SEC COPY

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A 2 0 0 0 1 4 4 9 5

Company Name

SUN LIFE FINANCIAL PLANS, INC.

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

2ND FLR. SUN LIFE CENTRE
5TH AVENUE COR. RIZAL DRIVE
BONIFACIO GLOBAL CITY
TAGUIG CITY

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

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
	8555 8888	

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
6	every last Friday of May	12 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Sherwin S. Sampang	sherwin.sampang@sunlife.com	8555-8888	

Contact Person's Address

2nd Flr Sun Life Centre Bldg 5th Avenue cor. Rizal Drive Bonifacio Global City Taguig City

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

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

Reynaldo Labayen

From: Charilyn M Chua
Sent: Tuesday, June 23, 2020 2:30 PM
To: Reynaldo Labayen
Subject: FW: Your BIR AFS eSubmission uploads were received

From: eafs@bir.gov.ph <eafs@bir.gov.ph>
Sent: Monday, June 22, 2020 5:57 PM
To: PHIL-Fin-Tax <PHIL-Fin-Tax@sunlife.com>
Cc: Charilyn M Chua <Charilyn.Chua@sunlife.com>
Subject: Your BIR AFS eSubmission uploads were received

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Transaction Code: **AFS-2019-CHADKLF508EE79G8KN2444RS40J7D5CKA**
Submission Date/Time: **Jun 22, 2020 05:56 PM**
Company TIN: **208-551-659**

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Sun
Life Financial

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Sun Life Financial Plans, Inc. is responsible for all information and representations contained in the accompanying financial statements for the years ended December 31, 2019 and 2018. The financial statements have been prepared in conformity with rules and regulations of the Insurance Commission on accounting and reflect amounts that are based on the best estimates and informed judgment of Management with an appropriate consideration to materiality.

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

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

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

Lucy Chou

CHIA-LING CHOU aka LUCY CHOU
Chairman of the Board

ALEXANDER S. NARCISO
President

SHERWIN SAMPANG
Treasurer

Signed this 3rd day of March, 2020

JUN 1 5 2020

Subscribed and sworn to before me, a Notary Public for and in ______, this ___ day of ______ 2020 at PASAY CITY by affiants, who personally exhibiting as proof of their identity the following competent evidence of identification:

Name	Competent Evidence of Identity
Alexander S. Narciso	Passport No.P2690677B 07-31-19/Manila
Sherwin S. Sampang	Passport No.P9427178A 11-06-18/Manila

ATTY. JOVINO R. ANGEL
Notary Public for and in Pasay City
Until December 31, 2020
Commission No. 19-37
PTR No. 702688 1/7/20 PASAY
IBP No. 105427 1/7/20 PASIG
MCLE Compliance No. V-0024151 10.25.18
Roll of Attorneys No. 28761

Doc. No. 48
Page No. 9
Book No. IV
Series of 2020

Sun
Life Financial

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Sun Life Financial Plans, Inc. (the "Company") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the financial reporting standards in the Philippines for pre-need companies set forth in the amended Securities and Exchange Commission (SEC) Rule 31, Accounting Standards for Pre-need Plans and Pre-Need Uniform Chart of Accounts (PNUCA), as required by the rules and regulations of the Securities and Exchange Commission (SEC) and adopted by the Insurance Commission (IC), and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Charged with Governance are responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

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

Lucy Chou

CHIA-LING CHOU aka LUCY CHOU
Chairman of the Board

ALEXANDER S. NARCISO
President

SHERWIN SAMPANG
Treasurer

NavarroAmper&Co.

Navarro Amper & Co.
19th Floor Six/NEO Building
5th Avenue corner 26th Street
Bonifacio Global City, 1634 Taguig
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www.deloitte.com/ph

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

SUPPLEMENTAL WRITTEN STATEMENT OF AUDITORS

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

Gentlemen:

We have audited the financial statements of Sun Life Financial Plans, Inc. as at and for the year ended December 31, 2019, on which we have rendered the attached report dated March 3, 2020.

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

Navarro Amper & Co.
BOA Registration No. 0004, valid from November 12, 2018 to July 16, 2021
SEC Accreditation No. 0001-FR-5, issued on January 15, 2019; effective until January 14, 2022, Group A
IC A. N. 0004-1C, issued on February 28, 2020; effective until February 27, 2025
TIN 005299331

By:

Bonifacio F. Lumacang, Jr.
Partner
CPA License No. 0098090
SEC A.N. 1793-A, issued on November 11, 2019; effective until November 10, 2022, Group A
IC A. N. 98090-IC, issued on February 19, 2020; effective until February 18, 2025
TIN 170035681
BIR A.N. 08-002552-18-2018, issued on January 26, 2018; effective until January 26, 2021
PTR No. A-4689422, issued on January 2, 2020, Taguig City

Taguig City, Philippines
March 3, 2020

Deloitte.

NavarroAmper&Co.

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19th Floor Six/NEO Building
5th Avenue corner 26th Street
Bonifacio Global City, 1634 Taguig
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BOA/PRC Reg. No. 0004
SEC Accreditation No. 0001-FR-5

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sun Life Financial Plans, Inc. [A Wholly Owned Subsidiary of Sun Lie of Canada (Philippines), Inc.] (the "Company"), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the financial reporting standards in the Philippines for pre-need companies set forth in the amended Securities and Exchange Commission (SEC) Rule 31, Accounting Standards for Pre-need Plans and Pre-need Uniform Chart of Accounts (PNUCA), as required by the rules and regulations of the SEC and adopted by the Insurance Commission (IC).

Basis for Opinion

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

Emphasis of Matter

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting standards in the Philippines for pre-need companies set forth in the amended SEC Rule 31, Accounting Standards for Pre-need Plans and PNUCA, as required by the rules and regulations of SEC and adopted by the IC, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are 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 PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of financial statements.

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

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

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

Report on Other Legal and Regulatory Requirements

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 34 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of Management and has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Navarro Amper & Co.
BOA Registration No. 0004, valid from November 12, 2018 to July 16, 2021
SEC Accreditation No. 0001-FR-5, issued on January 15, 2019; effective until January 14, 2022, Group A
IC A. N. 0004-1C, issued on February 28, 2020; effective until February 27, 2025
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By:

Bonifacio F. Lumacang, Jr.
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PTR No. A-4689422, issued on January 2, 2020, Taguig City

Taguig City, Philippines
March 3, 2020

SUN LIFE FINANCIAL PLANS, INC.
[A Wholly-Owned Subsidiary of Sun Life of Canada (Philippines), Inc.]
STATEMENTS OF FINANCIAL POSITION

	Notes	December 31 2019	2018
ASSETS			
Current Assets			
Cash and cash equivalents	7	P 406,073,436	P 511,522,549
Receivables	8	33,762,517	34,472,378
Prepayments and other current assets - net	9	78,478	286,295
Total Current Assets		439,914,431	546,281,222
Non-current Assets			
Trust funds	11	5,587,832,174	5,538,872,831
Financial assets at fair value through other comprehensive income	10	272,502,360	221,309,820
Financial assets at fair value through profit and loss	10	15,099,104	13,573,927
Computer software-net	12	-	5,136,792
Total Non-Current Assets		5,875,433,638	5,778,893,370
		P6,315,348,069	P6,325,174,592
LIABILITIES AND EQUITY			
Current Liabilities			
Benefits payable	13	P 118,534,046	P 101,239,420
Accrued expenses and other liabilities	13	5,702,484	9,529,983
Counselors' bond reserve	14	6,978,265	6,983,205
Payable to parent company	15	3,397,171	3,726,321
Total Current Liabilities		134,611,966	121,478,929
Non-current Liabilities			
Pre-need reserves	16	5,606,741,774	5,639,981,406
Other reserves	17	-	333,594,666
Planholders' deposit	18	29,875,807	29,197,250
Total Non-Current Liabilities		5,636,617,581	6,002,773,322
		5,771,229,547	6,124,252,251
Equity			
Share capital	19	125,000,000	125,000,000
Additional paid in capital	20	375,000,000	375,000,000
Contributed surplus	21	400,000,000	400,000,000
Investment revaluation reserves	22	685,725,843	21,886,802
Deficit		(7,024,163,810)	(6,422,361,762)
Accumulated trust fund income	11	5,982,556,489	5,701,397,301
		544,118,522	200,922,341
		P6,315,348,069	P6,325,174,592

See Notes to Financial Statements.

SUN LIFE FINANCIAL PLANS, INC.
[A Wholly-Owned Subsidiary of Sun Life of Canada (Philippines), Inc.]
STATEMENTS OF TOTAL COMPREHENSIVE INCOME

		For the Years Ended December 31	
	Notes	**2019**	2018
Revenues			
Premium revenue	23	**P 105,206,379**	P 108,633,659
Trust fund income - net	11	**281,159,188**	268,279,557
Investment income	27	**25,405,460**	20,232,504
Decrease in pre-need reserves - net	24	**366,614,879**	517,267,346
Other income	28	**2,069,053**	1,791,182
		780,454,959	916,204,248
Expenses			
Other direct costs and expenses	25	**1,065,479,580**	1,047,628,419
General and administrative expenses	26	**30,404,342**	34,083,855
		1,095,883,922	1,081,712,274
Loss Before Tax		**(315,428,963)**	(165,508,026)
Income Tax Expense	29	**5,213,897**	4,473,624
Net Loss for the Year		**(320,642,860)**	(169,981,650)
Other Comprehensive Income			
Item that will be reclassified			
subsequently to profit or loss			
Fair value gain (loss) on finacial assets at FVTOCI	22	**663,839,041**	(663,789,915)
Other Comprehensive Income for the Year		**663,839,041**	(663,789,915)
Total Comprehensive Income		**P 343,196,181**	(P 833,771,565)

See Notes to Financial Statements.

SUN LIFE FINANCIAL PLANS, INC.
[A Wholly-Owned Subsidiary of Sun Life of Canada (Philippines), Inc.]
STATEMENTS OF CHANGES IN EQUITY

		For the Years Ended December 31								
		Share Capital								
	Notes	Ordinary	Preference	Total Capital Stock	Additional Paid-in Capital	Contributed Surplus	Investment Revaluation Reserves	Deficit	Accumulated Trust Fund Income	Total
Balance, January 1, 2018		P 75,000,000	P 50,000,000	P 125,000,000	P 375,000,000	P 25,000,000	P 685,676,717	(P 5,984,100,555)	P 5,433,117,744	P 659,693,906
Profit for the year		-	-	-	-	-	-	(438,261,207)	-	(438,261,207)
Trust Fund Income - net		-	-	-	-	-	-		268,279,557	268,279,557
Other comprehensive income	22	-	-	-	-	-	(663,789,915)	-	-	(663,789,915)
Capital contribution	21	-	-	-	-	375,000,000	-	-		375,000,000
Total comprehensive income		-	-	-	-	375,000,000	(663,789,915)	(438,261,207)	268,279,557	(458,771,565)
Balance, December 31, 2018		75,000,000	50,000,000	125,000,000	375,000,000	400,000,000	21,886,802	(6,422,361,762)	5,701,397,301	200,922,341
Profit for the year								(601,802,048)		(601,802,048)
Trust fund Income - net		-							281,159,188	281,159,188
Other comprehensive income		-					663,839,041			663,839,041
Total comprehensive income		-	-	-	-	-	663,839,041	(601,802,048)	281,159,188	343,196,181
Balance, December 31, 2019		**P75,000,000**	**P50,000,000**	**P125,000,000**	**P375,000,000**	**P400,000,000**	**P685,725,843**	**(P7,024,163,810)**	**P5,982,556,489**	**P544,118,522**

See Notes to Financial Statements.

SUN LIFE FINANCIAL PLANS, INC.
[A Wholly-Owned Subsidiary of Sun Life of Canada (Philippines), Inc.]
STATEMENTS OF CASH FLOWS

		For the Years Ended December 31	
	Notes	**2019**	2018
Cash Flows from Operating Activities			
Loss before tax		**(P 315,428,963)**	(P 165,508,026)
Adjustments for:			
Amortization of computer software	12, 26	**5,136,792**	5,603,773
Pre-need reserves	16	**(33,239,632)**	(827,335,980)
Additional allowance for non recoverable prepaid tax	9, 26	**969,200**	959,937
Trust fund income		**(281,159,188)**	(268,279,557)
Other reserves	17, 24	**(333,594,666)**	309,881,600
Investment income	27	**(25,405,460)**	(20,232,504)
Net amortization of premium	10	**2,188,832**	2,080,077
Unrealized revaluation (gain) loss on FVTPL financial assets		**(1,525,177)**	55,470
Operating cash flows before working capital changes		**(982,058,262)**	(962,775,210)
Decrease (Increase) in:			
Receivables		**567,969**	(30,437,290)
Prepayments and other current assets		**(761,382)**	(972,936)
Increase (Decrease) in:			
Accrued expenses and other liabilities		**(3,827,499)**	2,937,181
Benefits payable		**17,294,626**	21,237,047
Payable to parent company		**(329,150)**	485,545
Counselors' bond reserve		**(4,940)**	(12,444)
Planholders deposit		**678,557**	4,293,183
Cash used in operations		**(968,440,081)**	(965,244,924)
Income taxes paid		**(5,213,897)**	(4,473,624)
Net cash used in operating activities		**(973,653,978)**	(969,718,548)
Cash Flows from Investing Activities			
Investment income received		**25,547,353**	19,978,122
Trust fund contributions	11	**(283,594,066)**	(168,103,236)
Withdrawals from trust funds	11	**1,126,251,578**	1,030,303,842
Net cash from investing activities		**868,204,865**	882,178,728
Cash Flows from a Financing Activity			
Additional capital infusion	21	**-**	375,000,000
Net Increase (Decrease) in Cash and Cash Equivalents		**(105,449,113)**	287,460,180
Cash and Cash Equivalents, Beginning		**511,522,549**	224,062,369
Cash and Cash Equivalents, End		**P 406,073,436**	P 511,522,549

See Notes to Financial Statements.

SUN LIFE FINANCIAL PLANS, INC.
[A Wholly Owned Subsidiary of Sun Life of Canada (Philippines), Inc.]
NOTES TO FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

1. CORPORATE INFORMATION AND STATUS OF OPERATIONS

Corporate Information

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

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

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

Status of Operations

On March 1, 2010, the Company decided to temporarily discontinue actively selling pre-need plans until the pre-need market environment improves. All existing pre-need plans will continue to be serviced and supported until maturity by the Company's trust fund assets. As disclosed in Note 11, the Company's trust fund net assets amounting to P5,587,832,174 are less than the required Pre-need Reserves (PNR) of P5,606,741,774 as at December 31, 2019 as shown in Note 16. The Company subsequently contributed P34,300,000 in February 2020 within the prescribed time allowed by the Insurance Commission (IC) to cover the trust fund deficiency, as disclosed in Note 11.

2. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION

Statement of Compliance

The financial statements of the Company have been prepared in accordance with the accounting standards set forth in the amended SEC Rule 31, Accounting Standards for Pre-need Plans and Pre-need Uniform Chart of Accounts (PNUCA), as required by the rules and regulations of the SEC and adopted by the Insurance Commission (IC).

Basis of Preparation and Presentation

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

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

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

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

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

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

Functional and Presentation Currency

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

3. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

Adoption of New and Revised Accounting Standards Effective in 2019

The following new and revised accounting standards and interpretations that have been published by the International Accounting Standards Board (IASB) and approved by the FRSC in the Philippines, were adopted by the Company effective on January 1, 2019:

PFRS 16 — *Leases*

PFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease requires and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

This amendment had no impact on the financial statements as the Company does not have leases.

Amendments to PFRS 9 — *Prepayment Features with Negative Compensation*

The amendments include:

Changes regarding symmetric prepayment options

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

Clarification regarding the modification of financial liabilities

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

The adoption of the amendments did not have an impact on the Company's financial statements as the Company does not have modification of financial liabilities transactions.

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

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

This amendment had no impact on the financial statements as the Company does not have long-term interests in its associate and joint venture.

Philippine Interpretation IFRIC 23 — *Uncertainty over Income Tax Treatments*

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

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

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

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

The adoption of the interpretation did not have an impact on the Company's financial statements as the Company does not have uncertainty over income tax treatments.

Amendments to PAS 19 — *Plan Amendment, Curtailment or Settlement*

The amendments in Plan Amendment, Curtailment or Settlement are:

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

These amendments had no impact on the financial statements as the Company does not have plan amendment, curtailment, or settlement under PAS 19.

Annual Improvements to PFRSs 2016-2018 Cycle

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

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

These amendments did not have an impact on the Company's financial statements as the Company does not have previously held interest in a joint operation.

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

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

The adoption of the amendments did not have an impact on the Company's financial statements as the Company does not have income tax consequences of payments on financial instruments classified as equity.

Amendments to PAS 23 — *Borrowing costs eligible for capitalization*

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

These amendments did not have an impact on the Company's financial statements as the Company does not have borrowing costs that are eligible for capitalization.

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

PFRS 17 — *Insurance Contracts*

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

The key principles in PFRS 17 are that an entity:

- identifies as insurance contracts those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder;
- separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts;
- divides the contracts into groups that it will recognize and measure;
- recognizes and measures groups of insurance contracts at:
  i. a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset)

ii. an amount representing the unearned profit in the group of contracts (the contractual service margin);

- recognizes the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognizes the loss immediately;
- presents separately insurance revenue (that excludes the receipt of any investment component), insurance service expenses (that excludes the repayment of any investment components) and insurance finance income or expenses; and
- discloses information to enable users of financial statements to assess the effect that contracts within the scope of PFRS 17 have on the financial position, financial performance and cash flows of an entity.

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

The standard is effective for periods beginning on or after January 1, 2022. Earlier application is permitted.

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

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

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

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

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

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

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

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

The Management is still evaluating the impact of the amendments.

Amendments to PFRS 3, *Definition of Business*

The amendments are to:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;

- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

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

The Management is still evaluating the impact of the amendments.

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

The interpretation provides guidance regarding accounting treatment for Cryptographic assets. In classifying Cryptographic assets, two relevant factors to consider are (i) its primary purpose, and (ii) how these assets derive its inherent value. The interpretation provided two (2) Cryptographic classifications based on the aforementioned factors, these are (a) Cryptocurrency, or (b) Cryptographic assets other than Cryptocurrencies, which are (b.1) Asset-based token, (b.2) Utility token, and (b.3) Security token, or collectively the "Security Tokens".

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

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

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

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

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

New Accounting Standards Effective in 2019 - Adopted by Financial Reporting Standards Council (FRSC) but pending for approval by the Board of Accountancy.

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

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

PIC Q&As Amended

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

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

PIC Q&A Withdrawn

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

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

The adoption of the interpretation upon approval of BOA will have no impact on the Company's financial statements.

PIC Q&A No. 2019-06, *Accounting for step acquisition of a subsidiary in a parent*

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

Salient points of the interpretation are the following:

IFRIC concluded either of the two approaches may be applied:

- Fair value as deemed cost approach

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

- Accumulated cost approach

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

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

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

The adoption of the interpretation upon approval of BOA will have no impact on the Company's financial statements.

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

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

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

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

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

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

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

The adoption of the interpretation upon approval of BOA will have no impact on the Company's financial statements.

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

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

1) <u>Accounting for ARO at lease commencement date</u>

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

2) Change in ARO after initial recognition

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

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

a. *Modified retrospective approach* - Under this approach, the lessee uses the remaining lease term to discount back the amount of provision to transition date. Any adjustment is recognized as an adjustment to the ROU asset and ARO provision.

This adjustment applies irrespective of which of the two methods in measuring the ROU asset will be chosen under the modified retrospective approach.

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

The adoption of the interpretation upon approval of BOA will have no impact on the Company's financial statements.

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

The interpretation aims to provide guidance on the following:

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

2. How to account for the related deferred tax effects on transition from PAS 17 to PFRS 16.

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

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

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

The adoption of the interpretation upon approval of BOA will have no impact on the Company's financial statements.

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

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

The adoption of the interpretation upon approval of BOA will have no impact on the Company's financial statements.

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

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

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

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

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

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

The adoption of the interpretation upon approval of BOA will have no impact on the Company's financial statements.

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

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

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

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

The adoption of the interpretation upon approval of BOA will have no impact on the Company's financial statements.

4. PRE-NEED RULES

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

a. The net asset value in the trust fund shall be at least equal to the required Pre-need Reserves (PNR) computed pursuant to the method prescribed by the SEC.

b. PNR shall be set up for all pre-need benefits guaranteed and payable by the pre-need company as defined in the pre-need plan contracts.

c. Unless the SEC shall so specifically require, a company may at its option set up other provisions as a prudent measure.

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

e. The amount of restricted/appropriated and unrestricted/unappropriated retained earnings shall be separately presented in the statements of changes in equity. However, no appropriation of the retained earnings shall be made by the Company unless the same is approved by the SEC or allowed in the Pre-need Rules.

f. In recognizing PNR, the general requirements of PAS 37, *Provision, Contingent Liabilities and Contingent Assets*, on provisioning and the specific methodology provided shall be complied with. The amount recognized as a provision to cover the PNR shall be the best estimate of the expenditure required to settle the present obligation at the end of each reporting period. The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.

g. Since the effect of the time value of money for pre-need plans is material, the amount of provision shall be the present value of the funding expected to be required to settle the obligation with due consideration of different probabilities.

h. Future events that may affect the foregoing amounts shall be reflected in the amount of the provision for PNR where there is sufficient objective evidence that they will occur.

i. Any pre-need company which adopts the foregoing reserving method shall discuss in its notes to financial statements its concrete plan on the sourcing of funds to cover its committed augmentation of the difference between the hurdle and attainable rates, during the periods when it used hurdle rates in the computation of its reserving requirements.

j. The rates of surrender, cancellation, reinstatement, utilization, and inflation, when applied, must consider the actual experience of the pre-need company in the last three (3) years, or the industry, in the absence of a reliable company experience.

k. The computation of the foregoing assumptions shall be validated by the internal qualified actuary of the pre-need company. His or her validation report shall be provided to its external auditors for purposes of statutory audit of the financial statements of the Company, and shall be submitted to the IC as a separate report.

l. The probability of pre-termination or surrender of fully paid plans shall be considered in determining the PNR of fully paid plans. A pre-termination experience on fully paid plans of 5% and below shall be considered insignificant. In such cases, derecognition of liability shall be recorded at pre-termination date.

m. The disclosure requirements under PAS 1 relative to methods and assumptions used to estimate the PNR including the sensitivity of the PNR amount shall be complied with.

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

5. SIGNIFICANT ACCOUNTING POLICIES

Financial Instruments

Financial assets and financial liabilities are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument.

Initial recognition

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial Assets

Initial Recognition and Measurement

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

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

Classification and Subsequent Measurement

Company has applied PFRS 9 and classifies its financial assets in the following measurement categories:

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

Classification of financial assets will be driven by the entity's business model for managing the financial assets and the contractual cash flows of the financial assets. A financial asset is to be measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest.

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

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

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

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

Debt instruments

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

- Amortized cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

- Fair value through other comprehensive income (FVTOCI). Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVTOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit and loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method.

- Fair value through profit or loss. Assets that do not meet the criteria for amortized cost or FVTOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the profit or loss statement within other gains/(losses) in the period in which it arises. Interest income from these financial assets is included in the finance income.

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

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

Equity instruments

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

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

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

Impairment

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

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

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

Significant increase in credit risk

The Company monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Company will measure the loss allowance based on lifetime rather than 12-month ECL.
The Company opted to use the practical expedient for financial assets with low credit risk in assessing the ECL since the financial assets of the Company pertain to cash and cash equivalents, receivables, financial assets at FVTPL and FVTOCI which meet the following requirements:

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

Default

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

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

- With significant financial difficulty on the part of the borrower/issuer/obligor
- There is breach of contract, such as a default or delinquency in interest or principal payments
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization
- Disappearance of an active market for that financial asset because of financial difficulties (but not simply because the asset is no longer publicly traded)
- Loans of borrower and/or related accounts in past due status
- A suit is filed vs. borrower by a third party which can lead to payment default
- Borrower filed for rehabilitation/liquidation/bankruptcy/voluntary insolvency
- Third party filed for involuntary insolvency
- Bank/Creditors filed a legal suit vs. borrower
- Borrower filed a legal suit vs. the Bank/Creditors
- When the borrower's whereabouts is unknown, or he is insolvent, or his earning power is permanently impaired and his co-maker/guarantors/sureties are insolvent or that their guaranty is not financially supported
- Accounts which were adversely classified by BSP in the last BSP examination and adverse classification remains uncorrected

Derecognition

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

Write-off

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

Financial Liabilities

Classification and subsequent measurement

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

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

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

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

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

Derecognition

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

Accounting policies applied prior to January 1, 2019

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

Equity Instruments

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

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Preference shares

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

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

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

Additional paid-in capital

Additional paid-in capital is classified as equit6y and refers to the amount received by the Company for subscription of shares in excess of par value of the shares.

Contributed surplus

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

Deficit

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

Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as these are consumed in operations or expire with the passage of time.

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

Intangible Assets

Internally-generated intangible assets-research and development expenditure

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

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

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

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

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

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

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

The Company's intangible asset represents capitalized computer software.

Impairment of Intangible Assets

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

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

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

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

Provisions and Contingent Liabilities

Provisions

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

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

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

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

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

Contingent liabilities

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

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

Pre-need Reserves (PNR)

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

a. The formula, methods and assumptions used for the valuation of reserves are based on the SEC Notice dated April 20, 2007, and subsequent SEC Interpretative Bulletin No. 1, Series of 2008 on its implementation. These may be different from the reserve formula, methods and assumptions used in the computation of actuarial reserve submitted to the SEC upon the application for product approval or upon the application for revisions to be done on existing products subsequently approved by the SEC.

b. PNR is set up for all pre-need benefits guaranteed and payable by the pre-need company as defined in the pre-need plan contracts.

c. In recognizing PNR for educational and pension plans, the general requirements of PAS 37 on provisioning and the specific methodology are complied with by the Company.

d. The amount recognized as a provision to cover the PNR is the best estimate of the expenditure required to settle the present obligation at the end of each reporting period. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision.

e. Since the effect of the time value of money for pre-need plans is material, the amount of provision is the present value of the funding expected to be required to settle the obligation with due consideration of the different probabilities, as follows:

i. On Currently-Being-Paid Plans

1. Provision for termination values applying the surrender rate experience of the Company.

2. Liability is set-up for the portion of currently-being-paid plans that will reach full payment, applying the full payment experience of the Company. It is equivalent to the present value of future maturity benefits reduced by the present value of future trust fund contributions discounted using the appropriate discount rate.

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

ii. On Lapsed Plans within the Allowable Reinstatement Period

Provision for termination values applying the reinstatement experience of the Company.

iii. Fully Paid Plans

The reserve is the present value of future maturity benefits discounted using the appropriate discount rate.

f. The actual experience of the Company in the last three (3) years is considered in the application of rates (surrender, cancellation, reinstatement, utilization, and inflation).

g. The actuary validated the actuarial assumptions used in reserve valuation.

h. No pre-termination or surrender of fully paid plans are considered in determining the PNR of fully paid plans.

i. Any excess in the amount of the trust fund as a result of the initial adoption of the revised reserving method is not released from the fund nor credited/offset to future required contributions.

j. Individual subsidiary accounts for education plans and pension plans are maintained.

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

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

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

Other Reserves

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

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

Revenue Recognition

The Company recognizes income from sale of pre-need plans, interest from fixed income securities and income from trust fund assets.

Premium revenue

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

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

Trust fund income

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

Investment income

Investment income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Investment income is recognized in profit or loss as it accrues, taking into account the effective yield of the assets or liability or an applicable floating rate. Interest income and expense include the amortization of any discount or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income

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

Realized gains or losses

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

Other income

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

Expense Recognition

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

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

Related Party Transactions

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

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

Taxation

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

Current tax

The current tax expense is composed of the regular corporate income tax (RCIT), the minimum corporate income tax (MCIT) and final tax. The RCIT and MCIT are based on taxable profit for the year which may differ from net profit or gross profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The RCIT is calculated using 30% of net taxable income and MCIT at 2% of gross income and the tax due for the year is the higher of the RCIT or MCIT.

Final tax

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

Deferred tax

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

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

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

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

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

Current and deferred tax for the year

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

Events After the Reporting Period

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

6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical Judgment in Applying Accounting Policies

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

Functional currency

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

Business model assessment

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

The Company measures its investment in trust fund financial assets at amortized cost if the financial asset qualifies for both SPPI and business model test. All other financial assets that do not meet the SPPI and business model test are measured at FVTPL and FVTOCI.

The financial assets measured at amortized cost amounted to P396,754,932 and P401,797,962 as at December 31, 2019 and 2018 as disclosed in Note 11.

Models and assumptions used

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

Key Sources of Estimation Uncertainty

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

Estimating useful life of asset

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

The carrying amounts of the Company's computer software amounted to nil and P5,136,792 as at December 31, 2019 and 2018, respectively, as disclosed in Note 12.

Asset impairment

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

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

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

The accumulated impairment loss on prepaid taxes amounted to P20,198,158 and P19,228,958 as at December 31, 2019 and 2018, respectively, since Management believes that no tax benefit can be recovered in the future on these prepaid taxes, as disclosed in Note 9.

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 32 Credit Risk - Expected credit loss measurement, which also sets out the key sensitivities of the ECL to changes in these elements.

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

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

As at December 31, 2019 and 2018, Management believes that its receivables are fully recoverable; accordingly, no ECL was recognized in both years.

Receivables from a trustee bank as at December 31, 2019 and 2018 amounted to P29,869,321 and P30,437,289 respectively as disclosed in Note 8.

Deferred tax assets

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

As at December 31, 2019 and 2018, deferred tax asset on net operating loss carry-over (NOLCO) amounting to P431,480,720 and P414,151,863, respectively, was not recognized in the statements of financial position because Management believes it is more likely that the Company will not be able to realize the tax benefit arising from NOLCO, as disclosed in Note 29.

Determining fair value of financial instruments

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

As at December 31, 2019 and 2018, the carrying amount of FVTOCI and FVTPL assets amounted to P272,502,360 and P15,099,104 and P221,309,820 and P13,573,927, respectively as disclosed in Note 10 while the related fair value adjustments amounted to net gain of P53,381,372 and P34,701,682, respectively, as disclosed in Note 10.

As at December 31, 2019 and 2018, the carrying amounts of FVTOCI, FVTPL and amortized cost financial assets in its investments in trust funds amounted to P4,758,818,342, P285,715,931 and P396,754,932 and P4,575,624,672, P273,510,311 and P401,797,962, respectively, as disclosed in Note 11, while the related gains on fair value adjustments amounted to P290,301,830 in 2019 and the related losses amounted to P344,883,925 in 2018, as disclosed in Note 22.

Estimating PNR and other reserves

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

The carrying amount of PNR as at December 31, 2019 and 2018 amounted to P5,606,741,774 and P5,639,981,406, respectively, as disclosed in Notes 11 and 16 while the carrying amount of other reserves is nil and P333,594,666 as at December 31, 2019 and 2018, respectively, as disclosed in Note 17.

Contingencies

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

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	2019	2018
Cash on hand and in banks	**P 19,473,436**	P 34,422,549
Cash equivalents	**386,600,000**	477,100,000
	P406,073,436	P511,522,549

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

Cash in banks earned interest at the respective bank deposit rates ranging from 0.03% to 0.75% in 2019 and 0.25% to 0.50% in 2018. Cash equivalents represent short-term deposits varying from one day to two months depending on the cash requirements of the Company, and earn annual interest rates ranging from 1.00% to 6.50% in 2019 and 1.00 % to 6% in 2018. Interest income from cash in banks and cash equivalents amounted to P9,411,615 and P5,710,551 in 2019 and 2018, respectively, as disclosed in Note 27.

As at December 31, 2019 and 2018, the Company maintains its cash deposits in commercial and universal banks with good credit standing to minimize exposure to credit risk.

8. RECEIVABLES

Receivables consist of:

	2019	2018
Receivables from a trustee bank	**P29,869,321**	P30,437,289
Accrued interest	**3,200,860**	3,342,753
Other receivables	**692,336**	692,336
	P33,762,517	P34,472,378

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

Accrued interest pertains to interest receivable on cash in banks, cash equivalents, and FVTOCI financial assets.

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

9. PREPAYMENTS AND OTHER CURRENT ASSETS - net

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

	2019	2018
Prepaid taxes	**P20,198,158**	P19,228,958
Less: Allowance for non-recoverable prepaid taxes	**20,198,158**	19,228,958
	-	-
Prepaid expenses	**66,846**	286,295
Input Vat	**11,632**	-
	P 78,478	P 286,295

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

	Note	2019	2018
Balance, beginning		**P19,228,958**	P18,269,021
Additions	26	**969,200**	959,937
Balance, endings		**P20,198,158**	P19,228,958

The Company provided valuation allowance for impairment on these prepaid taxes (creditable withholding taxes) amounting to P20,198,158 and P19,228,958 as at December 31, 2019 and 2018, respectively, because Management believes that the Company will not be able to avail of the tax benefit arising from these prepaid taxes in the future.

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

10. FINANCIAL ASSETS

The Company's financial assets consist of:

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

	2019	2018
Investments in government securities	**P272,502,360**	P221,309,820

The movements in FVTOCI financial assets are as follows:

	Note	**2019**	2018
Balance, beginning		**P221,309,820**	P258,091,579
Net premium amortization		**(2,188,832)**	(2,080,077)
Fair value adjustments	22	**53,381,372**	(34,701,682)
Balance, ending		**P272,502,360**	P221,309,820

The account is composed of the following investments:

	Note	**2019**	2018
Cost			
Investments in government securities		**P271,573,537**	P273,762,370
		271,573,537	273,762,370
Accumulated fair value adjustments	22	**928,823**	(52,452,550)
		P272,502,360	P221,309,820

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

	2019	2018
Investments in mutual fund	**P15,099,104**	P13,573,927

The movements in FVTPL financial assets are as follows:

	2019	2018
Balance, beginning	**P13,573,927**	P13,629,397
Fair value adjustments	**1,525,177**	(55,470)
Balance, ending	**P15,099,104**	P13,573,927

The account is composed of the following investments:

	2019	2018
Cost		
Investments in mutual funds	**P 7,738,818**	P 7,738,818
	7,738,818	7,738,818
Accumulated fair value adjustments	**7,360,286**	5,835,109
	P15,099,104	P13,573,927

The interest income, including amortization of discount and premium on government securities in 2019 and 2018 amounted to P15,993,845 and P14,521,953, respectively as disclosed in Note 27.

The Company's investment in mutual fund pertain to investment in Sun Life Prosperity Bond Fund, Inc. for a total of 4,908,841 shares with a net asset value of P15,099,104 and P13,573,927 as at December 31, 2019 and 2018, respectively.

No disposals of investments in government securities and mutual fund were made in 2019 and 2018.

The fair values of these financial assets are based on quoted market prices. The revaluation of these investments resulted in a net gain of P53,381,372 in 2019 and net loss of P34,701,682 in 2018, as disclosed in Note 22.

11. TRUST FUNDS

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

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

As at December 31, 2019 and 2018, the Company's trust funds and the required PNRs are as follows:

Type of Pre-need Product	Trust Fund Equity	Pre-need Reserves	(Deficiency)	Staggered Recognition of Trust Fund Deficiency	Transitory Pre-need Reserves
		(Note 16)		**(Note 16)**	
2019					
Education	**P2,141,557,803**	**P2,206,284,730**	**(P 64,726,927)**	**P21,575,642**	**P2,163,133,445**
Pension	**3,431,034,623**	**3,468,755,740**	**(37,721,117)**	**12,573,706**	**3,443,608,329**
	P5,572,592,426	**P5,675,040,470**	**(P102,448,044)**	**P34,149,348**	**P5,606,741,774**
2018					
Education	P2,037,382,999	P2,317,648,566	(P280,265,567)	P 70,066,392	P2,107,449,391
Pension	3,398,766,324	3,933,829,085	(535,062,761)	133,765,690	3,532,532,015
	P5,436,149,323	P6,251,477,651	(P815,328,328)	P203,832,082	P5,639,981,406

In 2019, Trust Fund Equity shown above is based on trust fund financial statements after adjustment on receivable from a trustee bank and amounts on deposit.

As at December 31, 2019, in accordance with IC CL No. 23-2012, the amount that will be funded is one-third of the total deficiency amounting to P21,575,642 for the Education segment, and P12,573,706 for the Pension segment. The Company subsequently contributed P34,300,000 in February 2020 to cover the trust fund deficiency.

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

Total contributions to the trust funds amounted to P283,594,066 and P168,103,236 in 2019 and 2018, respectively, as disclosed in Note 16.

The details of the adjusted trust funds are as follows:

Statements of financial position

	2019			
	Pension	Education	Total	2018
Assets				
Cash and cash equivalents	P 20,003,583	P 51,880,236	P 71,883,819	P203,470,352
Financial assets at amortized cost	396,754,932	-	396,754,932	401,797,962
Financial assets at FVTOCI	2,891,356,991	1,867,461,351	4,758,818,342	4,575,624,672
Financial assets at FVTPL	82,856,484	202,859,447	285,715,931	273,510,311
Interest receivable	51,762,146	23,871,623	75,633,769	85,502,924
Other assets	146,884	324,492	471,376	371,713
	3,442,881,020	2,146,397,149	5,589,278,169	5,540,277,934
Liabilities				
Accrued expenses and other liabilities	888,230	557,765	1,445,995	1,405,103
	P3,441,992,790	P2,145,839,384	P5,587,832,174	P5,538,872,831
Equity				
Fund balance, beginning	(P 942,234,972)	P 705,371,148	(P 236,863,824)	P 625,336,782
Additional contributions	209,345,165	74,248,901	283,594,066	168,103,236
Withdrawals	(824,452,075)	(301,799,503)	(1,126,251,578)	(1,030,303,842)
Trust fund contributions - net	(615,106,910)	(227,550,602)	(842,657,512)	(862,200,606)
Fund balance, ending	(1,557,341,882)	477,820,546	(1,079,521,336)	(236,863,824)
Reserve for fluctuation FVTOCIs	427,414,127	257,382,894	684,797,021	74,339,353
Accumulated trust fund income, beginning before adjustment	4,399,591,383	1,301,805,918	5,701,397,301	5,429,790,424
PFRS 9 Transition Adjustment	-	-	-	3,327,320
Accumulated trust fund income, beginning after adjustment	4,399,591,383	1,301,805,918	5,701,397,301	5,433,117,744
Trust fund income - net	172,329,162	108,830,026	281,159,188	268,279,557
Accumulated trust fund income, ending	4,571,920,545	1,410,635,944	5,982,556,489	5,701,397,301
	P3,441,992,790	P2,145,839,384	P 5,587,832,174	P5,538,872,831

Statements of comprehensive income

	2019			
	Pension	Education	Total	2018
Income	P183,213,745	P115,799,316	P299,013,061	P287,248,999
Expenses	10,884,583	6,969,290	17,853,873	18,969,442
Net income	P172,329,162	P108,830,026	P281,159,188	P268,279,557

The following table presents the maturity profile of the principal amounts of the financial asset at FVTOCI under trust fund assets as at December 31, 2019:

	2019	2018
Due within one year	**P 238,787,066**	P 200,606,612
Due after one year through five years	**1,112,836,408**	565,784,329
Due after five years and above	**3,950,068,643**	4,083,104,411
	P5,301,692,117	P4,849,495,352

FVTOCI investments of the trust funds include investments in treasury notes and bonds measured at fair values based on quoted prices of either done deals or bid rates or based on interpolated yields derived from benchmark reference rates. The revaluation of these investments resulted in a loss on fair value measurement amounting to P290,301,830 and gain of P344,883,925 in 2019 and 2018, as disclosed in Note 22.

In 2019 and 2018, reclassification of fair value adjustments from trust fund equity to profit or loss relating to FVTOCI investments of the trust funds disposed during the year resulted in a loss of P320,155,839 in 2019 and gain of P353,607,673 in 2018, as disclosed in Note 22.

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

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

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

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

1. Fixed income instruments - These may be classified into short-term and long-term instruments. The instrument is short-term if the term to maturity is 365 days or less. This category includes:

   a. Government securities which shall not be less than 10% of the trust fund amount;

   b. Savings/time deposits and unit investment trust funds maintained with and managed by a duly authorized bank with satisfactory examination rating as of the last examination by the Bangko Sentral ng Pilipinas (BSP);

   c. Commercial papers duly registered with the SEC with a credit rating of "1" for short term and "AAA" for long term based on the rating scale of an accredited Philippine Rating Agency or its equivalent at the time of investment, provided that, the maximum exposure to long-term commercial papers shall not exceed 15% of the total trust fund amount while the exposure to each commercial paper issuer shall not exceed 10% of the allocated amount; and

   d. Direct loans to corporations which are financially stable, profitable for the last three (3) years and have a good track record of paying their previous loans.

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

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

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

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

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

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

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

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

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

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

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

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

12. COMPUTER SOFTWARE - net

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

	Note	2019	2018
Cost			
Balance, January 1		**P16,811,319**	P16,811,319
Additions		**-**	-
Balance, December 31		**16,811,319**	16,811,319
Accumulated Amortization			
Balance January 1		**11,674,527**	6,070,754
Amortization	26	**5,136,792**	5,603,773
Balance, December 31		**16,811,319**	11,674,527
Carrying Amount, December 31		**P -**	P 5,136,792

As at December 31, 2019, the computer software is fully amortized.

13. BENEFITS PAYABLE AND ACCRUED EXPENSES AND OTHER LIABILITIES

Benefits Payable

Benefits payable amounting to P118,534,046 and P101,239,420 as at December 31, 2019 and 2018, respectively, represents amounts due to planholders and beneficiaries, in the course of settlement, and incurred but unpaid claims on the pre-need contracts, such as due but unpaid matured benefits, surrender benefits and annuity payments.

Accrued Expenses and Other Liabilities

	2019	2018
Payable to agents	**P2,401,104**	P2,600,670
Accrued general expenses	**405,326**	1,600,414
Accrued final taxes	**640,172**	668,551
Output value added tax (VAT) – net	**-**	99,314
Withholding taxes	**52,702**	46,802
Other liabilities	**2,203,180**	4,514,232
	P5,702,484	P9,529,983

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

Details of accrued general expenses are as follows:

	2019	2018
Professional fees	**P405,326**	P1,548,738
Agency related fees	-	51,676
	P405,326	P1,600,414

Details of other liabilities are as follows:

	2019	2018
Trustee fees	**P 889,241**	P 889,241
Bank credits	**1,313,939**	3,624,991
	P2,203,180	P4,514,232

As at December 31, 2018, output VAT is net of input VAT of P238,947.

14. COUNSELORS' BOND RESERVE

Counselors' bond reserve amounting to P6,978,265 and P6,983,205 as at December 31, 2019 and 2018, respectively, represents the aggregate amount of deductions from agents' commissions, bonuses and other cash incentives. Upon separation of an agent from the Company, the agent's accountability will be deducted from the accumulated bond reserve upon securing of approved and updated clearance from the Licensing section.

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

15. RELATED PARTY TRANSACTIONS

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

Category	Amounts	Outstanding Balance		Terms	Conditions	Notes
		Receivable	Payable			
2019						
Parent Company						
Chargeback	**P22,368,322**	**P -**	**P -**	30-day: non-interest bearing, settled in cash	Unsecured	a
Premiums	**439,627**	**-**	**3,397,171**	30-day: non-interest bearing,settled in cash	Unsecured	b
2018						
Parent company						
Chargeback	P23,479,647	P -	P -	30-day: non-interest bearing settled in cash	Unsecured	a
Premiums	626,468	-	3,726,321	30-day: non-interest bearing settled in cash	Unsecured	b

a. The Company has transactions with SLOCPI which consist mainly of intercompany billings to cover shared costs and operating expenses such as systems, operations, human resources, legal and internal audit functions and others, which are being settled in cash on or before the 30th day of each month.

b. Other pre-need plans (educational and pension plans) have embedded credit life and credit disability benefits which are insured by SLOCPI. Outstanding balances are included as part of payable to parent company.

The remuneration of key management personnel is provided by SLOCPI.

16. PRE-NEED RESERVES (PNR)

Movements in the Company's PNR are as follows:

	Note	2019	2018
PNR, Beginning		**P5,639,981,406**	P6,467,317,386
Trust fund contributions	24	**79,363,276**	78,514,031
Decrease in PNR	24	**(112,602,908)**	(905,850,011)
		(33,239,632)	(827,335,980)
PNR, Ending		**P5,606,741,774**	P5,639,981,406

In its CL No. 23-2012, Valuation of Transitory Pre-Need Reserve (TPNR,) dated November 28, 2012, the IC required the use of the lower of attainable rates and 6%, but provides for TPNR which allows the staggered recognition of the excess of PNR over the amount of the trust funds over ten (10) years. The Company has PNR deficiency in accordance with the CL as at December 31, 2019 and 2018 amounting to P34,149,348 and P203,832,082, respectively, as disclosed in Note 11.

In 2019 and 2018, the Company applied the lower of the attainable rates and 6% and availed of the staggered recognition of the excess of PNR over trust fund assets. In 2019, the Company used interest rate assumptions determined and provided by the Company's trustee bank of 5.6% for Sun Education (Non-Par), 5.5% for Sun Pension (Non-Par), 5.7% for Sun Education Plus (Par) and 6.6% for Sun Pension Plus (Par). In 2018, the interest rates were set at 6.05% for Sun Education (Non-Par), 5.52% for Sun Pension (Non-Par), 6.00% for Sun Education Plus (Par) and 6.59% for Sun Pension Plus (Par).

Details of PNR per product type are as follows:

	Note	**2019**	2018
Education		**P2,163,133,445**	P2,107,449,391
Pension		**3,443,608,329**	3,532,532,015
	11	**P5,606,741,774**	P5,639,981,406

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

	PNR*	**ARL**
2019		
Currently-being-paid education and pension plans	**P 619,117,339**	**P 484,000,381**
Lapsed plan within allowable reinstatement period	**6,533,873**	**16,675,814**
Fully paid education and pension plans	**5,049,389,258**	**4,809,064,400**
	P5,675,040,470	**P5,309,740,595**
2018		
Currently-being-paid education and pension plans	P 596,354,036	P 498,741,246
Lapsed plan within allowable reinstatement period	6,562,420	17,246,955
Fully paid education and pension plans	5,648,561,195	5,457,587,871
	P6,251,477,651	P5,973,576,072

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

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

a. Currently-Being-Paid Education and Pension Plans

   1. Provision for termination values was determined by applying the surrender rate experience of the Company.

   2. Liability was set-up for the portion of currently-being-paid plans that will reach full payment, applying the full payment experience of the Company. It is equivalent to the present value of future maturity benefits reduced by the present value of future trust fund contributions required per Product Model discounted using the appropriate discount rate.

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

Type of Pre-need Product	PNR	ARL
December 31, 2019		
Education non-par	**P 6,979,668**	**P 6,471,160**
Education par	**13,488,629**	**12,928,486**
Pension non-par	**574,977,486**	**440,916,924**
Pension par	**23,671,556**	**23,683,811**
	P619,117,339	**P484,000,381**
December 31, 2018		
Education non-par	P 13,959,179	P 13,370,462
Education par	44,370,067	44,335,202
Pension non-par	509,400,967	412,394,348
Pension par	28,623,823	28,641,234
	P596,354,036	P498,741,246

b. Lapsed Plan within Allowable Reinstatement Period

The provision for termination values was determined by applying the reinstatement experience of the Company. The Company used reinstatement factor of 60% in 2019 and 2018. Based on the 3-year Company reinstatement experience, the percentage of lapsed plans during previous year which were reinstated within the current year is around 49.2% and 51.7% in 2019 and 2018, respectively.

Type of Pre-need Product	PNR	ARL
December 31, 2019		
Education non-par	**P 333,322**	**P 848,996**
Education par	**510,422**	**1,405,187**
Pension non-par	**3,706,922**	**10,054,113**
Pension par	**1,983,207**	**4,367,518**
	P6,533,873	**P16,675,814**
December 31, 2018		
Education non-par	P1,386,166	P 3,494,130
Education par	1,317,151	3,303,230
Pension non-par	2,832,955	8,224,777
Pension par	1,026,148	2,224,818
	P6,562,420	P17,246,955

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

c. Fully Paid Education and Pension Plans

Type of Pre-need Product	PNR	ARL
December 31, 2019		
Education non-par	**P1,466,965,027**	**P1,403,429,399**
Education par	**718,007,662**	**700,126,698**
Pension non-par	**2,380,806,620**	**2,221,898,354**
Pension par	**483,609,949**	**483,609,949**
	P5,049,389,258	**P4,809,064,400**
December 31, 2018		
Education non-par	P1,562,841,672	P1,521,709,340
Education par	693,774,331	693,774,331
Pension non-par	2,888,964,983	2,739,123,991
Pension par	502,980,209	502,980,209
	P5,648,561,195	P5,457,587,871

The actual trust fund contributions per books amounting to P79,363,276 and P78,514,031 in 2019 and 2018, respectively, are less than the P283,594,066 and P168,103,236 total contributions per bank, as disclosed in Note 11, due to additional deposits made in 2019 and 2018 to fund the PNR computed on a monthly valuation basis done by the Company. Reconciliation is as follows:

	Note	2019	2018
Trust Fund Contributions Per Books		**P 79,363,276**	P 78,514,031
Adjustments		**37,866**	-
Trust fund contributions in December 2017, deposited on January 3, 2018		-	4,826,303
Trust fund contributions in December 2018, deposited on January 2, 2019		**3,937,098**	(3,937,098)
Trust fund contributions in December 2019, deposited on January 22, 2020		**(3,744,174)**	-
Additional deposit to education in February 2018		-	53,200,000
Additional deposit to pension in February 2018		-	35,500,000
Additional deposit to education in February 2019		**70,000,000**	-
Additional deposit to pension in February 2019		**134,000,000**	-
Trust Fund Contributions Per Bank	11	**P283,594,066**	P168,103,236

17. OTHER RESERVES

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

	Note	2019	2018
Other reserves, beginning		**P 333,594,666**	P 23,713,066
Increase (decrease) in other reserves	24	**(333,594,666)**	309,881,600
Other reserves, ending		**P -**	P333,594,666

As a prudent measure, the Company, at its option, shall set-up other reserves in accordance with PAS 37 to cover its contractual obligations based on the amended PNUCA. Other reserves is the excess of ARL over the PNR. In 2019 and 2018, other reserves is recognized amounting nil and P333,594,666 respectively since ARL is higher than PNR as shown in Note 16.

18. PLANHOLDERS' DEPOSITS

Planholders' deposits amounting to P29,875,807 and P29,197,250 as at December 31, 2019 and 2018, respectively, represents amounts received from the planholders for excess fractional payments of a regular installment, and payments received with application for the reinstatement of lapsed plans within two (2) years from the date of lapse, pending the approval of the Company.

19. SHARE CAPITAL

The details of the share capital as at December 31, 2019 and 2018 are as follows:

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

There were no movements in the share capital of the Company in 2019 and 2018.

Ordinary shares carry one vote per share and carry a right to dividends. The holders of preference shares have carry one vote per share. The preferred shares may be redeemed at the option of the Company, subject to the approval of the Board of Directors (BOD) of the Company.

20. ADDITIONAL PAID-IN CAPITAL

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

21. CONTRIBUTED SURPLUS

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

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

22. INVESTMENT REVALUATION RESERVES

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

	Notes	2019	2018
Balance, beginning		**P 21,886,802**	P 685,676,717
Net gains (losses) on fair value measurement			
Financial assets at FVTOCI	10	**53,381,372**	34,701,682
Investments in trust funds	11	**290,301,830**	(344,883,925)
Reclassification adjustments relating to disposed financial assets during the year - Investments in trust funds	11	**320,155,839**	(353,607,673)
		663,839,041	(663,789,915)
Balance, ending		**P685,725,843**	P 21,886,802

The summary of investment revaluation reserves is as follows:

	Notes	2019	2018
FVTOCI/Available-for-sale financial assets	10	**P 928,823**	(P52,452,550)
Trust funds	11	**684,797,020**	74,339,352
		P685,725,843	P21,886,802

23. PREMIUM REVENUE

Premium revenue amounting to P105,206,379 and P108,633,659 in 2019 and 2018, respectively, pertains to amount collected during the year from the remaining contracts of planholders.

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

24. DECREASE IN PRE-NEED RESERVES - net

The account comprises of:

	Notes	2019	2018
Trust fund contribution	16	**P79,363,276**	P 78,514,031
Increase (Decrease) in other reserves	17	**(333,594,666)**	309,881,600
Decrease in PNR	16	**(112,602,908)**	(905,850,011)
		(366,834,298)	(517,454,380)
Documentary stamp taxes and SEC registration fees		**219,419**	187,034
		(P366,614,879)	(P517,267,346)

25. OTHER DIRECT COSTS AND EXPENSES

The Company's direct costs and expenses consist of:

	2019	2018
Planholders' benefits	**P1,061,219,449**	P1,040,910,568
Agents' bonuses	**2,146,501**	2,475,863
Basic commissions	**2,108,715**	4,213,765
Marketing and sales	**4,915**	28,223
	P1,065,479,580	P1,047,628,419

Planholders' benefits pertain to benefits of planholders and their beneficiaries, paid and accrued upon plan maturity. The total number of plans that matured in 2019 and 2018 was 1,964 and 2,158, respectively.

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

26. GENERAL AND ADMINISTRATIVE EXPENSES

Details of general and administrative expenses are as follows:

	Notes	2019	2018
Expense chargeback	15	**P22,368,322**	P23,479,647
Amortization of computer software	12	**5,136,792**	5,603,773
Taxes and licenses		**1,144,096**	1,123,390
Provision for non-recoverable prepaid taxes	9	**969,200**	959,937
Plan insurance	15	**439,627**	626,468
Bank charges		**212,867**	249,665
Professional fees		**110,285**	1,866,716
Repairs and maintenance		**-**	164,823
Miscellaneous		**23,153**	9,436
		P30,404,342	P34,083,855

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

27. INVESTMENT INCOME

The Company's investment income consists of:

	Notes	2019	2018
Interest from:			
Government securities	10	**P15,993,845**	P14,521,953
Cash in banks and cash equivalents	7	**9,411,615**	5,710,551
		P25,405,460	P20,232,504

28. OTHER INCOME

The Company's other income consists of:

	2019	2018
Handling fees	**P1,251,869**	P1,430,605
Interest on lapsed plan	**314,374**	360,577
Miscellaneous	**502,810**	-
	P2,069,053	P1,791,182

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

Miscellaneous income pertains to the effect of the reconciling items such as banking suspense accounts and stale checks.

29. INCOME TAXES

The provision for income tax of P5,213,897 and P4,473,624 represents the final tax on interest income in 2019 and 2018, respectively.

A reconciliation between income tax expense and the product of accounting loss in 2019 and in 2018 multiplied by 30% is as follows:

	2019	2018
Accounting loss	**(P315,428,963)**	(P165,508,026)
Tax benefit at 30%	**(P 94,628,689)**	(P 49,652,408)
Adjustment for income subject to lower income tax rate	**(1,950,187)**	(1,612,768)
Tax effects of:		
Trust fund income – net	**(84,347,756)**	(80,483,867)
Unrecognized NOLCO	**186,357,406**	135,896,667
Non-deductible expenses	**240,676**	309,359
Non-deductible loss (non-taxable gain) from change in fair value of FVTPL financial assets	**(457,553)**	16,641
Provision for income tax	**P 5,213,897**	P 4,473,624

Details of the Company's NOLCO are as follows:

Year of Incurrence	Year of Expiry	2018 Balance	Additions	Expired	**2019 Balance**
2016	2019	P 563,428,502	P -	(P563,428,502)	**P -**
2017	2020	364,088,817	-	-	**364,088,817**
2018	2021	452,988,890	-	-	**452,988,890**
2019	2022		621,191,358	-	**621,191,358**
		P1,380,506,209	P621,191,358	(P563,428,502)	**P1,438,269,065**

The Company did not recognize the deferred tax asset on NOLCO amounting to P431,480,720, and P414,151,863 as at December 31, 2019 and 2018, respectively, because Management believes it is more likely that the Company will not be able to realize the tax benefit arising from NOLCO.

In addition, the Company does not have a deferred tax liability as at December 31, 2019 and 2018.

30. CONTINGENCIES

In the normal course of the Company's operations, there are various outstanding contingent liabilities such as pending legal cases which are not reflected in the Company's financial statements as at December 31, 2019 and 2018. The Company recognizes in its books any losses and liabilities incurred in the course of its operations as they become determinable and quantifiable. In the opinion of the Management and its legal and tax counsels, the Company is not liable to and has strong position on the pending legal cases, but which if decided adversely, will not have a material effect on the Company's financial position and results of operations.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Assets and liabilities measured at fair value on a recurring basis.

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

	Fair value hierarchy 2019	2018	
Financial assets at:			
General Fund			
Fair value through profit or loss	**P 15,099,104**	P 13,573,927	Level 1
Fair value through other comprehensive income	**272,502,360**	221,309,820	
Trust Fund			
Fair value through profit or loss	**285,715,931**	273,510,311	
Fair value through other comprehensive income	**4,758,818,342**	4,575,624,672	Level 1
	P5,332,135,737	P5,084,018,730	

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

The fair values of fixed-income securities classified under Level 1 are based on quoted prices of either done deals or bid rates.

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

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

The Company has no Level 2 and 3 financial instruments.

Management believes that these reclassifications and transfers were appropriate.

Assets and Liabilities not Measured at Fair Value

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

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
General Fund				
Cash and cash equivalents	P 406,073,436	P 406,073,436	P 511,522,549	P 511,522,549
Receivables	33,762,517	33,762,517	34,472,378	34,472,378
	439,835,953	439,835,953	545,994,927	545,994,927
Trust Funds				
Cash and cash equivalents	71,883,819	71,883,819	203,470,352	203,470,352
Financial assets at amortized cost	396,754,932	396,754,932	401,797,962	430,457,853
Interest receivable	75,633,769	75,633,769	85,502,924	85,502,924
Other assets	471,376	471,376	371,713	371,713
	544,743,896	544,743,896	691,142,952	719,802,843
	P 984,579,849	P 984,579,849	P 1,237,137,879	P 719,802,843
Financial Liabilities				
General Fund				
Accrued expenses and other liabilities	P 5,009,610	P 5,009,610	P 8,715,316	P 8,715,316
Benefits payable	118,534,046	118,534,046	101,239,420	101,239,420
Counselors' bond reserve	6,978,265	6,978,265	6,983,205	6,983,205
Payable to parent company	3,397,171	3,397,171	3,726,321	3,726,321
Planholder's deposit	29,875,807	29,875,807	29,197,250	29,197,250
	163,794,899	163,794,899	149,861,512	149,861,512
Trust Funds				
Accrued expenses and other liabilities	1,445,995	1,445,995	1,405,103	1,405,103
	P165,240,894	P165,240,894	P151,266,615	P151,266,615

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

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

32. RISK MANAGEMENT

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

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

Risk Framework

The risk management program is designed to:

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

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

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

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

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

Key Risk Processes

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

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

Risk Measurement

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

Risk Categories

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

Market risk

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

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

a. *Interest rate risk*

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

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

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

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

   A 100 basis points increase in the yield rate will result to a decrease in equity of P274 million in 2019 and P257 million in 2018.

   A 100 basis points decrease in the yield rate will result to an increase in equity of P296 million in 2019 and P278 million in 2018.

The sensitivity analysis is unrepresentative of the inherent interest rate risk because the exposure at the end of the reporting period does not reflect the exposure during the year.

b. *Equity price risk*

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

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

If equity prices have been 10% higher or lower, equity reserves would have increased or decreased by P29 million in 2019 and P27 million in 2018, as a result of the changes in fair value of equity investment.

The sensitivity analysis is unrepresentative of the inherent equity price risk because the exposure at the end of the reporting period does not reflect the exposure during the year.

c. *Credit risk*

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

The table below summarizes the Company's financial assets as at December 31, 2019 and 2018 with a maximum exposure equal to carrying amounts of the financial assets.

	Notes	2019	2018
General Fund			
Cash in banks and cash equivalents	7	**P 406,073,436**	P 511,522,549
Financial asset at FVTOCI	10	**272,502,360**	221,309,820
Receivables	8	**33,762,517**	34,472,378
		712,338,313	767,304,747
Trust Funds			
Cash in bank and cash equivalents	11	**71,883,819**	203,470,352
Financial asset at amortized cost		**396,754,932**	401,797,962
Financial assets at FVTOCI		**4,758,818,342**	4,575,624,672
Interest receivable	11	**75,633,769**	85,502,924
Other assets		**471,376**	371,713
		5,303,562,238	5,266,767,623
		P6,015,900,551	P6,034,072,370

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

	Carrying Amount	Summary Rating	Internal Credit Rating	External Credit Rating	12m or Lifetime ECL
December 31, 2019					
General Fund					
Cash in banks and cash equivalents	P 406,073,436	High	N/A	AAA	Lifetime ECL (simplified approach)
Financial asset at FVTOCI	272,502,360	High	AAA	AAA	12m ECL
Receivables	33,762,517	High	N/A	AAA	Lifetime ECL (simplified approach)
	712,338,313				
Trust Funds					
Cash and cash equivalents	71,883,819	High	N/A	AAA	Lifetime ECL (simplified approach)
Financial assets at amortized cost	396,754,932	High	AAA	AAA	12m ECL
Financial assets at FVTOCI	4,758,818,342	High	AAA	AAA	12m ECL
Interest receivable	75,633,769	High	N/A	AAA	12m ECL
Other assets	471,376	High	N/A	AAA	Lifetime ECL (simplified approach)
	5,303,562,238				
	P6,015,900,551				

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

In 2019, the Company uses internal ratings to determine the credit quality of its financial assets. These have been mapped to the summary rating below:

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

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

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

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

In 2019, the table below summarizes the current internal credit rating equivalence system of the Company:

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

Expected credit loss measurement

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

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

As at December 31, 2019, the Company's financial assets are categorized at Stage 1. There are no significant increase in credit risk

Default and events constituting default are disclosed in Note 3.

<u>Measuring ECL – Explanation of inputs, assumptions and estimation techniques</u>

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

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

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

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

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

Forward-looking information incorporated in the ECL models

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

d. Liquidity risk

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

The Company maintains adequate highly liquid assets in the form of cash and cash equivalents amounting to P406,073,436 and P511,522,549 as at December 31, 2019 and 2018, respectively as shown in Note 7. These financial assets have maturities of less than three months to assure necessary liquidity.

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

	Notes	Within One Year	Beyond One Year	Total
December 31, 2019				
General Fund				
Accrued expenses and other liabilities	13	P 5,009,610	P -	P 5,009,610
Benefits payable	13	118,534,046	-	118,534,046
Counselors' bond reserve	14	6,978,265	-	6,978,265
Payable to parent company	15	3,397,171	-	3,397,171
Planholders' deposits	18	-	29,875,807	29,875,807
		133,919,092	29,875,807	163,794,899
Trust Fund				
Accrued expenses and other liabilities	11	1,445,995	-	1,445,995
		P135,365,087	P29,875,807	P165,240,894
December 31, 2018				
General Fund				
Accrued expenses and other liabilities	13	P 8,715,316	P -	P 8,715,316
Benefits payable	13	101,239,420	-	101,239,420
Counselors' bond reserve	14	6,983,205	-	6,983,205
Payable to parent company	15	3,726,321	-	3,726,321
Planholders' deposits	18		29,197,250	29,197,250
		120,664,262	29,197,250	149,861,512
Trust Fund				
Accrued expenses and other liabilities	11	1,405,103	-	1,405,103
		P122,069,365	P29,197,250	P151,266,615

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

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

Product Type	Less than One Month	One to Three Months	Four Months to One Year	Two to Five Years	Above Five Years	Total
December 31, 2019						
Banco De Oro Educ Non Par	P 3,700,400	P 47,927,678	P139,082,493	P 488,099,433	P 756,023,760	P1,434,833,764
Banco De Oro-Pension Non Par	20,140,000	47,585,620	92,192,620	1,070,063,195	2,189,757,901	3,419,739,336
Banco De Oro Educ Par	2,355,590	27,538,553	44,371,156	312,367,981	368,017,345	754,650,625
Banco De Oro-Pension Par	3,506,972	9,810,690	33,974,778	372,292,561	453,110,282	872,695,283
	P29,702,962	P132,862,541	P309,621,047	P2,242,823,170	P3,766,909,288	P6,481,919,008
December 31, 2018						
Banco De Oro Educ Non Par	P 26,495,706	P198,950,178	P 49,747,993	P 500,191,650	P 910,338,613	P1,685,724,139
Banco De Oro-Pension Non Par	146,781,000	52,000,312	98,210,312	1,135,525,322	2,626,837,140	4,059,354,085
Banco De Oro Educ Par	23,449,580	27,995,737	25,039,339	324,724,754	403,724,147	804,933,557
Banco De Oro-Pension Par	6,744,067	10,623,190	33,387,278	369,078,516	542,570,580	962,403,631
	P203,470,352	P289,569,416	P206,384,921	P2,329,520,243	P4,483,470,480	P7,512,415,412

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

a. *Product design and pricing risk*

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

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

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

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

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

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

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

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

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

c. *Operational risk*

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

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

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

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

Regulatory Compliance Management

The Compliance Risk Management Framework of Sun Life Financial sets out the framework for the management and mitigation of Compliance Risk that enables the Company to achieve key objectives and make better business decisions, while meeting regulatory and client expectations. Compliance Risk arises from potential non-conformance with laws, rules, regulations, prescribed practices or ethical standards on anti-money laundering and anti-terrorist financing, market conduct, privacy, prevention of bribery and corruption, and related party transactions.

In line with this framework, the Company adopted various Operating Guidelines ("Guidelines"), with the objective establishing a strong, sustainable compliance risk management program that conforms to regulatory and industry standards, and provides reasonable assurance that the following outcomes are achieved:

a) the identification, assessment, communication and maintenance of applicable Compliance requirements;

b) the development, communication and maintenance of a system of key controls designed to effect compliance with applicable compliance requirements and to manage and mitigate Compliance Risk;

c) effective monitoring and oversight of management's day-to-day activities through which material compliance matters are identified, escalated and resolved; and

d) timely reporting to the Audit and Compliance Committee, the Board and Management on the overall effectiveness of the Guidelines and the state of compliance in the Company.

The Board provides the highest level of independent oversight of the management and operations of the Company. The Board is also responsible for approving regulatory compliance Guidelines, and ensuring that the same are reviewed and assessed on its effectiveness.

Management is the first line of defense and is responsible for day-to-day compliance with the Guidelines. It is accountable for identifying and assessing Compliance Risks, specifically incorporating consideration of Compliance Risks in business activities and decisions, and managing compliance risks in day-to-day activities.

The Chief Compliance Officer and Compliance staff are the second line of defense. The Chief Compliance Officer has oversight responsibility for the Guidelines and the Code of Business Conduct. She promotes a tone from the top and an atmosphere that fosters high ethical standards and conduct, and an appropriate risk culture.

Sensitivity of PNR and ARL

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

Interest rates

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

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

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

Lapsed and surrender rates

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

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

A liability sensitivity analysis was performed on the two most significant valuation assumptions, which is lapse and surrender rates and interest rates. The PNR in this analysis is the liability before applying the staggered recognition of the TPNR liability in accordance with IC CL No. 23-2012. A 20% decrease in lapse and surrender rates, and 100 basis points drop in the interest rate would require an additional provision of P384 million and P323 million for PNR and ARL, respectively, in 2019 and P408 million and P355 million for PNR and ARL, respectively, in 2018.

33. CAPITAL RISK MANAGEMENT

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

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

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

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

Capital structure

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

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

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

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

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

The Company's net equity of P544 million and P201 million as at December 31, 2019 and 2018, respectively, and the Company's share capital of P125 million as at December 31, 2019 and 2018 are higher than the minimum capital requirement of P75 million. As disclosed in Note 20, the Company obtained SEC approval on December 3, 2010 to reduce the Company's share capital from P700 million to P125 million.

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

The equity ratio in 2019 and 2018 are as follows:

	2019	2018
Equity	**P544,118,522**	P 200,922,341
Total assets	**6,315,348,069**	6,325,174,592
Equity ratio	**0.08:1**	0.03:1

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

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

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

Output VAT

Details of the Company's output VAT declared in 2019 is as follows:

	Vatable	Zero-rated	Total
Revenue	P28,713,435	P -	P28,713,435
Output VAT	3,445,612		3,445,612

Input VAT

Details of the Company's input VAT claimed in 2019 are as follows:

Balance, January 1	P -
Add: Current year's domestic purchases/payments for Services lodged under cost of services	3,210,413
	3,210,413
Less: Claims for Input VAT	(3,210,413)
Balance, December 31	P -

Other taxes and licenses

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

Charged to General and Administrative Expenses	
Local business taxes	P 929,832
Supervision fee	101,000
Permits and licenses	51,520
Registration and filing fees	48,750
Residence or community tax	10,500
Others	2,494
	P1,144,096

Withholding taxes

Details of the Company's withholding taxes paid or accrued during 2019 are as follows:

Expanded withholding taxes	P894,359

Documentary stamp tax

Details of the Company's payment of documentary stamp taxes per plan type in 2019 are as follows:

Pension non-par	P202,155
Pension par	5,240
Educational par	9,435
Educational non-par	2,589
	P219,419

35. APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the Company have been approved and authorized for issuance by the Board of Directors on March 3, 2020.

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