



INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
ST. PETER LIFE PLAN, INC.
 St. Peter Corporate Center
 999 EDSA Quezon City 1101 Philippines

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of **ST. PETER LIFE PLAN, INC.** ("the Company"), which comprise the Statements of Financial Position as of December 31, 2018 and 2017, and the Statements of Income, Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the years then ended, and Notes to Financial Statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of **ST. PETER LIFE PLAN, INC.**, as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

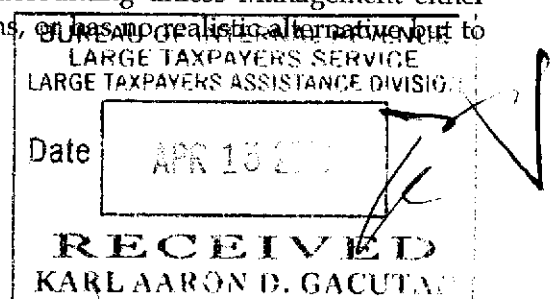
Basis of Opinion

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Philippines for pre-need companies as described in Note 2 to the financial statements, and such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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



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

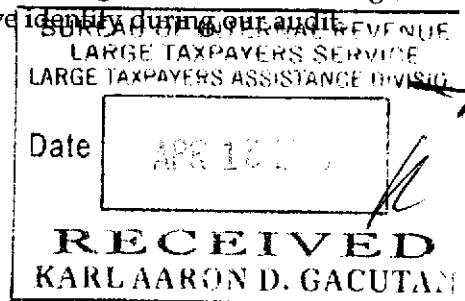
Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

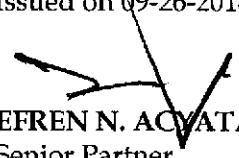
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Report on Other Legal and Regulatory Requirements

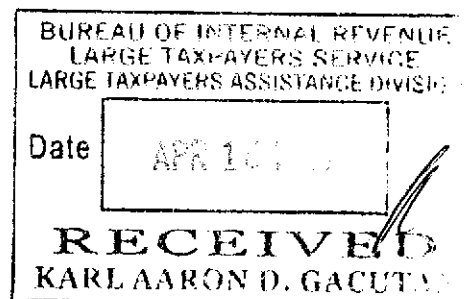
Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2018 as disclosed in Note 34 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue 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.

ACYATAN & CO., CPAs
BOA/PRC Accreditation No. 0141
Issued on 03-08-2017 Expiring on 03-22-2020
IC Accreditation No. F-2017-016-R
Issued on 12-21-2017; Expiring 12-20-2020
SEC Accreditation No. 0315-FR-1 (Group C)
Issued on 09-26-2018 Expiring on 09-25-2021


EFREN N. ACYATAN
Senior Partner
CPA Certificate No. 074169
IC Accreditation No. SP-2017-038-R
Issued on 12-20-2017 Expiring 12-20-2020
SEC Accreditation No. 1516-AR-1 (Group C)
Issued on 09-26-2018 Expiring on 09-25-2021
TIN 101-085-150
BIR A.N. 07-001960-003-2018
Issued on 12-20-2018 Expiring 12-19-2021
PTR No. 3809570
Issued on 1-03-2019 at Mandaluyong City

April 2, 2019
Mandaluyong City-Philippines

OUR SEAL





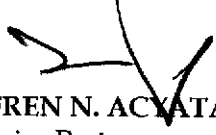
INDEPENDENT AUDITORS' REPORT
(In compliance with SRC Rule 68)

The Board of Directors and Stockholders
ST. PETER LIFE PLAN, INC.
 St. Peter Corporate Center
 999 EDSA Quezon City 1101 Philippines

We have audited the accompanying financial statements of **ST. PETER LIFE PLAN, INC.**, for the calendar year ended December 31, 2018, on which we have rendered the attached report dated April 2, 2019.

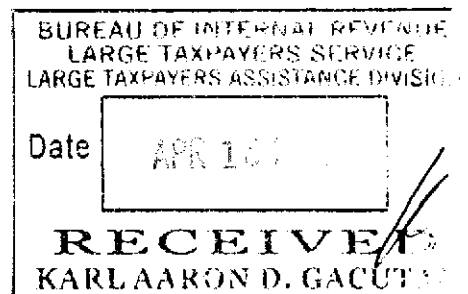
In compliance with Securities Regulation Code Rule 68, we are stating that the Company has nine (9) stockholders owning one hundred (100) or more shares each of the Company's capital stock as of December 31, 2018, as disclosed in Note 18 to the financial statements.

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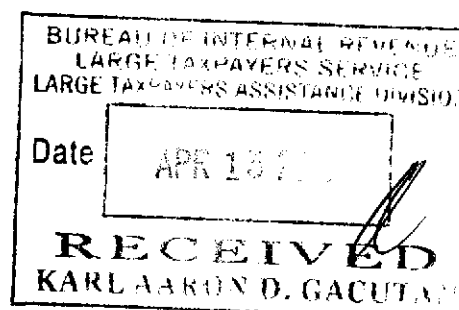
OUR SEAL



ST. PETER LIFE PLAN, INC.
STATEMENTS OF INCOME
For the Years Ended December 31, 2018 and 2017

<i>(In Philippine Pesos)</i>	<i>Notes</i>	2018	2017
INCOME			
Premium Revenue	19	17,577,233,692	15,570,896,818
Trust Fund Income	20	1,123,247,619	1,324,365,966
Investment Income	21	135,904,677	213,527,835
Other Income	22	983,691,975	822,011,024
Total Income		19,820,077,963	17,930,801,643
COSTS AND EXPENSES			
Cost of Contracts Issued			
Increase / (Decrease) in Pre-Need Reserve			
Including Trust Fund Contributions	15	9,593,989,681	8,690,051,822
Increase / (Decrease) in Other Reserves	16	228,431,042	165,841,650
Registration Fees and Documentary Stamp Tax	34	74,216,321	62,396,651
Other Direct Costs and Expenses	24	6,795,633,540	5,997,602,831
General and Administrative Expenses	25	1,050,979,493	887,183,845
Total Costs and Expenses		17,743,250,077	15,803,076,799
INCOME BEFORE INCOME TAX		2,076,827,886	2,127,724,844
INCOME TAX EXPENSE	26	317,432,705	270,252,895
NET INCOME		1,759,395,181	1,857,471,949

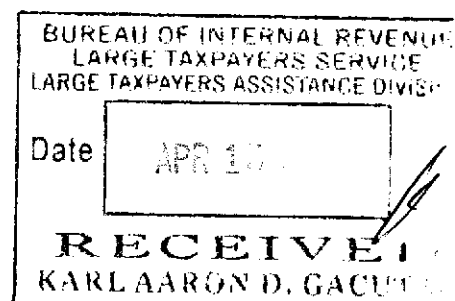
(See Accompanying Notes to Financial Statements)



ST. PETER LIFE PLAN, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

<i>(In Philippine Pesos)</i>	<i>Notes</i>	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before Income Tax		2,076,827,886	2,127,724,844
Adjustments for:			
Increase/Decrease in Pre-need Reserves including			
Trust Fund Contributions	15	7,952,993,609	7,374,796,752
Increase in Other Reserves	16	228,431,042	165,841,650
Investment Income	21	(135,904,677)	(213,527,835)
Depreciation and Amortization	10	59,876,857	35,691,154
Trust Fund Income	20	(1,123,247,619)	(1,324,365,966)
Fair Value Gains		(10,993,000)	-
Dividends Paid		(544,000,000)	(680,000,000)
Operating Income before Working Capital Changes		8,503,984,098	7,486,160,599
Decrease (Increase) in:			
Other Current Assets	8	(5,871,910)	3,665,643
Other Non-Current Assets	13	(41,138,907)	(16,303,163)
Increase (Decrease) in:			
Accrued Expenses and Other Liabilities	14	(11,097,346)	22,575,586
Other Non-Current Liabilities	17	39,988,721	27,299,837
Net Cash Provided by Operating Activities		8,485,864,656	7,523,398,502
Income Tax Paid		(353,412,448)	(252,283,065)
Net Cash Provided by Operating Activities		8,132,452,208	7,271,115,437
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Income Received	21	135,904,677	213,527,835
Decrease (Increase) in Financial Assets	7	205,272,557	(13,218,732)
Increase in Other Reserves Fund	11	(248,814,641)	(175,823,826)
Proceeds from Withdrawal of Investment in Trust Funds	9	1,640,996,072	1,315,255,069
Contributions to Trust Fund	9	(9,211,450,505)	(8,234,382,664)
Investment in Subsidiary		(218,741,000)	
Acquisitions of Property and Equipment	10	(107,292,212)	(221,748,181)
Net Cash Used in Investing Activities		(7,804,125,051)	(7,116,390,499)
NET INCREASE IN CASH and CASH EQUIVALENTS		328,327,157	154,724,938
CASH and CASH EQUIVALENTS AT BEGINNING OF YEAR		1,083,833,673	929,108,735
CASH and CASH EQUIVALENTS AT END OF YEAR	6	1,412,160,830	1,083,833,673

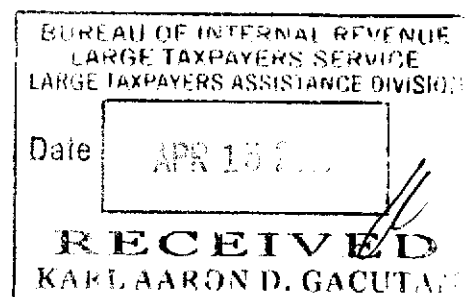
(See Accompanying Notes to Financial Statements)



ST. PETER LIFE PLAN, INC.
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2018 and 2017

<i>(In Philippine Pesos)</i>	<i>Notes</i>	2018	2017
NET INCOME		1,759,395,181	1,857,471,949
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will not be reclassified into profit or loss:			
Remeasurement gain (loss) on defined benefit obligation		18,761,009	(16,165,086)
Estimated Credit (Loss) Recovery		3,055,800	-
Trading Gains (Loss) from FVOCI		(364,110)	-
Items that may be reclassified subsequently into profit or loss:			
Changes in fair value of AFS - Financial Assets	7, 11	(69,181,537)	257,216,892
Changes in fair value of AFS - Trust Funds	9	(31,993,490)	1,156,746,667
		(79,722,328)	1,397,798,473
TOTAL COMPREHENSIVE INCOME		1,679,672,853	3,255,270,422

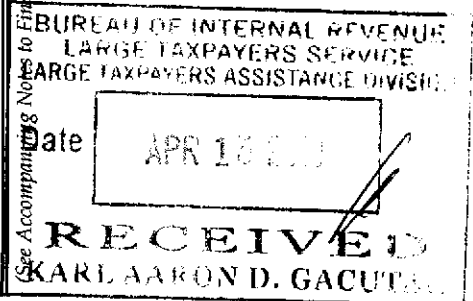
(See Accompanying Notes to Financial Statements)



ST. PETER LIFE PLAN, INC
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2018 and 2017

(In Philippine Pesos)	Capital Stock	Retained Earnings - Trust Fund	Retained Earnings	Revaluation Reserves from Financial Assets - Trust Fund	Revaluation Reserves from Financial Assets	Remeasurement Gains (Loss) on Defined Benefit Plan	Estimated Credit (Loss) Recovery	Trading Gains (Loss) on FVOCI	Total
Balance at January 1, 2017	1,360,000,000	5,707,611,759	845,269,249 (680,000,000)	(1,356,384,933)	(218,426,957)	(43,385,490)			6,294,683,628 (680,000,000)
Declared Dividends									1,413,963,559
Decrease in Unrealized Gains				1,156,746,667	257,216,892				(16,165,086)
Remeasurement Gains on Defined Benefit Plan						(16,165,086)			1,857,471,949
Net Income		1,324,365,966	533,105,983						8,869,954,050
Balance at December 31, 2017	1,360,000,000	7,031,977,725	698,375,232	(199,638,266)	38,789,935	(59,550,576)	-	-	292,217,846
Adoption Impact of PFRS 9		264,876,940	27,340,906						9,162,171,896
Balance at January 1, 2018	1,360,000,000	7,296,854,665	725,716,138 (544,000,000)	(199,638,266)	38,789,935	(59,550,576)			(544,000,000)
Declared Dividends									(101,175,027)
Increase/Decrease in Unrealized Gains				(31,993,490)	(69,181,537)				18,761,009
Remeasurement Gains on Defined Benefit Plan						18,761,009			3,055,800
Estimated Credit (Loss) Recovery							3,055,800		(364,110)
Trading Gains (Loss) on FVOCI								(364,110)	1,759,395,181
Net Income		1,123,247,619	636,147,562						10,297,844,749
Balance at December 31, 2018	1,360,000,000	8,420,102,284	817,863,700	(231,631,756)	(30,391,602)	(40,789,567)	3,055,800	(364,110)	

(See Accompanying Notes to Financial Statements)



ST. PETER LIFE PLAN, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017
(Amount in Philippine Pesos)

1. CORPORATE INFORMATION

ST. PETER LIFE PLAN, INC. (The Company) was incorporated in the Philippines on October 23, 1970 under SEC Registration No. 42542 to engage in the business of organizing, establishing, developing, conducting, maintaining, operating and selling of memorial plans and/or arrangements for funerals or memorial services and merchandise or articles of all kinds and descriptions pertinent or necessary thereto, to be delivered in the future to subscribers, purchasers, or plan holders, workers and all types of merchandise, equipment and/or services pertaining to the cemetery business, to provide funeral or memorial services or the burial, cremation and care of the remains of the departed. The Company has no ultimate parent or controlling individual.

On February 28, 2018 the Board of Directors of the Company approved the amendment of the Company's principal office address to be located at St. Peter Corporate Center 999 Edsa, Quezon City 1101 Philippines. The Company's amendment of the Articles of Incorporation was approved by the Securities and Exchange Commission (SEC) on May 28, 2018.

The new registered principal office address of the Company is at St. Peter Corporate Center, 999 EDSA Quezon City 1101 Philippines.

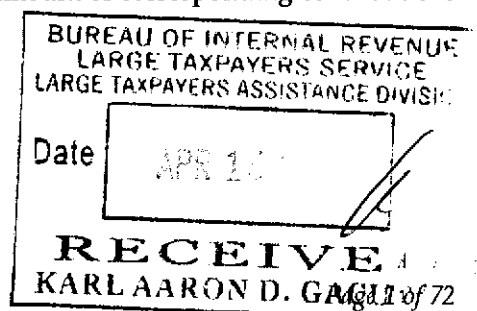
On April 2, 2019, the Board of Directors of St. Peter Life Plan, Inc. approved and authorized the issuance of these audited financial statements as of and for the year ended December 31, 2018 (including the comparatives for the year ended December 31, 2017).

2. PRE-NEED RULES

On December 3, 2009, the Republic Act (RA) No. 9829, An Act Establishing the Pre-need Code of the Philippines, was approved. It is a consolidation of Senate Bill No. 2077 and House Bill No. 6407 passed by the Senate and the House of Representatives on September 30, 2009 and September 29, 2009, respectively.

The following are the more significant provisions under RA No. 9829:

- *Authority of the Insurance Commission (IC).* All pre-need companies shall be under the primary and exclusive supervision and regulation of the IC (the Commission).
- *Paid-up capital.* A pre-need company incorporated after the effectivity of the Code shall have a minimum paid-up capital of ₱100 million. Existing pre-need companies shall comply with the following minimum unimpaired paid-up capital:
 - a. ₱100 million for companies selling at least three (3) types of plan;
 - b. ₱75 million for companies selling two (2) types of plan; and
 - c. ₱50 million for companies selling a single type of plan.
- *Trust Fund.* The trust fund shall at all times be sufficient to cover the required pre-need reserve. The RA specifies the minimum amount of corresponding contributions to the trust fund.



- *Limitations on different investments of the trust funds.* To ensure the liquidity of the trust fund to guarantee the delivery of the benefits provided for under the plan contract and obtain sufficient capital growth to meet the growing actuarial reserve liabilities, all investments of the trust fund(s) of a pre-need company shall be limited and subject to limitations specified by the RA.

Under Chapter 11, Section 47 of the Pre-need Code, the IC shall have the authority to make, amend and rescind such accounting rules and regulations applicable for pre-need companies. In the absence of new accounting rules, amendments to or rescission of the current accounting rules authorized by the IC, the Company continues to follow the amended PNUCA.

Implementing Rules and Regulations (IRR) of RA No. 9829

After the issuance of RA 9829, the Commission issued the IRR on March 8, 2010. The salient provisions of the IRR are the same with that of RA No. 9829.

Pre-Need Rule 31, as Amended: Accounting Standards for Pre-Need Plans and Pre-Need Uniform Charts of Accounts (PNUCA)

On May 10, 2007, the Pre-Need Rule 31: Accounting Standards for Pre-Need Plans and Pre-Need Uniform Charts of Accounts (PNUCA) was amended.

The following are the more significant provisions under the Amended Pre-Need Rule 31:

Trust Funds

- a. The net asset value in the trust funds shall be at least equal to the required Pre-Need Reserves (PNR) as determined by a qualified actuary using the method prescribed in this Rule.
- b. All requirements under the rules and regulations as may be promulgated by the IC on trust funds shall be complied with.
- c. The recognitions and measurement of the assets in the trust funds shall be in accordance with Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement* and PAS 40, *Investment Property* and other applicable standards, depending on the composition of the fund.
- d. The component assets and liabilities of the trust funds shall be presented separately in the notes to financial statements.

Pre-Need Reserves

- a. 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;
- b. In recognizing the PNR for life plans, the general requirements of PFRS 4, *Insurance Contracts*, on provisioning and specific methodology provided under this item shall be complied by the Company;
- c. 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 reporting date. The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision;

- d. Since the effect of 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 the different probabilities as follows:
- (i) On Currently-Being-Paid Plans
 - 1. Provision for termination values applying the surrender rate experience of the Company; and
 - 2. Liability shall be set up for the currently-being-paid plans. It shall be equivalent to the present value of future benefits reduced by the present value of future fund contributions discounted at an attainable interest rate per Product Model of the Company;
 - (ii) On Lapsed Plans within the Allowable Reinstatement Period
 - 1. Provision for lapsed plans applying the reinstatement experience of the company shall be set up;
 - (iii) Fully Paid Plans
 - 1. For fully paid plans, the reserve shall be the present value of future benefits discounted at the attainable rate, as determined and certified by the Company's actuary using industry best practices and principles which shall be indicated in such certification.
- e. Future events that may affect the foregoing amounts shall be reflected in the amount of provision for PNR where there is sufficient objective evidence that they will occur;
- f. The rates of surrender, cancellation, reinstatement, utilization and inflation, when applied, must consider the actual experience of the company in the last three (3) years, or the industry in the absence of a reliable company experience;
- g. The computation of the foregoing assumptions shall be validated by an independent 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;
- h. The probability of pre-termination or surrender of fully paid plans shall be considered in determining the PNR of fully paid plans. A pre-need 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;
- i. The disclosure requirement under PAS 1, *Presentation of Financial Statements*, relative to methods and assumptions used to estimate the PNR, including the sensitivity of the PNR amount, shall be complied with; and
- j. Any excess in the trust fund as a result of the revised reserving method shall not be released from the fund and may be credited for future deposit requirements.

Other Reserves Fund

This represents corporate assets that are allocated to cover the payment of insurance premium and expenses that the company will incur in administering the pre-need plan after payment period. This shall at least be equal to the amount computed for the Insurance Premium Reserves (IPR) under "Other Reserves" account.

Other Reserves

The Company shall set-up other provisions in accordance with PAS 37 to cover obligations such as Insurance Premium Reserve (IPR).

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

Premium Revenues

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 revenue.

Trust Fund Income

Income generated by the trust fund shall be included in the Investment in Trust Funds account under the asset section of the statement of financial position. (Note 9)

The amount of the trust fund income shall be disclosed in the notes to the financial statements. The portion of the retained earnings representing the trust fund income shall be automatically restricted to payment of benefits of plan holders and such other related payments as allowed under the Pre-Need Code and other pertinent rules.

Cost of Contracts Issued

This account pertains to:

- a. The increase in PNR for the current year as compared to the provision for the same period of the previous year. If there is a decrease in the PNR as a result of new information or new developments, the amount shall be deducted from the Cost of Contracts Issued of the current period. In case of material prior period error, the requirements of PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, shall be complied with by the pre-need company.
- b. Amount of trust funds contributed during the year;
- c. Documentary stamp tax and registration fees.

The foregoing items shall be presented separately on the face of the statement of comprehensive income.

Other Direct Costs and Expenses

This account includes the following, which shall be presented separately in the notes to the financial statements:

- a. Basic and other commission expenses;
- b. Insurance;
- c. Other expenses that constitute direct cost of contracts issued.

SEC Interpretative Bulletin No. 1 Series of 2008

On January 17, 2008, the SEC issued a bulletin to guide pre-need corporations, pre-need actuaries and pre-need external auditors on the implementation of Pre-Need Rule 31, As Amended, *Accounting Standards for Pre-Need Plans* (Pre-Need Rule 31, As Amended) and PNUCA.

The more significant provisions of this bulletin are as follows:

Pre-Need Reserves

The PNR or the reserve for education plan, life plan and pension plan, cover the liabilities for education plan, life plan and pension plan. PNR represents the present value of future pre-need benefits less the present value of future trust fund contributions. The amount indicated as PNR shall be the same as stated in the Actuarial Valuation Report and Audited Financial Statements with the required disclosures.

Other Reserves

The company is required to set up an insurance premium reserve under the account "Other Reserves." This account may also include the following items:

- 1) Paid up capital reserves;
- 2) Reserve for the difference in the PNR computation using a rate other than the SEC-approved hurdle rate and;
- 3) Other reserves as may be allowed by the Commission.

IC Circular Letter No. 23-2012

On November 23, 2012, the IC has issued Circular Letter 23-2012 relating to the Valuation of Transitory Pre-Need Reserves (TPNR). The circular states that in order to provide regulatory leeway for old basket of plans previously approved by the SEC, the valuation of PNR shall be governed by the following:

Discount interest rate for the PNR

- a. The transitory discount interest rate per year shall be used in the valuation of PNR shall not exceed the lower attainable rates as certified by the Trustee and the following rates below:

Year	Discount Interest Rate
2012-2016	8.00%
2017	7.25%
2018	6.50%
2019 and onwards	6.00%

For the year ended December 31, 2018, the Company has used the attainable rate of 6.00% in valuing its PNR (*Note 15*).

- b. Transitory Pre-Need Reserve

In effecting the transition in the valuation of reserves for old basket of plans, IC shall prescribe a TPNR with a maximum period of ten (10) years.

For each of the pre-need plan categories, the TPNR shall be computed annually on all old basket of plans outstanding at the end of each year from 2012 to 2021 using the discount interest rates provided above. If the actual trust fund balance is higher than or equal to the resulting PNR then the liability set-up shall be the PNR. However, if the resulting PNR is greater than the actual trust fund balance at the end of the year, TPNR shall be computed.

The actual trust fund balance shall be the trust fund balance at the end of the year net of any receivables by the pre-need company from the trustee for the contractual benefits outstanding as of the end of the year.

The TPNR liability shall be recognized each year. The trust fund deficiency shall be funded by the pre-need company within sixty (60) days from April 30 following the valuation date.

As of December 31, 2018, the Company's investment in trust fund is significantly higher than the PNR computed using the discount interest rates required by IC Circular Letter 23-2012.

IC Circular Letter No. 58-2018

On November 14, 2018 the IC issued Circular Letter No. 58-2018 relating to regulatory relief for the Pre-Need industry due to high volatility in the Philippine financial market. The Circular provides a regulatory relief for the Pre-need Industry to stabilize the impact of high volatility in the Philippine Financial Market. The Circular allowed the following valuation of financial assets as follows.

○ ***For the Publicly Listed Equity Securities***

➤ ***Equity securities acquired on or before 31 December 2017***

Pre-Need Companies shall have the option to use the prevailing market rate as prescribed by the PFRSs or the market value as of 31 December 2017 (the regulatory relief) in the valuation of the publicly listed equity securities.

➤ ***Equity securities acquired after 31 December 2017***

Pre-Need Companies shall have the option to use the prevailing market rate as prescribed by the PFRSs or the acquisition cost (the regulatory relief) in the valuation of the publicly listed equity securities'

Pre-Need Companies may use the market value as of 31 December 2017 and/or acquisition cost provided that the equity securities are not intended for sale in short-term.

○ ***For the Fixed Income Debt Securities***

Pre-Need Companies shall have the option to value all the fixed income debt securities at amortized cost.

○ ***For the Pre-Need Reserves***

Pre-Need Companies shall have the option to use the prevailing market rate or the discount rate for the reserves under Circular Letter No. 23-2012 in the valuation of Pre-Need Reserves.

The Circular Letter is applicable only for the 2018 Financial Reporting. The Company adopted the regulatory relief resulting to an increase in fund value of ₱1,751,843,881 for the Investment in Trust Fund, ₱236,304,410 for Financial Assets and ₱36,466,860 for Other Reserves Fund as of December 31, 2018.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Financial Statement Preparation

The Company's financial statements have been prepared in accordance with financial reporting framework in the Philippines for pre-need companies and Philippine Financial Reporting Framework as set forth in Philippine Financial Reporting Standards (PFRS) applicable for pre-need companies in the Philippines. PFRS includes all applicable PFRS, Philippine Accounting Standards (PAS) and interpretations approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC except for the accounting treatment of revenues and financial liabilities under PAS and PFRS 4 where the SEC issued a notice of the Revised PNUCA on May 10, 2007. The Company's financial statements have been prepared in accordance with accounting standards set forth in the Pre-need Rule 31, As Amended: *Accounting Standards for Pre-Need Plans and Pre-Need Uniform Chart of Accounts (PNUCA)*.

The financial statements are prepared under the historical cost convention modified for the measurement of financial assets at their Fair Value and/or Present Value as dictated by the standard. Furthermore, the Company availed the regulatory relief granted by the Insurance Commission (IC) under Circular Letter Nos. 58-2018 issued on November 14, 2018 as discussed in Note 2.

SEC Accounting Rules

The significant provisions of the rules and regulations of the revised PNUCA adopted by the Company are as follows:

- a. Presentation of Financial Statements adopting the SEC Uniform Chart of Accounts resulted to reclassification of current financial statement accounts and additional disclosures;
- b. Pre-Need Reserve Liabilities are set up for all pre-need benefits guaranteed and payable by the Company as defined in the pre-need plan contracts;
- c. Provisions for Pre-Need Reserves are set up by the Company in accordance with PFRS 4;
- d. Premium Revenue represents collections from sale of pre-need plans and presented as the major source of revenue in the statements of comprehensive income.

Functional and Presentation Currency

These financial statements are prepared in Philippine Peso, the Company's Functional Currency, and all values are rounded to the nearest peso except when otherwise indicated.

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

Adoption of New and Amended Standards

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- **Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions***, address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight. These amendments are not applicable to the Company.
- **PFRS 9, *Financial Instruments***, replaces *Philippine Accounting Standards (PAS) 39, Financial Instruments: Recognition and Measurement*, for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

PFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, the Company did not restate prior period comparative financial statements when the Company adopted the requirements of the new standard. Therefore, the comparative information for 2017 is reported under PAS 39 and is not comparable to information presented in 2018. Restatements and differences in the carrying amounts of financial instruments arising from the adoption of PFRS 9 have been recognized in the 2018 opening balances of retained earnings and OCI as if the Company had always applied PFRS 9.

The Company adopted the classification and measurement, impairment and hedge accounting requirements of the standard as follows:

(a) Classification and measurement (C&M)

Financial assets are measured at FVTPL unless these are measured at FVOCI or at amortized cost. The classification and measurement provisions of PFRS 9 require that all debt financial assets that do not meet the "solely payment of principal and interest" (SPPI) test, including those that contain embedded derivatives, be classified at initial recognition as financial assets at FVTPL. The intent of the SPPI test is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity linked pay-outs, are measured as financial assets at FVTPL. Subsequent measurement of instruments classified as financial assets at FVTPL under PFRS 9 operates in a similar manner to financial instruments held for trading under PAS 39.

For debt financial assets that meet the SPPI test, classification at initial recognition will be determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "hold to collect and for sale" basis will be classified as financial assets at FVOCI. Debt instruments that are managed on a "hold to collect" basis will be classified as investment securities at amortized cost. Subsequent measurement of instruments classified as financial assets at FVOCI and at amortized cost classifications under PFRS 9 operate in a similar manner to AFS financial assets for debt financial assets and loans and receivables, respectively, under existing PAS 39, except for the impairment provisions which are discussed below.

For those debt financial assets that would otherwise be classified as financial assets at FVOCI or at amortized cost, an irrevocable designation can be made at initial recognition to instead measure the debt instrument as financial asset at FVTPL under the fair value option (FVO) if doing so eliminates or significantly reduces an accounting mismatch.

All equity financial assets are required to be classified at initial recognition as at FVTPL unless an irrevocable designation is made to classify the instrument as financial asset at FVOCI for equities. Unlike AFS for equity securities under PAS 39, the FVOCI for equities category results in all realized and unrealized gains and losses being recognized in the statement of comprehensive income with no recycling to profit or loss. Only dividends will continue to be recognized in the statement of income.

Under PFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms.

The classification and measurement of financial liabilities remain essentially unchanged from the current PAS 39 requirements, except that changes in fair value of FVO liabilities attributable to changes in own credit risk are to be presented in OCI, rather than profit or loss. Derivatives continue to be measured as financial assets/liabilities at FVTPL under PFRS 9.

(b) Impairment

The new impairment guidance sets out an expected credit loss (ECL) model applicable to all debt instrument financial assets classified as amortized cost and FVOCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVTPL.

Incurred loss versus Expected Credit Loss Methodology

The application of ECL significantly changed the bank segment's credit loss methodology and models. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition or when there is objective evidence of impairment. This compares to the present incurred loss model that incorporates a single best estimate, the time value of money and information

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about past events and current conditions and which recognizes lifetime credit losses when there is objective evidence of impairment and also allowances for incurred but not identified credit losses.

The adoption of PFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking ECL approach.

Presented below is the impact of the adoption of PFRS 9 as at January 1, 2018 on the Company's financial statements (*in millions*):

Financial Assets	PAS 39 Measurement		C&M*	Adjustments		Total	PFRS 9 Measurement	
	Category	Amount		ECL**			Amount	Category
CASH IN BANK & CASH EQUIVALENTS	L&R	P1,083,833,673	P-	P-	P-	P1,083,833,673	AC	
FINANCIAL ASSETS								
Financial Asset at FVTPL	FVTPL	333,426,860	-	-	-	333,426,860		
Debt		-	-	-	-	-	AC	
		169,210,079	-	-	-	169,210,079	FVOCI	
Equity		164,036,781	-	-	-	164,036,781	FVTPL	
		-	-	-	-	-	FVOCI	
Available for Sale (AFS)	AFS	3,515,459,162	8,285,410	-	-	8,285,410	3,523,744,572	
Debt		513,588,005	8,285,410	-	-	8,285,410	521,873,415 AC	
		946,775,753	-	-	-	946,775,753	FVOCI	
Equity		1,507,932,112	-	-	-	1,507,932,112	FVTPL	
		547,163,292	-	-	-	547,163,292	FVOCI	
Held-to-Maturity (HTM)	HTM	-	-	-	-	-	-	
		-	-	-	-	-	AC	
		-	-	-	-	-	FVOCI	
Loans and Receivables (L&R)	L&R	337,833,207	-	-	-	337,833,207		
Cash and Cash								
Equivalents		313,397,065	-	-	-	313,397,065		
Dividend Receivables and others		24,436,142	-	-	-	24,436,142		
Accrued and Other Liabilities	OFL	23,399,695	-	-	-	23,399,695	FLAC	
TRUST FUND								
Financial Asset at FVTPL		3,237,879,673	13,174,554	-	-	13,174,554	3,251,054,227	
Debt		624,130,878	13,174,554	-	-	13,174,554	637,305,432 AC	
		839,364,326	-	-	-	839,364,326	FVOCI	
Equity		264,590,458	-	-	-	264,590,458	FVTPL	
		1,509,794,011	-	-	-	1,509,794,011	FVOCI	
Available for Sale	AFS	36,931,487,138	437,725,095	-	-	437,725,095	37,369,212,233	
Debt		21,171,954,057	437,725,095	-	-	437,725,095	21,609,679,152 AC	
		3,594,594,123	-	-	-	3,594,594,123	FVOCI	
Equity		10,526,484,918	-	-	-	10,526,484,918	FVTPL	
		1,638,454,040	-	-	-	1,638,454,040	FVOCI	
Held-to-Maturity	HTM	-	-	-	-	-	-	
		-	-	-	-	-	AC	
		-	-	-	-	-	FVOCI	
Loans and Receivables		1,591,163,794	-	-	-	1,591,163,794		
Cash and Cash								
Equivalents		1,148,606,947	-	-	-	1,148,606,947		
Dividend Receivables and others		442,556,847	-	-	-	442,556,847		
Accrued and Other Liabilities	OFL	411,718,308	-	-	-	411,718,308	FLAC	

*C&M - Classification and Measurements **ECL - Expected Credit Loss

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Financial Assets	PAS 39 Measurement		C&M*	Adjustments		Total	PFRS 9 Measurement	
	Category	Amount		ECL**	Amount		Category	
OTHER RESERVES FUND								
Financial Asset at FVTPL	FVTPL	₱1,311,233	₱-	₱-	₱-	₱1,311,233		
Debt		-	-	-	-	-	-	AC
		1,311,233	-	-	-	1,311,233	-	FVOCI
Equity		-	-	-	-	-	-	FVTPL
		-	-	-	-	-	-	FVOCI
Available for Sale	AFS	689,926,023	2,350,603	-	-	2,350,603	692,276,626	
Debt		272,046,263	2,350,603	-	-	2,350,603	274,396,866	AC
		109,872,819	-	-	-	-	109,872,819	FVOCI
Equity		217,403,903	-	-	-	-	217,403,903	FVTPL
		90,603,038	-	-	-	-	90,603,038	FVOCI
Held-to-Maturity	HTM	-	-	-	-	-	-	
		-	-	-	-	-	-	AC
		-	-	-	-	-	-	FVOCI
Loans and Receivables	L&R	62,234,783	-	-	-	-	62,234,783	
		56,046,329	-	-	-	-	56,046,329	AC
		6,188,454	-	-	-	-	6,188,454	FVTOCI
Accrued and Other Liabilities	OFL	4,937,667	-	-	-	-	4,937,667	FLAC

*C&M - Classification and Measurements **ECL - Expected Credit Loss

The accounting for the Company's financial liabilities remains largely the same as it was under PAS 39.

The impact on the Company's retained earnings and net changes in financial assets at FVOCI/ AFS investments upon adoption of PFRS 9 are as follows:

	Trust Funds	Financial Assets	Total
Net changes in Financial Assets at FVOCI/ AFS Investments			
Closing Balance under PAS 39 (December 31, 2017)	₱(199,638,266)	₱38,789,935	₱(160,848,331)
Classification and Measurements			
Reversal of net unrealized losses (AFS investments to investment securities at amortized cost)	437,725,095	10,636,013	448,361,108
Recognition of net unrealized losses on equity securities	(235,706,916)	(22,325,944)	(258,032,860)
Reclassification of net unrealized losses to retained earnings (FVPL to FVOCI)	(16,000,056)	(5,014,960)	(21,015,016)
Reversal of unamortized net realized losses on previously reclassified AFS investment to HTM investments	-	-	-
Recognition of net unrealized gain (Loans and Receivables at amortized cost to FVOCI)	-	-	-
	186,018,123	(16,704,891)	169,313,232
Expected Credit Loss			
Recognition of ECL on financial assets at FVOCI	-	-	-
	-	-	-
Opening Balance under PFRS 9 (January 1, 2018)	13,620,143	22,085,044	8,464,901

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	Trust Funds	Retained Earnings	Total
Retained Earnings			
Closing Balance under PAS 39 (December 31, 2017)	₱7,031,977,725	₱698,375,232	₱7,730,352,957
Classification and Measurements			
Reversal of allowance on AFS equity investments reclassified to financial assets at FVOCI	-	-	-
Reclassification of net unrealized losses from retained earnings (FVOCI to FVTPL)	235,751,032	22,325,946	258,076,978
Reversal of amortized net unrealized losses on previously reclassified AFS investments to HTM Investments	29,125,908	5,014,960	34,140,868
	264,876,940	27,340,906	292,217,846
Expected Credit Loss			
Recognition of ECL on financial assets at FVOCI			
Recognition of ECL on financial Assets at amortized cost	-	-	-
	-	-	-
Opening Balance under PFRS 9 (January 1, 2018)	7,296,854,665	725,716,138	8,022,570,803

- **Amendments to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4.** The amendments give all insurers the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9, Financial Instruments is applied before implementing PFRS 17, Insurance Contracts ('the overlay approach'). Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption (until 2021) from applying PFRS 9. Thus, continuing to apply PAS 39, Financial Instruments: Recognition and Measurement instead ('the deferral approach').

The Company opted not to adopt PFRS 4 but instead applied the full implementation of PFRS 9.

- **PFRS 15, Revenue from Contracts with Customers.** PFRS 15 supersedes PAS 11, Construction Contracts, PAS 18, Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.
- **Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRS 2014 - 2016 Cycle)** The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. Retrospective application is required.

- **Amendments to PAS 40, *Investment Property, Transfers of Investment Property*.** The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.
- **Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) - 22, *Foreign Currency Transactions and Advance Consideration*.** The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

Future Changes in Accounting Policies

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

Effective beginning on or after January 1, 2019

- **Amendments to PFRS 9, *Prepayment Features with Negative Compensation*.** Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" ("the SPPI criterion") and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.
- **PFRS 16, *Leases*.** PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

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

The Company is currently assessing the impact of adopting PFRS 16.

- **Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement.*** The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:
 - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
 - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

- **Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*.** The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Company does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its financial statements.

- **Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*.** The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Company is currently assessing the impact of adopting this interpretation.

- **Annual Improvements to PFRSs 2015-2017 Cycle**
 - **Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*.** The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition dates on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

- **Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*.** The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted.

- **Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*.** The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Effective beginning on or after January 1, 2020

- **Amendments to PFRS 3, *Definition of a Business*.** The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.
An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.
- **Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*.** The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

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

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted. The Company shall maintain to comply with the current accounting standards until further required by the Insurance Commission (IC) with reference to the IC Circular Letter 2018-69 dated December 28, 2018, Deferral of Implementation of IFRS 17 – Insurance.

Deferred effectivity

- **Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.** The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Separate Financial Statements and Investment in a Subsidiary

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

Investment in Subsidiary is accounted for using the cost method in the Company's financial statements. A subsidiary is an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent).

The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

The Investment in a Subsidiary is carried in the statements of financial position at cost less any impairment in value. The Company recognizes income from the investment only to the extent that the Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as recovery of investments and are recognized as a reduction of the cost of the investments.

Investment in Subsidiary is derecognized upon sale or disposal. Any gain or disposal arising from derecognition is recognized in profit or loss. Gain or loss is computed as the difference between proceeds from the disposal and its carrying amount, is recognized in profit or loss at the time of sale or disposal.

Product Classification

The provisions of PFRS 4 provides that insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risks from another party (the planholders) by agreeing to compensate the planholders if a specified uncertain future event (the insured event) adversely affects the planholder. As a general guideline, the Company defines significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

As provided under PFRS 4, this product classification exercise is solely for accounting purposes and does not make the Company an insurance company for statutory and regulatory purposes. The Company as a pre-need company is under the regulation of the Insurance Commission.

For financial options and guarantees which are not closely related to the host insurance contract, bifurcation is required to measure these embedded financial derivatives separately at FVPL. Bifurcation is not required if the embedded derivative is itself an insurance contract or when the host insurance contract itself is measured at FVPL.

The surrender options within the life plans issued by the Company are treated as derivative financial instruments, which are closely related to the host contract and therefore not bifurcated subsequently. As such, the Company does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

As provided under SEC Interpretative Bulletin No. 1, Series of 2008, the reserves for Life Plans shall be included in the Pre-Need Reserve (PNR) account in the Statement of Financial Position.

Fair Value Measurement

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For units in unit trusts and mutual funds, fair value is determined by reference to the latest bid values computed by fund managers and the net asset value per unit, respectively. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. In accordance with PFRS 7, financial assets and liabilities measured at fair value in the statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities.

The different levels have been defined as follows:

- Level 1 - Quoted prices in active markets for identical asset or liability
- Level 2 - Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3 - Those with inputs for asset or liability that are not based on observable market data (unobservable inputs)

For all other financial instruments, fair value is determined using valuation technique. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation model. For these financial instruments, inputs into models are market observable and are therefore included within Level 2.

Instruments included in Level 3 include those for which there is currently no active market.

“Day 1” profit

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions of the same instrument, or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a “Day 1 profit or loss) in profit or loss, unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the Day 1 profit amount

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 5.

The Company adopted the regulatory relief issued by the IC in valuing its financial assets for the year 2018.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents (including those in the investments in trust funds) are short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from the date of placement and are subject to insignificant risk of change in value.

Cash and Cash Equivalents are not restricted from being exchanged or used to settle a liability for at least twelve (12) months after the reporting date.

Financial Instruments - Initial Recognition and Subsequent Measurement effective January 1, 2018

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

Initial Recognition and Measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI, and FVPL. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are SPPI on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified in three categories:

- Financial assets at FVPL
- Financial Assets at FVOCI
 - Debt Securities
 - Equity Securities
- Financial assets at amortized cost

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at financial assets at FVTPL, irrespective of the business model. Financial assets at FVTPL are carried in the statements of financial position at fair value with net changes in fair value recognized in the statement of income.

Financial Assets at FVOCI

Financial assets at FVOCI include debt and equity securities. After initial measurement, financial assets at FVOCI are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of investment securities at FVOCI are excluded, net of tax as applicable, from the reported earnings and are included in the statement of comprehensive income as 'changes in fair value of financial assets at FVOCI / AFS.

Debt securities at FVOCI are those that meet both of the following conditions: (i) the asset is held within a business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. The effective yield component of debt securities at FVOCI, as well as the impact of restatement on foreign currency-denominated debt securities at FVOCI, is reported in the statement of income. Interest earned on holding debt securities at debt securities at FVOCI are reported as 'Interest income' using the effective interest rate (EIR) method. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized as 'Trading gain/(loss) - net' under 'Investment Income' and Trust 'Fund Income' in the statement of income. The ECL arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Provision for probable loss' in the statement of income.

Equity securities designated at FVOCI are those that the Company made an irrevocable election at initial recognition to present in OCI the subsequent changes in fair value. Dividends earned on holding equity securities at FVOCI are recognized in the statement of income as 'Dividends Income' when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the statement of comprehensive income is reclassified to 'Retained earnings' or any other appropriate equity account upon disposal. Equity securities at FVOCI are not subject to impairment assessment.

Financial assets at amortized cost

Financial assets at amortized cost are debt financial assets that meet both of the following conditions: (i) these are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. This accounting policy relates to the statements of financial position captions 'Cash and cash equivalents' and 'Loans and receivables'.

'Loans and Receivables' also include deposits made to the owner of rented properties by the company. Furthermore, 'Loans and Receivables' include the aggregate interest receivable and dividends receivable on trust fund and other fund under investments management account.

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. Losses arising from credit losses are recognized in 'Provision for impairment, credit and other losses' in the statement of income.

Impairment of financial assets

The adoption of PFRS 9 has changed the Company's loss impairment method on financial assets by replacing PAS 39's incurred loss approach with a forward-looking ECL approach which covers all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under PFRS 9.

The ECL allowance is based on the credit losses expected to arise on 12-month duration if there has been no significant increase in credit risk (SICR) of the financial asset since origination. Otherwise if a SICR is observed, then the ECL estimation is extended until the end of the life of the financial asset. The 12-month ECL represents the losses that result from default events on a financial asset which may happen within 12 months after the reporting date. The Lifetime ECL on the other hand represents the losses that result from default events on a financial asset which may happen over its life. Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company recognizes an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial Liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. Gains or losses on liabilities held for trading are recognized in the statement of income.

As at December 31, 2018, the Company has no financial liabilities classified as FVPL and derivatives designated as hedging instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial Liabilities at Amortized Cost

Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or impaired or through the amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of income.

This accounting policy applies primarily to the Company's accrued and other liabilities, (excluding customers' deposits, unearned income, statutory payables and other liabilities to the government), benefits payable and other obligations that meet the above definition.

Financial Instruments - Initial Recognition and Subsequent Measurement Prior to January 1, 2018

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

Date of Recognition of Financial Assets

The Company recognizes financial assets in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on trade date, i.e., the date the Company commits to purchase or sell the asset.

Initial Recognition of Financial Assets

Financial assets are recognized initially at fair value plus, in the case of investments not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset.

Categories of Financial Assets and Subsequent Measurement

Financial assets, at initial recognition, are classified as financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such classification every financial reporting date.

As at December 31, 2017, the Company has no derivatives designated as hedging instruments.

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by PAS 39.

Financial assets at FVPL are carried in the statement of financial position at fair value with net changes in fair value presented in the profit or loss. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income according to the terms of the contract, or when the right of payment has been established.

The Company evaluates its financial assets at FVPL (held for trading) whether the intent to sell them in the near term is appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly change, the Company may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, AFS financial assets or HTM investments depends on the nature of the asset. This evaluation does not affect any financial assets designated at FVPL using the fair value option at designation.

Available for Sale (AFS) Financial Assets

AFS financial assets are those, which are, designated as such or do not qualify to be classified as or designated as financial assets at FVPL, HTM investments or loans and receivables. These are equity investments and those instruments purchased and held indefinitely.

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities is reported in earnings. Interest earned on holding AFS financial assets are reported as interest income using the EIR. Dividends earned on holding AFS financial assets are recognized in the statement of comprehensive income as investment income when the right of the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as "Changes in Fair Value of AFS Financial Assets" in other comprehensive income. The losses arising from impairment of such investments are recognized as provision for impairment of such investments is recognized as provision for impairment losses in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as realized gain or loss in profit or loss.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost less any accumulated impairment in value.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using either the price of the most recent transaction, adjusted net book value of the entity, or valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

Held to Maturity (HTM) Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as HTM when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an unidentified period are not included in this classification. Where the Company sells or reclassifies other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified at fair value as AFS assets. Other long-term investments that are intended to be HTM, such as bonds, are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the EIR method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the EIR, transaction costs and all other premiums and discounts.

For investments and amortized cost, gains and losses are recognized in profit or loss when the investments are derecognized or impaired as well as through the amortization process.

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS or FVPL. This accounting policy relates to: (a) "Cash and Cash Equivalents", (b) "Loans and Receivables", (c) interest receivable under the "Prepayments and Accrued Income" (d) accrued income included in the "Investments in Trust Funds" and "Other Reserves Fund" caption in the statement of financial position.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The losses arising from impairment of such loans and receivables are recognized in provision for doubtful accounts in the statement of comprehensive income.

Impairment of Financial Assets

The company assesses at each reporting date whether a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more event that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant difficulty, default or delinquency in interest of principal payments, the

probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that are correlated with defaults.

AFS Financial Assets Carried at Cost

If there is an objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be measured reliably, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Financial Assets Carried at Fair Value

In the case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in fair value of the investments below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' as greater than six (6) months. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of interest income in the statements of comprehensive income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

Financial Liabilities

Date of Recognition of Financial Liabilities

The Company recognizes financial liabilities in the statement of financial position when it becomes a party to the contractual provisions of the instrument.

Initial Recognition of Financial Liabilities

Financial liabilities are recognized initially at fair value of the consideration received which is determined by reference to the transaction price or other market prices, and in the case of other financial liabilities, inclusive of any directly attributable transaction costs. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities.

Categories of Financial Liabilities and Subsequent Measurement

Financial liabilities are classified as financial liabilities at FVPL, other financial liabilities which are measured at amortized cost or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such classification every financial reporting date.

As at December 31, 2017, the Company has no financial liabilities classified as FVPL and derivatives designated as hedging instruments.

Other Financial Liabilities

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either deliver cash or another financial asset to the holder or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of comprehensive income. This accounting policy applies primarily to accrued expenses and other liabilities that meet the above definition (other than liabilities covered by other accounting standards, such as pension liability and statutory payables).

Other financial liabilities are included in current liabilities if maturity is within 12 months from the reporting date or the Company does not have an unconditional right to defer payment for at least 12 months from the reporting date. Otherwise, these are classified as noncurrent liabilities.

This accounting policy applies primarily to the Company's accrued and other liabilities, (excluding customers' deposits, unearned income, statutory payables and other liabilities to the government), benefits payable and other obligations that meet the above definition.

Classification of Financial Instruments between Debt and Equity (applies to financial Instruments before and after January 1, 2018)

A financial instrument is classified as debt if it has a contractual obligation to:

- Deliver cash or another financial asset to another entity; or
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash of another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Derecognition of Financial Assets and Liabilities (applies to financial Instruments before and after January 1, 2018)

a. Financial Asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- The rights to receive cash flows from the asset have expired;
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risk and rewards of the asset, or (b) has neither transferred nor retained substantially all the risk and rewards of the asset but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risk and rewards of the assets nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

b. Financial Liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Offsetting of Financial Assets and Financial Liabilities (applies to financial Instruments before and after January 1, 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the Company's statement of financial positions if, and only if, there is currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under PFRS, such as in the case of any realized gains and losses arising from the Company's trading activities.

Prepayments and Accrued Income

Prepaid Expenses are charged against future service potential of assets that may extend beyond the accounting period in which payment was made and/or service was availed of. These are expenses already paid by the company but were not yet actually/fully incurred as of the reporting date. These prepaid expenses are capitalized and are amortized over specified periods (monthly) until such accounts are fully charged to operations.

Accrued Income refers to interest accrued arising from Cash and Cash Equivalents and Available-for-Sale financial assets.

Investment Property

Investment Properties consist of land, buildings and improvements owned by the Company that are primarily leased to others or held for capital appreciation or both. Costs of investment properties are initially measured at cost at the time it is incurred. These costs include costs incurred initially to acquire the investment property and costs incurred subsequently to add, to replace part of, or service a property. Subsequently, investment property is stated at fair value as determined by an independent appraiser. Investment properties are being recognized as an asset when, and only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and the cost of the investment property can be measured reliably. Any gain or loss resulting from either change in the fair value or the sale retirement of an investment property is immediately recognized in the profit or loss as fair value gains from investment property under the other gains and (losses) and shown as part of other income (loss) in the statement of comprehensive income.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner-occupation, commencement of an operating lease to another party or by the end of construction. Transfers are made from investment properties when and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

The Company recognizes in the carrying amount of an investment property the cost of replacing part of an existing investment property at the time the cost is incurred if the recognition criteria for investment property are met. Costs of day-to-day servicing of such a property are recognized as "Repairs and Maintenance" in the statement of comprehensive income as incurred. The fair values of investment properties are determined by an independent appraiser. The fair value is determined with reference to market-based evidence, which is the amount for which the property could be exchanged in an arm's length transaction as at the valuation date. The Company uses the fair valuation model in accounting for its investment property.

Investment properties, shown as part of Investment in Trust Fund in the Statement of Financial Position, are stated at fair value as determined by independent appraisers. The amounts recognized in the Statement of Financial Position reflect the prevailing market condition at the end of each reporting period. Any gain or loss resulting from change in the fair value of an investment property is immediately recognized in the statement of comprehensive income as part of trust fund income account.

Investment property is derecognized on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation, amortization, and accumulated impairment, if any. The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and intended use. Replacements and major repairs are capitalized while maintenance and minor repairs are charged to expenses as incurred.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Building	20
Furniture & Fixtures	3-5
Office Equipment	3-5
Transportation Equipment	3-5
Leasehold Improvements	3-5

Depreciation of an item of property and equipment begins when asset becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with *PFRS 5, Non-current Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The assets' residual values, estimated useful lives and depreciation and amortization method are reviewed and adjusted, if appropriate, at each financial year-end.

When the items of property and equipment are retired or otherwise disposed of, the cost, related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is reflected as income or loss in the statement of comprehensive income.

Investment in Subsidiary

Investment in subsidiary is accounted for using the cost method in the Company's financial statements. A subsidiary is an entity, including an unincorporated entity such as partnership that is controlled by another entity (known as the parent).

The Company controls and entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct relevant activities of the entity.

The investment in subsidiary is carried in the statement of financial position at cost less any impairment in value. The Company recognizes income from the investment only to the extent that the Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as recovery of investment and are recognized as a reduction of the cost of investment.

Impairment of Nonfinancial Assets

This accounting policy applies primarily to the Company's property and equipment and investment properties. At each reporting date, the Company assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs.

When the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimated used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Other Receivables

Insurance Claims Receivable

Insurance Claims Receivables are claims from the insurer for the unpaid balance of installments or gross contract price arising from the demise or disability of an insured planholder.

Receivables from Trustee

Receivables from Trustee are advances made by the Company to settle obligations to availing planholders, which are reimbursable by the trustee. This transaction is allowed only upon execution of sworn affidavit signed by the President and another authorized officer of the Company attesting to the validity of the benefit payments covered by the transaction and vesting upon the trustee the right to audit the records of the concerned planholders anytime.

Investments in Trust Funds

Trust Fund is a fund set-up from planholders' payments, separate and distinct from the paid-up capital of a registered pre-need company and registered by the Commission to engage in the business of selling pre-need plans.

Measurement, recognition and disclosure for trust fund shall be in accordance with PAS 39 (Financial Instruments) and PAS 40 (Investment Property) and other applicable standards, depending on the composition of the fund.

The net asset value in the trust fund shall be at least equal to the required Pre-Need Reserves as determined by a qualified actuary using the method prescribed by Pre-Need Rule 31, as amended.

Income generated by the Company's trust funds are included in the "Investment in Trust Fund" account under the assets section of the statement of financial position and credited to "Trust Fund Income". This income is restricted to payments as enumerated/explained in Note 9.

The net unrealized gain/loss in value of trust funds' investments are included in the "Investment in Trust Fund" account and is shown separately as "Revaluation Reserve from Financial Assets" in the stockholders' equity of the statement of financial position and statement of changes in equity.

Liquidity Reserve Fund is the portion of the trust fund set aside by the Trustee to cover the benefits due to planholders during the ensuing year. Pursuant to SRC Section 16, Rule 18, the Company is required to maintain at least twenty percent (20%) liquidity reserve to cover the benefits due to planholders during the ensuing year unless the actuary otherwise determines.

Other Reserves Fund

Other Reserves Fund is comprised of funds for Insurance Premium Reserve.

The Insurance Premium portion of the fund is set aside to cover the payment of insurance premium due after the paying period of the pre-need plan.

Financial Liabilities

Recognition

Financial liabilities are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. This includes trade and other payables and other non-current liabilities.

Measurement

The Company initially recognized its financial liabilities at fair value and measures its financial liabilities at amortized cost using the effective interest method, except for:

- (a) Financial liabilities at fair value through profit and loss. Such liabilities, including derivatives that are liabilities, shall be measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, which shall be measured at cost.
- (b) Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or are accounted for using the continuing involvement approach.

Financial liabilities are derecognized from the statement of financial position only when the obligation is extinguished either through discharge, cancellation or expiration.

Accrued Expenses and Other Liabilities

This account includes accrued expenses, accrued withholding taxes and other liabilities, which are due to be settled within twelve months after the reporting date.

Pre-need Reserves

Pre-Need Reserves (PNR) is being set-up for all pre-need benefits guaranteed and payable by the Company as defined in the pre-need plan contracts. Pre-Need Reserves are computed using the modified net premium reserving method based on a prospective approach, and is in accordance with the Guideline and Standards of the Actuarial Society of the Philippines.

The actuarial assumptions used in the valuation of reserves (e.g. interest rate, inflation rate, withdrawal rate, availment rate and contingent benefit costs) are based on the provisions of the Pre-need Code, its implementing rules and subsequent IC memos on its implementation. For 2018 and 2017, the Company used an interest rate assumption of 6%.

The Company no longer used lapse and withdrawal rates in line with the Insurance Commission's requirement. The Company used utilization rates which are based on the Company's experience, imputing margins for conservatism. The Company likewise used inflation rates and contingent benefit costs which are based on its actual experience. No other decrement, other than utilization rate, was used after payment period of the plan. The assumptions were then validated by an independent actuary.

Other Reserves

Other Reserves is comprised of reserves for Insurance Premium. The Insurance Premium Reserve is set aside to cover the payment of insurance premium due after the paying period of the Pre-Need Plan.

This is in accordance with the product pricing viability, as approved by IC.

The actuarial formula and methods for the valuation of the Insurance Premium Reserves is based on generally accepted actuarial principles and practice.

Equity

Capital stock is determined using the nominal value of shares that have been issued.

Retained earnings include all current and prior period results as disclosed in the statement of comprehensive income

Remeasurement Reserve on Defined Benefit Obligation comprises of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets.

Revaluation reserves comprise gains and losses due to the revaluation of financial assets from trust fund and other funds.

Revenues

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. The following recognition criteria must also be met before revenue is recognized:

a. Premium Revenue

Premiums from sale of pre-need plans shall be recognized when collected and includes the required trust fund contribution to the trust fund. When premiums are recognized as income, the related costs of contracts are computed, with the result that benefits and expenses are matched with such revenue.

b. Trust Fund Income

Incomes generated by the trust fund are included in the "Investment in Trust Fund" account under the assets section of the statement of financial position.

c. Investment Income

Interest Income shall be recognized in the statement of comprehensive income as it accrues, taking into account the effective yield of the asset or liability or an applicable floating rate. Income and expense includes 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.

d. Realized Gains or Losses Recorded in the Statement of Comprehensive Income

Realized gains or losses on the sale of available for sale financial assets are calculated as the difference between the net sales proceeds and the carrying value. This is recognized in the statement of comprehensive income when the sales transaction occurred.

e. Other Income

This may include service fee, plan administration and other contract fees, surcharge and amendment fees and miscellaneous income. These are recognized as revenue in the period in which the related services are performed.

Cost of Contracts Issued

Cost of Contracts Issued pertains to the increase 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; and, Documentary Stamp Tax and IC registration fees. If there is a decrease in the PNR as a result of new information or new developments, the amount shall be deducted from the cost of contracts issued of the current period. In case of material prior period errors, the requirements of PAS shall be complied with by the Company. Documentary stamp tax and IC registration fees are expensed as incurred.

Other Direct Cost and Expenses

This section includes the following which shall be presented separately in the notes to financial statements:

- a. Basic and other commission expenses;
- b. Insurance; and
- c. Other expenses that constitute direct cost of contracts issued.

Commissions

Commissions and other related expenses are due and payable whenever there are collections on pre-need plans that are credited to "Premium Revenue". These are paid only to licensed active agents of the Company.

Plan Benefits

Plan benefits pertains to benefits availed by the planholders/beneficiaries that include memorial service and termination benefits except benefits paid from insurance coverage.

Value-Added Tax (VAT)

Revenue, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- where receivables and payables are stated with the amount of VAT included.

The net amount of tax recoverable from the taxation authority is included as part of "Other Current Assets" account in the statement of financial position.

Leases

The determination of whether an arrangement is a lease, or contains a lease is based on the substance of the arrangement and requires an assessment whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d. There is a substantial change to the asset.

When a reassessment is made, lease accounting shall commence or cease from the date when there is a change in circumstances. Operating lease payments of the Company are recognized as expense in the statement of comprehensive income on a straight line basis over the lease term.

Company as a Lessee

Leases where the lessor retains substantially all the risk and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Company as Lessor

Leases where the Company does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Initial direct cost incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Income Taxes

Current Income Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The income tax rates and income tax laws used to compute the amount are those that are enacted or substantively enacted as of the financial reporting date.

Deferred Income Tax

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carryforward benefits of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at financial reporting date.

Employee Benefits

a. Defined Benefit Obligation

Provision for pension obligation is established for benefits payable in the form of retirement pensions. Benefits are dependent on years of service and the respective employees' final compensation.

Retirement costs are determined using the projected unit credit actuarial valuation method. This method reflects services rendered by an employee up to the date of valuation and incorporates assumptions concerning employee's projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in the other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined liability or asset.

Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gain and losses on curtailments and settlements);
- Net interest expense or income; and
- Remeasurement gains/ loss

The net defined liability recognized in the statement of financial position represents the actual deficit or surplus in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of economic benefits available in the form of refunds from plans or reduction in the future contributions to the plan.

b. Compensated Absences and Other Benefits

The Company recognizes a liability net of amounts already paid on expense for services rendered by employees during the accounting period. Short-term benefits given by the Company to its employees include salaries and wages, short-term compensated absences, bonuses and non-monetary benefits.

Provisions and Contingencies

Provisions are recognized when an entity obligation (legal or constructive) is incurred as a result of a past event and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made in the amount of the obligation.

Contingent liabilities are not recognized in the financial statements. They are however, disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but is disclosed when an inflow of economic benefits is probable.

Related Party Transactions and Relationships

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Transactions between related parties are accounted for at prices or on terms similar to those offered to non-related entities in an economically comparable market.

Events after the Reporting Period

Post year-end events that provide additional information about the Company's position at the financial reporting date (adjusting events) are reflected in the financial statements when applicable. Post year-end events that are non-adjusting events are disclosed in the notes when material

4. MANAGEMENT'S USE OF SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The Company's financial statements require Management to make estimates and assumptions that affect amounts reported in the financial statements. In preparing these financial statements, the Company has made its best estimates and judgments based upon Management's evaluation of the relevant facts and circumstances. The following represents a summary of the significant estimates and judgments and related impact and associated risks in the Company's financial statements:

Judgment and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

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

Product Classification

The Company has determined that the life plans it issues has significant insurance risk and therefore meets the definition of an insurance contract. These are accounted for under PFRS 4.

Operating Leases Commitments - Company as Lessee

The Company entered into commercial property leases on its branches and administrative office locations. The Company determined that it does not acquire all the significant risk and rewards of ownership of these properties, thus, account for them as operating leases.

Rent expense charged to operations relative to its lease commitment amounted to ₱51,574,225 and ₱54,143,168 for the years ended December 31, 2018 and 2017, respectively.

Operating Leases Commitments - Company as Lessor

The Company entered into commercial property leases on its investment property and determined that it retains all the significant risks and rewards of ownership of these properties and so accounts for them as operating leases.

Rental income recognized from its lease commitment amounted to ₱284,105 (net) in 2018 and 2017, respectively and is included under Other Income - Miscellaneous Income account (See Note 22)

Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial positions cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where there is not feasible, a degree of judgment is required in establishing fair values.

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date, that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as follows:

Estimating Useful Lives of Property and Equipment

The useful lives of property and equipment are estimated based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property and equipment is based on 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 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 lives of property and equipment would increase the recognized operating expenses and decrease non-current assets.

The related balances follow:

	2018	2017
<u>Not Held in Trust Funds</u>		
At Net Book Value (Note 10)		
Building	₱281,313,664	₱-
Furniture & Fixtures	21,065,018	1,832,122
Office Equipment	61,189,891	48,094,793
Transportation Equipment	28,203,741	30,698,735
Leasehold Improvement	807,142	279,596
Total	₱392,579,456	₱80,905,246

Fair Values of Investment Properties

The Company carries all of its investment properties at fair value. The values of the properties were arrived at by using the market data approach. With this approach, the values of the properties are based on sales and listing of comparable properties registered in the vicinity. The technique of this approach requires the establishment of comparable properties by reducing reasonable comparative sales and listing to a common denominator and adjustment of the differences between the subject property and those actual sales and listing regarded as comparables. The comparison was premised on the location characteristic of the lot, time element and quality and prospective use.

The carrying values of land under the investment property account which was held in trust funds carried at fair values amounted to ₱147,619,958 and ₱142,045,958 as of December 31, 2018 and 2017, respectively (Note 9).

The carrying values of investment properties, not held in trust funds carried at fair values amounted to ₱33,043,000 and ₱22,050,000 as of December 31, 2018 and 2017, respectively (Note 13).

Asset Impairment

The Company is required to perform an impairment review when certain impairment indicators are present.

The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Company considers important which could trigger an impairment review include the following:

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

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its net selling price and value in use.

The net selling price is the amount obtainable from the sale of an asset at arm's length transaction while value in use is the present value on estimate future cash flows expected to rise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or if it is not possible, on the cash generating unit to which the asset belongs.

In determining the fair value of property and equipment, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, the Company is required to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Company to conclude that property and equipment associated with the business is 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 additional impairment charges.

Based on the management's assessment, there were no indications that an impairment loss may have occurred as of December 31, 2018 and 2017. The carrying value of property and equipment amounted to ₱553,293,742 and ₱505,878,387 as of December 31, 2018 and 2017, respectively (Note 10).

Financial Assets

The Company carries some of its financial assets at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence, i.e., foreign exchange rates, interest rates, volatility rate, 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 affect directly the profit or loss and equity.

Financial Asset Not Quoted in an Active Market

The company classifies assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on arm's length basis.

Fair Values of Financial Assets

The Company carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgments. Fair value determinations for financial assets are based generally on listed or quoted market prices. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time.

While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates), the amount of changes in fair value of these financial assets and liabilities would affect profit and loss and other comprehensive income.

The related balance of financial assets carried at fair value follows:

	2018	2017
Financial Assets:		
Not Held in Trust Funds (Note 7)	₱3,803,497,133	₱3,848,706,022
Held in Trust Funds (Note 9)	47,695,091,269	40,169,386,811
Held under Other Reserves Fund (Note 11)	896,191,312	691,237,256
	₱52,394,779,714	₱44,709,330,089

Impairment of Financial Assets

The Company determines that the financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. This determination of what is 'significant' and 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' greater than six (6) months. In making this judgment, the Company evaluates, among other factors, the normal volatility in price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, change in technology, and operational and financing cash flows.

Loans and receivables (held in investments in trust funds) amounted to ₱406,165,217 and ₱442,556,847 as of December 31, 2018 and 2017, respectively pertains to interest receivable mostly from risk-free fixed income debt securities (Note 9). The carrying value of financial assets (held in investments in trust funds) amounted to ₱47,695,091,269 and ₱40,169,386,811 as of December 31, 2018 and 2017, respectively (Note 9).

Pre-need Reserves

The Pre-Need Reserves for life plans are determined using an actuarial formula which is based on the Pre-Need Code, its IRR and subsequent guidelines on its implementation.

The assumptions used for the valuation of reserves are consistent with IC rules and regulations. The PNR is determined using the modified net premium method based on the prospective approach and is in accordance with the Guidelines and Standards of the Actuarial Society of the Philippines.

The Company used an interest rate of 6% in computing for the PNR in 2018 and 2017.

Inflation rate used is an average 3.25% for 2018 and 2017.

Lapsation Rates

In line with the IC's requirement, the Company no longer used lapse and withdrawal rates.

The Company also used utilization rates which are based on the Company's experience, imputing margins for conservatism. The Company likewise used contingent benefit costs which are based on actual experience.

The carrying value of PNR as of December 31, 2018 and 2017 amounted to ₱45,934,975,510 and ₱37,981,981,902, respectively (Note 15).

Sensitivities

The Company likewise determined the sensitivity of the reserves as regards interest rate. It has measured that a 25 basis points (0.25 percent) decrease in interest rate can affect its reserves by approximately ₱1.503B and ₱1.243B in 2018 and 2017.

Insurance Premium Reserves (IPR)

The Company purchases group insurance benefits from an insurance company. Since the payment term of the pre-need plans is shorter than the maximum duration of insurance coverage, the Company sets aside IPR to be able to pay for the insurance premiums due after the paying period.

Some plans still have insurance coverage after the paid up year. Thus, insurance premiums are still paid to the insurance company for the cost of the insurance coverage even after the installment payment period. Similar to PNR, the calculation uses the same actuarial assumptions, and considers the portion of the future installments allotted for insurance expenses.

IPR presented under "Other Reserves" account in the statement of financial position amounted to ₱899,427,861 and ₱670,996,820 as of December 31, 2018 and 2017, respectively (Note 16).

Post-Employment and Other Employee Benefits

The determination of the retirement obligation and cost and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rates, expected returns on plan assets and rates of compensation increase. In accordance with PAS and PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligation.

5. RISK MANAGEMENT POLICIES

The Company's enterprise-wide risk management framework establishes policies, operating guidelines, risk tolerance limits and practices for risk management. It also provides oversight to the risk management activities within the Company's business segment, ensuring discipline and consistency are applied to the practice of risk management.

Governance Framework

The primary objective to the Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives. The Company recognizes the importance of having efficient risk management systems in place in order to meet its financial obligation to its planholders.

The Chief Executive Officer is responsible for establishing and implementing the risk management system to identify, control and manage risks and to continuously report to the BOD on risk management issues.

The Operations Committee, which is composed of senior management, is responsible for the approval of new or modified operations policies and procedures and ensures that all marketing and finance concerns and requirements are addressed by operating departments. All staff members are responsible for taking reasonable and practicable steps to perform their responsibilities and to report through management any incident that may result in unacceptable levels of risk.

Regulatory Framework

The Company's management has appointed a Compliance Officer to oversee the extent of compliance with the statutory requirements of the SEC and Insurance Commission as defined in the Pre-Need Code, the BIR and other regulatory agencies.

The Company's principal financial assets comprise mainly of cash in banks and revolving funds. It has various other financial assets and liabilities such as receivables, investments and/or temporary placements, payables and pre-need reserve liabilities which arise directly from its operations involving its business activities on pre-need plans, income from trust fund and other related business income.

Fair values of financial assets and financial liabilities are estimated as follows:

	Methods and Assumptions
Cash and Cash Equivalents	Due to short-term nature of the instrument, the fair value approximates the carrying amount as of the reporting date.
Common Trust Funds and Mutual Funds	Fair values are based on net asset value per unit.
Treasury Bills, Bonds and Other Debt Securities	Fair values are based on quoted prices.
Equity Securities	Fair values are based on quoted prices.
Loans and Receivables	The carrying amount approximates fair values considering that these are primarily short-term in nature.
Financial Liabilities, Accrued Expenses and Other Liabilities	Due to short-term nature of these instruments, the carrying amount approximates the fair value as of the reporting date.

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The Company adopted the regulatory relief issued by the IC in valuing its financial assets for the year 2018 (See note 3).

The following table shows the carrying values and estimated fair values of financial assets and financial liabilities recognized as of December 31, 2018 and 2017:

Held in Trust Funds

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash and Cash Equivalents	₱2,366,633,200	₱2,366,633,200	₱1,148,606,947	₱1,148,606,947
Loans and Receivables				
Dividends Receivable	24,957,530	24,957,530	17,722,828	17,722,828
Others	378,207,687	378,207,687	424,834,019	424,834,019
Financial Assets				
Equity Securities	14,754,213,085	14,678,832,219	13,666,560,594	13,939,343,427
Debt Securities	33,020,952,268	33,016,259,050	26,720,858,340	26,230,043,384
	₱50,544,963,770	₱50,464,889,686	₱41,978,582,728	₱41,760,550,605
Financial Liabilities				
Accrued Expenses and Other Liabilities	₱193,419,146	₱193,419,146	₱411,718,308	₱411,718,308

Not Held in Trust Funds

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash and Cash Equivalents	₱103,178,174	₱103,309,255	₱313,249,936	₱313,397,065
Loans and Receivables				
Dividends Receivable	5,985,158	5,985,158	5,385,903	5,385,903
Others	13,185,445	13,185,445	19,050,239	19,050,239
Financial Assets				
Equity Securities	2,125,055,028	2,112,274,131	2,188,114,302	2,219,132,185
Debt Securities	1,691,336,277	1,691,223,002	1,646,844,654	1,629,573,837
	₱3,938,740,082	₱3,925,976,991	₱4,172,645,034	₱4,186,539,229
Financial Liabilities				
Accrued Expenses and Other Liabilities	₱6,862,933	₱6,862,933	₱25,399,695	₱25,399,695

Held in Other Reserves Fund

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash and Cash Equivalents	₱85,650,508	₱85,650,508	₱56,046,329	₱56,046,329
Loans and Receivables				
Dividends Receivable	1,098,356	1,098,356	1,004,592	1,004,592
Others	11,479,847	11,479,847	5,183,862	5,183,862
Financial Assets				
Equity Securities	321,935,376	338,029,036	281,658,899	308,006,941
Debt Securities	559,440,721	558,162,276	373,135,044	383,230,315
	₱979,604,808	₱994,420,023	₱717,028,726	₱753,472,039
Financial Liabilities				
Accrued Expenses and Other Liabilities	₱1,093,775	₱1,093,775	₱4,937,667	₱4,937,667

Financial Risk

The main purpose of the Company's financial instruments is to fund its operations and meet the financial obligations to its planholders. The company is exposed to financial risk through its financial assets, financial liabilities and pre-need liabilities. The main risks arising from the Company's financial activities are liquidity risk and investment risks. The Board of Directors reviews and agrees on certain policies for managing some of these risks as follows:

Credit Risk

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

The Company manages the level of credit risk it accepts through a comprehensive group credit risk policy by setting out the assessment and determination of what constitutes credit risk for the Company; providing guidelines on obtaining collateral and guarantees; reporting of credit risk exposures and breaches to the monitoring authority; monitoring compliance with credit risk policy and reviewing credit risk policy for pertinence and changing environment.

In respect of investment securities, the Company makes use of institutions with high credit worthiness. The Company sets the maximum amounts and limits that may be advanced to/placed with individual corporate counterparties which are set by reference to their long-term ratings.

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. Deductions from agents' commissions and other cash incentives are made to establish bond reserves. The credit risk in respect to customer balances, incurred on nonpayment of premiums or contributions will only persist during the grace period specified in the plan contract on the expiry of which the policy is either paid up or terminated.

The Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties and industry segments.

As of December 31, 2018, and 2017, the analysis of financial assets follows:

	2018			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash & Cash Equivalents	₱1,412,160,830	₱-	₱-	₱1,412,160,830
Financial Assets	3,919,114,058	-	-	3,919,114,058
	₱5,331,274,888	₱-	₱-	₱5,331,274,888
	2017			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash & Cash Equivalents	₱1,083,833,673	₱-	₱-	₱1,083,833,673
Financial Assets	4,161,139,534	-	-	4,161,139,534
	₱5,244,973,207	₱-	₱-	₱5,244,973,207

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Liquidity Risk

Liquidity or funding risk is the risk associated with the difficulty of selling financial assets in a timely manner at their fair value to meet obligations.

The Company manages liquidity by setting up trust funds, separate and distinct from its paid-up capital established with trustees under trust agreement approved by the Insurance Commission (IC), to pay for the planholders' benefits as provided in the Pre-need plan. The Company also specifies the minimum portion of funds to meet the portfolio mix requirement imposed by the IC with an objective to meet the short-term and long-term financial commitments.

The maturity profile of the Company's financial liabilities as of December 31, 2018 and 2017 based on contractual undiscounted payments follows:

	2018				Total
	On Demand	Less than 3 months	3 to 6 months	Over 6 months	
Accounts Payable and Accrued Expenses					
Accounts Payable	P-	P2,373,643	P-	P-	P2,373,643
Accrued Expenses	-	197,581,727	-	-	197,581,727
Other Current Liabilities	-	17,299,981	-	-	17,299,981
Non-Current liabilities	-	-	-	129,417,392	129,417,392
	P-	P217,255,351	P-	P129,417,392	P346,672,743

* Excludes statutory liabilities amounting to P258,497,328

	2017				Total
	On Demand	Less than 3 months	3 to 6 months	Over 6 months	
Accounts Payable and Accrued Expenses					
Accounts Payable	P-	P-	P-	P-	P-
Accrued Expenses	-	192,650,659	-	-	192,650,659
Other Current Liabilities	-	39,794,219	-	-	39,794,219
Non-Current liabilities	-	-	-	89,428,671	89,428,671
	P-	P232,444,878	P-	P89,428,671	P321,873,549

* Excludes statutory liabilities amounting to P288,745,710

Market and Investment Risk

Market and investment risks are the risks arising from the possible decline in the value of acquired assets and investments in equities and debt instruments.

The Company has no exposure arising from complex investments since the previous years. It is the Company's policy not to engage into any high risk investments, forward contracts, hedging, and the likes, whether local or foreign transactions.

Foreign Currency Risk

The Company's principal transactions are carried out in Philippines pesos, its functional currency. The Company has no exposure to foreign currency exchange rates.

Fair Value Interest Rate Risk

Fair value interest risk is the risk that the value of financial instrument will fluctuate because of changes in market interest rates. The Company's fixed rate investments and receivables in particular are exposed to such risk.

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To the extent possible, the Company established matching policy for each portfolio of assets and associated liabilities to keep potential losses within acceptable limits. Thus, the exposure to interest rate risk is minimal.

The Company's market risk policy requires it to manage such risk by setting and monitoring objectives and constraints on investments; diversification plan; and careful and planned use of financial instruments in order to maximize returns.

The following table shows the information relating to the financial assets that are exposed to fair value interest rate risk and presented by maturity profile:

As at December 31, 2018

Held in Trust Funds

	Range of Interest Rates	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Cash & Cash Equivalents	0.15 - 7.38%	2,366,633,200	P-	P-	P-	2,366,633,200
Financial Assets:						
Government Securities and Bonds	3.5 - 8.50%	5,686,469,271	12,056,103,242	8,949,823,657	6,423,862,880	33,016,259,050
Equity Securities		14,678,832,219	-	-	-	14,678,832,219
Loans and Receivables		403,165,217	-	-	-	403,165,217
		23,035,099,907	12,056,103,242	8,949,823,657	6,423,862,880	50,464,889,686

Not Held in Trust Funds

	Range of Interest Rates	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Cash & Cash Equivalents	0.15 - 7.38%	103,309,255	P-	P-	P-	103,309,255
Financial Assets:						
Government Securities and Bonds	3.5 - 8.50%	341,323,867	683,757,535	426,321,416	239,820,184	1,691,223,002
Equity Securities		2,112,274,131	-	-	-	2,112,274,131
Loans and Receivables		19,170,603	-	-	-	19,170,603
		2,576,077,856	683,757,535	426,321,416	239,820,184	3,925,976,991

Held in Other Reserves Fund

	Range of Interest Rates	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Cash & Cash Equivalents	0.15 - 7.38%	85,650,508	P-	P-	P-	85,650,508
Financial Assets:						
Government Securities and Bonds	3.25-8.05%	154,379,398	231,298,026	116,613,482	55,871,370	558,162,276
Equity Securities		338,029,036	-	-	-	338,029,036
Loans and Receivables		12,578,203	-	-	-	12,578,203
		590,637,145	231,298,026	116,613,482	55,871,370	994,420,023

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As at December 31, 2017

Held in Trust Funds

	Range of Interest Rates	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Cash & Cash Equivalents	0.40 - 5.5%	₱1,089,634,955	₱28,161,604	₱30,810,388	₱-	₱1,148,606,947
Financial Assets:						
Government Securities and Bonds	2.073 - 7.60%	2,349,722,399	9,464,087,304	9,729,796,270	4,686,437,411	26,230,043,384
Equity Securities		13,939,343,427	-	-	-	13,939,343,427
Loans and Receivables		442,556,847	-	-	-	442,556,847
		₱17,821,257,628	₱9,492,248,908	₱9,760,606,658	₱4,686,437,411	₱41,760,550,605

Not Held in Trust Funds

	Range of Interest Rates	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Cash & Cash Equivalents	0.40 - 5.5%	₱291,319,910	₱22,077,155	₱-	₱-	₱313,397,065
Financial Assets:						
Government Securities and Bonds	2.625 - 6.94%	82,208,389	570,016,838	665,872,631	311,475,979	1,629,573,837
Equity Securities		2,219,132,185	-	-	-	2,219,132,185
Loans and Receivables		24,436,142	-	-	-	24,436,142
		₱2,617,096,626	₱592,093,993	₱665,872,631	₱311,475,979	₱4,186,539,229

Held in Other Reserves Fund

	Range of Interest Rates	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Cash & Cash Equivalents	0.40 - 5.5%	₱53,796,329	₱2,250,000	₱-	₱-	₱56,046,329
Financial Assets:						
Government Securities and Bonds	3.38-6.88%	40,384,821	181,593,360	91,822,197	69,429,937	383,230,315
Equity Securities		308,006,941	-	-	-	308,006,941
Loans and Receivables		6,188,454	-	-	-	6,188,454
		₱408,376,545	₱183,843,360	₱91,822,197	₱69,429,937	₱753,472,039

The other financial instruments of the Company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

6. CASH AND CASH EQUIVALENTS

This account consists of:

	2018	2017
Revolving Funds	₱2,760,400	₱2,742,900
Cash in Banks	1,116,452,711	752,626,913
Short-Term Deposits	292,947,719	328,463,860
	₱1,412,160,830	₱1,083,833,673

Cash in banks earns interest at the prevailing bank deposits rates.

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Short-term deposits are made for varying periods up to three (3) months or less, depending on the immediate cash requirements of the Company, and earn interest at the prevailing short-term rates that ranged from 4.5% to 7.8% and 2.25% to 4.8% in 2018 and 2017, respectively.

Interest Income earned on cash in bank and short-term deposits amounted to ₱2,080,936 and ₱1,840,088 in 2018 and 2017, respectively.

7. FINANCIAL ASSETS

The fair value of financial assets approximates the carrying amount as of the reporting date due to the short-term nature of the instrument. The Company's financial assets are under the Investment Management Account (IMA) with fixed maturity terms with balance amounting to ₱3,919,114,058 and ₱4,161,139,534 as of December 31, 2018 and 2017, respectively.

	2018	2017
Cash and Cash Equivalents	₱103,309,255	₱313,397,065
Dividends Receivable	5,985,158	5,385,903
Others	13,185,445	19,050,239
Financial Assets		
Equity Securities	2,112,274,131	2,219,132,185
Debt Securities	1,691,223,002	1,629,573,837
	<u>3,925,976,991</u>	<u>4,186,539,229</u>
Less: Financial Liabilities		
Accrued Expenses and Other Liabilities	6,862,933	25,399,695
	<u>₱3,919,114,058</u>	<u>₱4,161,139,534</u>

The roll forward of Financial Assets not held in trust fund follows:

	2018	2017
Balance at January 1	₱4,161,139,534	₱3,921,580,528
Additions (Deductions)	(202,292,284)	13,218,732
Gain/ (Loss) on Change in Fair Value	(39,733,192)	226,340,274
Balance at December 31	<u>₱3,919,114,058</u>	<u>₱4,161,139,534</u>

The following table shows the roll forward analysis of "Revaluation Reserve from AFS Financial Assets not held in trust fund:

	2018	2017
Balance at January 1	₱16,072,931	₱(210,267,343)
Changes in fair value of AFS Financial Asset during the year	(39,733,192)	226,340,274
Transfer to Profit or Loss		
Balance at December 31	<u>₱(23,660,261)</u>	<u>₱16,072,931</u>

The Estimated Credit (Loss) Recovery and Trading Gains (Loss) from FVOCI pertaining to Financial Assets amounted to ₱1,159,491 and ₱(94,541) as of December 31, 2018, respectively.

8. PREPAYMENTS AND OFFICE SUPPLIES

This account consists of:

	2018	2017
Office Supplies Inventories	₱8,218,475	₱2,210,631
Prepayments on Rental & Other Assets	9,659,147	9,795,081
	₱17,877,622	₱12,005,712

9. INVESTMENTS IN TRUST FUNDS

The Company has trust funds which are being administered by seven (7) local banks under trust agreements for the fulfillment of the Company's obligations under its pre-need plan agreements. In compliance with Chapter VIII, Section 30 of the Pre-need Code and in accordance with the terms of the trust agreements, no withdrawal shall be made from the trust funds except to: (a) pay all costs, expenses and charges incurred in connection with the administration, preservation, maintenance and protection of the fund or any part thereof, needed for the payment of plan benefits; (b) settle, compromise or abandon all claims and demands in favor of or against the fund, with the prior written consent of the Company; (c) pay/settle termination value payable to planholders and (d) contributions to the trust funds of cancelled plans.

As mandated by the Insurance Commission, an actuarial valuation of the adequacy of the trust funds shall be submitted to the IC within one hundred twenty (120) days after the end of every fiscal year of the Company. Any discrepancy in the funds shall be funded within thirty (30) days after receipt of notice of deficiency from the Insurance Commission.

Annual actuarial valuations of the pre-need contractual commitments are based on the computation prescribed by the Commission. The Company had not experienced any deficiency ever since the PNUCA was formulated.

Based on the actuarial certification issued by an independent accredited actuary, the required pre-need reserve or required balance of the trust funds as of December 31, 2018 and 2017 is ₱45,934,975,510 and ₱37,981,981,902, respectively. The Company has ₱50,419,090,498 trust funds balance to back up its PNR. Total contributions to the trust funds amounted to ₱9,211,450,505 and ₱8,234,382,664 in 2018 and 2017, respectively (*see Note 23*).

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The details of the Company's investment in trust funds per trust fund statements from the trustee banks as of December 31, 2018 and 2017 are as follows.

	2018	2017
ASSETS		
Cash and Cash Equivalents	₱2,366,633,200	₱1,148,606,947
Financial Assets		
Investments in:		
Government securities	33,016,259,050	26,230,043,384
Equities (PSE active stocks)	14,678,832,219	13,939,343,427
Receivables	403,165,217	442,556,847
	50,464,889,686	41,760,550,605
Investment Property	147,619,958	142,045,958
	50,612,509,644	41,902,596,563
LESS: LIABILITIES	193,419,146	411,718,308
	₱50,419,090,498	₱41,490,878,255
EQUITY		
Fund Balance, Beginning of Year	₱41,690,516,522	₱33,447,022,961
PFRS 9 Adjustments on Financial Assets	264,876,940	-
Contributions (Note 23)	9,211,450,505	8,234,382,664
Withdrawals	(1,640,996,072)	(1,315,255,069)
Trust Fund Income	1,123,247,619	1,324,365,966
Fund Balance, End of Year	50,649,095,514	41,690,516,522
Revaluation Reserve from		
Financial Assets	(231,631,756)	(199,638,267)
Estimated Credit (Loss) Recovery	1,896,309	-
Trading Gains (Loss) from FVOCI	(269,569)	-
	₱50,419,090,498	₱41,490,878,255

Financial Assets Held in Trust Funds

The assets included in each of the categories above are detailed below:

a) Financial Assets

Financial assets held in trust funds consist only of government, debt and equity securities denominated in local currency and carried at fair value of ₱47,695,091,269 and ₱40,169,386,811 as of December 31, 2018 and 2017, respectively.

	2018	2017
At fair value		
Government Securities	₱33,016,259,050	₱26,230,043,384
Equity Securities	14,678,832,219	13,939,343,427
	₱47,695,091,269	₱40,169,386,811

The net unrealized gains (losses) in respect of AFS financial assets transferred to other comprehensive income amounted to ₱(31,993,490) and ₱1,156,746,667 as of December 31, 2018 and 2017, respectively.

Investment in government debt securities mainly represent fixed rate government treasury bonds with annual interest rates ranging from 3.50% to 8.50% and 2.07% to 7.60% in 2018 and 2017, respectively.

b) Receivables

This account consists only of interest receivables mostly from risk-free government securities amounting to ₱403,165,217 and ₱442,556,847 as of December 31, 2018 and 2017, respectively.

Investment Property

	Land	Buildings	Total
At December 31, 2016	₱142,045,958	-	₱142,045,958
Gain on Change in Fair Value	-	-	-
At December 31, 2017	₱142,045,958	-	₱142,045,958
Gain on Change in Fair Value	5,574,000	-	5,574,000
At December 31, 2018	₱147,619,958	-	₱147,619,958

The estimated fair value of this investment property, based on valuations performed by an independent and professionally qualified appraiser, amounted to ₱147,619,958 and ₱142,045,958 as of December 31, 2018 and 2017, respectively.

Pursuant to Sections 36 of Republic Act No. 9829, otherwise known as the Pre-Need Code of the Philippines, the IC issued Guidelines to Pre-need Corporations and entities authorized to engage in trust operations to govern the management and administration of Trust funds established for the payment of pre-need benefits under plan contracts, and to provide an updated and more flexible choice of investments for the trust fund, subject to the rules and regulations that would ensure prudent investment management and protection of the interest of the planholders.

The more significant provisions relating to Investments in Trust Funds follow:

- i Investments in trust funds shall be limited to fixed income instruments, mutual funds, equities and real estate;
- ii Fixed income instruments shall include:
 - i Government securities which shall not be less than 10% of the trust equity;
 - ii Savings/time deposits and common trust fund with a commercial bank with satisfactory examination rating as of the last examination by the Bangko Sentral ng Pilipinas;
 - iii Commercial papers duly registered with the SEC with a minimum credit rating of "1" for short-term and "AAA" for long-term commercial papers, based on the rating scale of an accredited Philippine rating agency or its equivalent at the time of investment. The maximum exposure of long-term commercial papers shall not exceed 15% of the total trust fund equity, while exposure to each commercial paper issuer shall not exceed 10% of the allocated amount;
 - iv Direct loans to corporations that are financially stable, profitable for the last three (3) years and have a good track of paying previous loans from the trust fund. These loans shall be fully secured by a real estate mortgage of up to 60% of the appraised value of the property, at the time the loan was granted. The maximum amount to be allocated for direct loans shall not exceed 5% of the total trust fund, while the amount to be granted to each corporate borrower shall not exceed 10% of the amount allocated and the maximum term shall be three (3) years;

Investment in equities shall be limited to stocks listed in the main board of the Philippine Stock Exchange. These 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. The amount 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.

- iii Real estate shall include properties located in strategic areas of cities and first-class municipalities and shall be appraised every three (3) years by a licensed real estate appraiser duly accredited by the Philippine Association of Real Estate Appraisers, to reflect the increase or decrease in the value of the property. In case of appraisal, 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 value of the decline is recorded. The total recorded value of the real estate investment shall not exceed 15% of the total trust fund equity.
- iv Not less than 15% of the net value of the trust fund assets per type of plan shall be set aside as a liquidity reserve to cover the benefits due to planholders; and
- v The Commission may, at its discretion, demand for the conversion to cash or to other near cash assets of the investments made by the trustee to protect the interest of the planholders.

The Company has consistently complied with the Insurance Commission's (IC) implementing guidelines of the New Pre-Need Code on Investments in Trust Funds.

IC Circular Letter No. 8-2012

On March 15, 2012, the IC issued Circular Letter No. 8-2012, *Allowable Investments for-Pre-need Trust Funds*. In addition to provisions of Section 34 of the Pre-need Code, Investment of the Trust Fund, the following additional outlets shall be allowed as "Other Investments" with corresponding maximum limits and subject to prior approval of the IC. The amount allocated shall not exceed twenty percent (20%) of the total trust fund while the investment in any particular item below shall not exceed fifteen percent (15%) of the trust fund. Provided, further, that no investment in any single entity shall exceed ten percent (10%) of the total value of the trust fund.

- a) Preferred shares - Preferred stock, also call preferred shares, preference shares or simply preferreds, is a special equity security that has properties of both an equity and a debt instrument and is generally considered a hybrid instrument. Preferreds are senior (i.e. higher ranking) to a common stock but are subordinates to bonds. Preferred stock usually carries no voting rights but may carry a dividend and may have a priority over common stock in the payment of dividends and upon liquidation.
- b) Real estate investment trust (REIT) - REIT as defined under Republic Act No. 9856 is a stock corporation established in accordance with the Corporation Code of the Philippines and the rules and regulations promulgated by the Commission principally for the purpose of owning income-generating real estate assets. For purposes of clarity, a REIT, although, designated as a "trust" does not have the same technical meaning as "trust" under existing laws and regulations but is used herein for the sole purpose of adopting the international accepted description of the company in accordance with global best practices.

- c) Tier 2 Notes - Tier 2 notes that generally constitute direct, unconditional, unsecured and subordinated obligations of a bank. More commonly, claims of all noteholders will enjoy priority over the rights and claims of holders of all classes of equity securities of a bank, including holders of preference shares, if any. The issuer bank should have a credit rating of no less than "A" from Philippine Rating Services Corporation (PhilRatings).
- d) Service assets - under Republic Act No. 9829, Section 35 Responsibilities of the Trustee of Pre-need Companies under (c) Not use the trust fund to the invest in or extend any loan or credit accommodation to the pre-need company, its directors, officers, stockholders and related interest except for entities which are direct providers of pre-need companies.

Service assets are investment by a pre-need company directly or through a service provider in resources or capabilities that may be used to offset a future liability. These are assets or shares which are not intended for resale or investment but to offset future liabilities.

- i. Pre-need companies differ from insurance companies because their obligations are not necessarily financial in nature. Some of their liabilities may be in the form of assets or services. Hence, there are arbitrage opportunities where the pre-need company is able to provide the service or asset at a cost below the amount originally projected in the financial model.
- ii. Mortuaries - Historically investments by pre-need companies in mortuaries have allowed some pre-need companies to answer their life plan obligation. Investments take the form of buying or investing in mortuaries, purchasing assets required to provide memorial services, such as hearses, cremation machines or loaning funds to independent mortuaries where conditions of the loan include providing discounted memorial services.
- iii. Memorial lots and/or columbaries - Some life plan liabilities are in the form of memorial lots or columbaries, where the commitment of the life plan company is to provide a complete funeral service including a memorial lot. Memorial lots or columbaries that are not part of the package of a funeral service shall be considered as inventories held for sale. In which case, the asset shall be considered as real estate.
- iv. Schools - Investments by pre-need companies in educational institutions would reduce the cost of servicing education plans, because the cost of educating additional students is only marginal. The pre-need company would only have to spend marginal cost of education for additional students.
- v. Retirement homes, some pension plans may include the provision of Adult Oriented Housing for Retirees as a benefit of the pension plan. Consequently, the ownership of such service assets will control the liability of the pre-need company.

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10. PROPERTY AND EQUIPMENT (NET)

The roll forward analysis of the property and equipment carried at cost follow:

2018	Land	Building	Furniture & Fixtures	Office Equipment	Transportation Equipment	Leasehold Improvement	Total
Cost							
January 1	₱160,714,286	₱264,258,855	₱9,209,760	₱135,341,726	₱89,477,985	₱2,156,902	₱661,159,514
Acquisitions	-	25,190,858	24,618,751	47,418,317	9,300,893	763,393	107,292,212
Disposal	-	-	(4,768,783)	(41,170,336)	(34,995,328)	(1,207,384)	(82,141,831)
December 31	160,714,286	289,449,713	29,059,728	141,589,707	63,783,550	1,712,911	686,309,895
Accumulated Depreciation and Amortization							
January 1	₱-	₱-	₱7,377,638	₱87,246,933	₱58,779,250	₱1,877,306	₱155,281,127
Depreciation	-	8,136,049	5,385,855	34,323,218	11,795,887	235,847	59,876,857
Disposal	-	-	(4,768,783)	(41,170,336)	(34,995,328)	(1,207,384)	(82,141,831)
December 31	-	8,136,049	7,994,710	80,399,815	35,579,809	905,769	133,016,153
Net Book Value At December 31, 2018	₱160,714,286	₱281,313,664	₱21,065,018	₱61,189,892	₱28,203,741	₱807,142	₱553,293,742
2017							
	Land	Construction In Progress	Furniture & Fixtures	Office Equipment	Transportation Equipment	Leasehold Improvement	Total
Cost							
January 1	₱160,714,286	₱99,027,860	₱8,118,849	₱104,129,756	₱65,346,828	₱2,073,754	₱439,411,333
Acquisitions	-	165,230,995	1,090,911	31,211,970	24,131,157	83,148	221,748,181
Disposal	-	-	-	-	-	-	-
December 31	160,714,286	264,258,855	9,209,760	135,341,726	89,477,985	2,156,902	661,159,514
Accumulated Depreciation and Amortization							
January 1	₱-	₱-	₱6,116,639	₱62,379,153	₱49,512,268	₱1,581,913	₱119,589,973
Depreciation	-	-	1,260,999	24,867,780	9,266,982	295,393	35,691,154
Disposal	-	-	-	-	-	-	-
December 31	-	-	7,377,638	87,246,933	58,779,250	1,877,306	155,281,127
Net Book Value At December 31, 2017	₱160,714,286	₱264,258,855	₱1,832,122	₱48,094,793	₱30,698,735	₱279,596	₱505,878,387

Depreciation and amortization expense charged to operations amounted to ₱59,876,857 and ₱35,691,154 in 2018 and 2017, respectively (see Note 25).

Management has reviewed the carrying values of property and equipment as of December 31, 2018 for any impairment. Based on its evaluation, there were no indications that the assets are impaired.

11. OTHER RESERVES FUND

Other Reserves Fund pertains to Insurance Premium Fund which consists of:

	2018	2017
Cash in Bank	P85,650,508	P56,046,329
Financial Assets	896,191,312	691,237,256
Loans and Other Receivables	12,578,203	6,188,454
	994,420,023	753,472,039
Less: Liabilities	1,093,775	4,937,667
	P993,326,248	P748,534,372

The roll forward of account follows:

	2018	2017
Balance at January 1	P748,534,372	P541,833,928
Additional Contribution	225,000,000	155,000,000
Withdrawals during the Year	-	-
	973,534,372	696,833,928
Changes in fair value of AFS Financial Assets during the year	(4,022,764)	30,876,618
Net Income (net of Final Tax)	23,814,640	20,823,826
Balance at December 31	P993,326,248	P748,534,372

Cash in Bank

Cash in Bank represents demand, savings and time deposits with interest rates ranging from 0.15% to 7.38% and 0.40% to 5.5% per annum in 2018 and 2017, respectively.

AFS Financial Assets

AFS Financial Assets consist of debt securities and equity securities.

The following table shows the roll forward analysis of "Revaluation Reserves from AFS Financial Assets" on Insurance Premium Fund:

	2018	2017
Balance at January 1	P22,717,004	P(8,159,614)
Gain/ (Loss) on Change in Fair Value	(29,448,345)	30,876,618
Balance at December 31	P(6,731,341)	P22,717,004

Loans and Receivables

Loans and receivables pertain to investment in unquoted debt securities classified as loans, accrued interest income and dividends receivables.

12. INVESTMENTS IN SUBSIDIARIES

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

	Percentage of Ownership	Acquisition Cost	Carrying Value
Spring of Life Memorial Park Dev't. Corp.	100%	₱31,241,000	₱31,241,000
New Frontier Memorial Chapel Dev't. Corp.	100%	249,982,000	249,982,000
		₱281,223,000	₱281,223,000

On December 8, 2015, the Company invested 100% equity interest in Spring of Life Memorial Park Dev't. Corp. and New Frontier Memorial Chapel Dev't. Corp., both incorporated in the Philippines. Spring of Life Memorial Park Dev't Corp. primarily engaged in operating, managing and developing memorial parks, cemeteries and columbaria, while New Frontier Memorial Chapel Dev't. Corp. is on operating and maintaining real estate for funeral parlors purposes, funeral chapels, mortuaries, and crematoria.

13. OTHER ASSETS

This account consists of:

	2018	2017
Investment Property	₱33,043,000	₱22,050,000
Rental Deposit	4,760,088	5,375,379
Input Tax and Other Assets	13,511,146	15,107,787
	₱51,314,233	₱42,533,166

Rental deposit pertains to security payment for the lease on the Company's sub Offices.

Investment property is valued based on the latest appraisal report by an independent appraiser dated May 15, 2018. This account is composed of the following:

	TCT No.	Acquisition Cost	Amount at Fair Value
Marilao, Bulacan	T-481221	₱18,100,000	₱28,064,000
San Pascual, Batangas	T-83919	1,279,000	4,979,000
Total		₱19,379,000	₱33,043,000

The following table shows the roll forward analysis of Investment Properties:

	2018	2017
Balance at January 1	₱22,050,000	₱22,050,000
Gain on Change in Fair Value	10,993,000	-
Balance at December 31	₱33,043,000	₱22,050,000

Gain on Changes in fair value of investment property amounting to ₱10,993,000 is included under 'investment income' account in the statement of income (see note 21).

The Management believes that there has been no material increase in the fair value of investment property for the year ended December 31, 2017.

Rental income earned from investment property amounted to ₱318,198 in 2018 and 2017, respectively and is included under Other Income – Miscellaneous Income account (See Note 22).

14. ACCRUED EXPENSES AND OTHER LIABILITIES

This account consists of:

	2018	2017
Accounts Payable and Accrued Expenses	₱199,955,369	₱192,160,659
Taxes Payable	154,704,069	151,101,887
Other Current Liabilities	17,299,981	39,794,219
	₱371,959,419	₱383,056,765

Accounts payables represent liabilities of the Company on the conduct of trade and business, mainly for purchase made on credit. These are non-interest-bearing and are generally settled in less than sixty (60) days' term.

Accrued expenses are noninterest bearing and are generally settled upon receipt of actual billings. Withholding taxes payable, output vat are generally settled in less than thirty (30) days' term.

Taxes payables includes taxes withheld from compensation of employees and other taxes including Output Value Added Tax (VAT).

Other current liabilities comprise mainly of insurance premium payable and SSS/PHIC/HDMF payables which are generally settled in less than thirty (30) days' term.

15. PRE-NEED RESERVES (PNR)

Under Pre-Need Rule 31, as amended, the requirements of PFRS 4 shall be complied with in determining the reserves for life plans. The Modified Net Premium Reserving Method was used in determining the pre-need reserves. The reserves were determined using a discount rate of 6% per annum in 2018 and 2017, respectively.

Details are as follows:

Traditional Life Plans	2018	2017
In-Force Plans	₱45,667,107,469	₱37,482,276,110
Lapsed	267,868,041	499,705,792
Total	₱45,934,975,510	₱37,981,981,902

The carrying value of PNR as of December 31, 2018 and 2017 amounted to ₱45,934,975,510 and ₱37,981,981,902, respectively, which resulted to an Increase in PNR of ₱7,952,993,608.

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Increase (Decrease) in PNR for the years ended December 31 consists of the following:

Traditional Life Plans	2018	2017
In Force Plans	₱8,184,831,359	₱7,244,367,189
Lapsed	(231,837,751)	130,429,564
Total	₱7,952,993,608	₱7,374,796,753

Plan Benefit payments for the years ended December 31 are broken down as follows:

	2018	2017
Mortuary Cost	₱1,144,805,145	₱1,029,010,093
Plan Termination Benefits	496,190,927	286,244,976
Total	₱1,640,996,072	₱1,315,255,069

The Company no longer used lapse and withdrawal rates in line with the Insurance Commission's requirement. No other decrement, other than utilization rate, was used after payment period of the plan.

Insurance Premium Reserves (IPR) was likewise set-up for the cost of purchasing the insurance benefits after payment period. The same discount rate of 6% was likewise used to arrive at the IPR (see Note 16).

The actuarial formula, methods and assumptions used for the valuation are based on generally accepted actuarial principles and practice.

16. OTHER RESERVES

This account consists of Insurance Premium Reserve amounting to ₱899,427,861 and ₱670,996,820 as of December 31, 2018 and 2017, respectively.

The Insurance Premium Reserve represents reserve for fully paid plans that are still covered by cash assistance benefit.

Increase in Insurance Premium Reserve amounted to ₱228,431,041 and ₱165,841,650 as of December 31, 2018 and 2017, respectively.

17. OTHER LIABILITIES

This pertains to Counselors' bond reserves which represent the aggregate amount of deductions from agents' commissions to accumulate a reserve. Upon separation of an agent from the Company, his accountability will be charged to this reserve. The balance as of December 31, 2018 and 2017 amounted to ₱129,417,392 and ₱89,428,671, respectively.

18. CAPITAL STOCK

Capital Stock

Capital Stock consists of:

	Number of Shares		Amount	
	2018	2017	2018	2017
Authorized Capital Stock - P100 par value	30,000,000	30,000,000	₱3,000,000,000	₱3,000,000,000
Balance at the Beginning of Year	13,600,000	13,600,000	₱1,360,000,000	₱1,360,000,000
Issued During the Year	-	-	-	-
Subscribed and Paid-up Capital Stock	13,600,000	13,600,000	₱1,360,000,000	₱1,360,000,000

At a meeting of the Board held on June 6, 2018, the Board approved the distribution of a cash dividend to stockholders of record as of June 6, 2018 from the unrestricted retained earnings available for cash dividends amounting to ₱544 million.

As of December 31, 2018, the Company has nine (9) stockholders owning 100 or more shares each of the Company's capital stock.

Retained Earnings

The cumulative balance of retained earnings as of December 31, 2018 and 2017 are as follows:

	2018	2017
Retained Earnings - Trust Fund	₱8,420,102,284	₱7,031,977,725
Retained Earnings	817,863,700	698,375,232
	₱9,237,965,984	₱7,730,352,957

19. PREMIUM REVENUE

This account consists of:

	2018	2017
Realized Gross Income	₱8,160,730,907	₱7,191,856,937
Trust Fund Contribution (VAT Exempt) (Note 23)	9,416,502,785	8,379,039,881
	₱17,577,233,692	₱15,570,896,818

20. TRUST FUND INCOME

This account consists of:

	2018	2017
Income on:		
Government Securities/Other Securities and Debt Instruments	P1,016,650,192	P703,303,737
Cash and Cash Equivalents	59,753,372	38,727,472
Dividend Income	365,533,543	315,947,708
Equity Securities	(121,620,054)	424,424,331
Trust Fees and Other Investment Expenses	(197,069,434)	(158,037,282)
	P1,123,247,619	P1,324,365,966

Trust fees and other investment expenses pertains to the amount paid to the trustee banks as compensation for their services and other expenses and charges incurred in connection with the administration, preservation, maintenance and protection of the fund.

21. INVESTMENTS INCOME

Details of this account follows:

	2018	2017
Income on:		
Government Securities/Other Securities and Debt Instruments	P90,104,742	P80,439,442
Cash and Cash Equivalents	12,057,598	8,255,301
Dividend Income	74,448,932	76,775,180
Equity Securities	(14,197,085)	72,215,190
Trust Fees and Other Investment Expenses	(26,509,510)	(24,157,278)
	P135,904,677	P213,527,835

22. OTHER INCOME

This account consists of:

	2018	2017
Handling and Other Fees	P953,359,934	P806,355,175
Miscellaneous Income	30,332,041	15,655,849
	P983,691,975	P822,011,024

Handling and Other Fees pertains to service charges to a planholder to cover for the plan administration services, surrenders and other contract fees.

Miscellaneous Income consists mainly of rental fee, Interest Income earned on cash in bank and short-term deposits and other miscellaneous charges.

23. TRUST FUND CONTRIBUTION (VAT Exempt)

The Trust Fund contribution for 2018 and 2017 amounting to ₱9,416,502,785 and ₱8,379,039,882, respectively, are not equal to the total contributions cited in Note 9 due to the deposits made in 2018 and 2017 to fund the Pre-Need reserve computed on a monthly basis done by the Company.

Reconciliation is as follows:

	2018	2017
Trust fund contribution, per books	₱9,416,502,785	₱8,379,039,882
Trust fund contribution in December 2016 deposited on January 25, 2017		597,697,567
Trust fund contribution in December 2017 deposited on January 20, 2018	742,354,785	(742,354,785)
Trust fund contribution in December 2018 deposited on January 20, 2019	(947,407,065)	
Trust Fund Contribution, per bank	₱9,211,450,505	₱8,234,382,664

24. OTHER DIRECT COSTS AND EXPENSES

This account consists of:

	2018	2017
Collection Administration, Recruitment and Training Expenses	₱3,464,353,061	₱2,964,218,812
Direct Marketing Commission & Expenses	2,818,451,578	2,555,859,973
Insurance	512,828,901	477,524,046
	₱6,795,633,540	₱5,997,602,831

25. GENERAL AND ADMINISTRATIVE EXPENSES

This account consists of:

	2018	2017
Salaries, Wages and Employee Benefits	₱500,935,156	₱465,288,012
Taxes and Licenses	173,397,845	44,526,329
Rent, Light, Water and Communication	114,467,376	113,214,854
Depreciation and Amortization (Note 10)	59,876,857	35,691,154
Training and Conference	55,548,727	62,237,085
Office Supplies	49,704,301	43,000,586
Transportation Expense	26,159,365	44,473,721
SSS, Philhealth and Pag-ibig	18,535,249	16,943,819
Repairs and Maintenance	16,556,514	14,409,253
Advertising and Promotions	10,459,847	25,441,419
Entertainment and Recreation	9,483,942	7,559,178
Professional and Management Fees	9,245,757	8,987,647
Other General & Administrative Expenses	6,608,559	5,410,788
	₱1,050,979,495	₱887,183,845

Other general and administrative expenses consist of membership dues, donations and contributions and other miscellaneous small amount expenses of the Company.

26. INCOME TAXES

Change in Applicable Tax Rate

Effective January 1, 2009, in accordance with Republic Act 9337, RCIT rate was reduced from 35% to 30% and non-allowable deductions for interest expense from 42% to 33% of interest income subjected to final tax.

Optional Standard Deduction

Effective July 2008, Republic Act (RA) 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (OSD) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made.

In 2018 and 2017, the Company opted to continue claiming itemized standard deductions.

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in profit and loss is as follows:

	2018	2017
Tax on pretax profit	₱623,048,366	₱638,317,453
Tax effect of:		
Nontaxable Income/Nondeductible Expense	(305,615,661)	(368,064,558)
Tax Expense Reported	₱317,432,705	₱270,252,895

As of December 31, 2018, and 2017, the Company has unrecognized deferred tax assets (liability) pertaining to net pension asset (liability) amounted to ₱87,888,780 and ₱25,776,932, respectively

Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. The Company assesses the unrecognized deferred tax assets and will recognized the previously unrecognized assets to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

27. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company transacts with companies which are considered related parties under PAS 24, Related Party Disclosures. A summary of the significant transactions with related parties as at December 31, 2018 and 2017 are as follows:

a. Due to and from Related Parties

Related Party	Nature of Transactions	2018		2017	
		Amount of Transactions	Outstanding Balances	Amount of Transactions	Outstanding Balances
Entities under Common Control	Mortuary Services	₱932,126,280	₱-	₱778,785,200	₱-

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The Company's transactions with the related parties represent payment of funeral and mortuary services to the following affiliates for the period ended December 31, 2018 and 2017. These transactions bear no interest with credit terms ranging from 15 to 30 days.

	2018	2017
St. Peter Memorial Chapels, Inc.	₱80,806,350	₱68,679,500
St. Peterlife Memorial Homes (Visayas), Inc.	207,924,740	165,885,000
St. Peterlife Memorial Homes (Luzon), Inc.	203,456,800	162,289,300
St. Peterlife Memorial Homes (Mindanao), Inc.	144,713,450	138,542,000
St. Peter Chapels Luzon, Inc.	80,117,050	59,277,500
St. Peter Chapels Northern Luzon, Inc.	54,388,250	48,401,500
St. Peter Chapels Southern Luzon Inc.	35,675,800	31,722,100
St. Peter Chapels Mindanao West, Inc.	22,108,200	20,300,500
Family Choice Memorial Chapels, Inc.	54,228,700	42,848,600
Golden Gate Memorial Chapels, Inc.	48,706,940	40,839,200
	₱932,126,280	₱778,785,200

b. Compensation of Key Management Personnel

Key management personnel of the Company include all officers with position of vice president and up. Compensation of key management personnel amounted to ₱83,616,000 and ₱68,965,000 with social security costs of ₱556,200 and ₱470,696 in 2018 and 2017, respectively.

28. POST EMPLOYMENT BENEFITS

The Company has a defined benefit plan, covering substantially all of its regular employees, which requires contribution to be made to administered funds. The regular retirement age is at least 60 with minimum of 5 years of service. The fund is being administered by a Trustee Bank and is authorized to invest the fund as it deems proper. Actuarial valuation is being updated by an independent actuary every year.

The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out as at December 31, 2018 by Asian Actuaries, Inc. The present value of the defined benefit obligation, the related current service cost was measured using the projected unit credit method.

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

	2018	2017
Discount rate	6.92%	5.70%
Rate of salary increase	6.50%	5.75%

The Company applies asset-liability matching techniques to maximize investments returns at the least risk to reduce contribution requirements while maintaining a stable retirement fund. Retirement funds are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

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Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by ₱75,867,041 (increase by ₱92,240,034).
- If the expected salary growth increases (decreases) by 1%, the defined obligation would increase by ₱97,528,763 (decrease by ₱81,583,134).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the statement of financial position.

The following tables summarize the components of defined benefit cost recognized in the statements of income and the funded status and amounts recognized in the statement of financial positions for the plan:

Movements in the Present Value of the Defined Benefit Obligation are as follows:

	2018	2017
Defined Benefit Obligation, Beginning	₱603,524,410	₱523,647,588
Current Service Cost	45,558,851	39,922,156
Interest Cost	34,423,696	29,867,698
Benefits Paid	-	(20,728,929)
Remeasurement - Actuarial Losses/(Gains) arising from:		
Changes in Financial Assumptions	(86,810,184)	30,815,897
Defined Benefit Obligation, Ending	₱596,696,773	₱603,524,410

Movements in the fair value of plan assets are as follows:

	2018	2017
Fair Value of Plan Assets, Beginning	₱629,301,342	₱498,156,224
Actual Return on plan asset	(29,730,689)	45,506,847
Contributions	85,014,900	106,367,200
Benefits paid	-	(20,728,929)
Fair value of Plan Assets, Ending	₱684,585,553	₱629,301,342

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The details of the fair value of plan assets follow:

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	₱46,211,191	₱46,211,191	₱67,497,796	₱67,497,796
Equity investments categorized by industry type:				
- Holding Firms	95,709,113	92,284,986	83,390,143	93,370,553
- Services	39,563,730	37,434,050	30,549,315	24,331,060
- Property	33,656,233	23,903,000	27,534,492	34,985,500
- Industrial	34,824,171	39,241,750	54,636,444	52,119,506
- Financials	53,990,581	50,866,136	27,119,760	33,847,500
- Mining and Oil	2,315,221	1,498,250	2,017,612	2,024,000
Subtotal	260,059,049	245,228,172	225,247,766	240,678,119
Debt investments categorized by issuer's credit rating:				
- AAA	107,850,000	101,805,715	69,950,000	69,351,745
- BA2	-	-	-	-
- not rated	-	-	-	-
Subtotal	107,850,000	101,805,715	69,950,000	69,351,745
Government Securities	323,242,002	296,130,564	256,935,861	248,247,230
Others				
- Receivables	4,712,335	4,712,335	3,920,796	3,920,796
Subtotal	4,712,335	4,712,335	3,920,796	3,920,796
Total assets	742,074,577	694,087,977	623,552,219	629,695,686
Less: Financial Liabilities				
Accrued Expenses and Other Liabilities	9,502,424	9,502,424	394,344	394,344
Total Fair Value of Plan Assets	₱732,572,153	₱684,585,553	₱623,157,875	₱629,301,342

The plan assets consist of the following:

- Cash and cash equivalents includes regular savings and time deposits;
- Investments in government securities and bonds bear interest ranging from 3% to 7.7% and have maturities ranging from 2013 to 2037;
- Investments in equity securities consist of companies listed in the Philippine Stock Exchange (PSE).
- Other assets include accrued interest income on cash deposits and debt securities held by the Retirement Plan.

Net pension liability recognized in the statement of financial position follows:

	2018	2017
Defined Benefit Obligation, Ending	₱596,696,773	₱603,524,410
Fair Value of Plan Assets, Ending	684,585,553	629,301,342
Net Pension (Asset) Liability	₱(87,888,780)	₱(25,776,932)

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Movement in the Net Pension Liability for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Net Pension (Asset) Liability At January 1	P(25,776,932)	P25,491,364
Defined Benefit Cost	41,664,061	38,933,818
Contributions	(85,014,900)	(106,367,200)
Remeasurement Gain/(Losses)	18,761,009	16,165,086
Net Pension (Asset) Liability At December 31	P(17,573,907)	P(25,776,932)

The component of defined benefit cost recognized in profit or loss is as follows:

	2018	2017
Current service cost	P45,558,851	P39,922,156
Interest cost on benefit obligation	(3,894,790)	(988,338)
Defined Benefit Cost	P41,664,061	P38,933,818

Recognized in Other Comprehensive Income

	2018	2017
Remeasurement (gain) loss on plan asset	P68,049,175	P14,650,811
Actuarial loss (gain) due to decrease in defined benefit obligation	(86,810,184)	30,815,897
Other Comprehensive Loss	P(18,761,009)	P16,165,086

Shown below is the maturity analysis of the undiscounted expected benefits payments:

	2018	2017
Less than a year	P-	P324,337
More than 1 year to less than 2 years	7,632,768	2,335,720
More than 2 year to less than 5 years	37,673,014	30,673,473
More than 5 years	5,376,600,350	4,213,103,208

29. COMMITMENTS AND CONTINGENCIES

a. Lease Commitments

The Company has entered into various lease agreements for its sub-office spaces. These leases have remaining lease terms ranging from one to 10 years. Certain leases include a clause to enable upward revision of the annual rental charge ranging from 5% to 10%.

Future rental payable as of December 31, 2018 and 2017 are as follows:

	2018	2017
Within one year	P1,026,272	P3,696,318
After one year but not more than five years	-	4,105,089
	P1,026,272	P7,801,407

Rent expense recognized in 2018 and 2017 amounted to P51,574,225 and P54,143,168, respectively.

a. Contingencies

The Company is contingently liable with respect to possible claims and lawsuits arising in the ordinary conduct of business. Management and its legal counsel believe that the final resolution of claims or lawsuits, if any, will not have a material effect on the Company's financial statements.

30. FINANCIAL INSTRUMENTS

The Company's financial assets and liabilities are recognized initially at cost, which is the fair value of the consideration given (in the case of assets) or received (in the case of liability). Transaction costs (debt issuance costs) are included in the initial measurement of all financial assets and liabilities.

The carrying values and estimated fair values of the Company's financial assets and liabilities as of December 31, 2018 and 2017 is presented as follows:

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Cash and Cash Equivalents	₱1,412,160,830	₱1,412,160,830	₱1,083,833,673	₱1,083,833,673
Financial Assets	3,931,877,149	3,919,114,058	4,147,245,339	4,161,139,534
Total Financial Assets	₱5,344,037,979	₱5,331,274,888	₱5,231,079,012	₱5,244,973,207
Financial Liabilities:				
Accounts Payable and Accrued Expenses	₱371,959,419	₱371,959,419	₱383,056,765	₱383,056,765

The Company's financial assets are recorded at their carrying amounts. Due to the short-term nature of the transactions, the fair values of cash and cash equivalents, financial assets and accounts payable and accrued expenses approximate their carrying amounts at the statement of financial position date.

31. CAPITAL MANAGEMENT

Governance Framework

The Company's risk management function has developed and implemented certain minimum stress and scenario tests, through cash flow statements, that will serve as a tool in meeting its working capital requirements and mitigate the risk of insolvency to a selected remote level.

The Company has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity and operational risks. It also supports the effective implementation of policies at the overall group and the individual business unit levels.

The policies define the Company's identification of risks and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align strategies to the corporate goals and specify reporting requirements.

Capital Management Framework

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company's capital management is structured to build value for shareholders and satisfy the requirement for future long-term investments. This entails resource allocation to maximize profit. The Company manages its capital structure and makes adjustments to it. The Company may adjust its current policies that satisfy dividend payments, return of capital and issuance of new shares to maintain capital structure.

The Company's risk management function has developed and implemented certain minimum stress and scenario tests for identifying the risks to which each of its business units and the Company as a whole is exposed, quantifying their impact on the volatility of economic capital. The results of these tests, particularly, the anticipated impact on the realistic statement of financial position and revenue account of each business unit, are reported to the Company's risk management function.

No changes were made in the Company's capital management objectives, policies and processes for the years ended December 31, 2018 and 2017, respectively.

Starting 2009, externally imposed capital requirements are set and regulated by the IC. These requirements are put in place to ensure sufficient solvency margins. Chapter III, Section 9 of the Pre-need Code: Paid-up Capital, states that for existing pre-need companies offering a single type of plan, the minimum paid-up capital is ₱50,000,000.

As of December 31, 2018, the Company has complied with the minimum paid-up capital requirement with a total paid-up capital amounting to ₱1,360,000,000.

32. CASH FLOWS

Major movements in the cash inflows and outflows in operating activities of the Company include inflows from collections from planholders, income received from trust fund and interest income, and outflows due to payments of income taxes, inventories, other assets, liabilities and reserves.

Cash inflows from investing activities consist of receipts from interest earned on Investments and bank deposits and investments in trust fund. Cash outflows on investing activities included additional investment in financial assets, additional contributions to the trust fund and acquisitions of property and equipment.

The Company's cash flow statements are prepared in accordance with PAS 7, "Cash Flow Statements".

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33. CURRENT AND NON-CURRENT CLASSIFICATION

As of December 31, 2018, and 2017, the Company's classification of its accounts is as follows:

2018	Current	Non-Current	Total
Assets			
Cash and Cash Equivalents	₱1,412,160,830	₱-	₱1,412,160,830
Financial Assets	2,569,214,923	1,349,899,135	3,919,114,058
Investments in Trust Fund	22,841,680,761	27,577,409,737	50,419,090,498
Other Reserves Fund	589,543,370	403,782,878	993,326,248
Prepayments and Office Supplies	17,877,622	-	17,877,622
Investments in Subsidiaries	-	281,223,000	281,223,000
Property and Equipment (net)	-	553,293,742	553,293,742
Net Pension Asset	-	87,888,780	87,888,780
Other Assets	-	51,314,233	51,314,233
Total Assets	₱27,430,477,506	₱30,304,811,505	₱57,735,289,011
Liabilities			
Accrued Expenses and Other Liabilities	₱371,959,419	₱-	₱371,959,419
Income Tax Payable	101,664,080	-	101,664,080
Pre-Need Reserves	-	45,934,975,510	45,934,975,510
Other Reserves	-	899,427,861	899,427,861
Other Liabilities	-	129,417,392	129,417,392
	₱473,623,499	₱46,963,820,763	₱47,437,444,262
2017			
Assets			
Cash and Cash Equivalents	₱1,083,833,673	₱-	₱1,083,833,673
Financial Assets	2,591,696,931	1,569,442,603	4,161,139,534
Investments in Trust Fund	17,409,539,320	24,081,338,935	41,490,878,255
Other Reserves Fund	403,438,878	345,095,494	748,534,372
Prepayments and Office Supplies	12,005,712	-	12,005,712
Investments in Subsidiaries	-	62,482,000	62,482,000
Property and Equipment (net)	-	505,878,387	505,878,387
Net Pension Asset	-	25,776,932	25,776,932
Other Assets	-	42,533,166	42,533,166
Total Assets	₱21,500,514,514	₱26,632,547,517	₱48,133,062,031
Liabilities			
Accrued Expenses and Other Liabilities	₱383,056,765	₱-	₱383,056,765
Income Tax Payable	137,643,823	-	137,643,823
Pre-Need Reserves	-	37,981,981,902	37,981,981,902
Other Reserves	-	670,996,820	670,996,820
Other Liabilities	-	89,428,671	89,428,671
	₱520,700,588	₱38,742,407,393	₱39,263,107,981

34. SUPPLEMENTARY INFORMATION UNDER RR 15-2010

As required by Revenue Regulation 15-2010 issued by the Bureau of Internal Revenue, the details on taxes duties and licenses fees paid or incurred during the taxable year is as follows:

Output VAT

	2018
<i>Output VAT</i>	₱1,093,690,901

The Company's sales of services are based on actual premium collections received less trust fund contributions, hence may not be the same amount recognized in the statements of comprehensive income.

The Company has no output VAT arising from sales of goods, zero-rated sales and exempt sales.

Input VAT

<i>Input VAT</i>	2018
Balance, January 1	₱15,107,787
Current year's purchases/ payments for:	
Goods other than for resale or manufacture	6,950,733
Capital goods subject to amortization	12,875,065
Services lodged under other accounts	19,343,188
Total	54,276,773
Claims for input tax, tax credit/refund and other adjustments	40,765,628
Balance, December 31	₱13,511,145

The Company has no input VAT arising from purchases of goods for resale/ manufacture or further processing, capital goods not subject to amortization and services lodged under cost of goods sold.

Information on the Company's Importations

The Company has no importations during the year.

Other Taxes and Licenses

This includes all other taxes, local and national, including licenses and permit fees, fringe benefits taxes and documentary stamp taxes lodged under the caption "Taxes and Licenses" account under the "General and Administrative Expenses" and "Documentary Stamp Tax and SEC Registration Fees" account under the "Cost of Contracts Issued" sections in the statements of comprehensive income:

	2018
<i>Other Taxes and Licenses</i>	
<i>Charged to Cost of Contracts Issued</i>	
Documentary Stamp Tax	₱33,598,861
Registration fees	40,617,460
	74,216,321
<i>Charged to General and Administrative Expenses</i>	
Business Taxes and Assessments	173,212,973
Registration Fees and Others	184,872
	173,397,845
Total	₱247,614,166

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Withholding Taxes

Details of withholding taxes for the years ended December 31, 2018 are as follows:

	2018
Withholding tax on compensation and benefits	₱47,992,645
Expanded withholding taxes	461,145,235
Withholding Tax on Dividends	54,400,000
	₱563,537,880

Tax Assessments and Cases

There are no deficiency tax assessments or tax cases, litigation and/or prosecution in courts or bodies outside the administration of the BIR.

- Nothing follows -