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Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 988 2288

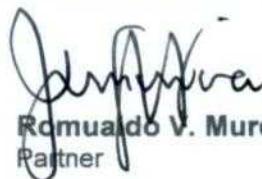
**Report of Independent
Certified Public Accountants
to Accompany Income Tax Return**

The Board of Directors
United Coconut Planters Life Assurance Corporation
Cocolife Building, 6807 Ayala Avenue
Makati City

We have audited the financial statements of United Coconut Planters Life Assurance Corporation (the Company) for the year ended December 31, 2018, on which we have rendered the attached report dated March 22, 2019.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Company.

PUNONGBAYAN & ARAULLO



By: **Romualdo V. Murcia III**
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 7333697, January 3, 2019, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-3 (until Nov. 29, 2019)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-22-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION

Date **APR 29 2019** TSIS

RECEIVED March 22, 2019

MELINA PRISCA S. RANJO



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Report of Independent Auditors

The Board of Directors
United Coconut Planters Life Assurance Corporation
Cocolife Building, 6807 Ayala Avenue
Makati City

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of United Coconut Planters Life Assurance Corporation (the Company), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Qualified Opinion

(a) Validity and Recoverability of Available-for-Sale (AFS) Financial Assets

The Company has investments in Coconut Industry Investment Fund (CIIF) Oil Mills Companies (collectively referred to as CIIF Oil Mills Group or CIIF-OMG) and United Coconut Planters Bank (UCPB), which are carried as AFS financial assets measured at fair value and at cost, respectively, as disclosed in Note 10 to the financial statements. As at December 31, 2018 and 2017, the carrying amount of the Company's investments in both CIIF Oil Mills Companies and UCPB amounted to P6.3 billion and P7.0 billion, respectively, which represent 23% and 62% of the Company's total assets and net assets, respectively, as of December 31, 2018, and 26% and 71% of the Company's total assets and net assets, respectively, as of December 31, 2017.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date **APR 29 2019** TSIS

Certified Public Accountants
Punongbayan & Araullo (PSA) is the Philippine member firm of Grant Thornton International Ltd
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Offices in Cavite, Cebu, Davao
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As fully discussed in Note 10 to the financial statements, on January 24, 2012, the Supreme Court (SC) rendered its decisions in favor of the government in two cases involving (a) the ownership of certain sequestered shares of UCPB by the Presidential Commission on Good Government (PCGG); and, (b) the ownership over the CIIF Oil Mills Companies, the 14 CIIF holding companies and the shares of stock in San Miguel Corporation (SMC) held by the 14 CIIF Holding companies, together with all dividends declared, paid and issued thereon as well as any increments thereto arising from, but not limited to, exercise of pre-emptive rights. Relative to the SC decisions, on May 18, 2015, the President of the Republic of the Philippines issued Executive Orders (EOs) regarding the inventory, reconveyance, utilization and privatization of coco levy assets. The EOs made reference to the SC decision stating that a majority of the sequestered shares of stock of the CIIF Oil Mills Companies, the CIIF Holding Companies, and the Converted SMC Series 1 Preferred Shares is owned by the Republic of the Philippines for the benefit of the coconut farmers and for the development of the coconut industry, thus making it a part of the coco levy assets.

On December 10, 2014, the SC issued a resolution directing that an entry of judgment be made for its January 24, 2012 Decision, which ordered the reconveyance of the CIIF Block of SMC shares to the Philippine Government, to be used exclusively for the benefit of coconut farmers and the development of the local coconut industry.

On June 30, 2015, the SC issued a temporary restraining order enjoining the implementation of the EOs but prior to such issuance, there was a transfer of fund at the Bureau of Treasury from the account "Presidential Commission on Good Government in trust for 14 CIIF Holding Companies" to "SAGF for Coco Levies" account.

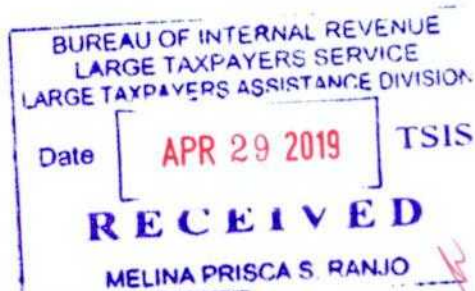
On September 15, 2015, the SC dismissed the separate petitions made by UCPB and the Company last December 28, 2012 for declaratory relief which was filed before the Makati Regional Trial Court (Makati RTC). The SC confirms that the Makati RTC has no jurisdiction over the Company's petition. The SC further confirms that the Sandiganbayan has sole jurisdiction over any and all incidents affecting the coco levy funds and assets.

On April 4, 2016, the PCGG filed before the Sandiganbayan a motion for partial execution of the EOs. However, on April 19, 2017, the Company filed a motion for leave of court to file comment before the Sandiganbayan to protect or preserve the vested right or legal interest of the Company that will be adversely affected by the execution of the EOs.

On December 29, 2017, the Sandiganbayan favorably acted on the Company's, UCPB's and the CIIF Oil Mill's pleadings and allowed them to be heard by presenting their legal positions and claims on the CIIF-OMG investments on January 29, 2018.

On January 29, 2018, the resolution discussed during the hearing was related only to the motion for reconsideration filed by the Office of the Solicitor General (OSG) opposing the resolution of Sandiganbayan dated December 29, 2017 which allowed the Company, UCPB and CIIF Oil Mills Company to present their legal position and claims.

On December 3, 2018, the Sandiganbayan affirmed the Partial Summary of Judgment of the Court dated May 7, 2004, finding that the CIIF Companies, the 14 Holding Companies, and the CIIF Block of San Miguel Corporation (SMC) shares are owned by plaintiff Republic of the Philippines.

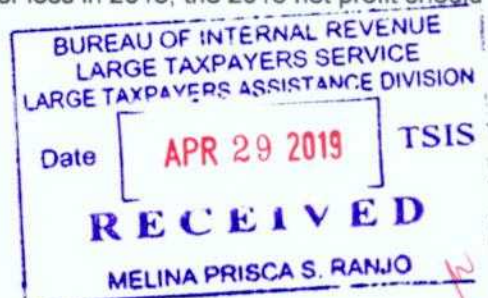


With the foregoing Sandiganbayan and SC decisions rendering favorable judgment to the government and the EOs issued by the President of the Republic of the Philippines, the validity of the Company's rights, as well as, the recoverability of its investments in CIIF Oil Mills Companies and UCPB amounting to P6.3 billion and P7.0 billion, respectively, as of December 31, 2018 and 2017, is uncertain and should, therefore, already be impaired as of December 31, 2014. In this regard, PFRS requires the Company to assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. As of December 31, 2018, the Company assessed that these investments are indeed impaired. Relative to this, the Company has applied to the Insurance Commission (IC) for a ten-year staggered recognition of impairment losses related to its investments in CIIF Oil Mills Companies and UCPB, without prejudice to recoverability or legal recourse against the seller of the shares. The Company had already written off portion of the carrying amount of its investments in CIIF Oil Mills Companies and UCPB amounting to P700.60 million in 2018 which was adjusted against the balance of deferred tax liabilities, reserve for fluctuation of AFS financial assets and impairment loss amounting to P63.35 million, P570.12 million, and P67.13 million, respectively. As of audit report date, the Company has yet to obtain the approval of the Insurance Commission on its application for staggered recognition of impairment losses. Had the Company recognized such impairment losses in 2014, the carrying amounts of the AFS financial assets, deferred tax liabilities, reserve for fluctuations on AFS financial assets, and retained earnings at the end of the reporting period should have been reduced by P7.0 billion, P0.6 billion, P5.7 billion, and P0.7 billion, respectively. Such impairment loss has no impact on the Company's 2018 and 2017 net profit as it should have been recognized already in 2014, however, total equity and retained earnings of the Company should have been reduced by P5.7 billion and P0.6 billion, respectively, as of December 31, 2018, and P6.4 billion and P0.7 billion, respectively, as of December 31, 2017.

(b) Impairment of Investments in Subsidiaries

The Company has investments in Cocoplans Inc. (Cocoplans), Archipelago Motor Corporation (AMC) and New Ultra Security Services, Inc. (New Ultra), classified as investments in subsidiaries, which indicate that the costs of investments are deemed to be impaired as of December 31, 2018, as their carrying amounts were significantly lower than their respective recoverable amounts. In accordance with PAS 36, *Impairment of Assets*, an asset is impaired when its carrying amount exceeds its recoverable amount. Consequently, an impairment loss shall be recognized immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard.

As of December 31, 2018, the Company assessed that its investments in subsidiaries, namely, Cocoplans, AMC and New Ultra are partially impaired by P227.67 million. In addition, the Company's investments in AMC preferred shares (classified as AFS financial assets), as well as, its receivables from New Ultra, amounting to P17.98 million and P2.50 million, respectively, are already fully impaired. However, management adjusted retroactively these impairment losses against the opening balance of Retained Earnings account as management believes that the investments in those subsidiaries and the receivables were already impaired in prior years due to continuing losses of those subsidiaries. However, in accordance with PAS 36, *Impairment of Assets*, an impairment loss shall be recognised in the profit or loss in the period the impairment was assessed. Accordingly, the amount of impairment losses should have been charged in profit or loss in 2018. Had the Company recognized such impairment losses in profit or loss in 2018, the 2018 net profit should have been reduced by P248.15 million.



We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits 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 qualified opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness and 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.

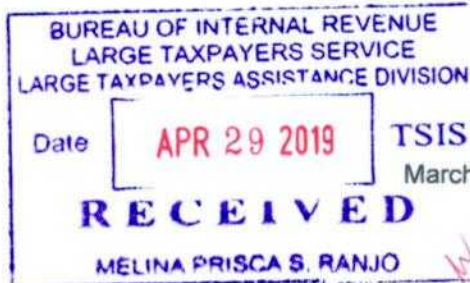
Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2018 required by the Bureau of Internal Revenue as disclosed in Note 38 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS; neither it is required by the Securities Regulation Code Rule 68, as amended, of the Philippine Securities and Exchange Commission. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the 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.

PUNONGBAYAN & ARAULLO

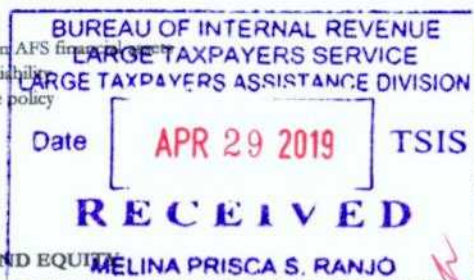

By: **Romualdo V. Murcia III**
Partner

CPA Reg. No. 0095626
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Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)



UNITED COCONUT PLANTERS LIFE ASSURANCE CORPORATION
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2018 AND 2017
 (Amounts in Philippine Pesos)

	Notes	2018	2017
ASSETS			
CASH AND CASH EQUIVALENTS	7	P 2,758,306,117	P 2,019,925,731
INSURANCE RECEIVABLES - Net	8	705,597,601	352,514,163
TRADING AND INVESTMENT SECURITIES			
Financial assets at fair value through profit or loss	9	3,461,926,397	2,035,769,681
Available-for-sale (AFS) financial assets	10	11,604,723,224	12,552,691,239
LOANS AND OTHER RECEIVABLES - Net	11	6,956,667,459	7,660,292,711
ACCRUED INCOME - Net	12	63,180,439	89,290,567
REINSURANCE ASSETS	13	19,626,422	41,622,109
INVESTMENTS IN SUBSIDIARIES AND AN ASSOCIATE - Net	14	929,396,949	1,157,068,701
REAL ESTATE INVENTORIES	15	20,081,136	22,231,636
INVESTMENT PROPERTIES - Net	16	853,098,151	879,610,777
PROPERTY AND EQUIPMENT - Net	17	158,453,610	160,361,587
INTANGIBLE ASSETS - Net	18	5,417,569	8,551,886
OTHER ASSETS - Net	19	361,152,849	239,085,480
TOTAL ASSETS		P 27,897,627,923	P 27,219,016,268
LIABILITIES AND EQUITY			
INSURANCE CONTRACT LIABILITIES	20	P 14,643,775,238	P 13,643,462,178
RESERVE FOR POLICYHOLDERS' DIVIDENDS	21	191,724,568	174,761,440
PREMIUM DEPOSIT FUNDS	22	646,413,900	882,493,782
INSURANCE PAYABLES	23	74,102,265	321,461,923
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	24	1,523,583,427	1,305,232,848
DEFERRED TAX LIABILITIES - Net	32	396,855,686	452,739,315
NET PENSION LIABILITY	31	99,331,640	196,710,069
OTHER LIABILITIES	24	144,819,842	156,562,903
Total Liabilities		<u>17,720,606,566</u>	<u>17,133,424,458</u>
EQUITY			
Capital stock	25	550,000,000	550,000,000
Contributed surplus		10,000,000	10,000,000
Reserve for fluctuation on AFS financial assets		4,069,713,646	5,312,898,733
Reserve for net pension liability		(201,608,532)	(209,968,624)
Reserve for life insurance policy	2	1,245,646,438	267,663,308
Retained earnings	25	4,503,269,805	4,154,998,393
Total Equity		<u>10,177,021,357</u>	<u>10,085,591,810</u>
TOTAL LIABILITIES AND EQUITY		P 27,897,627,923	P 27,219,016,268



UNITED COCONUT PLANTERS LIFE ASSURANCE CORPORATION
 STATEMENTS OF COMPREHENSIVE INCOME
 DECEMBER 31, 2018 AND 2017
 (Amounts in Philippine Pesos)

	Notes	2018	2017
NET INSURANCE PREMIUMS			
Gross premiums on insurance contracts	26	P 6,534,724,558	P 5,494,895,685
Reinsurance premiums ceded		(24,086,301)	(162,818,174)
		<u>6,510,638,257</u>	<u>5,332,077,511</u>
OTHER REVENUES			
Investment income	27	1,110,617,529	1,347,409,253
Service fees	28	378,322,654	340,234,171
Foreign exchange gains - net	9, 10	3,529,323	1,132,836
Decrease in loading and cost of collection	2	-	3,913,950
Other income	27	947,181,245	1,064,239,224
		<u>2,439,650,751</u>	<u>2,756,929,434</u>
NET INSURANCE BENEFITS AND CLAIMS			
Gross benefits and claims	29	3,671,872,292	2,875,631,292
Gross change in insurance contract liabilities		1,709,498,063	1,691,547,719
Reinsurers' share on benefits and claims		(13,732,014)	(36,368,530)
Reinsurers' share of gross change in insurance contract liabilities		<u>190,638</u>	<u>139,388</u>
		<u>5,367,828,979</u>	<u>4,530,949,869</u>
OPERATING AND ADMINISTRATIVE EXPENSES			
General and administrative expenses	30	1,499,373,254	1,291,181,206
Commissions		721,848,153	739,444,170
Premium refund		273,031,337	354,326,566
Investment expenses	27	233,865,696	361,548,694
Insurance taxes		124,122,354	100,949,870
Policyholders' dividends		51,272,457	34,468,982
Increase in loading and cost of collection	2	15,037,413	-
Interest expense		<u>272,325</u>	<u>11,574,726</u>
		<u>2,918,822,989</u>	<u>2,893,494,214</u>
PROFIT BEFORE TAX		663,637,040	664,562,862
TAX EXPENSE	32	<u>67,215,501</u>	<u>19,512,205</u>
NET PROFIT		<u>596,421,539</u>	<u>645,050,657</u>
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Remeasurement of life insurance policy reserves	2	977,983,130	267,056,656
Remeasurement of net pension liability	31	11,942,988	(28,919,528)
Income tax effect	32	(3,582,896)	29,840,903
		<u>986,343,222</u>	<u>267,978,031</u>
<i>Items that will be reclassified subsequently to profit or loss</i>			
Fair value gains (losses) during the year	10	(1,813,302,610)	206,907,490
Fair value losses on impairment of available-for-sale financial assets reclassified to profit or loss	10	633,463,914	47,975,886
Income tax effect		(63,346,391)	-
		<u>1,243,185,087</u>	<u>254,883,376</u>
Other Comprehensive Income (Loss) - net of tax		<u>256,841,865</u>	<u>522,861,407</u>
TOTAL COMPREHENSIVE INCOME		<u>P 339,579,674</u>	<u>P 1,167,912,064</u>

BUREAU OF INTERNAL REVENUE
 LARGE TAXPAYERS SERVICE
 LARGE TAXPAYERS ASSISTANCE DIVISION
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See Notes to Financial Statements.

UNITED COCONUT PLANTERS LIFE ASSURANCE CORPORATION
 STATEMENTS OF CHANGES IN EQUITY
 DECEMBER 31, 2018 AND 2017
 (Amounts in Philippine Pesos)

	Notes	Capital Stock	Contributed Surplus	Reserve for Fluctuation on Available-for-sale Financial Assets	Reserve for Net Pension Liability	Reserve for Life Insurance Policy	Retained Earnings		Total
							Appropriated	Unappropriated	
Balance at January 1, 2018		P 550,000,000	P 10,000,000	P 5,312,898,733	(P 209,968,624)	P 267,663,308	P 36,451,653	P 4,118,546,740	P 10,085,591,810
Impairment of investment in subsidiaries and others	10, 14	-	-	-	-	-	-	(248,150,127)	(248,150,127)
Additional appropriation for policy reserves	25	-	-	-	-	-	25,208,128	(25,208,128)	-
Total comprehensive income (loss) for the year	31	-	-	(1,243,185,087)	8,360,092	977,983,130	-	596,421,539	339,579,674
Balance at December 31, 2018		P 550,000,000	P 10,000,000	P 4,069,713,646	(P 201,608,532)	P 1,245,646,438	P 61,659,781	P 4,441,610,024	P 10,177,021,357
Balance at January 1, 2017		P 550,000,000	P 10,000,000	P 5,058,015,357	(P 210,889,999)	P 606,652	P 67,036,144	P 3,442,911,592	P 8,917,679,746
Reversal of appropriation	25	-	-	-	-	-	(30,584,491)	30,584,491	-
Total comprehensive income for the year	31	-	-	254,883,376	921,375	267,056,656	-	645,050,657	1,167,912,064
Balance at December 31, 2017		P 550,000,000	P 10,000,000	P 5,312,898,733	(P 209,968,624)	P 267,663,308	P 36,451,653	P 4,118,546,740	P 10,085,591,810

See Notes to Financial Statements.

BUREAU OF INTERNAL REVENUE
 LARGE TAXPAYERS SERVICE
 LARGE TAXPAYERS ASSISTANCE DIVISION

Date

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UNITED COCONUT PLANTERS LIFE ASSURANCE CORPORATION
STATEMENTS OF CASH FLOWS
DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 663,637,040	P 664,562,862
Adjustments for:			
Interest income	27	(943,090,660)	(839,416,308)
Provision for impairment loss	30	127,422,933	132,312,217
Gain on sale of available-for-sale (AFS) financial assets	27	(117,382,762)	(229,840,273)
Dividend income	27	(105,680,467)	(81,736,491)
Unrealized fair value loss (gain) on financial assets at fair value through profit or loss (FVPL)	27	65,430,684	(162,488,095)
Depreciation and amortization	30	43,684,508	42,206,764
Loss (gain) on sale of financial assets at FVPL	27	9,954,084	(7,918,105)
Gain on sale of real estate inventories	15, 27	(3,620,250)	(4,523,450)
Unrealized foreign exchange gains - net	9, 10	(3,529,323)	(1,132,836)
Loss (gain) on sale of investment properties	27	3,127,934	(12,006,612)
Gain on sale of property and equipment	17, 27	(379,225)	(2,796,316)
Operating loss before changes in assets and liabilities		(260,425,504)	(502,776,643)
Decrease (increase) in insurance receivables		(353,083,438)	12,583,233
Decrease in loans and other receivables		640,836,023	363,898,409
Decrease (increase) in reinsurance assets		21,995,687	(32,295,302)
Increase in other assets		(74,334,589)	(31,646,787)
Increase in insurance contract liabilities		1,978,296,190	1,670,174,065
Increase in reserve for policyholders' dividends		16,963,128	6,426,568
Decrease in premium deposit funds		(236,079,882)	(54,126,640)
Increase (decrease) in insurance payables		(247,359,658)	89,268,115
Increase (decrease) in accounts payable and accrued expenses		218,350,579	139,790,375
Decrease in net pension liability		(59,763,495)	(29,840,903)
Decrease in other liabilities		(132,584,920)	(41,414,944)
Cash generated from operations		1,512,810,121	1,590,039,546
Cash paid for income taxes		(31,512,112)	(16,394,243)
Net Cash From Operating Activities		1,481,298,009	1,573,645,303
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
AFS financial assets	10	(4,045,369,423)	(6,947,129,804)
Financial assets at FVPL	9	(3,154,217,057)	(1,059,170,574)
Investment properties	16	(84,625,576)	(31,521,882)
Property and equipment	17	(41,605,616)	(54,277,512)
Intangible assets	18	(169,600)	(1,466,888)
Proceeds from sale/maturities of:			
AFS financial assets	10	3,768,369,669	5,758,463,758
Financial assets at FVPL	9	1,670,258,261	370,682,864
Investment properties	16	81,252,843	43,679,686
Property and equipment	17	8,646,999	6,011,934
Real estate inventories	15	5,770,750	7,317,450
Dividends received		105,680,467	81,736,491
Interest received		943,090,660	825,158,665
Net Cash Used in Investing Activities		(742,917,623)	(1,000,515,812)
NET INCREASE IN CASH AND CASH EQUIVALENTS		738,380,386	573,129,491
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		2,019,925,731	1,446,796,240
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 2,758,306,117	P 2,019,925,731

Supplemental Information on Non-cash Activities -

In 2018, the Company already written off portions of the carrying amounts of its investments in CIIF Oil Mills Companies and UCPB amounting to P709.60 million which was adjusted against the balance of deferred tax liabilities and reserve for fluctuation of AFS financial assets amounting to P633.5 million and P70.12 million, respectively, and the remaining balance as impairment loss under general and administrative expense (see Note 10).



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See Notes to Financial Statements.

UNITED COCONUT PLANTERS LIFE ASSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Incorporation and Operations

United Coconut Planters Life Assurance Corporation (the Company) was incorporated on February 16, 1966 and is domiciled in the Republic of the Philippines. The Company was formed to undertake life insurance business, including accident and health insurance; to write insurance contracts providing for all risks, hazards, guarantees and contingencies to which life, accident or health insurance is applicable; to grant endowment and annuities; to issue insurance policies providing for participation or nonparticipation of profits; to reinsure all or part of the risks underwritten by the Company; to undertake all kinds of reinsurance to the extent allowed by the law; and, to act as agent or general agent of another insurance company.

The Company is wholly-owned by various Filipino individuals.

The Company has a Certificate of Authority No. 2016/76R issued by the Insurance Commission (IC) to transact in life insurance business until December 31, 2018.

The Company's registered address, which is also its principal place of business, is at Cocolife Building, 6807 Ayala Avenue, Makati City.

As of December 31, 2018 and 2017, the Company's subsidiaries and an associate (all incorporated in the Philippines), effective percentage of ownership and the nature of the subsidiaries' businesses follow:

Company Name	Explanatory Notes	Percentage of Ownership
Subsidiaries:		
UCPB General Insurance Company, Inc. (UCPB GEN)	(a)	100%
Cocoplans, Inc. (Cocoplans)	(b)	100%
Ultra Security Services, Inc. (Ultra)	(c)	100%
Cocolife Asset Management Company, Inc. (CAMCI)	(d)	100%
Healthassist, Inc. (Healthassist)	(e)	100%
New Ultra Security Services, Inc. (New Ultra)	(c)	100%
Archipelago Motors Corporation	(f)	54%
Associate –		
Direct Link Insurance Agency, Inc. (Direct Link)	Date	45%

As of December 31, 2018, the Company assessed that its investments in subsidiaries, namely, AMC and New Ultra are already fully impaired. Consequently, these investments were already written off during the year ended December 31, 2018. The Company recognized a partial impairment on its investment in Cocoplans (see Note 14).

BUREAU OF INTERNAL REVENUE
 LARGE TAXPAYERS SERVICE
 LARGE TAXPAYERS ASSISTANCE DIVISION
 Date **APR 29 2019** TSIS
 RECEIVED
 MELINDA PRISCA S. ORTIZ

Other relevant information about the subsidiaries' nature of businesses and their status of operations are discussed as follow:

- (a) UCPB GEN is engaged in the business of non-life insurance. The registered office address of UCPB GEN is at 22nd Floor, One Corporate Center Condominium, Dona Julia Vargas Avenue, corner Meralco Avenue, Ortigas Center, San Antonio, Pasig City.
- (b) Cocoplans is engaged in pre-need business. The registered office address of Cocoplans is at Cocolife Building, 6807 Ayala Avenue, Makati City.
- (c) Ultra and New Ultra are both engaged in providing security services. The registered office address of Ultra is at F-48 Palm Tower Condominium, 7706 St. Paul Road, San Antonio Village, Makati City while the registered office address of New Ultra is at Cocolife Building, 6807 Ayala Avenue, Makati City.
- (d) CAMCI is mainly engaged in providing investment advice to customers. CAMCI's registered office address and principal place of business is at Cocolife Building, 6807 Ayala Avenue, Makati City.
- (e) Healthassist provides total and integrated healthcare services, benefits management, technical and advisory services, and conducts special studies, seminars and other projects in healthcare. Healthassist's registered office address and principal place of business is at 2nd Floor, Cocolife Building, 6807 Ayala Avenue, Makati City.
- (f) AMC is incorporated primarily to engage in the business of maintenance and repair of motor vehicles. The registered office address of AMC is located at 2724 Faraday corner Aragon Streets, San Isidro, Makati City.

1.2 Approval of Financial Statements

The financial statements of the Company as of and for the year ended December 31, 2018 (including the comparative financial statements as of the for the year ended December 31, 2017) were authorized for issue by the Company's Board of Directors (BOD) on March 22, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standards (PAS 1), *Presentation of Financial Statements*. The Company presents all items of income and expenses in a single statement of comprehensive income.

The Company presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that have a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using its functional currency, the currency of the primary economic environment in which the Company operates.

2.2 Adoption of New and Amended PFRS

(a) *Effective in 2018 that are Relevant to the Company*

The Company adopted for the first time the following new PFRS, amendments, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15
PAS 40 (Amendments)	:	Investment Property – Reclassification to and from Investment Property
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration
Annual Improvements to PFRS (2014-2016 Cycle)		
PAS 28 (Amendments):	:	Investment in Associates – Clarification on Fair Value Through Profit or Loss Classification
PFRS 1 (Amendments):	:	First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions

Discussed in the succeeding pages are the relevant information about these new PFRS, amendments, interpretation and annual improvements, which do not have significant effect on the Company's financial statements, unless otherwise stated.

- (i) PFRS 4 (Amendments), *Insurance Contracts – Applying PFRS 9 with PFRS 4*. The amendments address the temporary accounting consequences of the different effective dates of PFRS 9 and the anticipated new insurance contracts standard by introducing the following options: (a) overlay approach, which is an option for all entities that issue insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise as a result of PFRS 9; or, (b) an optional temporary exemption from applying PFRS 9 until January 1, 2023 for entities whose activities are predominantly connected with insurance. These entities will be permitted to continue to apply the existing financial instrument requirements of *PAS 39, Financial Instruments: Classification and Measurement*. The Management has opted to exercise the second option as allowed by this amendments since the Company was able to meet the following criteria:
- it has not previously applied any version of PFRS 9; and,
 - its activities are predominantly connected with insurance at its annual reporting date that immediately precedes April 1, 2016, and no reassessment is required as the activities of the Company did not change at subsequent dates after initial assessment and before the effective date of PFRS 9.

Based on the management's assessment, the Company's liabilities arising from insurance contracts is 89% of the total carrying amount of all the Company's liabilities as of December 31, 2015. These liabilities include claims and benefit payable, due to reinsurers and cedants, legal policy reserves, policyholders' dividend payable and life insurance deposits.

Liabilities connected with insurance but not arising from insurance contracts is 9% of the total carrying amount of all the Company's liabilities. These liabilities include retirement liability of the Company's employee, deferred tax liabilities for taxable temporary differences on liabilities arising from insurance contracts, commission payable in relation to the insurance contracts of the Company, income tax payable and other government taxes related to the insurance contracts.

- (ii) PFRS 15, *Revenue from Contracts with Customers*, together with the *Clarifications to PFRS 15* (herein referred to as PFRS 15). This standard replaces PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and *Standing Interpretations Committee 31, Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Based on an assessment and comprehensive study of the Company's revenue streams as at December 31, 2018, which has been limited to the facts and circumstances existing at that date, management determined that its significant source of revenue pertains to the sale of life insurance contracts which is under PFRS 4. On the other hand, investment income from various financial assets and income from variable funds reported under other income will still be covered by PAS 39. Management has assessed that the new standard had no material impact in the Company's financial statements.

- (iii) PAS 40 (Amendments), *Investment Property – Reclassification to and from Investment Property*. The amendment states 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 amendment provided a non-exhaustive list of examples constituting change in use. The application of this amendment has no impact on the Company's financial statements.
- (v) IFRIC 22, *Foreign Currency Transactions and Advance Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration*. The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The application of this interpretation has no impact on the Company's financial statements.
- (iv) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, the following amendments that are shown below are relevant to the Company but had no material impact on the Company's financial statements as these amendments merely clarify existing requirements:
 - PAS 28 (Amendments), *Investment in Associates – Clarification on Fair Value Through Profit or Loss Classification*. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture.
 - PFRS 1 (Amendments), *First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions*. The amendments removed short-term exemptions in PFRS 1 covering PFRS 7, *Financial Instruments: Disclosures*, PAS 19, *Employee Benefits*, and PFRS 10, *Consolidated Financial Statements*, because the reporting period to which the exemptions applied have already transpired.

(b) *Effective Subsequent to 2018 but not Adopted Early*

There are new PFRS, amendments, interpretations and annual improvements to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Company's financial statements:

- (i) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments replaces PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments, i.e. financial asset at amortized costs, fair value through profit or loss (FVPL), and fair value through other comprehensive income (FVOCI);
 - an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at FVPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
 - a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Management exercised the second option provided by the PFRS 4 (Amendments) effectively deferring the application of PFRS 9 (2014) to periods beyond January 1, 2018. Consequently, the Company will continue to apply the existing financial instrument requirements of PAS 39.

- (ii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similar to a purchased asset and depreciated or amortized. The lease liability is accounted for similar to a financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee’s benefit).

For lessors, lease accounting is similar to PAS 17’s. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17’s. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management is currently assessing the impact of this new standard on the financial statements.

- (iii) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).
- (iv) PAS 28 (Amendments), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long-term interests that, in substance, form part of the entity’s net investment in an associate or joint venture.
- (v) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the “solely payments of principal and interests” (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI.

- (vi) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this new interpretation in the Company's financial statements.
- (vii) PFRS 17, *Insurance Contracts* (effective from January 1, 2022). This new standard will eventually replace PFRS 4. This new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within its scope. The objective of this new standard 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.

Management is currently assessing the financial impact of this new standard on the Company's financial statements.

- (viii) Amendments to PAS 1 and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective January 1, 2020). The amendments clarify the definition of 'materiality' in PAS 1 and how it should be applied. The amendments also improve the explanations of the definition and ensure consistency across all PFRSs and other pronouncements.
- (ix) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments are relevant to the Company but had no material impact on the Company's financial statements as these amendments merely clarify existing requirements:
- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.
 - PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

- PFRS 3 (Amendments), *Business Combinations* and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Company obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Company obtains joint control of the business.

2.3 *Separate Financial Statements and Investments in Subsidiaries and an Associate*

These financial statements are prepared as the Company's separate financial statements. The Company also presents consolidated financial statements as required under PFRS.

Subsidiaries are entities (including structured entities) over which the Company has control. The Company controls an entity when (i) it has power over the entity, (ii) it is exposed, or has rights to, variable returns from its involvement with the entity, and, (iii) it has the ability to affect those returns through its power over the entity.

The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above.

Associates are those entities over which the Company is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture.

The Company's investments in subsidiaries and an associate are accounted for in these separate financial statements at cost, less any impairment loss (see Note 2.15).

2.4 *Insurance Contracts*

Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that is significantly greater than the benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variables, provided in the case of non-financial variable that the variable is not specific to a party to the contract.

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

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

- likely to be a significant portion of the total contractual benefits;
- which amount or timing is contractually at the discretion of the issuer; and,
- contractually based on the following:
 - performance of a specified pool of contracts or a specified type of contract; or,
 - realized or unrealized investment returns on a specified pool of assets held by the issuer; or,
 - the profit or loss of the Company, fund or other entity that issues the contract.

The additional benefits include policy dividends that are declared annually, the amounts of which are computed using actuarial methods and assumptions, and are included under Policyholders' Dividends account in profit or loss with the corresponding liability recognized under the Reserve for Policyholders' Dividends account in the statement of financial position (see Note 2.7).

For financial options and guarantees which are not closely related to the host insurance contract, bifurcation is required to measure these embedded financial derivatives separately at FVPL. Bifurcation is not required if the embedded derivative itself is an insurance contract or when the host insurance contract itself is measured at FVPL. As such, the Company does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). Likewise, the embedded derivative in unit-linked insurance contracts linking the payments on the contract to units of an internal investment fund meets the definition of an insurance contract and is not, therefore, accounted for separately from the host insurance contract.

2.5 Reinsurance Contracts Held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more insurance contracts are classified as reinsurance contracts held.

The benefits to which the Company is entitled under its insurance contracts held are recognized as Reinsurance Assets in the statement of financial position. These assets consist of short-term balances due from reinsurers, as well as long-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Liabilities arising from these contracts are primarily premiums payable and are recognized as an expense when due. These liabilities are presented under Insurance Payables account in the statement of financial position.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when objective evidence as a result of an event that occurred after initial recognition that the Company may not recover the outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. Any impairment loss determined is recognized in profit or loss.

Ceded reinsurance arrangements do not relieve the Company from its obligations to the policyholders.

The Company also assumes reinsurance risk in the normal course of its business. Premiums and claims on assumed reinsurance are recognized as income and expense in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. The liabilities arising from these contracts are primarily claims and benefits payables and estimated in a manner consistent with the associated reinsurance contracts. These liabilities are presented under Insurance Payables account in the statement of financial position.

Gains or losses on buying reinsurance, if any, are recognized in profit or loss immediately at the date of purchase and are not amortized.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Assets or liabilities from these contracts are derecognized when the contractual right is extinguished or expired or when the contract is transferred to another party.

2.6 Insurance Contract Liabilities

- (a) *Legal Policy Reserves* – Life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized. These are determined by the Company's actuary in accordance with the requirements of the amended Insurance Code (the Insurance Code) and are calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend in the operation of each life insurance product. These reserves represent the amounts which, together with future premiums and investment income, are required to discharge the obligations of the insurance contracts and to pay expenses related to the administration of those contracts. These reserves are determined using generally accepted actuarial practices and have been approved by the IC at the product approval stage.

Gross premium valuation (GPV) is calculated as the sum of the present value of future benefits and expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate risk-free discount rate provided by the IC. For this purpose, the expected future cash flows shall be determined using the best estimate assumptions with due regard to significant recent experience and appropriate margin for adverse deviation (MfAD) from the expected experience. The methods and assumptions shall be in accordance with the internationally accepted actuarial standards and consider the generally accepted actuarial principles concerning financial reporting framework promulgated by the Actuarial Society of the Philippines, which now considers other assumptions such as morbidity, lapse and/or persistency, non-guaranteed benefits and MfAD.

The changes in legal policy reserves for traditional life insurance policies are recognized as follow:

- (i) The increase or decrease in legal policy reserves in the current year due to other assumptions excluding change in discount rate will be recognized to profit or loss; and,

(ii) Remeasurement on life insurance reserves due to changes in discount rates will be recognized in other comprehensive income (see Note 2.20).

(b) *Insurance Contracts with Fixed and Guaranteed Terms* – A liability for contractual benefit expected to be incurred in the future is recorded when premiums are recognized. The liability is determined as the sum of the present value of future benefits and expenses less the present value of future gross premiums discounted at rates prescribed by the IC. Future cashflows are determined using best estimate assumptions with due regard to significant recent experience and appropriate MfAD from the expected experience.

The Company has different assumptions for different products. However, the reserves are computed to comply with the statutory requirements, wherein discount rates are based on risk-free discount rates and other assumptions such as mortality, disability, lapse, and expenses taken into account the Company's experience.

(c) *Unit-linked Insurance Contracts* – A unit-linked insurance contract is an insurance contract linking payments to units of an internal investment fund set up by the Company with the consideration received from the policyholders. The investment funds supporting the linked policies are maintained in segregated accounts in conformity with Philippine laws and regulations. The liability for such contracts is the higher amount between the policyholder's investment fund balance and the minimum guaranteed amount stated in the policy contract.

Revenue from unit-linked insurance contracts consists of premiums received and policy administration fees.

The reserve for unit-linked liabilities is increased by additional deposits and changes in unit prices and decreased by policy administration fees, fund charges, mortality and surrender charges and any withdrawals. As at the reporting date, this reserve is computed on the basis of the number of units allocated to the policyholders multiplied by the unit price of the underlying investment funds.

(d) *Liability Adequacy Test* – Liability adequacy tests are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against the Company's profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

2.7 Reserve for Policyholders' Dividends

DPF is a contractual right that gives policyholders the right to receive supplementary discretionary returns through participation in the surplus arising from participating business. These returns are subject to the discretion of the Company and are within the constraints of the terms and conditions of the contract.

For group commercial and farmers' lines, the Company sets up the policyholders' dividends due and accrued for all groups which have participating feature based on the agreed experience refund formula and an assessment of each individual group's prospective cash flows and operating results. For individual policyholders, all dividends due and accrued are carried for participating policies using an estimated dividend scale expected to be declared based on the Company's profit emergence for the individual line.

2.8 Insurance Receivables and Payables

Receivables and payables are recognized when due. Insurance receivables and payables include amounts due from agents and policyholders and amounts due to reinsurers. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable and recognizes the impairment loss in profit or loss.

2.9 Premium Deposit Funds (PDF)

PDF represents fund which will be used for payment of any unpaid premiums under the policy. The fund earns interest of 1.50% and 3.00% per annum for new PDF dollar and peso-denominated policy, respectively, and 6.00% for old PDF for both dollar and peso-denominated, which is credited to the fund. The accumulated fund shall not exceed the total future premium payments under the policy.

The PDF includes Fund Builder Rider which represents fund used to pay future premiums of the policy. This has also peso and dollar fund where the interest on the fund shall be based on the interest rate prevailing in the market.

2.10 Financial Assets

Financial assets are recognized when the Company becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification, Measurement and Reclassification of Financial Assets

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity investments and AFS financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets, except for equity securities, are recognized on their settlement date. Equity securities are recognized on trade date – the date that the Company becomes a party to the contractual provisions of the instrument. Trade date accounting refers to: (a) the recognition of an asset to be received and the liability to pay for it on the trade date; and, (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

All financial assets that are not classified as at FVPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss. A more detailed description of the financial assets applicable to the Company is discussed in the succeeding pages.

(i) *Financial Assets at FVPL*

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at FVPL upon initial recognition. Financial assets are allowed to be designated by management on initial recognition in this category when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or,
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or,
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or, it is clear, with little or no analysis, that it would not be bifurcated.

All derivatives fall into this category, except for those designated and effective as hedging instruments.

Financial assets at FVPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVPL) may be reclassified out of FVPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

(ii) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. The Company's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Insurance Receivables, Loans and Other Receivables, Accrued Income, Reinsurance Assets, and Lease and leasehold deposits and Refundable deposits (under Other Assets account) in the statement of financial position.

Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

(iii) *AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company's AFS financial assets include equity securities, corporate and government debt securities.

All financial assets within this category are subsequently measured at fair value, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost, less impairment loss, if any. Gains and losses are recognized in other comprehensive income, net of any income tax effects, and are reported as Reserve for Fluctuation on AFS Financial Assets account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

(b) *Impairment of Financial Assets*

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The Company recognizes impairment loss based on the category of financial assets as shown below and in the succeeding page:

(i) *Carried at Amortized Cost – Loans and Receivables*

If there is objective evidence that an impairment loss on loans and receivables carried at cost has been incurred, the amount of the impairment loss is determined 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 or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be 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 (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. 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 of the impairment is reversed. The amount of the reversal is recognized in the profit or loss.

(ii) *Carried at Cost – AFS Financial Assets*

If there is objective evidence of impairment for any of the unquoted equity instruments that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and required to be settled by delivery of such an unquoted equity instrument, impairment loss is recognized. The amount of impairment loss is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

(iii) *Carried at Fair Value – AFS Financial Assets*

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Reserve for fluctuation on AFS financial asset account to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that is debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(c) *Items of Income and Expense Related to Financial Assets*

All income and expenses, except for impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Investment Income or Investment Expenses account in the statement of comprehensive income. Impairment losses are presented as part of General and Administrative Expenses account in the statement of comprehensive income.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

(d) *Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. 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.

2.11 Property and Equipment

Property and equipment, except for land, are carried at acquisition cost less accumulated depreciation and amortization, and any impairment in value. Land is carried at cost less any impairment losses.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized, while expenditures for repairs and maintenance are charged to expense as incurred. Depreciation is computed on a straight-line basis over the estimated useful lives of the depreciable assets as follows:

Buildings	10 years
Transportation equipment	5 years
Office furniture, fixtures and equipment	5 years

Leasehold rights and improvements are amortized over the term of the lease or the estimated useful lives of the improvements of five to 10 years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.24).

The residual values, estimated useful lives, and method of depreciation and amortization of property and equipment (except land) are reviewed and adjusted if appropriate, at the end of each reporting period.

Fully depreciated and amortized assets are retained in the accounts until they are no longer in use, at which time, the cost and the related accumulated depreciation and amortization are written off.

An item of property and equipment, including the related accumulated depreciation, amortization and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.12 Real Estate Inventories

Real estate inventories consist of columbary units. These are carried at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost includes acquisition costs of columbary units and those costs incurred for the development and improvement of the properties.

2.13 Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at acquisition cost which comprise its purchase price and directly attributable cost incurred. These include parcels of land, and buildings and related improvements acquired by the Company which are not held for sale in the next 12 months. Subsequently, except for land, investment properties are carried at cost less accumulated depreciation and impairment in value.

Depreciation is computed using the straight-line method over its estimated useful life of 20 years.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner occupancy, commencement of an operating lease to another party or ending of construction or development.

Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner occupancy or commencement of development with a view to sell.

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are normally charged against current operations in the period in which these costs are incurred.

2.14 Intangible Assets

Intangible assets pertain to the Company's computer software. Costs incurred to acquire computer software (not an integral part of its related hardware) and bring it to its intended use are capitalized. These costs are amortized over their estimated useful lives ranging from three to five years. Cost directly associated with the development of identifiable computer software that generate expected future benefits to the Company are recognized. All other costs of developing and maintaining computer software are recognized as expense when incurred.

Gains or losses arising from the derecognition of the computer software are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss.

2.15 Investments in Subsidiaries and an Associate

A subsidiary is an entity over which the Company has control. There is control when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect returns through its power over the entity.

Following the provisions of PAS 27, *Separate Financial Statements*, on the preparation of separate financial statements, investments in subsidiaries are accounted for at cost, less any impairment in value. The Company recognizes income from the investments in subsidiaries and an associate only to the extent that the Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a return of investment and are recognized as a reduction from the cost of the investment.

An associate, on the other hand, pertains to an entity over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. If the holding is less than 20%, the entity will be presumed not to have significant influence unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence. The Company's investment in an associate is measured at cost, less any impairment in value. Dividend income from the associate is recognized when declared from the accumulated profits of the investee.

Cost of investments in subsidiaries and associate includes the purchase price and other costs directly attributable to the acquisition of the investment such as professional fees for legal services, transfer taxes and other transaction costs. This includes any excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary or an associate at the date of acquisition.

Investments in subsidiaries and an associate are derecognized upon sale or loss of control or influence over the subsidiaries or an associate. Any gain or loss arising from derecognition is recognized in profit or loss. Gain or loss is computed as the difference between the proceeds from the disposal and its carrying amount at the date of disposal.

2.16 Other Assets

Other assets pertain to assets controlled by the Company as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the Company and the asset has a cost or value that can be measured reliably.

2.17 Financial Liabilities

Financial liabilities which include Policy and contract claims (under Insurance Contract Liabilities account), Reserve for Policyholders' Dividends, Premium Deposit Funds, Insurance Payables, Accounts Payable and Accrued Expenses, and Other Liabilities (except tax-related payables) are recognized when the Company becomes a party to the contractual terms of the instrument.

Financial liabilities are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, for those with maturities beyond one year, less settlement payments. All interest-related charges incurred on financial liabilities are recognized as an expense in the statement of comprehensive income under the caption Investment Expenses.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

2.18 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.

2.19 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events (e.g., legal dispute or onerous contracts).

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, at an amount not exceeding the balance of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessment and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.20 Equity

Capital stock represents the nominal value of shares that have been issued.

Contributed surplus pertains to additional cash contribution by the Company's stockholders, which will be converted to capital stock, to provide an adequate capital in accordance with the requirement of the IC.

Reserve for fluctuation of AFS financial assets pertains to cumulative mark-to-market valuation of AFS financial assets.

Reserve for net pension liability refers to accumulated actuarial losses, net of gains, as a result of remeasurements of post-employment defined benefit plan and return on plan assets (excluding amount included in net interest).

Reserve for life insurance policy pertains to the remeasurement of the legal policy reserve attributable to the impact of changes in the discount rates used in the valuation of legal policy reserves applying the GPV methodology [see Note 2.6(a)].

Unappropriated retained earnings includes all current and prior period results as reported in the profit or loss section of statement of comprehensive income and which are available and not restricted for use by the Company, reduced by the amounts of dividend declared, if any.

Appropriated retained earnings is equivalent to the negative legal policy reserves calculated on traditional life insurance policies applying the GPV methodology as mandated by IC through its issuance of Circular Letter (CL) No. 2016-66.

2.21 Revenue and Cost Recognition

Revenue is recognized only when (or as) the Company satisfied a performance obligation by transferring control of the promised services to the customer. Expenses and costs, if any, are recognized in the statement of income upon utilization of the resources or services or at the date these are incurred. All finance costs are reported on an accrual basis.

The Company's significant revenues pertain to net insurance premium and investment income (loss) which are accounted for by the Company in accordance with PFRS 4 and PAS 39, respectively. The following provides information about the specific recognition criteria of revenues recognized in accordance with PFRS 4 and PAS 39:

- (a) *Net Insurance Premium* – recognized as gross premium on insurance contracts less reinsurance premiums ceded.

Gross Premiums on Insurance Contracts. Premiums arising from insurance contracts are initially recognized as income on the effective date of the insurance policies. Subsequent to initial recognition, gross earned premiums on life insurance contracts are recognized as revenue at the date when payments are due.

Reinsurance Premiums Ceded. Gross reinsurance premiums on traditional and variable contracts are recognized as an expense when the policy becomes effective.

- (b) *Investment Income* – The Company's investment income is comprised of interest income, fair value gain (loss) of financial assets at FVPL, dividend income, rental income, gain (loss) on sale of financial assets at FVPL, AFS financial assets, loans and other receivable, and gain (loss) on sale of real estate inventories, noncurrent assets held-for-sale and other non-financial assets.

Interest Income. Interest income arising from loans and other receivables, AFS financial assets, cash and cash equivalents, and financial assets at FVPL are recognized on an accrual basis using the effective interest method. The effective interest rate (EIR) is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset. The EIR is established on initial recognition of the financial asset and is not revised subsequently. When the related financial asset becomes impaired, the recognition of interest income is suspended and/or limited up to the extent of cash collections received.

The calculation of the EIR includes all fees, transaction costs, and discounts or premiums that are an integral part of the EIR. Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of a financial asset.

Once the recorded value of financial asset or group of financial assets has been reduced due to an impairment loss, interest income should be recognized using the original EIR applied to the new carrying amount.

Dividend Income. Dividend income is recognized when the shareholder's right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities.

Rental Income. Rental income from investment properties is recognized on a straight-line basis over the lease term.

Gain (Loss) on Sale of Financial Assets at FVPL. Gain (loss) on sale of financial assets at FVPL is calculated as the difference between net sales proceeds and the current fair value at the date of sale. Gain (loss) on the sale of financial assets at FVPL is recognized in profit or loss when the sale transaction occurred.

Fair Value Gain (Loss) on Financial Assets at FVPL. Fair value gains and losses from the changes in the market values of financial assets at FVPL are recognized in profit or loss at the end of the reporting period.

Gain (Loss) on Sale of AFS Financial Assets. Gain (loss) on the sale of AFS financial assets is calculated as the difference between net sales proceeds and acquisition cost less any impairment in value. Gain (loss) on the sale of AFS financial assets is recognized in profit or loss when the sale transaction occurred.

Gain (Loss) on Sale of Loans and Other Receivables. Gain (loss) on sale of loans and receivables is calculated as the difference between the net sales proceeds and amortized cost. Gain (loss) on sale of loans and other receivables is recognized in profit or loss when the sales transaction occurred.

Gain (Loss) on Sale of Real Estate Inventories. Revenue from the sale of real estate inventory is measured at the fair value of the consideration received or receivable less the cost of real estate inventory at the date of sale. Revenues from transactions covering sale of real estate inventories are recognized under the full accrual method. Under this method, the Company recognizes the revenue and cost from sale of real estate in full when 10% or more of the contract price is received at which point the buyer may already occupy and use the property.

The collections relating to sale of real estate inventories which do not meet the collection threshold or full accrual recognition criteria is presented as Others as part of Other liabilities account in the statement of financial position.

- (c) *Service fees* – Insurance contracts of the policyholders are charged for policy administration services, surrenders and other contract fees. Fees such as withdrawal fee, cancellation fee and policy fee are recognized at point in time.

- (d) *Other income* – Income from other sources is recognized when earned.

The Company also earns other income from reinstatement fees, which is recognized as income once the Company performed the service. These are accounted for by the Company in accordance with PFRS 15.

- (e) *Net Insurance Benefits and Claims* – The Company's net benefits and claims consist of gross benefits and claims, reinsurers' share on benefits and claims, gross change in insurance contract liabilities and reinsurers' share on gross change in insurance contract liabilities.

Gross Benefits and Claims. Gross benefits and claims of the policyholders include excess benefit claims for unit-linked contracts. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

Reinsurers' Share on Benefits and Claims. Reinsurers' share on benefits and claims pertain to the amount recoverable from reinsurers for recognized claims during the year. These are accounted for when the corresponding claims are recognized.

Gross Change in Insurance Contract Liabilities. Gross change in insurance contract liabilities represents the change in the valuation of legal policy reserves under Insurance Contract Liabilities account in the statement of financial position.

Reinsurers' Share on Gross Change in Insurance Contract Liabilities. Reinsurers' share on gross change in insurance contract liabilities pertain to the reinsurers' share in the change of legal policy reserves. These are accounted for in the same period as the corresponding change in insurance contract liabilities.

- (f) *Operating and Administrative Expenses* – Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

General and Administrative Expenses. General and administrative expenses, underwriting expenses and other investment expenses, except for lease agreements, are recognized as expense as they are incurred.

Commissions. Commissions are recognized when the insurance contracts are entered into and the related premiums are recognized.

Investment expenses. Investment expenses pertain to the interest incurred by the Company in relation to the funds received intended for the Company's loan financing facility which is recorded as investment accounts payable under Accounts Payable and Accrued Expenses account in the statement of financial position. These are accounted for over the term of the underlying investment accounts payable (see Note 27).

Premium Refund. This pertains to the refunded amount by the Company when after payment of premiums by the policyholder, the Company cancels or declines the insurance application. This may also pertain to the refund of payments received in excess of the amount billed. The amount is recognized when the refund to the policyholder takes place.

Insurance Taxes. These pertain to the amount of premiums and documentary stamps taxes issued for in-force policies that are recognized when incurred.

2.22 Leases

The Company accounts for its leases as follows:

(a) Company as Lessee

Leases, which do not transfer to the Company substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs, maintenance and insurance, are expensed as incurred.

(b) Company as Lessor

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income in profit or loss on a straight-line basis over the lease term.

The Company determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.23 Foreign Currency Transactions and Translations

The accounting records of the Company are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss section of the statement of comprehensive income.

2.24 Impairment of Non-financial Assets

The Company's investments in subsidiaries and an associate, investment properties, property and equipment, and intangible assets are subject to impairment testing. All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value, reflecting market conditions, less costs to sell and value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal can be made only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

2.25 Employee Benefits

The Company's employment benefits to employees are as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Company's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL) in 2018 and Philippine Dealing and Exchange Corp. in 2017], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset and is included as part of Investment Expense or Investment Income account in the statement of comprehensive income.

Past service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(b) *Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity, such as the Social Security System. The Company has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.26 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax assets can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

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

Most changes in deferred tax assets or deferred tax liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Company has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.27 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Company and its related parties.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual; and, (d) the Company's funded retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.28 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Company's position at the statement of financial position date (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SUMMARY OF ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Company's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 *Critical Management Judgments in Applying Accounting Policies*

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) *Product Classification*

The Company has determined that the unit-linked insurance policies it issues that link the payments on the contract to units of internal investment funds has significant insurance risk and therefore meets the definition of an insurance contract and should be accounted for as such.

(b) *Impairment of AFS Financial Assets*

The Company considers that financial assets at fair value are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Company evaluates other factors, including normal volatility in share price for quoted securities and the future cash flows and the discount factors for unquoted securities. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Based on the recent evaluation of information and circumstance affecting the Company's AFS financial assets, management concluded that certain AFS financial assets are impaired as at December 31, 2018 and 2017 (see Note 10). Consequently, management written off portion of the carrying amount of its investments in CIIF Oil Mills Companies and United Coconut Planters Bank (UCPB) amounting to P700.60 million in 2018 which was adjusted against the balance of deferred tax liabilities, reserve for fluctuation of AFS financial assets and impairment loss amounting to P63.35 million, P570.12 million, and P67.13 million, respectively (see Note 30).

In addition, the management also recognized impairment losses amounting to P17.88 million which pertain to the investment in AMC preferred shares that was charged against the Retained Earnings account. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(c) *Classification of Financial Instruments*

The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of financial position. In addition, the Company classifies assets by evaluating among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

(d) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.19 and disclosures on relevant provisions and contingencies are presented in Note 34.

(e) *Distinction Between Operating and Finance Leases*

The Company has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

3.2 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 the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) *Legal Policy Reserves*

Legal policy reserves represent estimates of present value of future benefits and expenses in excess of present value of future gross premiums. These estimates are based on interest rates, mortality/morbidity tables, lapses and valuation method subject to the provisions of the Code and guidelines set by the IC.

The liability for life insurance contracts uses the discount rate as provided by the IC with other assumptions based on best estimate with regard to significant recent experience and appropriate MfAD from the expected experience. At each reporting date, these estimates are reassessed for adequacy and changes will be reflected in adjustments to the liability. The main assumptions used relate to mortality, morbidity, lapse, and discount rate.

For life insurance contracts, estimates are made as to the expected number of deaths and lapses for each of the years in which the Company is exposed to risk. The Company uses mortality tables and lapse rates subject to the guidelines set by the IC as the basis of these estimates. The estimated number of lapses, deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums.

The carrying value of the legal policy reserves, shown as part of Insurance Contract Liabilities account in the statements of financial position, amounted to P13,214.04 million and P12,459.04 million of December 31, 2018 and 2017, respectively (see Note 20).

(b) *Liabilities Arising from Claims made under Insurance Contracts*

There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for such claims. Although the ultimate liability arising from life insurance contracts is largely determined by the face amount of each individual policy, the Company also issues accident and health policies and riders where the claim amounts may vary. Claims estimation by the Company considers many factors such as industry average mortality and morbidity experience, with adjustments to reflect Company's historical experience. These liabilities form part of the Company's incurred but not reported (IBNR) claims which is included in Policy and contract claims account under Insurance Contract Liabilities in the statements of financial position. The IBNR recognized by the Company amounted to P804.08 million and P603.10 million as at December 31, 2018 and 2017, respectively (see Note 20).

(c) *Fair Value Measurement for Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Company's financial assets at FVPL and AFS financial assets and the amounts of fair value changes recognized on those assets are disclosed in Notes 9 and 10, respectively.

(d) *Impairment of Financial Assets at Amortized Cost*

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

The level of this allowance is evaluated by management on the basis of factor that affects the collectibility of the accounts. These factors include, but are not limited to age of balances, financial status of counterparties, payment behavior and known market factors. The Company reviews the age and status of financial assets, and identifies accounts that are to be provided with allowance on a regular basis.

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

These internal ratings take into consideration factors such as concentration risks, identified structural weaknesses and deterioration in cash flows.

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

Provision for impairment losses on loans and other receivables amounted to P60.29 million and P73.85 million in 2018 and 2017, respectively, which are presented as part of Impairment losses under General and Administrative Expenses account in the statements of comprehensive income (see Note 30). The Company's insurance receivables, available for sale financial assets, loans and other receivables, and accrued income, net of allowance for impairment losses are presented in Notes 8, 10, 11, and 12, respectively.

(e) *NRV of Real Estate Inventories*

The Company reviews real estate inventories for probable impairment in value. Management's judgment in determining if the real estate inventories are impaired is based on the assessment of the asset's estimated net selling price.

Estimated selling price is derived for publicly available market data and historical experience, while estimated cost of disposal are basically commission expense based on historical experience.

As indicated in Note 15, management assessed that the respective net realizable values of the Company's real estate inventories are higher than their respective costs.

(f) *Estimation of Useful Lives of Investment Properties, Property and Equipment and Intangible Assets*

The Company estimates the useful lives of investment properties, property and equipment and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. Based on management's assessment as of December 31, 2018 and 2017, there is no change in the estimated useful lives of those assets during those years.

Analyses of the carrying amounts of investment properties, property and equipment and intangible assets are presented in Notes 16, 17 and 18, respectively. Actual results, however, may vary due to changes in factors mentioned above.

(g) *Impairment of Investments in Subsidiaries and an Associate*

The Company assesses impairment on its investments in subsidiaries and an associate whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Among others, the factors that the Company considers important which could trigger an impairment review on its investments in subsidiaries and an associate include the following:

- deteriorating or poor financial condition;
- recurring net losses; and,

- significant changes (i.e., technological, market, economic, or legal environment in which the subsidiary and associate operates) with an adverse effect on the subsidiary or associate have taken place during the period, or will take place in the near future.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is determined based on the asset's fair value less cost to sell, which considers the estimated realizable and settlement amounts of the assets and liabilities of the subsidiary or associate.

The carrying value of the Company's investments in subsidiaries and an associate are disclosed in Note 14. Based on management's assessment, the Company's investments in subsidiaries and an associate is impaired by P227.67 million as of December 31, 2018 which was directly charged against Retained Earnings account instead of recognizing an impairment loss in the 2018 profit or loss. No impairment for investments in subsidiaries and an associate was recognized as of December 31, 2017 (see Note 14).

(h) *Impairment of Non-financial Assets (Other than Investment in Subsidiaries and an Associate)*

The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

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

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if it is not possible, for cash-generating unit to which the asset belongs.

No impairment losses were necessary to be recognized on the Company's investment properties, property and equipment, intangible assets and other non-financial assets in 2018 and 2017, based on management's assessment (see Notes 16, 17, 18, and 19).

(i) *Determination of Realizable Amount of Deferred Tax Assets*

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management identified certain deferred tax assets that should be unrecognized. On the other hand, management assessed that the deferred tax assets recognized as at December 31, 2018 and 2017 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 32.

(f) *Valuation of Post-employment Defined Benefit*

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by an independent actuary in calculating such amounts. Those assumptions are described in Note 31.2 and include, among others, discount rates, salary increase rate and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or loss, and the carrying amount of the post-employment obligation in the next reporting period.

The Company determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related pension liability.

Other key assumptions for retirement benefit obligation are based in part on current market conditions. While it is believed that the Company's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's obligation.

4. **RISK MANAGEMENT OBJECTIVES AND POLICIES**

Risks are inherent in the business activities of the Company. Among its identified risks are insurance risk, investment risk, credit risk, liquidity risk and market risk. These are managed through a risk management framework and governance structure that provides comprehensive controls and management of major risks on an ongoing basis.

Risk management is the process by which the Company identifies its key risks, obtains consistent and understandable risk measures, decides which risks to take on or reduce and how this will be done, and establishes procedures for monitoring the resultant risk positions. The objective of risk management is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives including failing to exploit opportunities. The Company recognizes the critical importance of having efficient and effective risk management systems in place.

4.1 Risk Management Structure and Strategies

The Company has established a risk management function with clear terms of reference for the Company's BOD, its committees and the associated executive management committees. Further, a clear organizational structure with documented delegated authorities and responsibilities from the Company's BOD to executive management committees and senior managers has been developed. Lastly, a policy framework which sets out the risk appetite of the Company, risk management, control and business conduct standards for the Company's operations has been put in place. Each policy has a member of senior management who is charged with overseeing compliance with the policy throughout the Company.

The BOD has approved the Company's risk management policies and meets monthly to approve on any commercial, regulatory and own organization requirements in such policies. The policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategy to the corporate goals and specify reporting requirement.

4.2 Insurance Risk

The risk under an insurance contract that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefits payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims and actual benefits paid are greater than originally estimated.

The Company principally writes life insurance where the life of policyholder is insured against death, illness, injury or permanent disability, usually for pre-determined amount.

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

- Whole life insurance and term insurance are conventional products where lump sum benefits are payable upon death of the insured.
- Endowment products are investments/savings products where lump sum benefits are payable after a fixed period or on death before the fixed term is completed.
- Unit-linked products differ from conventional policies. In unit-linked products, a guaranteed percentage of each premium is allocated to units in a pooled investment fund and the policyholder benefits directly from the total investment growth and income of the fund.
- Group life insurance covers a defined group of people insured by the employer under a master policy agreement that is normally issued on a yearly renewable term.
- Accident and health insurance covers payment of hospital and medical expenses when sickness, accidental injury, or accidental death happened to the insured.

The main risks the Company is exposed to include:

- Mortality Risk - risk of loss arising from policyholder death experience being different than expected.
- Morbidity Risk - risk of loss arising from policyholder health experience being different than expected.
- Expense Risk - risk of loss arising from expense experience being different than expected.
- Policyholder Decision Risk - risk of loss arising from policyholder experience (lapses and surrenders) being different than expected.

These risks do not vary significantly in relation to the location of the risk insured, type of risk insured and by industry insured by the Company. Undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

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

There has been no change to the Company's exposure to insurance risks or the manner in which it manages and measures the risks since prior reporting period.

Concentration of Insurance Risk

The table below sets out the Company's concentration of insurance risk based on the sum assured:

	2018		2017	
	Number of Policies	Sum Assured	Number of Policies	Sum Assured
Group life	440,423	P 397,445,491,993	441,419	P 356,009,643,817
Accident and Health	56,878	91,674,365,493	13,334	95,000,430,430
Whole life	23,559	7,996,833,723	24,315	8,215,345,332
Endowment	13,225	14,609,784,684	56,281	14,602,419,703
Term	12,103	3,004,418,118	12,348	3,226,524,133
Variable/unit-linked	9,604	9,252,126,703	7,187	7,441,738,858
	<u>555,792</u>	<u>P 523,983,020,714</u>	<u>554,884</u>	<u>P 484,496,102,273</u>

The table below sets out the concentration of life insurance liabilities by type of contract, at gross and net of reinsurance (see Notes 13 and 20).

	2018			2017		
	Gross Legal Policy Reserves	Reinsurers' Share on Liabilities	Net Legal Policy Reserves	Gross Legal Policy Reserves	Reinsurers' Share on Liabilities	Net Legal Policy Reserves
Variable life	P 5,520,286,967	P -	P 5,520,286,967	P 4,590,897,300	(P 63,581)	P 4,590,833,719
Endowment	3,706,002,580	(843,519)	3,705,159,061	3,818,206,624	(878,036)	3,817,328,588
Whole life	2,302,141,689	(3,237,629)	2,298,904,060	2,616,420,572	(3,280,141)	2,613,140,431
Accident and health	789,544,671	(3,083)	789,541,588	630,133,256	(3,083)	630,130,173
Group life	681,697,377	-	681,697,377	595,031,906	-	595,031,906
Term	214,368,708	(969,817)	213,398,891	208,351,694	(1,019,847)	207,331,847
	<u>P 13,214,041,992</u>	<u>(P 5,054,048)</u>	<u>P 13,208,987,944</u>	<u>P 12,459,041,352</u>	<u>(P 5,244,688)</u>	<u>P 12,453,796,664</u>

The tables below set out the concentration of life insurance liabilities with and without DPF, at gross and net of reinsurance (see Notes 13 and 20).

	2018			2017		
	Gross Legal Policy Reserves	Reinsurers' Share on Liabilities	Net Policy Reserves	Gross Legal Policy Reserves	Reinsurers' Share on Liabilities	Net Policy Reserves
2018						
With fixed and guaranteed terms						
Fixed and guaranteed – non-participating	P 5,705,071,174	(P 2,660,881)	P 5,702,410,293	P 5,550,283,771	(P 2,623,345)	P 5,547,660,426
Partially fixed and guaranteed – participating	1,988,683,851	(2,393,167)	1,986,290,684	2,317,860,281	(2,557,761)	2,315,302,520
Unit-linked	5,520,286,967	-	5,520,286,967	4,590,897,300	-	4,590,833,718
Total insurance liabilities	<u>P 13,214,041,992</u>	<u>(P 5,054,048)</u>	<u>P 13,208,987,944</u>	<u>P 12,459,041,352</u>	<u>(P 5,054,048)</u>	<u>P 12,453,796,664</u>
2017						
With fixed and guaranteed terms						
Fixed and guaranteed – non-participating	P 5,705,071,174	(P 2,660,881)	P 5,702,410,293	P 5,550,283,771	(P 2,623,345)	P 5,547,660,426
Partially fixed and guaranteed – participating	1,988,683,851	(2,393,167)	1,986,290,684	2,317,860,281	(2,557,761)	2,315,302,520
Unit-linked	5,520,286,967	-	5,520,286,967	4,590,897,300	-	4,590,833,718
Total insurance liabilities	<u>P 13,214,041,992</u>	<u>(P 5,054,048)</u>	<u>P 13,208,987,944</u>	<u>P 12,459,041,352</u>	<u>(P 5,054,048)</u>	<u>P 12,453,796,664</u>

Classification by Attained Age (Based on 2018 and 2017 Data of In-force Policies)

The tables below present the concentration of risk by attained age on whole life, endowment, term insurance policy contracts and variable/unit-linked. For individual insurance, exposure is concentrated on age brackets 40-44 to 50-54 and those below 20.

Attained Age	Gross of Reinsurance		Net Reinsurance	
	Exposure	Concentration (%)	Exposure	Concentration (%)
2018				
<20	P 4,144,879,638	11.90	P 4,012,777,400	12.40
20 - 24	2,550,730,751	7.30	2,462,938,827	7.60
25 - 29	4,181,710,199	12.00	4,037,585,103	12.40
30 - 34	4,704,938,076	13.40	4,437,273,972	13.70
35 - 39	4,607,010,438	13.20	4,232,425,335	13.00
40 - 44	4,061,695,560	11.70	3,592,186,517	11.10
45 - 49	3,601,709,312	10.30	3,296,047,932	10.20
50 - 54	2,645,614,115	7.60	2,353,297,086	7.30
55 - 59	2,202,423,086	6.30	1,997,694,769	6.20
60 - 64	1,115,025,725	3.20	1,012,958,233	3.10
65 - 69	719,856,200	2.10	666,892,476	2.10
70 - 74	227,567,382	0.70	206,277,044	0.60
75 - 79	76,999,892	0.20	71,387,439	0.20
80+	23,002,854	0.10	22,183,944	0.10
	P 34,863,163,228	100.00	P32,401,926,077	100.00

2017				
<20	P 4,046,209,131	12.10	P 3,915,518,358	12.60
20 - 24	2,507,785,406	7.50	2,423,083,893	7.80
25 - 29	4,064,571,303	12.10	3,961,895,944	12.80
30 - 34	4,654,252,718	13.90	4,387,815,096	14.10
35 - 39	4,411,415,786	13.20	4,010,889,461	12.90
40 - 44	4,026,291,628	12.00	3,481,866,800	11.20
45 - 49	3,446,799,630	10.30	3,151,727,222	10.20
50 - 54	2,596,467,449	7.80	2,320,224,548	7.50
55 - 59	1,791,192,647	5.30	1,610,035,747	5.20
60 - 64	1,046,765,976	3.10	969,872,168	3.10
65 - 69	604,699,590	1.80	546,698,256	1.80
70 - 74	203,299,043	0.60	180,761,999	0.50
75 - 79	62,649,007	0.20	59,256,210	0.20
80+	23,698,712	0.10	22,902,896	0.10
	P 33,486,098,026	100.00	P31,042,548,598	100.00

The table below presents the concentration of risk by business type for group insurance.

Business Type	2018		2017	
	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
Employer-employee/ association benefit	P 175,025,960	43.93	P 146,252,409	41.10
Credit life insurance	126,192,254	31.68	121,496,908	34.10
Compulsory migrant workers insurance	47,328,835	12.10	43,480,936	12.20
Microinsurance	28,907,273	7.26	25,806,112	7.20
Reinsurance	16,348,417	4.12	15,151,644	4.30
Coconut farmers insurance	2,193,310	0.55	2,199,695	0.60
Pre-need planholders	1,449,443	0.36	1,621,940	0.50
	P 397,445,492	100.00	P 356,009,644	100.00

The table below presents the concentration of risk by industry type for accident and health insurance.

Industry Type	2018		2017	
	Net Reinsurance		Net Reinsurance	
	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
I. Accident	P 87,243,423	100.00	P 91,645,745	100.00
II. Health				
Government agencies	1,918,030	43.29	1,731,570	51.62
Services/distribution	618,075	13.95	180,520	5.38
Business process outsourcing	606,077	13.68	443,240	13.21
Shipping	555,415	12.53	566,895	16.90
Manufacturing	354,070	7.99	227,275	6.77
Banking/financials	156,800	3.54	125,915	3.75
Learning institutions	104,840	2.37	21,405	0.64
Real estate	43,965	0.99	42,190	1.26
Non-profit associations	63,530	1.43	15,195	0.45
Hotel	10,140	0.23	480	0.02
	4,430,942	100.00	3,354,685	100.00
	P 91,674,365	100.00	P 95,000,430	100.00

Source of Uncertainty in the Estimation of Future Claim Payment

Estimation of future payments and premium receipts is subject to unpredictability of changes in mortality and morbidity levels. The Company adopts standard industry data in assessing future benefit payments and premium receipts as approved by IC. Adjustments are made, if necessary, according to the experience of the Company.

For individual life insurance, no adjustment is made by the Company to the standard mortality table. For group life, accident and health insurance, the mortality table is adjusted to reflect the Company's actual and projected experiences which are given weights or credibility depending on the amount and length of exposure under consideration. The Company currently monitors its actual experience on individual business, on a per policy basis and on an aggregate basis, and reporting the same to management.

The liability for these contracts comprises the IBNR provision and a provision for unexpired risk at the end of reporting period. The IBNR provision is based on historical experience and is subject to a degree of uncertainty.

Key Assumptions

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

For insurance contracts, the Company determines the assumptions in relation to future deaths, illness or injury and investment returns at inception of the contract.

Subsequently, new estimates are developed at each reporting date and liabilities are tested to determine whether such liabilities are adequate in the light of the latest current estimates. The initial assumptions are not altered if the liabilities are considered adequate. If the liabilities are not adequate, assumptions are altered to reflect the latest current estimates. As a result, the effect of changes in the underlying variables on insurance liabilities and related assets is not symmetrical. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant deteriorations in estimates have an impact.

The key assumptions to which the estimation and adequacy testing of liabilities are particularly sensitive are as follows:

- *Mortality and Morbidity Rates*

Assumptions are based on standard industry and national mortality and morbidity tables, according to the type of contract written and which may be adjusted where appropriate to reflect the Company's own experience. Assumptions are differentiated by age, underwriting class and contract type.

An increase in mortality and morbidity rates would lead to a larger number of claims and claims occurring sooner than anticipated, increasing the expenditure and generally reducing profits for the shareholders.

- *Discount Rate*

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. The weighted average rate of return is derived based on model portfolio that is assumed to back up liabilities, consistent with the long-term assets allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments. Interest rates used for estimating liabilities is approved by the Insurance Commissioner.

An increase in investment return would lead to an increase in profits for the shareholders. A decrease in the discount rate will increase the value of the liability. As required by the Insurance Code, lapse, surrender and expense assumptions are not factored in the computation of the insurance contract liabilities.

As part of the Company's investment strategy, in order to reduce both insurance and financial risks, the Company matches its investments to the liabilities arising from insurance, by reference to the type of benefits payable to the policyholders.

The analysis on the succeeding page is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on liabilities, income before tax and equity. The correlation of variables will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis. It should be noted that movements in these variables are nonlinear.

Increase (Decrease)	Mortality/Morbidity		Discount Rate	
	110% of Original Mortality Table	90% of Original Mortality Table	Original Valuation Interest Rate +1%	Original Valuation Interest Rate -1%
2018				
Net liabilities	P 181,418,393	(P 204,320,174)	(P 697,528,898)	P 940,859,324
Income before tax	(181,418,393)	204,320,174	697,528,898	(940,859,324)
Equity	(181,418,393)	204,320,174	697,528,898	(940,859,324)
2017				
Net liabilities	P 78,405,102	(P 73,273,357)	(P 713,442,764)	P 927,469,874
Income before tax	(78,405,102)	73,273,357	713,442,764	(927,469,874)
Equity	(54,883,571)	51,291,350	499,409,935	(649,228,912)

The methods used for deriving sensitivity information and significant assumptions did not change from the previous period.

4.3 Investment Risk

The investment risk represents the exposure to loss resulting from cash flows from invested assets, primarily long-term fixed rate investments, being less than the cash flows required to meet the obligations of the expected policy and contract liabilities and the necessary return on investments. Additionally, there exists a future investment risk associated with certain policies currently in-force which will have premium receipts in the future, that is, the investment of those future premiums receipts may be at a yield below that required to meet future policy liabilities.

To maintain an adequate yield to match the interest necessary to support future policy liabilities, management reinvests the proceeds of the maturing securities and future premium receipts to financial instruments with satisfactory investment quality.

The Company's strategy is to invest primarily in high quality securities while maintaining diversification to avoid significant exposure to issuer, industry and/or country concentrations taking into consideration limitations set by IC. Another strategy is to produce cash flows required to meet maturing insurance liabilities.

The Company invests in equities for various reasons, including diversifying its overall exposure to equity price risk. AFS financial assets are subject to declines in fair value. Generally, insurance regulations restrict the type of assets in which an insurance company may invest.

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

4.4 Credit Risk

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

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- A credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company's Investment Committee. The policy is regularly reviewed for pertinence and for changes in the risk;
- Net exposure limits are set for each counterparty or group of counterparties, geographical and industry segments (i.e., limits are set for investments and cash deposits, foreign exchange trade exposures and minimum credit ratings for investments that may held);
- Reinsurance is placed with highly rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment;
- The Company sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings; and,
- The credit risk in respect of customer balances which are incurred on nonpayment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed until expiry or when the policy is either paid up or terminated. Commissions paid to intermediaries are offset against any amounts due to reduce the risk of non-collection.

Except for mortgage loans, collateral loans, installment contract receivable, policy loans, and guaranteed loans (presented as part of Note receivable under Loans and Other Receivables), the maximum exposure to credit risk of all financial assets is equal to their carrying amounts.

Policy loans are secured by the cash surrender values on the related policies. The Company grants policy loans up to the extent of the cash surrender values accumulated on the latest policy anniversary dates. The Company is not exposed to credit risk with respect to policy loans.

The tables below show the financial effect of the collateral or credit enhancement to the Company's maximum credit risk as at December 31, 2018 and 2017:

	<u>Gross Maximum</u>	<u>Fair Value of Collateral or Credit Enhancement</u>	<u>Net Exposure</u>	<u>Financial Effect of Collateral or Credit Enhancement</u>
2018				
Mortgage loans	P 3,249,827,085	P 5,563,447,673	P -	P3,249,827,085
Installment contract receivables	222,563,833	413,963,466	-	222,563,833
Collateral loans	84,069,713	101,268,845	-	84,069,713
	<u>P 3,556,460,631</u>	<u>P 6,078,679,984</u>	<u>P -</u>	<u>P3,556,460,631</u>
2017				
Mortgage loans	P 3,027,966,501	P 2,156,162,329	P 871,804,173	P 2,156,162,329
Installment contract receivables	258,899,600	361,754,396	-	258,899,600
Collateral loans	106,940,551	128,502,477	-	106,940,551
	<u>P 3,393,806,652</u>	<u>P 2,646,419,202</u>	<u>P 871,804,173</u>	<u>P 2,522,002,480</u>

The Company's concentration of credit risk arises from loans and other receivables since the said financial instruments amounted to P6.96 billion (2017: P7.66 billion) and 27.17% (2017: 30.53%) of its total financial assets as at December 31, 2018.

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties, gross of any allowance for impairment.

	<u>Neither Past Due nor Impaired</u>					<u>Total</u>
	<u>Investment Grade</u>	<u>Non- Investment Grade Satisfactory</u>	<u>Non- Investment Grade Unsatisfactory</u>	<u>Past Due but not Impaired</u>	<u>Past Due and Impaired</u>	
2018						
Cash and cash equivalents*	P 2,752,114,518	P -	P -	P -	P -	P 2,752,114,518
Insurance receivables						
Premiums due and uncollected	-	680,744,707	-	-	9,450,822	690,195,529
Due from agents	-	24,852,894	-	-	17,272,234	42,125,128
Financial assets at FVPL						
Debt securities	2,461,303,463	-	-	-	-	2,461,303,463
AFS financial assets						
Debt securities	2,040,563,985	-	-	-	-	2,040,563,985
Loans and other receivables						
Mortgage loans	2,126,513,646	9,801,207	11,057,092	1,098,100,855	4,354,285	3,249,827,085
Notes receivable	1,609,812,890	-	-	133,209,982	138,208,707	1,881,231,579
Health management organization (HMO) billback	146,760,518	-	-	-	268,443,208	415,203,726
Policy loans	520,766,065	-	-	-	-	520,766,065
Investment accounts receivable	-	-	-	367,469,293	13,107,049	380,576,342
Claims receivable - farmers	-	406,156,475	-	-	24,508,525	430,665,000
Installment contracts receivables	5,321,013	88,723,083	1,746,502	126,773,235	-	222,563,833
Collateral loans	78,000,797	92,736	749,242	144,596	5,082,342	84,069,713
Advances to officers and employees	44,194,321	-	-	-	4,824,943	49,019,264
Other receivables	181,273,911	-	-	-	-	181,273,911
Accrued income	26,395,648	30,627,070	2,690,750	3,466,971	245,480	63,425,919
Reinsurance assets**	19,626,422	-	-	-	-	19,626,422
Other assets***	20,176,180	-	-	-	-	20,176,180
	<u>P 12,032,823,377</u>	<u>P 1,240,998,172</u>	<u>P 16,243,586</u>	<u>P 1,729,164,932</u>	<u>P 485,497,595</u>	<u>P15,504,727,662</u>

* Excluding cash on hand.

** Reinsurance recoverable on unpaid losses.

*** Pertains to refundable deposits.

	Neither Past Due nor Impaired						Total
	Investment Grade	Non-Investment Grade Satisfactory	Non-Investment Grade Unsatisfactory	Past Due but not Impaired	Past Due and Impaired		
2017							
Cash and cash equivalents*	P 2,013,062,627	P -	P -	P -	P -	P -	P 2,013,062,627
Insurance receivables							
Premiums due and uncollected	-	230,521,776	-	66,122,494	9,450,822	-	306,095,092
Due from agents	-	55,869,893	-	-	17,182,694	-	73,052,587
Financial assets at FVPL							
Debt securities	993,714,608	-	-	-	-	-	993,714,608
AFS financial assets							
Debt securities	2,579,238,589	-	-	-	-	-	2,579,238,589
Loans and other receivables							
Mortgage loans	3,023,612,216	-	-	-	4,354,285	-	3,027,966,501
Notes receivable	2,403,984,490	-	-	-	200,441,133	-	2,604,425,623
HMO billback	444,905,624	-	-	-	225,115,083	-	670,020,707
Policy loans	527,799,182	-	-	-	-	-	527,799,182
Investment accounts receivable	-	-	-	335,573,262	13,107,049	-	348,680,311
Claims receivable - farmers	-	368,796,475	-	-	24,508,525	-	393,305,000
Installment contracts receivables	47,322,669	92,960,477	233,409	118,383,045	-	-	258,899,600
Collateral loans	101,062,200	-	-	-	5,878,351	-	106,940,551
Advances to officers and employees	33,957,027	-	-	-	4,824,943	-	38,781,970
Other receivables	161,702,635	-	-	-	-	-	161,702,635
Accrued income	38,054,763	21,119,738	22,531,799	7,584,267	245,480	-	89,536,047
Reinsurance assets**	36,377,421	-	-	-	-	-	36,377,421
Other assets***	19,074,799	-	-	-	-	-	19,074,799
	P 12,423,868,850	P 769,268,359	P 22,765,208	P 527,663,068	P 505,108,365	P 14,248,673,850	

* Excluding cash on hand.

** Reinsurance recoverable on unpaid losses.

*** Pertains to refundable deposits.

The Company uses an internal credit rating concept based on the borrowers' and counterparties' overall credit worthiness as follows:

Investment Grade – Rating given to borrowers and counterparties who have very strong capacity to meet their obligations.

Non-investment Grade – satisfactory – Rating given to borrowers and counterparties whose outstanding obligation is within the acceptable age of group.

Non-investment Grade – unsatisfactory – Rating given to borrowers and counterparties whose outstanding obligation is nearing to be past due or impaired.

An allowance for impairment is set up in the Company's statements of financial position for assets classified as past due and impaired. Financial assets are considered as past due and impaired when the contractual payments are in arrears by 180 days and the amount is not adequately secured. When contractual payments are in arrears, more than 180 days but adequately secured, financial assets are classified as 'past due but not impaired' with no recorded allowance for impairment.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for securities lending and for cash purposes. Credit risk is also mitigated by entering into collateral agreements. Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. The related fair value of the collateral for the above past due and impaired assets amounted to P9.75 million for both years.

4.5 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- a liquidity risk policy setting out the assessment and determination of what constitutes liquidity risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company's Investment Committee. The policy is regularly reviewed for pertinence and for changes in the risk environment;
- set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance and investment contracts obligations; and,
- setting up contingency funding plans which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payment or on the estimated timing of net cash flows as at December 31, 2018 and 2017 (amounts in thousands):

		<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Over Five Years</u>	<u>No Term/ 1 – 90 days</u>	<u>Total</u>
2018						
Policy and contract claims	P	1,429,733	P -	P -	P -	P 1,429,733
Reserve for policyholders' dividends		191,725	-	-	-	191,725
Premium deposits funds		646,414	-	-	-	646,414
Insurance payables		74,102	-	-	-	74,102
Accounts payable and accrued expenses		<u>1,523,583</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,523,583</u>
	P	<u>3,865,557</u>	P <u>-</u>	P <u>-</u>	P <u>-</u>	P <u>3,865,557</u>
2017						
Policy and contract claims	P	1,184,421	P -	P -	P -	P 1,184,421
Reserve for policyholders' dividends		174,761	-	-	-	174,761
Premium deposits funds		882,494	-	-	-	882,494
Insurance payables		321,462	-	-	-	321,462
Accounts payable and accrued expenses		<u>1,305,233</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,305,233</u>
	P	<u>3,868,371</u>	P <u>-</u>	P <u>-</u>	P <u>-</u>	P <u>3,868,371</u>

It is unusual for a company primarily engaged in insurance business to predict its funding requirements with absolute certainty as theory of probability is applied on insurance contracts to determine the likely provision and the time period when such liabilities will require settlement. Thus, the amounts and maturities in respect of insurance liabilities are based on management's best estimate using statistical techniques and data on past experience.

4.6 Market Risk

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

The following policies and procedures are in place to mitigate the Company's exposures to market risk:

- The Company's market risk policy sets out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company's Investment Committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Asset allocation and portfolio limit structure are set to ensure that assets back specific policyholder's liabilities and that assets are held to deliver income and market value appreciation for policyholders in line with their expectations.
- Stipulated diversification benchmarks are arranged by type of instrument of the Company.

4.6.1 Currency Risk

Currency risk is the risk that the fair value of future cash flows of financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's principal transactions are carried out in Philippine peso and its foreign exchange risk arises primarily with respect to the transactions denominated in U.S. dollar, where some of its products are denominated. The Company's financial assets are primarily denominated in the same currency as its insurance contracts, which mitigate the foreign exchange rate risk. Thus, the main foreign exchange risk arises from recognized financial assets and financial liabilities denominated in currency other than in which the insurance contracts are expected to be settled.

The tables in the succeeding page show the details of the Company's foreign currency-denominated assets and liabilities and their Philippine peso equivalents.

	<u>USD</u>		<u>PHP</u>
2018			
Assets:			
Cash and cash equivalents	\$ 3,049,699	P	160,780,131
Financial assets at FVPL	5,378,857		283,573,341
AFS financial assets	3,342,226		176,202,155
Accrued income	<u>142,382</u>		<u>7,506,379</u>
	11,913,164		628,062,006
Liability –			
Insurance contract liabilities	<u>3,921,609</u>		<u>206,747,227</u>
	<u>\$ 7,991,555</u>	P	<u>421,314,779</u>
2017			
Assets:			
Cash and cash equivalents	\$ 2,893,927	P	144,464,836
Financial assets at FVPL	4,995,344		249,367,573
AFS financial assets	3,518,947		175,665,834
Accrued income	<u>115,142</u>		<u>5,747,888</u>
	11,523,360		575,246,131
Liability –			
Insurance contract liabilities	<u>4,185,248</u>		<u>208,927,580</u>
	<u>\$ 7,338,112</u>	P	<u>366,318,551</u>

In translating the foreign currency-denominated assets and liabilities, the exchange rates used were P52.72 to USD1.00 and P49.92 to USD1.00, the PHP-USD prevailing exchange rates as at December 31, 2018 and 2017, respectively.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on income before income tax.

There is no other impact on the Company's equity other than those already affecting profit or loss.

The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact, key changes had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear.

	<u>2018</u>		<u>2017</u>	
Change in variables	<u>9.54%</u>	(<u>9.54%</u>)	<u>10.77%</u>	(<u>10.77%</u>)
Increase (decrease) on income before income tax	(P 40,193,940)	P 40,193,940	(P 39,425,508)	P 39,425,508
Increase (decrease) on equity	(28,135,401)	28,135,401	(27,616,756)	27,616,756

4.6.2 Fair Value Interest Rate Risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rate. The Company's fixed rate investments classified as AFS financial assets and Financial assets at FVPL are particularly exposed to such risk.

The Company's investment policy requires it to buy and hold fixed rate AFS financial assets and Financial assets at FVPL, unless the need to sell arises, and to reduce the duration gap between financial assets and financial liabilities to minimize interest rate risk.

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on equity.

	<u>Change in Variables (%)</u>	<u>Increase (Decrease) on Equity</u>
2018		
In Philippine pesos	3.31	(P 61,709,933)
In U.S. dollars	0.67	(1,180,644)
In Philippine pesos	(0.38)	8,275,293
In U.S. dollars	(0.20)	567,190
2017		
In Philippine pesos	1.10	(P 135,802,799)
In U.S. dollars	0.06	(7,531,615)
In Philippine pesos	(0.61)	75,308,825
In U.S. dollars	(0.61)	75,308,825

In 2018 and 2017, the Company determined the reasonably possible change in interest rates using the percentage changes in weighted average yield rates of outstanding securities for the past two years.

4.6.3 Equity Price Risk

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

The Company's price risk relates to financial assets whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit-linked business.

The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear.

For equity securities listed in the Philippines and golf club shares, an average volatility of 33.69% and 16.68% has been observed during 2018 and 2017, respectively. If quoted price of these securities increased or decreased by that amount, profit before tax would have been changed by P1.04 billion and P1.58 billion, respectively.

The investments in listed equity securities are considered long-term strategic investments. In accordance with the Company's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilized in the Company's favor.

5. CAPITAL MANAGEMENT

5.1 Regulatory Framework

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

The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions, net worth requirements, and risk-based capital (RBC) requirements to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise. The Company's capital includes capital stock, contributed surplus and retained earnings.

The Company maintains a capital base to cover risks inherent in the business. Externally imposed capital requirements are set and regulated by the IC. These requirements are put in place to ensure solvency margins.

The Company manages its capital requirements by complying with requirements and limitations enforced by the IC, by maintaining profitability of the business and by aligning the Company's operational strategy to its corporate goals.

The Company fully complied with the externally imposed capital requirements as at December 31, 2018 and 2017, and no changes were made to its capital base, objectives, policies and processes.

The Company's primary capital management objectives are to ensure its ability to continue as a going concern in order to fulfill the Company's mission and vision and to provide adequate return to shareholders.

The Company manages its capital structure in light of changes in the economic conditions and the risk characteristics of its activities. The Company takes into consideration future capital requirements, capital deficiency, profitability, and projected operating cash flows, expenditures and investment opportunities. No changes were made in the objectives, policies and processes as at December 31, 2018 and 2017.

5.2 Net Worth Requirements

Under the Insurance Code, every insurance company doing business in the Philippines needs to comply with the following net worth requirements:

<u>Compliance Date</u>	<u>Net Worth</u>
On or before June 30, 2013	P 250,000,000
On or before December 31, 2016	550,000,000
On or before December 31, 2019	900,000,000
On or before December 31, 2020	1,300,000,000

As at December 31, 2018 and 2017, the Company has complied with the net worth requirements based on its internal computation.

5.3 RBC Requirements

Insurance Memorandum (IMC) No. 6-2006 provides for the RBC framework for the life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investments and insurance risks. Every life insurance company is required annually to maintain a minimum RBC ratio of one hundred (100%) and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include an insurance company's paid-up capital, contributed surplus and retained earnings. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the IC. RBC requirement shall be computed based on the formula provided in the Circular and shall include asset default risk, insurance pricing risk, interest rate risk and general business risk. Every life insurance company is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. The trend test has failed, in the event that:

- a. The RBC ratio is less than 125% but is not below 100%
- b. The RBC ratio has decreased over the past year
- c. The difference between RBC ratio and the decrease in the RBC ratio over the past year is less than 100%

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

In 2016, the IC issued CL No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework*, prescribes that all insurance companies must satisfy the minimum statutory RBC ratio of 100% and not fail the Trend Test as stated under Section 3 of this Circular. The RBC ratio of an insurance company shall be equal to the Total Available Capital divided by the RBC requirement.

IC CL No. 2016-69, *Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework*, provides that the level of sufficiency for the RBC2 Framework shall be at 95% level in 2017, 97.50% in 2018 and 99.50% in 2019.

IC CL No. 2018-19, *Amendment to CL no. 2016-69 "Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework"*, provides guidelines on disclosure of MfAD. The amendment states that MfAD shall be company-specific. The companies shall submit to the IC the documents and certification signed by an IC-accredited actuary to support the computation of their MfAD.

The RBC Ratio under the prevailing standard as at December 31, 2018 and 2017 are 162% and 172%, respectively. Based on the internal calculations, the Company is compliant, with an RBC ratio of 162%. The final RBC ratio can be determined only after the accounts of the Company have been examined by the IC.

The information below shows the RBC ratios determined by the Company as at December 31, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Net worth	P 9,671,324,994	P 8,990,660,590
RBC requirement	<u>5,986,626,328</u>	<u>5,227,748,327</u>
RBC Ratio	<u>161.55%</u>	<u>171.98%</u>

As at December 31, 2018 and 2017, the estimated amounts of non-admitted assets, as defined under the Insurance Code, which are included in the statements of financial position, are as follows:

	<u>2018</u>	<u>2017</u>
Loans and receivables	P 805,082,358	P 867,914,995
Equity securities and other investments	792,938,661	956,550,656
Premiums due and uncollected	394,374,121	59,584,067
Property and equipment	145,034,928	154,827,517
Investment property	73,848,483	28,868,745
Other assets and receivables	<u>704,572,927</u>	<u>446,936,938</u>
	<u>P 2,915,851,478</u>	<u>P 2,514,682,918</u>

5.4 Limitation on Dividend Declaration

Section 195 of the Insurance Code provides that a domestic life insurance company shall declare or distribute dividends on its outstanding stock only from profits remaining on hand after retaining unimpaired:

- the entire paid-up capital stock;
- RBC ratio;
- the legal reserve fund required; and,
- a sum sufficient to pay all net losses reported or in the course of settlement and all liabilities for expenses and taxes.

The Company is required to report such dividend declaration or distribution to the IC within thirty (30) days from the date of such declaration.

There were no dividends declared by the Company in 2018 and 2017.

6. CATEGORIES, FAIR VALUE MEASUREMENT AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Comparison of Carrying Amounts and Fair Values

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below (amounts in thousands).

	Classes		Carrying Amount	Fair Value
	At Amortized Cost	At Fair Value		
December 31, 2018				
<i>Financial Assets</i>				
At amortized cost:				
Cash and cash equivalents	P 2,758,306	P -	P 2,758,306	P 2,758,306
Insurance receivables	705,598	-	705,598	705,598
Loans and other receivables	6,907,648	-	6,907,648	6,907,648
Accrued income	63,180	-	63,180	63,180
Reinsurance assets	19,626	-	19,626	19,626
Other assets	50,150	-	50,150	50,150
At fair value:				
Financial assets at FVPL	-	3,461,926	3,461,926	3,461,926
AFS financial assets	-	11,604,723	11,604,723	11,604,723
	P 10,504,508	P 15,066,649	P 25,571,157	P 25,571,157
<i>Financial Liabilities</i>				
At amortized cost:				
Insurance contract liabilities	P 14,643,775	P -	P 14,643,775	P 14,643,775
Reserve for policyholders' dividends	191,725	-	191,725	191,725
Premium deposit funds	646,414	-	646,414	646,414
Insurance payables	74,102	-	74,102	74,102
Accounts payable and accrued expenses	1,523,583	-	1,523,583	1,523,583
	P 17,079,599	P -	P 17,079,599	P 17,079,599
December 31, 2017				
<i>Financial Assets</i>				
At amortized cost:				
Cash and cash equivalents	P 2,019,926	P -	P 2,019,926	P 2,019,926
Insurance receivables	352,514	-	352,514	352,514
Loans and other receivables	7,621,511	-	7,621,511	7,621,511
Accrued income	89,291	-	89,291	89,291
Reinsurance assets	41,622	-	41,622	41,622
Other assets	47,767	-	47,767	47,767
At fair value:				
Financial assets at FVPL	-	2,035,770	2,035,770	2,035,770
AFS financial assets	-	12,552,691	12,552,691	12,552,691
	P 10,172,631	P 14,588,461	P 24,761,092	P 24,761,092
<i>Financial Liabilities</i>				
At amortized cost:				
Insurance contract liabilities	P 13,643,462	P -	P 13,643,462	P 13,643,462
Reserve for policyholders' dividends	174,761	-	174,761	174,761
Premium deposit funds	882,494	-	882,494	882,494
Insurance payables	321,462	-	321,462	321,462
Accounts payable and accrued expenses	1,305,233	-	1,305,233	1,305,233
	P 16,327,412	P -	P 16,327,412	P 16,327,412

6.2 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or financial liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Company uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

6.3 Financial Instruments Measured at Fair Value

The financial assets and financial liabilities measured at fair value in the statements of financial position as of December 31, 2018 and 2017 are grouped into the fair value hierarchy as follows (in thousands):

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2018					
Financial assets at FVPL	9				
Equity securities		P 970,014	P -	P -	P 970,014
Government debt securities		2,191,915	-	-	2,191,915
Corporate debt securities		269,388	-	-	269,388
Equity investments designated as financial assets at FVPL		-	30,609	-	30,609
AFS financial assets	10				
Equity securities		8,958,220	-	-	8,958,220
Debt securities		<u>2,040,564</u>	<u>-</u>	<u>-</u>	<u>2,040,564</u>
		<u>P 14,430,101</u>	<u>P 30,609</u>	<u>P -</u>	<u>P 14,460,710</u>
December 31, 2017					
Financial assets at FVPL	9				
Equity securities		P 1,004,556	P -	P -	P 1,004,556
Government debt securities		680,690	-	-	680,690
Corporate debt securities		313,025	-	-	313,025
Equity investments designated as financial assets at FVPL		-	37,499	-	37,499
AFS financial assets	10				
Equity securities		9,294,203	-	-	9,294,203
Debt securities		<u>2,579,239</u>	<u>-</u>	<u>-</u>	<u>2,579,239</u>
		<u>P 13,871,713</u>	<u>P 37,499</u>	<u>P -</u>	<u>P 13,909,212</u>

As at December 31, 2018 and 2017, the Company has AFS equity securities measured at cost amounting to P605.94 million and P679.25 million, respectively (see Note 10).

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

6.4 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed (amounts in thousands).

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2018					
<i>Financial assets</i>					
Cash and cash equivalents	7	P 2,758,306	P -	P -	P 2,758,306
Insurance receivables	8	-	-	705,598	705,598
Loans and other receivables	11	-	-	6,907,648	6,907,648
Accrued income	12	-	-	63,180	63,180
Reinsurance assets	13	-	-	19,626	19,626
Other assets	19	-	-	50,150	50,150
		P 2,758,306	P -	P 7,746,202	P 10,504,508
<i>Financial liabilities</i>					
Insurance contract liabilities	20	P -	P -	P 14,643,775	P 14,643,775
Reserve for policyholders' dividends	21	-	-	191,725	191,725
Premium deposit funds	22	-	-	646,414	646,414
Insurance payables	23	-	-	74,102	74,102
Accounts payable and accrued expenses	24	-	-	1,523,583	1,523,583
		P -	P -	P 17,079,599	P 17,079,599
December 31, 2017					
<i>Financial assets</i>					
Cash and cash equivalents	7	P 2,019,926	P -	P -	P 2,019,926
Insurance receivables	8	-	-	352,514	352,514
Loans and other receivables	11	-	-	7,621,511	7,621,511
Accrued income	12	-	-	89,291	89,291
Reinsurance assets	13	-	-	41,622	41,622
Other assets	19	-	-	47,767	47,767
		P 2,019,926	P -	P 8,152,705	P 10,172,631
<i>Financial liabilities</i>					
Insurance contract liabilities	20	P -	P -	P 13,643,462	P 13,643,462
Reserve for policyholders' dividends	21	-	-	174,761	174,761
Premium deposit funds	22	-	-	882,494	882,494
Insurance payables	23	-	-	321,462	321,462
Trade and other payables	24	-	-	1,305,233	1,305,233
		P -	P -	P 16,327,412	P 16,327,412

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

6.5 Fair Value Measurement of Investment Properties

The table below shows the levels within the fair value hierarchy of investment properties measured at fair value on a recurring basis as of December 31, 2018 and 2017 (in thousands).

	Level 1	Level 2	Level 3	Total
2018	P -	P 1,661,484	P -	P 1,661,484
2017	P -	P 1,202,662	P -	P 1,202,662

The fair values of the Company's investment properties were arrived at using the Market Data Approach. Under this approach, the values of the properties are based on sale and listings of comparable properties registered in the vicinity. It requires the establishment of comparable properties by reducing reasonable comparative sales and listings to a common denominator and adjustments of the differences between the subject properties and those actual sales and listings regarded as comparables. The comparison was premised on the factors of location, characteristics of the lot, time element, quality and prospective use.

The fair value measurement for investment property has been categorized as a Level 2 fair value. The Company engaged accredited independent appraisers to determine the fair value of its investment properties. Valuations were derived on the basis of recent sales of similar properties in the same areas as the Company's investment properties taking into account the economic conditions prevailing at the time the valuations were made.

Fair value of non-financial assets under Level 2 is determined using Market Data Approach (see Note 16).

6.6 Offsetting Financial Assets and Financial Liabilities

The Company has not set-off financial instruments in 2018 and 2017 and the only financial assets which are subject to offsetting arrangement is Company's policy loans which are secured with cash surrender value. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle all such amounts on a net basis in the event of default of the other party through approval by the BOD and stockholders of both parties.

7. CASH AND CASH EQUIVALENTS

This account consists of:

	<u>2018</u>	<u>2017</u>
Cash on hand	P 6,191,599	P 6,863,104
Cash in banks	648,895,436	936,972,721
Short-term placements	<u>2,103,219,082</u>	<u>1,076,089,906</u>
	<u>P2,758,306,117</u>	<u>P2,019,925,731</u>

Cash in banks earn interest at prevailing interest rates. Cash equivalents are made for various periods depending on the immediate cash requirements of the Company and earn interest ranging from 0.25% to 2.50% in both 2018 and 2017.

Short-term placements are made for varying periods from 15 to 30 days and earn effective interest ranging from 3.97% to 7.5% in 2018 and from 4.5% to 7.1% in 2017.

Interest income earned in 2018 and 2017 amounted to P54.63 million and P30.12 million, respectively, and is presented as part of Interest income under Investment Income account in the statements of comprehensive income (see Note 27).

8. **INSURANCE RECEIVABLES**

This account consists of:

	<u>2018</u>	<u>2017</u>
Premiums due and uncollected	P 690,195,529	P 306,095,092
Due from agents	<u>42,125,128</u>	<u>73,052,587</u>
	732,320,657	379,147,679
Allowance for impairment	<u>(26,723,056)</u>	<u>(26,633,516)</u>
	<u>P 705,597,601</u>	<u>P 352,514,163</u>

All of the Company's insurance receivables have been reviewed for indicators of impairment. Management determined that there was no additional allowance for impairment loss necessary as at December 31, 2018 and 2017. However, the allowance for impairment previously recognized in loans and receivables amounting to P0.09 million was reclassified to insurance receivables in 2018 (see Note 11).

9. **FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

This account consists of the following financial assets which are issued in:

	<u>2018</u>	<u>2017</u>
Philippines	P1,136,798,953	P 1,146,040,331
United States	<u>2,325,127,444</u>	<u>889,729,350</u>
	<u>P3,461,926,397</u>	<u>P2,035,769,681</u>

The carrying amounts of the financial assets at FVPL are classified as follows:

	<u>2018</u>	<u>2017</u>
Government debt securities	P 2,191,915,378	P 680,689,685
Equity securities	970,013,934	1,004,556,073
Corporate debt securities	269,388,085	313,024,923
Equity investments designated as financial assets at FVPL	<u>30,609,000</u>	<u>37,499,000</u>
	<u>P3,461,926,397</u>	<u>P2,035,769,681</u>

Dividend income from equity securities and interest income from debt securities are presented as part of Investment Income account in the statements of comprehensive income (see Note 27).

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

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of year		P2,035,769,681	P 1,176,396,165
Additions		3,154,217,057	1,059,170,574
Maturities and disposals		(1,680,212,345)	(362,764,759)
Foreign exchange adjustments		17,582,688	479,606
Net fair value gain (loss)	27	(65,430,684)	<u>162,488,095</u>
 Balance at end of year		 <u>P3,461,926,397</u>	 <u>P2,035,769,681</u>

Fair value gains (losses) on financial assets at FVPL, which is presented as part of Investment Income account in the statements of comprehensive income, consists of:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Equity securities		(P 48,514,409)	P 135,518,431
Government debt securities		(16,916,275)	<u>26,969,664</u>
	27	<u>(P 65,430,684)</u>	<u>P 162,488,095</u>

The fair values of equity securities presented above have been determined directly by reference to quote bid prices in active markets (see Note 6.3).

In addition, financial assets at FVPL with carrying amount of P1.68 billion and P0.36 billion were matured or sold in 2018 and 2017, respectively. Accordingly, the related gains and losses from sale of these financial assets are presented under Investment Income account in the statements of comprehensive income (see Note 27).

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account consists of:

	<u>2018</u>	<u>2017</u>
Equity securities at fair value	P 8,958,219,510	P 9,294,203,236
Debt securities	2,040,563,985	2,579,238,589
Equity securities at cost	<u>605,939,729</u>	<u>679,249,414</u>
	<u>P 11,604,723,224</u>	<u>P12,552,691,239</u>

As at December 31, 2018 and 2017, AFS unlisted equity securities carried at fair values consist mainly of the Company's investment in shares of stock of CIIF Oil Mills Companies (collectively referred to as CIIF-OMG) which are presented below:

- Granexport Manufacturing Corporation (Granex)
- Legaspi Oil Company, Inc. (LegOil)
- San Pablo Manufacturing Corporation (SPMC)
- Southern Luzon Coconut Oil Mills Co., Inc. (SolCom)

The fair values of the total investments in CIIF Oil Mills Companies were determined by taking into account the redemption price of San Miguel Corporation (SMC) shares, which comprise 96.72% (over total balance) of CIIF's assets, and discounted cash flow (DCF) approach for other operating net assets.

The CIIF Oil Mills Companies have investments in 14 CIIF Holding Companies which hold shares in SMC. The aggregate market value of the Company's interest in these SMC shares amounted to P6.21 billion as at December 31, 2018 and 2017. In addition, the fair values of the other operating net assets of the CIIF Oil Mills Companies have been determined using DCF approach. Significant assumptions used include a discount rate of 12.00% in both 2018 and 2017. The DCF computation is based on latest available figures of CIIF Oil Mills Companies as at December 31, 2015.

The assets of the CIIF Oil Mills Companies and the SMC shares which were subsequently redeemed are presently sequestered and are the subject of an ongoing appeal by the Philippine Coconut Producers Federation with the Supreme Court (SC). The investments of SPMC, Iligan Coconut Industries, Inc. ("Ilicoco") and other CIIF Oil Mills Companies in the 14 CIIF Holding Companies and the loans and advances granted by SPMC, Ilicoco and other CIIF Oil Mills Companies to the 14 CIIF Holding Companies were used to purchase the shares of stock in SMC. As at December 31, 2001, the loans and advances granted to the 14 CIIF Holding Companies were fully collected. These SMC shares were sequestered by the Presidential Commission of Good Government (PCGG) in May 1986.

The 14 CIIF Holding Companies, UCPB and SMC executed and subsequently implemented in 1991 a compromise agreement and amicable settlement involving the SMC shares of stock held by the 14 CIIF Holding Companies. Notwithstanding the implementation of the compromise agreement and amicable settlement, all the subject SMC shares of stock remain sequestered by the PCGG. Certain parties, however, filed before the Sandiganbayan their opposition to the implementation of the said agreement.

On November 10, 1993, the Republic of the Philippines, acting through the PCGG, filed before the Sandiganbayan a motion for authority to sell all the 14 CIIF Holding Companies' shares of stock of SMC. The proceeds of the sale would then be utilized to pay for the indebtedness of the CIIF Holding Companies to UCPB and any remaining balance thereof would be used for urgently needed projects designed for the benefit of the coconut farmers and pursuant to the intent of the CIIF. The motion was opposed by certain parties.

On September 27, 1996, the 14 CIIF Holding Companies and UCPB, as administrator of the CIIF Holding Companies and as then creditor of the 14 CIIF Holding Companies (the UCPB loan was fully paid by the 14 CIIF Holding Companies in November 2002), filed a joint motion before the Sandiganbayan and respectfully moved that they be authorized to sell all the 14 CIIF Holding Companies' SMC Class B shares and to buy an equal number of SMC Class A shares. The motion was denied on December 12, 1997. On January 7, 1998, the 14 CIIF Holding Companies and UCPB filed a motion for reconsideration.

On May 7, 1998, in an "en banc" resolution, the PCGG lifted the sequestration of the SMC shares, subject to the approval of the Sandiganbayan. The lifting of the sequestration on the SMC shares owned by the 14 CIIF Holding Companies will enable the CIIF companies to re-deploy their resources in response to the demands of an ever-changing business environment and to initiate strategic programs aimed at enhancing the competitiveness of the Philippine coconut industry.

On February 9, 1999, the Sandiganbayan considered the motion dated November 10, 1993 withdrawn without prejudice to whatever actions the parties may take for revival or resuscitation thereof under such terms which may be appropriate at that time. On March 12, 1999, certain parties filed a motion for permission to present evidence in relation to their opposition of said November 10, 1993 motion to sell all SMC shares.

On November 8, 2000, the President of the Philippines issued Executive Order (EO) No. 313 creating an irrevocable trust fund to be known as the Coconut Trust Fund to be managed by a Trust Fund Committee. EO No. 313 also provided that the subject SMC shares shall form part of the initial capital of the Coconut Trust Fund. For the purpose of implementing the creation of the Coconut Trust Fund, EO No. 313 directed the 14 CIIF Holding Companies, acting through Administrator of the coconut levy fund, to: (a) convey the subject SMC shares to the Trustee; and, (b) sign, execute and deliver such documents, deed or contracts, under such conditions not inconsistent with EO No. 313 likewise mandates the PCGG and the Office of the Solicitor General to lift the sequestration of the subject SMC shares and take all the necessary steps to implement the purposes and objectives of EO No. 313.

As a first step toward the implementation of EO No. 313, the PCGG adopted resolutions on November 28, 2000, lifting the sequestration of the subject SMC shares. On January 10, 2001, a Motion to Withdraw Complaint was filed by the PCGG before the Sandiganbayan requesting for the exclusion of the subject SMC shares from Civil Case No. 0033-F and for the cause of action against defendants, the 14 CIIF Holding Companies, in connection with the said shares to be considered withdrawn.

As a result of the installation of the new dispensation, on January 30, 2001, a Manifestation and Motion to Hold in Abeyance Motion to Withdraw Complaint dated January 10, 2001 was filed before Sandiganbayan requesting to defer action in the aforementioned Motion until February 25, 2001 or later, for the reason that EO No. 313 is still undergoing review by the Office of the President for possible amendment, suspension and revocation.

The Sandiganbayan, in a Motion for Partial Summary Judgment on May 7, 2004, decided that SPMC and the other CIIF Block of SMC shares of stock totaling 33,133,266 shares in 1983, together with all dividends declared, paid and issued thereon, as well as any increments thereto arising from, but not limited to, exercise of pre-emptive rights, are declared owned by the government in trust for all the coconut farmer and ordered reconveyed to the government.

Certain parties filed a Motion for Reconsideration to such Sandiganbayan decision. The motion for reconsideration was denied by Sandiganbayan on December 28, 2004. On March 29, 2005, the 14 CIIF Holding Companies, as authorized by the PCGG, exercised their pre-emptive rights first on the SMC Class B shares and thereafter on the SMC Class A shares of SMC's 105 stock offering to the extent of the cash dividends held by the 14 CIIF Holding Companies. The 14 CIIF Holding Companies subscribed to 27,952,430 Class B shares and 693,242 Class A shares resulting in total shareholdings of 307,395,776 Class B shares and 446,476,531 Class A shares.

On July 24, 2009, SMC made an Exchange Offer preferred shares for its issued and outstanding Class A and Class B common shares, on a one-for-one basis. The peso-denominated nonvoting preferred shares (the Series 1 Preferred Shares) will have an issue price of P75.00 (the Issue Price). The maximum Series 1 Preferred Shares that could be exchanged in the Exchange Offers is 1,104,000 shares.

The Company and the CIIF Oil Mills Companies chose to participate in the Exchange Offer. The Company and the CIIF Oil Mills Companies submitted their applications to exchange in October 2009. The Company and the CIIF Oil Mills Companies received 751,185 and 753,848,312 Series 1 Preferred Shares, respectively, in exchange for an equivalent number of common shares.

On December 23, 2009, the Company's BOD approved the Memorandum of Agreement (MOA) which allowed the Company to account for its investment in CIIF Oil Mills Companies as investments in associates because despite ownership of less than twenty percent (20%) interest in the CIIF Oil Mills Companies, the Company has significant influence by virtue of joint rights with UCPB as stockholders of the CIIF Oil Mills Companies for their collective benefit. Upon effectivity of the MOA on January 1, 2010, the CIIF Oil Mills Companies became associates of the Company.

As allowed under PAS 27, the Company accounted for its investments in CIIF Oil Mills Companies as similar to AFS financial assets in accordance with PAS 39 which are carried at fair value in its separate financial statements.

On January 24, 2012, the SC rendered its decision in favor of the government in two cases involving: (a) the ownership of certain sequestered shares in UCPB and (b) the ownership over the CIIF Oil Mills Companies, the 14 CIIF Holding Companies and the shares of stock in SMC held by the 14 CIIF Holding Companies, together with all dividends declared paid and issued thereon as well as any increments thereto arising from, but not limited to, exercise of pre-emptive rights.

On February 14, 2012, the Philippine Coconut Producers Federation, Inc., et. al., filed a Motion for Reconsideration on the decision rendered by the SC. The SC subsequently rendered a decision on September 4, 2012 which resolves to deny with finality the aforementioned case for the lack of merit. Further, the court clarifies that the SMC shares, with all the dividends earnings as well as all increments that may arise from, are owned by the government to be used for the benefit of all the coconut farmers and for the development of the coconut industry.

On December 28, 2012, the Company filed a Petition for Declaratory Relief to seek for an authoritative declaration of its rights and duties as a stockholder of the CIIF Oil Mills Companies, and 14 CIIF Holding Companies. Against this petition the Philippine Government through the PCGG filed with the SC a petition for, among others, the issuance of the Temporary Restraining Order (TRO) enjoining the trial court Judge from proceeding with the hearing of the petition for declaratory relief. On February 26, 2014, the SC issued the TRO.

On December 10, 2014, the SC issued a resolution directing that an entry of judgment be made for its January 24, 2012 Decision, which ordered the reconveyance of the CIIF Block of SMC shares to the Philippine Government, to be used exclusively for the benefit of coconut farmers and the development of the local coconut industry.

On March 18, 2015, President Benigno S. Aquino III issued EO No. 179, *Providing the Administrative Guidelines for the Inventory and Privatization of Coco Levy Assets*, and EO No. 180, *Providing the Administrative Guidelines for the Reconveyance and Utilization of Coco Levy Assets for the Benefit of the Coconut Farmers and the Development of the Coconut Industry, and For Other Purposes*, together referred to as the "EOs".

The EOs mandate the inventory, reconveyance, utilization and privatization of coco levy assets to ensure that the Coco Levy Fund and coco levy assets will only be utilized for the benefit of the coconut farmers and the Philippine coconut industry. The EOs define Coco Levy Fund as all funds created or sourced from the coco levy assets imposed by the government, including the CIIF and the Coconut Consumers Stabilization Fund (CCSF). Coco levy assets meanwhile refer to the money, assets or properties, whether real or personal, tangible or intangible, wherever situated, arising from or otherwise funded by or acquired through the use or by means of any of the coco levy funds, directly or indirectly, including but not limited to shares, rights, and interests, whether vested, contingent, expectant, choate or inchoate, and any and all fruits, income, interest, or profits derived from these assets including those acquired in exchange or substitution thereof.

During the pendency of the proceedings for the execution of the EOs, that is, even before the Sandiganbayan had acted on the motion for execution filed by the PCGG, a TRO was issued by the SC on June 30, 2015 relative to the petition filed by the Confederation of Coconut Farmers Organization of the Philippines (CCFOP). The TRO basically orders the Philippine Government to stop the implementation of the said EOs until further orders from the SC.

On May 17, 2015, the SC issued a TRO from implementing EO Nos. 179 and 180 and from using, disbursing and disposing the subject coconut levy assets and funds. Prior to the SC's issuance of the TRO however, the Bureau of Treasury transferred significant amount of cash from the account "PCGG in trust for CIIF 14 Holding Companies" to "SAGF for Coco Levies".

On September 15, 2015, the SC dismissed the separate petitions made by UCPB and the Company last December 28, 2012 for declaratory relief which was filed before the Makati Regional Trial Court (Makati RTC). The SC confirms that the Makati RTC has no jurisdiction over the Company's petition. The SC further confirms that the Sandiganbayan has sole jurisdiction over any and all incidents affecting the coco levy funds and assets.

On April 4, 2016, the PCGG filed before the Sandiganbayan a motion for partial execution of the EOs. However, on April 19, 2017, the Company filed a motion for leave of court to file comment before the Sandiganbayan to protect or preserve the vested right or legal interest of the Company that will be adversely affected by the execution of the EOs.

On December 29, 2017, the Sandiganbayan favorably acted on Cocolife, UCPB and the CIIF Oil Mill Companies' pleadings and allowed them to be heard by presenting their legal positions and claims on the CIIF-OMG investments on January 29, 2018.

On January 29, 2018, the resolution discussed during the hearing was related only to the motion for reconsideration filed by the Office of the Solicitor General (OSG) opposing the resolution of Sandiganbayan dated December 29, 2017 which allowed the Company, UCPB and CIIF Oil Mills Companies to present their legal position and claims.

On December 3, 2018, the Sandiganbayan affirmed the Partial Summary of Judgment of the Court dated May 7, 2004, finding that the CIIF Companies, the 14 Holding Companies, and the CIIF Block of San Miguel Corporation (SMC) shares are owned by plaintiff Republic of the Philippines.

As at December 31, 2018 and 2017, the carrying amount of the Company's investments in UCPB shares and CIIF Oil Mills Companies shares amounted to P6.40 billion and P7.01 billion, respectively.

As of December 31, 2018, the Company assessed that these investments are impaired. Relative to this, the Company has applied to the Insurance Commission (IC) for a ten-year staggered booking of impairment losses related to its investments in CIIF Oil Mills Companies and UCPB. Pending approval of its application with IC, the Company has written off portion of its investments in CIIF Oil Mills Companies and UCPB amounting to P700.60 million in 2018 of which P570.12 million was charged against the related Reserve for Fluctuations of AFS, P63.35 million was charged against the related deferred tax liability, and the remaining amount of P67.13 million was recorded as part of Impairment losses under General and Administrative expense account in the 2018 statement of comprehensive income (see Note 30). As of December 31, 2018, the Company has yet to obtain the approval of the Insurance Commission.

(b) AFS Equity Securities at Cost

In 2011, the Company foreclosed its receivables from Archipelago Finance and Leasing Corporation (Archipelago), an entity under common control, pertaining to the sales of UCPB shares in 2000 up to 2002 amounting to P351.98 million and secured by a pledge on 29,290,224 shares sold. Consequently, the Company's investments in UCPB shares increased from 100,000,000 shares as at December 31, 2010 valued at P100.00 million to 129,290,224 shares as at December 31, 2011 valued at P451.98 million. These stocks are non-participating, nonvoting preferred shares convertible to common shares of UCPB with P1 par value, an affiliated local commercial bank at the option of the holder. These shares are entitled to cumulative dividends of 14% per annum.

A substantial portion of the outstanding shares of stock of UCPB remains sequestered as a result of the sequestration orders previously issued by the PCGG on June 26, 1986. In 2012, the Company redeemed the UCPB shares amounting to P100.00 million from UCPB GEN, a wholly-owned subsidiary. The Company has investments in UCPB shares amounting to a total of P603.40 million and P659.34 million for 2018 and 2017, respectively.

The issue of ownership of the sequestered shares has been the subject of ongoing court proceeding with SC and Sandiganbayan. However, on December 14, 2001, the SC ruled that the Coconut Levy Funds, from which the funds to buy UCPB shares were occurred, were prima facie public funds.

Further, on July 2, 2002, the SC directed the Sandiganbayan First Division to resolve with all deliberate speed and not later than six (6) months such ownership issue.

The Sandiganbayan, in its decision dated July 11, 2003, ruled and declared that ownership of 72.20% in UCPB legally belongs to the government. Subsequently, the SC rendered a decision on January 25, 2012 supporting the decision of the Sandiganbayan on July 11, 2003.

On February 14, 2012, the Philippine Coconut Producers Federation, Inc., et. al., filed a Motion for Reconsideration on the decision rendered by the SC. The SC subsequently rendered a decision on September 4, 2012 which resolves to deny with finality the said Motion for Reconsideration for lack of merit.

The Petition for Declaratory Relief by the Company on December 28, 2012 also mentioned its ownership over these UCPB shares.

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

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	P12,552,691,239	P10,926,624,200
Additions	4,045,369,423	6,947,129,804
Maturities and disposals	(3,017,522,993)	(5,528,623,485)
Fair value gains (losses)	(1,243,185,087)	254,883,376
Impairment on AFS	(718,575,993)	(47,975,886)
Foreign exchange adjustments	(14,053,365)	653,230
 Balance at end of year	 <u>P11,604,723,224</u>	 <u>P12,552,691,239</u>

As at December 31, 2018 and 2017, government securities with a total value of P142.30 million and P161.67 million, respectively, are deposited with the IC in accordance with the provision of the Insurance Code as security for the benefit of policyholders and creditors of the Company.

Changes in fair value of AFS financial assets recognized in the statements of comprehensive income amounted to P1,813.30 million gain and P206.91 million loss in 2018 and 2017, respectively. The fair values of AFS financial assets have been determined directly by reference to published prices in active market.

Dividend income from equity securities and interest income from debt securities are presented as part of Investment Income account in the statements of comprehensive income (see Note 27).

In 2018, in addition to the impairment of investments in CIIF Oil Mills Companies and UCPB amounting to P700.60 million, the Company has considered the investment in AMC preferred shares amounting to P17.98 million to be fully impaired. The impairment loss related to investments in AMC preferred shares was adjusted against the opening balance of Retained Earnings account in the statements of financial position instead of charging it in the profit or loss during the year.

In 2017, the Company recognized an impairment loss amounting to P47.98 million which pertains to certain investments with significant and prolonged decline in fair values. This was recorded as part of Impairment losses under General and Administrative Expenses account in the statements of comprehensive income (see Note 30) after transferring the same amount of fair value losses on AFS financial assets from Other Comprehensive Income account.

AFS financial assets with carrying amount of P3.02 billion in 2018 and P5.53 billion in 2017 were matured or sold. Accordingly, the related gains and losses from sale of these financial assets are presented under Investment Income account in the statements of comprehensive income (see Note 27).

11. LOANS AND OTHER RECEIVABLES

This account consists of:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Mortgage loans		P3,249,827,085	P 3,027,966,501
Note receivable		1,881,231,579	2,604,425,623
Policy loans		520,766,065	527,799,182
Claims receivable - farmers		430,665,000	393,305,000
HMO billback		415,203,725	670,020,707
Investment accounts receivable	14	380,576,342	348,680,311
Installment contract receivables		222,563,833	258,899,600
Collateral loans		84,069,713	106,940,551
Advances to officers and employees		49,019,264	38,781,970
Others		181,273,911	161,702,635
		7,415,196,517	8,138,522,080
Allowance for impairment losses		(458,529,058)	(478,229,369)
		<u>P6,956,667,459</u>	<u>P7,660,292,711</u>

Mortgage loans pertain to receivables in housing loans secured by the property being financed by the loans and collectible in monthly amortizations. Interest rates range from 5.00% to 17.50% in both 2018 and 2017, with terms ranging from five to 10 years.

Note receivable refers to long-term promissory note without collateral and earns prevailing market interest rate ranging from 6.00% to 24.00% and 5.00% to 24.00% in 2018 and 2017, respectively.

HMO billback is due from healthcare cardholders under the Third Party Administration accounts or autobill back, wherein the Company initially pays for the medical expenses and subsequently bills the same to the cardholders plus service fee ranging from 7.00% to 12.50% and network access fee. These HMO related revenues are presented as part of Service Fees account in the statements of comprehensive income (see Note 28).

Policy loans pertain to loans issued to policyholders. The loans are issued with collateral of the cash surrender value of the policyholders insurance policies. Interest rates charged are 10.00% for peso and 8.00% for dollar-denominated policies.

Investment accounts receivable pertains mainly to receivables from the sale of investments and dividends receivable on the Company's investments in subsidiaries and an associate. This also includes the amount provided by variable life funds to the Company to partially fund its loan facility. Interest rates of investment accounts receivable range from 6.00% to 9.25% and 6.00% to 10.00% in 2018 and 2017, respectively.

Installment contract receivables pertain to the outstanding receivable on foreclosed properties sold to third parties. The interest rate ranges from 12% to 21% and 5.00% to 12.00% in 2018 and 2017, respectively, with terms ranging from five to 15 years in both years.

Collateral loans are loans collectible in monthly amortizations over a period of one to five years, including interest of 3.00% to 21.00%, secured by a chattel mortgage. Advances to officers and employees are collected through payroll deductions or through expense liquidation.

Total interest income earned from the Company's loans and other receivables amounted to P774.70 million in 2018 and P736.15 million in 2017, and is presented as part of Interest income presented under Investment Income account in the statements of comprehensive income (see Note 27).

The carrying amount of loans and other receivables approximates its fair value as at December 31, 2018 and 2017.

The rollforward analyses of allowance for impairment losses on loans and other receivables are as follows:

	Note Receivable	Mortgage Loans	Investment Accounts Receivable	HMO Billback	Claims Receivable - Farmers	Collateral Loans	Advances to Officers and Employees	Total
Balance at January 1, 2018	P 200,441,133	P 4,354,285	P 13,107,049	P 225,115,083	P 24,508,525	P 5,878,351	P 4,824,943	P 478,229,369
Provisions during the year	16,961,105	-	-	43,328,124	-	-	-	60,289,229
Write-offs during the year	(79,900,000)	-	-	-	-	-	-	(79,900,000)
Reclassifications during the year	706,469	-	-	-	-	(796,009)	-	(89,540)
Balance at December 31, 2018	<u>P 138,208,707</u>	<u>P 4,354,285</u>	<u>P 13,107,049</u>	<u>P 268,443,207</u>	<u>P 24,508,525</u>	<u>P 5,082,342</u>	<u>P 4,824,943</u>	<u>P 458,529,058</u>
Gross amount of loans and receivables, individually deemed impaired	<u>P 138,208,707</u>	<u>P 4,354,285</u>	<u>P 13,107,049</u>	<u>P 268,443,207</u>	<u>P 24,508,525</u>	<u>P 5,082,342</u>	<u>P 4,824,943</u>	<u>P 458,529,058</u>
Balance at January 1, 2017	P 171,760,505	P 4,354,285	P 13,107,049	P 189,411,830	P 15,037,407	P 5,878,351	P 4,824,943	P 404,374,370
Provisions during the year	28,680,628	-	-	35,703,253	9,471,118	-	-	73,854,999
Balance at December 31, 2017	<u>P 200,441,133</u>	<u>P 4,354,285</u>	<u>P 13,107,049</u>	<u>P 225,115,083</u>	<u>P 24,508,525</u>	<u>P 5,878,351</u>	<u>P 4,824,943</u>	<u>P 478,229,369</u>
Gross amount of loans and receivables, individually deemed impaired	<u>P 200,441,133</u>	<u>P 4,354,285</u>	<u>P 13,107,049</u>	<u>P 225,115,083</u>	<u>P 24,508,525</u>	<u>P 5,878,351</u>	<u>P 4,824,943</u>	<u>P 478,229,369</u>

In 2018 and 2017, the Company recognized provision for impairment losses amounting to P60.29 million and P73.85 million, respectively, based on the Company's assessment of the individual balances of different receivables. Such impairment losses were recognized as part of Impairment losses under General and Administrative Expenses account in the statements of comprehensive income (see Note 30).

12. ACCRUED INCOME

This account consists of:

	Note	2018	2017
Interest receivable		P 63,098,102	P 89,289,148
Allowance for impairment losses		(245,480)	(245,480)
		62,852,622	89,043,668
Rent receivable		247,181	136,706
Dividend receivable	14	80,636	110,193
		<u>P 63,180,439</u>	<u>P 89,290,567</u>

Interest receivable includes accrued interest arising from short-term investments, debt securities classified as financial assets at FVPL, debt securities under AFS financial assets, and loans and other receivables.

There was no movement in the allowance for impairment losses on accrued income in both 2018 and 2017.

13. REINSURANCE ASSETS

This account consists of:

	<u>2018</u>	<u>2017</u>
Reinsurance recoverable on unpaid losses	P 14,572,374	P 36,377,421
Reinsurers' share on legal policy reserves	<u>5,054,048</u>	<u>5,244,688</u>
Balance at end of year	<u>P 19,626,422</u>	<u>P 41,622,109</u>

The movements of reinsurance recoverable on unpaid losses are as follows:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of year		P 36,377,421	P 3,942,732
Claims incurred during the year	29	13,732,014	36,368,530
Claims paid during the year		(35,537,061)	(3,933,841)
Balance at end of year		<u>P 14,572,374</u>	<u>P 36,377,421</u>

The movements of reinsurers' share on legal policy reserves are as follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	P 5,244,688	P 5,384,075
Premiums received	10,774,597	99,622,878
Liability released for payments of death, maturity and surrender benefits and claims	(10,965,237)	(99,762,265)
Balance at end of year	<u>P 5,054,048</u>	<u>P 5,244,688</u>

14. INVESTMENTS IN SUBSIDIARIES AND AN ASSOCIATE

As of December 31, 2018 and 2017, this account consists of:

	<u>2018</u>	<u>2017</u>
Subsidiaries:		
UCPB Gen	P 651,794,875	P 651,794,875
Cocoplans	448,595,886	448,595,886
Ultra	13,983,155	13,983,155
AMC	13,875,000	13,875,000
CAMCI	12,500,000	12,500,000
Healthassist	10,000,000	10,000,000
New Ultra	<u>2,319,785</u>	<u>2,319,785</u>
	1,153,068,701	1,153,068,701
Associate –		
Direct Link	<u>4,000,000</u>	<u>4,000,000</u>
	1,157,068,701	1,157,068,701
Impairment losses	<u>(227,671,752)</u>	<u>-</u>
	<u>P 929,396,949</u>	<u>P1,157,068,701</u>

As of December 31, 2018, the Company has assessed that its investment in Cocoplans was partially impaired by P211.48 million, while its investments in AMC and New Ultra amounting to P13.88 million and P2.32 million, respectively, are already fully impaired. In addition, management is of the opinion that its receivables from New Ultra amounting to P2.50 million as of December 31, 2018 was also impaired. Instead of charging the impairment losses in 2018 against profit or loss, management adjusted these impairment losses against the opening balance of Retained Earnings account as management believes that these investments and receivable were already impaired in prior years due to continuing losses of these subsidiaries. No similar transaction has occurred in 2017.

The key financial information of the significant subsidiaries are as follows:

	<u>UCPB Gen</u>	<u>Cocoplans</u>	<u>Ultra</u>	<u>CAMCI</u>	<u>Healthassist</u>	<u>AMC</u>	<u>Total</u>
2018							
Total assets	P4,770,298,770	P 1,186,220,539	P 76,017,611	P 42,550,502	P 14,069,092	P -	P6,089,156,515
Total liabilities	3,479,875,624	1,164,365,292	34,545,688	22,309,156	1,593,295	-	4,702,689,055
Equity	1,290,423,146	21,855,247	41,471,923	20,241,346	12,457,798	-	1,386,467,460
Revenues	1,988,482,854	73,882,523	27,032,424	59,877,933	8,640,816	-	2,157,916,550
Net income (loss)	83,557,769 (	23,007,526)	10,704,133	18,071,139	348,203	-	89,763,718
Other comprehensive income (loss)	(85,530,158)(	12,721,956)	-	-	-	-	(98,252,114)
Total comprehensive income (loss)	(1,972,389)(	35,729,482)	10,704,133	18,071,139	348,203	-	(8,578,396)
2017							
Total assets	P4,479,818,998	P 1,387,481,903	P 57,330,142	P 40,094,759	P 23,610,790	P 6,977,785	P5,995,314,377
Total liabilities	3,149,326,269	1,329,897,174	28,959,431	25,454,552	11,483,346	254,243	4,545,375,015
Equity	1,330,492,729	57,584,729	28,370,711	14,670,207	12,127,444	6,723,542	1,449,969,362
Revenues	1,920,675,044	62,856,948	25,450,331	59,302,507	6,430,392	-	2,074,715,222
Net income (loss)	153,050,689 (	25,504,944)	8,009,731	22,167,928	(644,828 ) (	17,226)	157,060,350
Other comprehensive income (loss)	-	(144,969)	-	-	1,175,044	-	1,030,075
Total comprehensive income (loss)	153,050,689 (	25,650,913)	8,009,731	22,167,928	530,216 (	17,226)	158,090,425

Dividend income from the Company's subsidiaries and an associate amounted to P25.45 million and P22.58 million in 2018 and 2017, respectively, and is presented as part of Investment Income account in the statements of comprehensive income (see Note 27).

On the other hand, dividend receivable as of December 31, 2018 and 2017 is included as part of Accrued Income account and Investment accounts receivable under Loans and Other Receivables account in the statements of financial position (see Notes 12 and 11).

15. REAL ESTATE INVENTORIES

The movements in this account are as follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	P 22,231,636	P 25,025,636
Disposals	(2,150,500)	(2,794,000)
Balance at end of year	<u>P 20,081,136</u>	<u>P 22,231,636</u>

In 2018 and 2017, total gain from sale of columbarry units amounted to P3.62 million and P4.52 million, respectively, and is presented as part of Other Income account in the statements of comprehensive income (see Note 27).

Management determined that these properties' NRV, which are higher than their costs, amounted to P34.49 million and P49.31 million as at December 31, 2018 and 2017, respectively. Management determines the properties' NRV based on the asset's estimated net selling price.

16. INVESTMENT PROPERTIES

The gross amounts and accumulated depreciation of investment properties at the beginning and end of 2018 and 2017 are shown below.

	<u>2018</u>	<u>2017</u>
Acquisition cost	P 923,081,600	P 922,836,800
Accumulated depreciation	(69,983,449)	(43,226,023)
Carrying amount	<u>P 853,098,151</u>	<u>P 879,610,777</u>

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2018 and 2017 is shown below.

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of year, net of accumulated depreciation		P 879,610,777	P 895,378,071
Additions		84,625,576	31,521,882
Disposals		(84,380,777)	(31,673,074)
Impairment loss	30	-	(10,481,332)
Depreciation charges for the year	30	(26,757,425)	(5,134,770)
Balance at end of year, net of accumulated depreciation		<u>P 853,098,151</u>	<u>P 879,610,777</u>

As at December 31, 2018 and 2017, the estimated fair value of these investment properties amounted to P1.66 billion and P1.20 billion, respectively.

The fair values of investment properties were arrived at using the Market Data Approach and classified as Level 2 in the fair value hierarchy (see Note 6.5).

In 2018 and 2017, the Company sold investment properties with a carrying value of P84.38 million and P31.67 million, respectively. Loss on sale of investment properties in 2018 amounting to P3.13 million and gain on sale in 2017 amounting to P12.01 million was recognized under Investment Income in the statements of comprehensive income (see Note 27).

Rental income in 2018 and 2017 arising from the lease of investment properties amounted to P22.98 million and P14.00 million, respectively, which are presented as Rental Income under the Investment Income account in the statements of comprehensive income (see Note 27). Operating expenses, including depreciation expense, arising from these investment properties amounted to P48.49 million and P6.54 million in 2018 and 2017, respectively (see Note 30).

17. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of December 31, 2018 and 2017 are shown below:

	<u>Land</u>	<u>Buildings and Leasehold Improvements</u>	<u>Transportation Equipment</u>	<u>Office Furniture, Fixtures and Equipment</u>	<u>Total</u>
December 31, 2018					
Cost	P 38,000,000	P 272,592,967	P 77,796,685	P 215,875,602	P 604,265,254
Accumulated depreciation and amortization	-	(213,772,917)	(45,378,527)	(186,660,200)	(445,811,644)
Net carrying amount	<u>P 38,000,000</u>	<u>P 58,820,050</u>	<u>P 32,418,158</u>	<u>P 29,215,402</u>	<u>P 158,453,610</u>
December 31, 2017					
Cost	P 38,000,000	P 260,975,036	P 72,241,685	P 207,995,807	P 579,212,528
Accumulated depreciation and amortization	-	(200,136,536)	(40,230,220)	(178,484,185)	(418,850,941)
Net carrying amount	<u>P 38,000,000</u>	<u>P 60,838,500</u>	<u>P 32,011,465</u>	<u>P 29,511,622</u>	<u>P 160,361,587</u>
January 1, 2017					
Cost	P 38,000,000	P 236,535,791	P 65,620,585	P 202,390,541	P 542,546,917
Accumulated depreciation and amortization	-	(186,865,263)	(41,544,362)	(171,816,676)	(400,226,301)
Net carrying amount	<u>P 38,000,000</u>	<u>P 49,670,528</u>	<u>P 24,076,223</u>	<u>P 30,573,865</u>	<u>P 142,320,616</u>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of December 31, 2018 and 2017 is shown below.

	<u>Land</u>	<u>Buildings and Leasehold Improvements</u>	<u>Transportation Equipment</u>	<u>Office Furniture, Fixtures and Equipment</u>	<u>Total</u>
Balance at January 1, 2018 net of accumulated depreciation and amortization	P 38,000,000	P 60,838,500	P 32,011,465	P 29,511,622	P 160,361,587
Additions	-	18,920,311	13,584,995	9,100,310	41,605,616
Disposals	-	(3,735,369)	(4,015,000)	(517,405)	(8,267,774)
Depreciation and amortization charges for the year	-	(17,203,392)	(9,163,302)	(8,879,125)	(35,245,819)
Balance at December 31, 2018 net of accumulated depreciation and amortization	<u>P 38,000,000</u>	<u>P 58,820,050</u>	<u>P 32,418,158</u>	<u>P 29,215,402</u>	<u>P 158,453,610</u>
Balance at January 1, 2017 net of accumulated depreciation and amortization	P 38,000,000	P 49,670,528	P 24,076,223	P 30,573,865	P 142,320,616
Additions	-	27,562,309	18,428,100	8,287,103	54,277,512
Disposal	-	(64,647)	(2,378,331)	(772,640)	(3,215,618)
Depreciation and amortization charges for the year	-	(16,329,690)	(8,114,527)	(8,576,706)	(33,020,923)
Balance at December 31, 2017 net of accumulated depreciation and amortization	<u>P 38,000,000</u>	<u>P 60,838,500</u>	<u>P 32,011,465</u>	<u>P 29,511,622</u>	<u>P 160,361,587</u>

All the depreciation and amortization charges were reported as part of Depreciation and amortization under General and Administrative Expense account in the statements of comprehensive income (see Note 30).

The Company recognized a gain on disposal of property and equipment totalling P0.38 million and P2.80 million in 2018 and 2017, respectively (see Note 27).

As of December 31, 2018 and 2017, the gross carrying amount of the Company's fully depreciated property and equipment that are still in use is P439.60 million and P455.65 million, respectively.

18. INTANGIBLE ASSETS

Intangible assets pertain to acquired computer software licenses used in operation and administration. The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of December 31, 2018 and 2017 follow:

	<u>2018</u>	<u>2017</u>
Acquisition cost	P 137,008,523	P 136,838,923
Accumulated amortization	(131,590,954)	(128,287,037)
Carrying amount	<u>P 5,417,569</u>	<u>P 8,551,886</u>

A reconciliation of the carrying amounts at the beginning and end of 2018 and 2017, of intangible assets is shown below.

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of year, net of accumulated amortization		P 8,551,886	P 11,136,069
Additions		169,600	1,466,888
Amortization charges for the year	30	(3,303,917)	(4,051,071)
Balance at end of year, net of accumulated amortization		<u>P 5,417,569</u>	<u>P 8,551,886</u>

19. OTHER ASSETS

The composition of this account is shown below:

	<u>2018</u>	<u>2017</u>
BIR tax credits	P 183,002,335	P 153,584,959
Prepaid expense	97,118,026	9,931,887
Lease and leasehold deposits	29,974,275	28,692,222
Refundable deposits	20,176,180	19,074,799
Deferred charges	15,228,408	13,069,984
Contingency fund pool	7,657,578	7,647,119
Laboratory supplies inventory	3,052,349	2,746,593
Others	4,943,698	4,337,917
	<u>P 361,152,849</u>	<u>P 239,085,480</u>

Refundable deposits are lease deposits that can be refunded at the end of the lease term. Lease and leasehold deposits consist of security lease deposits that can be applied at the end of the lease term.

20. INSURANCE CONTRACT LIABILITIES

The composition of this account is shown below.

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Legal policy reserves	3.2(a)	P13,214,041,992	P12,459,041,352
Policy and contract claims	3.2(b)	<u>1,429,733,246</u>	<u>1,184,420,826</u>
		<u>P14,643,775,238</u>	<u>P13,643,462,178</u>

Total IBNR recognized by the Company amounted to P804.08 million and P603.10 million as at December 31, 2018 and 2017, respectively, which form part of Policy and contract claims account [see Note 3.2(b)].

The movements in legal policy reserves are as follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	P12,459,041,352	P11,031,416,881
Premiums received	5,857,855,849	5,261,064,527
Liability released for payments of death, maturity and surrender benefits and claims	(5,461,319,752)	(4,084,934,610)
Accretion of investments income or change in unit prices	994,008,821	524,543,512
Adjustment due to change in assumptions Investment return	(843,052,653)	-
Others	<u>207,508,375</u>	<u>(273,048,958)</u>
Balance at end of year	<u>P13,214,041,992</u>	<u>P12,459,041,352</u>

The movements in policy and contract claims are as follows:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of year		P 1,184,420,826	P 1,208,927,888
Incurred during the year	29	3,671,872,292	2,875,631,292
Paid during the year		<u>(3,426,559,872)</u>	<u>(2,900,138,354)</u>
Balance at end of year		<u>P 1,429,733,246</u>	<u>P 1,184,420,826</u>

As at December 31, 2018 and 2017, assets held to cover unit-linked liabilities amounting to P1.31 billion and P741.89 million, respectively, are held in the Company's separately managed funds, namely, Peso Fixed Income and Dollar Growth Fund, Dollar Bond Fund, Peso Equity Fund, Peso Fixed Income Fund and Peso Bond Fund (see Note 35).

21. RESERVE FOR POLICYHOLDERS' DIVIDENDS

The movements in this account is shown below.

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	P 174,761,440	P 168,334,872
Net increase during the year	<u>16,963,128</u>	<u>6,426,568</u>
Balance at end of year	<u>P 191,724,568</u>	<u>P 174,761,440</u>

22. **PREMIUM DEPOSIT FUNDS**

The composition of this account are shown below.

	<u>2018</u>	<u>2017</u>
Premium deposits	P 466,683,449	P 688,975,431
Premium deposit fund	68,392,720	73,582,115
Fund builder rider	63,495,975	70,315,065
HMO guarantee deposits	29,737,539	30,712,286
Claims deposit	<u>18,104,217</u>	<u>18,908,885</u>
	<u>P 646,413,900</u>	<u>P 882,493,782</u>

23. **INSURANCE PAYABLES**

The movements in this account are shown below.

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	P 321,461,923	P 232,193,808
Incurred during the year	24,086,301	162,818,174
Paid during the year	(271,447,638)	(73,550,837)
Foreign exchange adjustment	<u>1,679</u>	<u>778</u>
Balance at end of year	<u>P 74,102,265</u>	<u>P 321,461,923</u>

24. **ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES**

These accounts consist of:

	<u>2018</u>	<u>2017</u>
Accounts Payable and Accrued Expenses:		
Accounts payable	P 622,370,156	P 717,643,751
Loading payables	345,818,965	89,404,621
Investment accounts payable	311,652,098	297,795,993
Accrued incentives and bonuses	207,015,152	171,932,038
Supplementary contracts without life contingency	33,174,217	25,084,692
Agents' fidelity and annuity reserves	<u>3,552,839</u>	<u>3,371,753</u>
	<u>P1,523,583,427</u>	<u>P1,305,232,848</u>
Other Liabilities:		
Taxes payable	P 48,323,891	P 43,489,328
Deferred credits	81,213,009	75,307,200
Others	<u>15,282,942</u>	<u>37,766,375</u>
	<u>P 144,819,842</u>	<u>P 156,562,903</u>

Accounts payable consists mainly of unpaid commissions, supplies, utilities, postal and communication, professional fees, repairs and maintenance, and security services that are due and demandable.

Investments accounts payable represent funds received from both related parties and third parties to partially fund its loan financing facility. These amounts charge interest ranging from 6.00% to 9.25% in 2018 and 2017, respectively. Interest expense incurred on these loans amounted to P162.84 million in 2018 and P169.90 million in 2017 was presented under Investment expenses in the statements of comprehensive income (see Note 27).

Accrued incentives and bonuses represent amounts payable to employees computed based on current salary and length of service. These amounts are due to be paid within one year after the reporting date.

Loading payables refer to the portion of gross premium due and uncollected which is expected to be paid out in the form of commission, service fees, overrides and taxes.

Supplementary contracts without life contingency represent claims which are held by the Company and are paid in monthly installments in the form of pension benefits. These claims earn interest of 6.06% annually.

Agents' fidelity and annuity reserves represent amounts withheld from agents which are refunded upon resignation or termination.

Taxes payable consist mainly of VAT payable, withholding taxes from the employees' compensation and purchases from suppliers which are subsequently remitted within one month after the reporting date.

Deferred credits represent reservation deposits which are refunded upon consumption of sale of investment properties and real estate inventories.

Others under Other liabilities in the statements of financial position are noninterest-bearing liabilities and are due and demandable.

25. EQUITY

25.1 Capital Stock

As at December 31, 2018 and 2017, the Company has authorized shares of 1,000,000,000 and has issued and outstanding shares amounted to P550.00 million with a par value of P1 per share.

As of December 31, 2018 and 2017, the Company has 254,615 stockholders owning 100 or more shares each of the Company's capital stock.

25.2 Retained Earnings

As at December 31, 2018, the Company's unappropriated retained earnings of P4.44 billion is in excess of its paid-up capital of P550.00 million. The Company's plan to use the excess retained earnings is dependent on the impact of the following to the Company:

- a. IC's directive to calculate the reserves for traditional life insurance policies using the gross premium valuation; and,
- b. Amendments currently being implemented by the IC with respect to the risk based capital requirement.

As at December 31, 2018 and 2017, the Company has appropriated retained earnings amounting to P61.66 million and P36.45 million, respectively. This is equivalent to the negative legal policy reserves calculated on traditional life insurance policies as mandated by IC through its issuance of CL No. 2016-66 (see Note 2.20).

As of December 31, 2018 and 2017, the unappropriated retained earnings of the Company has already exceeded the paid-in capital stock. This violates Section 43 of the Corporation Code, which specifically indicates that "stock corporations are prohibited from retaining surplus profits in excess of 100 percent of their paid-in capital stock, except: (1) when justified by definite corporate expansion projects or programs approved by the board of directors; or (2) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its/ his consent, and such consent has not yet been secured; or (3) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is a need for special reserve for probable contingencies."

Accordingly, on May 22, 2018, the Company submitted a letter to SEC to seek consideration and exemption on assessments or penalties pertaining to the said violation, until such time that the ownership issue of the Company is resolved by the Courts and its stockholders are clearly identified. This is in relation to the pending case wherein Government is claiming 100% ownership of Cocolife, on the ground that the company was allegedly formed using coco levy funds which are public funds.

In view of the pendency of the case and until final determination by the Courts on the issue of ownership of Cocolife, the Company is hard put to comply with Section 43, as well as with Section 50 of the Corporation Code, *Regular and special meetings of stockholders or members*, in a quandary on whom to make dividend declarations. However, despite of the violation of Section 50, the Company is still substantially compliant as the Company is classified by the Governance Commission as a Government-Owned and Controlled Corporation, under supervision of Presidential Commission on Good Government, which oversight the Company's operations to ensure that the interests of the stockholders are protected.

26. NET INSURANCE PREMIUMS

	<u>2018</u>	<u>2017</u>
Direct:		
Accident and health	P3,551,815,385	P2,637,999,793
Group life insurance	1,433,460,859	1,335,038,854
Ordinary life insurance	1,292,599,840	1,317,569,666
Unit-linked	<u>142,021,230</u>	<u>115,530,894</u>
	6,419,897,314	5,406,139,207
Assumed group life insurance	<u>114,827,244</u>	<u>88,756,478</u>
	<u>P6,534,724,558</u>	<u>P5,494,895,685</u>
Reinsurance premiums ceded:		
Group life insurance	P 13,437,758	P 7,585,796
Ordinary life insurance	11,033,728	131,352,345
Accident and health	(385,185)	<u>23,880,033</u>
Total reinsurers' share of life insurance contract premium reserve	<u>P 24,086,301</u>	<u>P 162,818,174</u>

27. INVESTMENT INCOME, INVESTMENT EXPENSES AND OTHER INCOME

Investment income account consists of:

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Interest income on:			
Loans and other receivables	11	P 774,692,930	P 736,151,286
AFS financial assets	10	99,439,865	60,906,490
Cash and cash equivalents	7	54,630,863	30,123,907
Financial assets at FVPL	9	14,327,002	12,234,625
Others:			
Gain on sale of AFS financial assets	10	117,382,762	229,840,273
Dividend income	9, 10, 14	105,680,467	81,736,491
Unrealized fair value gains (losses) on financial assets at FVPL - net	9	(65,430,684)	162,488,095
Rental income	16	22,976,342	14,003,369
Gain (loss) on sale of financial assets at FVPL	9	(9,954,084)	7,918,105
Gain (loss) on sale of investment properties	16	(3,127,934)	<u>12,006,612</u>
		<u>P 1,110,617,529</u>	<u>P 1,347,409,253</u>

Investment expenses account consists of:

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Interest expense	24, 31.2	P 180,942,800	P 180,833,735
Foreclosed property	16	21,732,711	1,403,776
Management fee		12,262,199	19,018,940
Others	38(b)	<u>18,927,986</u>	<u>160,292,243</u>
		<u>P 233,865,696</u>	<u>P 361,548,694</u>

Other income account consists of:

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Income from variable life funds		P 943,181,770	P 1,056,919,458
Gain on sale of real estate inventories	15	3,620,250	4,523,450
Gain on sale of property and equipment	17	<u>379,225</u>	<u>2,796,316</u>
		<u>P 947,181,245</u>	<u>P 1,064,239,224</u>

28. SERVICE FEES

This account consists of:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
HMO fees	11	P 355,433,326	P 253,671,784
Policy fees		15,762,040	81,322,139
Cancellation fees		<u>7,127,288</u>	<u>5,240,248</u>
		<u>P 378,322,654</u>	<u>P 340,234,171</u>

29. NET INSURANCE BENEFITS AND CLAIMS

Gross benefits and claims paid on insurance contracts consist of:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Accident and health		P2,513,324,669	P 1,732,405,040
Group life insurance		770,856,372	731,721,686
Maturities and surrenders		316,351,848	322,893,376
Ordinary life insurance		<u>71,339,403</u>	<u>88,611,190</u>
	20	<u>P3,671,872,292</u>	<u>P 2,875,631,292</u>

Reinsurers' share of gross insurance contract benefits and claims paid:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Group life insurance		P 9,662,488	P 21,992,460
Accident and health		<u>4,069,526</u>	<u>14,376,070</u>
	13	<u>P 13,732,014</u>	<u>P 36,368,530</u>

Changes in life insurance contract liabilities follow:

	<u>Gross change in Insurance Contract Liabilities</u>	<u>Reinsurers' Share of Change in Insurance Contract Liabilities</u>	<u>Total</u>
2018			
Ordinary life insurance	P1,486,906,885	P 190,638	P 1,487,097,523
Accident and health	159,411,416	-	159,411,416
Group life insurance	91,341,343	-	91,341,343
Foreign exchange loss	(28,161,581)	-	(28,161,581)
	<u>P1,709,498,063</u>	<u>P 190,638</u>	<u>P 1,709,688,701</u>
2017			
Ordinary life insurance	P1,484,154,892	P 139,388	P 1,484,294,280
Group life insurance	(979,254)	-	(979,254)
Accident and health	209,587,781	-	209,587,781
Foreign exchange loss	(1,206,700)	-	(1,206,700)
	<u>P1,691,547,719</u>	<u>P 139,388</u>	<u>P 1,691,696,107</u>

30. GENERAL AND ADMINISTRATIVE EXPENSES

This account consists of:

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Salaries and employee benefits	31.1	P 455,008,069	P 369,541,812
HMO miscellaneous expenses		290,091,860	223,763,059
Impairment losses	10, 11, 16	127,422,933	132,312,217
Advertising and promotions		119,037,532	131,933,567
Rent expense	34	79,432,070	76,158,825
Utilities		58,951,437	55,976,173
Depreciation and amortization	16, 17, 18	43,684,508	42,206,764
Printing and office supplies		28,713,344	22,336,608
Training and development		21,045,250	25,524,150
Postage and telephone		20,867,988	18,825,061
Repairs and maintenance		19,983,654	19,790,298
Taxes and licenses	38(d)	18,458,771	17,153,619
Meeting and conferences		17,451,635	17,183,962
Service fees		15,523,620	16,782,484
Professional fees		15,309,238	12,610,783
Transportation and travel		13,602,399	11,958,071
Entertainment, amusement and recreation		12,294,813	11,971,011
Directors' fees		6,258,120	2,840,000
Insurance		4,585,018	4,076,979
Donations and contributions		3,475,000	3,512,500
Medical fees		1,609,504	1,523,777
Condominium dues		762,141	847,374
Agency development allowance		715,011	1,927,077
Bancassurance expenses		594,956	7,570,158
Miscellaneous expense		124,494,383	62,854,877
		<u>P 1,499,373,254</u>	<u>P 1,291,181,206</u>

Miscellaneous expenses pertain to inspection and investigation expenses, collection fees, referral fees and other expenses.

31. EMPLOYEE BENEFITS

31.1 Salaries and Employee Benefits Expense

Details of salaries and employee benefits are presented below.

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Salaries and wages		P 243,758,405	P 205,584,307
Other short-term employee benefits		150,666,859	121,948,086
Retirement benefit		<u>60,582,805</u>	<u>42,009,419</u>
	30	<u>P 455,008,069</u>	<u>P 369,541,812</u>

31.2 Retirement Benefit

(i) Characteristics of the Defined Benefit Plan

The Company has a funded, non-contributory, defined benefit plan covering all of its permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation date is December 31, 2018. Valuations are obtained on a periodic basis.

The plan is registered with the BIR as a tax-qualified plan under Republic Act No. 4917 *An Act Providing That Retirement Benefits of Employees of Private Firms Shall Not Be Subject to Attachment, Levy, Execution, or Any Tax Whatsoever*, as amended. The control and administration of the plan is vested in the BOD. The plan's accounting and administrative functions are undertaken by the Company's Retirement Funds Office.

(ii) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below for the years ended December 31, 2018 and 2017 are based on the actuarial report obtained from an independent actuary in both years.

The amounts of retirement benefit obligation recognized in the statements of financial position are determined as follows:

	<u>2018</u>	<u>2017</u>
Present value of retirement benefit obligation	P 671,305,716	P 727,553,338
Fair value of plan assets	<u>(571,974,076)</u>	<u>(530,843,269)</u>
	<u>P 99,331,640</u>	<u>P 196,710,069</u>

The movements in the present value of the retirement benefit obligation recognized in the books are as follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	P 727,553,338	P 761,402,315
Current service cost	49,527,699	42,009,419
Interest expense	40,888,498	38,603,097
Remeasurements –		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	(106,205,363)	29,391,879
Experience adjustments	26,620,233	32,126,266
Benefits paid	(67,078,689)	(175,979,638)
Balance at end of year	<u>P 671,305,716</u>	<u>P 727,553,338</u>

The movements in the fair value of plan assets are presented below.

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	P 530,843,269	P 545,760,738
Interest income	29,833,392	27,670,069
Contributions paid by employer	146,018,246	100,793,483
Return on plan assets (excluding amounts included in net interest cost or income)	(67,642,142)	32,598,617
Benefits paid	(67,078,689)	(175,979,638)
Balance at end of year	<u>P 571,974,076</u>	<u>P 530,843,269</u>

The plan earned a return of P37.81 million in 2018 and incurred a negative return of P60.27 million in 2017.

The Company's plan assets are maintained and consolidated under the Group Plan. The composition of the fair value of the plan assets at the end of the reporting period by category and risk characteristics is shown below.

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	P 107,409,622	P 52,479,153
Available-for-sale securities:		
Equity investments	292,154,357	303,749,149
Debt instruments	170,568,200	172,732,880
Loans and other receivables	2,103,761	3,316,963
Accounts payable and accrued expenses	(261,864)	(1,434,876)
	<u>P 571,974,076</u>	<u>P 530,843,269</u>

The fair values of the above equity and debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

Plan assets do not comprise any of the Company's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit retirement plan are as follows:

	<u>2018</u>	<u>2017</u>
<i>Reported in profit or loss:</i>		
Current service cost	P 49,527,699	P 42,009,419
Net interest cost	<u>11,055,106</u>	<u>10,933,028</u>
	<u>P 60,582,805</u>	<u>P 52,942,447</u>
<i>Reported in other comprehensive income:</i>		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	(P 106,205,363)	P 29,391,879
Experience adjustments	26,620,233	32,126,266
Return on plan assets (excluding amounts included in net interest cost or income)	<u>67,642,142</u>	(<u>32,598,617</u>)
	<u>(P 11,942,988)</u>	<u>P 28,919,528</u>

Current service cost is included as part of Salaries and employee benefits under General and Administrative Expenses account in the statements of comprehensive income (see Note 30). The net interest expense or net interest income is lumped or netted against the Interest expense under Investment Expenses account in the statements of comprehensive income (see Note 27).

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit retirement obligation, the following significant actuarial assumptions were used and applied to the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Discount rates	7.34%	5.62%
Expected rate of salary increases	6.00%	5.00%

Assumptions regarding the mortality and disability rates used were based on the 1980 CSO Mortality Table and 1952 Ben-5 Disability Study, respectively.

The weighted-average duration of the defined benefit obligation is 31.64 years and 31.75 years as at December 31, 2018 and 2017, respectively.

(iii) Risks Associated with the Retirement Plan

The plan exposes the Company to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(iv) *Investment and Interest Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents, equity securities and debt securities. Due to the long-term nature of the plan obligation, a level of continuing equity and debt investments is an appropriate element of the Company's long-term strategy to manage the plan efficiently.

(v) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(vi) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Company's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(vii) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2018 and 2017:

	<u>Impact on Retirement Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
December 31, 2018			
Discount rate	+/- 1%	(P 50,104,833)	P 58,654,713
Salary growth rate	+/- 1%	59,025,619	(52,273,111)
December 31, 2017			
Discount rate	+/- 1%	(P 61,395,335)	P 72,580,303
Salary growth rate	+/- 1%	71,693,110	(61,727,278)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

(viii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Company ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government) with maturities that match the benefit payments as they fall due and in the appropriate currency.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A significant portion of the plan assets as of December 31, 2018 and 2017 consist of equity and debt securities. The Company believes that debt securities offer the best returns over the long term with an acceptable level of risk although the Company also invests in equity securities and cash and cash equivalents.

There has been no change in the Company's strategies to manage its risks from previous periods.

(ix) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P99.33 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk when a significant number of employees is expected to retire.

The Company expects to make contribution of P110.65 million to the plan during the next reporting period.

32. INCOME TAX

32.1 Current and Deferred Taxes

The components of tax expense (income) as reported in the profit or loss and other comprehensive income for the years ended December 31 are as follows:

	<u>2018</u>	<u>2017</u>
<i>Reported in profit and loss</i>		
Current tax expense:		
Regular corporate income tax (RCIT) at 30%	P 31,823,523	P -
Minimum corporate income tax (MCIT) at 2%	-	20,834,226
Final tax at 20% and 7.5% in 2017 and 15% in 2018	<u>31,512,112</u>	<u>16,394,243</u>
	63,335,635	37,228,469
Deferred tax expense (income) relating to origination and reversal of temporary differences	<u>3,879,866</u>	(<u>17,716,264</u>)
	P 67,215,501	P 19,512,205

	<u>2018</u>	<u>2017</u>
<i>Reported in other comprehensive income</i>		
Deferred tax expense (income) on:		
Reserve for fluctuation on		
AFS financial assets	P 63,346,391	P -
Remeasurement of net		
pension liability	<u>3,582,896</u>	<u>(29,840,903)</u>
	<u>P 66,929,287</u>	<u>(P 29,840,903)</u>

The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense is as follows:

	<u>2018</u>	<u>2017</u>
Tax on pretax profit at 30%	P 199,091,112	P 199,368,859
Adjustment for income subject to		
lower tax rate	(15,896,104)	(8,498,871)
Excess of MCIT over RCIT	-	2,181,341
Benefit from previously		
unrecognized DTA	-	21,165,044
Tax effects of:		
Non-taxable income	(123,522,597)	(216,212,075)
Non-deductible expenses	25,310,140	21,507,907
Application of unrecognized		
allowance for impairment losses	(13,854,234)	-
Application of unrecognized MCIT	<u>(3,912,816)</u>	<u>-</u>
	<u>P 67,215,501</u>	<u>P 19,512,205</u>

The net deferred tax liabilities relate to the following as of December 31:

	<u>Statements of Financial Position</u>		<u>Statements of Comprehensive Income</u>			
			<u>Profit or Loss</u>		<u>Other Comprehensive Income</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<i>Deferred tax assets</i>						
Allowance for impairment losses	P 65,116,316	P 62,233,645	P 2,882,671	P 22,156,500	P -	P -
Net pension liability	94,263,277	103,889,764	(6,043,591)	(5,891,127)	(3,582,896)	29,840,903
Others	<u>13,864,214</u>	<u>13,864,214</u>	-	-	-	-
	<u>173,243,807</u>	<u>179,987,623</u>	<u>(3,160,920)</u>	<u>16,265,373</u>	<u>(3,582,896)</u>	<u>29,840,903</u>
<i>Deferred tax liabilities</i>						
Reserve for fluctuation of AFS						
financial assets	569,040,696	632,387,087	-	-	(63,346,391)	-
Unrealized foreign exchange gains	<u>1,058,797</u>	<u>332,851</u>	<u>(718,946)</u>	<u>1,450,891</u>	<u>-</u>	<u>-</u>
	<u>570,099,493</u>	<u>632,726,938</u>	<u>(718,946)</u>	<u>1,450,891</u>	<u>(63,346,391)</u>	<u>-</u>
Net deferred tax liabilities - net	<u>P 396,855,686</u>	<u>P 452,739,315</u>	<u>(P 3,879,866)</u>	<u>P 17,716,264</u>	<u>(P 66,929,287)</u>	<u>P 29,840,903</u>
Deferred tax income (expense) - net						

During the year, the previously unrecognized deferred tax asset on certain allowance for impairment amounting to P13,854,234 was recognized by the Company. Also, MCIT amounting to P3,912,816 was applied during the year.

The Company is subject to MCIT, which is computed at 2% of gross income, as defined under the tax regulations, or RCIT whichever is higher. In 2017, the Company reported MCIT as the RCIT was lower than MCIT while in 2018, the Company reported RCIT. As a result, the cumulative excess MCIT from prior years were applied against the 2018 RCIT.

<u>Valid Year</u>	<u>Incurred</u>	<u>Applied</u>	<u>Outstanding</u>	<u>Until</u>
2017	P 2,181,341	P 2,181,341	P -	2020
2016	<u>1,731,475</u>	<u>1,731,475</u>	<u>-</u>	2019
	<u>P 3,912,816</u>	<u>P 3,912,816</u>	<u>P -</u>	

In 2018 and 2017, the Company opted to claim itemized deductions in computing for its income tax due.

33. RELATED PARTY TRANSACTIONS

Parties are considered related if one party has control, joint control, or significant influence over the other party in making financial and operating decisions. The key management personnel of the Company are also considered to be related parties.

The Company's transactions with related parties are as follows:

	<u>Year</u>	<u>Note</u>	<u>Amount of Transaction</u>	<u>Due from Related Parties</u>	<u>Due to Related Parties</u>	<u>Terms and Conditions</u>
United Fund, Inc. (UFI) – under Common Control						
Investments collected in behalf of UFI	2018	33a	P 203,000	P -	P 340,961	Due and demandable; non-interest bearing; unsecured
	2017	33a	(2,163,959)	-	137,961	
Cocolife Fixed Income Fund, Inc. (CFIFI) - under Common Control						
Investment collected on behalf of CFIFI	2018	33c	227,440	-	911,816	Due and demandable; non-interest bearing; unsecured
	2017	33c	(24,624)	-	684,376	
Stock-related transactions	2018	33b	-	-	-	Due and demandable; non-interest bearing; unsecured
	2017	33b	-	-	-	
Loans payable	2018	33c	(1,174,141)	-	-	Due and demandable; non-interest bearing; unsecured
	2017	33c	-	-	1,174,141	
Cocolife Dollar Fund Builder, Inc. (CDFBI) – under Common Control						
Centralized administrative services	2018	33b	-	217,900	-	Due and demandable; non-interest bearing; unsecured
	2017	33b	-	217,900	-	
CAMCI - Subsidiary						
Allocation of expenses for centralized personnel and technical services	2018	33b	5,046,246	5,046,426	-	Due and demandable; non-interest bearing; unsecured
	2017	33b	2,631,798	-	-	
Cocoplans - Subsidiary						
Advances	2018	33d	744,889	3,971,049	-	Due and demandable; non-interest bearing; unsecured; unimpaired
	2017	33d	65,216	3,226,160	-	
UCPB GEN - Subsidiary						
Loans receivable	2018	33e	-	-	-	Due and demandable; non-interest bearing; unsecured
	2017	33e	810,338	-	-	
TOTAL	2018		<u>P 5,047,434</u>	<u>(P 9,235,375)</u>	<u>(P 1,252,777)</u>	
	2017		<u>P 1,318,769</u>	<u>(P 3,444,060)</u>	<u>(P 1,996,478)</u>	

Notes:

- 33a. These amounts pertain to the investments that were received by the Company that will be remitted to the fund.
- 33b. These pertain to common expenses initially paid by the fund and then subsequently reimbursed by the Company.
- 33c. These pertain to the amount to be remitted by CFIFI to the Company arising from the interest income on loans.
- 33d. These are cash advances provided or received by the Company from related parties.

33e. The Company provides group insurance to the employees of UCPB GEN and ceded premiums related to accident and health insurance. Other transactions include billings to cover share in common expenses and lease of office premises by UCPB GEN in some of the Company's branches.

The items discussed above are presented in the statements of financial position as:

- a. 33a and 33c - Investments Accounts Payable under Accounts payable and accrued expenses account;
- b. 33b and 33e - Investments Accounts Receivable under Loans and other receivables account;
- c. 33d - Other Advances under Loans and other receivables account.

Compensation of key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director, whether executive or otherwise, of that entity.

The KMP compensation is as follows:

	<u>2018</u>	<u>2017</u>
Short-term employee benefits	P 73,956,639	P 66,645,780
Post-employment benefits	<u>9,069,064</u>	<u>7,591,154</u>
	<u>P 83,025,703</u>	<u>P 74,236,934</u>

The retirement fund neither provides any guarantee or surety for any obligation of the Company nor its investments covered by any restrictions or liens.

34. COMMITMENTS AND CONTINGENCIES

34.1 Leases

The Company, as a lessee and a lessor, has entered into non-cancellable and renewable leases with terms between one to 10 years and payment on a monthly basis from the date of the contracts. Some of these lease agreements provide for an escalation in the rental rates ranging from 2.00% to 10.00%. None of the leases includes contingent rentals and restrictions.

(a) Operating Lease Commitments – the Company as a Lessee

Future minimum rentals payable under non-cancellable operating leases as at December 31, 2018 and 2017 in the succeeding page.

	<u>2018</u>	<u>2017</u>
Within one year	P 43,377,630	P 13,299,865
More than one year but not more than five years	<u>24,920,646</u>	<u>15,814,624</u>
	<u>P 68,298,276</u>	<u>P 29,114,489</u>

Rent expense presented under General and Administrative Expenses in profit or loss amounted to P79.42 million and P76.16 million as at December 31, 2018 and 2017, respectively (see Note 30).

(b) Operating Lease Commitments – the Company as a Lessor

Future minimum rentals receivable under non-cancellable operating leases as at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Within one year	P 18,361,755	P 13,299,865
After one year but not more than five years	<u>26,805,851</u>	<u>15,814,624</u>
	<u>P 45,167,606</u>	<u>P 29,114,489</u>

The Company's rent income is presented under Investment income (see Note 27).

34.2 Others

There are contingent liabilities that may arise in the normal course of the Company's operations which are not reflected in the financial statements. As at December 31, 2018 and 2017, management is of the opinion that losses, if any, from those items will not have a material effect on the Company's financial statements.

35. UNIT-LINKED FUNDS

The Company issues unit-linked insurance contracts where payments to policyholders are linked to internal investment funds set up. The details of these internal investments funds, which comprise the assets backing the unit-linked liabilities, are presented in the tables in the succeeding pages. The assets, liabilities, income and expenses of these internal investment funds have been reflected in the appropriate accounts in the financial statements.

Guaranteed Funds

Guaranteed funds offered to unit-linked policyholders are available in one year and three year maturity periods. Unit-linked policyholders are allowed to allocate up to maximum of ninety percent (90%) of the policy's investible funds to any one of these funds and the remaining portion to any of the unitized funds. The income earned by the funds is based on fixed interest rates that the Company has declared at the time of investment. The interest declared by the Company is net of any fees necessary to manage the funds. In the case of fund withdrawal before the chosen maturity date, corresponding penalties are charged on the interest earned. Presented in the succeeding page are the details of the assets and liabilities of the peso guaranteed funds.

	Dollar Guaranteed Fund	Peso Guaranteed Fund	Peso Medium Term Guaranteed Fund	Peso Long Term Guaranteed Fund	Total
2018					
Assets					
Cash and cash equivalents	P 54,034,007	P 508,310,709	P 513,238,108	P 2,895,559	P 1,078,478,383
Financial assets at FVPL	276,325,646	1,413,149,820	444,887,540	-	2,134,363,006
Loans and other receivables	-	286,158,458	892,787,292	-	1,178,945,750
Accrued income	3,650,969	16,977,964	5,335,813	10,173	25,974,919
Total	P 334,010,622	P 2,224,596,951	P 1,856,248,753	P 2,905,732	P 4,417,762,058
Liabilities					
Insurance contract liabilities	P 277,309,433	P 2,163,841,385	P 1,804,786,778	P -	P 4,245,937,596
Accounts payable and accrued expenses	8,619	-	-	-	8,619
Due to General Account	1,053	-	-	-	1,053
Total	P 277,319,105	P 2,163,841,385	P 1,804,786,778	P -	P 4,245,947,268
Guaranteed interest rates	2.00%	4.50%	5.00%	-	-
2017					
Assets					
Cash and cash equivalents	P 85,903,163	P 461,877,484	P 197,460,532	P 2,814,807	P 748,055,986
Financial assets at FVPL	243,657,620	270,438,009	325,336,233	-	839,431,862
Loans and other receivables	5,050,557	1,164,688,387	1,203,694,688	-	2,373,433,632
Accrued income	2,809,395	4,554,956	2,670,098	2,589	10,037,038
Total	P 337,420,735	P 1,901,558,836	P 1,729,161,551	P 2,817,396	P 3,970,958,518
Liabilities					
Insurance contract liabilities	P 278,444,407	P 1,871,042,077	P 1,710,711,843	P -	P 3,860,198,327
Accounts payable and accrued expenses	690,053	3,549,576	3,227,768	-	7,467,397
Total	P 279,134,460	P 1,874,591,653	P 1,713,939,611	P -	P 3,867,665,724
Guaranteed interest rates	2.00%	4.50%	5.00%	-	-

Growth Funds

This is a unitized variable fund available only in conjunction with the 3-year Peso Medium Term Fund. The performance of the fund is reflected by the NAV computed at the end of each trading day. The Peso Income and Growth Fund seeks to maximize interest income, consistent with its policy to preserve capital, through a diversified portfolio of high-grade bonds and/or evidences of debt of the Philippine government-owned or controlled corporations, solvent corporations and institutions.

Dollar Bond Fund

This is a unitized variable fund available for dollar investments together with the Dollar Guaranteed Fund. The fund seeks to generate regular interest income, consistent with its policy to preserve capital and to maintain liquidity of its investments. The fund is invested primary in dollar-denominated fixed-income instruments ranging from debentures, money market instruments and government securities.

Peso Equity Fund

This is unitized variable fund available for peso investments and may be chosen together with the Peso Guaranteed Fund and Peso Bond Fund. The fund seeks to maximize income consistent with its policy to preserve capital and to maintain liquidity of investments through a diversified portfolio of high-quality listed equity issues-blue chips and growth stocks listed in the PSE.

Peso Fixed Income Fund

This is a unitized variable fund available for peso investments and may be chosen together with the Peso Guaranteed Fund and Peso Equity Fund. The fund seeks to generate regular interest income, consistent with its policy to preserve capital and maintain liquidity of investment through a diversified portfolio of high grade bonds and evidence of debt of solvent corporations and institutions.

Peso Bond Fund

This is a unitized variable fund which aims to provide regular interest income, consistent with its policy to preserve capital and to maintain liquidity of its investments, through a diversified portfolio such as Treasury Notes/Bills, Certificates of Indebtedness issued by the BSP and other government securities or bonds and other evidences of indebtedness or obligations, the servicing and repayment of which are fully guaranteed by the Republic of the Philippines or any of its instrumentalities. Duration of Peso Bond Fund's investment will be mostly between medium and long-term.

Presented below are the details of the Company's unitized variable funds.

	Peso Income and Growth Fund	Peso Dollar Bond Fund	Peso Equity Fund	Peso Fixed Income Fund	Peso Bond Fund	Total
2018						
Assets						
Cash and cash equivalents	P 67,879,202	P 17,468,710	P 56,453,395	P 488,482,008	P 101,452,725	P 731,736,040
Financial assets at FVPL	86,050,348	49,333,185	160,084,848	199,044,246	21,910,641	516,423,268
Loans and other receivables	39,783,876	788,516	1,935,137	14,183,416	31,330	56,722,275
Accrued income	926,896	719,257	269,386	2,344,791	407,829	4,668,159
	<u>P 194,640,322</u>	<u>P 68,309,668</u>	<u>P 218,742,766</u>	<u>P 704,054,461</u>	<u>P 123,802,525</u>	<u>P 1,309,549,742</u>
Liabilities						
Insurance contract liabilities	P 193,068,356	P 60,096,336	P 206,457,097	P 695,158,557	P 118,670,377	P 1,273,450,723
Accounts payable and accrued expenses	326,858	463,199	3,515,531	2,128,815	45,491	6,479,894
	<u>P 193,395,214</u>	<u>P 60,559,535</u>	<u>P 209,972,628</u>	<u>P 697,287,372</u>	<u>P 118,715,868</u>	<u>P 1,279,930,617</u>
NAV	<u>1.2406</u>	<u>1.4706</u>	<u>1.7630</u>	<u>1.7110</u>	<u>1.0087</u>	<u>-</u>
2017						
Assets						
Cash and cash equivalents	P 23,295,125	P 16,323,507	P 22,023,982	P 45,104,490	P 3,403,221	P 110,150,325
Financial assets at FVPL	66,312,666	45,743,202	177,060,474	32,142,934	18,439,033	339,698,309
Loans and other receivables	95,529,089	461,818	2,764,936	190,601,747	249,592	289,607,182
Accrued income	661,372	309,406	508,582	788,318	164,163	2,431,841
	<u>P 185,798,252</u>	<u>P 62,837,933</u>	<u>P 202,357,974</u>	<u>P 268,637,489</u>	<u>P 22,256,009</u>	<u>P 741,887,657</u>
Liabilities						
Insurance contract liabilities	P 184,276,168	P 19,893,383	P 191,667,272	P 260,380,780	P 17,010,059	P 673,227,662
Accounts payable and accrued expenses	31,432	5,408,274	1,123,570	1,730,918	1,730,918	10,025,119
	<u>P 184,307,607</u>	<u>P 25,301,657</u>	<u>P 192,790,842</u>	<u>P 262,111,698</u>	<u>P 18,740,977</u>	<u>P 683,252,781</u>
NAV	<u>1.2109</u>	<u>1.5386</u>	<u>1.922</u>	<u>1.6540</u>	<u>1.0384</u>	<u>-</u>

36. LIFE INSURANCE COVERAGE OF COCONUT FARMERS

Under the amended group master policy contract dated March 27, 1978, the Company agreed to provide group whole-life insurance coverage to certain coconut farmer members of the Philippine Coconut Producers Federation (Program I). This Group insurance plan shares in the Group's savings in mortality expenses and extra earnings in investments through policyholders' dividends and policy benefits.

This Group insurance plan shares in the Group's savings in mortality expenses and extra earnings in investments through policyholders' dividends and policy benefits.

Effective April 1, 1985, the insurance coverage of the coconut farmers was converted from a whole-life insurance plan to a modified extended term insurance. The amount of insurance and other benefits remained substantially the same, except for cash surrender and policy loan privileges. Policyholders' dividends, policy benefits and the legal policy reserves maintained under the farmers' insurance program are used to sustain, until these can, the modified extended term insurance coverage of the insured coconut farmers.

On November 5, 1996, the Philippine Coconut Authority (PCA) and the CIIF Oil Mills Companies signed a memorandum of agreement which will expand the number of farmers covered under the Insurance Program from existing 0.60 million to 1.50 million farmers (Program II). The premium payments for the additional farmers will be taken from an insurance fund to be set up by the CIIF Oil Mills Companies in keeping with their social responsibility to the coconut industry.

On August 28, 2002, the PCA and CIIF Oil Mills Companies signed a MOA which proposed a further expansion of the insurance program in order to restore the insurance benefit of the remaining insured coconut farmers under Program I and II from P5,000 to P10,000 (Program III). Further, under the same program, the PCA also proposed to extend the same benefit to an additional 2.48 million coconut farmers and coconut farm workers that were not included under Programs I and II. Accordingly, the PCA and CIIF Oil Mills companies have agreed in principle to implement Program III as follows:

Phase I

Upgrade the insurance coverage of the existing 1.02 million insured farmers from P5,000 to P10,000 per farmer effective June 12, 2002.

Phase II

Provide an additional 0.85 million coconut farmers and workers with a P10,000 Group Yearly Renewable Term Coverage.

Phase III

Provide an additional 0.90 million coconut farmers and workers with a P10,000 Group Yearly Renewable Term Coverage.

Phase IV

Provide an additional 0.78 million coconut farmers and workers with a P10,000 Group Yearly Renewable Term Coverage.

37. SUBSEQUENT EVENTS AFTER REPORTING PERIOD

On February 20, 2019, RA No. 11232, *An Act Providing for the Revised Corporation Code of the Philippines (the Revised Corporation Code)*, was signed into law. Among the provisions of the Revised Corporation Code, the following would impact the Company's financial statements:

- a. The Revised Corporation Code removed the 50-year maximum corporate term. Hence, stock corporation may have unlimited life unless otherwise provided in the articles of incorporation; and,
- b. The Revised Corporation Code removed the subscription agreement of 25% of authorized capital stock and paid-up capital requirement of 25% of subscribed capital stock.

38. **SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS NO. 15-2010 OF BUREAU OF INTERNAL REVENUE**

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such supplementary information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS. The tax information/disclosures required for the taxable year ended December 31, 2018 is presented below and in the succeeding page.

A. VAT

Output VAT

In 2018, the Company declared output VAT amounting to P45,076,371 which relates to its vatable sales amounting to P375,636,425. The Company has no exempt or zero-rated sales during the year.

Input VAT

The Company's input VAT during the year amounting to P416,215 solely relates to services lodged to other accounts. The total input VAT was applied against the output VAT declared during the year.

B. Documentary Stamp Tax

Documentary stamp taxes (DST) paid and accrued in 2018 are presented below.

On loan instruments	P 3,120,731
On policies issued	629,050
On others	<u>114,577</u>
	<u>P 3,864,358</u>

DST on loan instruments and on shares of stock in 2018 were recorded as part of Others under Investment Expenses account in the 2018 statement of comprehensive income (see Note 27).

C. Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2018 are shown below.

Expanded	P 286,167,603
Compensation and benefits	<u>25,287,046</u>
	<u>P 311,454,649</u>

The Company has no income payments subject to final withholding tax.

D. All Other Taxes (Local and National)

Other taxes paid during the year recognized under Taxes and licenses account under General and Administrative Expenses are as follows (see Note 30):

License and permit fees	P 13,173,088
Real estate taxes	3,015,459
DST	114,577
Others	<u>2,155,647</u>
	<u>P 18,458,771</u>

E. Tax Contingencies

As of December 31, 2018, the Company does not have any final deficiency tax assessments from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open years.