

# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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**COMPANY NAME**

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I	N	C	.																										

**PRINCIPAL OFFICE (No./Street/Barangay/City/Town/Province)**

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Form Type

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Department requiring the report

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Secondary License Type, if Applicable

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**COMPANY INFORMATION**

Company's Email Address

info@allianzpnblife.ph

Company's Telephone Number/s

818-5433

Mobile Number

No. of Stockholders

10

Annual Meeting (Month/Day)

Fiscal Year (Month/Day)

12/31

**CONTACT PERSON INFORMATION**

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

Name of Contact Person

Efren C. Caringal, Jr.

Email Address

Telephone Number/s

818-5433

Mobile Number

**CONTACT PERSON'S ADDRESS**

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

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

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

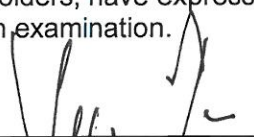
The management of **Allianz PNB Life Insurance, Inc.** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

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

Isla Lipana & Co., PwC (PricewaterhouseCoopers) member firm and SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders for the period December 31, 2018 and 2017, respectively, have examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in their reports to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such examination.

  
\_\_\_\_\_  
DR. LUCIO C. TAN  
Chairman of the Board

  
\_\_\_\_\_  
DR. OLAF KLIESOW  
CEO and President

  
\_\_\_\_\_  
EFREN C. CARINGAL, JR.  
SVP & Chief Financial Officer

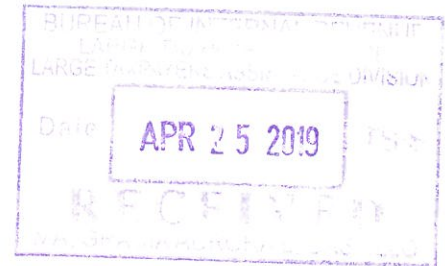
Signed this 27<sup>th</sup> day of February, 2019





**Independent Auditor's Report**

To the Stockholders and the Board of Directors of  
**Allianz PNB Life Insurance, Inc.**  
(Formerly PNB Life Insurance, Inc.)  
9th Floor Allied Bank Center  
6754 Ayala Avenue  
Makati City



**Report on the Audit of the Financial Statements**

***Our Opinion***

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Allianz PNB Life Insurance, Inc. (the "Company") as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards ("PFRS").

***What we have audited***

The financial statements of the Company comprise:

- the statement of financial position as at December 31, 2018;
- the statement of income for the year ended December 31, 2018;
- the statement of comprehensive income for the year ended December 31, 2018;
- the statement of changes in equity for the year ended December 31, 2018;
- the statement of cash flows for the year ended December 31, 2018; and
- the notes to the financial statements, which include a summary of significant accounting policies.

***Basis for Opinion***

We conducted our audit in accordance with Philippine Standards on Auditing ("PSA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

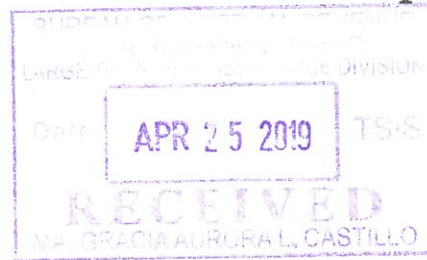
***Independence***

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.

Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines  
T: +63 (2) 845 2728, F: +63 (2) 845 2806, www.pwc.com/ph



Independent Auditor's Report  
To the Stockholders and the Board of Directors of  
Allianz PNB Life Insurance, Inc.  
(Formerly PNB Life Insurance, Inc.)  
Page 2



**Other Matter**

The financial statements of the Company as at and for the year ended December 31, 2017 were audited by another firm of auditors whose report, dated February 7, 2018, expressed an unqualified opinion on those statements.

As part of our audit of the December 31, 2018 financial statements, we also audited the adjustments described in Note 27 that were applied to amend the December 31, 2017 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the December 31, 2017 financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2017 financial statements taken as a whole.

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

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

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

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

**Auditor's 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 auditor's 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.



## Isla Lipana & Co.

Statements Required by Rule 68, Part I, Section 3F,  
Securities Regulation Code (SRC),  
As Amended on October 20, 2011

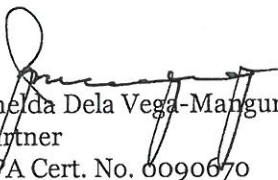
To the Stockholders and the Board of Directors of  
**Allianz PNB Life Insurance, Inc.**  
(Formerly PNB Life Insurance, Inc.)  
9th Floor Allied Bank Center  
6754 Ayala Avenue  
Makati City



We have audited the financial statements of Allianz PNB Life Insurance, Inc. for the year ended December 31, 2018, on which we have rendered the attached report dated March 2, 2019.

In compliance with SRC Rule 68 and based on the certification received from the Company's corporate secretary and the results of our work done, as at December 31, 2018, the said Company has three (3) shareholder owning one hundred (100) or more shares.

**Isla Lipana & Co.**

  
Imelda Dela Vega-Mangundaya  
Partner  
CPA Cert. No. 0090670

PTR No. 0024586, issued on January 8, 2019, Makati City

SEC A.N. (individual) as general auditors 0668-AR-3, Category A; effective until March 1, 2020

SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021

TIN 152-015-124

BIR A.N. 08-000745-047-2018, issued on December 10, 2018; effective until December 9, 2021

BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City  
March 2, 2019

*Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines  
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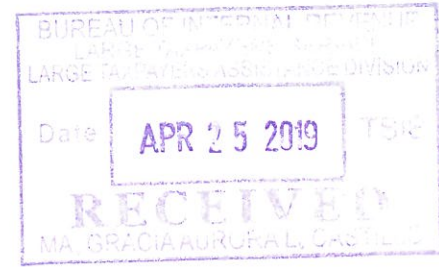




Statements Required by Rule 68  
Securities Regulation Code (SRC),  
As Amended on October 20, 2011

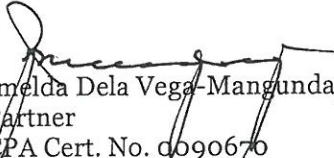
Isla Lipana & Co.

To the Board of Directors and Shareholders of  
**Allianz PNB Life Insurance, Inc.**  
(Formerly PNB Life Insurance, Inc.)  
9th Floor Allied Bank Center  
6754 Ayala Avenue  
Makati City



We have audited the financial statements of Allianz PNB Life Insurance, Inc. as at and for the year ended December 31, 2018, on which we have rendered the attached report dated March 2, 2019. The supplementary information shown in the Schedule of Philippine Financial Reporting Standards effective as at December 31, 2018, as additional component required by Part I, Section 4 of Rule 68 of the Securities Regulation Code, is presented for purposes of filing with the Securities and Exchange Commission 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 the audit of the basic financial statements. In our opinion, the supplementary information has been prepared in accordance with Rule 68 of the Securities Regulation Code.

Isla Lipana & Co.

  
Imelda Dela Vega-Mangundaya  
Partner  
CPA Cert. No. 0090670

PTR No. 0024586, issued on January 8, 2019, Makati City  
SEC A.N. (individual) as general auditors 0668-AR-3, Category A; effective until March 1, 2020  
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BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City  
March 2, 2019

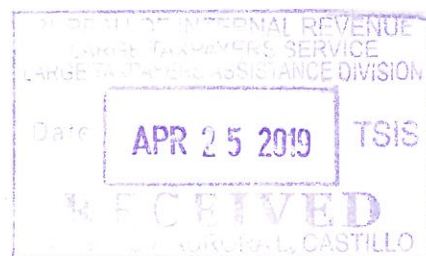
Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines  
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Isla Lipana & Co. is the Philippine member firm of the PwC network. PwC refers to the Philippine member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.



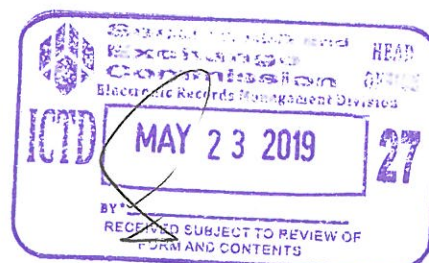
**Allianz PNB Life Insurance, Inc.**  
(Formerly PNB Life Insurance, Inc.)

Statement of Financial Position  
For the year ended December 31, 2018  
(With comparative figures for the year ended December 31, 2017)  
(All amounts in Philippine Peso)



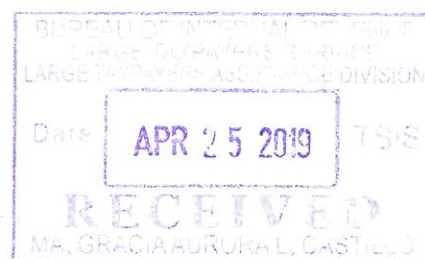
	Notes	December 31, 2018	December 31, 2017 (As restated)	January 1, 2017 (As restated)
<b>ASSETS</b>				
Cash and cash equivalents	2	792,321,581	952,567,015	576,067,458
Short term investments		-	-	179,273,234
Financial assets for unit-linked contracts	3	17,990,227,804	16,095,741,952	13,491,579,484
Financial assets at fair value through profit or loss	4	830,590,424	1,208,401,736	1,282,554,025
Available-for-sale financial assets	4	7,695,069,058	7,375,478,779	6,925,591,895
Held-to-maturity investments	4	1,265,550,049	946,863,714	989,233,066
Insurance receivables	5	77,469,771	49,011,582	138,549,604
Loans and receivables	6	468,269,205	415,662,583	425,000,226
Reinsurance assets	10	6,538,254	10,534,411	7,027,791
Prepayments and deposits	7	25,428,990	21,245,993	17,728,874
Property and equipment, net	8	263,526,270	144,005,006	120,735,083
Deferred tax assets, net	25	123,937,702	83,084,982	56,825,099
Other assets	9	85,104,637	84,114,412	71,990,405
<b>TOTAL ASSETS</b>		<b>29,624,033,745</b>	<b>27,386,712,165</b>	<b>24,282,156,244</b>
<b>LIABILITIES</b>				
Insurance provisions	10	8,068,781,981	8,402,050,261	7,948,730,899
Due to reinsurer		15,432,284	11,052,705	9,035,042
Financial liabilities for unit-linked contracts	3	17,990,227,804	16,095,741,952	13,491,579,484
Premium deposit fund	12	428,536,042	347,479,014	344,338,977
Accounts payable, accrued expenses, and provisions	13	1,079,193,995	712,087,170	653,217,652
Pension liability, net	24	1,750,015	21,946,709	4,144,770
<b>TOTAL LIABILITIES</b>		<b>27,583,922,121</b>	<b>25,590,357,811</b>	<b>22,451,046,824</b>
<b>EQUITY</b>				
Capital stock	14	250,000,000	250,000,000	250,000,000
Additional paid-in capital		50,000,000	50,000,000	50,000,000
Contingency surplus	14	1,300,000,000	1,300,000,000	1,300,000,000
Reserve for fluctuation on available-for-sale financial assets	4	(447,173,938)	302,745,977	440,570,686
Remeasurement on aggregate reserves	10	338,671,340	(529,691,108)	(516,242,929)
Remeasurement on defined benefit plan	24	(26,643,207)	(36,795,409)	(19,809,227)
Retained earnings (deficit)		575,257,429	460,094,894	326,590,890
<b>TOTAL EQUITY</b>		<b>2,040,111,624</b>	<b>1,796,354,354</b>	<b>1,831,109,420</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>29,624,033,745</b>	<b>27,386,712,165</b>	<b>24,282,156,244</b>

(The notes on pages 1 to 74 are integral part of these financial statements)



**Allianz PNB Life Insurance, Inc.**  
(Formerly PNB Life Insurance, Inc.)

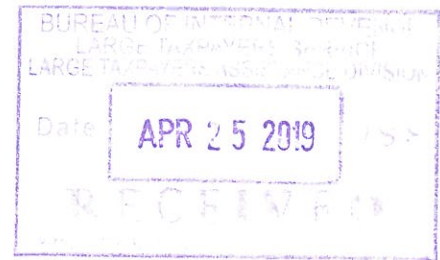
Statement of Income  
For the year ended December 31, 2018  
(With comparative figures for the year ended December 31, 2017)  
(All amounts in Philippine Peso)



	Notes	2018	2017
GROSS PREMIUMS ON INSURANCE CONTRACTS		1,904,437,560	1,479,347,856
REINSURER'S SHARE OF GROSS PREMIUMS ON INSURANCE CONTRACTS		(24,827,302)	(24,163,983)
<b>NET INSURANCE PREMIUMS</b>	<b>15</b>	<b>1,879,610,258</b>	<b>1,455,183,873</b>
<b>OTHER INCOME</b>			
Investment income	16	617,673,265	539,288,723
Referral and trust fees	3, 17	215,714,082	168,150,218
Net fair value (loss) gain on financial assets at FVTPL	4	(38,763,620)	10,697,354
Gain on sale of available for sale financial assets, net	4	62,161,586	10,580,123
Miscellaneous income	18	15,862,167	10,876,146
<b>Total other income</b>		<b>872,647,480</b>	<b>739,592,564</b>
<b>TOTAL REVENUE AND OTHER INCOME</b>		<b>2,752,257,738</b>	<b>2,194,776,437</b>
<b>BENEFITS, CLAIMS AND EXPENSES</b>			
Gross life insurance contract benefits and claims	19	667,921,647	570,057,714
Reinsurer's share of life insurance contract benefits and claims	19	(28,440,689)	(8,142,417)
Gross change in aggregate reserves	10, 19	389,792,943	385,222,042
Reinsurer's share of change in aggregate reserves	10, 19	3,996,157	(3,506,620)
Gross change in incurred but not reported claims	10, 19	(14,066,259)	8,635,971
Reinsurer's share of change in incurred but not reported claims	10, 19	-	-
<b>NET INSURANCE BENEFITS AND CLAIMS</b>		<b>1,019,203,799</b>	<b>952,266,690</b>
<b>INSURANCE EXPENSES</b>			
Commissions and agency-related compensation	20	603,913,558	400,314,494
Salaries, wages and employee benefits	23	159,497,903	85,411,852
Taxes and licenses	21	30,881,298	24,489,028
Interest expense	12	10,883,960	8,408,627
Medical fees		2,272,250	1,526,310
<b>Total insurance expenses</b>		<b>807,448,969</b>	<b>520,150,311</b>
<b>OTHER EXPENSES</b>			
General and administrative expenses	22	743,850,066	544,395,339
Foreign exchange loss, net		31,650,551	4,302,083
Impairment loss	4	-	1,737,040
<b>Total other expenses</b>		<b>775,500,617</b>	<b>550,434,462</b>
<b>TOTAL INSURANCE BENEFITS, CLAIMS AND OTHER EXPENSES</b>		<b>2,602,153,385</b>	<b>2,022,851,463</b>
<b>INCOME BEFORE INCOME TAX</b>		<b>150,104,353</b>	<b>171,924,974</b>
PROVISION FOR INCOME TAX	25	34,941,818	38,420,970
<b>NET INCOME FOR THE YEAR</b>		<b>115,162,535</b>	<b>133,504,004</b>

(The notes on pages 1 to 74 are integral part of these financial statements)





**Allianz PNB Life Insurance, Inc.**  
(Formerly PNB Life Insurance, Inc.)

Statements of Comprehensive Income  
For the year ended December 31, 2018  
(With comparative figures for the year ended December 31, 2017)  
(All amounts in Philippine Peso)

	Notes	2018	2017
<b>NET INCOME FOR THE YEAR</b>		<b>115,162,535</b>	<b>133,504,004</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Item that will be reclassified subsequently to profit or loss			
Net unrealised loss on available-for-sale financial assets, net of tax	4	(749,919,915)	(137,824,709)
Items that will not be reclassified subsequently to profit or loss			
Remeasurement gains (losses) on retirement plan, net of tax	24	10,152,202	(16,986,182)
Remeasurement gains (losses) on aggregate reserves, net of tax	10,19	868,362,448	(13,448,179)
<b>Total other comprehensive income (loss) for the year, net of tax effect</b>		<b>128,594,735</b>	<b>(168,259,070)</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>		<b>243,757,270</b>	<b>(34,755,066)</b>

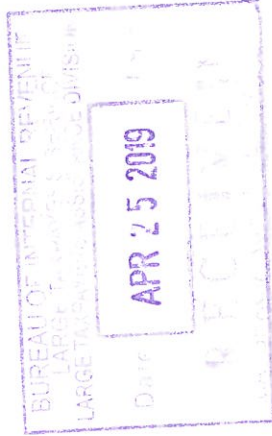
(The notes on pages 1 to 74 are integral part of these financial statements)

**Allianz PNB Life Insurance, Inc.**  
(Formerly PNB Life Insurance, Inc.)

Statements of Changes in Equity  
For the year ended December 31, 2018  
(With comparative figures for the year ended December 31, 2017)  
(All amounts in Philippine Peso)

	Capital stock (Note 14)	Additional paid-in capital	Contingency surplus	Reserve for fluctuation on available-for-sale financial assets (Note 4)	Remeasurement on aggregate reserves (Note 10)	Remeasurement on defined benefit plan (Note 24)	Retained earnings	Total
<b>BALANCE AT JANUARY 1, 2017</b>	250,000,000	50,000,000	1,300,000,000	440,570,686	(516,242,929)	(19,809,227)	326,590,890	1,831,109,420
<b>COMPREHENSIVE INCOME</b>								
Net income for the year	-	-	-	-	-	-	133,504,004	133,504,004
Other comprehensive loss for the year	-	-	-	(137,824,709)	(13,448,179)	(16,986,182)	-	(168,259,070)
<b>Total comprehensive income (loss) for the year</b>	-	-	-	(137,824,709)	(13,448,179)	(16,986,182)	133,504,004	(34,755,066)
<b>BALANCE AT DECEMBER 31, 2017</b>	250,000,000	50,000,000	1,300,000,000	302,745,977	(529,691,108)	(36,795,409)	460,094,894	1,796,354,354
<b>COMPREHENSIVE INCOME</b>								
Net income for the year	-	-	-	-	-	-	115,162,535	115,162,535
Other comprehensive (loss) income for the year	-	-	-	(749,919,915)	868,362,448	10,152,202	-	128,594,735
<b>Total comprehensive (loss) income for the year</b>	-	-	-	(749,919,915)	868,362,448	10,152,202	115,162,535	243,757,270
<b>BALANCE AT DECEMBER 31, 2018</b>	250,000,000	50,000,000	1,300,000,000	(447,173,938)	338,671,340	(26,643,207)	575,257,429	2,040,111,624

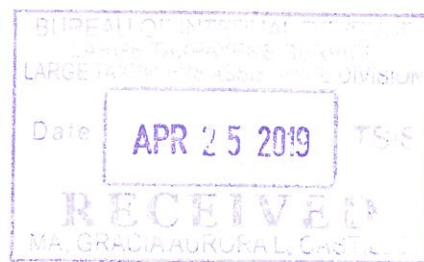
(The notes on pages 1 to 74 are integral part of these financial statements)





**Allianz PNB Life Insurance, Inc.**  
(Formerly PNB Life Insurance, Inc.)

Statements of Cash Flows  
For the year ended December 31, 2018  
(With comparative figures for the year ended December 31, 2017)  
(All amounts in Philippine Peso)

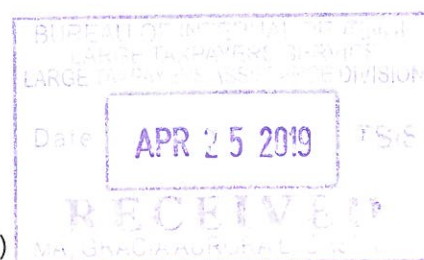


	Notes	2018	2017 (As restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		150,104,353	171,924,974
Adjustments for:			
Increase in aggregate reserve for life policies, net of reinsurers' share	10	393,789,100	381,715,422
Depreciation and amortization	8, 22	45,138,571	29,690,160
Unrealized foreign exchange loss (gain)	30	52,589,570	15,773,077
Net increase in restricted stock units	23	15,492,390	11,166,202
Gain on sale of available-for-sale financial assets	4	(62,161,586)	(10,580,123)
Net fair value loss (gain) on financial assets at FVTPL	4	38,763,620	(10,697,354)
Increase in net pension liability	23, 24	14,241,620	7,262,573
Impairment loss on available-for-sale financial assets	4	-	1,737,040
Loss (gain) on disposal of fixed assets	18	775,754	(1,112,315)
Amortization of bond premium	4	70,171,073	834,329
Provision for net incurred but not reported losses	10, 19	(14,066,259)	8,635,971
Interest income	16	(558,566,889)	(463,991,515)
Dividend income	16	(59,106,376)	(75,297,208)
Operating income before changes in operating assets and liabilities		87,164,941	67,061,233
Changes in operating assets and liabilities (Increase) decrease in:			
Financial assets at FVTPL		339,496,078	84,849,643
Financial assets for unit-linked contracts		(1,599,672,791)	(2,604,162,468)
Short term investment		-	179,273,234
Insurance receivables		(28,449,044)	89,538,022
Loans and receivables		(28,740,120)	9,966,457
Prepayments and deposits		(4,182,997)	(3,517,119)
Other assets		(990,225)	(11,724,235)
Increase in:			
Accounts payable and accrued expenses		227,804,698	47,703,316
Financial liabilities for unit-linked contracts		1,599,672,791	2,604,162,468
Insurance provisions		22,465,916	59,461,349
Premium deposit fund		80,098,535	3,140,037
Due to reinsurer		4,379,579	2,017,663
Cash generated from operations		699,047,361	527,769,600
Interest income received		531,830,541	463,369,797
Dividends received		66,609,307	75,290,112
Income tax paid		(81,870,482)	(60,135,204)
Retirement contributions	24	(19,935,168)	-
<b>Net cash generated from operating activities</b>		<b>1,195,681,559</b>	<b>1,006,294,305</b>

(forward)

**Allianz PNB Life Insurance, Inc.**  
(Formerly PNB Life Insurance, Inc.)

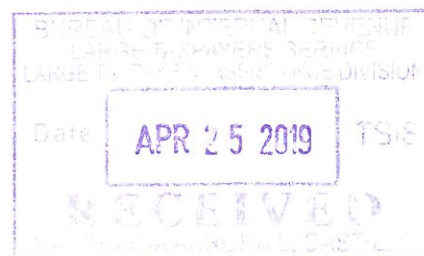
Statements of Cash Flows  
For the year ended December 31, 2018  
(With comparative figures for the year ended December 31, 2017)  
(All amounts in Philippine Peso)



(forwarded)

	Notes	2018	2017
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from:			
Sale or maturities of AFS financial assets	4	1,119,081,866	1,884,171,179
Sale or maturities of HTM investments	4	-	33,995,500
Property and equipment		183,463	5,360,004
Purchases of:			
Available-for-sale financial assets	4	(2,046,614,500)	(2,470,473,896)
Held-to-maturity investments	4	(360,078,000)	-
Property and equipment	8	(76,421,346)	(57,207,772)
<b>Net cash used in investing activities</b>		<b>(1,363,848,517)</b>	<b>(604,154,985)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(168,166,958)</b>	<b>402,139,320</b>
<b>CASH AND CASH EQUIVALENTS</b>	2		
At January 1		952,567,015	576,067,458
Effect of exchange rate changes on cash and cash equivalents		7,921,524	(25,639,763)
<b>December 31</b>		<b>792,321,581</b>	<b>952,567,015</b>

(The notes on pages 1 to 74 are integral part of these financial statements)



**Allianz PNB Life Insurance, Inc.**  
(Formerly PNB Life Insurance, Inc.)

Notes to financial statements

As at and for the year ended December 31, 2018

(With comparative figures as at and for the year ended December 31, 2017)

(All amounts are shown in Philippine Peso, unless otherwise stated)

**1. General information**

Allianz PNB Life Insurance, Inc. (the "Company"), formerly PNB Life Insurance, Inc., was registered with Philippines Securities and Exchange Commission (SEC) on November 10, 1999 to carry on the business of life insurance. The Company is among the major life insurers in the Philippines, which began operations on August 1, 2001 following the receipt of the Certificate of Authority from the Insurance Commission of the Philippines (IC) on July 1, 2000.

On June 5, 2016, Allianz SE completed its acquisition of 51% of the Company. Under the agreements signed in December 2015, Allianz SE will have management control. On September 21, 2016, the SEC approved the amendment of the Company's article of incorporation to reflect the change in corporate name to "Allianz PNB Life Insurance, Inc."

The Company's principal place of business is 9th Floor, Allied Bank Center 6754 Ayala Avenue, Makati City, Philippines. It has 214 employees as at December 31, 2018 (2017 - 162 employees).

The accompanying financial statements were authorized for issue by the Board of Directors (BOD) on February 27, 2019. There are no material events that occurred subsequent to February 27, 2019 until March 2, 2019.

**2. Cash and cash equivalents**

The account at December 31 consists of:

	2018	2017
Petty cash fund	130,256	120,000
Cash in banks		
Peso-denominated	301,387,770	378,173,060
Dollar-denominated	189,778,955	191,207,607
Cash equivalents		
Peso-denominated	301,024,600	383,066,348
	792,321,581	952,567,015

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

Cash equivalents are made for varying periods not exceeding three months depending on the immediate cash requirements of the Company, and earn interest at the prevailing cash equivalents deposit rates that ranged from 0.8% to 5.80% in 2018 and from 0.32% to 3.20% in 2017.

Interest income from cash in banks and cash equivalents for the year ended December 31, 2018 amounted to P371,375 and P3,617,667 (2017 - P539,555 and P2,703,861), respectively (Note 16).



### 3. Financial assets and liabilities for unit-linked contracts

On March 15, 2005 and June 17, 2005, the IC approved the Company's license to sell single-pay and regular-pay unit-linked insurance products, respectively. These are life insurance products that have policy benefits that are linked to investment funds. The payments received for these products, less charges for mortality and administration fees, are invested in segregated funds. The equity of each policyholder in the segregated fund is determined by assigning a number of units to each policyholder, corresponding to the net amount deposited in relation to the market value at the time of contribution. The value per unit may increase or decrease depending on the market value of the underlying assets of the corresponding segregated fund.

	Cash and cash equivalents	Investment securities carried at FVTPL	Accounts receivable	Accrued management fee	Seed capital (Note 4)	Net assets
<b>At December 31, 2018</b>						
Peso Multi-Sector Equity Fund	85,781,307	2,692,951,302	51,191,071	(51,919,918)	(974,951)	2,777,028,811
Peso Equity Fund	380,753,634	1,660,492,571	1,973,282	(13,870,187)	(3,024,130)	2,026,325,170
Peso Optimized Dividend Equity Fund	53,609,341	1,953,285,038	21,101,242	(23,531,667)	(864,049)	2,003,599,905
Dollar Global Equity Fund	26,322,128	1,602,527,363	4,568,339	(1,465,285)	(1,098,507)	1,630,854,038
Dollar Flexi Asia Dividend Paying Bond Fund	15,566,313	1,381,846,402	183,512	(6,043,869)	(939,876)	1,390,612,482
Dollar Income and Growth Fund	18,879,712	1,375,804,172	-	(4,480,008)	(1,081,288)	1,389,122,588
Peso Balanced Growth Fund	72,284,408	1,275,662,203	9,146,834	(5,584,978)	(2,547,048)	1,348,961,419
Peso Bond Fund	88,778,611	890,748,251	13,685,572	(2,515,539)	(2,134,691)	988,562,204
Dollar Income Optimizer	47,376	969,253,410	18,501,850	(12,034,801)	(3,520,449)	972,247,386
Dollar Bond Fund	26,236,223	824,851,944	15,359,436	(2,832,848)	(2,145,890)	861,468,865
True North Fund	23,197,480	572,564,703	62,333	(710,290)	(9,680,051)	585,434,175
Dollar Multi-sector Equity Fund	19,041,597	549,211,656	6,237,172	(223,752)	(8,569,940)	565,696,733
Dollar Income and Growth Dividend Paying Fund	10,016,631	529,583,205	422,268	(1,114,698)	(924,514)	537,982,892
Global Treasures Peso Fund	3,250,483	340,004,250	-	(136,348)	(4,881,674)	338,236,711
Dollar Flexi Asia Bond Fund	2,947,120	273,914,832	6,310,855	(383,252)	(1,033,301)	281,756,254
High Street Peso Fund	12,300,704	268,134,750	-	(573,653)	(20,709,736)	259,152,065
Peso Money Market Fund	49,339	34,554,358	-	(323,274)	(1,094,317)	33,186,106
	<b>839,062,407</b>	<b>17,195,390,410</b>	<b>148,743,766</b>	<b>(127,744,367)</b>	<b>(65,224,412)</b>	<b>17,990,227,804</b>
<b>At December 31, 2017</b>						
Peso Optimized Dividend Equity Fund	49,432,778	2,588,022,240	38,741,222	(15,968,887)	(1,014,080)	2,659,213,273
Peso Multi-Sector Equity Fund	112,952,401	2,144,783,986	13,855,876	(51,526,228)	(1,122,744)	2,218,943,291
VIP Summit Peso Fund	80,292,292	1,867,138,728	49,778	(879,049)	(54,454,103)	1,892,147,646
Peso Equity Fund	107,764,073	1,367,545,364	1,242,675	(4,046,964)	(3,547,889)	1,468,957,259
Peso Balanced Growth Fund	45,981,089	1,300,668,753	9,600,311	(2,258,353)	(2,828,447)	1,351,163,353
Peso Bond Fund	31,086,007	1,188,152,799	16,158,465	(1,558,575)	(2,280,227)	1,231,558,469
Dollar Bond Fund	36,734,134	955,110,823	15,963,857	(12,805,041)	(2,085,608)	992,918,165
Dollar Income Optimizer	10,537,121	985,904,299	-	(2,791,791)	(40,856,252)	952,793,377
Dollar Global Equity Fund	35,024,336	787,424,487	-	(841,783)	(1,168,494)	820,438,546
True North Fund	28,386,066	599,665,486	-	(283,496)	(7,443,760)	620,324,296
VIP Summit Dollar Fund	2,967,312	492,284,835	9,753,050	(223,551)	(12,047,315)	492,734,331
Global Treasures Peso Fund	27,447,654	411,549,601	15,556	(174,380)	(4,431,111)	434,407,320
High Street Peso Fund	31,587,209	307,646,300	18,667	(638,522)	(23,003,304)	315,610,350
Dollar Flexi Asia Bond Fund	19,950,163	276,553,947	85,593	(1,291,847)	(1,031,565)	294,266,291
Dollar Income and Growth Fund	14,170,820	244,085,777	126,688	(2,551,157)	(1,084,035)	254,748,093
Dollar Flexi Asia Dividend Paying Bond Fund	7,257,077	51,644,294	-	(27,642)	(994,422)	57,879,307
Peso Money Market Fund	14,790,217	23,933,829	-	(7,613)	(1,077,848)	37,638,585
	<b>656,360,749</b>	<b>15,592,115,548</b>	<b>105,611,738</b>	<b>(97,874,879)</b>	<b>(160,471,204)</b>	<b>16,095,741,952</b>



VIP Summit Peso is a Peso-denominated, single-pay, 5-year unit-linked life insurance plan that was launched on July 31, 2013 and matured on August 6, 2018. Its USD variant, the VIP Summit Dollar was likewise launched on November 6, 2013 and matured on November 14, 2018.

The Company launched two additional open-ended funds in 2018. These are Peso Dynasty Equity Fund and Dollar Income and Growth Dividend Paying Fund. Peso Dynasty Equity Fund was launched on February 15, 2018, while Dollar Income and Growth Dividend Paying Fund was launched on June 19, 2018.

The funds are valued regularly and the value of each unit is equal to the market value of the segregated fund divided by the number of outstanding units of the fund. Total premium income included in the statements of income arising from the unit-linked products amounted to P556,988,851 and P355,204,496 in 2018 and 2017, respectively (Note 15). For the year ended December 31, 2018, referral and trust fees income from VUL policies amounts to P215,714,082 (2017 - P168,150,218) (Note 17).

(a) *Cash and cash equivalents*

	2018	2017
Cash in banks		
Peso-denominated	39,665,905	344,894,785
Dollar-denominated	74,088,304	89,912,456
Cash equivalents		
Peso-denominated	699,381,000	184,825,000
Dollar-denominated	25,927,198	36,728,508
	839,062,407	656,360,749

(b) *Investment securities carried at FVTPL*

	2018	2017
Quoted equity securities	12,682,452,032	8,137,969,409
Equity-linked notes	2,149,957,114	4,664,189,249
Government debt securities		
Peso-denominated	1,048,774,702	1,513,602,045
Dollar-denominated	510,879,404	666,364,317
Private debt securities		
Peso-denominated	489,354,619	321,244,022
Dollar-denominated	313,972,539	288,746,506
	17,195,390,410	15,592,115,548

(c) *Accounts receivable*

	2018	2017
Accrued income	57,672,747	50,974,879
Other receivables	91,071,019	54,636,859
	148,743,766	105,611,738

(d) *Accrued management fee*

For capital guaranteed funds of the Company, management fees are calculated based on net asset value as of latest pricing date. The management fees are deducted from the cash portion of the fund. In instances when the cash portion is depleted, and until the next coupon payment is received, management fees are accrued and are treated as payable in NAV valuation. When the next coupon payment is received and cash portion of the fund is replenished, accrued management fees are then deducted and paid to the Company.

(e) *Seed capital*

This pertains to the Company's investment in unit-linked funds which is lodged under Financial assets at FVTPL (Note 4). As at December 31, 2018, the Company owns 55,211,919 (2017 - 100,029,157) outstanding number of units with net asset value of P65,224,412 (2017 - 160,471,204).

**4. Financial assets at fair value through profit or loss ("FVTPL"); Available-for-sale ("AFS") financial assets; Held-to-maturity ("HTM") investments**

The Company's financial assets at December 31 are summarized by the following measurement categories:

	2018	2017 (As restated)
Financial assets at FVTPL	830,590,424	1,208,401,736
AFS financial assets	7,695,069,058	7,375,478,779
Held-to-maturity investments	1,265,550,049	946,863,714
	9,791,209,531	9,530,744,229

(a) *Financial assets at FVTPL*

The financial assets at FVTPL at December 31 consist of the following:

	Notes	2018	2017 (As restated)
Quoted equity securities		732,896,700	1,019,416,661
Investment in unit-linked funds	3	65,224,412	160,471,204
Derivative asset	23	32,469,312	28,513,871
		830,590,424	1,208,401,736

Quoted equity securities include fair value loss amounting to P41,574,585 and P4,781,055 in 2018 and 2017, respectively. Revaluation gain on derivative asset amounted to P5,503,998 and P7,010,648 in 2018 and 2017, respectively. Realized loss on sale of financial assets at FVTPL for the year ended December 31, 2018 amounts to P24,447,842 (2017 - nil).

Investment in unit-linked funds pertains to the seed capital invested by the Company. The fair value gains on seed capital recorded in the Company's statements of income amounted to P21,755,809 and P8,467,761 in 2018 and 2017, respectively.

Dividend income from quoted equity securities amounted to P56,778,739 and P64,586,534 in 2018 and 2017, respectively (Note 16).

(b) AFS financial assets

The AFS financial assets at December 31 consist of the following:

	2018	2017
Government debt securities		
Peso-denominated	3,242,995,252	2,278,449,919
Dollar-denominated	1,412,621,707	1,387,675,863
Private debt securities		
Peso-denominated	2,416,085,843	2,658,446,995
Dollar-denominated	571,286,256	608,520,874
Unit investment trust fund (UITF)	-	45,220,878
Equity securities		
Quoted shares	-	356,564,250
Proprietary shares	52,080,000	40,600,000
	7,695,069,058	7,375,478,779

The movements of AFS financial assets follow:

	2018	2017
At January 1	7,375,478,779	6,925,591,895
Additions	2,046,614,500	2,470,473,896
Disposals	(1,134,507,403)	(1,885,908,219)
Amortization of bond (premium) discount, net	(4,706,066)	4,622,245
Fair value change recycled to profit or loss	77,587,123	10,580,123
Fair value change in other comprehensive income	(748,194,915)	(135,490,344)
Unrealized foreign exchange gains (losses)	82,797,040	(14,390,817)
At December 31	7,695,069,058	7,375,478,779

Proceeds from the disposals of available-for-sale securities amount to P1,119,081,866 and P1,884,171,179 in 2018 and 2017, respectively. Gain on sale of available-for-sale securities for the year ended December 31, 2018 and 2017 amounted to P62,161,586 and P10,580,123, respectively.

Interest income from AFS debt securities amounted to P445,714,760 and P359,410,562 in 2018 and 2017, respectively (Note 16). Dividend income from AFS equity securities amounted to P2,327,637 and P10,710,674 in 2018 and 2017, respectively (Note 16).

Government debt securities valued at P141,792,465 and P179,966,436 as of December 31, 2018 and 2017, respectively, are deposited with the IC in accordance with the provisions of the Code for the benefit of policyholders and creditors of the Company.

The aggregate cost of AFS financial assets amounted to P7,919,531,948 and P7,731,445,730 as of December 31, 2018 and 2017, respectively.

Details of the movement in the reserve for fluctuation on AFS financial assets follows for the year ended December 31 follow:

	2018	2017
At January 1	302,745,977	440,570,686
Unrealized fair value losses	(670,607,792)	(126,647,261)
Tax effect	(1,725,000)	(2,334,365)
Fair value gains realized through profit or loss	(77,587,123)	(10,580,123)
Impairment loss	-	1,737,040
At December 31	(447,173,938)	302,745,977

AFS debt securities of the Company carry coupon rates as follows:

	2018	2017
Government debt securities		
Peso-denominated	3.50% - 18.25%	2.70% - 14.60%
Dollar-denominated	3.70% - 10.63%	3.95% - 10.63%
Private debt securities		
Peso-denominated	0.00% - 7.18%	0.00% - 6.40%
Dollar-denominated	4.25% - 7.39%	4.25% - 7.50%

(c) *HTM investments*

The HTM investments consist of the following:

	2018	2017
Government debt securities		
Peso-denominated	656,625,731	472,836,895
Dollar-denominated	608,924,318	474,026,819
	1,265,550,049	946,863,714

The movements of HTM investments follow:

	2018	2017
At January 1	946,863,714	989,233,066
Additions	360,078,000	-
Maturity	-	(33,995,500)
Amortization of bond premium, net	(65,465,007)	(5,456,574)
Foreign exchange adjustments	24,073,342	(2,917,278)
At December 31	1,265,550,049	946,863,714

Proceeds from the maturity of HTM investments is nil as at December 31, 2018 (2017 - P33,995,500).

The outstanding HTM investments mature starting 2023 to 2032. These investments carry net coupon rates that ranged from 2.90% to 10.63% as of December 31, 2018 (2017 - 6.40% to 10.63%).

Interest income from HTM investments amounted to P84,309,233 and P79,732,838 in 2018 and 2017, respectively (Note 16).



## 5. Insurance receivables

The account at December 31 consists of:

	2018	2017
Premiums due and uncollected	48,117,744	38,009,716
Reinsurance recoverable on paid losses	29,352,027	11,001,866
	77,469,771	49,011,582

## 6. Loans and receivables

The account at December 31 consists of:

	Note	2018	2017 (As restated)
Policy loans		263,832,387	235,634,618
Accrued income		135,880,824	116,259,659
Due from unit-linked funds		24,201,804	-
Advances to employees and agents		40,034,046	39,592,215
Other receivables	26	4,320,144	24,176,091
		468,269,205	415,662,583

Policy loans pertain to loans granted to policyholders. The loan is granted with the cash surrender value of the policyholder's insurance policy as collateral. The interest rates on peso and dollar policy loans are pegged at 10% and 8%, respectively, in both 2018 and 2017. Interest income from policy loans amounted to P24,553,854 and P21,604,699 in 2018 and 2017, respectively (Note 16).

Accrued income consist of the following:

	2018	2017
Interest income on:		
AFS financial assets	102,358,671	78,922,623
HTM investments	23,970,816	20,670,054
Cash equivalents	532,259	144,973
Dividend income	9,019,078	16,522,009
	135,880,824	116,259,659

Due from unit-linked funds pertain to the amount to be received by the Company from unit-linked funds as reimbursement for the settlement of withdrawals or surrenders made from unit-linked policies.

Other receivables consist of receivables from parent and advances to policyholders.

## 7. Prepayments and deposits

The account at December 31 consists of:

	Note	2018	2017
Rental and other deposits	31	14,007,034	11,922,175
Prepaid rent	31	8,349,014	5,739,789
Prepayments to suppliers and service providers		3,072,942	3,584,029
		25,428,990	21,245,993

Included under "Rental and other deposit" is the bond requirement deposited for the appeal filed in the appellate court amounting to P7,169,566 as of December 31, 2018 and 2017 (Note 31).

Rental deposits are shown net of unearned interest income. The accretion of interest is reported in others under "Miscellaneous income" account (Note 18).

## 8. Property and equipment, net

The roll forward analysis of this account follows:

2018	Note	Computer and office equipment	Leasehold improvements	Furniture and fixtures	Transportation equipment	Construction in progress	Total
<b>Cost</b>							
January 1		167,126,721	74,120,771	16,821,659	38,032,741	-	296,101,892
Additions		82,884,071	60,825,874	2,150,998	3,387,116	16,370,993	165,619,052
Disposals		(34,240)	-	-	(5,058,468)	-	(5,092,708)
		249,976,552	134,946,645	18,972,657	36,361,389	16,370,993	456,628,236
<b>Accumulated depreciation and amortization</b>							
January 1		115,488,736	20,004,795	3,647,238	12,956,117	-	152,096,886
Depreciation and amortization	22	19,144,999	15,369,694	3,451,339	7,172,539	-	45,138,571
Disposals		(18,135)	-	-	(4,115,356)	-	(4,133,491)
		134,615,600	35,374,489	7,098,577	16,013,300	-	193,101,966
<b>Net book value</b>		<b>115,360,952</b>	<b>99,572,156</b>	<b>11,874,080</b>	<b>20,348,089</b>	<b>16,370,993</b>	<b>263,526,270</b>

2017	Note	Computer and office equipment	Leasehold improvements	Furniture and fixtures	Transportation equipment	Construction in progress	Total
<b>Cost</b>							
January 1		148,357,277	78,338,631	22,209,382	30,074,747	-	278,980,037
Additions		30,598,054	11,360,262	2,929,780	12,319,676	-	57,207,772
Disposals		(11,828,610)	(15,578,122)	(8,317,503)	(4,361,682)	-	(40,085,917)
		167,126,721	74,120,771	16,821,659	38,032,741	-	296,101,892
<b>Accumulated depreciation and amortization</b>							
January 1		114,991,931	25,302,627	8,996,703	8,953,693	-	158,244,954
Depreciation and amortization	22	10,216,609	10,280,334	2,952,923	6,240,294	-	29,690,160
Disposals		(9,719,804)	(15,578,166)	(8,302,388)	(2,237,870)	-	(35,838,228)
		115,488,736	20,004,795	3,647,238	12,956,117	-	152,096,886
<b>Net book value</b>		<b>51,637,985</b>	<b>54,115,976</b>	<b>13,174,421</b>	<b>25,076,624</b>	<b>-</b>	<b>144,005,006</b>

Construction in progress at December 31, 2018 pertains to computer software under development.

Outstanding payable to contractor included under "Accounts payable" account amounted to P89,197,706 and nil as of December 31, 2018 and 2017, respectively (Note 13).

## 9. Other assets

This account consists of:

	2018	2017
Agents' provident fund	38,339,189	36,103,976
Creditable withholding tax	28,052,314	30,409,541
Deferred input VAT	9,009,076	8,704,933
Office supplies	9,102,920	8,417,513
Documentary stamp tax fund	479,677	356,988
Security fund	121,461	121,461
	85,104,637	84,114,412

Agents' provident fund pertains to the assets held by the Company in a fiduciary capacity on behalf of its agents. The Company retains 5% of the agents' commissions and bonuses with a limit of P80,000 a year. The Company contributes to the fund an amount equivalent of what is retained from the agent. The related liability with respect to the fund is presented under "Accounts payable, accrued expenses, and provisions" (Note 13).

The security fund is maintained in compliance with Sections 365 and 367 of the Code. The amount of such fund is determined by and deposited with the IC to pay benefit claims against insolvent companies.

## 10. Insurance provisions

The account at December 31 consists of:

	2018	2017 <i>(As restated)</i>
Aggregate reserves for life policies	7,590,177,372	7,931,845,309
Policyholders' dividends due and unpaid	306,159,772	293,604,161
Policy and contract claims payable	99,175,920	89,265,614
Provision for incurred but not reported (IBNR) claims	73,268,917	87,335,177
	8,068,781,981	8,402,050,261

(a) Aggregate reserves for life policies

Details of the aggregate reserves for life policies (including unearned charges for unit-linked policies) at December 31 follow:

	2018	2017
Gross:		
With fixed and guaranteed terms		
Fixed and guaranteed - nonparticipating	2,214,828,165	2,331,769,209
Partially fixed and guaranteed participating	5,259,876,817	5,435,613,025
Unit-linked (unearned cost of insurance)	115,472,390	164,463,075
Total aggregate reserves for life policies	7,590,177,372	7,931,845,309
Recoverable from reinsurers:		
With fixed and guaranteed terms		
Fixed and guaranteed - nonparticipating	6,535,036	8,120,015
Partially fixed and guaranteed - participating	3,218	2,414,396
Total reinsurers' share of aggregate reserves for life policies	6,538,254	10,534,411
Net:		
With fixed and guaranteed terms		
Fixed and guaranteed - nonparticipating	2,208,293,129	2,323,649,194
Partially fixed and guaranteed participating	5,259,873,599	5,433,198,629
Unit-linked (unearned cost of insurance)	115,472,390	164,463,075
	7,583,639,118	7,921,310,898

The aggregate reserves for life policies may be analyzed as follows:

	2018			2017		
	Insurance provisions	Reinsurers' share of insurance provisions	Net	Insurance provisions	Reinsurers' share of insurance provisions	Net
Aggregate reserves for:						
Ordinary life policies	7,377,813,262	3,218	7,377,810,044	7,663,946,901	2,657,564	7,661,289,337
Group life policies	96,891,720	6,535,036	90,356,684	103,435,333	7,876,847	95,558,486
Unit-linked policies	115,472,390	-	115,472,390	164,463,075	-	164,463,075
Total aggregate reserves for life policies	7,590,177,372	6,538,254	7,583,639,118	7,931,845,309	10,534,411	7,921,310,898

The movements in aggregate reserves during the year follow:

	2018			2017		
	Insurance provisions	Reinsurers' share of insurance provisions	Net	Insurance provisions	Reinsurers' share of insurance provisions	Net
At January 1	7,931,845,309	10,534,411	7,921,310,898	7,522,750,003	7,027,791	7,515,722,212
Premiums received	1,460,261,778	28,915,320	1,431,346,458	1,182,656,659	24,163,984	1,158,492,675
Liability released for payments of death, maturities and surrender benefits and claims year	(2,164,515,805)	(33,572,185)	(2,130,943,620)	(955,276,653)	(21,085,290)	(934,191,363)
Exchange rate effect	136,901,570	49,555	136,852,015	10,425,085	(1,669)	10,426,754
Accretion of investment income	225,684,520	611,153	225,073,367	171,290,215	429,595	170,860,620
At December 31	7,590,177,372	6,538,254	7,583,639,118	7,931,845,309	10,534,411	7,921,310,898

The change in aggregate reserves recorded in the statement of income follows:

	2018			2017		
	Insurance provisions	Reinsurers' share of insurance provisions	Net	Insurance provisions	Reinsurers' share of insurance provisions	Net
Ordinary life	(286,133,639)	(2,654,346)	(283,479,293)	359,134,509	1,317,388	357,817,121
Group life insurance	(6,543,613)	(1,341,811)	(5,201,802)	(79,316,251)	2,187,563	(81,503,814)
Unit-linked	(48,990,685)	-	(48,990,685)	129,277,048	-	129,277,048
Interest rate change	868,362,448	-	868,362,448	(13,448,179)	-	(13,448,179)
Foreign exchange revaluation	(136,901,568)	-	(136,901,568)	(10,425,085)	1,669	(10,426,754)
At December 31	389,792,943	(3,996,157)	393,789,100	385,222,042	3,506,620	381,715,422

Details of movement in the remeasurement on aggregate reserves for the years ended December 31 follow:

	2018	2017
At January 1	(529,691,108)	(516,242,929)
Effect of remeasurement gains (losses) on aggregate reserves, net	868,362,448	(13,448,179)
	338,671,340	(529,691,108)

*(b) Policyholders' dividends due and unpaid*

Policyholder dividends pertain to actual dividends that have already been paid by the Company but not yet withdrawn by the policyholder. They continue to earn interest for the account of the policyholder, which depends on the dividend accumulation rate declared by the Company, and is withdrawable in full at the policyholders' discretion.

(c) *Policy and contract claims payable and provision for IBNR*

The movements during the year in policy and contract claims payable and provision for IBNR follows:

	Note	2018	2017
At January 1		176,600,791	156,479,993
Arising during the year	19	153,875,730	231,937,508
(Reversal of) provision for IBNR	19	(14,066,259)	8,635,971
Paid during the year	19	(133,348,320)	(209,413,583)
Written off claims during the year	18	(10,617,105)	(11,039,098)
At December 31		172,444,837	176,600,791

The written off claims are long outstanding claims related to group policies with a bank that were not claimed by the bank's borrowers with multiple coverage.

## **11. Insurance contract liabilities - terms and assumptions**

### *11.1 Life insurance contract liabilities*

For life insurance contracts with fixed and guaranteed terms (including partially fixed and guaranteed terms), the Company determines assumptions in relation to future deaths, investment returns and future expenses at inception of the contracts. These assumptions are used for calculating the liabilities during the life of the contract. These assumptions are in compliance with statutory requirements.

### *11.2 Changes in valuation methodology*

In August 2013, "The Amended Insurance Code," introduced a number of significant changes, one of which is the change in the valuation of the life insurance companies' policy liabilities, which under Section 216, should be prescribed by the Commissioner of the IC in accordance with internationally accepted actuarial standards. On October 30, 2014, the IC issued Circular Letter No. 2014-42-A, "Valuation for Life Insurance Policy Reserves," pursuant to which life insurance companies and mutual benefit associations will be changing the standards of valuation of their life insurance reserves for traditional life products from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV). For variable life products, there were no changes in valuation standards, and shall be calculated using unearned cost of insurance basis. The latest circular, IC Circular Letter No. 2016-66, pertaining to revised guidelines on the "Valuation for Life Insurance Policy Reserves" was issued last December 28, 2016. Notable changes from Circular Letter No. 2014-42-A is the use of a moving average of the 20-year government bond yield rate for the discounting of the cash flows with duration of more than 20 years.

After requiring several parallel runs from periods December 2014 to December 2016, the Commission issued IC Circular No. 2016-69 on December 28, 2016 to lay out the full implementation requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework. Implementation of those changes was effective starting January 1, 2017.



Reserves under the GPV method is calculated as the sum of the present value of future benefits and expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate risk-free discount rate. For this purpose, the expected future cash flows shall be determined using best estimate assumptions with due regard to significant recent experience and appropriate margin for adverse deviation from the expected experience. Best estimate assumptions include discount rates, decrements such as mortality and morbidity, lapse, expenses, and non-guaranteed benefits. Under this new standard, reserves must include appropriate margins for adverse deviations in respect of the risks that arise under the insurance policy. The calculation of reserves must also be in accordance with the internationally accepted actuarial standards and must consider the generally accepted actuarial principles concerning financial reporting framework promulgated by the Actuarial Society of the Philippines (ASP).

### 11.3 *Key assumptions*

Assumptions used for product pricing are different from the assumptions used in calculating aggregate reserves for life policies. Assumptions used are based on past experience, current internal data and conditions and external market indices and benchmarking, which reflect current observable market prices and other published information. Such assumptions are determined as appropriate and prudent estimates at the date of valuation, and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations. Assumptions are also subject to the provisions of the Code and guidelines set by the Insurance Commission.

The key assumptions to which estimation of the aggregate reserves for life policies is particularly sensitive follows:

- *Mortality and morbidity*

The mortality and morbidity assumptions are based on rates of mortality and morbidity that are appropriate to the nature of the risks covered based on the Company's actual experience.

- *Lapses and/or persistency rates*

Lapse and/or persistency rates reflective of the Company's actual experience are taken as the best estimate lapse and/or persistency assumption, with regard to changing Company practices and market conditions.

- *Expenses*

The expense assumptions are based on the Company's experience derived from its latest expense study.

- *Discount rates*

Discount rates relate to the time value of money. Discount rate assumptions are based on current observed rates in the market adjusted for default risk. The valuation interest rate assumptions are consistent with risk free rates as provided by IC.

The assumptions are reviewed and revised at each reporting date. A decrease in discount rate would result in remeasurement loss on life insurance reserves.

#### 11.4 Sensitivity tests

The analysis below is performed for a reasonable possible movement in key assumptions with all other assumptions held constant, on income and equity.

The sensitivity in the key assumptions being monitored by the Company is presented as follows:

	Change in assumption	Impact on income before income tax and equity Increase/(decrease)	
		2018	2017
Mortality	+10%	(14,626,570)	(23,983,208)
	-10%	14,468,073	24,082,058
Interest rate	+100 bps	504,044,236	863,974,397
	-100 bps	(888,625,076)	(1,241,848,854)
Expense	+10%	(24,563,548)	(31,365,947)
	-10%	24,217,124	31,306,498
Lapse and/or persistency	+10%	(25,235,634)	(45,311,826)
	-10%	23,558,040	42,842,585

#### 11.5 Reinsurance - assumptions and methods

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. Amounts receivable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented under "Reinsurance assets" in the assets section of the statement of financial position.

Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any reinsurance contract.

#### 12. Premium deposit fund

This account pertains to funds held for policyholders which could be applied as payment for any future unpaid premiums. The accumulated fund shall not exceed the total future premium payments under the policy. As at December 31, 2018 and 2017, premium deposit fund amounted to P428,536,042 and P347,479,014, respectively.

The fund bears interest at rates ranging from 1.50% to 2.50% in 2018 and 2017. Interest expense of the Company charged against statement of income amounted to P9,748,063 and P7,800,228 in 2018 and 2017, respectively.

### 13. Accounts payable, accrued expenses, and provisions

This account at December 31 consists of:

	Notes	2018	2017 (As restated)
Accrued expenses	23, 24, 20	416,654,653	276,676,143
Premium holding account		266,941,617	147,629,685
Accounts payable		194,360,643	151,203,424
Payable to policyholders		142,737,593	97,139,918
Due to unit-linked fund		34,659,465	21,572,057
Taxes payable		23,840,024	17,865,943
		1,079,193,995	712,087,170

Accrued expenses represent accruals for employee salaries and benefits and agents' commissions which are due to be settled within one year and the estimated amount vested for agents' provident fund.

Premium holding account pertains to unallocated payment of policyholders which can be withdrawn anytime.

Accounts payable pertains to short-term outstanding payables to Social Security System, Pag-ibig and Philhealth which are due to be settled within one year. Stale checks for the period are also included in this account.

Payable to policyholders pertain to endowment payments which are due at anniversary dates.

Due to unit-linked fund pertains to the investment portion of premiums received from the policyholders that are yet to be invested in unit-linked funds.

Taxes payable pertains to all taxes that are payable by the Company which includes premium taxes and withholding taxes.

### 14. Capital stock; Contingency surplus

#### (a) Capital stock

This account consists of:

	2018		2017	
	Shares	Amount	Shares	Amount
Common shares - P10,000 par value				
Authorized	25,000	250,000,000	25,000	250,000,000
Issued and outstanding				
At beginning of the year	25,000	250,000,000	25,000	250,000,000
Issuances during the year	-	-	-	-
At end of the year	25,000	250,000,000	25,000	250,000,000

#### (b) Contingency surplus

The Company received additional capital contribution to cover the Company's capital requirements as required by the IC. This amounts to P1,300,000,000 as at December 31, 2018 and 2017.



## 15. Net insurance premiums

Net premiums on insurance contracts consist of:

	Note	2018	2017
Gross premiums			
Ordinary life insurance		1,184,697,902	893,963,377
Group life insurance		162,750,807	230,179,983
Unit-linked	3	8,222,394,687	4,562,957,065
Total gross premiums on insurance contracts		9,569,843,396	5,687,100,425
Premiums allocated to unit-linked insurance investment funds	3	(7,665,405,836)	(4,207,752,569)
		1,904,437,560	1,479,347,856

Reinsurers' share of gross premiums on insurance contracts consists of:

		2018	2017
Reinsurers' share of gross premiums on insurance contracts			
Ordinary life insurance		16,523,827	17,238,959
Group life insurance		8,303,475	6,925,024
		24,827,302	24,163,983

## 16. Investment income

The sources of investment income consist of:

	Notes	2018	2017
Interest income on:			
AFS financial assets	4	445,714,760	359,410,562
HTM investments	4	84,309,233	79,732,838
Policy loans	6	24,553,854	21,604,699
Cash equivalents	2	3,617,667	2,703,861
Cash in banks	2	371,375	539,555
Dividend income	4	59,106,376	75,297,208
		617,673,265	539,288,723

## 17. Referral and trust fees

Referral and trust fees pertains to fund management income earned from policyholders of unit-linked insurance policies for management of unit-linked funds. The Company used rates ranging from 0.50% to 1.70% in 2018 and 2017.

## 18. Miscellaneous income

Miscellaneous income consists of:

	2018	2017
Written off claims payable	10,617,105	11,039,098
(Loss) gain on disposal of fixed assets	(775,754)	1,112,315
Reinstatement charges	553,428	966,369
Others	5,467,388	(2,241,636)
	15,862,167	10,876,146

Others mainly pertain to various stale checks that were closed to income as these stale checks have been long outstanding, accretion of interest on rental deposits (Note 7), and reversal of accounts previously written-off.

## 19. Claims and policyholder benefits

The net insurance contract benefits and claims consist of:

	2018	2017
Gross life insurance contract benefits and claims:		
Ordinary life insurance	517,562,770	341,462,632
Group life insurance	117,189,021	216,156,687
Unit-linked	33,169,856	12,438,395
	667,921,647	570,057,714
Reinsurers' share of gross life insurance contract benefits and claims on group life insurance	(28,440,689)	(8,142,417)
	639,480,958	561,915,297

The breakdown of the net insurance contract benefits and claims follow:

	Note	2018	2017
Policyholder benefits		469,664,107	294,330,930
Claims and other benefits	10	153,875,730	231,937,508
Dividends to policyholders		15,941,121	35,646,859
		639,480,958	561,915,297

Changes in the provision for IBNR amounts to a reversal of P14,066,259 for the period ended December 31, 2018 (2017 - additional provision of P8,635,971) (Note 10).

The breakdown of the net insurance contract benefits and claims paid follow:

	2018	2017
Policyholder benefits	449,651,030	341,021,848
Claims and other benefits	133,348,320	209,413,583
Dividends to policyholders	3,385,511	29,466,760
	586,384,861	579,902,191

The gross change in aggregate reserves follows:

	2018	2017
Ordinary life insurance	(286,133,640)	359,134,509
Group life insurance	(6,543,612)	(79,316,251)
Unit-linked	(48,990,685)	129,277,048
Interest rate change	868,362,448	(13,448,179)
Foreign exchange revaluation	(136,901,568)	(10,425,085)
	389,792,943	385,222,042

The reinsurers' share of change in aggregate reserves follows:

	2018	2017
Ordinary life insurance	(2,654,346)	1,317,388
Group life insurance	(1,341,811)	2,189,232
	(3,996,157)	3,506,620

## 20. Commissions and agency-related compensation

	2018	2017
Commissions and bonuses	445,176,910	273,890,456
Service fee	158,736,648	126,424,038
	603,913,558	400,314,494

Commissions and bonuses pertain to the commission expense incurred for approved and issued policy contracts provided by the agents. Commission overrides are paid to managers based on the production made by the agents under them and bonuses are commissions granted to sales force after meeting certain criteria or conditions.

Service fees pertain to the fees incurred in exchange for referrals and services provided to the Company as part of selling individual and group life insurance products.

## 21. Taxes and licenses

	2018	2017
Premium tax	27,247,193	22,728,778
Documentary stamp tax	3,634,105	1,760,250
	30,881,298	24,489,028

Premium tax is a government tax levied on premium income derived by the Company from selling insurance coverage to its clients.

Documentary stamp tax pertains to stamp duties paid for all documents of issued policies.



## 22. General and administrative expenses

	Notes	2018	2017
Salaries, wages and employee benefits	23	281,702,493	226,256,920
Meetings and marketing campaigns		139,871,722	79,203,766
Professional fees		66,322,381	37,883,484
Equipment maintenance		50,427,858	36,743,229
Depreciation and amortization	8	45,138,571	29,690,160
Travel		34,290,500	27,259,285
Rent	31	23,979,753	19,460,548
Communication		22,129,720	18,587,370
Utilities		18,764,485	15,113,343
Taxes and licenses		13,746,457	10,773,889
Recruitment		13,733,960	8,393,998
Printing and supplies		11,542,099	12,525,624
Entertainment, amusement and recreation		6,537,808	12,547,110
Membership fees		1,780,641	3,042,139
Others		13,881,618	6,914,474
		743,850,066	544,395,339

Others pertain to bank charges, company gifts, temporary help, and miscellaneous losses.

## 23. Salaries, wages and employee benefits

This account consists of:

	Note	2018	2017
Salaries and wages		356,002,435	248,076,784
Net increase in restricted stock units		15,492,390	11,166,202
Net pension expense	24	14,241,620	7,262,573
Staff meetings and activities		7,797,283	7,211,275
Life and health insurance		4,195,393	4,103,006
Social security costs		4,134,892	3,033,757
Other benefits		39,336,383	30,815,175
		441,200,396	311,668,772

Other benefits include sick leave conversion, rewards, and expenses in employee events.

The total salaries, wages and employee benefits recorded as part of "Insurance expenses" and "General and administrative expenses" in the statements of income follows:

	Note	2018	2017
Insurance expenses		159,497,903	85,411,852
General and administrative expenses	22	281,702,493	226,256,920
Total salaries, wages and employee benefits		441,200,396	311,668,772

### *Restricted Stock Units ("RSUs")*

Allianz SE, the Company's parent, has incentive compensation plan granting its qualified employees and employees of its subsidiaries worldwide share-based compensation under its Allianz Equity Incentive plan (the "Plan"). The Plan obligates Allianz SE to pay in cash the average closing price of Allianz SE share on the last day of the vesting period and the prior nine trading days, or to convert one RSU into one Allianz SE share. The payout is capped at 200% share price above the grant price.

The RSUs under the Plan are subject to four years of vesting period and Allianz SE plans to settle in cash. The RSUs are accounted for as cash-settled.

Starting 2016, one of the Company's employees has been covered by the Plan. Allianz SE directly bills the Company for the share of the employee in the fund, the related derivative, and the corresponding changes in fair value. The Company expenses the fair market value of the RSU, as determined on the grant date, ratably over the period during which the restrictions lapse. Compensation billed by Allianz SE to the Company in relation to the RSU under this Plan recorded under "General and administrative expense" account amounted to P15,492,390 and P11,166,202 in 2018 and 2017, respectively (Notes 22 and 23).

Provisions in relation to the RSU recognized under the "Accounts payable, accrued expenses, and provisions" account in the Company's statement of financial position amounted to P49,965,659 and P34,473,269 as of December 31, 2018 and 2017, respectively (Note 13).

Reconciliation of outstanding grants as of December 31 follows:

	2018	2017
January 1	2,942	3,300
Granted	1,616	646
Exercise (Release)	(791)	(1,004)
December 31	3,767	2,942

The RSUs under the Plan are valued based on the fair value after subtracting the net present value of expected future dividend payments until maturity as well as the fair value of the cap from the prevailing share price as of valuation date. The cap is valued as a European short call option, using prevailing market data as of the valuation date. The table below lists the inputs to the model used for the years ended December 31, 2018 and 2017:

	2018	2017
Share price	€183.80	€167.45
Dividend yield	4.80%	4.80%
Expected volatility	20.20%	22.90%
Risk-free interest rate	(0.10%)	(0.10%)

The expected volatility reflects the assumption that the implied volatility applied to RSU under the Plan is indicative of future trends, which may also not necessarily be the actual outcome. No other features of the RSU were incorporated into the measurement of fair value.

#### *Derivative asset in relation to the RSU*

In 2016, the Company and Allianz SE entered into an arrangement whereby the Company shall collect from or pay to the latter depending on the fair value of the assets underlying the hedging arrangement.

At any inception of a new RSU under the Plan, the Company agrees to buy from Allianz SE and the latter agrees to sell to the Company the same number of rights under this arrangement ("Rights"). The purchase price corresponds to the fair value of the Rights at the grant date. As a matter of principle, the fair value of the Rights is at all times identical to the fair value of RSU under the Plan. The number of Rights is continuously adjusted to reflect exercises, forfeitures, cancellations, and transfers of RSU within the Allianz group.

Allianz SE directly bills the Company for the fair value of the Rights. As of each reporting day as determined by Allianz SE, the net receivable or liability position between the Company and Allianz SE shall be settled in cash in terms of Euros.

The fair value of the Rights, recognized under "Derivative asset" account as of December 31, 2018 and 2017 amounted to P32,469,312 and P28,513,871, respectively. The increase in fair value recorded under "Net fair value (loss) gain on financial assets at FVTPL" amounted to P5,503,998 and P7,010,648 in 2018 and 2017, respectively. The fair value of the Rights, as determined by Allianz SE, is based on best estimate for the value of a hedge right. The fair value of Rights is considered to be Level 2.

#### **24. Employee benefits**

The Company has a non-contributory defined benefit pension plan, covering substantially all of its employees, which requires contribution to be made to an administered fund. The Company's qualified contributory retirement fund is administered by the PNB.

The following tables summarize the components of net benefit expense recognized in the statement of comprehensive income and the amounts recognized in the statement of financial position.

##### *(a) Net benefit expense*

	Note	2018	2017
Current service cost		13,128,922	7,045,801
Net interest cost		1,112,698	216,772
Net pension expense	23	14,241,620	7,262,573

##### *(b) Remeasurement adjustments*

	2018	2017
Actuarial (gain) loss on defined benefit obligation	(18,544,642)	22,396,626
Actuarial loss on plan assets	4,041,496	1,869,348
Remeasurement (gains) losses for the year	(14,503,146)	24,265,974
Deferred income tax effect	4,350,944	(7,279,792)
Remeasurement (gains) losses, net of tax	(10,152,202)	16,986,182



(c) Net pension liability

	2018	2017
Present value of defined benefit obligation	61,762,081	68,633,263
Fair value of plan assets	(60,012,066)	(46,686,554)
Net pension liability	1,750,015	21,946,709

Changes in the present value of defined benefit obligation follow:

	2018	2017
Defined benefit obligation, beginning of year	68,633,263	50,287,412
Current service cost	13,128,922	7,045,801
Interest cost	3,479,706	2,630,032
Transfer to provisions for those resigned/retired employees	-	(13,726,608)
Benefits paid	(4,935,168)	-
Remeasurements in other comprehensive income		
Actuarial changes arising from changes in financial assumptions	(22,551,104)	9,271,958
Actuarial changes arising from experience adjustments	4,006,462	13,124,668
Defined benefit obligation, end of year	61,762,081	68,633,263

Below is the schedule of vested and non-vested benefits:

	2018	2017
Vested	4,715,262	8,719,645
Non-vested	57,046,819	59,913,618

Changes in the fair value of plan assets follow:

	2018	2017
Fair value of plan assets, beginning of year	46,686,554	46,142,642
Contribution	19,935,168	-
Interest income	2,367,008	2,413,260
Benefits paid	(4,935,168)	-
Actuarial loss on plan asset	(4,041,496)	(1,869,348)
Fair value of plan assets, end of year	60,012,066	46,686,554

The principal assumptions used in determining pension obligation for the Company's plan are shown below.

	2018	2017
Discount rate	7.40%	5.07%
Rate of salary increases	7.00%	7.00%

Mortality table and disability table used in the valuation in 2018 and 2017 are the 1994 Group Annuity Table and the 1952 Disability Table, respectively.

Employee turnover was assumed, based on the result of the most recent experience study with margins for fluctuations, as follows:

- For employees with less than 1 year of service: 10.0%
- For employees with 1 or more years of service:

Age	Rate (%)
20	10.00%
30	7.50%
40	5.00%
50	2.50%
60	100%

The Company applies asset-liability matching techniques to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement fund. The Company has established a formal Asset-Liability Management Study conducted by the Company's actuary every three years to capture changes in the demographic profile changes of the employees and changes in the economic environment affecting the amounts of maturing obligations and rates of returns of available investment instruments. In the study, expected benefit payments are projected and classified into short-term, medium term or long-term liabilities. Investment instruments that would match the liabilities are identified. The investment mixes that would yield the maximum returns at certain risk levels are identified using Markowitz Portfolio Theory (MPT) or the Mean Variance Framework.

The following is the distribution of the Company's plan assets stated at fair value as of December 31:

	2018	2017
Cash	3,363	3,989
Debt securities	39,140,090	25,191,793
Equity securities	21,518,385	20,745,565
Accrued interest	305,156	793,720
Other assets	17,642	-
Total assets	60,984,636	46,735,067
Liabilities	972,570	48,513
Net assets	60,012,066	46,686,554

Pension plan assets of the retirement plan include investments in PNB's unit investment trust funds amounting to P14.8 million at December 31, 2018 (2017 - P14.9 million). Unrealized loss coming from these investments amount to P0.53 million in 2018 (2017 - P0.26 million).

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions are held constant:

2018	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	+/- 0.50%	(3,770,448)	2,078,206
Salary increase rate	+/- 0.25%	2,021,566	(3,890,434)
Turnover rate	+/- 10.00%	3,126,986	(3,126,986)

2017	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	+/- 0.50%	(4,218,296)	2,544,031
Salary increase rate	+/- 0.25%	2,229,336	(4,217,651)
Turnover rate	+/- 10.00%	(3,548,926)	3,548,926

The maturity analysis of the undiscounted benefit payments as of December 31 based on normal retirements (retirement age of 60) is as follows:

Date of retirement	Percentage to pension obligation	
	2018	2017
Payable in the next 5 years	1%	2%
Payable in the next 6 - 10 years	25%	24%
Payable beyond 10 years	74%	74%

The average duration of the defined benefit plan obligation as of December 31, 2018 and 2017 is 17 years and 18 years, respectively.

## 25. Income tax

The provision for income tax consists of:

	2018	2017
Current		
Final tax	73,046,581	50,403,827
MCIT	8,823,901	9,331,599
Deferred	(46,928,664)	(21,314,456)
	34,941,818	38,420,970

The net deferred income tax recognized as of December 31, 2018 and 2017 are as follows:

	Note	2018	2017
Tax effects of:			
Accrued expenses		77,321,496	58,654,170
Unamortized excess contribution		6,248,388	5,160,458
Net pension liability		11,418,517	15,769,461
Net increase in restricted stock units		4,647,717	5,322,363
Unrealized foreign exchange loss		30,872,783	4,747,805
Deferred tax assets	29	130,508,901	89,654,257
Tax effects of:			
Unrealized gain on derivative asset		(1,651,199)	(3,374,275)
Unrealized fair value changes in fluctuation of AFS		(4,920,000)	(3,195,000)
Deferred tax liabilities		(6,571,199)	(6,569,275)
Deferred tax assets, net		123,937,702	83,084,982

Movements in net deferred income tax assets (liabilities) follow:

	2018	2017
At January 1	83,084,982	56,825,099
Amounts credited to statement of income	46,928,664	21,314,456
Amounts (charged against) credited to other comprehensive income	(6,075,944)	4,945,427
At December 31	123,937,702	83,084,982

Deferred income tax assets were not recognized on the following items as it is not expected that sufficient future taxable profits will be available against which these items can be utilized prior to their expiration:

	2018	2017
NOLCO	396,104,328	125,928,377
MCIT	22,404,104	19,419,203

The details of the Company's NOLCO as at December 31 are as follows:

Year of Payment	Year of Expiry	2018	2017
2018	2021	270,175,951	-
2017	2020	15,539,190	15,539,190
2016	2019	110,389,187	110,389,187
		396,104,328	125,928,377
Expired NOLCO		-	-
		396,104,328	125,928,377

The details of the Company's MCIT as at December 31 are as follows:

Year of Payment	Year of Expiry	2018	2017
2018	2021	8,823,901	-
2017	2020	9,331,599	9,331,599
2016	2019	4,248,604	4,248,604
2015	2018	5,839,000	5,839,000
2014	2017	-	5,083,740
		28,243,104	24,502,943
Expired MCIT		(5,839,000)	(5,083,740)
		22,404,104	19,419,203

The reconciliation of the statutory income tax rate to the effective income tax rate follows:

	2018	2017
Statutory income tax rate	30.00	30.00
Add (deduct) tax effects of:		
Interest income subjected to final tax	(24.33)	(24.04)
Income exempt from tax	(11.81)	(13.14)
Temporary deductible differences for which no deferred tax asset is recognized	5.88	10.93
Nondeductible expenses	23.54	18.59
Effective income tax rate	23.28	22.34



## 26. Related party transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Company, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form. No provision for impairment has been made for amounts owed by related parties since collection is deemed to be reasonably certain.

Significant transactions with related parties follow:

*As at and for the year ended December 31, 2018:*

	Transactions	Outstanding balances	Terms and conditions
<b>Parent Company</b>			
<b>Allianz SE</b>			
Net increase in RSU, including fair value adjustments (Note 23)	15,492,390	49,965,659	- Noninterest-bearing - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
Net increase in derivative asset in relation to RSU, including fair value adjustment (Note 23)	3,955,441	32,469,312	- Noninterest-bearing - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
<b>Significant investor</b>			
<b>PNB</b>			
Savings and current accounts	341,254,182	341,254,182	- Interest-bearing - Unsecured and unguaranteed
Time deposits	300,000,000	300,000,000	- Interest-bearing - Unsecured and unguaranteed
Retirement fund	4,935,168	60,012,066	- Interest-bearing - Unsecured and unguaranteed
Referral fees	144,332,627	40,143,514	- 15-day; non-interest bearing - Unsecured and unguaranteed - Settled in cash at gross
Rent expense	22,385,448	-	- 30-day; non-interest bearing - Unsecured and unguaranteed - Settled in cash at gross
Premiums	2,669,813	461,693	- Due and demandable, settled in cash at gross - Unsecured and unguaranteed
Claims	16,978,786	-	- Due and demandable, settled in cash at gross - Unsecured and unguaranteed
<b>Entities under common control</b>			
<b>Allianz Investment Management Singapore (AIMS)</b>			
Investment Management Fees	4,006,440	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
<b>Allianz Technology (Thailand) Co. Ltd.</b>			
EDP-Software costs	-	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Software Maintenance costs	6,469,281	442,426	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross

	Transactions	Outstanding balances	Terms and conditions
Allianz Asia Pacific Consultancy Fee	39,257,989	1,428,148	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Reinsurance Asia Pacific (ARAP) Reinsurance	4,549,178	1,152,197	- 90-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
<b>Category</b> <i>Other related parties</i>			
PNB Savings			
Savings and current accounts	5,045,842	5,045,842	- Interest-bearing - Unsecured and unguaranteed
Time deposits	-	-	- Interest-bearing - Unsecured and unguaranteed
Referral Fees	14,290,367	675,948	- 15-day; non-interest bearing - Unsecured and unguaranteed - Settled in cash at gross
Premiums	70,724,496	7,775,180	- Due and demandable, settled in cash at gross - Unsecured and unguaranteed
Claims	450,022	450,022	- Due and demandable, settled in cash at gross - Unsecured and unguaranteed
PNB Capital and Investment Corporation Premiums	10,730	-	- Due and demandable, settled in cash at gross - Unsecured and unguaranteed
Japan PNB Finance and Leasing Corporation Premiums	33,000	-	- Due and demandable, settled in cash at gross - Unsecured and unguaranteed
PNB General Insurers, Inc. Premiums	153,016	-	- Due and demandable, settled in cash at gross - Unsecured and unguaranteed
PNB Securities, Inc. Premiums	7,955	-	- Due and demandable, settled in cash at gross - Unsecured and unguaranteed
<i>Key management compensation</i>			
Salaries and other short- term benefits	74,069,388	-	
RSUs	9,988,391	(1,035,671)	
Relocation benefits	-	-	
Retirement cost	4,221,405	-	
<b>Total</b>	<b>1,085,281,355</b>	<b>840,240,518</b>	

As at and for the year ended December 31, 2017:

	Transactions	Outstanding balances	Terms and conditions
<b>Parent Company</b>			
<b>Allianz SE</b>			
Net increase in RSU, including fair value adjustments (Note 23)	11,166,202	11,166,202	- Noninterest-bearing - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
Net increase in derivative asset in relation to RSU, including fair value adjustment (Note 23)	2,956,313	28,513,871	- Noninterest-bearing - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
<b>Significant investor</b>			
<b>PNB</b>			
Savings and current accounts	311,553,971	311,553,971	- Interest-bearing - Unsecured and unguaranteed
Time deposits	577,602,000	-	- Interest-bearing - Unsecured and unguaranteed
Retirement fund	13,726,608	46,686,554	- Interest-bearing - Unsecured and unguaranteed
Referral fees	124,742,991	38,759,484	- 15-day; non-interest bearing - Unsecured and unguaranteed - Settled in cash at gross
Rent expense	18,767,767	-	- 30-day; non-interest bearing - Unsecured and unguaranteed - Settled in cash at gross
Premiums	13,007,562	-	- Due and demandable, settled in cash at gross - Unsecured and unguaranteed
Claims	10,857,665	9,298,550	- Due and demandable, settled in cash at gross - Unsecured and unguaranteed
<b>Entities under common control</b>			
<b>Allianz Investment Management Singapore (AIMS)</b>			
Investment Management	1,391,116	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
<b>Allianz Technology (Thailand) Co. Ltd.</b>			
EDP-Software costs	10,227,903	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Software Maintenance costs	1,214,627	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
<b>Allianz Asia Pacific Consultancy Fee</b>			
	19,270,274	11,509,721	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
<b>Allianz Reinsurance Asia Pacific (ARAP)</b>			
Reinsurance	7,805,965	7,805,965	- 90-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross

	Transactions	Outstanding balances	Terms and conditions
<i>Other related parties</i>			
PNB Savings			
Savings and current accounts	7,131,087	7,131,087	- Interest-bearing - Unsecured and unguaranteed
Time deposits	125,000,000	125,000,000	- Interest-bearing - Unsecured and unguaranteed
Referral Fees	5,637,612	582,894	- 15-day; non-interest bearing - Unsecured and unguaranteed - Settled in cash at gross
Premiums	68,131,084	-	- Due and demandable, settled in cash at gross - Unsecured and unguaranteed
Claims	-	-	- Due and demandable, settled in cash at gross - Unsecured and unguaranteed
PNB Capital and Investment Corporation			
Premiums	9,805	-	- Due and demandable, settled in cash at gross - Unsecured and unguaranteed
Japan PNB Finance and Leasing Corporation			
Premiums	29,878	-	- Due and demandable, settled in cash at gross - Unsecured and unguaranteed
PNB General Insurers, Inc.			
Premiums	164,492	-	- Due and demandable, settled in cash at gross - Unsecured and unguaranteed
PNB Securities, Inc.			
Premiums	6,660	-	- Due and demandable, settled in cash at gross - Unsecured and unguaranteed
<i>Key management compensation</i>			
Salaries and other short-term benefits	86,579,938	-	
RSUs	2,306,383	-	
Relocation benefits	-	-	
Retirement cost	2,967,401	-	
<b>Total</b>	<b>1,422,255,304</b>	<b>598,008,299</b>	



## 27. Restatement

The December 31, 2017 and January 1, 2017 financial statements of the Company have been restated to reflect the following presentation changes in its financial statements. Accordingly, a three-year statement of financial position was presented.

- The Company retroactively changed the presentation of financial assets and liabilities for unit-linked contracts. The various components of these financial assets and liabilities were previously presented as part of each of the financial assets and liabilities classification in the statement of financial position. These financial assets and liabilities were now presented under financial assets and liabilities for unit-linked contracts as a separate line item. This reflects how the Company manages these unit-linked funds as these are considered as group of financial assets and liabilities that is managed together and its performance is evaluated on a fair value basis.
- The Company retroactively changed the presentation of investible funds received from unit-linked policyholders which were not yet invested to the unit-linked funds. These amounts were reclassified from financial liabilities for unit-linked contracts to accounts payable, accrued expenses and provisions.
- The Company reclassified certain items of premium deposit fund and insurance provisions to accounts payable, accrued expenses and provisions to be consistent with the nature of the liabilities.

Summarized below is the impact of the above changes in the Company's financial statements follow:

### a) Impact to the statements of financial position

At December 31, 2017	As previously presented	Effects of restatement	As restated
<b>ASSETS</b>			
Cash and cash equivalents held in insurance investment funds	656,360,749	(656,360,749)	-
Investment securities held in insurance investment funds carried at fair value through PL	15,592,115,548	(15,592,115,548)	-
Loans and receivables	521,274,321	(105,611,738)	415,662,583
Financial assets at fair value through profit or loss	1,047,930,532	160,471,204	1,208,401,736
Financial assets for unit-linked contracts	-	16,095,741,952	16,095,741,952
<b>Total assets</b>	<b>27,484,587,044</b>	<b>(97,874,879)</b>	<b>27,386,712,165</b>
<b>LIABILITIES</b>			
Insurance provisions	8,418,909,729	(16,859,468)	8,402,050,261
Premium deposit fund	397,752,761	(50,273,747)	347,479,014
Accounts payable, accrued expenses and provisions	721,256,777	(9,169,607)	712,087,170
Financial liabilities for unit-linked contracts	16,117,314,009	(21,572,057)	16,095,741,952
<b>Total liabilities</b>	<b>25,688,232,690</b>	<b>(97,874,879)</b>	<b>25,590,357,811</b>

<b>At January 1, 2017</b>	<b>As previously presented</b>	<b>Effects of restatement</b>	<b>As restated</b>
<b>ASSETS</b>			
Cash and cash equivalents held in insurance investment funds	835,680,825	(835,680,825)	-
Investment securities held in insurance investment funds carried at fair value through PL	12,862,811,567	(12,862,811,567)	-
Loans and receivables	476,468,186	(51,467,960)	425,000,226
Financial assets at fair value through profit or loss	1,049,755,273	232,798,752	1,282,554,025
Financial assets for unit-linked contracts	-	13,491,579,484	13,491,579,484
<b>Total assets</b>	<b>24,307,738,360</b>	<b>(25,582,116)</b>	<b>24,282,156,244</b>
<b>LIABILITIES</b>			
Insurance provisions	7,962,472,251	(13,741,352)	7,948,730,899
Premium deposit fund	389,857,688	(45,518,711)	344,338,977
Accounts payable, accrued expenses and provisions	581,903,193	71,314,459	653,217,652
Financial liabilities for unit-linked contracts	13,529,215,996	(37,636,512)	13,491,579,484
<b>Total liabilities</b>	<b>22,476,628,940</b>	<b>(25,582,116)</b>	<b>22,451,046,824</b>

b) Impact to the statements of cash flows

<b>For the year ended December 31, 2017</b>	<b>As previously presented</b>	<b>Effects of restatement</b>	<b>As restated</b>
Net cash from operating activities	790,133,196	216,161,109	1,006,294,305
Net cash used in investing activities	(604,154,985)	-	(604,154,985)
Effect of exchange rate changes on cash and cash equivalents	11,201,270	(36,841,033)	(25,639,763)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>197,179,481</b>	<b>179,320,076</b>	<b>376,499,557</b>

The restatement did not impact the statements of income and comprehensive income.

## 28. Summary of Significant Accounting Policies

### 28.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). The term PFRSs in general includes all applicable PFRSs, Philippine Accounting Standards (PASs), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

The financial statements of the Company have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets, financial assets at FVTPL, financial assets and liabilities for unit-linked contracts and derivative financial instruments which have been measured at fair value. The financial statements are presented in Philippine Peso ("Peso" or "PHP"), which is the Company's functional currency.

### 28.2 Changes in accounting policies and disclosures

#### (a) New standards adopted by the Company

The following standards have been adopted by the Company effective January 1, 2018:

- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 18, 'Revenue' which covers contracts for goods and services and PAS 11, *Construction contracts*, which covers construction contracts. The Company's insurance contracts will continue to be measured in accordance with the provisions of PFRS 4, *Insurance Contracts*. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue can be recognized: (1) identify contracts with customers, (2) identify the separate performance obligation, (3) determine the transaction price of the contract, (4) allocate the transaction price to each of the separate performance obligations, and (5) recognize the revenue as each performance obligation is satisfied. These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications.

The adoption of PFRS 15 did not have a significant impact to the financial statements as the Company's revenues from contracts with customers arise largely from activities related to the issuance of insurance contracts and is therefore outside of the scope of PFRS 15.

(b) *New standards not yet effective and not early adopted by the Company*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018, and have not been applied in preparing these financial statements. None of these standards are expected to have a significant effect on the financial statements of the Company, except the following as set out below:

- PFRS 17, 'Insurance Contracts' (effective January 1, 2023). PFRS 17, 'Insurance contracts'. PFRS 17 was issued in May 2017 as replacement for PFRS 4, 'Insurance Contracts'. The Insurance Commission, through its Circular Letter 2018-69, has deferred the implementation of PFRS 17 for life insurance and non-life insurance industry to January 1, 2023. PFRS 17 represents a fundamental change in the accounting framework for insurance contracts requiring liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts.

It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of (1) discounted probability-weighted cash flows, (2) an explicit risk adjustment, and (3) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under PFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

Allianz Group's management is currently reviewing the impact of IFRS 17 across its entire business (including the Company) and has established a project team to manage the implementation approach.

- PFRS 9, '*Financial instruments*' (effective January 1, 2018). PFRS 9 deals with the classification, measurement and impairment of financial instruments, as well as hedge accounting.

PFRS 9 replaces the multiple classification and measurement models for financial assets in PAS 39 'Financial Instruments: Recognition and Measurement' with a single model that has three classification categories: amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. Classification under PFRS 9 is driven by the entity's business model for managing and holding the financial assets and whether the contractual characteristics of the financial assets represent solely payments of principal and interest. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. The classification and measurement of financial liabilities under PFRS 9 remains the same as in PAS 39 except where an entity has chosen to measure a financial liability at fair value through profit or loss. For such liabilities, changes in fair value arising from changes in the entity's own credit risk are presented separately in OCI.

The impairment rules of PFRS 9 introduce an 'expected credit loss' model that replaces the 'incurred credit loss' model used in PAS 39. Such new impairment model will generally result in earlier recognition of losses compared to PAS 39.

The hedging rules of PFRS 9 better align hedge accounting with an entity's risk management strategies. Also, some of the prohibitions and rules in PAS 39 are removed or changed, making hedge accounting easier or less costly to achieve for many hedges.



On the adoption of PFRS 9, the Company will be required to consider the business model objective for holding financial instruments and the nature of the cash flow characteristics of the financial instruments held. These may be impacted by the basis of measurement of the Company's insurance liabilities at the time when PFRS 9 is adopted.

Although PFRS 9 has an effective date for accounting periods beginning on or after January 1, 2018, the Company has elected to avail of the optional relief provided in '*Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts (Amendments to PFRS 4)*'. The Company will apply the temporary exemption from applying PFRS 9 until the date the Company first adopts PFRS 17, Insurance Contracts- which is expected to be the accounting period beginning January 1, 2023. The basis for Company's eligibility for electing to defer the application of PFRS 9 and associated required disclosures are set out in more detail in Note 30.

- PFRS 16, 'Leases' (effective January 1, 2019). PFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. PFRS 16 will affect primarily the accounting by lessees. Under this new model, subject to optional exemptions for leases of short duration and for assets of low value when new, all assets held under a lease by the Company will be recognized in the statement of financial position with a corresponding lease liability representing its future obligation to make lease payments under the contract.

In order to facilitate transition, entities can choose a 'simplified approach' that includes certain reliefs related to the measurement of the right-of-use asset and the lease liability, rather than full retrospective application; furthermore, the 'simplified approach' does not require a restatement of comparatives. In addition, as a practical expedient entities are not required to reassess whether a contract is, or contains, a lease at the date of initial application (that is, such contracts are "grandfathered").

As at December 31, 2018, the Company has non-cancellable operating lease commitments. Under PAS 17, the Company does not recognize in the Statement of Financial Position the right to use the assets for the duration of the lease nor the associated liability for future payments under these leases. Instead, certain information regarding future lease commitments is disclosed in Note 31 of the financial statements. A preliminary assessment indicates that all of these arrangements will meet the definition of a lease under PFRS 16 and will therefore be recognized in the Statement of Financial Position as a right-of-use asset and a corresponding liability, subject to any policy election for low value or short-term leases. The preliminary assessment indicates that the impact of these new requirements is not expected to be material to the Company.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after January 1, 2019)*. It has been clarified previously that PAS 12, not PAS 37, Provisions, Contingent Liabilities and Contingent Assets, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The adoption of the above interpretation is not expected to have a material impact on the financial statements of the Company since the Company has no uncertain tax position.

### *28.3 Insurance product classification*

Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk, if an insured event could cause the Company to pay significant additional benefits, where additional benefits refer to amounts that exceed those that would be payable if no insured event occurred. An additional benefit is considered to be significant if it is at least 10% more than what would be payable if the policy was surrendered. Insurance contracts also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index or price or rates, a credit rating or credit index or other variable. Investment contracts mainly transfer financial risk but may also transfer insignificant insurance risk.

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 in subsequent periods, unless all rights and obligations are extinguished or has expired. Investment contracts, however, can be reclassified to insurance contracts after inception if the insurance risk becomes significant. 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 as financial assets or liabilities at FVTPL. Bifurcation is not required if the embedded derivative is itself an insurance contract or when the host insurance contract itself is measured as financial assets or liabilities at FVTPL. The options and guarantees within the insurance contracts issued by the Company are treated as derivative financial instruments which are closely related to the host insurance 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). Likewise, the embedded derivative in unit-linked insurance contracts linking the payment on the contract to units of internal investment funds meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract.

Based on Company's guidelines, all products in its portfolio meet the definition of insurance contracts, including unit-linked products, which contain features that make use of funds specifically segregated for the benefit of unit-linked policyholders.

### *28.4 Cash and cash equivalents*

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement, are subject to an insignificant risk of changes in value, and are free of any encumbrances.

### *28.5 Insurance receivables*

Insurance receivables are recognized when due and are measured on initial recognition at the fair value of the consideration. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with adjustments recorded in the statement of income. Insurance receivables are derecognized following the derecognition criteria of financial assets.

## 28.6 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:

- *Level 1* - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- *Level 2* - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- *Level 3* - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

## 28.7 Financial instruments

### 28.7.1 Initial recognition

Financial assets and liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments at FVTPL.

Financial instruments are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

### 28.7.2 Day 1 difference

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in 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" difference) in the statement of income. In cases where no observable data is used, the difference between the transaction price and model value is only recognized in the statement of income 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 difference amount.

### 28.7.3 Classification

The Company classifies its financial assets into the following categories: AFS financial assets, held-to-maturity (HTM) investments, loans and receivables, and financial assets at FVTPL. Financial liabilities are classified as financial liabilities at FVTPL and other financial liabilities. The Company determines the classification at initial recognition and where appropriate and applicable, re-evaluates such designation at every reporting date.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income.

#### *Financial assets or financial liabilities at FVTPL*

This category consists of financial assets or financial liabilities that are held for trading or designated by management as financial assets or financial liabilities at FVTPL on initial recognition. Derivative instruments, except those covered by hedge accounting relationships, are classified under this category. Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value, with changes in the fair value recorded in the statement of income, included under the net fair value gains or losses accounts. Interest earned or incurred is recorded in investment income or interest expense, respectively, while dividend income is recorded when the right of the payment has been established under the investment income account.

Financial assets or financial liabilities classified in this category are designated by management on initial recognition when any of the following criteria are met:

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

The Company's financial assets at FVTPL pertain to the Company's investments in listed equity securities, derivative asset in relation to the RSU (Note 4) and financial assets for unit-linked contracts (Note 3). The investments in listed equity securities are designated as financial assets at FVTPL on initial recognition since the investments contain an embedded derivative that significantly modifies the cash flows.

The Company's financial liability at FVTPL pertains to financial liabilities for unit-linked contracts (Note 3).



The financial assets and liabilities for unit-linked contracts are designated as such since they are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

#### *Derivative financial instruments*

Derivative financial instruments are classified as held-for-trading unless they are designated as effective hedging instruments. All derivatives are carried as assets when the fair values are positive and as liabilities when fair values are negative. Derivative financial instruments held-for-trading are initially recorded at fair value and are typically entered into with the intention to settle in the near future. Subsequent to initial recognition, these instruments are measured at fair value. Changes in fair value of derivative instruments not accounted as hedges are recognized immediately in the statement of income.

The Company has derivative financial instruments in relation to its share-based obligation in form of restricted stock units (Note 23) as of December 31, 2018 and 2017. These are classified as held for trading with changes in fair value recognized in the statement of income.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not at FVTPL. Bifurcated embedded derivatives are accounted for at FVTPL.

The Company assesses whether embedded derivatives are required to be separated from the host contracts when the Company becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows. The Company determines whether modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract, or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

As of December 31, 2018 and 2017, the Company has no embedded derivatives requiring bifurcation since the hybrid instruments have been designated as financial assets at FVTPL of which the characteristics and risks are closely related to the host contract.

#### *HTM investments*

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities which the Company's management has the positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate, less any impairment in value. 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. Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income.

The effects of restatement of foreign currency-denominated HTM investments are recognized in the statement of income.

### *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. This accounting policy relates to the statement of financial position captions "Cash and cash equivalents", "Insurance receivables", "Loans and receivables", and rental deposits under "Prepayments and deposits".

After initial measurement, loans and receivables are subsequently measured at amortized cost using the 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 amortization is included under "Investment income" in the statement of income. The losses arising from impairment of such loans and receivables are recognized under "Impairment loss" in the statement of income.

### *AFS financial assets*

AFS financial assets investments are those which are designated as such or do not qualify to be designated as financial assets at FVTPL, HTM investments, or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include government securities, equity investments, and other debt instruments.

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement of foreign currency-denominated AFS debt securities, is reported in the statement of income. Interest earned on AFS financial assets are reported as interest income using the effective interest rate method. Dividends earned on AFS financial assets are recognized in the statement of 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 "Reserve for fluctuation on AFS financial assets" in the statement of comprehensive income and financial position. The losses arising from impairment of such investments are recognized as "Impairment loss" in the statement of income. When the security is disposed, the cumulative gain or loss previously recognized in other comprehensive income is recognized as "Gain or loss on sale of AFS financial assets" in the statement of income.

### *Other financial liabilities*

Other financial liabilities pertain to issued financial instruments or their components that are not classified or designated as financial liabilities at FVTPL and contain contractual obligations 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 own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate. 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. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of income.

This accounting policy applies primarily to the Company's "Insurance provisions", "Premium deposit fund", "Due to reinsurer" and "Accounts payable and accrued expenses" that meet the above definition (other than liabilities covered by other accounting standards, such as pension liability and income tax payable).

#### *28.7.4 Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the Company's statement of financial position if, and only if, there is a 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. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

#### *28.8 Classification of financial instruments between debt and equity*

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

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- if the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation.

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.

#### *28.9 Impairment of financial assets*

The Company assesses at each reporting date whether a financial asset or 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 events 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 financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *AFS financial assets carried at fair value*

In the case of equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. 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 the statement of income, is removed from other comprehensive income and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as AFS financial assets, 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 "Investment income" in the statement of income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

*Financial assets carried at amortized cost*

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding expected future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate or the effective interest rate computed at initial recognition. The carrying amount of the financial asset shall be reduced either directly or through the use of an allowance account. HTM investments and loans and receivables, together with the associated allowance accounts are written off when there is no realistic prospect of future recovery and all the collaterals have been realized. The amount of the loss shall be recognized in the statement of income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Company about loss events such as but not limited to significant financial difficulty of the Company, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial reorganization. If it is determined that no objective evidence exists for an individually assessed financial asset, whether significant or not, the financial assets is included in a group of financial assets with similar characteristics such as customer type, payment history, pass due status and term, and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being revaluated. Financial assets that are individually assessed for impairment and for which an impairment loss is or continuous to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognized in the statement of income. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

## 28.10 Derecognition of financial assets and liabilities

### *Financial assets*

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

- the right to receive cash flows from the asset has 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 right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset 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 a 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 pay.

### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in statement of income.

## 28.11 Policy loans

Policy loans included under "Loans and receivables" are carried at their unpaid balances plus accrued interest and are fully secured by the policy values on which the loans are made.

## 28.12 Reinsurance

The Company cedes insurance risk in the normal course of business. Reinsurance assets represent recoverable amounts from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. When claims are paid, such reinsurance assets are reclassified to insurance receivables.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is charged to the statement of income.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums are presented on a gross basis. Reinsurance assets or liabilities are derecognized when the contractual right is extinguished or has expired or when the contract is transferred to another party.



### 28.13 Property and equipment

Property and equipment are stated at cost less accumulated depreciation or amortization, and accumulated impairment in value. Such cost includes initial transaction costs, but excludes day to day servicing costs. Replacement or major repairs and maintenance costs are capitalized if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be reliably measured.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the property and equipment follow:

	Years
Computer and office equipment	2-5
Furniture and fixtures	5
Transportation equipment	5
Leasehold improvements	Shorter of 5 years or lease term

The assets' residual values, useful lives, and depreciation and amortization method are reviewed at each reporting date and adjusted if appropriate to ensure that the period, residual value, and the method of depreciation and amortization are consistent with the expected pattern of consumption of future economic benefits embodied in the asset that is accounted for. Impairment reviews take place when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognized in the statement of income.

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date that the asset is derecognized. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and net book value of the asset) is included in the statement of income in the year the asset is derecognized. However, this is not applicable to items that still have a useful life but are currently classified as idle where the related depreciation continues to be recognized.

CIP represents an item of property and equipment under construction or undergoing commissioning or major rehabilitation. CIP is not depreciated until such time that the relevant assets are completed and are ready for intended use.

### 28.14 Impairment of non-financial assets

At each reporting date, the Company assesses whether there is any indication that its non-financial assets, mainly property and equipment, may be impaired. When an indicator of impairment exists or when an 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. Where 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 and the risks specific to the property and equipment (or cash-generating unit). An impairment loss is charged against operations in the year in which it arises.

For non-financial assets, 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 estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. 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 the statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as an adjustment to the revaluation increment. 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.

### *28.15 Insurance provisions*

#### *Life insurance liabilities*

Life insurance liabilities refer to liabilities of the Company that are recognized due to the obligations arising from policy contracts issued by the Company. The reserves for life insurance contracts are calculated based on prudent statutory assumptions in accordance with generally accepted actuarial methods that are compliant with existing regulations of the Insurance Commission.

#### *28.15.1 Aggregate reserves for life policies*

For any traditional life insurance policy with a term of one year or less, the reserve is calculated using the unearned premium method. Where appropriate, the reserves for traditional life insurance policies with terms of more than one year is valued using gross premium valuation. The liability is calculated as the present value of all future benefits and expenses, less the present value of future gross premiums arising from the policy. The present value is determined by discounting the cash flows at the appropriate risk-free-rate for the timing of each cash flows. For this purpose, the expected future cash flows is determined using best estimate assumptions with due regard to significant recent experience and appropriate margin for adverse deviation from the expected experience.

The aggregate reserve for life policies represents the accumulated total liability for policies in force as of the reporting date. Such reserves are established at amounts adequate to meet the estimated future obligations of all life insurance policies in force. The reserves are calculated using actuarial methods and assumptions in accordance with statutory requirements and as approved by the IC, subject to the minimum liability adequacy test (Note 29).

#### *28.15.2 Policy and contract claims payable and provision for IBNR claims*

For unpaid claims and benefits, a provision is made for the estimated cost of all claims and dividends reported but not settled at the reporting date, less reinsurance recoveries, using the information available at reporting date.

Provision is also made for the cost of IBNR claims until after the reporting date based on the Company's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in the statement of income in later years. Policy and contract claims payable form part of the liability section of the statement of financial position under "Insurance provisions."

### 28.15.3 Reserve for policyholders' dividends due and unpaid

A number of insurance contracts are participating and contain a Discretionary Participating Feature (DPF). This feature entitles the policyholder to receive, as a supplement to guaranteed benefits, annual policy dividends that are credited at each policy anniversary, as long as the policy is in force. These annual policy dividends represent a portion of the theoretical investment and underwriting gains from the pool of contracts. Policy dividends are not guaranteed and may change based on the periodic experience review of the Company. Further, in accordance with regulatory requirements, dividends payable in the following year are prudently set up as a liability in the statement of financial position.

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the annual cash dividends at the time the product is priced. The Company may exercise its discretion to revise the dividend scale in consideration of the emerging actual experience on each block of participating policies. Reserve for dividends to policyholders on contracts with DPF is shown in the statement of financial position under "Insurance provisions."

There is no statutory requirement as to the level of eligible surplus that may be attributed to participating policyholders. The amount distributed to individual policyholders is at the discretion of the Company, subject to the endorsement of the Chief Finance Officer and approval by the BOD.

### 28.16 Unit-linked insurance contracts

The Company issues unit-linked insurance contracts. Considerations received from unit-linked insurance contracts, in excess of the portion that is placed under a withdrawable segregated account, are recognized as revenue.

The Company's revenue from unit-linked contracts consists of charges deducted from the policyholder's separate account, in accordance with the unit-linked policy contract. Financial liabilities for unit-linked contracts are set up equal to premiums allocated to unit-linked insurance investment funds less redemptions. Financial assets for unit-linked contracts are recorded at fair value, with changes in fair value recognized in the income statement together with the offsetting changes in fair value of the corresponding financial liabilities for unit-linked contracts.

Collections received from unit-linked policies are separated to financial assets for unit-linked contracts from which the Company withdraws administrative and cost of insurance charges in accordance with the policy provisions of the unit-linked insurance contracts. After deduction of these charges, the remaining amounts in the financial assets for unit-linked contracts are equal to the surrender value of the unit-linked policyholders, and are withdrawable anytime. Administrative charges are recognized as revenue under "Referral and trust fees" while cost of insurance charges are recognized as part of "Premium revenue".

The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to the total number of outstanding units of the policyholder multiplied by the net asset value per unit (NAVPU). The NAVPU is the fair value of the fund divided by the total number of outstanding units.

### 28.17 Structured entities

As defined under PFRS 12, *Disclosure of interests in other entities*, a structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements.

The Company engages in some business activities that involve the use of entities that meet the above-mentioned definition of structured entities. Primarily, the Company is involved with such entities due to its investment activities associated with its unit-linked products.

The Company's maximum exposure to loss arising from its interests in unconsolidated structured entities is limited to the carrying amount of its seed capital as disclosed in Notes 3 and 4. The Company's income from these unconsolidated structured entities pertains to the change in fair value of seed capital.

#### *28.18 Liability adequacy test*

Liability adequacy tests are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling, and policy administration expenses are used. Any deficiency is immediately charged against the statement of income initially by establishing a provision for losses arising from the liability adequacy tests. The adequacy of the liability on insurance contracts is tested based on the pricing assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of a new set of revised best estimate assumptions, such assumptions are used for the subsequent measurement of these liabilities. The liability adequacy test is addressed by the gross premium valuation performed by the Company for the aggregate reserves for life policies.

#### *28.19 Equity*

##### *Capital stock*

Capital stock is measured at par value for all shares issued.

##### *Additional paid-in capital (APIC)*

APIC represents capital contribution to the Company in excess of par value of the capital stock.

##### *Retained earnings (deficit)*

This represents the cumulative balance of earnings (losses) of the Company, dividend distribution, and impact of changes in accounting policy.

##### *Contingency surplus*

Contingency surplus represents additional capital contribution to cover the Company's capital requirements. Such amount is presented as part of "Contingency surplus" in accordance with the guidelines of the IC.

#### *28.20 Revenue recognition*

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

### *Premium income*

Gross earned recurring premiums from life insurance contracts are recognized as revenue when payable by the policyholder. For gross earned single premium business, revenue is recognized on the date from which the policy is effective. For regular premium contracts, receivables are recorded at the date when payments are due. Cost of insurance charges pertain to portion of the collections received from unit-linked policies after separating the amount to be invested.

### *Interest income*

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS financial assets, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The change in carrying amount is recorded as "Interest income."

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

### *Referral and trust fees*

Unit-linked funds are charged for fund management and administration. These fees are recognized as revenue in the period in which the related services are rendered.

### *Dividend income*

Dividend income is recognized when the Company's right to receive the payment is established.

## *28.21 Benefits, claims, and expenses recognition*

### *Benefits and claims*

These expenses consist of claims and insurance benefits incurred during the period, which include excess benefit claims for unit-linked insurance contracts, as well as changes in the valuation of insurance contract liabilities. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

### *Commissions and agency related compensation expense*

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

### *Interest expense*

Interest expense on accumulated policyholders' dividends and premium deposit fund is recognized in the statement of income as it accrues and is calculated using the effective interest rate method. Accrued interest is credited to the liability account every policy anniversary date.



### *General and administrative expenses*

General and administrative expenses are recognized in the statement of income in the period these are incurred.

#### *28.22 Operating leases*

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A restatement is made after the inception of the lease only if one of the following applies:

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

#### *Company as a lessee*

Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term.

Refundable lease deposits are measured initially at fair value. After initial recognition, refundable lease deposits are subsequently measured at amortized cost using the effective interest rate. The difference between the carrying amount and the actual consideration given is treated as prepaid rent which is amortized using the straight-line method over the term of the lease.

#### *28.23 Provisions*

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

#### *28.24 Share-based payments*

The Allianz Equity Incentive plan (AEI plan) is granted in the form of restricted stock units (RSUs) and is part of a new variable compensation plan of the Allianz Group. RSUs are virtual stocks without dividend payments and a capped payout with vesting period of four years. The fair value is calculated by subtracting the net present value of expected future dividend payments until maturity as well as the fair value of the cap from the prevailing share price as of valuation date. Upon death of beneficiaries, a change of notice control, or notice for operational reasons, the RSUs vest immediately and will be exercised by the Company.

The RSU are accounted for as cash-settled plans as the Allianz Group intends to settle in cash. The Company accrues the fair value of the RSU as compensation expense over the vesting period and are recorded under the "Accounts payable, accrued expenses, and provisions of the Company's statement of financial position.

#### *28.25 Pension liability*

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost;
- Net interest on the net defined benefit liability or asset; and
- Remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs, and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when a plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

## 28.26 *Income tax*

### *Current 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 tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date.

### *Deferred tax*

Deferred tax is provided, using the liability method, on all temporary differences, except to the extent that the deferred tax liability arise from the initial recognition of goodwill, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except to the extent that the deferred tax liability arise from the initial recognition of goodwill. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT), and net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from excess MCIT and NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the reporting date. Movements in the deferred tax assets and liabilities arising from changes in tax rates are charged or credited to income for the period.

## 28.27 *Value-added Tax (VAT) and premiums tax*

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

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

Premiums on insurance contracts of a life insurance Company is subject to percentage tax pursuant to the Tax Code. The net amount of VAT payable and premium tax payable to the tax authority are included as part of accounts payable and accrued expenses in the statement of financial position.

## 28.28 *Foreign currency transactions and translations*

### *Functional and presentation currency*

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"). The financial statements are presented in Philippine Peso, which is the Company's functional and presentation currency.

### *Transactions and balances*

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. All foreign exchange differences are taken to the statement of income, except where it relates to equity securities where gains or losses are recognized directly in other comprehensive income, the gain or loss is then recognized net of the exchange component in other comprehensive income.

### *28.29 Contingencies*

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefit is probable.

### *28.30 Events after the reporting period*

Post year-end events that provide additional information about the Company's position at the reporting date (adjusting event) are reflected in the financial statements. Post year-end events that are not adjusting events, are disclosed in the financial statements when material.

### *28.31 Comparatives*

Some comparative amounts have been restated to conform to current year presentation.

## **29 Significant accounting judgments and estimates**

The preparation of the financial statements in accordance with PFRS requires the Company to make judgments and estimates that affect the reported amounts of assets, liabilities, income, and expenses, and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of changes in estimates are reflected in the financial statements as these become reasonably determinable.

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

### Judgments

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

### *HTM investments*

The Company classifies nonderivative investments with fixed or determinable payments and fixed maturities as HTM investments. This classification requires significant judgment. In making this judgment, the Company evaluates its intention and ability to hold such investments to maturity. If the Company fails to keep these investments to maturity other than in certain specific circumstances (for example sales that are so close to maturity) it will be required to reclassify the entire portfolio as AFS financial assets. The investment would therefore be measured at fair value and not at amortized cost.

The carrying value of HTM investments amounted to P1,265,550,049 and P946,863,714 as of December 31, 2018 and 2017, respectively (Note 4).

### *Structured notes*

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

Where the fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, they 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 this is not feasible, a degree of judgment is required in establishing fair values.

As at December 31, 2018, investments in structured notes amount to P2,149,957,114 (2017 - P4,664,189,249). Sensitivity information are further disclosed in Note 30.

### Estimates

#### *Aggregate reserves for life policies*

Reserves for traditional life insurance policies are valued using gross premium valuation (GPV) method. GPV requires the use of best estimate assumptions include discount rates, decrements such as mortality and morbidity, lapse, expenses, non-guaranteed benefits and a margin for adverse deviations in respect of the risks that arise under the insurance policy (Note 11).

The carrying value of aggregate reserves for life policies, shown as part of the "Insurance provisions" account in the statements of financial position amounted to P7,590,177,372 and P7,931,845,309 as of December 31, 2018 and 2017, respectively (Note 10).

#### *Recognition of deferred tax assets*

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which these can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized. These assets are periodically reviewed for realization. Periodic reviews cover the nature and amount of deferred income and expense items, expected timing when assets will be used or liabilities will be required to be reported, reliability of historical profitability of businesses expected to provide future earnings, and tax planning strategies which can be utilized to increase the likelihood that tax assets will be realized. Gross deferred tax assets recognized amounted to P130,508,901 and P89,654,257 as of December 31, 2018 and 2017, respectively (Note 25).



## *Contingencies*

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels and based upon the analysis of potential results (Note 31).

### **30 Capital management and management of insurance and financial risks**

Although life insurance companies are in the business of taking risks, the Company limits its risk exposure only to measurable and quantifiable risks. The main objective of the Company's risk management policies is to ensure that the Company remains financially viable and capable in paying its liabilities.

There are many risks associated in the life insurance business such as insurance risks, investment risks, asset depreciation, and other business risks. These risks are managed separately to ensure that the Company is not exposed to risks that are unnecessary or risks with no commensurate expected benefits or returns.

#### *(a) Governance framework*

The Company has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risks. It also supports the effective implementation of policies at the overall company and individual business unit levels. The risk management committee performs procedures to identify various risks. The result of the procedures is reported to the BOD and necessary actions are taken to mitigate the risks identified.

The policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets and alignment of underwriting and reinsurance strategies to the corporate goals and specific reporting requirements.

#### *(b) Regulatory framework*

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

The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise, such as fixed capitalization requirements and risk-based capital (RBC) requirements.

#### *(i) Regulatory capital*

The Company manages its capital in accordance with the mandates of the IC being its regulator. Under the requirements of the IC and the Code, the Company should meet the minimum levels set for the following capital requirements: Minimum Statutory Net Worth and Paid-up Capital, and RBC. The Company regularly monitors its compliance with these capital requirements. Further, government bonds amounting to at least 25% of the Minimum Paid-up Capital are free from liens and encumbrances, and deposited under the IC, in accordance with Section 203 of the Code (Note 4).

### *Fixed capitalization requirements*

On August 5, 2013, the President of the Philippines approved the New Insurance Code which provides the new capitalization requirements of all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required net worth and the schedule of compliance per New Insurance Code:

Net worth	Compliance date
250,000,000	June 30, 2013
550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

As of December 31, 2018 and 2017, the Company's statutory net worth amounted to P1,721,143,317 and P1,666,622,899, respectively.

### *RBC requirement*

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

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include the company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the IC. The RBC requirement is the amount of required capital computed by taking into consideration the following major risks enumerated by IC guidelines; asset default risk, insurance pricing risk, interest rate risk and general business risk.

The following table shows how the RBC ratio was determined by the Company based on its calculations:

	2018	2017
Available capital	1,884,949,708	1,814,185,054
RBC requirement	626,537,858	1,387,479,461
RBC Ratio	301%	131%

The final amount of RBC ratio can be determined only after the accounts of the Company have been examined by the IC specifically as to admitted and non-admitted assets as defined under the same Code.

*Consolidated compliance framework* – IMC 10-2006 integrated the compliance standards for the fixed capitalization and risk-based capital framework.

Subsequent to year 2006, the fixed capitalization requirement for a given year may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance Rates and the RBC Hurdle Rates from 2007 to 2011. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the year under review.

### *Risk Based Capital 2 update*

On December 28, 2016, IC CL No. 2016-68 was issued to supersede IC CL No. 2015-30. This circular provides solvency requirements based on accepted solvency frameworks, requires insurance companies to at all times hold the RBC requirement determined in accordance with the rules and guidelines set forth by the circular plus any additional supervisory adjustments that may be required by the IC, and requires the satisfaction of the minimum statutory ratio.

### *Unimpaired capital requirement*

IC CL No. 2015-02-A which supersedes IC CL No. 22-2008 was issued to ensure compliance with the minimum capitalization and net worth requirements set in Sections 194, 197, 200 and 289 of Republic Act No. 10607.

As of December 31, 2018 and 2017, the Company has complied with the unimpaired capital requirement.

### *(ii) Financial reporting framework*

On December 28, 2016, IC Circular No. 2015-29 was superseded by Circular No. 2016-65 which includes the economic valuation of asset and liabilities based on internationally accepted accounting, actuarial, and insurance core principles which requires quarterly and annual reporting of net worth to the IC. The circular is fully implemented starting January 1, 2017.

### *(c) Insurance risk*

#### *Nature of risk*

The risk under any one insurance contract is the possibility that the insured event occurs. This event may be death, or in the case of some riders, disability, accidental injury, or contraction of critical illness. By the very nature of an insurance contract, this risk is random and unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing, the principal risk that the Company faces under its insurance contracts is that future claims on death, accident, disability, and critical illness exceed the future premiums and the carrying amount of the insurance liabilities. This could occur if the frequency and magnitude of claims is greater than the assumptions used in calculating the Company's liabilities. Occurrence of insured events is random and the actual number of claims will vary from year to year from the mortality assumptions made during product pricing. However, the law of large numbers is expected to be applicable as the pool of risk increases in volume and aggregate claims becomes more predictable.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller is the relative variability compared to the expectations. Insurance risks generally vary by gender and age of the insured as these factors correlate greatly with the incidence rates of the insured events. Because of this, a more diverse demographic profile of insured lives may be more desirable since a more diverse risk profile reduces variability.

To minimize insurance risks, the Company strictly adheres to prudent underwriting standards in assessing insurance applications. These underwriting standards include a schedule of medical and non-medical requirements for specific range of ages and sum assured. Some policyholders are charged with additional premium in the form of flat or multiple extra premiums due to extra risks resulting from the applicant's occupation, health, and lifestyle. Applications for insurance may be denied or postponed for certain substandard cases. To guard against anti-selection, insurance applications that do not establish insurable interest are rejected. Statements of assets and liabilities may also be required from the applicant to justify the sum assured applied for, and his ability to pay the premium.

#### *Frequency of claims*

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or wide spread changes in lifestyle resulting in earlier or more claims than expected. In the Philippines, higher-than-expected claims also arise from typhoons, landslides, and other geologic events.

For contracts with DPF, a portion of the insurance risk is effectively shared with the policy owner, as policy dividends may be reduced due to adverse claims and investment experience. For unit-linked insurance policies where the cost of insurance charges is not guaranteed, insurance risk is borne mostly by the policyholders. The Company has the right to alter the related charges based on its mortality experience and hence minimize its exposure to mortality risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect.

The Company manages these risks through its underwriting strategy and reinsurance arrangements. The underwriting strategy is intended to ensure that the risks underwritten are pooled into a sufficiently large portfolio. Medical selection is also included in the underwriting procedures with premiums varied to reflect the health condition and family medical history of the applicants. The Company has a retention limit of P2.5 million on any individual standard risk. The Company reinsures the excess of the insured benefit over P2.5 million for standard risks (from a medical point of view) under an automatic reinsurance arrangement. For "group" lives reinsured, retention limit is P2 million, and the risk is reinsured under an excess of loss arrangement. The Company's risk retention is lower for medically impaired or substandard lives, which involves higher risks.

The tables below present the concentration of individually insured benefits across different bands of insured ages as measured by the face amount (before reinsurance) and net amount at risk or NAAR (after reinsurance).

Age bands (in years)	2018					
	Policy count	Face amount (in thousands)	Before reinsurance		After reinsurance	
			NAAR (in thousands)	Concentration (%)	NAAR (in thousands)	Concentration (%)
0-15	16,208	7,302,772	4,609,386	13	4,355,911	13
16-25	12,421	6,263,765	4,123,733	11	3,810,973	12
26-35	19,130	9,588,465	6,519,978	18	6,053,441	18
36-45	21,688	12,882,381	8,114,329	22	7,418,051	22
46-55	18,587	13,936,217	7,826,298	21	6,773,144	20
56-65	10,277	8,941,355	4,214,369	12	3,880,562	12
66-75	1,882	2,388,656	1,140,848	3	1,024,274	3
76 and above	7	19,000	18,979	-	18,979	-
	100,200	61,322,611	36,567,920	100	33,335,335	100

Age bands (in years)	Policy count	Face amount (in thousands)	2017			
			Before reinsurance		After reinsurance	
			NAAR (in thousands)	Concentration (%)	NAAR (in thousands)	Concentration (%)
0-15	13,986	6,573,859	3,706,599	13	3,268,557	13
16-25	10,600	5,510,684	3,354,824	12	2,873,873	12
26-35	15,572	8,145,099	5,064,516	18	4,480,166	18
36-45	17,956	10,857,749	6,278,031	22	5,492,845	22
46-55	15,806	11,394,145	5,920,347	21	5,116,885	20
56-65	8,988	6,864,633	3,152,300	11	2,944,590	12
66-75	1,564	1,643,519	835,205	3	775,156	3
76 and above	7	19,000	18,978	-	2,008	-
	84,479	51,008,688	28,330,800	100	24,954,080	100

These tables include whole life, endowment, anticipated endowment, and term insurance contracts; thus, the insured risk is a mixture of death and continued survival. NAAR is the net amount at risk, which is the difference between the face amount and the policy reserve. It is the net amount that would be payable upon death less liability released. The risk is spread over the younger through middle-aged bands.

*Sources of uncertainty in the estimation of future benefit payments and premium receipts*

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in policyholder behavior.

The Company uses appropriate tables of standard mortality for pricing and valuation of liabilities. An investigation into the actual mortality experience of the Company is carried out annually, but the experience is not yet considered statistically significant.

The Company maintains persistency statistics to monitor actual lapse experience against pricing assumptions and performance standards. Statutory reserves are calculated using mortality decrement only, without considering possibility of lapses. This results in a more conservative liability as gains on surrender are not anticipated in the valuation method.

*(d) Investment risk*

The investment risk represents the risks associated with changing interest rates. Whenever interest rates increase, market values of AFS financial assets decrease while interest income on new investments increases. As interest rates decline, market values of AFS financial assets increase while interest income on new investments decreases.

AFS financial assets are subject to declines in fair value. Generally, insurance regulations restrict the type of assets in which an insurance company may invest. When permitted by regulatory authorities and when deemed necessary to protect insurance assets, including invested assets, from adverse movements of foreign currency exchange rates, interest rates and equity prices, the Company may also enter into derivative transactions as end users.

To minimize these risks, the Company monitors the projected asset and liability cash flows to make sure that an acceptable level of matching exists. In purchasing fixed income instruments, the Company selects bonds with tenors that narrow the gap between asset and liability cash flows of the Company. Investment risks are reduced when assets and liability cash flows are adequately matched.



### Fair value of financial instruments

The following tables summarize the carrying amount and fair values of the financial assets, financial liabilities and nonfinancial assets, analyzed based on inputs to fair value:

	2018				Total fair value
	Carrying value	Level 1	Level 2	Level 3	
Financial assets at FVTPL					
Quoted equity securities	732,896,700	732,896,700	-	-	732,896,700
Derivative asset	32,469,312	-	32,469,312	-	32,469,312
Investment in unit-linked funds	65,224,412	65,224,412	-	-	65,224,412
Financial assets for unit-linked contracts	17,990,227,804	15,840,270,690	-	2,149,957,114	17,990,227,804
AFS financial assets					
Government debt securities	4,655,616,959	4,655,616,959	-	-	4,655,616,959
Private debt securities	2,987,372,099	2,348,050,111	639,321,988	-	2,987,372,099
Equity securities	52,080,000	52,080,000	-	-	52,080,000
Total financial assets carried at fair value	26,515,887,286	23,694,138,872	671,791,300	2,149,957,114	26,515,887,286
Financial liabilities for unit-linked contracts	17,990,227,804	15,840,270,690	-	2,149,957,114	17,990,227,804
Financial assets for which fair values are disclosed					
HTM investments - government securities	1,265,550,049	1,437,810,711	-	-	1,437,810,711
	9,791,209,531	9,291,678,893	671,791,300	-	9,963,470,193
	2017				Total fair value
	Carrying value	Level 1	Level 2	Level 3	
Financial assets at FVTPL					
Quoted equity securities	1,019,416,661	1,019,416,661	-	-	1,019,416,661
Derivative asset	28,513,871	-	28,513,871	-	28,513,871
Investment in unit-linked funds	160,471,204	160,471,204	-	-	160,471,204
Financial assets for unit-linked contracts	16,095,741,952	11,431,552,703	-	4,664,189,249	16,095,741,952
AFS financial assets					
Government debt securities	3,666,125,782	3,666,125,782	-	-	3,666,125,782
Private debt securities	3,266,967,869	2,195,166,141	1,071,801,728	-	3,266,967,869
Equity securities	442,385,128	442,385,128	-	-	442,385,128
Total financial assets carried at fair value	24,679,622,467	18,915,117,619	1,100,315,599	4,664,189,249	24,679,622,467
Financial liabilities for unit-linked contracts	16,095,741,952	11,431,552,703	-	4,664,189,249	16,095,741,952
Financial assets for which fair values are disclosed					
HTM investments - government securities	946,863,714	1,216,567,059	-	-	1,216,567,059
	9,530,744,229	8,700,131,975	1,100,315,599	-	9,800,447,574

During the reporting period ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

Fair values of financial instruments are estimated as follows:

*(i) AFS financial assets and HTM investments*

The fair values of AFS financial assets and HTM investments that are actively traded in organized financial markets is determined by reference to quoted market within bid-ask prices, at the close of business reporting date or the last reporting date. The spread related to private debt securities classified as AFS financial assets ranged from 6% to 20% in 2018 and 2017.

*(ii) Financial assets at FVTPL and financial assets and liabilities for unit-linked contracts*

The fair values of equity and debt securities under Level 1 of the fair value hierarchy are determined by reference to quoted market bid prices, at the close of business reporting date, or the last reporting date. The fair values of equity-linked notes under Level 3 of the fair value hierarchy are determined by running simulations on the underlying indices to project the possible payouts of the instruments. The value of financial liabilities for unit-linked contracts follows those of the underlying assets.

*(iii) Derivative asset*

The fair value of derivative is the best estimate for the present value of an AEI plan hedge right based on standard mathematical models and market data as of the valuation date.

The carrying values of other financial assets and liabilities including cash and cash equivalents, short term investments and loans and receivables reasonably approximate their fair values due to their short-term nature.

*Sensitivity*

The structured VULs can be decomposed into bond components and option components. The fair value of structured notes has been computed by counterparties ("Issuer") using present value calculations and option pricing models, as applicable. The management performs independent testing of the structured VULs to validate the reasonableness of counterparty values. The valuation methods used in the independent testing are summarized in the table below:

Structured notes	Significant unobservable inputs	Significant observable inputs
Peso denominated	Issuer's funding rate/ Issuer's CDS as proxy	PHP IRS
Dollar denominated	Issuer's funding rate/ Issuer's CDS as proxy	ROP CDS / USD IRS

The sensitivity analysis for the structured VULs requires management to make certain assumptions about the model inputs particularly the credit spread of the Issuer. The inputs used for the sensitivity analysis include certain market observable inputs including the counterparty's credit default swap (CDS), PHP interest rate swap (IRS) rates (for the Peso-denominated issuances) and ROP CDS rates (for the USD-denominated issuances).

The sensitivity analysis of the fair market value of the structured notes as of December 31 is performed for the reasonable possible movement in the significant inputs with all other variables held constant, showing the impact to profit and loss follows:

Sensitivity of the fair value measurement to changes in unobservable inputs follows:

Year	Structured investments	Significant unobservable input other than quoted prices within Level 1	Range of input	Sensitivity of the input to fair value
2018	Peso-denominated	Bank CDS levels	16.715 - 83.116 bps	50 bps increase/(decrease) in the change inputs would result to a (decrease)/increase in the MV of the note by P7,424,420
	Dollar-denominated	Bank CDS levels	17.733- 49.276 bps	50 bps increase/(decrease) in the change inputs would result to a (decrease)/increase in the MV of the note by P5,055,640
2017	Peso-denominated	Bank CDS levels	17.70 - 75.61 bps	50 bps increase/(decrease) in the change inputs would result to a (decrease)/increase in the MV of the note by P31,280,910
	Dollar-denominated	Bank CDS levels	18.065 - 69.229 bps	50 bps increase/(decrease) in the change inputs would result to a (decrease)/increase in the MV of the note by P12,715,215

Notes: Range is from lower to upper bound in 2017 and 2018.

The sensitivity analysis is performed only on the fixed income portion of the Note, thus are based on assumptions that if changed may cause the value to fall out of range.

Sensitivity of the fair value measurement to changes in observable inputs follows:

Year	Structured investments	Significant observable input	Range of input	Sensitivity of the input to fair value
2018	Peso-denominated	PHP IRS	3.5375% - 6.0375%	50 bps increase/(decrease) in the change inputs would result to a (decrease)/increase in the MV of the note by P7,424,420
	Dollar-denominated	ROP CDS (5Y)	1.9244%- 2.9612%	50 bps increase/(decrease) in the change inputs would result to a (decrease)/increase in the MV of the note by P5,055,640
2017	Peso-denominated	PHP IRS	2.1250% - 3.9000%	50 bps increase/(decrease) in the change inputs would result to a (decrease)/increase in the MV of the note by P31,280,910
	Dollar-denominated	ROP CDS (5Y)	1.6833% - 2.3209%	50 bps increase/(decrease) in the change inputs would result to a (decrease)/increase in the MV of the note by P12,715,215

Notes: Range is from lower to upper bound in 2017 and 2018.

The sensitivity analysis is performed only on the fixed income portion of the Note, thus are based on assumptions that if changed may cause the value to fall out of range.

Rollforward analyses for the balances of structured notes are as follows:

2018								
	Dollar Income Optimizer	Summit Select	VIP Summit - Peso	VIP Summit - Dollar	True North	Global Treasures	High Street Peso	Total
Beginning	985,904,299	-	1,867,138,728	492,284,835	599,665,486	411,549,601	307,646,300	4,664,189,249
Purchases	-	-	-	-	-	-	-	-
Maturities	(65,756,549)	-	(2,048,002,456)	(530,006,400)	-	-	-	(2,643,765,405)
Revaluation*	49,105,660	-	180,863,728	37,721,565	(27,100,782)	(71,545,351)	(39,511,550)	129,533,270
	969,253,410	-	-	-	572,564,704	340,004,250	268,134,750	2,149,957,114

\*Revaluation is reflected only as increase (decrease) in the asset and liability of the Company. No impact in profit or loss or other comprehensive income.

2017								
	Dollar Income Optimizer	Summit Select	VIP Summit - Peso	VIP Summit - Dollar	True North	Global Treasures	High Street Peso	Total
Beginning	961,791,138	1,298,053,508	1,877,449,005	465,030,166	557,352,837	338,569,748	287,109,550	5,785,355,952
Purchases	-	-	-	-	-	-	-	-
Maturities	-	(1,471,575,520)	-	-	-	-	-	(1,471,575,520)
Revaluation*	24,113,161	173,522,012	(10,310,277)	27,254,669	42,312,649	72,979,853	20,536,750	350,408,817
	985,904,299	-	1,867,138,728	492,284,835	599,665,486	411,549,601	307,646,300	4,664,189,249

\*Revaluation is reflected only as increase (decrease) in the asset and liability of the Company. No impact in profit or loss or other comprehensive income.

#### (e) Financial risk

The Company is exposed to financial risk through its financial assets, and financial liabilities. In particular, the key financial risk that the Company is exposed to is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk, and market risk.

#### (f) Credit risk

Credit risk represents the loss that would be recognized if counterparties to investment transactions are unable or unwilling to fulfill their payment obligations. The credit risk arising from investment transactions is not significant as most of the Company's investments are in government securities, which are by definition risk-free. In addition, availability and trading of private debt securities are very limited. At present, the Company has exposure on two private debt securities. All purchases, especially private debt securities, goes through a stringent process of credit review and must be approved by the Company's Investment Committee and are subject to approval of the IC. Credit valuations and review are performed on a regular basis. The Company does not have any credit risk concentrations other than to the Philippine National Government due to its government bond investments. Aggregate exposure to all non-investment grade & unrated counterparties is at a maximum of 12% of total investment assets.

Investments in private debt securities, structured notes and other nongovernment paper, if any, shall have a credit quality of at least local AAA or international A. For short-term investments such as commercial papers, the minimum credit quality is at least local Aa or international A (or country equivalent), or as approved by the Company's Investment Committee.

The Company has no substantial credit risk for policy loans since the loan amount is covered by the cash surrender value of the life insurance policy.

The Company issues unit-linked insurance policies. In the unit-linked business, the policyholder bears the investment risk in the assets held in the unit-linked funds as the policy benefits are directly linked to the values of the assets in the fund. Therefore, the Company has no material credit risk on unit-linked financial assets.

As of December 31, 2018 and 2017, the carrying values of the Company's financial instruments represent maximum exposure to credit risk at reporting date.

The tables below provide information regarding the exposure of the Company by classifying assets according to credit ratings of the counterparties.

2018	Neither past due nor impaired		Past due or impaired	Total
	Investment grade	Non-investment grade satisfactory		
Financial assets				
Cash and cash equivalents*	792,191,325	-	-	792,191,325
Insurance receivables	-	77,469,771	-	77,469,771
AFS financial assets				
Government debt securities	4,655,616,959	-	-	4,655,616,959
Private debt securities	2,987,372,099	-	-	2,987,372,099
Financial assets at FVTPL				
Derivative asset	32,469,312	-	-	32,469,312
Financial assets for unit-linked contracts	3,350,787,437	-	-	3,350,787,437
HTM investments - government securities	1,265,550,049	-	-	1,265,550,049
Loans and receivables				
Policy loans	-	263,832,387	-	263,832,387
Accrued income	135,880,824	-	-	135,880,824
Due from unit-linked fund	24,201,804	-	-	24,201,804
Advances from employees and agents	-	40,034,046	-	40,034,046
Other receivables	-	4,320,144	-	4,320,144
Reinsurance asset	-	6,538,254	-	6,538,254
Rental and other deposits	-	14,007,034	-	14,007,034
<b>Total financial assets</b>	<b>13,244,069,809</b>	<b>406,201,636</b>	<b>-</b>	<b>13,650,271,445</b>

\*Excluding petty cash fund.

2017	Neither past due nor impaired		Past due or impaired	Total
	Investment grade	Non-investment grade satisfactory		
Financial assets				
Cash and cash equivalents*	952,447,015	-	-	952,447,015
Insurance receivables	-	49,011,582	-	49,011,582
AFS financial assets				
Government debt securities	3,666,125,782	-	-	3,666,125,782
Private debt securities	3,266,967,869	-	-	3,266,967,869
Financial assets at FVTPL				
Derivative asset	28,513,871	-	-	28,513,871
Financial assets for unit-linked contracts	3,551,929,377	-	-	3,551,929,377
HTM investments - government securities	946,863,714	-	-	946,863,714
Loans and receivables				
Policy loans	-	235,634,618	-	235,634,618
Accrued income	116,259,659	-	-	116,259,659
Advances from employees and agents	-	39,592,215	-	39,592,215
Other receivables	-	24,176,091	-	24,176,091
Reinsurance asset	-	10,534,411	-	10,534,411
Rental and other deposits	-	11,922,175	-	11,922,175
<b>Total financial assets</b>	<b>12,529,107,287</b>	<b>370,871,092</b>	<b>-</b>	<b>12,899,978,379</b>

\*Excluding petty cash fund.



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

Investment grade - refers to investments in Philippine government securities; investments in private debt securities, structured notes and other nongovernment paper, which have a credit quality of at least local AAA or international A and short-term investments such as commercial papers with minimum credit quality of local AA or international A (or country equivalent), or as approved by the Company's Investment Committee.

Non-investment grade satisfactory - a bond rating that signifies low credit quality with a relatively high risk of defaulting. Ratings of BB, B, CCC, etc. are usually considered of low credit quality.

All equity securities are classified as investment grade except for certain securities considered impaired. The fair value of impaired equity securities amounted to nil and P97,884,270 as of December 31, 2018 and 2017, respectively. Impairment losses amounted to nil and P1,737,040 in 2018 and 2017, respectively.

*(g) Liquidity risk*

The Company manages liquidity by forecasting cash flow requirements. Premiums are required to be received before payment of claims, generating solid cash flows from insurance operations. Investments are made in assets with maturities or interest payments which are matched against expected payouts of claims and benefits (i.e., amount and duration of assets are matched against amount and duration of liabilities). In addition, significant outflows due to operating expenses (e.g., salaries, bonuses, IT expenditures, etc.) are scheduled based on an agreed budget timeline. It is unusual for a Company primarily transacting insurance business to predict the requirements of funding with absolute certainty since the theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are thus based on management's best estimate, based on statistical techniques and past experience. Repayments which are subject to notice are treated as if notice were to be given immediately.

The tables below summarize the maturity profile of financial assets and liabilities, including insurance liabilities, of the Company using undiscounted contractual maturities based on remaining contractual obligations, or for the insurance provisions, based on the estimated timing of net cash outflows.

	Up to a year*	1 to 3 years	3 to 5 years	Over 5 years	No Term	Unit-linked	Total
2018							
Cash and cash equivalents	792,191,325	-	-	-	-	-	792,191,325
Insurance receivables	77,469,771	-	-	-	-	-	77,469,771
AFS financial assets							
Government debt securities	76,939,200	137,248,100	95,000,000	4,359,354,949	-	-	4,668,542,249
Private debt securities	187,658,040	232,517,050	908,909,000	1,919,840,000	-	-	3,248,924,090
Equity securities	-	-	-	-	52,080,000	-	52,080,000
Financial assets at FVTPL							
Listed equity securities	-	-	-	-	732,896,700	-	732,896,700
Derivative asset	-	-	-	32,469,312	-	-	32,469,312
Investment in unit-linked funds	-	-	-	-	-	65,224,412	65,224,412
Financial assets for unit-linked contracts	-	-	-	-	-	17,990,227,804	17,990,227,804
HTM government securities	-	-	46,961,020	1,390,849,692	-	-	1,437,810,712
Loans and receivables							
Policy loans	-	-	-	-	263,832,387	-	263,832,387
Accrued income	135,880,824	-	-	-	-	-	135,880,824
Due from unit-linked fund	24,201,804	-	-	-	-	-	24,201,804
Advances to employees and agents	12,984,748	11,521,028	15,528,270	-	-	-	40,034,046
Other receivables	3,947,604	372,540	-	-	-	-	4,320,144
Reinsurance asset	6,538,254	-	-	-	-	-	6,538,254
Rental and other deposits	-	7,251,386	6,755,648	-	-	-	14,007,034
Total financial assets	1,317,811,570	388,910,104	1,073,153,938	7,702,513,953	1,048,809,087	18,055,452,216	29,586,650,868
Insurance provisions	478,604,609	(69,089,991)	609,666,402	1,199,924,358	5,849,676,603	-	8,068,781,981
Due to reinsurer	15,432,284	-	-	-	-	-	15,432,284
Premium deposit fund	428,536,042	-	-	-	-	-	428,536,042
Accounts payable and accrued expenses	1,079,193,995	-	-	-	-	-	1,079,193,995
Financial liabilities for unit-linked contracts	-	-	-	-	-	17,990,227,804	17,990,227,804
Total financial liabilities	2,001,766,930	(69,089,991)	609,666,402	1,199,924,358	5,849,676,603	17,990,227,804	27,582,172,106
Liquidity gap	(683,955,360)	319,820,1143	463,487,536	6,502,589,595	(4,800,867,516)	65,224,412	2,004,478,762

\*Maturities up to a year are all commitments which are either due within the time frame or are payable on demand.

2017	Up to a year*	1 to 3 years	3 to 5 years	Over 5 years	No Term	Unit-linked	Total
Cash and cash equivalents	952,447,015	-	-	-	-	-	952,447,015
Insurance receivables	49,011,582	-	-	-	-	-	49,011,582
AFS financial assets	-	-	-	-	-	-	-
Government debt securities	-	133,720,826	237,340,400	5,405,651,901	-	-	5,776,713,127
Private debt securities	26,837,375	387,664,441	792,943,020	3,008,867,341	-	-	4,216,312,177
Equity securities	-	-	-	-	442,385,128	-	442,385,128
Financial assets at FVTPL	-	-	-	-	-	-	-
Listed equity securities	-	-	-	-	1,019,416,661	-	1,019,416,661
Derivative asset	-	-	-	-	28,513,871	-	28,513,871
Investment in unit-linked funds	-	-	-	-	-	160,471,204	160,471,204
Financial assets for unit-linked contracts	-	-	-	-	-	16,095,741,952	16,095,741,952
HTM government securities	-	-	-	1,723,743,731	-	-	1,723,743,731
Loans and receivables	-	-	-	-	-	-	-
Policy loans	-	-	-	-	235,634,618	-	235,634,618
Accrued income	116,259,659	-	-	-	-	-	116,259,659
Due from unit-linked fund	-	-	-	-	-	-	-
Advances to employees and agents	12,103,668	11,270,144	16,218,403	-	-	-	39,592,215
Other receivables	23,972,846	203,245	-	-	-	-	24,176,091
Reinsurance asset	10,534,411	-	-	-	-	-	10,534,411
Rental and other deposits	3,273,070	5,980,675	2,668,431	-	-	-	11,922,175
Total financial assets	1,194,439,626	538,839,331	1,049,170,254	10,138,262,973	1,725,950,278	16,256,213,156	30,902,875,617
Insurance provisions	672,500,219	255,534,320	1,784,684,036	5,706,191,155	-	-	8,418,909,730
Premium deposit fund	347,479,014	-	-	-	-	-	347,479,014
Due to reinsurer	11,052,705	-	-	-	-	-	11,052,705
Accounts payable and accrued expenses	712,087,170	-	-	-	-	-	712,087,170
Financial liabilities for unit-linked contracts	-	-	-	-	-	16,095,741,952	16,095,741,952
Total financial liabilities	1,743,119,108	255,534,320	1,784,684,036	5,706,191,155	-	16,095,741,952	25,585,270,571
Liquidity gap	(548,679,482)	283,305,011	(735,513,782)	4,432,071,818	1,725,950,278	160,471,204	5,317,605,046

\*Maturities up to a year are all commitments which are either due within the time frame or are payable on demand.

*(h) Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign exchange rate (currency risk), market interest rate (fair value interest rate risk), and market price (equity price risk).

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

- Market risk policy on the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Asset allocation and portfolio limit structure to ensure that assets back specific policyholders' liabilities and those assets are held to deliver income and gains for policyholders which are in line with expectations of the policyholders.
- Diversification benchmarks by type of instrument, as they are exposed to guaranteed bonuses, cash and annuity options when interest rates falls.

*(i) Currency risk*

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

Assets and liabilities are denominated both in PHP and USD. The assets are sufficient to match the corresponding liabilities except when an intentional currency mismatch is suitable during times of rapidly depreciating currency. The surplus of the Company is invested in Philippine Peso.

The following tables show the details of the Company's significant foreign currency-denominated monetary assets and liabilities and their Philippine Peso equivalents.

	2018		2017	
	US\$	PHP	US\$	PHP
<b>Financial assets</b>				
Cash and cash equivalents	3,609,897	189,778,955	3,829,513	191,207,607
Investment in unit-linked funds	204,333	10,743,825	1,187,016	59,267,691
Financial assets for unit-linked contracts	134,348,507	7,064,044,503	77,423,956	3,865,778,110
AFS financial assets	37,731,228	1,983,907,963	39,979,903	1,996,196,737
HTM investments	11,580,910	608,924,318	9,493,828	474,026,819
Accrued interest	981,805	51,623,313	971,383	48,501,147
Policy loans, including due and uncollected premiums	1,133,694	59,609,612	1,162,432	58,040,224
	189,590,374	9,968,632,489	134,048,031	6,693,018,335
<b>Financial liabilities</b>				
Aggregate reserves on life policies	47,902,011	2,518,687,762	50,267,672	2,509,864,859
Premium deposit fund	5,018,506	263,873,050	3,209,442	160,247,450
Financial liabilities for unit-linked contracts	134,348,507	7,064,044,503	77,423,956	3,865,778,110
	187,269,024	9,846,605,315	130,901,070	6,535,890,419
	2,321,350	122,027,174	3,146,961	157,127,916

The foreign exchange rate used in 2018 and 2017 were P52.58 and P49.93 to US\$1, respectively.

Unrealized foreign exchange loss recognized in the statements of income under Foreign exchange loss, net amounted to P52,589,570 and P15,773,077 in 2018 and 2017, respectively.

The analysis below is performed for reasonably possible movements in the Philippine Peso to US Dollar foreign exchange rate with all other variables held constant, showing the impact on profit before tax (due to changes in the fair value of currency sensitive monetary assets and liabilities). There is no other impact on the Company's equity other than those already affecting the statement of income.

Period	Currency	Changes in variable	Impact on profit after tax
2018	US\$	0.25%	398,226
		(0.25%)	(398,226)
2017	US\$	0.45%	651,840
		(0.45%)	(651,840)



The analysis is performed for reasonably possible movements in the Philippine Peso to US Dollar foreign exchange rate with all other variables held constant, showing the impact on financial position of the Company (due to changes in the fair value of currency sensitive monetary assets and liabilities).

Period	Structured notes	Increase (Decrease) in variable	Impact on financial position
2018	Dollar Income Optimizer	100 bps	9,226,926
		(100 bps)	(9,226,926)
	VIP Summit – USD	N/A	N/A
		N/A	N/A
2017	Dollar Income Optimizer	100 bps	9,894,704
		(100 bps)	(9,894,704)
	VIP Summit – USD	100 bps	5,026,586
		(100 bps)	(5,026,586)

The Company determined the reasonably possible change in foreign exchange rates by using the trend analyses of monthly PDEX closing rate for the past two years.

*(j) Fair value interest rate risk*

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

The Company's investment policy requires it to buy and hold AFS financial assets, unless the need to sell arises, and to reduce the duration gap between financial assets and financial liabilities to minimize interest rate risk. Securities are also marked-to-market monthly to reflect and account for both unrealized gains and losses.

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on equity (that reflects adjustments on the fair value of fixed rate AFS financial assets).

2018	Change in variables	Impact on equity
Peso	+0.25%	(82,838,752)
US Dollar	+0.25%	(28,776,937)
Peso	-0.25%	84,833,602
US Dollar	-0.25%	29,642,416

2017	Change in variables	Impact on equity
Peso	+0.25%	(69,519,376)
US Dollar	+0.25%	(32,972,555)
Peso	-0.25%	71,178,325
US Dollar	-0.25%	33,947,224

The Company determined the reasonably possible change in fair value interest rate risk by using the trend analyses of the Company's monthly sustainable portfolio yields for the past three years.

The following table shows the information relating to the Company's financial instruments that are exposed to fair value interest rate risk presented by maturity profile.

2018	AFS financial assets	Range of Interest rate	Up to a year*	Maturity			Total
				1-3 years	3-5 years	Over 5 years	
	Government debt securities						
	Peso-denominated	3.5%-18.25%	5,015,516	-	96,492,922	3,141,486,814	3,242,995,252
	Dollar-denominated	3.7%-10.63%	79,286,644	145,968,994	-	1,187,366,069	1,412,621,707
	Private debt securities						
	Peso-denominated	0%-7.18%	38,074,539	113,957,781	753,607,573	1,510,445,950	2,416,085,843
	Dollar-denominated	4.25%-7.39%	183,501,657	147,433,742	113,347,863	127,002,994	571,286,256
	Total AFS financial assets		305,878,356	407,360,517	963,448,358	5,966,301,827	7,642,989,058

\*Maturities up to a year are all commitments which are either due within the time frame or are payable on demand.

2017	AFS financial assets	Range of Interest rate	Up to a year*	Maturity			Total
				1-3 years	3-5 years	Over 5 years	
	Government debt securities						
	Peso-denominated	2.70% - 14.60%	-	5,000,000	110,000,000	2,163,449,919	2,278,449,919
	Dollar-denominated	3.95% - 10.625%	-	111,343,900	99,860,000	1,176,471,963	1,387,675,863
	Private debt securities						
	Peso-denominated	0.00% - 6.40%	-	48,450,000	644,810,000	1,965,186,995	2,658,446,995
	Dollar-denominated	4.25% - 7.50%	24,965,000	299,530,070	9,986,000	274,039,804	608,520,874
	Total AFS financial assets		24,965,000	464,323,970	864,656,000	5,579,148,681	6,933,093,651

\*Maturities up to a year are all commitments which are either due within the time frame or are payable on demand.

(k) *Equity price risk*

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

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; limits on investment in each country, sector and market.

The Company has certain direct minority investments in publicly traded companies. These investments are classified as AFS financial assets. The fair values of equity investments classified as FVTPL and AFS financial assets as of December 31, 2018 and 2017 amounted to P784,976,700 and P1,416,580,911, respectively (Note 4).

The analysis below is performed for reasonably possible movements in the PSE index with all other variables held constant, showing the impact on equity (that reflects changes in fair value of AFS financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear.

2018	Change in variables	Impact on equity
PSEi	7.50%	69,552,364
PSEi	-7.50%	(69,552,364)

2017	Change in variables	Impact on equity
PSEi	7.50%	90,861,075
PSEi	-7.50%	(90,861,075)

The equity impact is arrived at using the reasonably possible change of PSEi and the specific adjusted beta of each stock the Company holds. Adjusted beta is the forecasted measure of the volatility of a security or a portfolio in comparison to the market as a whole.

(l) *Deferral of PFRS 9, Financial instruments*

PFRS 9, Financial instruments, issued by the IASB in July 2014, fully replaces PAS 39 and provides a new approach on how to classify financial instruments based on their cash flow characteristics and the business model under which they are managed. Furthermore, the standard introduces a new forward-looking impairment model for debt instruments and provides new rules for hedge accounting. It can be assumed that the main impact from PFRS 9 will arise from the new classification rules leading to more financial instruments being measured at fair value through income as well as the new impairment model. Interdependencies with IFRS 17 will need to be considered to assess the ultimate combined impact of both standards.

The amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts, issued in September 2016, allow entities that issue insurance contracts within the scope of PFRS 4 to defer the implementation of PFRS 9 until January 1, 2021 under certain circumstances. The Insurance Commission, through its Circular Letter 2018-69, has deferred the implementation of PFRS 17 for life insurance and non-life insurance industry to January 1, 2023.

The Company meets the eligibility requirements set out in 'Applying IFRS 9 Financial Instruments with PFRS 4 Insurance Contracts (Amendments to PFRS 4)'; and has elected to defer the application of PFRS 9 until the Company adopts PFRS 17.

In order to qualify for the temporary exemption, an entity has to prove that its activities are predominantly connected to insurance as of December 31, 2015. Under the amended PFRS 4, this condition is met if the insurer carries significant liabilities arising from contracts within the scope of PFRS 4. Significant insurance-related liabilities are given, among others, if the percentage of the total carrying amount of liabilities connected with insurance relative to the total carrying amount of all liabilities is greater than 90%. A reassessment at a subsequent annual reporting date is required if, and only if, there was a change in the entity's activities during the annual period that ended on that date.

As of December 31, 2015, the Company's total carrying amount of liabilities connected with insurance amounted to P21,048,319,666 which represented more than 98.12% of its total liabilities of P21,452,621,009.

The following table provides an overview of the fair values as at December 31, 2018 and the amounts of change in the fair values during the reporting period separately for financial assets that meet the SPPI criterion (i.e. financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding, excluding any financial asset that meets the definition of held for trading in PFRS 9, or that is managed and whose performance is evaluated on a fair value basis) and all other financial assets:

	Financial assets that meet the SPPI criteria*		All other financial assets	
	Fair value	Fair value change during the reporting period	Fair value	Fair value change during the reporting period
Cash and cash equivalents	792,191,325	-	-	-
Financial assets for unit-linked contracts	-	-	17,990,227,804	(1,447,534,322)
Financial assets at fair value through profit or loss	-	-	830,590,424	(38,763,620)
Available-for-sale financial assets	7,642,989,058	(766,069,915)	52,080,000	16,150,000
Held-to-maturity investments	1,437,810,711	-	-	-
Loans and receivables	204,436,818	-	-	-
Rental and other deposits	14,007,034	-	-	-
	10,091,434,946	(766,069,915)	18,872,898,228	(1,470,147,942)

\* Excluding any financial asset that meets the definition of held for trading in PFRS 9, or that is managed and whose performance is evaluated on a fair value basis.

The financial assets for unit-linked contracts are exclusively held on behalf and for the benefit of unit-linked policyholders. To ensure consistency with the corresponding accounting treatment for the unit-linked contracts, these investments are designated at fair value through income under current accounting rules. This treatment is going to be maintained under the future PFRS 9 regime accordingly. The following table provides information about the credit risk exposures for financial assets with contractual terms that meet the SPPI criterion. It includes the carrying amounts applying PAS 39 (in the case of financial assets measured at amortized cost before adjusting for any impairment allowances):

	Neither past due nor impaired			Total
	Investment grade	Non-investment grade	Past due or impaired	
Cash and cash equivalents	792,191,325	-	-	792,191,325
Available-for-sale financial assets	7,642,989,058	-	-	7,642,989,058
Held-to-maturity investments	1,265,550,049	-	-	1,265,550,049
Loans and receivables	160,082,628	44,354,190	-	204,436,818
Rental and other deposits	-	14,007,034	-	14,007,034
	9,860,813,060	58,361,224	-	9,919,174,284

The fair values of financial assets included in the table above that are non-investment grade, and thus do not have low credit risk as of December 31, 2018, approximately equal the respective carrying amounts.

### 31 Contingencies and commitments

#### *Contingencies*

The Company has various litigations during the year and has reasonably provided for possible costs that it may incur for the resolution of these claims. Provision recognized for probable loss is nil in 2018 and 2017. This has been developed in consultation with the Company's legal counsels and based upon an analysis of potential results. The Company has deposited P7,169,566 (Note 7) to an appellate court in relation to its pending case.

Inclusion of details in addition to the current disclosure may prejudice the Company's position; thus, as allowed under PAS 37, Provisions, Contingent Liabilities, and Contingent Assets, only general disclosure is provided.

#### *Commitments*

The Company has a lease contract covering the head office premises for a period of five (5) years up to December 2020. The Company also has several lease agreements covering the branch offices for periods ranging from 1 to 5 years until June 2022. These lease contracts are renewable upon mutual agreement of the Company and the lessors.

The carrying values of rental deposits and prepaid rent for the above lease agreements amounted to P6,775,648 and P8,349,015 as of December 31, 2018 respectively (Note 7) and P4,680,789 and P5,739,789 as of December 31, 2017, respectively (Note 7).



Rental expense included in the "Rent" account in the "General and administrative" account amounted to P23,979,753 and P19,460,548 in 2018 and 2017, respectively (Note 22). These amounts include straight-line amortization as a result of the present value computation of noninterest-bearing rental deposits amounting to P354,867 and P291,103 in 2018 and 2017, respectively.

The future aggregate annual minimum lease payments under these non-cancellable operating leases follow:

	2018	2017
Within one year	26,685,326	19,398,353
After one year but not more than five years	39,005,963	41,878,693
	65,691,289	61,277,046

### 32 Supplementary tax information under Revenue Regulations No. 15-2010

The Company reported and paid the following taxes in 2018:

(i) *Premium tax*

The Company is primarily engaged in the business of life insurance and paid the amount of P27,247,193 (Note 21) as percentage tax pursuant to the Tax Code and based on the amount reflected in the premiums on insurance contracts.

(ii) *VAT*

As of December 31, 2018 the Company recognized taxable sales from management fee revenue and output tax in the amount of P215,714,082 and P25,885,690, respectively.

Details of input VAT in 2018 follows:

	Amount
Beginning balance	-
Add: Current year's domestic purchases/payments for:	
Services	12,900,309
Goods other than capital goods	1,127,060
Capital goods subject to amortization	2,353,278
Input VAT applied against output VAT	(16,380,647)
Total input VAT	-

(iii) *Custom duties and tariff*

The Company does not have customs duties and tariff fees.

(iv) *Documentary Stamp Tax (DST)*

The DST paid/accrued on the following transactions are as follows:

	Base	DST
Life insurance policies (based on face amount)	115,490,873,399	3,634,105
DST on policy loans	29,879,200	224,186
	115,520,752,599	3,858,291

(v) *Other taxes and licenses*

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees.

Details consist of the following:

	Amount
Mayor's permit	11,806,126
CTC	10,500
Others (IC Fees, Notarial Fees, PTR, etc.)	1,924,831
BIR annual registration	5,000
Total	13,746,457

(vi) *Withholding taxes*

The amount of withholding taxes paid and accrued for the year amounted to:

	Paid	Accrued	Total
Tax on compensation and benefits	69,608,999	4,549,641	74,158,640
Creditable withholding taxes	46,038,023	5,828,149	51,866,172
Fringe benefit taxes	6,961,585	3,484,453	10,446,038
Withholding VAT	263,482	-	263,482
Final withholding taxes	447,021	-	447,021
Total	123,319,110	13,862,243	137,181,353

(vii) *Tax assessment*

Taxable years 2017, 2016, and 2015 are open tax years as at December 31, 2018. The Company has not received Preliminary and Final Assessment Notices on the open tax years.

**Allianz PNB Life Insurance, Inc.**  
(Formerly PNB Life Insurance, Inc.)

**Schedule of Philippine Financial Reporting Standards effective as at  
December 31, 2018**

The following table summarizes the effective standards, amendments and interpretations to existing standards as at December 31, 2018:

		Adopted	Not Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b>				
Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs Practice Statement Management Commentary</b>				✓
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
<b>PFRS 2</b>	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions	✓		
<b>PFRS 3 (Revised)</b>	Business Combinations			✓
	Amendments to PFRS 3: Definition of a business*		✓	
<b>PFRS 4</b>	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓

		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts	✓		
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 9, PFRS 7 and PAS 39: Hedge Accounting*		✓	
	Amendments to PFRS 9 and PFRS 7: Mandatory Effective Date and Transition Disclosures*		✓	
<b>PFRS 8</b>	Operating Segments			✓
<b>PFRS 9</b>	Financial Instruments*		✓	
	Amendments to PFRS 9, PFRS 7 and PAS 39: Hedge Accounting*		✓	
	Amendments to PFRS 9 and PFRS 7: Mandatory Effective Date and Transition Disclosures*		✓	
	Amendments to PFRS 9: Prepayment Features with Negative Compensation*		✓	
<b>PFRS 10</b>	Consolidated Financial Statements			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Application of the Consolidation Exception for Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*		✓	

		Adopted	Not Adopted	Not Applicable
<b>PFRS 11</b>	Joint Arrangements			✓
	Amendments to PFRS 11: Acquisition of an Interest in a Joint Operation			✓
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Application of the Consolidation Exception for Investment Entities	✓		
<b>PFRS 13</b>	Fair Value Measurement	✓		
<b>PFRS 14</b>	Regulatory Deferral Accounts			✓
<b>PFRS 15</b>	Revenue from Contracts with Customers	✓		
	Amendments to PFRS 15: Clarifications to PFRS 15	✓		
<b>PFRS 16</b>	Leases*		✓	
<b>PFRS 17</b>	Insurance contracts*		✓	
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
	Amendments to PAS 1 and PAS: Definition of material*		✓	
<b>PAS 2</b>	Inventories			✓
<b>PAS 7</b>	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
	Amendments to PAS 1 and PAS: Definition of material*		✓	
<b>PAS 10</b>	Events after the Reporting Period	✓		
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 16 - Deferred Tax: Recovery of Underlying Assets	✓		



		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16 and PAS 38: Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Contributions from Employees or Third Parties	✓		
	Amendments to PAS 19: Plan Settlement, Curtailment or Settlement*		✓	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment to PAS 21: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27 (Revised)	Separate Financial Statements			✓
	Amendments to PAS 27: Use of Equity Method in Separate Financial Statements			✓
PAS 28 (Revised)	Investments in Associates and Joint Ventures			✓
	Amendments of PFRS 10, PFRS 12 and PAS 28: Application of the Consolidation Exception for Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contributions of Assets between an Investor and its Associate or Joint Venture			✓
	Amendment to PAS 28: Measuring an associate or joint venture at fair value			✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures*		✓	

		Adopted	Not Adopted	Not Applicable
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 32</b>	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting			✓
<b>PAS 36</b>	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets			✓
	Amendments to PAS 16 and PAS 38: Acceptable Methods of Depreciation and Amortization			✓
<b>PAS 40</b>	Investment Property			✓
	Amendment to PAS 40: Transfers of Investment Property			✓
<b>PAS 41</b>	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific			✓

		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
	Market - Waste Electrical and Electronic Equipment			
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment			✓
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to IFRIC 14: Prepayments of a Minimum Funding Requirement			✓
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>IFRIC 21</b>	Levies			✓
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration	✓		
<b>IFRIC 23</b>	Uncertainty over Income Tax Treatments*		✓	
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-15</b>	Operating Leases - Incentives			✓
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓

The standards, amendments and interpretations to existing standards marked with an asterisk (\*) have been issued but are not yet effective for the December 31, 2018 financial statements. Unless otherwise stated, these standards, amendments and interpretations have not been early adopted.

The standards, amendments and interpretations to existing standards that are labeled as "Not Applicable" are already effective as at December 31, 2018 but are currently not relevant to the Company because it has currently no related transaction.