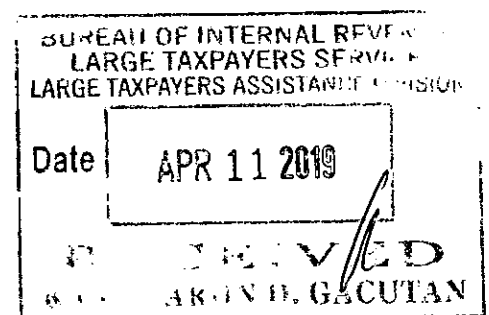
**SUN LIFE FINANCIAL PLANS, INC.**

[A Wholly-Owned Subsidiary of Sun Life of Canada (Philippines), Inc.]

**STATEMENTS OF FINANCIAL POSITION**

	Notes	2018	2017
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7	P 511,522,549	P 224,062,369
Receivables	8	34,472,378	3,780,706
Prepayments and other current assets - net	9	286,295	273,296
<b>Total Current Assets</b>		<b>546,281,222</b>	<b>228,116,371</b>
<b>Non-current Assets</b>			
Trust funds	11	5,538,872,831	6,761,882,112
Financial assets at fair value through other comprehensive income	10	221,309,820	-
Financial assets at fair value through profit and loss	10	13,573,927	-
Available-for-sale financial assets	10	-	271,720,976
Computer software-net	12	5,136,792	10,740,565
<b>Total Non-Current Assets</b>		<b>5,778,893,370</b>	<b>7,044,343,653</b>
		<b>P6,325,174,592</b>	<b>P7,272,460,024</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Benefits payable	13	P 101,239,420	P 80,002,373
Accrued expenses and other liabilities	13	9,529,983	6,592,803
Counselors' bond reserve	14	6,983,205	6,995,648
Payable to parent company	15	3,726,321	3,240,776
<b>Total Current Liabilities</b>		<b>121,478,929</b>	<b>96,831,600</b>
<b>Non-current Liabilities</b>			
Pre-need reserves	16	5,639,981,406	6,467,317,386
Other reserves	17	333,594,666	23,713,066
Planholders' deposit	18	29,197,250	24,904,066
<b>Total Non-Current Liabilities</b>		<b>6,002,773,322</b>	<b>6,515,934,518</b>
		<b>6,124,252,251</b>	<b>6,612,766,118</b>
<b>Equity</b>			
Share capital	19	125,000,000	125,000,000
Additional paid in capital	20	375,000,000	375,000,000
Contributed surplus	21	400,000,000	25,000,000
Investment revaluation reserves	22	21,886,802	694,950,130
Deficit		(6,422,361,762)	(5,990,046,648)
Accumulated trust fund income	11	5,701,397,301	5,429,790,424
		<b>200,922,341</b>	<b>659,693,906</b>
		<b>P6,325,174,592</b>	<b>P7,272,460,024</b>

See Notes to Financial Statements.



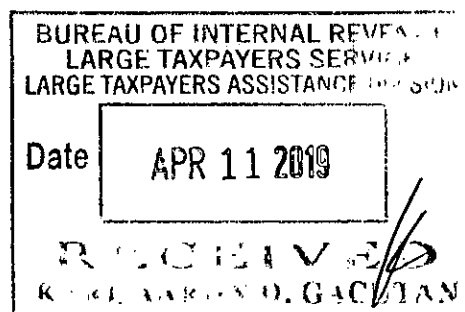
**SUN LIFE FINANCIAL PLANS, INC.**

[A Wholly-Owned Subsidiary of Sun Life of Canada (Philippines), Inc.]

**STATEMENTS OF TOTAL COMPREHENSIVE INCOME**

		<b>For the Years Ended December 31</b>	
	<b>Notes</b>	<b>2018</b>	<b>2017</b>
<b>Revenues</b>			
Premium revenue	23	<b>P 108,633,659</b>	P 132,049,733
Trust fund income - net	11	<b>268,279,557</b>	402,702,747
Investment income	27	<b>20,232,504</b>	16,916,614
Decrease in pre-need reserves - net	24	<b>517,267,346</b>	705,378,760
Other income	28	<b>1,791,182</b>	2,595,296
		<b>916,204,248</b>	1,259,643,150
<b>Expenses</b>			
Other direct costs and expenses	25	<b>1,047,628,419</b>	1,172,378,205
General and administrative expenses	26	<b>34,083,855</b>	33,082,015
		<b>1,081,712,274</b>	1,205,460,220
<b>Income (Loss) Before Tax</b>		<b>(165,508,026)</b>	54,182,930
<b>Income Tax Expense</b>	29	<b>4,473,624</b>	3,778,682
<b>Net Income (Loss) for the Year</b>		<b>(169,981,650)</b>	50,404,248
<b>Other Comprehensive Income</b>			
<b>Item that will be Reclassified</b>			
<b>Subsequently to Profit or Loss</b>			
Fair value loss on financial assets at FVTOCI	22	<b>(663,789,915)</b>	-
Fair value loss on available-for-sale financial assets	22	-	(321,139,574)
<b>Other Comprehensive Income for the Year</b>		<b>(663,789,915)</b>	(321,139,574)
<b>Total Comprehensive Income</b>		<b>(P 833,771,565)</b>	(P 270,735,326)

See Notes to Financial Statements.



**SUN LIFE FINANCIAL PLANS, INC.**

[A Wholly-Owned Subsidiary of Sun Life of Canada (Philippines), Inc.]

**STATEMENTS OF CHANGES IN EQUITY**

For the Years Ended December 31

Notes	Share Capital		Total Capital Stock	Additional Paid-in Capital	Contributed Surplus	Investment Revaluation Reserves	Deficit	Accumulated Trust Fund Income	Total
	Ordinary	Preference							
	P75,000,000	P50,000,000	P125,000,000	P375,000,000	P 25,000,000	P 1,016,089,704	(P5,637,748,149)	P5,027,087,677	P930,429,232
Balance, January 1, 2017									(352,298,499)
Loss for the year	-	-	-	-	-	-	(352,298,499)	-	
Trust fund income - net	-	-	-	-	-	-	-	402,702,747	402,702,747
Other comprehensive income 22	-	-	-	-	-	(321,139,574)	-	-	(321,139,574)
Total comprehensive income	-	-	-	-	-	(321,139,574)	(352,298,499)	402,702,747	(270,735,326)
<b>Balance, December 31, 2017</b>	<b>P75,000,000</b>	<b>P50,000,000</b>	<b>P125,000,000</b>	<b>P375,000,000</b>	<b>P 25,000,000</b>	<b>P694,950,130</b>	<b>(P5,990,046,648)</b>	<b>P5,429,790,424</b>	<b>P659,693,906</b>
Balance, January 1, 2018	P75,000,000	P50,000,000	P125,000,000	P375,000,000	P 25,000,000	P694,950,130	(P5,990,046,648)	P5,429,790,424	P659,693,906
PFRS9 transition adjustment	-	-	-	-	-	(9,273,413)	5,946,093	3,327,320	-
<b>Balance Jan 1, 2018 after adjustment</b>	<b>75,000,000</b>	<b>50,000,000</b>	<b>125,000,000</b>	<b>375,000,000</b>	<b>25,000,000</b>	<b>685,676,717</b>	<b>(5,984,100,555)</b>	<b>5,433,117,744</b>	<b>659,693,906</b>
Profit for the year	-	-	-	-	-	-	(438,261,207)	-	(438,261,207)
Trust fund income - net	-	-	-	-	-	-	-	268,279,557	268,279,557
Other comprehensive income 22	-	-	-	-	-	(663,789,915)	-	-	(663,789,915)
Capital contribution 21	-	-	-	-	375,000,000	-	-	-	375,000,000
Total comprehensive income	-	-	-	-	375,000,000	(663,789,915)	(438,261,207)	268,279,557	(458,771,565)
<b>Balance, December 31, 2018</b>	<b>P75,000,000</b>	<b>P50,000,000</b>	<b>P125,000,000</b>	<b>P375,000,000</b>	<b>P400,000,000</b>	<b>P21,886,802</b>	<b>(P6,422,361,762)</b>	<b>P5,701,397,301</b>	<b>P200,922,341</b>

See Notes to Financial Statements.

BUREAU OF INTERNAL REVENUE  
 TAXPAYERS SERVICE CENTER  
 TAXPAYERS ASSISTANCE DIVISION  
 APR 11 2019  
 RECEIVED  
 D. GACUTAN

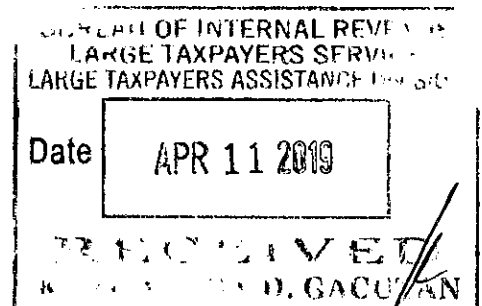
**SUN LIFE FINANCIAL PLANS, INC.**

[A Wholly-Owned Subsidiary of Sun Life of Canada (Philippines), Inc.]

**STATEMENTS OF CASH FLOWS**

		For the Years Ended December 31	
	Notes	2018	2017
<b>Cash Flows from Operating Activities</b>			
Profit (Loss) before tax		(P 165,508,026)	P 54,182,930
Adjustments for:			
Amortization of computer software	12, 26	5,603,773	5,603,776
Pre-need reserves	16	(827,335,980)	(729,183,625)
Additional allowance for non recoverable prepaid tax	9, 26	959,937	591,907
Trust fund income		(268,279,557)	(402,702,747)
Other reserves	17, 24	309,881,600	23,713,066
Investment income	27	(20,232,504)	(16,916,614)
Net amortization of premium	10	2,080,077	1,976,765
Unrealized revaluation gain		55,470	-
Operating cash flows before working capital changes		(962,775,210)	(1,062,734,542)
Decrease (Increase) in:			
Receivables		(30,437,289)	137,994,606
Prepayments and other current assets		(972,935)	(700,214)
Increase (Decrease) in:			
Accrued expenses and other liabilities		2,937,183	1,183,335
Benefits payable		21,237,047	6,743,406
Payable to parent company		485,545	(394,684)
Counselors' bond reserve		(12,443)	19,337
Planholders' deposit		4,293,184	1,256,962
Cash used in operations		(965,244,919)	(916,631,794)
Income taxes paid		(4,473,624)	(3,778,682)
Net cash used in operating activities		(969,718,543)	(920,410,476)
<b>Cash Flows From Investing Activities</b>			
Investment income received		19,978,122	16,907,666
Trust fund contributions		(168,103,236)	(167,797,781)
Withdrawals from trust funds		1,030,303,842	1,199,508,532
Net cash from investing activities		882,178,728	1,048,618,417
<b>Cash Flow From a Financing Activity</b>			
Additional capital infusion	21	375,000,000	-
Net Increase in Cash and Cash Equivalents		287,460,186	128,207,941
Cash and Cash Equivalents, Beginning		224,062,369	95,854,430
Cash and Cash Equivalents, End	7	P 511,522,549	P 224,062,369

See Notes to Financial Statements.



**SUN LIFE FINANCIAL PLANS, INC.**

[A Wholly Owned Subsidiary of Sun Life of Canada (Philippines), Inc.]

**NOTES TO FINANCIAL STATEMENTS**

**AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**1. CORPORATE INFORMATION AND STATUS OF OPERATIONS**

**Corporate Information**

Sun Life Financial Plans, Inc. (the "Company") was registered with the Philippine Securities and Exchange Commission (SEC) on September 18, 2000 and started commercial operations on June 1, 2001. Its primary purpose is to engage mainly in the development of lawful institutional medium for the maintenance, conduct, operation, marketing and sales of any and all types of securities (without acting as stock broker) including, but not limited to education plans, pension plans, retirement income or retirement plans and life plans, with all the requisite services and facilities, merchandise, equipment or articles essential or relevant to such securities and services to be delivered in the future to planholders, enrollees, purchasers, and subscribers.

The Company is a wholly owned subsidiary of Sun Life of Canada (Philippines), Inc. (SLOCPI). SLOCPI, a wholly owned subsidiary of Sun Life of Canada (Netherlands) B.V., is a stock life insurance company authorized to engage in, conduct, transact, carry on and undertake the business of life insurance, including accident and health insurance. The Company's ultimate parent company is Sun Life Financial, Inc., a company incorporated under the laws of Canada.

The Company's registered office address and principal place of business is at the 2<sup>nd</sup> Floor, Sun Life Centre, 5<sup>th</sup> Avenue corner Rizal Drive, Bonifacio Global City, Taguig City.

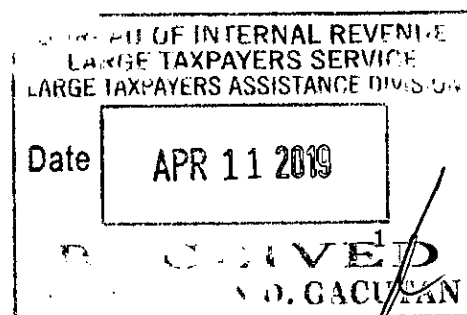
**Status of Operations**

On March 1, 2010, the Company decided to temporarily discontinue actively selling pre-need plans until the pre-need market environment improves. All existing pre-need plans will continue to be serviced and supported until maturity by the Company's trust fund assets. As disclosed in Note 11, the Company's trust fund net assets amounting to P5,538,872,831 are less than the required Pre-need Reserves (PNR) of P5,639,981,406 as at December 31, 2018 as shown in Note 16. The Company subsequently contributed P204,000,000 in February 2019 within the prescribed time allowed by IC to cover the trust fund deficiency, as disclosed in Note 11.

**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 the accounting standards set forth in the amended SEC Rule 31, Accounting Standards for Pre-need Plans and Pre-need Uniform Chart of Accounts (PNUCA), as required by the rules and regulations of the SEC and adopted by the Insurance Commission (IC).



### **Basis of Preparation and Presentation**

The financial statements of the Company have been prepared on the historical cost basis, except for:

- Certain financial instruments carried at fair value,
- certain financial instruments carried at amortized cost, and
- pre-need reserves carried at present value of expected funding required to settle pre-need benefits guaranteed and payable by the Company.

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

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 a basis.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 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.

### **Functional and Presentation Currency**

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

## **3. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS**

### **Adoption of New and Revised Accounting Standards Effective in 2018**

The following new and revised accounting standards and interpretations that have been published by the International Accounting Standards Board (IASB) and issued by the FRSC in the Philippines were adopted by the Company effective on January 1, 2018:

#### *Amendments to PFRS 2 - Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 includes:

- a. Accounting for cash-settled share-based payment transactions that contain a performance condition. The amendment added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.
- b. Classification of share-based payment transactions with net settlement features. The amendment has introduced an exception into PFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

- c. Accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendment has introduced the following clarifications:
- On modifications, the original liability recognized in respect of the cash-settled share-based payment is derecognized and the equity-settled share-based payment is recognized at the modification date fair value to the extent services have been rendered up to the modification date.
  - Any difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately.

The amendments have no impact on the Company's financial statements as the Company does not have any cash settled share based payment arrangements or any withholding tax arrangement with tax authorities in relation to share based payments.

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

The amendments provide two options for entities that issue insurance contracts within the scope of PFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called **overlay approach**; and
- an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4; this is the so-called **deferral approach**.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

The amendments have no impact on the Company's financial statement as the company does not issue insurance contracts within the scope of PFRS 4.

#### *PFRS 9: Financial Instruments*

The Company has adopted PFRS 9 effective January 1, 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. The Company did not early adopt any of PFRS 9 in previous period.

The Company has elected to apply the modified retrospective restatement. Consequently, the Company did not restate comparatives in respect of the classification and measurement of financial instruments, impairment of financial assets and general hedge accounting.

PFRS 9 introduced new requirements for:

- a) classification and measurement of financial assets and financial liabilities;
- b) impairment of financial assets; and
- c) general hedge accounting.

#### *(a) Classification and measurement of financial assets and financial liabilities*

All recognized financial assets that are within the scope of PFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortized cost;

- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination in other comprehensive income; and
- the Company may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

This standard also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. Specifically, PFRS 9 requires that changes in the fair value of the financial liability attributable to changes in the credit risk of that liability be presented in other comprehensive income (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. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognized.

#### *(b) Impairment of financial assets*

The impairment model under this standard reflects expected credit losses (ECL), as opposed to incurred credit losses under PAS 39. Under the impairment approach of this standard, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

In particular, PFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances

#### *(c) General hedge accounting*

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Company's risk management activities have also been introduced



As permitted by the transitional provisions of PFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening balance of the equity of the current period.

The adoption of PFRS 9 has resulted in changes in the accounting policies for recognition, classification, measurement and impairment of financial assets. PFRS 9 also significantly amends other standards dealing with financial instruments such as PFRS 7: Financial Instruments: Disclosures.

There were no changes to the classification and measurement of financial liabilities, as the new requirements affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The derecognition rules have been transferred from PAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules did not have an impact to the Company as there are currently no qualifying transactions.

Set out below are disclosures relating to the impact of the adoption of PFRS 9 on the Company.

Classification and measurement of financial assets

The measurement category and the carrying amount of financial assets and liabilities in accordance with PAS 39 and PFRS 9 at January 1, 2018 are as follows:

Financial Instruments	PAS 39		PFRS 9	
	Measurement category	Carrying amount	Measurement category	Carrying amount
<b>General Fund</b>				
Cash and cash equivalents	Amortized cost (loans and receivables)	P 224,062,369	Amortized Cost	P 224,062,369
Financial assets at FVOCI				
<i>Investments in government securities</i>	AFS	258,091,579	FVOCI	258,091,579
<i>Investments in MF/UITF</i>	AFS	13,629,397	FVTPL	13,629,397
Other financial assets	Amortized cost (loans and receivables)	3,780,706	Amortized cost	3,780,706
<b>Trust Funds</b>				
Cash and cash equivalents	Amortized cost (loans and receivables)	P182,941,369	Amortized Cost	P182,941,369
<u>Financial assets at FVTPL:</u>				
Investments in listed equity securities	AFS	332,104,234	FVTPL	332,104,234
<u>Financial assets at FVOCI</u>				
Investments in debt securities	AFS	5,651,410,286	FVOCI	5,651,410,286
<u>Financial assets at amortized cost</u>				
<i>Investments in government securities</i>	AFS	495,516,228	Amortized Cost	406,413,908
<i>Interest receivable</i>	Amortized cost	91,865,553	Amortized Cost	91,865,553

(a) Reconciliation of statement of financial position balances from PAS 39 to PFRS 9.

The Company performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with PAS 39 to their new measurement categories upon transition to PFRS 9 on January 1, 2018

	PAS 39 carrying amount as at December 31, 2017	Reclassifications	Remeasurements	PFRS 9 carrying amount as at January 1, 2018
<b>General Fund:</b>				
<b>Financial Assets at Fair Value Through OCI</b>				
Opening balance under PAS 39	P 271,720,976	P -	P -	P 271,720,976
Less: Reclassification to financial assets FVTPL	-	(13,629,387)	-	(13,629,387)
Closing balance under PFRS 9	P 271,720,976	(P13,629,387)	P -	P 258,091,579
<b>Financial Assets at Fair Value Through Profit or Loss</b>				
Opening balance under PAS 39	P -	P -	P -	P -
Less: Reclassification to financial assets FVTPL	-	13,629,387	-	13,629,387
Closing balance under PFRS 9	P -	P 13,629,387	P -	P 13,629,387
<b>Trust Fund</b>				
<b>Financial Assets at Fair Value Through OCI</b>				
Opening balance under PAS 39	P6,479,030,748	P -	P -	P6,479,030,748
Less: Reclassification to financial assets FVTPL	-	(332,104,234)	-	(332,104,234)
Less: Reclassification to financial assets at amortized cost	-	(495,516,228)	-	(495,516,228)
Closing balance under PFRS 9	P6,479,030,748	(P827,620,462)	P -	P5,651,410,286
<b>Financial Assets at Fair Value through Profit or Loss</b>				
Opening balance under PAS 39	P -	P -	P -	P -
Less: Reclassification to financial assets FVTPL	-	332,104,234	-	332,104,234
Closing balance under PFRS 9	P -	P332,104,234	P -	P 332,104,234

<b>Financial Assets at Amortized Cost</b>								
Opening balance under PAS 39	P	-	P	-	P	-	P	-
Less: Reclassification to financial assets at amortized cost		-	495,516,228		(89,102,320)		406,413,908	
Closing balance under PFRS 9	P	-	P495,516,228		(P89,102,320)		P406,413,908	
<b>Investment Revaluation Reserve</b>								
Opening balance under PAS 39	P694,950,130		P	-		P	-	P694,950,130
Less: Reclassification to deficit		-	(5,946,093)			-		(5,946,093)
Less: Reclassification to accumulated trust fund income		-			(3,327,320)			(3,327,320)
Closing balance under PFRS 9	P694,950,130		(P5,946,093)		(P3,327,320)		P685,676,717	

The application of PFRS 9 had no impact on the cash flows of the Company.

The total remeasurement gain of P5,946,093 and P3,327,320 was recognized in the opening balance of deficit and accumulated trust fund income, respectively, as at January 1, 2018 as a result of the change in measurement category from AFS to FVTPL.

(b) Reconciliation of impairment allowance balance from PAS 39 to PFRS 9

The Company does not have any financial assets measured as held to maturity under PAS 39 as of December 31, 2017. Hence, no loss allowance is to be remeasured upon transition to PFRS 9 from PAS 39.

*PFRS 15 - Revenue from Contracts with Customers*

The standard combines, enhances, and replaces specific guidance on recognizing revenue with a single standards. An entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

It defines a new five-step model to recognize revenue from customer contracts:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Application of this guidance will depend on the facts and circumstances present in a contract with a customer and will require the exercise of judgment.

The adoption of the standard did not have a significant impact on the Company's financial statements as the Company does not have complex revenue transactions.

#### Amendments to PFRS 15 - *Clarifications to PFRS 15*

The amendments in the standard addresses three topics namely identifying performance obligations, principal versus agent considerations, and licensing and provide some transition relief for modified contracts and completed contracts.

- Added a clarification that the objective of the assessment of a promise to transfer goods or services to a customer is to determine whether the nature of the promise, within the context of the contract, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs.
- Clarification on how to assess control in determining whether a party providing goods or services is a principal or an agent
- Clarification on when an entity's activities significantly affect the intellectual property by amending the application guidance.

The adoption of the amendment did not have a significant impact on the Company's financial statements as the Company does not have complex revenue transactions.

#### PIC Q&A No. 2016-04 - Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-completion Contracts

This interpretation applies to the accounting for revenue from the sale of a residential property unit under pre-completion stage (i.e., construction is on-going or has not yet commenced) by a real estate developer that enters into a Contract to Sell (CTS) with a buyer, and the developer has determined that the contract is within the scope of PFRS 15 by satisfying all the criteria in paragraph 9 of PFRS 15.

This interpretation does not deal with the accounting for other aspects of real estate sales such as variable considerations, financing components, commissions and other contract costs, timing of sales of completed properties, etc.

The interpretation did not have a significant impact on the Company's financial statements as the Company does not sell any residential properties."

#### *Annual Improvements to PFRSs 2014-2017 Cycle*

The annual improvements address the following issues:

##### *Amendments to PFRS 1 - First-time Adoption of International Financial Reporting Standards*

The amendments include the deletion of short-term exemptions stated in the appendix of PFRS 1, because they have now served their intended purpose. The amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted.

##### *Amendments to PAS 28 - Investments in Associates and Joint Ventures*

The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted.

The amendments did not have any significant impact on the Company's financial statements as the Company is neither a first time adopter of IFRS nor a venture capital organization. Furthermore, the Company does not have any associate or joint venture that is an investment entity.

#### Amendments to PAS 40 *Investment Property – Transfers of Investment Property*

The amendments in Transfers of Investment Property (Amendments to IAS 40) are:

- Stating that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of evidence in paragraph 57(a) – (d) was designated as non-exhaustive list of examples instead of the previous exhaustive list

The amendments are effective for periods beginning on or after January 1, 2018. Earlier application is permitted.

The amendments did not have a significant impact on the Company's financial statements.

#### Philippine Interpretation IFRIC 22 – *Foreign Currency Transactions and Advance Consideration*

The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability.

The interpretation is effective for periods beginning on or after January 1, 2018. Earlier application is permitted.

The amendments did not have any impact on the Company's financial statements as the Company has no non-monetary foreign currency transactions.

#### **New Accounting Standards Effective after the Reporting Period Ended December 31, 2018**

##### PFRS 16 - *Leases*

This standard specifies how a PFRS reporter will recognize, measure, present and disclose leases. It provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use. An asset is typically identified by being explicitly specified in a contract, but an asset can also be identified by being implicitly specified at the time it is made available for use by the customer.

Lessors continue to classify leases as operating or finance, with PFRS 16's approach to lessor accounting substantially unchanged from its predecessor, PAS 17.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The standard is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted only if PFRS 15, *Revenue from Contracts with Customers*, is also adopted.

Management does not anticipate that the application of the new accounting standard will have an impact on the financial statements as the Company does not have any existing lease agreements.

#### Amendment to PFRS 9 - *Prepayment Features with Negative Compensation*

The amendments include:

##### *Changes regarding symmetric prepayment options*

Under the current IFRS 9 requirements, the SPPI condition is not met if the lender has to make a settlement payment in the event of termination by the borrower (also referred to as early repayment gain).

Prepayment Features with Negative Compensation amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

Under the amendments, the sign of the prepayment amount is not relevant, i.e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favor of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

##### *Clarification regarding the modification of financial liabilities*

The final amendments also contain a clarification regarding the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability. The IASB clarifies that an entity recognizes any adjustment to the amortized cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange. A retrospective change of the accounting treatment may therefore become necessary if in the past the effective interest rate was adjusted and not the amortized cost amount.

The amendments are effective for periods beginning on or after January 1, 2019. Earlier application is permitted.

Management does not anticipate that the application of the amendments in the future will have an impact on the financial statements.

#### PAS 28 - *Long-term Interests in Associates and Joint Ventures*

The amendments are:

Clarification that an entity applies PFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The amendment is effective for periods beginning on or after January 1, 2019. Earlier application is permitted.

Management does not anticipate that the application of the amendments in the future will have an impact on the financial statements.

#### **New Accounting Standards Effective After the Reporting Period Ended December 31, 2018 - Adopted by Financial Reporting Standards Council (FRSC) but pending for approval by the Board of Accountancy.**

The Company will adopt the following once these become effective.

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

This interpretation applies in determining the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under PAS 12 - *Income Taxes*.

An entity has to consider whether it is probable that the relevant authority will accept each tax treatment, or Company of tax treatments, that it used or plans to use in its income tax filing.

- If the entity concludes that it is probable that a particular tax treatment is accepted, the entity has to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings.
- If the entity concludes that it is not probable that a particular tax treatment is accepted, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better predictions of the resolution of the uncertainty.

An entity has to reassess its judgements and estimates if facts and circumstances change.

The interpretation is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

Management does not anticipate that the application of the amendments in the future will have an impact on the financial statements.

#### *Amendments to PAS 19 - Plan Amendment, Curtailment or Settlement*

The amendments in Plan Amendment, Curtailment or Settlement are:

- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.
- In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The amendments are effective for periods beginning on or after January 1, 2019. Earlier application is permitted.

Management does not anticipate that the application of the amendments in the future will have an impact on the financial statements.

#### *Amendments to PFRS 3 and PFRS 11 - Previously held interest in a joint operation*

The amendments to PFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to PFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

#### *Amendments to PAS 12 - Income tax consequences of payments on financial instruments classified as equity*

The amendments clarify that the requirements in the former paragraph 52B (to recognize the income tax consequences of dividends where the transactions or events that generated distributable profits are recognized) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.

#### *Amendments to PAS 23 - Borrowing costs eligible for capitalization*

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows *generally* when calculating the capitalization rate on general borrowings.

The amendments are effective for periods beginning on or after January 1, 2019. Earlier application is permitted.

Management does not anticipate that the application of the amendments in the future will have an impact on the financial statements.

#### *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 Company's that it will recognize and measure;
- recognizes and measures Company's of insurance contracts at:
  - 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)
  - an amount representing the unearned profit in the Company of contracts (the contractual service margin);
- recognizes the profit from a Company of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a Company 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, 2022. Earlier application is permitted if both PFRS 15, Revenue from Contracts with Customers and PFRS 9, Financial Instruments have also been applied.

Management does not anticipate that the application of the standards will have an impact on the financial statements since its activities are not predominantly connected with insurance or issuance of 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.

#### 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.

Management does not anticipate that the application of the amendments in the future will have an impact on the financial statements.

#### 4. PRE-NEED RULES

The SEC, prior to the IC assuming regulatory supervision to the pre-need industry, has provided the rules and regulations of the PNUCA, including the guidelines in determining reserves on liabilities on pre-need contracts. The Company adopted Pre-need Rule 31, As Amended: Accounting Standards for Pre-need Plans and PNUCA, and the subsequent amendments effective January 1, 2007 and April 20, 2007, respectively. The following are the significant provisions of these guidelines:

- a. The net asset value in the trust fund shall be at least equal to the required Pre-need Reserves (PNR) computed pursuant to the method prescribed by the SEC.
- b. PNR shall be set up for all pre-need benefits guaranteed and payable by the pre-need company as defined in the pre-need plan contracts.
- c. Unless the SEC shall so specifically require, a company may at its option set up other provisions as a prudent measure.
- d. Premiums from sale of pre-need plans shall be recognized as earned when collected. When premiums are recognized as income, the related cost of contracts shall be computed, with the result that benefits and expenses are matched with such income.
- e. The amount of restricted/appropriated and unrestricted/unappropriated retained earnings shall be separately presented in the statements of changes in equity. However, no appropriation of the retained earnings shall be made by the Company unless the same is approved by the SEC or allowed in the Pre-need Rules.
- f. In recognizing PNR, the general requirements of PAS 37, *Provision, Contingent Liabilities and Contingent Assets*, on provisioning and the specific methodology provided shall be complied with. The amount recognized as a provision to cover the PNR shall be the best estimate of the expenditure required to settle the present obligation at the end of each reporting period. The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.
- g. Since the effect of the time value of money for pre-need plans is material, the amount of provision shall be the present value of the funding expected to be required to settle the obligation with due consideration of different probabilities.
- h. Future events that may affect the foregoing amounts shall be reflected in the amount of the provision for PNR where there is sufficient objective evidence that they will occur.
- i. Any pre-need company which adopts the foregoing reserving method shall discuss in its notes to financial statements its concrete plan on the sourcing of funds to cover its committed augmentation of the difference between the hurdle and attainable rates, during the periods when it used hurdle rates in the computation of its reserving requirements.
- j. The rates of surrender, cancellation, reinstatement, utilization, and inflation, when applied, must consider the actual experience of the pre-need company in the last three (3) years, or the industry, in the absence of a reliable company experience.
- k. The computation of the foregoing assumptions shall be validated by the internal qualified actuary of the pre-need company. His or her validation report shall be provided to its external auditors for purposes of statutory audit of the financial statements of the Company, and shall be submitted to the IC as a separate report.
- l. The probability of pre-termination or surrender of fully paid plans shall be considered in determining the PNR of fully paid plans. A pre-termination experience on fully paid plans of 5% and below shall be considered insignificant. In such cases, derecognition of liability shall be recorded at pre-termination date.
- m. The disclosure requirements under PAS 1 relative to methods and assumptions used to estimate the PNR including the sensitivity of the PNR amount shall be complied with.

- n. Any excess in the amount of the trust fund as a result of the revised reserving method shall neither be released from the fund nor be credited/off-set to future required contributions.

## **5. SIGNIFICANT ACCOUNTING POLICIES**

### **Accounting Policies Applied from January 1, 2018 for Financial Instruments**

#### **Financial Assets**

##### **Initial Recognition and Measurement**

Financial assets and financial liabilities are recognized when the Company 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, 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 fair value through profit or loss are expensed in profit or loss.

##### **Classification and Subsequent Measurement**

From January 1, 2018, the Company has applied PFRS 9 and classifies its financial assets in the following measurement categories:

- fair value through profit or loss;
- fair value through other comprehensive income, and
- amortized cost.

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 solely represent payments of principal and interest.

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 profit or loss, except for equity investments that are not held for trading, which may be recorded in the statement of profit or loss or in reserves (without subsequent recycling to profit or loss).

For financial liabilities that are measured under the fair value option, entities will need to recognize the part of the fair value change that is due to changes in their own credit risk in other comprehensive income rather than profit or loss.

The new hedge accounting rules (released in December 2013) align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

### Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three 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 solely payments of principal and interest 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.
- **Fair value through other comprehensive income (FVOCI).** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit and loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method.
- **Fair value through profit or loss.** Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the profit or loss statement within other gains/(losses) in the period in which it arises. Interest income from these financial assets is included in the 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 solely payments of principal and interest (the 'SPPI' test). 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 fair value through profit or loss.

### 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 fair value through profit or loss, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity instrument at fair value through other comprehensive income. The Company's policy is to designate equity investments as FVOCI 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 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 fair value through profit or loss 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 FVOCI are not reported separately from other changes in fair value.

### *Impairment*

The Company assesses on a forward looking basis the expected credit losses (ECL) associated with its assets carried at amortized cost and FVOCI. The Company recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For receivables, the company applies the simplified approach permitted by PFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

### *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:

- With significant financial difficulty on the part of the borrower/issuer/obligor
- There is breach of contract, such as a default or delinquency in interest or principal payments
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization
- Disappearance of an active market for that financial asset because of financial difficulties (but not simply because the asset is no longer publicly traded)
- Loans of borrower and/or related accounts in past due status
- A suit is filed vs. borrower by a third party which can lead to payment default
- Borrower filed for rehabilitation/liquidation/bankruptcy/voluntary insolvency

- Third party filed for involuntary insolvency
- Bank/Creditors filed a legal suit vs. borrower
- Borrower filed a legal suit vs. the Bank/Creditors
- When the borrower's whereabouts is unknown, or he is insolvent, or his earning power is permanently impaired and his co-maker/guarantors/sureties are insolvent or that their guaranty is not financially supported
- Accounts which were adversely classified by BSP in the last BSP examination and adverse classification remains uncorrected

#### *Derecognition*

Financial assets are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Company transfers substantially all the risks and rewards of ownership, or (ii) the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

#### *Write-off*

Financial assets are written off when the Company has no reasonable expectations of recovering the financial asset either in its entirety or a portion of it. This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event.

### **Financial Liabilities**

#### **Classification and subsequent measurement**

In both the current and prior period, financial liabilities are classified as subsequently measured at amortized cost, except for:

- Financial liabilities at fair value through profit or loss. This classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition.
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognized for the consideration received for the transfer.
- Financial guarantee contracts and loan commitments.

The Company's financial liabilities consists of other financial liabilities.

#### *Other financial liabilities*

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured 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 EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

#### *Derecognition*

Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or has expired).

#### *Accounting policies applied prior to January 1, 2018*

The Company has applied PFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

## **Accounting Policies Applied before January 1, 2018 for Financial Instruments**

### **Financial Assets**

#### *Initial recognition*

Financial assets are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Company's financial assets, except for any investments classified at FVTPL. Investments are recognized and derecognized on settlement date accounting when the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned.

#### *Classification and subsequent measurement*

Financial assets are classified into the following specified categories: financial assets at FVTPL, held-to-maturity (HTM) investments, AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The Company's financial assets are AFS financial assets and loans and receivables as at December 31, 2017.

#### *Held-to-maturity investments*

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, HTM investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

#### *Available-for-sale financial assets*

AFS financial assets are those non-derivative financial assets that are designated as AFS or are not classified as loans and receivables, HTM investments or financial assets at FVTPL. Listed shares and listed redeemable notes classified as AFS financial assets are carried at fair value. Gains and losses arising from changes in fair value are recognized in investment revaluation reserves with the exception of impairment losses and interest calculated using the effective interest method, which are recognized directly in profit or loss.

When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is included in profit or loss.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. Loans and receivables are carried at amortized cost using the effective interest method, except for short-term receivables when the effect of discounting is immaterial. The Company's financial assets, including those from its trust funds, classified under this category include cash and cash equivalents, receivables from a trustee bank, accrued interest income and other assets.

#### *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. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period.

#### *Reclassification of held-to-maturity to available-for-sale*

A financial asset classified as HTM may be reclassified to AFS if the Company disposed of more than an insignificant amount or the Company has changed its intention to hold the rest of its HTM portfolio until maturity. As a consequence, when the Company has sold or reclassified more than an insignificant amount of HTM investments before maturity, i.e., tainting of the HTM portfolio occurs, all of the Company's HTM investments must be reclassified into the AFS category. Tainting is the term used to describe the effect of disposing of or reclassifying an HTM investment before its maturity date in situations where such disposal or reclassification disqualifies the Company from using the HTM classification for the remaining portfolio of securities held.

On reclassification out of HTM into AFS category, as a consequence of tainting, investments are remeasured at fair value. The difference between the carrying amount of the assets and their fair value is recognized in investment revaluation reserves. Furthermore, the Company is prohibited from classifying any investments as HTM for the next two (2) financial years.

When the two-year period subsequent to the period in which tainting occurred has passed, the Company is allowed to reclassify the assets back into HTM provided it intends, and is able to hold these assets to maturity. On the date of reclassification, an asset's carrying amount (i.e., its fair value at the date of reclassification) becomes the asset's new amortized cost. Any previous fair value gain or loss on the asset that has been accumulated in equity is amortized in profit or loss over the remaining life of financial asset using the effective interest method.

#### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

#### *Objective evidence of impairment*

For equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counter party; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

For certain categories of financial asset, such as receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments past the average credit period in the portfolio, as well as observable changes in national or local economic conditions that correlate with the default on receivables.



#### *Financial assets carried at amortized cost*

If there is objective evidence that an impairment loss on loans and receivables and HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the financial asset's original effective interest rate, i.e., the effective interest rate computed at initial recognition.

The carrying amount of financial assets carried at amortized cost is reduced directly by the impairment loss, with the exception of receivables wherein the carrying amount is reduced through the use of an allowance account. When trade receivables are considered uncollectible, these are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

#### *Available-for-sale (AFS) financial assets*

When a decline in the fair value of listed shares and listed redeemable notes classified as AFS financial asset has been recognized in investment revaluation reserves and there is objective evidence that the asset is impaired, the cumulative gain or loss that had been previously recognized in investment revaluation reserves are reclassified to profit or loss in the period even though the financial asset has not been derecognized.

If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in investment revaluation reserves.

#### *Offsetting of 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.

#### *Derecognition of financial assets*

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when the Company transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The difference between the carrying amount of financial assets net of any gains and losses previously accumulated in equity and the consideration received or receivable is recognized in profit or loss.

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.

## **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 equity instrument.

### **Financial Liabilities**

#### *Initial recognition*

Financial liabilities are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. Transaction costs are included in the initial measurement of the Company's financial liabilities, except for any debt instruments classified at FVTPL.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. The Company's financial liabilities, including those from its trust funds, consist of accrued expenses and other liabilities, counselors' bond reserve, planholders' deposit and payable to parent company.

#### *Subsequent measurement*

Since the Company does not have financial liabilities classified at FVTPL, all financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, when appropriate, a shorter period, to the net carrying amount on initial recognition.

#### *Derecognition*

Financial liabilities are derecognized by the Company when the obligation under the liability is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

### **Equity Instruments**

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.

#### *Ordinary shares*

Ordinary shares are 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.

#### *Preference shares*

Preference shares are classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary dividends thereon are recognized as distribution within equity upon approval by the Company's shareholders.

Preference shares are classified as a financial liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary.

Non-discretionary dividends thereon are recognized as interest expense in profit or loss as accrued.

#### *Additional paid-in capital*

Additional paid-in capital is classified as equity and refers to the amount received by the Company for subscription of shares in excess of par value of the shares.

#### *Contributed surplus*

Contributed surplus refers to the amount raised by the Company in the form of capital infusion without issuance of shares.

#### *Deficit*

Deficit represents accumulated losses. Deficit may also include effect of changes in accounting policy as may be required by the standard's traditional provisions.

#### **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.

#### **Intangible Assets**

##### *Internally-generated intangible assets-research and development expenditure*

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible is reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortization is computed on the straight-line method based on the estimated useful life of three (3) years.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

The Company's intangible asset represents capitalized computer software.

## **Impairment of Intangible Assets**

At the end of each reporting period, the Company assesses whether there is any indication that any of its intangible assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the intangible asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. A reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized as an expense.

Impairment losses recognized in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized as income.

## **Provisions and Contingent Liabilities**

### *Provisions*

Provisions are recognized when the Company has a present obligation, either legal or constructive, as a result of a past event; when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and; when the amount of the obligation can be estimated reliably.

The amount of the provision recognized is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. A provision is measured using the present value of cash flows estimated to settle the present obligation.

When the Company expects reimbursement of some or all of the expenditure required to settle a provision, the entity recognizes a separate asset for the reimbursement only when it is virtually certain that reimbursement will be received when the obligation is settled.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provisions should be reversed.

### *Contingent liabilities*

Contingent liabilities are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

### **Pre-need Reserves (PNR)**

PNR are calculated on the basis of the methodology and assumptions set out below:

- a. The formula, methods and assumptions used for the valuation of reserves are based on the SEC Notice dated April 20, 2007, and subsequent SEC Interpretative Bulletin No. 1, Series of 2008 on its implementation. These may be different from the reserve formula, methods and assumptions used in the computation of actuarial reserve submitted to the SEC upon the application for product approval or upon the application for revisions to be done on existing products subsequently approved by the SEC.
- b. PNR is set up for all pre-need benefits guaranteed and payable by the pre-need company as defined in the pre-need plan contracts.
- c. In recognizing PNR for educational and pension plans, the general requirements of PAS 37 on provisioning and the specific methodology are complied with by the Company.
- d. The amount recognized as a provision to cover the PNR is the best estimate of the expenditure required to settle the present obligation at the end of each reporting period. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision.
- e. Since the effect of the time value of money for pre-need plans is material, the amount of provision is the present value of the funding expected to be required to settle the obligation with due consideration of the different probabilities, as follows:
  - i. **On Currently-Being-Paid Plans**
    1. Provision for termination values applying the surrender rate experience of the Company.
    2. Liability is set-up for the portion of currently-being-paid plans that will reach full payment, applying the full payment experience of the Company. It is equivalent to the present value of future maturity benefits reduced by the present value of future trust fund contributions discounted using the appropriate discount rate.

Currently-Being-Paid Plans pertain to accounts that are up-to-date in payment and include in-force plans as defined in the contract provision, i.e., plans within the 60-day grace period.
  - ii. **On Lapsed Plans within the Allowable Reinstatement Period**

Provision for termination values applying the reinstatement experience of the Company.
  - iii. **Fully Paid Plans**

The reserve is the present value of future maturity benefits discounted using the appropriate discount rate.
- f. The actual experience of the Company in the last three (3) years is considered in the application of rates (surrender, cancellation, reinstatement, utilization, and inflation).
- g. The actuary validated the actuarial assumptions used in reserve valuation.
- h. No pre-termination or surrender of fully paid plans are considered in determining the PNR of fully paid plans.
- i. Any excess in the amount of the trust fund as a result of the initial adoption of the revised reserving method is not released from the fund nor credited/offset to future required contributions.
- j. Individual subsidiary accounts for education plans and pension plans are maintained.

- k. To effect a smooth transition in the valuation of reserves for old basket of plans, the IC through its Circular Letter (CL) No. 23-2012, prescribed a Transitory Pre-Need Reserves (TPNR) in 2012. A maximum period of ten (10) years shall be observed in the implementation of the TPNR.

For each of the pre-need plan categories, namely, education, pension and life plans, the TPNR shall be computed annually on all old baskets of plans outstanding on the 31<sup>st</sup> of December of each year from 2012 to 2021 using the discount interest rates as provided by the IC in its CL. If the actual trust fund balance is higher or equal to the resulting pre-need reserve, then the liability to be set-up shall be the PNR. However, if the resulting pre-need reserve is greater than the actual trust fund balance at the end of the year, the TPNR shall be computed in accordance with the schedule provided by the IC.

The TPNR liability based on the schedule provided by the IC shall be recognized and booked each year. The trust fund deficiency shall be funded by the pre-need company within (60) days from April 30 following the valuation date.

### **Other Reserves**

Other reserves are set-up as a prudent measure at the option of the Company. It is the excess between the Actuarial Reserve Liability (ARL) and the PNR. The ARL is computed based on generally accepted actuarial principles.

ARL is the measure of liabilities for its in-force plans or lapsed plans as of valuation date.

### **Revenue Recognition**

#### *Premium revenue*

Premium revenue arises from the sale of pre-need plans is recognized as earned when collected. When premiums are recognized as income, the related cost of contracts shall be computed and booked with the result that benefits and expenses are matched with such income.

The amount of premium installments collectible from the planholders is not recognized as receivables in accordance with Pre-Need Rule 31, As Amended: Accounting Standards for Pre-need Plans and PNUCA adopted by the Company on January 1, 2007.

#### *Trust fund income*

Trust fund income is recognized when earned and is recognized net of management fees and taxes. This income is restricted to payments of benefits as provided in the pre-need plan contracts.

#### *Investment income*

Investment 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. Investment income is recognized in profit or loss as it accrues, taking into account the effective yield of the assets or liability or an applicable floating rate. Interest income and expense include the amortization of any discount or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

#### *Interest income*

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.

#### *Realized gains or losses*

Realized gains or losses on the sale of AFS financial assets are calculated as the difference between the net sales proceeds and the carrying value net of any gains and losses previously accumulated in equity. This is recognized in profit or loss when sales transaction occurred.

#### *Other income*

Other income is recognized to the extent that it is probable that the economic benefits will flow to the Company and the income can be measured reliably. Other income includes handling fees, interest on lapsed plan, amendment fees, and miscellaneous income.

#### **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; or (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. Cost of contracts issued and other direct costs and expenses are expenses that are associated with the plans sold, and includes the increase or decrease in PNR as at the current year as compared to the provision for the same period of the previous year, amount of trust fund contribution for the year, increase in other reserves and documentary stamp tax and SEC registration fees. General and administrative expenses are costs attributable to administrative, marketing, selling and other business activities of the Company.

#### **Related Party Transactions**

A related party transaction is a transfer of resources, services or obligations between the Parent 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 current tax expense and final tax.

#### *Current tax*

The current tax expense is composed of the regular corporate income tax (RCIT), the minimum corporate income tax (MCIT) and final tax. The RCIT and MCIT are based on taxable profit for the year which may differ from net profit or gross 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 RCIT is calculated using 30% of net taxable income and MCIT at 2% of gross income and the tax due for the year is the higher of the RCIT or MCIT.

#### *Final tax*

Final tax expense represents final taxes withheld on interest income from cash in banks, special savings deposits and fixed-income 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 liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are 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 assets and liabilities 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. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets 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 liabilities and assets 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.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### *Current and deferred tax for the year*

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### **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.



## 6. 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 Judgment in Applying Accounting Policies**

Below is a critical judgment, apart from those involving estimations that Management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

#### *Functional currency*

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has determined to be the Philippine Peso. The Philippine Peso is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences the Management in making economic decisions.

#### *Business model assessment*

Classification and measurement of financial assets depends 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 judgement 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 Group monitors financial assets measured at amortized cost or fair value through other comprehensive income 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 investment in trust fund financial assets at amortized cost if the financial asset qualifies for both SPPI and business model test. All other financial assets that do not meet the SPPI and business model test are measured at FVTPL and FVOCI.

The financial assets measured at amortized cost amounted to P401,797,962 as at December 31, 2018 as disclosed in Note 11.

#### *Models and assumptions used*

The Company uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement 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.

## **Key Sources of Estimation Uncertainty**

The following are the 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.

### *Estimating useful life of asset*

The useful life of the Company's computer software is estimated based on the period over which the asset is expected to be available for use. The estimated useful life of computer software is reviewed periodically and is updated if expectation differ from previous estimate due to technical or commercial obsolescence and legal or other limits on the use of the Company's asset. In addition, the estimation of the useful life is based on the Company's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful life of computer software would increase the recognized general and administrative expenses and decrease non-current assets.

The carrying amounts of the Company's computer software amounted to P5,136,792 and P10,740,565 as at December 31, 2018 and 2017, respectively, as disclosed in Note 12.

### *Asset impairment*

The Company performs an impairment review when certain impairment indicators are present.

Determining the recoverable amount of prepaid taxes and intangible assets, using future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Company to conclude that its prepaid taxes and intangible assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

The preparation of the estimated future cash flows involves significant judgment and estimations. While the Company believes that its assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future impairment charges.

The accumulated impairment loss on prepaid taxes amounted to P19,228,958 and P18,269,021 as at December 31, 2018 and 2017, respectively, since Management believes that no tax benefit can be recovered in the future on these prepaid taxes, as disclosed in Note 9.

Management believes that there are no indications of impairment on its computer software as at December 31, 2018.

### Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVOCI 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 32 Credit Risk - Expected credit loss 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, 2018, Management believes that its receivables are fully recoverable; accordingly, no doubtful accounts expense was recognized in both years.

Receivables from a trustee bank as at December 31, 2018 amounted to P30,437,289 as disclosed in Note 8.

#### *Estimating allowances for doubtful accounts*

The Company estimates the allowance for doubtful accounts related to its receivables based on assessment of specific accounts when the Company has information that certain counterparties are unable to meet their financial obligations. In these cases, judgment used was based on the best available facts and circumstances including, but not limited to, the length of relationship with the counterparty and the counterparty's current credit status based on third party credit reports and known market factors. The Company used judgment to record specific reserves for counterparties against amounts due to reduce the expected collectible amounts. These specific reserves are reevaluated and adjusted as additional information received impacts the amounts estimated.

The amounts and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in the allowance for doubtful accounts would increase the recognized operating expenses and decrease current assets.

As at December 31, 2017, Management believes that its receivables are fully recoverable; accordingly, no doubtful accounts expense was recognized.

Receivables from a trustee bank as at December 31, 2017 amounted to nil, respectively, as disclosed in Note 8.

#### *Deferred tax assets*

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 assets to be utilized. However, there is no assurance that the Company will generate sufficient taxable profit to allow all or part of its deferred tax assets to be utilized.

As at December 31, 2018 and 2017, deferred tax asset on net operating loss carry-over (NOLCO) amounting to P414,151,863 and P424,834,217, respectively, was not recognized in the statements of financial position because Management believes it is more likely that the Company will not be able to realize the tax benefit arising from NOLCO, as disclosed in Note 29.

#### *Determining fair value of financial instruments*

The Company carries Financial Assets at FVTPL, financial assets at FVOCI and its AFS financial assets, including those from its trust funds, at fair value. While significant components of fair value measurement were determined using verifiable objective evidence, i.e., quoted price or interpolated yields derived from benchmark rates, the amount of changes in fair value would differ if the Company utilized different valuation methodology. Any changes in fair value of these financial assets would directly affect equity.

As at December 31, 2018, the carrying amount of FVOCI and FVTPL assets amounted to P221,309,820 and P13,573,927, respectively as disclosed in Note 10 while the related fair value adjustments amounted to net loss P34,701,682 and P55,470, respectively, as disclosed in Note 10.

As at December 31, 2017, the carrying amounts of AFS financial assets amounted to P271,720,976 , as disclosed in Note 10 while the related fair value adjustments amounted to net loss of P8,893,974 in 2017, as disclosed in Note 10.

As at December 31, 2018 the carrying amounts of FVOCI, FVTPL and amortized cost financial assets in its investments in trust funds amounted to P4,575,624,672, P273,510,311 and P401,797,962, respectively as disclosed in Note 11 while the related loss on fair value adjustments amounted to P344,883,925 as disclosed in Note 22.

As at December 31, 2017, the carrying amounts of fixed income securities in its investments in trust funds amounted to P6,146,926,514 , as disclosed in Note 11 while the related loss on fair value adjustments amounted to P241,888,484 in 2017, as disclosed in Note 22.

#### *Estimating PNR and other reserves*

PNR and other reserves are set up for all pre-need benefits guaranteed and payable by the pre-need company as defined in the pre-need education and pension plan contracts. By definition, it is an estimation of the Company's present obligation to its planholders at a particular valuation date, and considers the value of future plan benefits and the contribution to reserves in the calculation. The Company is guided by existing regulatory rules/circulars and generally accepted actuarial principles in the calculation of PNR and other reserves. It uses assumptions based on Company's experience. These actuarial assumptions include interest rate, surrender and lapse rate, reinstatement rate and other assumptions necessary to estimate the reserve requirements. The valuation data file includes inforce, paid up and lapsed plans. Calculations are done per planholder; a reinstatement rate assumption is used to determine the reserves for lapsed plans.

The carrying amount of PNR as at December 31, 2018 and 2017 amounted to P5,639,981,406 and P6,467,317,386, respectively, as disclosed in Notes 11 and 16 while the carrying amount of other reserves is P333,594,666, and P23,713,066 as at December 31, 2018 and 2017, respectively, as disclosed in Note 17.

#### *Contingencies*

The Company is currently involved in various legal proceedings and tax assessments, as disclosed in Note 30. Estimates of probable costs for the resolution of these claims have been developed in consultation with external counsel handling the defense in these matters and are based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the Company's strategies relating to these proceedings.

## **7. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of:

	2018	2017
Cash on hand and in banks	<b>P 34,422,549</b>	P145,462,369
Cash equivalents	<b>477,100,000</b>	78,600,000
	<b>P511,522,549</b>	P224,062,369

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

Cash in banks earned interest at the respective bank deposit rates ranging from 0.25% to 0.50% in 2018 and 2017. Cash equivalents represent short-term deposits varying from one day to two months depending on the cash requirements of the Company, and earn annual interest rates ranging from 1.00 % to 6.00% in 2018 and 0.60 % to 2.20% in 2017. Interest income from cash in banks and cash equivalents amounted to P5,710,551 and P2,235,879 in 2018 and 2017, respectively, as disclosed in Note 27.

As at December 31, 2018 and 2017, the Company maintains its cash deposits in commercial and universal banks with good credit standing to minimize exposure to credit risk.

#### 8. RECEIVABLES

Receivables consist of:

	2018	2017
Receivables from a trustee bank	<b>P30,437,289</b>	-
Accrued interest	<b>3,342,753</b>	P3,088,371
Other receivables	<b>692,336</b>	692,335
	<b>P34,472,378</b>	P3,780,706

Receivables from trustee bank pertain to amounts paid in advance by the Company on trust fund withdrawals made by certain planholders owning interests in the trust being held by Banco de Oro (BDO) trust fund. This amount is non-interest bearing and due immediately.

Accrued interest pertains to interest receivable on cash in banks, cash equivalents, and FVOCI financial assets/AFS.

The Company believes that these receivables are not impaired since there is no change in their credit quality.

#### 9. PREPAYMENTS AND OTHER CURRENT ASSETS - net

The details of the Company's prepayments and other current assets are shown below:

	2018	2017
Prepaid taxes	<b>P19,228,958</b>	P18,269,021
Less: Allowance for non-recoverable prepaid taxes	<b>19,228,958</b>	18,269,021
	-	-
Prepaid expenses	<b>286,295</b>	273,296
	<b>P 286,295</b>	P 273,296

Movements in the allowance for non-recoverable prepaid taxes are as follows:

	Note	2018	2017
Balance, beginning		<b>P18,269,021</b>	P17,677,114
Additions	26	<b>959,937</b>	591,907
Balance, ending		<b>P19,228,958</b>	P18,269,021

The Company provided valuation allowance for impairment on these prepaid taxes (creditable withholding taxes) amounting to P19,228,958 and P18,269,021 as at December 31, 2018 and 2017, respectively, because Management believes that the Company will not be able to avail of the tax benefit arising from these prepaid taxes in the future.

Prepaid expenses include prepaid license renewals, prepaid documentary stamp tax and other local business taxes.

**10. FINANCIAL ASSETS**

The Company's financial assets consist of:

**A. Financial assets at fair value through other comprehensive income (FVTOCI)**

	<b>2018</b>
Investments in government securities	<b>P221,309,820</b>

The movements in FVOCI financial assets are as follows:

	<b>Note</b>	<b>2018</b>
Balance, beginning		<b>P258,091,579</b>
Net premium amortization		<b>(2,080,077)</b>
Fair value adjustments	22	<b>(34,701,682)</b>
Balance, ending		<b>P221,309,820</b>

The account is composed of the following investments:

	<b>Note</b>	<b>2018</b>
Cost		
Investments in government securities		<b>P273,762,370</b>
		<b>273,762,370</b>
Accumulated fair value adjustments	22	<b>(52,452,550)</b>
		<b>P221,309,820</b>

**B. Financial assets at fair value through profit and loss (FVTPL)**

	<b>2018</b>
Investments in mutual fund	<b>P13,573,927</b>

The movements in FVTPL financial assets are as follows:

	<b>2018</b>
Balance, beginning	<b>P13,629,397</b>
Fair value adjustments	<b>(55,470)</b>
Balance, ending	<b>P13,573,927</b>

The account is composed of the following investments:

	<b>2018</b>
Cost	
Investments in mutual funds	<b>P 7,738,818</b>
	<b>7,738,818</b>
Accumulated fair value adjustments	<b>5,835,109</b>
	<b>P13,573,927</b>

**C. Available for sale (AFS)**

	<b>2017</b>
Investments in government securities	P258,091,579
Investment in mutual fund	13,629,397
	<b>P271,720,976</b>

The movements in AFS financial assets are as follows:

	Note	2017
Balance, beginning		P282,591,715
Net premium amortization		(1,976,765)
Fair value adjustments	22	(8,893,974)
<b>Balance, ending</b>		<b>P271,720,976</b>

The account is composed of the following investments:

	Note	2017
Cost		
Investments in government securities		P275,842,447
Investment in mutual fund		7,683,305
		283,525,752
Accumulated fair value adjustments	22	(11,804,776)
		<b>P271,720,976</b>

The interest income, including amortization of discount and premium on government securities in 2018 and 2017 amounted to P14,521,953 and P14,680,735, respectively as disclosed in Note 27.

The Company's investment in mutual fund pertain to investment in Sun Life Prosperity Bond Fund, Inc. for a total of 4,908,841 shares with a net asset value of P13,573,927 and P13,629,397 as at December 31, 2018 and 2017, respectively.

No disposals of investments in government securities and mutual fund were made in 2018 and 2017

The fair values of these financial assets are based on quoted market prices. The revaluation of these investments resulted in a net loss of P34,701,682 in 2018 and net gain of P8,893,974 in 2017, as disclosed in Note 22.

#### 11. TRUST FUNDS

The Company has trust funds which are being administered by Banco de Oro Unibank Inc. (BDO). These trust funds are for the fulfilment of the Company's obligations on outstanding pre-need contracts. In compliance with the rules and regulations of the SEC which were adopted by the IC, and in accordance with the terms of the trust agreements, withdrawals from the trust funds are limited to, payments of pre-need plan benefits, bank charges and investment expenses for the operation of the trust funds, termination value paid to planholders, and final taxes on investment income of the trust funds, among others.

As mandated by the IC, an actuarial valuation of the adequacy of the trust funds shall be submitted to the IC within 120 days after the end of every fiscal year of the Company. Any deficiency in the trust funds shall be funded within 30 days after receipt of notice of deficiency from the IC.

As at December 31, 2018 and 2017, the Company's trust funds and the required PNRs are as follows:

Type of Pre-need Product	Trust Fund Equity	Pre-need Reserves (Note 16)	Excess (Deficiency)	Staggered Recognition of Trust Fund Deficiency (Note 16)	Transitory Pre-need Reserves
<b>2018</b>					
Education	<b>P2,037,382,999</b>	<b>P2,371,648,566</b>	<b>(P280,265,567)</b>	<b>P 70,066,392</b>	<b>P2,107,449,391</b>
Pension	<b>3,398,766,324</b>	<b>3,933,829,085</b>	<b>(535,062,761)</b>	<b>133,765,690</b>	<b>3,532,532,015</b>
	<b>P5,436,149,323</b>	<b>P6,251,477,651</b>	<b>(P815,328,328)</b>	<b>P203,832,082</b>	<b>P5,639,981,406</b>
<b>2017</b>					
Education	P2,138,503,217	P2,403,865,691	(P265,362,474)	P53,072,495	P2,191,575,712
Pension	4,240,264,250	4,417,651,370	(177,387,120)	35,477,424	4,275,741,674
	<b>P6,378,767,467</b>	<b>P6,821,517,061</b>	<b>(P442,749,594)</b>	<b>P88,549,919</b>	<b>P6,467,317,386</b>

In 2018, Trust Fund Equity shown above is based on trust fund financial statements after adjustment on receivable from a trustee bank and amounts on deposit.

In 2017, Trust Fund Equity shown above is based on the trust fund financial statements before any adjustment on reclassification from HTM investments to AFS investments to comply with the requirements of PAS 39. For financial statements purposes, these HTM investments are remeasured at fair value.

As at December 31, 2018, in accordance with IC CL No. 23-2012, the amount that will be funded is one-fourth of the total deficiency amounting to P70,066,392 for the Education segment, and P133,765,690 for the Pension segment. The Company subsequently contributed P204,000,000 in February 2019 to cover the trust fund deficiency.

As at December 31, 2017, in accordance with IC CL No. 23-2012, the amount that would be funded is one-fifth of the total deficiency amounting to P53,072,495 for the Education segment, and P35,477,424 for the Pension segment. The trust fund deficiency was subsequently funded in February 2018 within the prescribed time allowed by the IC.

Total contributions to the trust funds amounted to P168,103,236 and P167,797,781 in 2018 and 2017, respectively, as disclosed in Note 16.



The details of the adjusted trust funds are as follows:

*Statements of financial position*

	2018			2017
	Pension	Education	Total	
<b>Assets</b>				
Cash and cash equivalents	P153,525,066	P49,945,286	P203,470,352	P 182,941,369
Available-for-sale investments	-	-	-	6,146,926,514
Equity investments	-	-	-	332,104,234
Financial assets at amortized cost	401,797,962	-	401,797,962	-
Financial assets at FVOCI	2,785,828,018	1,789,796,653	4,575,624,672	-
Financial assets at FVTPL	79,420,008	194,090,303	273,510,311	332,104,234
Interest receivable	56,514,645	28,988,280	85,502,924	91,865,553
Other assets	121,656	250,057	371,713	9,705,145
	<b>3,477,207,355</b>	<b>2,063,070,579</b>	<b>5,540,277,934</b>	<b>6,763,542,815</b>
<b>Liabilities</b>				
Accrued expenses and other liabilities	885,388	519,715	1,405,103	1,660,703
	<b>P3,476,321,967</b>	<b>P2,062,550,864</b>	<b>P5,538,872,831</b>	<b>P6,761,882,112</b>
<b>Equity</b>				
Fund balance, beginning	(P247,526,178)	P872,862,960	P625,336,782	P1,657,047,533
Additional contributions	109,490,590	58,612,646	168,103,236	167,797,781
Withdrawals	(804,199,384)	(226,104,458)	(1,030,303,842)	(1,199,508,532)
Trust fund contributions - net	(694,708,794)	(167,491,812)	(862,200,606)	(1,031,710,751)
Fund balance, ending	(942,234,971)	705,371,148	(236,863,824)	625,336,782
Reserve for fluctuation FVOCIs	18,965,556	55,373,798	74,339,353	706,754,906
Accumulated trust fund income, beginning before adjustment	4,203,268,114	1,226,522,310	5,429,790,424	5,027,087,677
PFRS 9 Transition Adjustment	7,466,496	(4,139,176)	3,327,320	-
Accumulated trust fund income, beginning after adjustment	4,210,734,610	1,222,383,134	5,433,117,744	5,027,087,677
Trust fund income - net	188,856,773	79,422,784	268,279,557	402,702,747
Accumulated trust fund income, ending	4,399,591,383	1,301,805,918	5,701,397,301	5,429,790,424
	<b>P3,476,321,967</b>	<b>P2,062,550,864</b>	<b>P5,538,872,831</b>	<b>P6,761,882,112</b>

*Statements of comprehensive income*

	2018			2017
	Pension	Education	Total	
Income	P200,685,571	P86,563,428	P287,248,999	P425,454,995
Expenses	11,828,798	7,140,643	18,969,441	(22,752,248)
Net income	<b>P188,856,773</b>	<b>P79,422,784</b>	<b>P268,279,557</b>	<b>P402,702,747</b>

The following table presents the maturity profile of the principal amounts of the AFS investments under trust fund assets as at December 31, 2017:

	2018	2017
	Due within one year	P 200,606,612
Due after one year through five years	565,784,329	692,853,778
Due after five years and above	4,083,104,411	5,070,627,273
	<b>P4,849,495,352</b>	<b>P5,778,681,451</b>

FVOCI and AFS investments of the trust funds include investments in treasury notes and bonds measured at fair values based on quoted prices of either done deals or bid rates or based on interpolated yields derived from benchmark reference rates. The revaluation of these investments resulted in a gain on fair value measurement amounting to P344,883,925 and P241,888,484 in 2018 and 2017, as disclosed in Note 22.

In 2018, reclassification of fair value adjustments from trust fund equity to profit or loss relating to FVOCI investments of the trust funds disposed during the year resulted in a gain of P353,607,673, as disclosed in Note 22.

In 2017, reclassification of fair value adjustments from trust fund equity to profit or loss relating to AFS investments of the trust funds disposed during the year resulted in a gain of P70,357,116 in 2017, as disclosed in Note 22.

On June 30, 2011, the Company sold a significant portion of its HTM investments in the trust funds to meet liquidity requirements for maturing plans during the year. As a result, the remaining HTM portfolio was reclassified into AFS category. The financial assets reclassified from HTM to AFS category consist of government securities in the form of fixed rate treasury notes. These securities have a maturity profile of at least five (5) years.

On January 1, 2018, the Company has adopted the PFRS 9 which resulted in the reclassification of these AFS investments into financial assets through other comprehensive income, financial assets through profit and loss and financial assets at amortized cost.

In 2014, the two-year period subsequent to the reclassification from HTM to AFS category has passed. No reclassification of AFS investments back to HTM investments was made from 2015 to 2017. The Company will continue to perform an assessment of the appropriate classification of its investment for the subsequent years.

Pursuant to Section 36 of the Implementing Rules and Regulations (IRR) of Republic Act No. 9829, otherwise known as the Pre-need Code of the Philippines, the IC issued guidelines on the Management of the Trust Fund of the Pre-need Corporation which supersede Sections 16 and 74 of Republic Act No. 8799 dated March 8, 2010. The significant provisions of the IC's New Rules relating to investments in trust funds as amended are as follows:

1. Fixed income instruments - These may be classified into short-term and long-term instruments. The instrument is short-term if the term to maturity is 365 days or less. This category includes:
  - a. Government securities which shall not be less than 10% of the trust fund amount;
  - b. Savings/time deposits and unit investment trust funds maintained with and managed by a duly authorized bank with satisfactory examination rating as of the last examination by the Bangko Sentral ng Pilipinas (BSP);
  - c. Commercial papers duly registered with the SEC with a credit rating of "1" for short term and "AAA" for long term based on the rating scale of an accredited Philippine Rating Agency or its equivalent at the time of investment, provided that, the maximum exposure to long-term commercial papers shall not exceed 15% of the total trust fund amount while the exposure to each commercial paper issuer shall not exceed 10% of the allocated amount; and
  - d. Direct loans to corporations which are financially stable, profitable for the last three (3) years and have a good track record of paying their previous loans.

These loans shall be fully secured by a real estate mortgage up to the extent of 60% of the zonal valuation of the property at the time the loan was granted.

The property shall be covered by a transfer certificate of title registered in the name of the mortgagor and free from liens and encumbrances.

The maximum amount to be allocated for direct loans shall not exceed 5% of the total trust fund amount while the amount to be granted to each corporate borrower shall not exceed 10% of the amount allocated.

The maximum term of the loan should be no longer than four (4) years.

Direct loans to planholders are exempt from the limitations set forth under this Section, provided that such loans to planholders shall not exceed 10% of the total trust fund amount.

2. Equities - Investments in equities shall be limited to stocks listed on the main board of the local stock exchange. Investments in duly registered collective investment instruments such as mutual funds are allowed hereunder, provided that such funds are invested only in fixed income instruments and blue chips securities, subject to the limitations prescribed by laws, rules and regulations. These investments shall include stocks issued by companies that are financially stable, actively traded, possess good track record of growth and have declared dividends for the past three (3) years. Notwithstanding the prohibition against transactions with directors, officers, stockholders and related interests, the trustee may invest in equities of companies related to the trustee provided these companies comply with the foregoing criteria provided in this paragraph for equity investments.

The amount to be allocated for this purpose shall not exceed 30% of the total trust fund while the investment in any particular issue shall not exceed 10% of the allocated amount. The investment shall be recorded at the aggregate of the lower of cost or market.

Existing investments which are not in accordance herewith shall be disposed of within three (3) years from the effectivity of the Pre-need Code.

3. Real Estate - These shall include real estate properties located in strategic areas of cities and first class municipalities. The transfer certificate of title (TCT) shall be in the name of the seller, free from liens and encumbrances and shall be transferred in the name of the trustee in trust for the planholders unless the seller/transferor is the pre-need company wherein an annotation to the TCT relative to the sale/transfer may be allowed. It shall be recorded at acquisition cost.

However, the real estate shall be appraised every three (3) years by a licensed real estate appraiser, accredited by the Philippine Association of Real Estate Appraisers, to reflect the increase or decrease in the value of the property. In case the appraisal would result in an increase in the value, only 60% of the appraisal increase is allowed to be recorded in the books of the trust fund but in case of decline in value, the entire decline shall be recorded. Appraisal increment should not be used to cover-up the required monthly contribution to the trust fund.

The total recorded value of the real estate investment shall not exceed 10% of the total trust fund amount of the pre-need company. In the event that the existing real estate investment exceeds the aforesaid limit, the same shall be leveled off to the prescribed limit within three (3) years from the effectivity of the Pre-need Code. Investment of the trust fund, which is not in accordance with the preceding paragraphs, shall not be allowed unless the prior written approval of the Commission had been secured. Provided further, that no deposit or investment in any single entity shall exceed 15% of the total value of the trust fund. Provided finally, that the Commission is authorized to adjust the percentage allocation per category set forth herein not in excess of 2% points upward or downward and no oftener than once every five (5) years. The first adjustment hereunder may be made no earlier than five (5) years from the effectivity of the Pre-need Code. The pre-need company shall not use the trust fund to extend any loan to or to invest in its directors, stockholders, officers or its affiliates.

The Company has fully complied with all the implementing guidelines of the abovementioned IRR. The final amount of non-admitted assets can be determined only after the investments in trust funds have been examined by the IC.

**12. COMPUTER SOFTWARE - net**

Movements in the carrying amounts of the Company's computer software:

	Note	2018	2017
<b>Cost</b>			
Balance, January 1		<b>P16,811,319</b>	P16,811,319
Additions		-	-
Balance, December 31		<b>16,811,319</b>	16,811,319
<b>Accumulated Amortization</b>			
Balance January 1		<b>6,070,754</b>	466,981
Amortization	26	<b>5,603,773</b>	5,603,773
Balance, December 31		<b>11,674,527</b>	6,070,754
<b>Carrying Amount, December 31</b>		<b>P 5,136,792</b>	P10,740,565

As at December 31, 2018 and 2017, the computer software will be fully amortized in 1 and 2 years, respectively.

The Company believes that the computer software is not impaired as of December 31, 2018 and 2017.

**13. BENEFITS PAYABLE AND ACCRUED EXPENSES AND OTHER LIABILITIES****Benefits Payable**

Benefits payable amounting to P101,239,420 and P80,002,373 as at December 31, 2018 and 2017, respectively, represents amounts due to planholders and beneficiaries, in the course of settlement, and incurred but unpaid claims on the pre-need contracts, such as due but unpaid matured benefits, surrender benefits and annuity payments.

**Accrued Expenses and Other Liabilities**

	2018	2017
Payable to agents	<b>P2,600,670</b>	P2,883,527
Accrued general expenses	<b>1,600,414</b>	1,449,022
Accrued final taxes	<b>668,551</b>	617,674
Output value added tax (VAT) - net	<b>99,314</b>	110,064
Withholding taxes	<b>46,802</b>	79,138
Other liabilities	<b>4,514,232</b>	1,453,378
	<b>P9,529,983</b>	P6,592,803

The Company's liabilities are not subject to interest charges.

Details of accrued general expenses are as follows:

	2018	2017
Professional fees	<b>P1,548,738</b>	P1,396,556
Agency related fees	<b>51,676</b>	52,466
	<b>P1,600,414</b>	P1,449,022

As at December 31, 2018 and 2017, output VAT is net of input VAT of P238,947 and P277,575, respectively.

Other liabilities include bank credits subject to confirmation of the client.

#### 14. COUNSELORS' BOND RESERVE

Counselors' bond reserve amounting to P6,983,205 and P6,995,648 as at December 31, 2018 and 2017, respectively, represents the aggregate amount of deductions from agents' commissions, bonuses and other cash incentives. Upon separation of an agent from the Company, the agent's accountability will be deducted from the accumulated bond reserve upon securing of approved and updated clearance from the Licensing section.

Remaining liabilities as of reporting date pertain to those withheld from agents in 2011 and earlier years.

#### 15. RELATED PARTY TRANSACTIONS

The Company has the following transactions and outstanding balances with the parent company as at and for the years ended December 31:

Category	Amounts	Outstanding Balance		Terms	Conditions	Notes
		Receivable	Payable			
<b>2018</b>						
<b>Parent Company</b>						
Chargeback	<b>P23,479,647</b>	P -	P -	30-day: non-interest bearing, settled in cash	Unsecured	a
Premiums	<b>626,468</b>	-	<b>3,726,321</b>	30-day: non-interest bearing, settled in cash	Unsecured	b
<b>2017</b>						
<b>Parent company</b>						
Chargeback	P22,772,348	P -	P -	30-day: non-interest bearing settled in cash	Unsecured	a
Premiums	241,075	-	3,240,776	30-day: non-interest bearing settled in cash	Unsecured	b

- The Company has transactions with SLOCPI which consist mainly of intercompany billings to cover shared costs and operating expenses such as systems, operations, human resources, legal and internal audit functions and others, which are being settled in cash on or before the 30th day of each month.
- Other pre-need plans (educational and pension plans) have embedded credit life and credit disability benefits which are insured by SLOCPI. Outstanding balances are included as part of payable to parent company.

The remuneration of key management personnel is provided by SLOCPI.

#### 16. PRE-NEED RESERVES (PNR)

Movements in the Company's PNR are as follows:

	Note	2018	2017
PNR, Beginning		<b>P6,467,317,386</b>	P7,196,501,011
Trust fund contributions	24	<b>78,514,031</b>	91,798,556
Decrease in PNR	24	<b>(905,850,011)</b>	(820,982,181)
		<b>(827,335,980)</b>	(729,183,625)
PNR, Ending		<b>P5,639,981,406</b>	P6,467,317,386

In its CL No. 23-2012, Valuation of Transitory Pre-Need Reserve (TPNR,) dated November 28, 2012, the IC required the use of the lower of attainable rates and 6%, but provides for TPNR which allows the staggered recognition of the excess of PNR over the amount of the trust funds over ten (10) years. The Company has PNR deficiency in accordance with the CL as at December 31, 2018 and 2017 amounting to P203,832,082 and P88,549,919, respectively, as disclosed in Note 11.

In 2018 and 2017, the Company applied the lower of the attainable rates and 6% and availed of the staggered recognition of the excess of PNR over trust fund assets. In 2018, the Company used interest rate assumptions determined and provided by the Company's trustee bank of 6.05% for Sun Education (Non-Par), 5.52% for Sun Pension (Non-Par), 6.00% for Sun Education Plus (Par) and 6.59% for Sun Pension Plus (Par). In 2017, the interest rates were set at 6.17% for Sun Education (Non-Par), 5.46% for Sun Pension (Non-Par), 6.16% for Sun Education Plus (Par) and 6.61% for Sun Pension Plus (Par).

Details of PNR per product type are as follows:

	Note	2018	2017
Education		<b>P2,107,449,391</b>	P2,191,575,712
Pension		<b>3,532,532,015</b>	4,275,741,674
	11	<b>P5,639,981,406</b>	P6,467,317,386

Other reserves are set-up as a prudent measure at the option of the Company. It is the excess of ARL over the PNR, as disclosed in Note 17. The PNR, before availing the staggered recognition of the deficiency, are summarized based on payment status as follows:

	PNR*	ARL
<b>2018</b>		
Currently-being-paid education and pension plans	<b>P 596,354,036</b>	<b>P 498,741,246</b>
Lapsed plan within allowable reinstatement period	<b>6,562,420</b>	<b>17,246,955</b>
Fully paid education and pension plans	<b>5,648,561,195</b>	<b>5,457,587,871</b>
	<b>P6,251,477,651</b>	<b>P5,973,576,072</b>
<b>2017</b>		
Currently-being-paid education and pension plans	<b>P 618,114,538</b>	<b>P 518,471,111</b>
Lapsed plan within allowable reinstatement period	<b>14,347,553</b>	<b>34,855,253</b>
Fully paid education and pension plans	<b>6,189,054,970</b>	<b>5,937,704,088</b>
	<b>P6,821,517,061</b>	<b>P6,491,030,452</b>

\*Based on full amount of PNR and without considering the staggered recognition of deficiency of trust fund over reserves as provided in IC CL No. 23-2012.

The PNR for each individual subsidiary account of each type of plans are determined as follows:

- a. Currently-Being-Paid Education and Pension Plans
  1. Provision for termination values was determined by applying the surrender rate experience of the Company.
  2. Liability was set-up for the portion of currently-being-paid plans that will reach full payment, applying the full payment experience of the Company. It is equivalent to the present value of future maturity benefits reduced by the present value of future trust fund contributions required per Product Model discounted using the appropriate discount rate.

Withdrawal rate of currently-being-paid plans is based on the average of 3-year Company withdrawal experience, if available; otherwise, this is based on the recent Company persistency studies or pricing assumptions.

Type of Pre-need Product	PNR	ARL
<b>December 31, 2018</b>		
Education non-par	P 13,959,179	P 13,370,462
Education par	44,370,067	44,335,202
Pension non-par	509,400,967	412,394,348
Pension par	28,623,823	28,641,234
	<b>P596,354,036</b>	<b>P498,741,246</b>
December 31, 2017		
Education non-par	P 27,225,147	P 25,706,864
Education par	50,614,996	49,859,665
Pension non-par	493,107,337	395,715,491
Pension par	47,167,058	47,189,091
	<b>P618,114,538</b>	<b>P518,471,111</b>

b. Lapsed Plan within Allowable Reinstatement Period

The provision for termination values was determined by applying the reinstatement experience of the Company. The Company used reinstatement factor of 60% in 2018 and 2017. Based on the 3-year Company reinstatement experience, the percentage of lapsed plans during previous year which were reinstated within the current year is around 51.7% and 52.2% in 2018 and 2017, respectively.

Type of Pre-need Product	PNR	ARL
<b>December 31, 2018</b>		
Education non-par	P1,386,166	P3,494,130
Education par	1,317,151	3,303,230
Pension non-par	2,832,955	8,224,777
Pension par	1,026,148	2,224,818
	<b>P6,562,420</b>	<b>P17,246,955</b>
December 31, 2017		
Education non-par	P 1,798,648	P 4,117,841
Education par	2,942,955	7,671,461
Pension non-par	6,575,518	16,568,887
Pension par	3,030,432	6,497,064
	<b>P14,347,553</b>	<b>P34,855,243</b>

PNR for lapsed plans are computed as Plan Termination Value multiplied by the reinstatement factor while ARL for lapsed plans are computed as higher of actuarial reserves as of lapsed date multiplied by the reinstatement factor or the plan termination value.

c. Fully Paid Education and Pension Plans

Type of Pre-need Product	PNR	ARL
<b>December 31, 2018</b>		
Education non-par	<b>P1,562,841,672</b>	<b>P1,521,709,340</b>
Education par	<b>693,774,331</b>	<b>693,774,331</b>
Pension non-par	<b>2,888,964,983</b>	<b>2,739,123,991</b>
Pension par	<b>502,980,209</b>	<b>502,980,209</b>
	<b>P5,648,561,195</b>	<b>P5,457,587,871</b>
<b>December 31, 2017</b>		
Education non-par	P1,626,747,355	P1,571,671,973
Education par	694,536,590	686,253,017
Pension non-par	3,269,013,127	3,081,021,200
Pension par	598,757,898	598,757,898
	<b>P6,189,054,970</b>	<b>P5,937,704,088</b>

The actual trust fund contributions per books amounting to P78,514,031 and P91,798,556 in 2018 and 2017, respectively, are less than the P168,103,236 and P167,797,781 total contributions per bank, as disclosed in Note 11, due to additional deposits made in 2018 and 2017 to fund the PNR computed on a monthly valuation basis done by the Company. Reconciliation is as follows:

	Note	2018	2017
<b>Trust Fund Contributions Per Books</b>		<b>P 78,514,031</b>	P 91,798,556
Trust fund contributions in December 2016, deposited on January 3, 2017		-	3,825,528
Trust fund contributions in December 2017, deposited on January 3, 2018		<b>4,826,303</b>	(4,826,303)
Trust fund contributions in December 2018, deposited on January 2, 2019		<b>(3,937,098)</b>	-
Additional deposit to education in February 2017		-	47,000,000
Additional deposit to pension in February 2017		-	30,000,000
Additional deposit to education in February 2018		<b>53,200,000</b>	-
Additional deposit to pension in February 2018		<b>35,500,000</b>	-
<b>Trust Fund Contributions Per Bank</b>	<b>11</b>	<b>P168,103,236</b>	P167,797,781

**17. OTHER RESERVES**

Movements in the Company's other reserves are as follows:

	Note	2018	2017
Other reserves, beginning		<b>P 23,713,066</b>	P -
Increase in other reserves	24	<b>309,881,600</b>	23,713,066
Other reserves, ending		<b>P333,594,666</b>	P23,713,066

As a prudent measure, the Company, at its option, shall set-up other reserves in accordance with PAS 37 to cover its contractual obligations based on the amended PNUCA. Other reserves is the excess of ARL over the PNR. In 2018 and 2017, other reserves is recognized amounting to P333,594,666 and P23,713,066 respectively since ARL is higher than PNR as shown in Note 16.

**18. PLANHOLDERS' DEPOSITS**

Planholders' deposits amounting to P29,197,250 and P24,904,066 as at December 31, 2018 and 2017, respectively, represent amounts received from the planholders for excess fractional payments of a regular installment, and payments received with application for the reinstatement of lapsed plans within two (2) years from the date of lapse, pending the approval of the Company.



**19. SHARE CAPITAL**

The details of the share capital as at December 31, 2018 and 2017 are as follows:

	Ordinary Share Capital	Preferred Share Capital
Authorized:		
3,000,000 ordinary shares at P25 per share	<b>P75,000,000</b>	P -
2,000,000 preference shares at P25 per share	-	<b>50,000,000</b>
Issued, fully paid and outstanding:		
3,000,000 ordinary shares at P25 per share	<b>75,000,000</b>	-
2,000,000 preference shares at P25 per share	-	<b>50,000,000</b>

There were no movements in the share capital of the Company in 2018 and 2017. Ordinary shares carry one vote per share and carry a right to dividends. The holders of preference shares have carry one vote per share. The preferred shares may be redeemed at the option of the Company, subject to the approval of the Board of Directors (BOD) of the Company.

**20. ADDITIONAL PAID-IN CAPITAL**

After the approval by the majority of the BOD and by the vote of the shareholders owning or representing at least two-thirds (2/3) of the outstanding share capital at the shareholders' meeting held on July 29, 2010, the SEC approved the decrease in authorized share capital of the Company on December 3, 2010 from P700,000,000 divided into 5,000,000 ordinary and 2,000,000 preference shares both with par value of P100 each, to P125,000,000 divided into 3,000,000 ordinary and 2,000,000 preference shares both with P25 par value.

The reduction in share capital of P375,000,000 resulting from the decrease in authorized share capital was recognized as additional paid-in capital in the books of the Company.

**21. CONTRIBUTED SURPLUS**

On June 3, 2010, the BOD of SLOCPI approved a capital infusion of P200,000,000 into the Company, by way of contributed surplus. The initial infusion of P25,000,000 out of the said authorized amount of P200,000,000 was contributed into the Company on June 29, 2010. In June 2018, SLOCPI infused the remaining P175,000,000 to meet the minimum paid up capital requirement.

On December 4, 2018, the BOD of SLOCPI approved a capital infusion of P500,000,000 into the Company, out of the approved infusion of P500,000,000, P200,000,000 was infused to the Company on December 18, 2018. The Company's management was given the authority to determine when the subsequent infusions shall be made as it deems necessary.

## 22. INVESTMENT REVALUATION RESERVES

The movements of net unrealized gain on fair value measurement are as follows:

	Notes	2018	2017
Balance, beginning, as previously stated		<b>P694,950,130</b>	P1,016,089,704
PFRS 9 Transition adjustment	3	<b>(9,273,413)</b>	-
Balance, beginning, as restated		<b>685,676,717</b>	1,016,089,704
Net gains (losses) on fair value measurement:			
Available-for-sale/ FVOCI financial assets	10	<b>34,701,682</b>	(8,893,974)
Financial assets at FVOCI			
Investments in trust funds	11	<b>(344,883,925)</b>	(241,888,484)
Reclassification adjustments relating to disposed financial assets during the year - Investments in trust funds	11	<b>(353,607,673)</b>	(70,357,116)
		<b>(663,789,915)</b>	(321,139,574)
Balance, ending		<b>P 21,886,802</b>	P 694,950,130

The summary of investment revaluation reserves is as follows:

	Notes	2018	2017
FVOCI/Available-for-sale financial assets	10	<b>(P52,452,550)</b>	(P 11,804,776)
Trust funds	11	<b>74,339,352</b>	706,754,906
		<b>P21,886,802</b>	P694,950,130

## 23. PREMIUM REVENUE

Premium revenue amounting to P108,633,659 and P132,049,733 in 2018 and 2017, respectively, pertains to amount collected during the year from the remaining contracts of planholders.

Amount of premium installments collectible from the planholders are not recognized as receivables in accordance with Pre-need Rule 31, As Amended: Accounting Standards for Pre-need Plans and PNUCA adopted by the Company on January 1, 2007.

## 24. DECREASE IN PRE-NEED RESERVES - net

The account comprises of:

	Notes	2018	2017
Trust fund contribution	16	<b>P 78,514,031</b>	P 91,798,556
Increase (decrease) in other reserves	17	<b>309,881,600</b>	23,713,066
Decrease in PNR	16	<b>(905,850,011)</b>	(820,982,181)
		<b>(517,454,380)</b>	(705,470,559)
Documentary stamp taxes and SEC registration fees		<b>187,034</b>	91,799
		<b>(P517,267,346)</b>	(P705,378,760)

## 25. OTHER DIRECT COSTS AND EXPENSES

The Company's direct costs and expenses consist of:

	2018	2017
Planholders' benefits	<b>P1,040,910,568</b>	P1,162,608,554
Agents' bonuses	<b>2,475,863</b>	4,215,219
Basic commissions	<b>4,213,765</b>	5,549,679
Marketing and sales	<b>28,223</b>	4,753
	<b>P1,047,628,419</b>	P1,172,378,205

Planholders' benefits pertain to benefits of planholders and their beneficiaries, paid and accrued upon plan maturity. The total number of plans that matured in 2018 and 2017 was 2,158 and 3,091, respectively.

The amount of planholders' benefits expense is less than the total withdrawals in the trust funds as disclosed in Note 11, due to timing differences of payments made by the Company in current year that were reimbursed by the trustee in subsequent year.

## 26. GENERAL AND ADMINISTRATIVE EXPENSES

Details of general and administrative expenses are as follows:

	Notes	2018	2017
Expense chargeback	15	<b>P23,479,647</b>	P22,772,348
Amortization of computer software	12	<b>5,603,773</b>	5,603,776
Professional fees		<b>1,866,716</b>	2,157,524
Taxes and licenses		<b>1,123,390</b>	1,147,118
Provision for non-recoverable prepaid taxes	9	<b>959,937</b>	591,907
Plan insurance	15	<b>626,468</b>	241,075
Bank charges		<b>249,665</b>	357,649
Communication and utilities		-	142,606
Repairs and maintenance		<b>164,823</b>	
Miscellaneous		<b>9,436</b>	68,012
		<b>P34,083,855</b>	P33,082,015

The Company outsources its various administrative functions to SLOCPI, mainly, to focus on core competencies, to drive excellence and execution, and to achieve cost savings for the fulfillment of the Company's obligations on outstanding pre-need contracts.

## 27. INVESTMENT INCOME

The Company's investment income consists of:

	Notes	2018	2017
Interest from:			
Government securities	10	<b>P14,521,953</b>	P14,680,735
Cash in banks and cash equivalents	7	<b>5,710,551</b>	2,235,879
		<b>P20,232,504</b>	P16,916,614

**28. OTHER INCOME**

The Company's other income consists of:

	2018	2017
Handling fees	P1,430,605	P1,962,856
Interest on lapsed plan	360,577	630,528
Miscellaneous	-	1,912
	<b>P1,791,182</b>	<b>P2,595,296</b>

Handling fees pertain to the handling charges associated with installment payments other than annual basis or spot-cash sales.

**29. INCOME TAXES**

The income tax expense of P4,473,624 and P3,778,682 represents the final tax on interest income at 2018 and 2017, respectively.

A reconciliation between income tax expense and the product of accounting income (loss) in 2018 and in 2017 multiplied by 30% is as follows:

	2018	2017
Accounting income (loss)	<b>(P165,508,026)</b>	P 54,182,930
Tax expense (benefit) at 30%	<b>(P 49,652,408)</b>	P 16,254,879
Adjustment for income subject to lower income tax rate	<b>(1,596,127)</b>	(1,296,302)
Tax effects of:		
Trust fund income - net	<b>(80,483,867)</b>	(120,810,824)
Unrecognized NOLCO	<b>135,896,667</b>	109,226,645
Non-deductible expenses	<b>309,359</b>	404,284
Income tax expense	<b>P 4,473,624</b>	P 3,778,682

Details of the Company's NOLCO are as follows:

Year of Incurrence	Year of Expiry	2017 Balance	Additions	Expired	2018 Balance
2015	2018	P 488,596,739	P -	(P488,596,739)	P -
2016	2019	563,428,502	-	-	<b>563,428,502</b>
2017	2020	364,088,817	-	-	<b>364,088,817</b>
2018	2021	-	452,988,890	-	<b>452,988,890</b>
		<b>P1,416,114,058</b>	<b>P452,988,890</b>	<b>(P488,596,739)</b>	<b>P1,380,506,209</b>

The Company did not recognize the deferred tax asset on NOLCO amounting to P414,151,863, and P424,834,217 as at December 31, 2018 and 2017, respectively, because Management believes it is more likely that the Company will not be able to realize the tax benefit arising from NOLCO.

In addition, the Company does not have a deferred tax liability as at December 31, 2018 and 2017.

**30. CONTINGENCIES**

In the normal course of the Company's operations, there are various outstanding contingent liabilities such as pending legal cases which are not reflected in the Company's financial statements as at December 31, 2018 and 2017. The Company recognizes in its books any losses and liabilities incurred in the course of its operations as they become determinable and quantifiable. In the opinion of the Management and its legal and tax counsels, the Company is not liable to and has strong position on the pending legal cases, but which if decided adversely, will not have a material effect on the Company's financial position and results of operations.

### 31. 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 fair value is observable.

	Fair value hierarchy		Level
	2018	2017	
<b>Financial assets at:</b>			
<b><u>General Fund</u></b>			
Fair value through profit or loss	P 13,573,927	P -	Level 1
Fair value through other comprehensive income	221,309,820	-	
<b><u>Trust Fund</u></b>			
Fair value through profit or loss	273,510,311	-	
Fair value through other comprehensive income	4,575,624,672	-	Level 1
<b>AFS financial assets</b>			
Investments in government securities	-	259,994,860	Level 1
Investments in mutual fund	-	13,629,397	Level 1
Investments in trust funds	-	6,835,842,506	Level 1
	<b>P5,084,018,730</b>	<b>P7,109,466,763</b>	

Investments in trust funds pertain to investments in fixed income securities and equity investments.

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

Equity investments are valued at quoted prices as at reporting date.

Investments in mutual fund is revalued at market price based on Net Asset Value per Share (NAVPS) provided by SLAMCI on a monthly basis.

The Company has no Level 3 financial instruments.

Management believes that these reclassifications and transfers were appropriate.

### Assets and Liabilities not Measured at Fair Value

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

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
<b>General Fund</b>				
Cash and cash equivalents	P 511,522,549	P511,522,549	P224,062,369	P224,062,369
Receivables	34,472,378	34,472,378	3,780,706	3,780,706
			227,843,075	227,843,075
<b>Trust Funds</b>				
Cash and cash equivalents	203,470,352	203,470,352	182,941,369	182,941,369
Financial assets at amortized cost	401,797,962	430,457,853		
Interest receivable	85,502,924	85,502,924	91,865,553	91,865,553
Other assets	371,713	371,713	9,705,145	9,705,145
	691,142,952	719,802,843	284,512,067	284,512,067
	<b>P1,237,137,879</b>	<b>P 719,802,843</b>	<b>P512,355,142</b>	<b>P512,355,142</b>
<b>Financial Liabilities</b>				
<b>General Fund</b>				
Accrued expenses and other liabilities	P 8,715,316	P 8,715,316	P 5,785,927	P 5,785,927
Benefits payable	101,239,420	101,239,420	80,002,373	80,002,373
Counselors' bond reserve	6,983,205	6,983,205	6,995,648	6,995,648
Payable to parent company	3,726,321	3,726,321	3,240,776	3,240,776
Planholder's deposit	29,197,250	29,197,250	24,904,066	24,904,066
	149,861,512	149,861,512	120,928,790	120,928,790
<b>Trust Funds</b>				
Accrued expenses and other liabilities	1,405,103	1,405,103	1,660,703	1,660,703
	<b>P151,266,615</b>	<b>P151,266,615</b>	<b>P122,589,493</b>	<b>P122,589,493</b>

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

Due to the short-term maturities of cash and cash equivalents, receivables, accrued expenses and other liabilities, counselors' bond reserve, payable to parent company and benefits payable, their carrying amounts approximate their fair values.

### 32. RISK MANAGEMENT

The Company's overall risk management framework establishes policies, operating guidelines, risk tolerance limits and practices for risk management patterned after the Company's parent organization. It provides oversight to the risk management activities within the Company's business segments, ensuring that discipline and consistency are applied to the practice of risk management.

The Company's activities expose it to a variety of financial risks (such as market risk, interest rate risk, credit risk and liquidity risk) and operational risks (such as product design and pricing risk and legal, regulatory and market conduct risk management).

#### Risk Framework

The risk management program is designed to:

- avoid risks that could materially affect the value of the Company;
- contribute to sustainable earnings;
- take risks that the Company can manage in order to increase returns; and
- provide transparency of the Company's risks through internal and external reporting.

The Company is in the business of accepting risks for appropriate return and takes on those risks that meet its objectives. The program design aligns risk management with the Company's vision and strategy and embeds it within its business management practices of the business groups.

In pursuing its business objectives, Management is responsible for ensuring that all significant risks are appropriately identified, assessed, managed, reported and monitored.

Accountability provides clear lines of responsibility and authority for risk acceptance and risk taking. In order for risk management to be effective, all must understand their roles and responsibilities.

The BOD is ultimately responsible for ensuring that risk management policies and practices are in place. The BOD has oversight role with respect to ensuring the identification of major areas of risk and development of strategies to manage those risks, and to review compliance with risk management policies implemented by the Company and with legal and regulatory matters.

### **Key Risk Processes**

The Company has established a formal risk identification program whereby key risks that may impact its business are identified. Exposure to these risks is assessed on a qualitative and quantitative bases. Risk control programs and action plans are established for mitigating the exposure.

The Company has adopted risk management policies to provide a consistent approach to measurement, mitigation and control, and monitoring of risk exposures.

### **Risk Measurement**

The Company has established market risk tolerance limits that set out the maximum target income sensitivity of the Company to change in interest rates and the equity markets.

### **Risk Categories**

The risks facing the Company can generally be classified into the following categories:

#### *Market risk*

Market risk arises when there is uncertainty in the valuation of assets and the cost of embedded options and guarantee from changes in equity markets and/or interest rates.

The Company's insurance liabilities are segmented according to major product type, with investment guidelines established for each segment. Exposure to capital market is monitored and managed against established risk tolerance limits. Effects of large and sustained adverse market movement in securities are monitored through Dynamic Capital Adequacy testing and other stress-testing techniques.

#### *a. Interest rate risk*

This is the risk of asset-liability mismatch resulting from the interest rate volatility.

To the extent possible, the Company established matching plan for each portfolio of assets and associated liabilities to keep potential losses within acceptable limits.

The Asset Liability Committee measures and monitors interest rate risk using duration analysis.

The sensitivity analyses below were determined based on the Company's investment in fixed income securities classified as AFS securities as of reporting date.

A 100 basis points increase in the yield rate will result to a decrease in equity of P257 million in 2018 and P362 million in 2017.

A 100 basis points decrease in the yield rate will result to an increase in equity of P278 million in 2018 and P394 million in 2017.

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 equity investments. Equity investments are held for strategic purposes. Equity exposure is managed through the limits set by the Pre-Need Code, as well as the allowable equity allocations as stated in the investment management agreement (and subsequent amendments) with the trustee bank. Equity exposure is monitored periodically and reported to the Asset Liability Committee on a quarterly basis.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If equity prices have been 10% higher or lower, equity reserves would have increased or decreased by P27 million in 2018 and P33 million in 2017, as a result of the changes in fair value of equity investment.

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.

*b. Credit risk*

The Company has exposure to credit risk from its investments in Philippine government securities and occasionally in the Special Deposit Account (SDA) offered by the BSP. The Company maintains cash deposits in commercial and universal banks with good credit standing to minimize exposure to credit risk.

The table below summarizes the Company's financial assets as at December 31, 2018 and 2017 with a maximum exposure equal to carrying amounts of the financial assets.

	Notes	2018	2017
<b>General Fund</b>			
Cash in banks and cash equivalents	7	<b>P 511,522,549</b>	P 224,062,369
Available-for-sale financial assets	10		258,091,579
Financial asset at FVOCI		<b>221,309,820</b>	
Receivables	8	<b>34,472,378</b>	3,780,706
		<b>767,304,747</b>	485,934,654
<b>Trust Funds</b>			
Cash in bank and cash equivalents	11	<b>203,470,352</b>	182,941,369
Available-for-sale financial assets	11		6,146,926,514
Financial asset at amortized cost		<b>401,797,962</b>	
Financial assets at FVTOCI		<b>4,575,624,672</b>	
Interest receivable	11	<b>85,502,924</b>	91,865,553
Other Assets		<b>371,713</b>	9,705,145
		<b>5,266,767,623</b>	6,431,438,581
		<b>P6,034,072,370</b>	P6,917,373,235



The following table details the credit quality of those financial assets that are neither past due nor impaired:

	Carrying Amount	Summary Rating	Internal Credit Rating	12m or Lifetime ECL
<b>December 31, 2018</b>				
General Fund				
Cash in banks and cash equivalents	P 511,522,549	High	N/A	Lifetime ECL (simplified approach)
Financial asset at FVOCI	221,309,820	High	AAA	12m ECL
Receivables	34,472,377	High	N/A	Lifetime ECL (simplified approach)
	<b>767,304,746</b>			
Trust Funds				
Cash and cash equivalents	203,470,352	High	N/A	Lifetime ECL (simplified approach)
Financial assets at amortized cost	401,797,962	High	AAA	12m ECL
Financial assets at FVOCI	4,575,624,672	High	AAA	12m ECL
Interest receivable	85,502,924	High	N/A	12m ECL
Other assets	371,713	High	N/A	Lifetime ECL (simplified approach)
	<b>5,266,767,623</b>			
	<b>P6,034,072,370</b>			

	Neither Past Due nor Impaired				Total
	High Grade	Satisfactory Grade	Acceptable Grade	Low Grade	
<b>December 31, 2017</b>					
General Fund					
Cash in banks and cash equivalents	P 224,062,369	P -	P -	P -	P 224,062,369
Available-for-sale financial assets	258,091,579	-	-	-	258,091,579
Receivables	3,780,706	-	-	-	3,780,706
	<b>485,934,654</b>	-	-	-	<b>485,934,654</b>
Trust Funds					
Cash and cash equivalents	182,941,369	-	-	-	182,941,369
Available-for-sale financial assets	6,146,926,514	-	-	-	6,146,926,514
Interest receivable	91,865,553	-	-	-	91,865,553
Other assets	9,705,145	-	-	-	9,705,145
	<b>6,431,438,581</b>	-	-	-	<b>6,431,438,581</b>
	<b>P6,917,373,235</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>P6,917,373,235</b>

In 2017, the Company uses internal ratings to determine the credit quality of its financial assets. These have been mapped to the summary rating below:

*High Grade* - applies to highly rated financial obligors, strong corporate counterparties and personal borrowers with whom the Company has excellent repayment experience.

*Satisfactory Grade* - applies to financial assets that are performing as expected, including recently established businesses.

*Acceptable Grade* - applies to counterparties with risk profiles that are subject to closer monitoring and scrutiny with the objective of managing risk and moving accounts to improved rating category.

*Low Grade* - applies to risks that is neither past due nor expected to result in loss but where the Company requires a workout of the relationship unless an early reduction in risk is achievable.

In 2018, the table below summarizes the current internal credit rating equivalence system of the Company:

<b>Summary rating</b>	<b>Internal credit rating</b>
High	AAA
High	AAA
High	AAA
High	AA
Satisfactory	BBB
Acceptable	B
Low	CCC/C

*Expected credit loss measurement*

PFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to the discussion below on SICR for a description of how the Company determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to the discussion below on credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL is that it should consider forward-looking information.

As at December 31, 2018, the Company's financial assets are categorized at Stage 1. There are no significant increase in credit risk

Default and events constituting default are disclosed in Note 3.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (12m) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. PD estimates were derived using long-run averages of one-year default rates for borrowers in each risk grade. PD estimates are updated annually.
- EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Company includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default should it occur.

- LGD represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and 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.

#### Forward-looking information incorporated in the ECL models

The assessment of SICR 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 expected credit losses for each portfolio. The Company assessed that the key economic variables are gross domestic product (GDP) and unemployment rates.

#### *c. Liquidity risk*

Liquidity risk refers to the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's objective in managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company maintains adequate highly liquid assets in the form of cash and cash equivalents amounting to P511,522,549 and P224,062,369 as at December 31, 2018 and 2017, respectively as shown in Note 7. These financial assets have maturities of less than three months to assure necessary liquidity.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has 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.

	Notes	Within One Year	Beyond One Year	Total
<b>December 31, 2018</b>				
<b>General Fund</b>				
Accrued expenses and other liabilities	13	P 8,715,316	P -	P 8,715,316
Benefits payable	13	101,239,420	-	101,239,420
Counselors' bond reserve	14	6,983,205	-	6,983,205
Payable to parent company	15	3,726,321	-	3,726,321
Planholders' deposits	18	-	29,197,250	29,197,250
		120,664,262	29,197,250	149,861,512
<b>Trust Fund</b>				
Accrued expenses and other liabilities	11	1,405,103	-	1,405,103
		P122,069,365	P29,197,250	P151,266,615
<b>December 31, 2017</b>				
<b>General Fund</b>				
Accrued expenses and other liabilities	13	P 5,785,927	P -	P 5,785,927
Benefits payable	13	80,002,373	-	80,002,373
Counselors' bond reserve	14	6,995,648	-	6,995,648
Payable to parent company	15	3,240,776	-	3,240,776
Planholders' deposits	18	-	24,904,066	24,904,066
		96,024,724	24,904,066	120,928,790
<b>Trust Fund</b>				
Accrued expenses and other liabilities	11	1,660,703	-	1,660,703
		P 97,685,427	P24,904,066	P122,589,493

Financial liabilities presented above exclude amounts payable to government agencies for final taxes, output VAT and withholding taxes, as shown in Note 13.

The summary of the future cash flows representing principal and interest of financial assets under trust funds are as follows:

Product Type	Less than One Month	One to Three Months	Four Months to One Year	Two to Five Years	Above Five Years	Total
<b>December 31, 2018</b>						
Banco De Oro Educ Non Par	P 26,495,706	P198,950,170	P 49,747,993	P 500,191,650	P 910,338,613	P1,605,724,139
Banco De Oro-Pension Non Par	146,701,000	52,000,312	98,210,312	1,135,525,322	2,626,037,140	4,059,354,085
Banco De Oro Educ Par	23,449,500	27,995,737	25,039,339	324,724,754	403,724,147	804,933,557
Banco De Oro-Pension Par	6,744,067	10,623,190	33,387,270	369,078,516	542,570,580	962,403,631
	P203,470,352	P289,569,416	P206,304,921	P2,329,520,243	P4,483,470,480	P7,512,415,412
<b>December 31, 2017</b>						
Banco De Oro Educ Non Par	P 6,920,400	P 29,803,678	P 58,468,893	P 532,791,950	P1,247,816,333	P1,875,801,253
Banco De Oro-Pension Non Par	20,280,000	63,660,312	108,950,312	1,228,571,706	3,319,896,379	4,741,358,709
Banco De Oro Educ Par	2,755,590	7,505,737	26,249,339	321,969,595	487,140,587	845,620,848
Banco De Oro-Pension Par	3,444,472	11,368,190	37,962,278	412,230,232	697,909,332	1,162,914,504
	P33,400,462	P112,337,917	P231,630,822	P2,495,563,483	P5,752,762,631	P8,625,695,315

The factors affecting the Company's insurance and underwriting risks are described as follows:

a. *Product design and pricing risk*

This pertains to the risk arising from inappropriate or inadequate product design and pricing including deviations from the assumptions used in pricing products as a result of uncertainty concerning future investment yields, expenses, rates of plan termination and taxes.

Product design and pricing risk is the risk that a product does not perform as expected – with respect to either the Company or to the planholder – causing adverse financial and/or reputation consequences. This risk may arise from any combination of guarantees, rights and options granted to planholders or beneficiaries, inadequate assumptions, undiversifiable risks, sales and marketing approach and administrative difficulties.

Changes in planholder behavior, the investment and product markets, taxes, regulations, laws, consumer expectations, distribution channels and competing products may also impact the risk exposures of products.

Prudent product design and pricing is required to have strategic, marketing, risk and compliance, financial and actuarial objectives. This requires input from cross-functional teams each accountable for their own area of expertise.

The pricing adequacy of all products being offered needs to be regularly reviewed together with the changing market and industry environment for emerging trends and influences. The Company continually monitors and manages the guarantees, rights, options and the pricing adequacy of all products currently offered to limit exposure to risks that cannot be diversified. Approving authorities for new product initiatives are defined in the operational guidelines.

To manage product design and pricing risk, the Company sets standards and guidelines that address product design and pricing methods, pricing assumptions, profit margin objectives, required scenario analysis, documentation, internal peer review and pricing approval process.

*b. Legal, regulatory and market conduct risk management*

This refers to the risk associated with failure to comply with laws or to conduct business consistent with changing regulatory or public expectations.

The Company promotes strong compliance culture by setting the appropriate tone at the top, with respect to compliance with laws and regulations, and establishes compliance policies and framework. Compliance and legal obligations are monitored and reported to the BOD.

*c. Operational risk*

This refers to the uncertainty arising from internal events caused by failures of people, process and technology as well as external events.

This is the risk of loss resulting from inadequate or failed internal processes, controls, people and systems. Categories of operational risks may fall under: sales and distribution, human resources, information technology, processes and people, accounting and finance, model risk, legal and regulatory and third party relationships.

The Company ensures that internal controls and practices are consistent with enterprise wide policies supporting the management of operational risks.

The Company has established business specific guidelines. Comprehensive insurance program, including appropriate levels of self-insurance, is maintained to provide protection against potential losses. Environmental risk management program is maintained to help protect investment assets, primarily, whenever applicable, real estate, mortgage, and structured finance portfolios, from losses due to environment issues and to help ensure compliance with applicable laws.

## **Regulatory Compliance Management**

The Regulatory Compliance Management Policy sets out Sun life Financial's framework for the management and mitigation of Compliance Risk. In line with this framework, the Company adopted the Regulatory Compliance Management Operating Guidelines ("Guidelines"), with the objective establishing a strong, sustainable compliance risk management program that conforms to regulatory and industry standards, and provides reasonable assurance that the following outcomes are achieved;

- a) the identification, assessment, communication and maintenance of applicable compliance Requirements;
- b) the development, communication and maintenance of a system of key controls designed to effect compliance with applicable compliance requirements and to manage and mitigate compliance Risk;
- c) effective monitoring and oversight of management's day-to-day activities through which material compliance matters are identified, escalated and resolved; and
- d) timely reporting to the Audit and Compliance Committee, the Board and Management on the overall effectiveness of the Guidelines and the state of compliance in the Company.

The Board provides the highest level of independent oversight of the management and operations of the Company. The Board is also responsible for approving regulatory compliance Management guidelines (including the Anti-Money Laundering and Anti-Terrorist Financing, Privacy and Prevention of Anti-Bribery and Corruption Operating Guidelines), and ensuring that the same are reviewed and assessed on its effectiveness.

The Management implements day-to-day compliance. It is accountable for identifying and assessing compliance risks, specifically incorporating consideration of compliance risks in business activities and decisions, and managing compliance risks in day-to-day activities.

## **Sensitivity of PNR and ARL**

The key assumptions to which the estimation of the PNR and ARL are particularly sensitive are as follows:

### *Interest rates*

Estimates are made as to future investment income arising from the assets that back up pre-need contracts. These estimates are based on current market returns, expectations about future economic and financial development and the Company's investment strategies.

If investment returns are projected to increase, the valuation interest rates, specifically the attainable rates used in PNR computation, and the best estimate interest rate used for the ARL computation can also be increased. Increasing the valuation interest rates will result in a lower PNR and ARL.

If investment returns are projected to decrease, lower valuation interest rates should be set-up. Decreasing the valuation interest rates will result in an increase in the PNR and ARL.

### *Lapsed and surrender rates*

Lapses relate to the termination of pre-need plans due to non-payment of installments. Surrenders relate to voluntary termination of plans by the planholders. Plan termination assumptions are determined using statistical measures based on the Company's experience and vary by product type, plan duration and sales trends.

An increase in lapse and surrender rates generally results in lower PNR and ARL, while a decrease in lapse and surrender rates generally results in higher PNR and ARL.

A liability sensitivity analysis was performed on the two most significant valuation assumptions, which is lapse and surrender rates and interest rates. The PNR in this analysis is the liability before applying the staggered recognition of the TPNR liability in accordance with IC CL No. 23-2012. A 20% decrease in lapse and surrender rates, and 100 basis points drop in the interest rate would require an additional provision of P408 million and P355 million for PNR and ARL, respectively, in 2018 and P449 million and P369 million for PNR and ARL, respectively, in 2017.

### **33. CAPITAL RISK MANAGEMENT**

This policy is intended to safeguard capital for the benefit of all the stakeholders including the shareholders, debt holders and the planholders. The interest of the shareholders is to maximize returns after fixed obligations due to the debt holders. The interests of participating and other planholders are also protected under the demutualization agreements and the appropriate regulatory requirements.

The BOD establishes the written policies, standards and procedures necessary to effectively implement policies.

The level of capital adequacy risk accepted by the Company should be prudent as determined by management. Capital adequacy risk is mitigated through appropriate Risk Management policies and processes.

A pre-need company incorporated after the effectivity of pre-need code shall have a minimum paid-up capital of P100,000,000. The Company has complied with the abovementioned minimum requirement set by the SEC and IC.

#### *Capital structure*

The equity account of the Company consists of equity attributable to equity holders of the parent comprising of share capital, additional paid-in capital, contributed surplus, investment revaluation reserves, deficit and accumulated trust fund income.

Maximizing returns on capital requires maintenance of an optimal capital structure. The Company seeks to maintain the optimal mixture of available financial instruments within its capital structure.

The overall quality of the capital base is a function of the characteristics and amounts of the individual types of capital within the overall capital structure. In general, the quality of individual capital items is measured by the capital's permanency, degree of subordination, ability to absorb losses and fixed charge obligations.

The Company is committed to maintaining a sufficiently high quality capital structure to:

- a. Maintain the target level of financial strength;
- b. Achieve the target financial ratings; and
- c. Achieve the target capital adequacy requirements.

The Company's net equity of P201 million and P660 million as at December 31, 2018 and 2017, respectively, and the Company's share capital of P125 million as at December 31, 2018 and 2017 are higher than the minimum capital requirement of P75 million. As disclosed in Note 20, the Company obtained SEC approval on December 3, 2010 to reduce the Company's share capital from P700 million to P125 million.

Internal capital monitoring is being performed regularly by the Company. The Company's senior management reviews and monitors its capital, as well as its adherence to local regulatory capital requirements during its quarterly Asia Capital Meeting and presented to the Company's BOD semi-annually. The Company maintains at least the minimum capital required by the applicable local regulators.

The equity ratio in 2018 and 2017 are as follows:

	2018	2017
Equity	P 200,922,341	P 659,693,906
Total assets	6,325,174,592	7,272,460,024
Equity ratio	0.03:2	0.09:1

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

**34. SUPPLEMENTARY INFORMATION REQUIRED BY THE BIR UNDER REVENUE REGULATIONS NO. 15-2010**

The following supplementary information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

*Output VAT*

Details of the Company's output VAT declared in 2018 is as follows:

	Vatable	Zero-rated	Total
Revenue	P33,206,332	P -	P33,206,332
Output VAT	3,984,760	-	3,984,760

*Input VAT*

Details of the Company's input VAT claimed in 2018 are as follows:

Balance, January 1	P -
Add: Current year's domestic purchases/payments for Services lodged under cost of services	3,644,530
	3,644,530
Less: Claims for Input VAT	(3,644,530)
<b>Balance, December 31</b>	<b>P -</b>

*Other taxes and licenses*

Details of the Company's other taxes and licenses and permit fees paid or accrued in 2018 are as follows:

<b>Charged to General and Administrative Expenses</b>	
Local business taxes	P 884,370
Supervision fee	101,000
Permits and licenses	50,500
Registration and filing fees	48,750
Residence or community tax	10,500
Others	28,270
	<b>P1,123,390</b>



*Withholding taxes*

Details of the Company's withholding taxes paid or accrued during 2018 are as follows:

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Expanded withholding taxes	<b>P1,154,752</b>
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*Documentary stamp tax*

Details of the Company's payment of documentary stamp taxes per plan type in 2018 are as follows:

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Pension non-par	<b>P165,406</b>
Pension par	<b>9,317</b>
Educational par	<b>9,193</b>
Educational non-par	<b>3,117</b>
	<b>P187,033</b>

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*Deficiency tax assessments and tax cases*

At present, there are claims and tax assessments pending against the Company. In the opinion of the Management, after reviewing all actions and proceedings and court decisions with legal counsels, the aggregate liability or loss, if any, arising therefrom will not have a material effect on the Company's statements of financial position or statements of comprehensive income.

The Company received a Final Assessment Notice (FAN) from the BIR regarding deficiency taxes for the year ended December 31, 2006 covering VAT.

The VAT deficiency of P203 million pertains to the VAT on Trust Fund Contribution (TFC), which is currently a pre-need industry issue. A letter of protest has been submitted to support the Company's position that the contributions to the trust fund do not form part of its gross receipts subject to VAT. Contributions to the trust fund represent a certain percentage of the amounts collected from planholders which are held in trust by a pre-need company and earmarked as reserved fund per SEC mandate. Such trust fund is required to be deposited with an independent trust company to guarantee the faithful compliance of the pre-need company's obligations under the pre-need plan. Last January 15, 2016, the Company's external legal counsel confirmed that there is strong basis for the Company to raise the defense of prescription should the BIR attempt to commence collection actions or proceedings.

The Management strongly believes that the assumption by the external legal counsel remains valid as at December 31, 2018 and that no subsequent notice was received from the BIR. Hence, a tax provision on this issue is not necessary.

**35. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements of the Company have been approved and authorized for issuance by the Board of Directors on March 5, 2019.

\* \* \*

## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES


The Board of Directors and Shareholders  
SUN LIFE FINANCIAL PLANS, INC.  
[A Wholly Owned Subsidiary of Sun Life of Canada (Philippines), Inc.]  
2<sup>nd</sup> Floor, Sun Life Centre, 5<sup>th</sup> Avenue corner Rizal Drive  
Bonifacio Global City, Taguig City

We have audited the financial statements of Sun Life Financial Plans, Inc. as at and for the years ended December 31, 2018 and 2017 in accordance with Philippine Standards on Auditing, on which we have rendered an unqualified opinion dated March 5, 2019.

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 list of all effective accounting standards and interpretations as at December 31, 2018, as required by the Securities and Exchange Commission under SRC Rule 68, as amended, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of Management and has been subjected to the auditing procedures applied in our audit 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  
IC A. N. F-2017-001-R, issued on February 24, 2017; effective until February 23, 2020  
TIN 005299331

By:



Bonifacio F. Lumacang, Jr.  
Partner  
CPA License No. 0098090  
SEC A.N. 0526-AR-3, issued on April 21, 2016; effective until April 21, 2019, Group A  
IC A. N. SP-2017-003-O, issued on February 24, 2017; effective until February 23, 2020  
TIN 170035681  
BIR A.N. 08-002552-18-2018, issued on January 26, 2018; effective until January 26, 2021  
PTR No. A-4255733, issued on January 10, 2019, Taguig City

Taguig City, Philippines  
March 5, 2019



**Sun Life Financial Plans, Inc.**

List of Effective Standards and Interpretations under the Philippine Financial Reporting Standards (PFRS) as of December 31, 2018.

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
<b>Conceptual Framework for Financial Reporting</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs Practice Statement 1 Management Commentary</b>		✓		
<b>PFRSs Practice Statement 2 Making Materiality Judgments</b>		✓		
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	<i>First-time Adoption of Philippine Financial Reporting Standards</i>	✓		
	<i>Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>			✓
	<i>Amendments to PFRS 1: Additional Exemptions for First-time Adopters</i>			✓
	<i>Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters</i>			✓
	<i>Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters</i>			✓
	<i>Amendments to PFRS 1: Government Loans</i>			✓
	<i>Annual Improvements to PFRSs 2009-2011 Cycle - Amendments to PFRS 1: First-Time Adoption of PFRS</i>	✓		
	<i>Annual Improvements to PFRSs 2011-2013 Cycle - Amendments to PFRS 1: First-time Adoption of International Financial Reporting Standards (Changes to the Basis for Conclusions only)</i>	✓		
	<i>Annual Improvements to PFRSs 2014-2016 Cycle - Amendments to PFRS 1: Deletion of short-term exemptions for first-time adopters</i>	✓		
<b>PFRS 2</b>	<i>Share-based Payment</i>			✓
	<i>Amendments to PFRS 2: Vesting Conditions and Cancellations</i>			✓
	<i>Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions</i>			✓
	<i>Annual Improvements to PFRSs 2010-2012 Cycle - Amendments to PFRS 2: Definition of Vesting Condition</i>			✓
	<i>Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions</i>			✓
<b>PFRS 3 (Revised)</b>	<i>Business Combinations</i>			✓
	<i>Annual Improvements to PFRSs 2010-2012 Cycle</i>			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
	- Amendments to PFRS 3: <i>Accounting for Contingent Consideration in a business combination</i>			
	Annual Improvements to PFRSs 2011-2013 Cycle - Amendments to PFRS 3: <i>Scope of Exception for Joint Ventures</i>			✓
	Annual Improvements to PFRSs 2015-2017 Cycle - Amendments to PFRS 3: <i>Previously held interest in a joint operation*</i>		✓	
	Amendments to PFRS 3: <i>Definition of a Business*</i>		✓	
PFRS 4	<i>Insurance Contracts</i>			✓
	Amendments to PAS 39 and PFRS 4: <i>Financial Guarantee Contracts</i>			✓
	Amendments to PFRS 4: Applying PFRS 9, <i>Financial Instruments</i> with PFRS 4, <i>Insurance Contracts</i>			✓
PFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>			✓
	Annual Improvements to PFRSs 2012-2014 Cycle - Amendments to PFRS 5: <i>Changes in methods of disposal</i>			✓
PFRS 6	<i>Exploration for and Evaluation of Mineral Resources</i>			✓
PFRS 7	<i>Financial Instruments: Disclosures</i>	✓		
	Amendments to PAS 39 and PFRS 7: <i>Reclassification of Financial Assets</i>	✓		
	Amendments to PAS 39 and PFRS 7: <i>Reclassification of Financial Assets - Effective Date and Transition</i>	✓		
	Amendments to PFRS 7: <i>Improving Disclosures about Financial Instruments</i>	✓		
	Amendments to PFRS 7: <i>Disclosures - Transfers of Financial Assets</i>	✓		
	Amendments to PFRS 7: <i>Disclosures - Offsetting Financial Assets and Financial Liabilities</i>	✓		
	Amendments to PFRS 7: <i>Mandatory Effective Date of PFRS 9 and Transition Disclosures</i>	✓		
	Amendments to PFRS 7: <i>Hedge Accounting Disclosures</i>			✓
	Annual Improvements to PFRSs 2012-2014 Cycle - Amendments to PFRS 7: <i>Servicing contracts and Applicability of the amendments to PFRS 7 to condensed interim financial statements</i>			✓
PFRS 8	<i>Operating Segments</i>			✓
	Annual Improvements to PFRSs 2010-2012 Cycle - Amendments to PFRS 8: <i>Aggregation of Operating Segments and Reconciliation of the reportable segments' assets to the entity's assets</i>			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
<b>PFRS 9</b>	<i>Financial Instruments (2014)</i>	✓		
	<i>Amendments to PFRS 9: Prepayment Features with Negative Compensation*</i>		✓	
<b>PFRS 10</b>	<i>Consolidated Financial Statements</i>			✓
	<i>Amendments to PFRS 10: Consolidated Financial Statement: Transition Guidance</i>			✓
	<i>Amendments to PFRS 10: Transition Guidance and Investment Entities</i>			✓
	<i>Amendments to PFRS 10: Sales or contributions of assets between an investor and its associate/joint venture*</i>		✓	
	<i>Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception</i>			✓
<b>PFRS 11</b>	<i>Joint Arrangements</i>			✓
	<i>Amendments to PFRS 11: Joint Arrangements: Transition Guidance</i>			✓
	<i>Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations</i>			✓
	<i>Annual Improvements to PFRSs 2015-2017 Cycle - Amendments to PFRS 11: Previously held interest in a joint operation*</i>		✓	
<b>PFRS 12</b>	<i>Disclosure of Interests in Other Entities</i>	✓		
	<i>Amendments to PFRS 12: Disclosure of Interests in Other Entities: Transition Guidance</i>	✓		
	<i>Amendments to PFRS 12: Transition Guidance and Investment Entities</i>	✓		
	<i>Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception</i>	✓		
	<i>Annual Improvements to PFRSs 2014-2016 Cycle - Amendments to PFRS 12: Clarification of the scope of the standard</i>	✓		
<b>PFRS 13</b>	<i>Fair Value Measurement</i>	✓		
	<i>Annual Improvements to PFRSs 2010-2012 Cycle - Amendments to PFRS 13: Fair Value Measurement (Amendments to the Basis of Conclusions only, with consequential amendments to the Bases of Conclusions of other standards)</i>	✓		
	<i>Annual Improvements to PFRSs 2011-2013 Cycle - Amendments to PFRS 13: Portfolio Exception</i>	✓		
<b>PFRS 14</b>	<i>Regulatory Deferral Accounts</i>			✓
<b>PFRS 15</b>	<i>Revenue from Contracts with Customers</i>			✓
	<i>Amendments to PFRS 15: Clarifications to PFRS 15</i>			✓
<b>PFRS 16</b>	<i>Leases*</i>		✓	
<b>PFRS 17</b>	<i>Insurance Contracts*</i>		✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	<i>Presentation of Financial Statements</i>	✓		
	<i>Amendment to PAS 1: Capital Disclosures</i>	✓		
	<i>Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation</i>	✓		
	<i>Amendments to PAS 1: Presentation of Items of Other Comprehensive Income</i>	✓		
	<i>Annual Improvements to PFRSs 2009-2011 Cycle - Amendments to PAS 1: Comparative Information</i>	✓		
	<i>Amendments to PAS 1: Disclosure Initiative</i>	✓		
	<i>Amendments to PAS 1: Definition of Material*</i>		✓	
<b>PAS 2</b>	<i>Inventories</i>			✓
<b>PAS 7</b>	<i>Statement of Cash Flows</i>	✓		
	<i>Amendments to PAS 7: Disclosure Initiative</i>	✓		
<b>PAS 8</b>	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	✓		
	<i>Amendments to PAS 8: Definition of Material*</i>		✓	
<b>PAS 10</b>	<i>Events after the Reporting Period</i>	✓		
<b>PAS 12</b>	<i>Income Taxes</i>	✓		
	<i>Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets</i>	✓		
	<i>Amendment to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses</i>	✓		
	<i>Annual Improvements to PFRSs 2015-2017 Cycle - Amendments to PAS 12: Income tax consequences of payments on financial instruments classified as equity*</i>		✓	
<b>PAS 16</b>	<i>Property, Plant and Equipment</i>			✓
	<i>Annual Improvements to PFRSs 2009-2011 Cycle - Amendments to PAS 16: Servicing Equipment</i>			✓
	<i>Annual Improvements to PFRSs 2010-2012 Cycle - Amendments to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation</i>			✓
	<i>Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation</i>			✓
	<i>Amendments to PAS 16: Agriculture: Bearer Plants</i>			✓
<b>PAS 17</b>	<i>Leases</i>			✓
<b>PAS 19 (Amended)</b>	<i>Employee Benefits (2011)</i>	✓		
	<i>Amendments to PAS 19: Defined Benefit Plans: Employee Contributions</i>	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
	Annual Improvements to PFRSs 2012-2014 Cycle - Amendments to PAS 19: <i>Discount rate: regional market issue</i>	✓		
	Amendments to PAS 19: <i>Plan Amendment, Curtailment or Settlement*</i>		✓	
<b>PAS 20</b>	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>			✓
<b>PAS 21</b>	<i>The Effects of Changes in Foreign Exchange Rates</i>	✓		
	Amendment to PAS 21: <i>Net Investment in a Foreign Operation</i>	✓		
<b>PAS 23 (Revised)</b>	<i>Borrowing Costs</i>			✓
	Annual Improvements to PFRSs 2015-2017 Cycle - Amendments to PAS 23: <i>Borrowing costs eligible for capitalization*</i>		✓	
<b>PAS 24 (Revised)</b>	<i>Related Party Disclosures</i>	✓		
	Annual Improvements to PFRSs 2010-2012 Cycle - Amendments to PAS 24: <i>Key Management Personnel</i>	✓		
<b>PAS 26</b>	<i>Accounting and Reporting by Retirement Benefit Plans</i>			✓
<b>PAS 27 (Amended)</b>	<i>Separate Financial Statements</i>	✓		
	Amendments to PAS 27: <i>Transition Guidance and Investment Entities</i>	✓		
	Amendments to PAS 27: <i>Equity Method in Separate Financial Statements</i>	✓		
<b>PAS 28 (Amended)</b>	<i>Investments in Associates and Joint Ventures</i>			✓
	Amendments to PAS 28: <i>Investment Entities: Applying the Consolidation Exception</i>			✓
	Amendments to PAS 28: <i>Sales or contributions of assets between an investor and its associate/joint venture*</i>		✓	
	Annual Improvements to PFRSs 2014-2016 Cycle - Amendments to PAS 28: <i>Measuring an associate or joint venture at fair value</i>			✓
	Amendments to PAS 28: <i>Long-term Interests and Joint Ventures *</i>		✓	
<b>PAS 29</b>	<i>Financial Reporting in Hyperinflationary Economies</i>			✓
<b>PAS 32</b>	<i>Financial Instruments: Disclosure and Presentation</i>	✓		
	Amendments to PAS 32 and PAS 1: <i>Puttable Financial Instruments and Obligations Arising on Liquidation</i>			✓
	Amendment to PAS 32: <i>Classification of Rights Issues</i>			✓
	Annual Improvements to PFRSs 2009-2011 Cycle - Amendments to PAS 32: <i>Tax Effect of Equity</i>	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
	<i>Distributions</i>			
	Amendments to PAS 32: <i>Offsetting Financial Assets and Financial Liabilities</i>	✓		
<b>PAS 33</b>	<i>Earnings per Share</i>	✓		
<b>PAS 34</b>	<i>Interim Financial Reporting</i>	✓		
	Annual Improvements to PFRSs 2009-2011 Cycle - Amendments to PAS 34: <i>Interim Reporting of Segment Assets</i>	✓		
	Annual Improvements to PFRSs 2012-2014 Cycle - Amendments to PAS 34: <i>Disclosure of information 'elsewhere in the interim financial report'</i>	✓		
<b>PAS 36</b>	<i>Impairment of Assets</i>	✓		
	Amendments to PAS 36: <i>Recoverable Amount Disclosures for Non-Financial Assets</i>	✓		
<b>PAS 37</b>	<i>Provisions, Contingent Liabilities and Contingent Assets</i>	✓		
<b>PAS 38</b>	<i>Intangible Assets</i>	✓		
	Annual Improvements to PFRSs 2010-2012 Cycle - Amendments to PAS 38: <i>Revaluation Method - Proportionate Restatement of Accumulated Amortization</i>	✓		
	Amendments to PAS 38: <i>Clarification of Acceptable Methods of Amortization</i>	✓		
<b>PAS 40</b>	<i>Investment Property</i>			✓
	Annual Improvements to PFRSs 2011-2013 Cycle - Amendments to PAS 40: <i>Clarifying the Interrelationship of PFRS 3 and PAS 40 When Classifying Property as Investment Property or Owner-Occupied Property</i>			✓
	Amendments to PAS 40: <i>Transfers of Investment Property</i>			✓
<b>PAS 41</b>	<i>Agriculture</i>			✓
	Amendments to PAS 41: <i>Agriculture: Bearer Plants</i>			✓
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	<i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>			✓
<b>IFRIC 2</b>	<i>Members' Share in Co-operative Entities and Similar Instruments</i>			✓
<b>IFRIC 4</b>	<i>Determining Whether an Arrangement Contains a Lease</i>			✓
<b>IFRIC 5</b>	<i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>			✓
<b>IFRIC 6</b>	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic</i>			✓



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
	Equipment			
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 8</b>	Scope of PFRS 2			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment	✓		
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC-14: Prepayments of a Minimum Funding Requirement	✓		
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners	✓		
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments	✓		
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>IFRIC 21</b>	Levies			✓
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration			✓
<b>IFRIC 23</b>	Uncertainty over Income Tax Treatments*		✓	
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-15</b>	Operating Leases - Incentives			✓
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	✓		
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs		✓	
<b>PIC Q&amp;A No. 2006-02</b>	Clarification of criteria for exemption from presenting consolidated financial statements [Amended by PIC Q&A No. 2013-02 and PIC Q&A No. 2017-01]			✓
<b>PIC Q&amp;A No. 2007-03</b>	Valuation of Bank Real and Other Properties Acquired (ROPA)			✓
<b>PIC Q&amp;A No. 2008-</b>	Rate used in discounting post-employment benefit obligations [Amended by PIC Q&A No. 2016-01]	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
<b>01</b> <b>(Revised)</b>				
<b>PIC Q&amp;A No. 2009-01</b>	<i>Financial statements prepared on a basis other than going concern [Amended by PIC Q&amp;A No. 2013-02 and PIC Q&amp;A No. 2018-13]</i>		✓	
<b>PIC Q&amp;A No. 2010-02</b>	<i>Basis of preparation of financial statements [Amended by PIC Q&amp;A No. 2017-01 and PIC Q&amp;A No. 2018-13]</i>	✓		
<b>PIC Q&amp;A No. 2010-03</b>	<i>Current/non-current Classification of a Callable Term Loan</i>			✓
<b>PIC Q&amp;A No. 2011-02</b>	<i>Common Control Business Combinations</i>			✓
<b>PIC Q&amp;A No. 2011-03</b>	<i>Accounting for Inter-company Loans [Amended by PIC Q&amp;A No. 2015-01 and PIC Q&amp;A No. 2018-13]</i>	✓		
<b>PIC Q&amp;A No. 2011-04</b>	<i>Costs of Public Offering of Shares [Amended by PIC Q&amp;A No. 2018-13]</i>			✓
<b>PIC Q&amp;A No. 2011-05</b>	<i>Fair Value or Revaluation as Deemed Cost [Amended by PIC Q&amp;A No. 2016-01 and PIC Q&amp;A No. 2018-13]</i>			✓
<b>PIC Q&amp;A No. 2011-06</b>	<i>Acquisition of Investment Properties – Asset Acquisition or Business Combination?</i>			✓
<b>PIC Q&amp;A No. 2012-01</b>	<i>Application of the Pooling of Interests Method for Business Combinations of Entities under Common Control in Consolidated Financial Statements [Amended by PIC Q&amp;A No. 2015-01 and PIC Q&amp;A No. 2018-13]</i>			✓
<b>PIC Q&amp;A No. 2012-02</b>	<i>Cost of a New Building Constructed on Site of a Previous Building</i>			✓
<b>PIC Q&amp;A No. 2013-02</b>	<i>Conforming Changes to PIC Q&amp;As - Cycle 2013</i>			✓
<b>PIC Q&amp;A No. 2013-03 (Revised)</b>	<i>Accounting for Employee Benefits under a Defined Contribution Plan Subject to Requirement of Republic Act (RA) 7641: The Philippine Retirement Law</i>	✓		
<b>PIC Q&amp;A No. 2015-01</b>	<i>Conforming Changes to PIC Q&amp;As - Cycle 2015</i>	✓		
<b>PIC Q&amp;A 2016-01</b>	<i>Conforming changes to PIC Q&amp;As – Cycle 2016</i>	✓		
<b>PIC Q&amp;A No. 2016-02</b>	<i>Accounting Treatment of Club Shares Held by an Entity [Amended by PIC Q&amp;A No. 2018-13]</i>			✓
<b>PIC Q&amp;A</b>	<i>Accounting for Common Areas and the Related</i>			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
No. 2016-03	Subsequent Costs by Condominium Corporations [Amended by PIC Q&A No. 2018-13]			
PIC Q&A 2016-04	Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-completion Contract			✓
PIC Q&A No. 2017-01	Conforming Changes to PIC Q&As – Cycle 2017*		✓	
PIC Q&A No. 2017-02	Capitalization of operating lease cost as part of construction costs of a building			✓
PIC Q&A No. 2017-03	Elimination of profits and losses resulting from transactions between associates and/or joint ventures			✓
PIC Q&A No. 2017-04	Related party relationships between parents, subsidiary, associate and non-controlling shareholder	✓		
PIC Q&A No. 2017-05	Frequently asked questions on the disclosure requirements of financial instruments under PFRS 7, Financial Instruments: Disclosures [Amended by PIC Q&A No. 2018-13]	✓		
PIC Q&A No. 2017-06	Accounting for collector's items			✓
PIC Q&A No. 2017-07	Accounting for reciprocal holdings in associates and joint ventures			✓
PIC Q&A No. 2017-08	Requirement to prepare consolidated financial statements where an entity disposes of its single investment in a subsidiary, associate or joint venture			✓
PIC Q&A No. 2017-09	Accounting for payments between and among lessors and lessees			✓
PIC Q&A No. 2017-10	Separation of property and classification as investment property			✓
PIC Q&A No. 2017-11	Transaction costs incurred to acquire outstanding non-controlling interest or to sell non-controlling interest without a loss of control			✓
PIC Q&A No. 2017-12	Subsequent Treatment of Equity Component Arising from Intercompany Loans			✓
PIC Q&A No. 2018-01	Voluntary changes in accounting policy*		✓	
PIC Q&A No. 2018-02	Non-controlling interests and goodwill impairment test*		✓	
PIC Q&A	Fair value of property, plant and equipment and		✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
No. 2018-03	<i>depreciated replacement cost*</i>			
PIC Q&A No. 2018-04	<i>Inability to measure fair value reliably for biological assets within the scope of PAS 41, Agriculture*</i>		✓	
PIC Q&A No. 2018-05	<i>Liability arising from maintenance requirement of an asset held under a lease*</i>		✓	
PIC Q&A No. 2018-06	<i>Cost of investment in subsidiaries in separate financial statements when pooling is applied in consolidated financial statements*</i>		✓	
PIC Q&A No. 2018-07	<i>Cost of an associate, joint venture, or subsidiary in separate financial statements [Amended by PIC Q&amp;A No. 2018-13*]</i>		✓	
PIC Q&A No. 2018-08	<i>Accounting for the acquisition of a non-wholly owned subsidiary that is not a business*</i>		✓	
PIC Q&A No. 2018-09	<i>Classification of deposits and progress payments as monetary or nonmonetary items*</i>		✓	
PIC Q&A No. 2018-10	<i>Scope of disclosure of inventory write-downs*</i>		✓	
PIC Q&A No. 2018-11	<i>Classification of land by real estate developer*</i>		✓	
PIC Q&A No. 2018-12	<i>PFRS 15 implementation issues affecting the real estate industry</i>			✓
PIC Q&A No. 2018-13	<i>Conforming Changes to PIC Q&amp;As - Cycle 2018*</i>		✓	
PIC Q&A No. 2018-14	<i>Accounting for Cancellation of Real Estate Sales*</i>		✓	
PIC Q&A No. 2018-15	<i>Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current*</i>		✓	

\* These are the new and revised accounting standards and interpretations that are effective for annual period beginning on or after the reporting period ended December 31, 2018.