



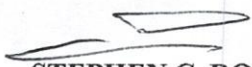
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**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR ANNUAL INCOME TAX RETURN**

The Management of **CITYPLANS, INCORPORATED** is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2018. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/ or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2018 and the accompanying Annual Income Tax Return are in accordance with the books and records of Cityplans, Incorporated, complete and correct in all material respects. Management likewise affirms that:

- (a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- (b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
- (c) Cityplans, Incorporated has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.


STEPHEN C. ROXAS
President / Chief Executive Officer


RUDY GO
Senior Vice President / Chief Financial Officer



APR 12 2019



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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Cityplans, Incorporated** (the Company) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with accounting principles generally accepted in the Philippines for pre-need companies, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The 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 the stockholders.

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

AL 4/8

ANDREW I. LIUSON
 Chairman of the Board

STEPHEN C. ROXAS
 President / Chief Executive Officer

RUDY GO
 Senior Vice President / Chief Financial Officer

Signed this MAR 27 2019 day of 2019



APR 12 2019

MAR 27 2019

SUBSCRIBED AND SWORN to before me this day of _____ affiant(s) exhibiting to me their Social Security Numbers, as follows:

Name	Social Security System Number
Andrew I. Liuson	03-1872470-6
Stephen C. Roxas	03-0344241-7
Rudy Go	03-4602228-9

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 Page No. 67
 Book No. L
 Series of 2019.

ATTY. ALBERT ANTHONY H. OCAMPO
 NOTARY PUBLIC FOR MANILA
 UNTIL DECEMBER 31, 2020
 APPOINTMENT NO.: 2019-031
 IBP ROLL NO.: 44239



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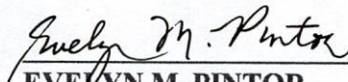
CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

I hereby certify that I am the Certified Public Accountant (CPA) who performed the compilation services related to the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and reports as required by accounting and auditing standards for **Cityplans, Incorporated** for the period ending December 31, 2018.

In discharging this responsibility, I hereby declare that I am the Senior Manager of Cityplans, Incorporated.

Furthermore, in my compilation services for the preparation of the Financial Statements and Notes to the Financial Statements, I was not assisted by or did not avail of the services of SyCip Gorres Velayo & Co. which is the external auditor who rendered the audit opinion for the said Financial Statements and Notes to the Financial Statements.

I hereby declare, under penalties of perjury and violation of Republic Act No. 9298 that my statements are true and correct.



EVELYN M. PINTOR
Senior Manager

PROFESSIONAL IDENTIFICATION CARD NO.: 0052899
VALID UNTIL: December 14, 2019

ACCREDITATION NO.: 2712
VALID UNTIL: December 14, 2020

Signed this 11th day of April 2019.

SUBSCRIBED AND SWORN to before me in MANILA City, Philippines on APR 11 2019, affiant personally appeared before me and exhibited to me her Professional Identification Card No. 0052899 valid until December 14, 2019 and other competent evidence of identification.

Doc No. 407 ;
Page No. 83 ;
Book No. 1 ;
Series of 2019.

ATTY. ALBERT ANTHONY H. OCAMPO
NOTARY PUBLIC FOR MANILA
UNTIL DECEMBER 31, 2020
APPOINTMENT NO.: 2019-031
IBP ROLL NO.: 44239
IBP NO.: 07884/Lifetime/Laguna

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Cityplans, Incorporated
3/F Cityland Condo. 10, Tower 2
154 H.V. de la Costa St.
Salcedo Village, Makati City

Report on the Audit of the Financial Statements

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with accounting principles generally accepted in the Philippines for pre-need companies.

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the Philippines for pre-need companies, 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 PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

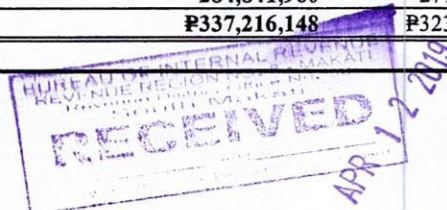




CITYPLANS, INCORPORATED
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	P22,804,338	P6,331,918
Short-term cash investments (Note 5)	87,100,000	73,000,000
Current portion of:		
Installment contracts receivable (Note 9)	3,652,174	2,477,502
Other receivables	956,485	563,552
Investments in trust funds - current portion (Note 7)	6,015,289	4,269,063
Real estate properties for sale (Note 10)	-	3,945,572
Prepaid tax	-	845,236
Total Current Assets	120,528,286	91,432,843
Noncurrent Assets		
Investment properties (Note 11)	133,123,175	155,293,610
Investments in trust funds - net of current portion (Note 7)	30,392,708	31,313,133
Installment contracts receivable - net of current portion (Note 9)	20,050,544	9,787,834
Equity instruments designated at fair value through other comprehensive income (FVOCI) (Note 6)	12,115,340	-
Available-for-sale financial assets (AFS) (Note 6)	-	15,159,890
Insurance premium fund (Note 8)	200,000	200,000
Other noncurrent assets (Notes 12 and 16)	20,806,095	19,964,976
Total Noncurrent Assets	216,687,862	231,719,443
TOTAL ASSETS	P337,216,148	P323,152,286
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 18 and 19)	P5,091,192	P4,871,995
Pre-need reserves (Note 7)	2,416,195	1,500,028
Income tax payable	73,596	-
Total Current Liabilities	7,580,983	6,372,023
Noncurrent Liabilities		
Pre-need reserves - net of current portion (Note 7)	27,977,931	30,210,836
Other reserves (Notes 7 and 8)	10,965,713	9,633,407
Accounts payable and accrued expenses - net of current portion (Note 19)	3,741,929	4,290,650
Deferred income tax liabilities - net (Note 17)	2,107,632	848,642
Total Noncurrent Liabilities	44,793,205	44,983,535
Total Liabilities	52,374,188	51,355,558
Equity		
Capital stock - P1.00 par value		
Authorized - 200,000,000 shares		
Issued and outstanding - 137,500,000 shares	137,500,000	125,000,000
Unrealized fair value changes on financial assets at fair value through other comprehensive income (FVOCI) (Note 6)	7,908,635	-
Net changes in fair values of AFS investments (Note 6)	-	10,953,184
Unrealized fair value changes on financial assets at FVOCI held in trust funds (Note 7)	130,255	-
Net changes in fair values of AFS investments held in trust funds (Note 7)	-	672,577
Accumulated re-measurement loss on defined benefit plans - net of deferred income tax effect (Note 16)	(137,742)	(333,360)
Retained earnings (Notes 7 and 20):		
Unrestricted	136,885,840	133,933,035
Restricted	2,554,972	1,571,292
Total Equity	284,841,960	271,796,728
TOTAL LIABILITIES AND EQUITY	P337,216,148	P323,152,286

See accompanying Notes to Financial Statements.



CITYPLANS, INCORPORATED
STATEMENTS OF INCOME

	Years Ended December 31	
	2018	2017
REVENUE		
Sales of real estate properties (Note 9)	₱37,636,256	₱17,630,219
Rental income (Notes 9 and 11)	13,451,431	14,298,027
Interest income (Notes 5 and 9)	6,036,617	2,980,442
Trust fund income (Note 7)	1,720,203	2,285,042
Unrealized re-measurement gain on investment properties (Note 7)	983,680	-
Premium revenue (Note 13)	50,399	54,723
Other income (Note 6)	1,705,923	1,512,822
	61,584,509	38,761,275
COST AND EXPENSES		
Cost of contracts issued:		
Plan benefit expense (inclusive of trust fund contributions) (Note 7)	3,620,460	4,452,851
Increase (decrease) in reserves for trust fund deficiency (Note 7)	1,434,456	(3,786,795)
Documentary stamp tax and Securities and Exchange Commission and Insurance Commission registration fees	150,795	200,890
Increase (decrease) in pre-need reserves (Note 7)	(1,316,737)	197,069
Insurance liabilities and others	(12,276)	(20,919)
Cost of real estate sales (Note 10)	19,630,584	10,234,161
General and administrative expenses (Note 14)	16,406,507	15,093,202
Unrealized re-measurement loss on investment properties (Note 7)	-	912,728
Other direct costs and expenses	17,907	21,586
	39,931,696	27,304,773
INCOME BEFORE INCOME TAX	21,652,813	11,456,502
PROVISION FOR INCOME TAX (Note 17)	5,216,328	1,193,956
NET INCOME	₱16,436,485	₱10,262,546

See accompanying Notes to Financial Statements.



APR 12 2019



CITYPLANS, INCORPORATED
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
NET INCOME	₱16,436,485	₱10,262,546
OTHER COMPREHENSIVE INCOME (LOSS)		
To be reclassified to profit or loss in subsequent periods:		
Changes in fair value of AFS investments (Note 6)	-	845,559
Changes in fair value of AFS investments in trust funds (Note 7)	-	(594,225)
Not to be reclassified to profit or loss in subsequent periods:		
Changes in fair value of financial assets at FVOCI (Note 6)	(3,044,549)	-
Changes in fair value of financial assets at FVOCI in trust funds (Note 7)	(542,322)	-
Re-measurement gain on defined obligation plan (Note 16), net of income tax effect	195,618	15,778
	(3,391,253)	267,112
TOTAL COMPREHENSIVE INCOME	₱13,045,232	₱10,529,658

See accompanying Notes to Financial Statements.



CITYPLANS, INCORPORATED

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	Capital Stock	Net Changes in Fair Value of Available-For-Sale Investments (Note 6)	Unrealized Fair Value Changes on financial assets at FVOCI (Note 6)	Net Changes in Fair Value of Available-For-Sale Investments Held in Trust Funds (Note 7)	Unrealized Fair Value Changes on financial assets at FVOCI held in Trust Funds (Note 7)	Unrealized Fair Value Changes on Defined Benefit Plan - Net of Deferred Income Tax Effect (Note 16)	Accumulated Re-measurement		Total
							Unrestricted	Restricted	
BALANCES AT DECEMBER 31, 2016	₱125,000,000	₱10,107,625	₱-	₱1,266,802	₱-	(₱349,138)	₱122,757,761	₱2,484,020	₱261,267,070
Net income	-	-	-	-	-	-	10,262,546	-	10,262,546
Other comprehensive income (loss)	-	845,559	-	(594,225)	-	15,778	-	-	267,112
Total comprehensive income (loss)	-	845,559	-	(594,225)	-	15,778	10,262,546	-	10,529,658
Trust fund income	-	-	-	-	-	-	-	2,285,042	2,285,042
Plan benefit expense, exclusive of trust fund contributions	-	-	-	-	-	-	-	(2,087,973)	(2,087,973)
Increase in pre-need reserves	-	-	-	-	-	-	-	(197,069)	(197,069)
Unrealized re-measurement loss on investment properties	-	-	-	-	-	-	912,728	(912,728)	-
BALANCES AT DECEMBER 31, 2017	₱125,000,000	₱10,953,184	₱-	₱672,577	₱-	(₱333,360)	₱133,933,035	₱1,571,292	₱271,796,728
BALANCES AT JANUARY 1, 2018, AS PREVIOUSLY STATED	₱125,000,000	₱10,953,184	₱-	₱672,577	₱-	(₱333,360)	₱133,933,035	₱1,571,292	₱271,796,728
Effect of adoption of PFRS 9 (Note 2)	-	(10,953,184)	10,953,184	(672,577)	672,577	-	-	-	-
BALANCES AT JANUARY 1, 2018, AS RESTATED	125,000,000	-	10,953,184	-	672,577	(333,360)	133,933,035	1,571,292	271,796,728
Net income	-	-	-	-	-	-	16,436,485	-	16,436,485
Other comprehensive income (loss)	-	-	(3,044,549)	-	(542,322)	195,618	-	-	(3,391,253)
Total comprehensive income (loss)	-	-	(3,044,549)	-	(542,322)	195,618	16,436,485	-	13,045,232
10% Stock dividend declaration (Note 20)	12,500,000	-	-	-	-	-	(12,500,000)	-	-
Trust fund income	-	-	-	-	-	-	-	1,720,203	1,720,203
Plan benefit expense, exclusive of trust fund contributions	-	-	-	-	-	-	-	(3,036,940)	(3,036,940)
Decrease in pre-need reserves	-	-	-	-	-	-	-	1,316,737	1,316,737
Unrealized re-measurement gain on investment properties	-	-	-	-	-	-	(983,680)	983,680	-
BALANCES AT DECEMBER 31, 2018	₱137,500,000	₱-	₱7,908,635	₱-	₱130,255	(₱137,742)	₱136,885,840	₱2,554,972	₱284,841,960

See accompanying Notes to Financial Statements.



CITYPLANS, INCORPORATED
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P21,652,813	P11,456,502
Adjustments for:		
Depreciation expense (Notes 11 and 14)	6,485,423	7,209,083
Interest income (Notes 5 and 9)	(6,036,617)	(2,980,442)
Increase (decrease) in reserves for trust fund deficiency	1,434,456	(3,786,795)
Increase (decrease) in pre-need reserves	(1,316,737)	197,069
Trust fund income (Note 7)	(1,720,203)	(2,285,042)
Dividend income (Note 6)	(403,375)	(221,266)
Unrealized re-measurement loss (gain) on investment properties (Note 7)	(983,680)	912,728
Retirement benefits cost (Note 16)	51,666	30,214
Operating income before working capital changes	19,163,746	10,532,051
Decrease (increase) in:		
Real estate properties for sale	19,630,584	10,234,161
Installment contracts receivable	(11,437,382)	(2,427,938)
Other receivables	(103,878)	(120,784)
Other noncurrent assets	(553,747)	(13,311)
Increase (decrease) in:		
Accounts payable and accrued expenses	(329,524)	1,217,182
Other reserves	(102,150)	(3,960,311)
Cash flows generated from operations	26,267,649	15,461,050
Interest received	5,747,562	2,630,891
Contribution to the plan (Note 16)	(44,682)	(44,682)
Income taxes paid, including creditable and final withholding taxes	(3,137,244)	2,922,617
Net cash flows from operating activities	28,833,285	20,969,876
CASH FLOWS USED IN INVESTING ACTIVITIES		
Placement of short-term cash investments and insurance premium fund (Notes 5 and 8)	(14,100,000)	(22,000,000)
Contributions to investments in trust funds (Note 7)	(2,247,053)	(2,567,483)
Withdrawals from investments in trust funds (Note 7)	3,582,813	4,036,310
Dividends received (Note 6)	403,375	221,266
Net cash flows used in investing activities	(12,360,865)	(20,309,907)
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,472,420	659,969
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,331,918	5,671,949
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	P22,804,338	P6,331,918

See accompanying Notes to Financial Statements.



CITYPLANS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Cityplans, Incorporated (the Company) was incorporated in the Philippines on October 27, 1988 primarily to engage in the business of establishing, organizing, developing, maintaining, conducting, operating, marketing, and selling pension plans. The Company is 90.81%-owned by Cityland Development Corporation (CDC), a publicly listed entity domiciled in the Philippines. The Company's ultimate parent is Cityland, Inc. (CI), which has an effective ownership interest in the Company of 55.47% (consisting of 46.29% indirect ownership through CDC and 9.18% direct ownership).

The Company's securities, amounting to ₱600 million worth of pension plans, are registered with the Philippine Securities and Exchange Commission (SEC) and are subject to the terms and conditions provided in SEC Circular No. 2, Series of 1984. In connection with this, the Company obtained from the SEC the permit to sell the said pension plans. As of December 31, 2018 and 2017, the Company has sold about ₱297 million worth of securities.

The Company's principal and registered office address is at 3/F Cityland Condo. 10, Tower 2, 154 H.V. de la Costa St., Salcedo Village, Makati City.

The Company's financial statements as of December 31, 2018 and 2017 and for the years then ended were authorized for issuance by the Board of Directors (BOD) on March 20, 2019.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

The financial statements of the Company have been prepared using the historical cost basis except for financial assets measured at fair value through other comprehensive income (FVOCI), available-for-sale financial assets and investment properties included in the investments in trust funds account, which are carried at fair values. These financial statements are presented in Philippine peso (Peso), which is the Company's functional currency, and rounded to the nearest Peso except when otherwise indicated.

Statement of Compliance

The financial statements of the Company, which are prepared for submission to the Securities and Exchange Commission (SEC) and the Bureau of Internal Revenue (BIR), have been prepared in accordance with accounting principles generally accepted in the Philippines for pre-need companies as set forth in the Pre-need Rule 31, As Amended: *Accounting Standards for Pre-Need Plans and Pre-need Uniform Chart of Accounts (PNUCA)* and applicable Insurance Commission (IC or the Commission) Circular Letter and accounting requirements. The specific accounting policies followed by the Company are disclosed in this note.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2018.

- Amendments to Philippine Financial Reporting Standards (PFRS) 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the



accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

The Company has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments did not have any impact on the Company's financial statements.

- PFRS 9, *Financial Instruments*

PFRS 9, replaces PAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

With the exception of hedge accounting, the Company applied PFRS 9 using modified retrospective approach, with an initial application date of January 1, 2018. As discussed in Note 4 to the financial statements, the IC has provided certain regulatory relief in the measurement of publicly listed equity securities and fixed income debt securities of pre-need companies as of December 31, 2018. The Company did not avail of the regulatory relief.

The Company has not restated the comparative information, which continues to be reported under PAS 39. Differences arising from the adoption of PFRS 9 have been recognized directly in retained earnings and other components of equity, if any.

The effect of adopting PFRS 9 as at January 1, 2018 was as follows:

	As previously reported December 31, 2017	Reference	Adjustment	As restated January 1, 2018
Equity instruments designated at fair value through other comprehensive income (Note 6)	₱-	(a)	₱15,159,890	₱15,159,890
Available-for-sale financial assets (Note 6)	15,159,890	(a)	(15,159,890)	-
Reserve for fair value changes on financial assets at FVOCI	-	(a)	10,953,184	10,953,184
Reserve for fair value changes on financial assets at FVOCI in trust funds	-	(a)	672,577	672,577
Net changes in fair values of available-for sale financial assets	10,953,184	(a)	(10,953,184)	-
Net changes in fair values of available-for sale financial assets in trust funds	672,577	(a)	(672,577)	-



a. *Classification and Measurement*

Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortized cost, or fair value through OCI. The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest (SPPI)' on the principal amount outstanding.

The assessment of the Company's business model was made as of the date of initial application, January 1, 2018, and then applied prospectively to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of PFRS 9 did not have a significant impact on the Company, except for the following:

- o *Cash in banks and cash equivalents, short-term cash investments, installment contracts receivable and other receivables*, previously classified as *Loans and receivables* are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as *Debt instruments at amortized cost* beginning January 1, 2018.
- o Listed equity investments previously classified as AFS financial assets are now classified and measured as financial assets at FVOCI as the Company intends to hold these investments for a long period as a strategic investment.

The change in classification of the Company's listed equity instruments did not result to any adjustment in retained earnings as of January 1, 2018.

The Company has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Company's financial liabilities.

In summary, upon adoption of PFRS 9, the Company had the following required or elected reclassifications as at January 1, 2018:

Financial assets not held in trust:

PAS 39 Categories	PFRS 9 Measurement Category		
	Carrying Amount	Amortized Cost	Fair Value through OCI
<i>Loans and receivables</i>			
Cash and cash equivalents	₱6,331,918	₱6,331,918	₱-
Short-term cash investments	73,000,000	73,000,000	-
Installment contracts receivable	12,265,336	12,265,336	-
Other receivables	563,552	563,552	-
Deposits	107,768	107,768	-
<i>Available for Sale</i>			
Listed equity instruments	15,159,890	-	15,159,890



Financial assets held in trust:

PAS 39 Categories	PFRS 9 Measurement Category		Fair Value through OCI
	Carrying amount	Amortized Cost	
<i>Loans and receivables</i>			
Cash and cash equivalents	₱4,336,908	₱4,336,908	₱-
Loans and receivables	3,419,893	3,419,893	-
<i>Financial assets at FVPL</i>			
Debt instruments	4,445,116	4,445,116	-
<i>Available for Sale</i>			
Debt instruments	18,646,689	16,397,583	2,249,106
Listed equity instruments	881,491	-	881,491

b. Impairment testing under expected credit loss (ECL) model

There is no remeasurement loss recognized in retained earnings as at January 1, 2018. The use of ECL upon adoption of PFRS 9 as explained below, did not result to any additional impairment loss.

The adoption of PFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Company to record an allowance for impairment losses for all loans and other debt financial assets not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For installment contracts receivables (ICR), the Company has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

In addition to life of loan loss data, primary drivers like macroeconomic indicators of qualitative factors such as forward looking data on gross domestic product, interest rate, inflation and unemployment rate were added to the expected loss calculation to reach a forecast supported by both quantitative and qualitative data points.

The key inputs in the model include the Company's definition of default and historical data of five (5) years for the origination, maturity date and default date. The Company considers an ICR in default when contractual payment are ninety (90) days past due, except for certain circumstances when the reason for being past due is due to reconciliation with customers of payment records which are administrative in nature which may extend the definition of default to 150 days and beyond. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.



The probability of default is applied to the estimate of the loss arising on default which is based on the difference between the contractual cash flows due and those that the Company would expect to receive, including from the repossession of the subject real estate property, net of cash outflows. In calculating the recovery rates, the Company considered collections of cash and/or cash from resale of real estate properties after foreclosure, net of direct costs of obtaining and selling the real estate properties after the default event such as commission, association dues, refurbishment, payment required under Maceda law, cost to complete (for ongoing projects). As these are future cash flows, these are discounted back to the time of default using the appropriate effective interest rate, usually being the original EIR or an approximation thereof.

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

For cash and cash equivalents and short-term investments, the Company applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Company's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Company uses the ratings from the publicly available credit rating to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

Further, since the implementation of PFRS 9, all financial assets except installment contracts receivable are assessed for at least 12-month ECL and the population of financial assets to which the lifetime ECL applies is larger than the population for which there is objective evidence of impairment in accordance with PAS 39.

The adoption of PFRS 9 did not have a material impact on OCI or the Company's operating, investing and financing cash flows.

Based on the Company's assessment, no expected credit loss was recognized as of January 1, 2018.

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

The amendments address concerns arising from implementing PFRS 9 before implementing PFRS 17, Insurance Contracts, the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach.

The amendments are not applicable to the Company since it has no activities that are predominantly connected with insurance or issue insurance contracts.

- *PFRS 15, Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers



and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under the modified retrospective method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard to all contracts that are not yet completed as at January 1, 2018. Therefore, the comparative information was not restated and continues to be reported under PAS 11, PAS 18 and related Interpretations.

The adoption of PFRS 15 did not have an impact on retained earnings and OCI or the Company's operating, investing and financing cash flows. Also, the adoption did not have an impact on the Company's statements of income and statements of financial position.

The adoption of PFRS 15 did not change the timing of revenue recognition and amount of revenue to be recognized. However, the Company provided new disclosures to comply with the requirements of PFRS 15 such as disaggregated revenue information, among others.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. Retrospective application is required.

The amendments are not applicable to the Company.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

Since the Company's current practice is in line with the clarifications issued, the amendments did not have any effect on financial statements.



- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

Since the Company's current practice is in line with the clarifications issued, the interpretation did not have any effect on financial statements.

Current versus Noncurrent Classification

The Company presents assets and liabilities in statement of financial position based on current/noncurrent classification. An asset is current when it is:

- expected to be realized or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within 12 months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Company classifies all other liabilities as noncurrent.

Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

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 acquisition, and are subject to an insignificant risk of change in value.

Short-term Cash Investments

Short-term cash investments are investments with maturities of more than three months but not exceeding one year from dates of acquisition.

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 by 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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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 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.

Financial Instruments – initial recognition and subsequent measurement effective January 1, 2018

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

a. Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, and subsequently measured at amortized cost, FVOCI and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Installment contract receivables are measured at the transaction price determined under PFRS 15.

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



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

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

Subsequent measurement

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

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortized cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortized cost if both of the following conditions are met: (a) the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost includes cash and cash equivalents, short-term investment, installment contracts receivable, other receivables and deposits under "Other noncurrent assets".

Financial assets at FVOCI (debt instruments)

The Company measures debt instruments at FVOCI if both of the following conditions are met:

- (a) The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and;
- (b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of income and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Company has no debt instruments at fair value through OCI.

Financial assets designated at FVOCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments financial assets at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.



Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of income when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Financial assets at FVOCI are not subject to impairment assessment.

The Company elected to classify irrevocably its listed equity investments under this category (Notes 6 and 7).

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of income.

The Company has no financial assets at fair value through profit or loss as of December 31, 2018.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the statement of financial position) when:

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the



asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognized an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

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

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

For installment contract receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

b. Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include accounts payable and accrued expenses.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described in the next page:



Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in statement of income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Company has not designated any financial liability at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

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

This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

c. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Financial Instruments – initial recognition and subsequent measurement prior to January 1, 2018

Financial Assets and Financial Liabilities

Date of recognition

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial recognition of financial instruments

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial



instruments, except for those designated at fair value through profit or loss, includes directly attributable transaction costs.

Classification of financial instruments

Subsequent to initial recognition, the Company classifies its financial instruments in the following categories: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, and other financial liabilities. The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at each end of reporting period.

a. Financial Assets or Financial Liabilities at Fair Value through Profit or Loss

A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term or upon initial recognition, it is designated by the management as at fair value through profit or loss.

Financial assets or financial liabilities classified in this category are designated as at fair value through profit or loss 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 or liabilities are part of a group of financial assets or financial liabilities, or both financial assets and financial liabilities, which are managed and their performance is 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.

Financial assets or financial liabilities classified under this category are carried at fair value in the statement of financial position. Changes in the fair value of such assets and liabilities are recognized in the statement of income.

The Company's financial assets at fair value through profit or loss include investments in debt securities held by the trust fund (see Note 7).

b. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are carried at amortized cost in the statement of financial position. Amortization is determined using the effective interest method.

The Company's loans and receivable consist of cash and cash equivalents, short-term cash investments, installment contracts receivable and other receivables (see Notes 5, 9, and 19).



c. Held-to-maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities wherein the Company has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortized cost in the statement of financial position. Amortization is determined using the effective interest method.

The Company has no held-to-maturity investments as of December 31, 2017.

d. Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are carried at fair value in the statement of financial position. Changes in the fair value of such assets are accounted in the statement of comprehensive income and in equity.

The Company's available-for-sale financial assets consist of investments in quoted equity securities that are traded in liquid markets, held for the purpose of investing in liquid funds, and not generally intended to be retained on a long-term basis (see Notes 6 and 7).

e. Other Financial Liabilities

Other financial liabilities are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. They arise when the Company owes money, goods or services directly to a creditor with no intention of trading the payables. Other financial liabilities are carried at cost or amortized cost in the statement of financial position. Amortization is determined using the effective interest method.

The Company's other financial liabilities consist of accounts payable and accrued expenses and other financial liabilities under its investments in trust funds (see Notes 7 and 19).

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the 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.

"Day 1" difference

Where the transaction price in a non-active market is different from 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 unless it qualifies for recognition as some other type of asset. In cases where inputs are made of data which are not observable, 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.



Derecognition of Financial Assets and Financial 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 rights to receive cash flows from the asset have expired; or
- 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.

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, 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 the statement of income.

Impairment of Financial Assets

The Company assesses at the end of each reporting period whether a financial asset or a group of financial assets is impaired.

Assets carried at amortized cost and available-for-sale debt securities

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 counterparty, a breach of contract, such as 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 of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is recognized are not included in a collective assessment of impairment. The impairment assessment is performed at each end of reporting period. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status, and term.

If there is an objective evidence that an impairment loss on loans and receivables carried at amortized cost and available-for-sale debt securities has been incurred, the amount of loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original



effective interest rates (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced and any previously recognized mark-to-market adjustments in equity (for available-for-sale debt securities) are reversed. The amount of loss, if any, is recognized in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. The amount of the reversal is recognized in the statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans and receivable, and available-for-sale debt securities are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. If in a subsequent year, the amount of the estimated 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 for impairment losses account. If a future write off is later recovered, the recovery is recognized in the statement of income under "Other income" account. 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 reversal date.

Available-for-sale financial assets

In case of equity investments classified as available-for-sale financial assets, this 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 equity and recognized in the statement of income. Increases in fair value after impairment are recognized in the statement of comprehensive income and directly in the statement of changes in equity.

Real Estate Properties for Sale

Property acquired for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realizable value (NRV). Cost consists of purchase price and any directly attributable costs.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs necessary to make the sale.

Investments in Trust Funds

The trust fund assets and liabilities are recognized in accordance with the provisions of the applicable PASs and PFRSs and their interpretations.

Investments in trust funds are restricted to cover the Company's pre-need reserves. These are classified as current assets to the extent of the currently maturing pre-need reserves. The remaining portion is classified as noncurrent assets in the statement of financial position.

Investment Properties

Investment properties which consist of condominium units that are held for lease are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing real estate property for lease at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of the property.

Subsequent to initial measurement, investment properties (except for investment properties under investment in trust fund) are carried at cost less accumulated depreciation and impairment loss.



Condominium units for lease are depreciated over their useful life of 25 years using the straight-line method. Depreciation of item in investment properties begins when the assets becomes available for use and ceases at the earlier of the date that the item is classified as held-for-sale in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

Investment properties under investments in trust funds are carried at fair value. Gain or loss arising from change in the fair value of investment properties under investments in trust funds is recognized in the statement of income.

Investment properties are derecognized when either they have been disposed of or when the property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in the statement of income in the year of retirement or disposal.

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

Transfers between investment properties, owner-occupied property, and inventories do not change the carrying amount of the property transferred, and they do not change the cost of that property for measurement or disclosure purposes.

Impairment of Nonfinancial Assets

The carrying values of investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are either written down to their recoverable amount or provided with valuation allowance. The recoverable amount of the assets is the greater of fair value less cost to sell and value-in-use. Valuation allowance is provided for the carrying amount of assets which is not expected to be recovered. Impairment losses, if any, are recognized in the statement of income.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account.

The Company assesses at each reporting period whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. The Company considers external and internal sources of information in its assessment of the reversal of previously recognized impairment losses. 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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.



Value-added Tax (VAT)

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 taxation 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.

The net amount of VAT recoverable from or payable to, the taxation authority is included as part of "Other current assets" or "Accounts payable and accrued expenses," respectively, in the statement of financial position.

Pre-Need Reserves (PNR)

PNR for pension plans are calculated on the basis of the methodology and assumptions set out in Pre-Need Rule 31, as Amended, as follows:

- The amount of provision is the present value of the funding expected to be required to settle the obligation with due consideration of the different probabilities as follows:
 - i. Provision for termination values applying the inactivity and surrender rate experience of the Company.
 - ii. The liability is equivalent to the present value of future maturity benefits reduced by the present value of future trust fund contributions required per Product Model discounted at the lower of attainable rate or discount rate provided by the IC for SEC-approved plans and the pricing discount rate for IC-approved plans.
- The rates of surrender, cancellation, reinstatement, utilization, and inflation considered the actual experience of the Company in the last three years.
- The computation of the foregoing assumptions has been validated by the internal qualified actuary of the Company.
- Based on the Company's experience, the probability of pre-termination or surrender of fully paid plans is below 5% and therefore considered insignificant. The derecognition of liability shall be recorded at pre-termination date.

In 2018 and 2017, the Company follows IC Circular Letter No. 23-2012 dated November 28, 2012 which sets the guidelines below for the discount rate to be used in the valuation of PNR:

- Discount interest rate for the PNR

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

Year	Discount interest rate
2012 – 2016	8.00%
2017	7.25%
2018	6.50%
2019 and onwards	6.00%

- Transitory PNR (TPNR)

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



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

However, if the resulting PNR is greater than the actual trust fund balance at the end of the year, TPNR shall be computed.

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

The TPNR liability shall be recognized each year. As of December 31, 2018 and 2017, the Company's actual trust fund balance is lower than the resulting PNR (see Note 7).

Other reserves

The Company sets up other provisions in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, to cover obligations such as Insurance Premium Reserves (IPR), pension bonus, and trust fund deficiency.

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

Capital Stock

Capital stock is measured at par value for all shares issued and outstanding. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds, net of tax.

Retained Earnings

Retained earnings represent the cumulative balance of net income or loss, dividend distributions, effects of the changes in accounting policy, and other capital adjustments.

Unrestricted retained earnings represent that portion which is free and can be declared as dividends to stockholders. Restricted retained earnings represent that portion which has been restricted and, therefore, is not available for any dividend declaration.

Dividend Distributions

Cash dividends on common shares are deducted from retained earnings upon declaration by the BOD.

Dividends for the year that are approved after the end of reporting period but before the approval of financial statements are dealt with as an event after the reporting date.

Revenue Recognition effective January 1, 2018

Revenue from Contracts with Customers

The Company primarily derives its real estate revenue from the sale of real estate properties. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements, except for the provisioning of water and electricity, wherein it is acting as agent.



The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.

Sales of real estate properties

The Company derives its revenue from sale of condominium units. Revenue from the sale of these real estate projects are recognized at a point in time when control of the asset is transferred to the buyer, generally when the condominium units are delivered to and accepted by the buyer. The payment is collectible in monthly installments for periods ranging from 1 to 10 years.

Cost recognition

The Company recognizes costs relating to satisfied performance obligations as these are incurred.

Contract Balances

Receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Revenue Recognition prior to January 1, 2018

Revenue and Costs Recognition

Revenue is recognized to the extent that it is probable that the economic benefit will flow to the Company and the amount of revenue can be reliably measured. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Sales of real estate properties

Revenue from sale of completed condominium units, where a sufficient down payment has been received, the collectability of the sales price is reasonably assured, the refund period has expired, the receivables are not subordinated, and the seller is not obliged to complete improvements, is accounted for under the full accrual method.

Cost of real estate sales

Cost of real estate sales is recognized upon sale and is determined based on the costs of the property.

Applicable to All Periods Presented

Pre-need revenue

Premiums from sale of pre-need plans are recognized as earned when collected.

Interest income

Interest income from cash in banks, cash equivalents, short-term cash investments and installment contracts receivable is recognized as the interest accrues taking into account the effective yield on interest.

Dividend income

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

Rental income

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



Trust fund income

Trust fund income mainly pertains to rental income on investment properties under the trust fund account, as well as, trading gains and losses from buying and selling and changes in fair value of financial assets and financial liabilities categorized upon initial recognition as at fair value through profit or loss investments under the trust fund account.

Unrealized re-measurement gain on investment properties

This pertains to changes in fair value of investment properties held in trust fund.

Cost and expenses are recognized as incurred. These mainly include:

Cost of contracts issued

This account pertains to (a) the increase or decrease in PNR as at the current year as compared to the provision for the same period of the previous year; (b) amount of trust funds contributed during the year including any trust fund deficiency; and (c) documentary stamp tax and SEC registration fees.

If there is a decrease in the PNR as a result of new information or developments, the amount shall be deducted from the cost of contracts issued in the current period. In case of material prior period errors, the requirements of PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, shall be complied with by the Company.

General and administrative expenses

Operating expenses constitute costs of administering the business. These costs are expensed as incurred.

Retirement Benefits Cost

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 (if any), 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.

Retirement benefits cost comprises the following:

- Service cost;
- Net interest on the net defined benefit liability or asset; and
- Re-measurements 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 plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

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 the statement of income.

Re-measurements 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 or asset) are recognized



immediately in the statement of comprehensive income in the period in which they arise. Re-measurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. 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.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are earned by the employees. The undiscounted liability for leave expected to be settled within 12 months after the end of the reporting period is recognized for services rendered by employees up to the end of the reporting period. Accumulating leave credits which can be utilized anytime when needed or converted to cash upon employee separation (i.e., resignation or retirement) are presented at its discounted amount as "Accounts payable and accrued expenses - noncurrent portion" in the statement of financial position.

Provisions and Contingencies

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 obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the effective future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provisions due to the passage of time is recognized as an interest expense.

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. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Income Taxes

Current tax

Current income 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 the tax laws used to compute the amount are those that are enacted or substantively enacted at the end of reporting period.

Current income tax for current and prior periods shall, to the extent unpaid, be recognized as a liability under "Income tax payable" account in the statement of financial position. If the amount already paid



in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognized as an asset under "Prepaid income tax" account in the statement of financial position.

Deferred income tax

Deferred income tax is recognized on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized. Deferred income tax assets and deferred income tax liabilities are not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

Deferred income tax relating to items recognized directly in equity is recognized in equity and those directly in comprehensive income such as re-measurement of defined benefit plan are recognized in the statement of comprehensive income and not in the statement of income.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Other Comprehensive Income

Other comprehensive income comprises items of income and expense that are not recognized in the statement of income in accordance with PFRS. Other comprehensive income of the Company includes gains and losses on fair value changes of financial assets at FVOCI/available-for-sale financial assets, re-measurements 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).

Segment Reporting

The Company's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 21 to the financial statements. The Company's asset-producing revenues are located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

Events After the Reporting Period

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



Standards Issued but not yet Effective

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

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

These amendments are not expected to have any impact on the Company.

- PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

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

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

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



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

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

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

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

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

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

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

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

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

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



The interpretation specifically addresses the following:

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

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

This interpretation is not relevant to the Company because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

Annual Improvements to PFRSs 2015-2017 Cycle

- *Amendments to PFRS 3, Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

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

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Company but may apply to future transactions.

- *Amendments to PAS 12, Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Company because dividends declared by the Company do not give rise to tax obligations under the current tax laws.



- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

Since the Company's current practice is in line with these amendments, the amendment does not have any effect on its financial statements upon adoption.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

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

These amendments will apply on future business combinations of the Company.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

- A specific adaptation for contracts with direct participation features (the variable fee approach)



- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

These amendments do not affect the Company's financial statements but may apply on future insurance contracts which may be entered by the Company.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

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

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements requires management to make judgments, estimates, and assumptions that affect the amounts reported in the financial statements and accompanying notes.

In the opinion of management, these financial statements reflect all adjustments necessary to present fairly the results for the periods presented. Actual results could differ from such estimates.

Judgments

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

Revenue recognition upon adoption of PFRS 15

Selecting the appropriate revenue recognition method for a particular real estate transaction requires certain judgments based on the following, among others:

- *Existence of a contract*

The Company's primary document for a contract with a customer is a signed contract to sell. It has determined however, that in cases wherein contract to sell are not signed by both parties, the combination of other signed documentation such as reservation agreement, official receipts and other documents, would contain all the criteria to qualify as contract with the customer under PFRS 15.



In addition, part of the assessment process of the Company before revenue recognition is to assess the probability that the Company will collect the consideration to which it will be entitled in exchange for the real estate property that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity considers whether the customer has met the required down payment in relation to the total contract price. Collectability is also assessed by considering factors such as the credit standing and financial capacity of the buyer, age and location of the property. Management regularly evaluates the historical cancellations and back-outs if it would still support its current threshold of customers' equity before commencing revenue recognition.

- *Identifying performance obligation*

The Company has various contracts to sell covering sale of condominium units and other real estate properties. The Company concluded that there is one performance obligation in each of these contracts. For the contract covering condominium unit, the Company has the obligation to deliver the condominium unit duly constructed in a specific lot and fully integrated into the serviced land in accordance with the approved plan.

- *Principal versus agent considerations*

The contract for the condominium units leased out by the Company to its tenants includes the right to charge for the electricity and water usage only.

For the electricity and water usage, the Company determined that it is acting as an agent because the promise of the Company to the tenants is to arrange for the electricity and water supply to be provided by a utility company. The utility company, and not the real estate developer, is primarily responsible for the provisioning of the utilities while the Company, administers the leased spaces and coordinates with the utility companies to ensure that tenants have access to these utilities. The Company does not have the discretion on the pricing of the services provided since the price is based on the actual rate charged by the utility providers.

Revenue recognition prior to adoption of PFRS 15

Selecting the appropriate revenue recognition method for a particular real estate transaction requires certain judgments based on the buyer's continuing commitment to the sales agreement. Collectability of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that gives the buyer a sufficient stake in the property that risk of loss through default motivates the buyer to honor his obligation. Collectability is also assessed by considering factors such as the credit standing of the buyer, age, and location of the property.

For sale of real estate properties, in determining whether the sales prices are collectible, the Company considers that initial payments from the buyer of about 10% would demonstrate the buyer's commitment to pay.

Classification of financial instruments

The Company classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability, or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of financial position (see Note 19).

The Company determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.



Distinction between real estate properties for sale and investment properties

The Company determines whether a property is classified as for sale, for lease and for capital appreciation.

Real estate properties which the Company intends to sell are classified as real estate properties for sale. Real estate properties for sale amounted to nil and ₱3.95 million as of December 31, 2018 and 2017, respectively (see Note 10). Real estate properties which are not occupied substantially for use by, or in the operations of, the Company, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation are classified as investment properties. Investment properties amounted to ₱133.12 million and ₱155.29 million as of December 31, 2018 and 2017, respectively (see Note 11). Investment properties included in "Investments in trust funds" account in the statements of financial position amounted to ₱5.17 million and ₱4.19 million as of December 31, 2018 and 2017, respectively (see Note 7).

Estimates

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

Determination of fair value of financial instruments

Financial assets and financial liabilities, on initial recognition, are accounted for at fair value. The fair values of financial assets and financial liabilities, on initial recognition, are normally the transaction prices. In the case of those financial assets and financial liabilities that have no active markets, fair values are determined using an appropriate valuation technique. The fair values of the Company's financial assets and financial liabilities are disclosed in Note 19.

Provision for expected credit losses of installment contract receivables - Effective starting January 1, 2018

The Company uses a provision matrix to calculate ECLs for installment contract receivables. The provision rates are based on past collection history and other factors, which include, but are not limited to the length of the Company's relationship with the customer, the customer's payment behavior, known market factors that affect the collectability of the accounts.

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information such as the inflation rate, gross domestic product, interest rate and unemployment rate. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the real estate sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions such as inflation rate, gross domestic product, interest rate and unemployment rate and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's installment contract receivables is disclosed in Note 19. As of December 31, 2018 and January 1, 2018, installment contracts receivable and other receivables aggregated to ₱24.66 million and ₱12.83 million, respectively. There was no provision for expected credit loss on receivables in 2018 (see Note 9). As of December 31, 2018 and January 1, 2018, the financial assets at amortized cost and loans and receivables in the Company's investments in trust funds amounted to ₱24.26 million and ₱3.42 million (see Note 7), respectively.



Estimation of allowance for impairment of receivables prior to January 1, 2018

The level of this allowance is evaluated by management based on past collection history and other factors which include, but are not limited to, the length of the Company's relationship with the customer, the customer's payment behavior and known market factors that affect the collectability of the accounts. As of December 31, 2017, installment contracts receivable and other receivables aggregated to ₱3.04 million.

Impairment of financial assets at FVOCI

An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In making this judgment, the Company evaluates the financial health of the issuer, among others. The Company treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20% or more of cost and "prolonged" as greater than 12 months for quoted equity securities. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Financial assets at FVOCI amounted to ₱12.12 million and ₱15.16 million as of December 31, 2018 and 2017, respectively (see Note 6). Whereas, available-for-sale financial assets in the Company's investments in trust funds as of December 31, 2018 and 2017 amounted to ₱3.84 million and ₱19.53 million, respectively (see Note 7).

Mark to market loss of financial assets at FVOCI amounted to ₱0.54 million and ₱0.59 million in 2018 and 2017, respectively (see Note 7).

Determination of net realizable value of real estate properties for sale

The Company's estimates of the net realizable value of real estate properties for sale are based on the most reliable evidence available at the time the estimates are made, or the amount that the real estate properties for sale are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of net realizable value in each subsequent period. When the circumstances that previously caused the real estate properties for sale to be written down below cost no longer exist or when there is a clear evidence of an increase in net realizable value because of changes in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value. The Company's real estate properties for sale as of December 31, 2018 and 2017 amounted to nil and ₱3.95 million, respectively (see Note 10).

Estimation of useful lives of investment properties

The Company estimates the useful lives of investment properties based on the internal technical evaluation and experience with similar assets. Estimated lives of investment properties are reviewed periodically and updated if expectations differ from previous estimates due to wear and tear, technical and commercial obsolescence and other limits on the use of the assets. Net book value of investment properties as of December 31, 2018 and 2017 amounted to ₱133.12 million and ₱155.29 million, respectively (see Note 11).

Determination of fair value of investment properties

Investment properties included in the "Investments in trust funds" account are measured at fair value. Fair value is determined based on the valuation performed. The fair value represents the amount that would be received to sell an asset in an orderly transaction between market participants at the date of valuation. Investment property included under the "Investments in trust funds" account as of



December 31, 2018 and 2017 amounted to ₱5.17 million and ₱4.19 million, respectively (see Note 7). The fair value of the Company's investment properties not held under trust funds amounted to ₱287.63 million and ₱277.31 million as of December 31, 2018 and 2017, respectively (see Notes 11 and 19).

Impairment of investment properties

The Company determines whether its nonfinancial assets, such as investment properties, are impaired when impairment indicators exist such as significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends. This requires an estimation of the value-in-use of the cash-generating units to which the assets belong. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows. No impairment indicator was noted as of December 31, 2018 and 2017. Net book value of investment properties as of December 31, 2018 and 2017 amounted to ₱133.12 million and ₱155.29 million, respectively (see Note 11).

Estimation of retirement benefits cost

The cost of the defined benefit plan and the present value of the defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates, and future retirement increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers rates at various tenors, rates for intermediate durations were interpolated and the rates were then weighted by the expected benefits payments at those durations to arrive at the single weighted average discount rate.

The mortality rate is based on publicly available mortality table in the Philippines. Future salary increases are based on expected future inflation rates. Further details about assumptions used are given in Note 16.

Net retirement benefits cost amounted to ₱51,666 and ₱30,214 in 2018 and 2017, respectively. As of December 31, 2018 and 2017, retirement plan assets, included under "Other noncurrent assets" account in the statements of financial position amounted to ₱0.69 million and ₱0.41 million, respectively (see Note 16).

Estimation of reserves

Reserves are set up for all pre-need benefits guaranteed and payable by the Company as defined in the pre-need plan contracts. The determination of the Company's reserves is based on the actuarial formula, methods, and assumptions allowed by applicable SEC and IC circulars. This is dependent on management's selection of certain assumptions used by actuaries in computing this amount. As of December 31, 2018 and 2017, total reserves amounted to ₱41.36 million and ₱41.34 million, respectively (see Note 7).

As of December 31, 2018, the principal assumptions used in determining the Company's reserves were based on the IC Circular Letter No. 23-2012 dated November 28, 2012 (see Note 4). The transitory discount interest rate that shall be used in the valuation of pre-need reserves shall not exceed the lower of the attainable rates as certified by the Trustee of 4.79% and 5.47% in 2018 and 2017, respectively, and the IC rate of 6.50%.



As of December 31, 2018, the principal assumptions used in determining the PNR are shown as follows:

Currently-Being-Paid Pension Plans - Actively Paying Plans

Type of Pre-need Product	PNR Using Attainable Interest Rate		PNR Using the SEC/IC-Approved Hurdle Rate Per Product Model				Computation of Reserves Using Other Interest Rate, if applicable	
	Rate (%)	Amount	Rate (%)	Date of Approval	SEC Order Number	Amount	Rate (%)	Amount
Total	-	₱-	-	-	-	₱-	-	₱-
Product A	4.79%	-	-	02/19/1996	37	-	-	-
Product B	4.79%	-	-	02/19/1996	37	-	-	-
				10/13/1995	1			
				11/26/1993	1006			
				05/17/1993	359			
				07/16/1992	601			
				09/10/1991	899			
				12/14/1990	938			
				02/05/1990	116			

Currently-Being-Paid Pension Plans - Lapsed Plans

Type of Pre-need Product	PNR Using Attainable Interest Rate		PNR Using the SEC/IC-Approved Hurdle Rate Per Product Model				Computation of Reserves Using Other Interest Rate, if applicable	
	Rate (%)	Amount	Rate (%)	Date of Approval	SEC Order Number	Amount	Rate (%)	Amount
Total	-	₱-	-	-	-	₱-	-	₱-
Product A	4.79%	-	-	02/19/1996	37	-	-	-
Product B	4.79%	-	-	02/19/1996	37	-	-	-
				10/13/1995	1			
				11/26/1993	1006			
				05/17/1993	359			
				07/16/1992	601			
				09/10/1991	899			
				12/14/1990	938			
				02/05/1990	116			

Fully Paid Plans - Availing and Not Yet Availing

Maturity Period and Type of Pre-need Product	PNR Using Attainable Interest Rate		PNR Using the SEC/IC-Approved Hurdle Rate Per Product Model				Computation of Reserves Using Other Interest Rate, if applicable	
	Rate (%)	Amount	Rate (%)	Date of Approval	SEC Order Number	Amount	Rate (%)	Amount
Total	-	₱40,653,088	-	-	-	₱-	-	₱-
Product A	4.79%	2,564,184	-	02/19/1996	37	-	-	-
Product B	4.79%	38,088,904	-	02/19/1996	37	-	-	-
				10/13/1995	1			
				11/26/1993	1006			
				05/17/1992	359			
				07/16/1992	601			
				09/10/1991	899			
				12/14/1990	938			
				02/05/1990	116			



As of December 31, 2017, the principal assumptions used in determining the PNR are shown as follows:

Currently-Being-Paid Pension Plans - Actively Paying Plans

Type of Pre-need Product	PNR Using Attainable Interest Rate		PNR Using the SEC/IC-Approved Hurdle Rate Per Product Model				Computation of Reserves Using Other Interest Rate, if applicable	
	Rate (%)	Amount	Rate (%)	Date of Approval	SEC Order Number	Amount	Rate (%)	Amount
Total	-	₱781,498	-	-	-	₱-	-	₱-
Product A	5.47%	707,028	-	02/19/1996	37	-	-	-
Product B	5.47%	74,470	-	02/19/1996	37	-	-	-
				10/13/1995	1			
				11/26/1993	1006			
				05/17/1993	359			
				07/16/1992	601			
				09/10/1991	899			
				12/14/1990	938			
				02/05/1990	116			

Currently-Being-Paid Pension Plans - Lapsed Plans

Type of Pre-need Product	PNR Using Attainable Interest Rate		PNR Using the SEC/IC-Approved Hurdle Rate Per Product Model				Computation of Reserves Using Other Interest Rate, if applicable	
	Rate (%)	Amount	Rate (%)	Date of Approval	SEC Order Number	Amount	Rate (%)	Amount
Total	-	₱-	-	-	-	₱-	-	₱-
Product A	5.47%	-	-	02/19/1996	37	-	-	-
Product B	5.47%	-	-	02/19/1996	37	-	-	-
				10/13/1995	1			
				11/26/1993	1006			
				05/17/1993	359			
				07/16/1992	601			
				09/10/1991	899			
				12/14/1990	938			
				02/05/1990	116			

Fully Paid Plans - Availing and Not Yet Availing

Maturity Period and Type of Pre-need Product	PNR Using Attainable Interest Rate		PNR Using the SEC/IC-Approved Hurdle Rate Per Product Model				Computation of Reserves Using Other Interest Rate, if applicable	
	Rate (%)	Amount	Rate (%)	Date of Approval	SEC Order Number	Amount	Rate (%)	Amount
Total	-	₱39,753,871	-	-	-	₱-	-	₱-
Product A	5.47%	2,431,547	-	02/19/1996	37	-	-	-
Product B	5.47%	37,322,324	-	02/19/1996	37	-	-	-
				10/13/1995	1			
				11/26/1993	1006			
				05/17/1992	359			
				07/16/1992	601			
				09/10/1991	899			
				12/14/1990	938			
				02/05/1990	116			

Management believes that the amount of PNR recognized in the financial statements closely reflects actual potential plan claims as of end of reporting period.



The following are the assumptions used in the computation of PNR:

December 31, 2018:

a. Currently-Being-Paid Pension Plans - Actively Paying Plans

- Plans issued prior to 2006 and after - 4.79% discount rate (ROI rate) and no surrender/lapse rates were used.

b. Currently-Being-Paid Pension Plans - Lapsed Plans

- Plans issued prior to 2006 and after - reserves equal the termination values (as originally computed) at the date of lapse and no reinstatement rate was assumed.

c. Fully paid plans - Availing and Not Yet Availing

- Plans with maturity dates in years 2019 and after - 4.79% discount rate (ROI rate) and no surrender rates were assumed for fully paid plans.

December 31, 2017:

a. Currently-Being-Paid Pension Plans - Actively Paying Plans

- Plans issued prior to 2006 and after - 5.47% discount rate (ROI rate) and no surrender/lapse rates were used.

b. Currently-Being-Paid Pension Plans – Lapsed Plans

- Plans issued prior to 2006 and after - reserves equal the termination values (as originally computed) at the date of lapse and no reinstatement rate was assumed.

c. Fully paid plans - Availing and Not Yet Availing

- Plans with maturity dates in years 2018 and after - 5.47% discount rate (ROI rate) and no surrender rates were assumed for fully paid plans.

Recognition of deferred tax assets

The Company reviews the carrying amounts at the end of each reporting period and reduces deferred tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow deferred tax assets to be utilized. Deferred tax assets amounted to ₱0.27 million as of December 31, 2018 and ₱0.34 million as of December 31, 2017 (see Note 17).

4. **Pre-need Rule 31, As Amended and Other SEC and IC Circulars**

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

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

RA No. 9829

RA No. 9829, *An Act Establishing the Pre-need Code of the Philippines*, took effect upon its approval on December 3, 2009. This act shall be known as the “Pre-need Code of the Philippines”.



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

- *Authority of the Insurance Commission.* All pre-need companies shall be under the primary and exclusive supervision and regulation of the IC (the "Commission").
- *Paid-up capital.* A pre-need company incorporated after the effectivity of the Code shall have a minimum paid-up capital of ₱100.00 million. Existing pre-need companies shall comply with the following minimum unimpaired paid-up capital:
 - a. ₱100.00 million for companies selling at least three (3) types of plan;
 - b. ₱75.00 million for companies selling two (2) types of plan; and
 - c. ₱50.00 million for companies selling a single type of plan.
- *Trust fund.* The trust fund shall at all times be sufficient to cover the required pre-need reserve. The RA specifies the minimum amount of corresponding contributions to the trust fund.
- *Limitations on different investments of the trust funds.* To ensure the liquidity of the trust fund to guarantee the delivery of the benefits provided for under the plan contract and likewise obtain sufficient capital growth to meet the growing actuarial reserve liabilities, all investments of the trust fund(s) of a pre-need company shall be limited and subject to limitations specified by the RA.

SEC Memorandum Circular (SMC) No. 6, Series of 2002

The SEC issued SMC No. 6, *Standards for Valuation of Actuarial Reserve Liabilities for Pre-Need Plans* (SEC Circular No. 6), effective June 27, 2002 (amended April 10, 2003). The following are the more significant provisions of this Circular:

- a. Actuarial reserve liabilities (ARL) must be set up for all pre-need benefits guaranteed and payable by the pre-need company as defined in the pre-need plan contracts;
- b. Where insurance coverage is provided in the plan contract, insurance premium reserves must be set up as a separate liability account;
- c. The ARL must be determined by using a prospective method in accordance with the Guidelines and Standards of the Actuarial Society of the Philippines;
- d. Actuarial reserve valuation methods must be consistent with any allowed accounting adjustments for deferred expenses. The net level contribution method of prospective valuation for both pre-need benefits reserve and insurance premium reserve (IPR) shall be used when there is deferral of expenses. Only first year commissions, overrides and bonuses may be deferred. Administrative and other marketing expenses shall not qualify for deferral. The period of deferral shall not exceed the installment payment period and shall be in accordance with the New Pre-Need Rules which took effect on September 21, 2001;
- e. The ARL for a contract that has defaulted in payment of installments of the price, but which may still be reinstated, shall not be less than its reserve minus the uncollected contributions to reserve up to the date of valuation, multiplied by a validated reinstatement factor as determined by the actuary, provided the uncollected contributions to reserve is not reflected as an asset;
- f. The interest rate assumption in reserve valuation should be reflective of expenses and taxes incurred on investments, but the rate shall in no case exceed 80% of the average interest rate for the longest term Philippine government security traded during the previous three (3) months.



If the experience net yield rate of the trust fund is higher than the set maximum, the actuary must show conclusive proof of the contracts whose reserves are being valued, before assuming such experience net yield;

- g. Rates of surrender, cancellation, utilization and inflation, when applied, must consider the actual experience of the Company in the last three (3) years, or the industry, in the absence of a reliable company experience;
- h. In determining the ARL of fully paid plans, no decrement rates other than utilization rates for the contingent principal benefits may be used. The actuary shall submit to the SEC for approval the necessary justification for any exception made to this rule; and
- i. The actuary shall validate every year the actuarial assumptions used in the reserve valuation and shall include in the actuarial certification a statement of the validation procedure.

Memorandum Circular No. 1, Series of 2009

On February 25, 2009, the SEC issued SEC Memorandum Circular No. 1, granting pre-need companies an extension of time until April 15, 2009 within which to apply for a multi-year funding scheme, known as the Multi-year Capital and Trust Fund Build-up, for the purpose of addressing the pre-need companies' concern on capital and trust fund deficiencies.

Pre-need Rule 31, As Amended: Accounting Standards for Pre-need Plans and PNUCA

On May 10, 2007, the SEC issued Pre-need Rule 31, as amended, which adopted the revised accounting standards and chart of accounts that shall be considered the generally accepted accounting principles for pre-need companies in the Philippines. This Amended Pre-need Rule 31 became effective for interim financial statements covering periods ended June 30, 2007 and onwards, and for annual financial statements for the period ended December 31, 2007 and thereafter.

For presentation purposes:

- a. The PNR calculated under the Amended Rule have been presented in the statement of financial position as PNR account and changes in PNR have been included in the "Cost of contracts issued" account in the statement of income.
- b. IPR has been presented as "Other reserves" account in the statement of financial position and changes have been included in the "Cost of contracts issued" account in the statement of income.
- c. Documentary stamp tax and SEC registration fees have been included in the "Cost of contracts issued" in the statement of income.
- d. Group life insurance expense, commissions, and service fees have been included in the "Other direct costs and expenses" account in the statement of income.

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

Trust funds

- a. The net asset value in the trust funds shall be at least equal to the required PNR as determined by a qualified actuary using the method prescribed in this Rule.
- b. All requirements under the rules and regulations as may be promulgated by the SEC on trust funds shall be complied with.



- c. The recognition and measurement of the assets in the trust funds shall be in accordance with PAS 39, PAS 40, and other applicable standards, depending on the composition of the fund.
- d. The component assets and liabilities of the trust funds shall be presented separately in the notes to financial statements.

Pre-need reserves

- a. PNR shall be set up for all pre-need benefits guaranteed and payable by the pre-need company as defined in the pre-need plan contracts.
- b. In recognizing PNR for educational and pension plans, the general requirements of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, on provisioning and the specific methodology provided under this item shall be complied with by the Company. For life plans, the requirements of PFRS 4, *Insurance Contracts*, shall be complied with by the Company.
- c. The amount recognized as a provision to cover the PNR shall be the best estimate of the expenditure required to settle the present obligation at the reporting date. The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.
- d. Since the effect of the time value of money for pre-need plans is material, the amount of provision shall be the present value of the funding expected to be required to settle the obligation with due consideration of the different probabilities as shown below:
 - (i) On Currently-Being-Paid Plans
 - Provision for termination values applying the surrender rate experience of the Company. The trend of surrender rate experience shall be disclosed in the Company's notes to financial statements (see Note 3); and
 - Liability shall be set up for the portion of currently-being-paid plans that will reach full payment, applying the full payment experience of the Company. It shall be equivalent to the present value of future maturity benefits reduced by the present value of future trust fund contributions required per Product Model discounted at the approved hurdle rate per Product Model of the Company;
 - (ii) On Lapsed Plans within the Allowable Reinstatement Period
 - Provision for termination values applying the reinstatement experience of the company. The trend of reinstatement experience shall be disclosed in the Company's notes to financial statements (see Note 3);
 - (iii) On Fully Paid Plans
 - For those due for payment within the next five years, the reserve shall be the present value of future maturity benefits discounted at the attainable rate, as determined and certified by the Company's trustee using industry best practices and principles which shall be indicated in such certification; and
 - For those not yet due for payment within the next five years, the reserves shall be the present value of future maturity benefits discounted at the approved hurdle rate per Product Model of the Company.



- e. Future events that may affect the foregoing amounts shall be reflected in the amount of provision for PNR where there is sufficient objective evidence that they will occur.
- f. The rates of surrender, cancellation, reinstatement, utilization, and inflation when applied, must consider the actual experience of the company in the last three years, or the industry, in the absence of a reliable Company experience.
- g. The computation of the foregoing assumptions shall be validated by the internal qualified actuary of the pre-need company. His or her validation report shall be provided to its external auditors for purposes of statutory audit of the financial statements of the Company, and shall be submitted to the IC as a separate report.
- h. The probability of pre-termination on surrender of fully paid plans shall be considered in determining the PNR of fully paid plans. A pre-termination experience on fully paid plans of 5% and below shall be considered insignificant. In such cases, derecognition of liability shall be recorded at pre-termination date.
- i. The disclosure requirement under PAS 1 relative to methods and assumptions used to estimate the PNR, including the sensitivity of the PNR amount, shall be complied with.
- j. Any excess in the amount of the trust funds as a result of the revised reserving method shall neither be released from the fund nor be credited to offset against future required contributions.

Insurance premium fund

This represents corporate assets that are restricted to cover the payment of insurance premiums after the paying period of the pre-need plan. This shall be equal to the amount computed for the IPR under paragraph 13 of Amended Pre-need Rule.

Other reserves

The Company shall set-up other provisions in accordance with PAS 37 to cover obligations such as IPR, pension bonus, and trust fund deficiency.

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

Premium revenues

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

Trust fund income

Income generated by the trust fund shall be included in the "Investment in trust funds" account under the asset section of the statement of financial position.

The amount of the trust fund income shall be disclosed in the notes to the financial statements (see Note 7). The portion of the retained earnings representing the trust fund income shall be automatically restricted to payments of benefits of plan holders and such other related payments as allowed under the Pre-Need Rules.



Cost of contracts issued

This account pertains to:

- a. the increase in PNR as at the current year as compared to the provision for the same period of the previous year. If there is a decrease in the PNR as a result of new information or developments, the amount shall be deducted from the "Cost of contracts issued" of the current period. In case of material prior period errors, the requirements of PAS 8 shall be complied with by the pre-need company;
- b. amount of trust funds contributed during the year; and
- c. documentary stamp tax and SEC registration fees.

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

SEC Interpretative Bulletin No. 1, Series of 2008

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

The more significant provisions of this bulletin are as follows:

Pre-need reserves

The PNR or the reserve for education plan, life plan, and pension plan, represents present value of future trust fund contributions. The PNR of the three plan types should be maintained separately as they differ in treatment and assumptions. The amount indicated as PNR shall be the same as that stated in the actuarial valuation report and audited financial statements with the required disclosures.

Discount rate

The Company should compute the PNR using the SEC-approved hurdle rate per product model for currently-being-paid plans and fully-paid plans whose benefit payments are not due within the next five years.

The Company may also compute the present value of its liabilities using a lower discount rate other than the SEC-approved hurdle rate and the difference between the two computations shall be booked under the account "Other Reserves" in the audited financial statements, per Pre-Need Rule 31, as amended.

Other reserves

Under the account "Other reserves," the Company may, at its option and as a prudent measure, set up other provisions. Thus, the "Other reserves" account may include the following items:

- a) general administrative expense after the paying period;
- b) paid-up capital reserves;
- c) reserve for the difference in the PNR computation using a rate other than the SEC-approved hurdle rate; and
- d) other reserves as may be allowed by the Commission.



IC Circular Letter No. 23-2012

On November 28, 2012, the IC issued Circular No. 23-2012, *Valuation of Transitory Pre-Need Reserves*. This provides regulatory leeway for old basket plans, previously approved by the SEC, and the valuation of pre-need reserves starting as of year-end 2012 shall be governed by the following:

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

<u>Year</u>	<u>Discount Interest Rates</u>
2012 – 2016	8.00%
2017	7.25%
2018	6.50%
2019 and onwards	6.00%

To effect a smooth transition in the valuation of reserves for old basket of plans, IC shall prescribe the TPNR. A maximum transition period of ten years shall be observed in the implementation of TPNR.

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

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

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

IC Circular Letter No. 8-2012

On March 15, 2012, the IC issued Circular Letter No. 8-2012, *Allowable Investments for Pre-need Trust Funds*. In addition to the provisions of Section 34 of the Pre-need Code, Investment of the Trust Fund, the following additional investment outlets shall be allowed as "Other Investments" with corresponding maximum limits and subject to prior approval of the IC.

The amount allocated shall not exceed twenty percent (20%) of the total trust fund while the investment in any particular item below shall not exceed fifteen percent (15%) of the trust fund.

Provided, further, that no investment in any single entity shall exceed ten percent (10%) of the total value of the trust fund.

- a. Preferred shares - Preferred stock, also called preferred shares, preference shares, or simply preferred, is a special equity security that has properties of both an equity and a debt instrument and is generally considered a hybrid instrument. Preferred are senior (i.e., higher ranking) to a common stock but are subordinate to bonds. Preferred stock usually carries no voting rights, but may carry a dividend and may have priority over common stock in the payment of dividends and upon liquidation.
- b. Real estate investment trust (REIT) - Real estate investment trust or REIT as defined under Republic Act No. 9856 is a stock corporation established in accordance with the Corporation Code



of the Philippines and the rules and regulations promulgated by the IC principally for the purpose of owning income-generating real estate assets. For purposes of clarity, a REIT, although, designated as a "trust" does not have the same technical meaning as "trust" under existing laws and regulations but is used herein for the sole purpose of adopting the internationally accepted description in accordance with global best practices.

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

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

- i. Pre-need companies differ from insurance companies because their obligations are not necessarily financial in nature. Some of their liabilities may be in the form of assets or services. Hence, there are arbitrage opportunities where the pre-need company is able to provide the service or asset at a cost below the amount originally projected in the financial model.
- ii. Mortuaries - Historically investments by pre-need companies in mortuaries have allowed some pre-need companies to answer their life plan obligation. Investments take the form of buying or investing in mortuaries, purchasing assets required to provide memorial services, such as hearses, cremation machines or loaning funds to independent mortuaries where conditions of the loan include providing discounted memorial services.
- iii. Memorial lots and/or columbaries - Some life plan liabilities are in the form of memorial lots or columbaries, where the commitment of the life plan Company is to provide a complete funeral service including a memorial lot.

Memorial lots or columbaries that are not part of the package of a funeral service shall be considered as inventories held for sale. In which case, the asset shall be considered as real estate.

- iv. Schools - Investments by pre-need companies in educational institutions would reduce the cost of servicing education plans, because the cost of education additional students is only marginal. The pre-need company would only have to spend on the marginal cost of educating additional students.
- v. Retirement homes - Some pension plans may include the provision of adult oriented housing for retirees as a benefit of the pension plan. Consequently, the ownership of such service assets will inoculate or control the liability of the pre-need company.



As of December 31, 2018 and 2017, the Company has complied with the allowable investments under IC Circular Letter No. 8-2012 (Note 7).

IC Circular Letter No. 43-2015

On August 7, 2015, the IC has issued Circular Letter 43-2015 relating to the Guidelines on the Management of the Trust Fund to govern the management and administration of the trust fund established for the payment of pre-need benefits under plan contracts and to provide an updated and more flexible choice of investments for the net surplus fund subject to rules and regulations that would ensure prudent investment management and protection of the interests of the planholders, including the promotion of the sound, stable and sustainable growth of the pre-need industry as provided for in Section 2 of the Pre-Need Code.

Trust fund surplus

The net asset value in the trust fund shall be at least equal to the required pre-need reserve liability (PRL) as determined by an accredited actuary.

The PRL shall be computed in accordance with the prescribed applicable rate at the time of valuation.

Net surplus fund

The net surplus fund is an extended fund of the trust fund. Its availability shall be determined based on the trust fund income as of December 31 of the immediately preceding calendar year.

The net surplus fund is determined as the difference between the trust fund surplus against the sum of provision for adverse deviation and excess liability reserve.

Trust fund surplus refers to the excess of the net asset value in the trust fund over the pre-need reserve liability. The net asset value is the trust fund balance at time of valuation. The net asset value is also referred to as trust fund equity.

Investment of the trust fund and net surplus fund

Investment of the trust fund shall be limited to the allowable investments provided for under Section 34 of the Pre-Need Code and to such other investments approved by the Commission, and shall be subject to the limitations found therein.

In case there is a net surplus, investment of the same shall be limited to the items enumerated under Section 34 of the Pre-Need Code and other allowable investments approved by the Commission, without the percentage limits set forth. Any investment outlet not enumerated therein may be allowed subject to the prior approval of the Insurance Commission.

The net surplus shall be placed in net surplus fund of each of the plan type (life, pension and education plan).

Withdrawal of the excess liability reserves of closed accounts

Withdrawal of the excess liability reserve (ELR) of closed accounts from the trust fund may be allowed subject to the prior approval of the Commission and payment of processing fee of ₱50,000 per application.

Request for the withdrawal of the ELR of closed accounts shall be submitted within thirty (30) days from receipt by the Commission of the Actuarial Valuation Report.



In case the Commission acts favorably on the request, withdrawal shall be made within sixty (60) days from receipt of approval. No withdrawal after the sixty (60) day period shall be allowed by the trustee bank.

The total plan deposit and ELR information per plan contract shall be included in the monthly trust fund withdrawal report submitted to the Commission.

IC Circular Letter No. 2018-58

On November 14, 2018, the IC issued Circular Letter 2018-58 providing Regulatory Relief for the Pre-need Industry due to High Volatility in the Philippine Market. The circular provides the following regulatory relief:

1. Valuation of Publicly Listed Equity Securities

For listed equity securities acquired on or before December 31, 2017, pre-need companies shall have the option to use the prevailing market rate prescribed by PFRSs or the market rate as of December 31, 2017.

For listed equity securities acquired after December 31, 2017, pre-need companies shall have the option to use the prevailing market rate prescribed by PFRSs or the acquisition cost.

The above options apply provided the equity securities are not intended for sale in the short-term.

2. Valuation of Fixed Income Debt Securities

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

3. Pre-need reserves

Pre-need companies shall have the option to use the prevailing market rate or the discount rate for the reserves under Circular Letter 23-2012 in the valuation of pre-need reserves.

As of December 31, 2018, the Company did not avail of the above regulatory relief on the valuation of assets and pre-need reserves. Hence, the assets and pre-need reserves are valued using market rates.

IC Circular Letter No. 2019-06

On March 15, 2019, the IC issued Circular Letter 2019-06 providing Regulatory Relief for the Pre-need Industry to monitor and assess the overall impact of the regulatory relief provided for under IC Circular Letter No. 2018-58 to pre-need companies for the year 2018 and to further improve the regulations for pre-need companies.

The circular provides that all pre-need companies authorized to transact business in the Philippines shall submit the following quantitative impact assessment reports following the prescribed format:

- a. with and without regulatory relief statement of financial position as of December 31, 2018 of the pre-need company;
- b. with and without regulatory relief comparative statement of financial position as of December 31, 2018; and
- c. with and without regulatory relief comparative reserve valuation report as of December 31, 2018.

All reports shall be duly certified and signed by the accountant and IC-accredited actuary together with the Chief Financial Officer (CFO) or its equivalent.



The above reports shall form an integral part of the Annual Statement and must be submitted on or before May 31, 2019.

5. Cash and Cash Equivalents and Short-term Cash Investments

Cash and cash equivalents consist of:

	2018	2017
Cash on hand and in banks	₱904,338	₱1,331,918
Cash equivalents	21,900,000	5,000,000
	₱22,804,338	₱6,331,918

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term investment rates.

Short-term cash investments amounting to ₱87.10 million and ₱73.00 million as of December 31, 2018 and 2017, respectively, are investments in banks with maturities of more than three months to one year from dates of acquisition and earn interest at the prevailing market rates.

Interest income earned from cash in banks, cash equivalents, and short-term cash investments amounted to ₱3.89 million and ₱1.58 million in 2018 and 2017, respectively.

6. Financial Assets at FVOCI / Available-for-sale financial assets

Financial assets at FVOCI

Financial assets at FVOCI consist of investments in equity securities amounting to ₱12.12 million and as of December 31, 2018. These pertain to shares of stock of a Philippine telecommunication company and related parties – CDC and City & Land Developers, Incorporated (CLDI).

Movement in unrealized fair value changes on financial assets at FVOCI in 2018 is as follows:

Balance at January 1, 2018	₱-
Transfer from AFS (Note 2)	10,953,184
Balance at January 1, 2018	10,953,184
Market to market gain for the year	(3,044,549)
Balance at December 31, 2018	₱7,908,635

The fair values of financial assets at FVOCI were determined based on published prices in the active market. Dividend income from these financial assets at FV OCI amounted to ₱0.40 million in 2018 and included under “Other income” account in the statements of income.

There were no acquisition and disposals of financial assets at FVOCI in 2018.

Available-for-sale financial assets

AFS financial assets consist of investments in equity securities amounting to ₱15.16 million as of December 31, 2017. These pertain to shares of stock of a Philippine telecommunication company and related parties – CDC and City & Land Developers, Incorporated (CLDI).



The movement in fair value of AFS financial assets is as follows:

Balance at January 1, 2017	₱10,107,625
Market to market gain for the year	845,559
Balance at December 31, 2017	₱10,953,184

The fair values of AFS financial assets were determined based on published prices in the active market. Dividend income from these AFS financial assets amounted to ₱0.22 million in 2017 and included under "Other income" account in the statements of income.

There were no acquisition and disposals of financial assets at AFS financial assets in 2018 and 2017.

7. Investments in Trust Funds

Pursuant to the provisions of the SEC Memorandum Circular No. 6, *Guidelines on the Management of the Trust Fund of Pre-Need Corporation* (SEC Circular No. 4), the SEC requires, among others, that companies engaged in the sale of pre-need plans and similar contracts to planholders set up a trust fund to guarantee the delivery of property or performance of service in the future. Withdrawals from these trust funds are limited to, among others, payments of pension plan benefits, bank charges and investment expenses in the operation of the trust funds, termination value payable to plan holders, contributions to the trust funds of cancelled plans, and final taxes on investment income of the trust funds.

In accordance with the SEC requirements, the Company has funds deposited with two local trustee banks aggregating to ₱36.41 million and ₱35.58 million as of December 31, 2018 and 2017, respectively, and are recorded under "Investments in trust funds" account in the statements of financial position.

The details of the Company's investments in trust funds are as follows:

As of December 31, 2018:

	Current	Noncurrent	Total
Assets			
Cash and cash equivalents:			
Cash in banks	₱60,187	₱-	₱60,187
Cash equivalents	3,833,875	-	3,833,875
Financial assets at amortized cost	-	21,034,947	21,034,947
Financial assets at fair value through other comprehensive income	2,110,467	1,727,209	3,837,676
Loans and receivables – net	760,883	2,460,872	3,221,755
Investment properties	-	5,169,680	5,169,680
Other assets	261,523	-	261,523
	7,026,935	30,392,708	37,419,643
Liabilities			
Taxes payable	203,480	-	203,480
Trust fees payable	73,661	-	73,661
Unrealized gain on sale of investment property	511,780	-	511,780
Other liabilities	222,725	-	222,725
	1,011,646	-	1,011,646
Net equity	₱6,015,289	₱30,392,708	₱36,407,997



As of December 31, 2017:

	Current	Noncurrent	Total
Assets			
Cash and cash equivalents:			
Cash in banks	₱1,044,238	₱-	₱1,044,238
Cash equivalents	3,292,670	-	3,292,670
Financial assets at FVPL	-	4,445,116	4,445,116
Available-for-sale financial assets	-	19,528,180	19,528,180
Loans and receivables – net	266,056	3,153,837	3,419,893
Investment properties	-	4,186,000	4,186,000
Other assets	147,410	-	147,410
	4,750,374	31,313,133	36,063,507
Liabilities			
Taxes payable	205,622	-	205,622
Trust fees payable	28,972	-	28,972
Other liabilities	246,717	-	246,717
	481,311	-	481,311
Net equity	₱4,269,063	₱31,313,133	₱35,582,196

Details of the net equity as of December 31 are as follows:

	2018	2017
Net Equity		
Fund balances at beginning of year	₱35,582,196	₱36,272,934
Additional contributions	2,247,053	2,567,483
Withdrawals during the year	(3,582,813)	(4,036,310)
Unrealized re-measurement gain (loss) on investment properties	983,680	(912,728)
Trust fund income	1,720,203	2,285,042
Other comprehensive loss for the year:		
Unrealized fair value changes on financial assets at FVOCI	(542,322)	-
Net changes in fair values of available-for-sale investments	-	(594,225)
Fund balances at end of year	₱36,407,997	₱35,582,196

The investment properties in the table above are carried at fair value. For the purpose of financial reporting to IC, the Company, however, values investment properties under the trust funds at cost. Accordingly, the following are the values submitted to the IC and as certified by the trustees:

	2018	2017
Investment properties, beginning	₱4,186,000	₱6,782,000
Sale of investment properties	-	(1,683,272)
Unrealized re-measurement gain (loss)	983,680	(912,728)
Investment properties, ending	5,169,680	4,186,000
Accumulated unrealized re-measurement gain	(2,554,972)	(1,571,292)
Investment properties reported to IC	₱2,614,708	₱2,614,708



The fund balances reported to IC are as follows:

	2018	2017
Fund balances	₱36,407,997	₱35,582,196
Adjustment due to changes in classification from financial assets at FVPL and at FVOCI to amortized cost	(3,149,394)	-
Accumulated unrealized re-measurement gain on investment properties	(2,554,972)	(1,571,292)
Total fund balances as reported to IC	30,703,631	34,010,904
Less: current portion	6,015,289	4,269,063
Fund balance, net of current portion	₱24,688,342	₱29,741,841

a) Cash equivalents

Cash equivalents comprise time deposits and short-term investments with maturity period of thirty days to eighty nine days which earn an interest of 4.00% to 5.48% and 2.20% to 3.00% in 2018 and 2017, respectively.

b) Financial assets at amortized cost

The investment in trust fund includes debt securities amounting to ₱21.03 million as of December 31, 2018, ₱18.86 million of which pertains to government securities, recognized as financial assets at amortized cost in 2018 which will mature on September 27, 2032 and December 16, 2035.

c) Financial assets at FVPL

Financial assets at FVPL pertains to debt securities amounting to ₱4.45 million as of December 31, 2017, respectively, recognized as financial assets through profit or loss which will mature on December 16, 2035. Upon adoption of PFRS 9, the Company elected to reclassify these debt securities to financial assets measured at amortized cost as the Company intends to hold the financial assets in order to collect contractual cash flows.

d) Financial assets at FVOCI

As of December 31, 2018, financial assets at FVOCI pertain to:

<i>At fair value</i>	
Debt securities	₱3,182,208
Equity securities - listed	655,468
Total financial assets at fair value through OCI	₱3,837,676

The investments in government securities are due after one year to two years.

Movement in unrealized fair value changes on financial assets at FVOCI in 2018 is as follows:

Balance at January 1, 2018	₱-
Transfer from AFS (Note 2)	672,577
Balance at January 1, 2018	672,577
Market to market gain for the year	(542,322)
Balance at December 31, 2018	₱130,255



e) Available-for-sale financial assets

As of December 31, 2017, AFS financial assets pertain to:

<i>At fair value</i>	
Debt securities	₱18,646,689
Equity securities - listed	881,491
Total available-for-sale financial assets	₱19,528,180

The following presents the breakdown of investments in government securities by contractual maturity dates as of December 31, 2017:

Due after one year to three years	₱1,100,000
Due after three years to five years	16,397,583
	₱17,497,583

Mark to market loss of AFS financial assets amounted to ₱0.59 million in 2017.

The movement in fair value of AFS financial assets is as follows:

Balance at January 1, 2017	₱1,266,802
Market to market gain for the year	(594,225)
Balance at December 31, 2017	₱672,577

f) Loans and receivables

	2018	2017
Loans	₱3,018,597	₱3,237,015
Less allowance for doubtful accounts	17,172	18,744
Net loans	3,001,425	3,218,271
Accrued interest receivable	220,330	201,622
	₱3,221,755	3,419,893

f) Investment properties

Based on the appraisal reports of the Company's professional SEC-accredited and independent appraiser (i.e., Cuervo Appraisers, Inc.), the fair value of the investment properties amounted to ₱5.17 million and ₱4.19 million as of December 31, 2018 and 2017, respectively. The latest valuation report dated February 21, 2019 was for the Company's investment properties held in trust fund as of December 31, 2018. Original cost of the properties amounted to ₱2.61 million as of December 31, 2018 and 2017. In 2017, the Company sold two condominium units under the trust fund.

Changes in the fair value of the investment properties are recognized as "Unrealized re-measurement gain (loss) on investment properties" under statements of income amounted to ₱0.98 million in 2018 and (₱0.91) million in 2018 and 2017, respectively.

g) Other liabilities

Other liabilities comprise of rental deposits of lessees on the investment properties and custody fee.



Pre-Need Code of the Philippines

On March 8, 2010, the IC issued the IRR of the Republic Act No. 9829 otherwise known as the "Pre-Need Code of the Philippines". Pursuant to the authority vested in the IC under Section 58 of the Pre-Need Code, the following are the more significant provisions as stated in Rule 8 Section 34 and 36:

Trust fund

A trust fund shall be established separately for each type of plan with the trust department of a trust company, bank, or investment house doing business in the Philippines. No trust fund shall be established by a pre-need company with an affiliate trust entity subject to Section 38 thereof.

To ensure the liquidity of the trust fund to guarantee the delivery of the benefits provided for under the plan contract and likewise obtain sufficient capital growth to meet the growing actuarial reserve liabilities, all investments of the trust funds of a pre-need company shall be limited to the following and subject to limitations to wit:

- a) Fixed income instruments – These may be classified into short-term and long-term instruments. The instrument is short-term if the maturity period is three hundred sixty five (365) days or less. This category includes:
 - 1) Government securities which shall not be less than ten percent (10%) of the trust fund amount;
 - 2) Savings/time deposits and unit investment trust funds maintained with and managed by a duly authorized bank with satisfactory examination rating as of the last examination by the Bangko Sentral ng Pilipinas (BSP);
 - 3) Commercial papers duly registered with the SEC with a credit rating of "1" for short term and "AAA" for long term based on the rating scale of an accredited Philippine Rating Agency or its equivalent at the time of investment.

The maximum exposure to long-term commercial papers shall not exceed fifteen percent (15%) of the total trust fund amount while the exposure to each commercial paper issuer shall not exceed ten percent (10%) of the allocated amount; and

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

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

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

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

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

Direct loans to planholders are exempt from the limitations set forth under Section 34; provided, that such loans to planholders shall not exceed ten percent (10%) of the total trust fund amount.



- b) Equities – Investments in equities shall be limited to shares of stock listed on the main board of a local stock exchange.

Investments in duly registered collective investment instruments such as mutual funds are allowed hereunder; provided, that such funds are invested only in fixed income instruments and blue chips securities, subject to the limitations prescribed by laws, rules, and regulations.

These investments shall include shares of stock issued by companies that are financially stable, actively traded, possess good track record of growth, and have declared dividends for the past three (3) years. Notwithstanding the prohibition against transactions with directors, officers, stockholders, and related interests, the trustee may invest in equities of companies related to the trustee provided these companies comply with the foregoing criteria provided in this paragraph for equity investments.

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

Existing investments which are not in accordance herewith shall be disposed of within three (3) years from the effectivity of this Act.

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

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

The total recorded value of the real estate investment shall not exceed ten percent (10%) of the total trust fund amount of the pre-need company. In the event that the existing real estate investment exceeds the aforesaid limit, the same shall be leveled off to the prescribed limit within three (3) years from the effectivity of this Code.

Investment of the trust fund, which is not in accordance with the preceding paragraphs, shall not be allowed unless the prior written approval of the Commission had been secured: provided, further, that no deposit or investment in any single entity shall exceed fifteen percent (15%) of the total value of the trust fund; provided, finally, that the Commission is authorized to adjust the percentage allocation per category set forth herein not in excess of two percentage (2%) points upward or downward and no oftener than once every five (5) years. The first adjustment hereunder may be made no earlier than five (5) years from the effectivity of this Act. The pre-need company shall not use the trust fund to extend any loan to or to invest in its directors, stockholders, officers or its affiliates.

The accounting policies adopted by the Company for its investments in trust funds are discussed in Note 2.



In 2017, the Commission issued Circular Letter No. 28-2017 allowing a two percent (2%) upward adjustment on the investment threshold allocation under the Pre-Need Code.

The Company's liquidity reserve amounting to about ₱23.56 million and ₱25.93 million as of December 31, 2018 and 2017, respectively, in its investments in trust fund comprised 77% and 76% of the net asset value of the trust funds as of these dates, respectively.

Pre-need and other reserves

In the opinion of management and the independent actuary, the Company's net contractual liabilities (i.e., TPNR, reserve for trust fund deficiency) amounting to ₱40.65 million and ₱40.54 million as of December 31, 2018 and 2017, respectively, which are based on the actuarial reports, closely reflect actual potential plan claims as of those dates.

In accordance with IC Circular Letter No. 23-2012 issued on November 28, 2012, the Company computed for the TPNR. The TPNR (also referred to as "Pre-need reserves") amounted to ₱30.39 million and ₱31.71 million as of December 31, 2018 and 2017, respectively, and is shown under "Pre-need reserves" account in the statements of financial position.

The following trust fund deficiency amounting to ₱3.42 million as of December 31, 2018 should be placed in the trust fund within 60 days from April 30 following the valuation date:

Pre-need reserves as of December 31, 2018	₱30,394,126
Adjusted fund balance available for reserves per actuarial report	26,974,472
Trust fund deficiency	₱3,419,654

Trust fund deficiency as of December 31, 2018 amounting to ₱3.42 million will be funded by the Company within the deadline set forth by IC.

The following presents the breakdown of the pre-need reserves by maturity dates as of December 31, 2018:

Due within one year	₱2,416,195
Due after one year	27,977,931
	₱ 30,394,126

As of December 31, 2018 and 2017, total reserves consist of the following:

	2018	2017
Pre-need reserves	₱30,394,126	₱31,710,864
Other reserves:		
Reserve for trust fund deficiency	10,258,961	8,824,505
Pension bonus reserve	577,569	651,186
Insurance premium reserve (Note 8)	129,183	157,716
	10,965,713	9,633,407
	₱41,359,839	₱41,344,271

Although not required, in 2018 and 2017, the BOD has deemed it prudent and opted to set-up the difference in net contractual liabilities and transitory pre-need reserve amounting to ₱10.26 million (to be funded for the next 3 years) and ₱8.82 million (to be funded for the next 4 years) under "Other reserves" account as of December 31, 2018 and 2017, respectively.



8. Insurance Premium Fund

Insurance premium fund amounting to ₱0.20 million as of December 31, 2018 and 2017, was invested in a separate time deposit account in a bank. This is restricted to cover the payment of insurance premium after the paying period.

Insurance premium reserve, included under “Other reserves” account in the statements of financial position amounted to ₱0.13 million and ₱0.16 million as of December 31, 2018 and 2017, respectively (see Note 7).

9. Revenue from Contracts with Customers

a. Disaggregated Revenue Information

The Company derives revenue from real estate sales at a point in time for one product type and geographical location. Real estate sales amounting to ₱37.64 million and ₱17.63 million as of December 31, 2018 and 2017 pertain to sale of medium-rise condominium units located in Metro Manila. All of the Company’s real estate sales are revenue from contracts with customers recognized at a point in time.

There were no intercompany real estate sales made in 2018 and 2017.

Installment contracts receivable as of December 31:

	2018	2017
Current portion	₱3,652,174	₱2,477,502
Noncurrent portion	20,050,544	9,787,834
	₱23,702,718	₱12,265,336

The installment contracts receivable arises from sale of real estate properties and is collectible in monthly installments for periods ranging from 1 to 10 years which bear monthly interest rates of 0.67% to 2.00% both in 2018 and 2017 computed based on the diminishing balance.

The Company, CDC, CI and CLDI (collectively referred to as the Group) entered into contract of guaranty under Retail Guaranty Line with Home Guaranty Corporation (HGC). The amount of installment contract receivable enrolled and renewed by the Company amounted to nil and ₱2.00 million in 2018 and 2017, respectively. Interest income related to this arrangement amounted to ₱0.11 million in 2017. The Company paid a guarantee premium of 1% based on the outstanding principal balances of the receivables enrolled in 2017 (see Note 14).

Interest income earned from installment contracts receivable amounted to ₱2.15 million in 2018.

As of January 1, 2018 and December 31, 2018, no contract liability was recognized by the Company since all sales of condominium units pertain to completed projects.



b. *Performance obligations*

Information about the Company's performance obligations are summarized below:

Real estate sales

The Company entered into contracts to sell with one identified performance obligation which is the sale of the real estate unit together with the services to transfer the title to the buyer upon full payment of contract price. The amount of consideration indicated in the contract to sell is fixed and has no variable consideration.

The sale of real estate unit covers condominium unit and the Company concluded that there is one performance obligation in this contracts.

The Company recognizes revenue from the sale of these real estate projects at a point in time when control of the asset is transferred to the buyer, generally when the condominium units are delivered to and accepted by the buyer.

Payment commences upon signing of the contract to sell and the consideration is payable in cash or under various financing schemes entered with the customer. The financing scheme would include down payment of generally 5% to 10% of the contract price with the remaining balance payable through in-house financing which ranges from one (1) month to ten (10) years with fixed monthly payment.

As at December 31, 2018, the Company has no remaining performance obligations as its sales of condominium units pertain to completed projects.

Rental agreements

The Company entered into lease agreements for its condominium units for lease with the following identified performance obligations: (a) lease of space and (b) provisioning of water and electricity. Revenue from lease of space is recognized on a straight line basis over the lease term while revenue for the remaining performance obligations are recognized when services are rendered. The tenant is required to issue post-dated check on the monthly rental payments. In case of delay in payments, a penalty of about 4% per annum is charged for the amount due for the duration of delay. The lease arrangement for the Company's lease transactions would typically require a tenant to pay advance rental equivalent to one (1) month and a security deposit equivalent two (2) months rental to cover any breakages after the rental period, with the excess returned to the tenant.

10. Real Estate Properties for Sale

Real estate properties for sale consist of condominium units for sale. The movements of real estate properties for sale are as follows:

	2018	2017
Balances at beginning of year	₱3,945,572	₱5,302,463
Transfer from investment properties (Note 11)	15,685,012	8,877,270
Disposals (cost of real estate sales)	(19,630,584)	(10,234,161)
Balances at end of year	₱-	₱3,945,572



11. Investment Properties

Movements in investment properties are as follows:

	2018	2017
Cost		
Balances at beginning of year	₱174,956,590	₱185,395,723
Transfer to real estate properties for sale (Note 10)	(18,552,489)	(10,439,133)
Balances at end of year	156,404,101	174,956,590
Accumulated Depreciation		
Balances at beginning of year	19,662,980	14,015,760
Transfer to real estate properties for sale (Note 10)	(2,867,477)	(1,561,863)
Depreciation (Note 14)	6,485,423	7,209,083
Balances at end of year	23,280,926	19,662,980
Net Book Values	₱133,123,175	₱155,293,610

The fair value of investment properties amounted to ₱287.63 million and ₱277.31 million as of December 31, 2018 and 2017, respectively (see Note 19), which is based on the current selling price of the condominium units.

The Company has no restrictions on the realizability of its investment properties and has no contractual obligations to purchase, construct, or develop the investment properties.

Some investment properties are rented out at different rates, generally for a one-year term renewable every year. Rental income from real estate properties for lease amounted to ₱13.45 million and ₱14.30 million in 2018 and 2017, respectively.

Direct operating expenses on investment properties amounting to ₱6.49 million and ₱7.21 million pertain to depreciation charges in 2018 and 2017, respectively (see Note 14).

12. Other Noncurrent Assets

Other noncurrent assets consist of:

	2018	2017
Deposits for purchase of condominium units	₱19,421,038	₱19,421,038
Retirement plan assets (Note 16)	686,099	413,629
Deposits and others	698,958	130,309
	₱20,806,095	₱19,964,976

Deposits for purchase of condominium units represent 15 condominium units of One Taft Residences (OTR) purchased in November 2016 from CLDI amounting to ₱19.42 million. The expected completion date of OTR is September 2022 (see Note 18). These will be sold to third parties upon turn over of the said units.



13. Compliance with PNUCA

In compliance with the SEC Circulars mentioned in Note 4, the following information as of December 31 is disclosed:

	2018	2017
Total premium collections	₱50,399	₱54,723
Contract price of lapsed plans outstanding	-	-
Contract price of lapsed plans reinstated	-	72,100
Number of lapsed plans outstanding	-	-
Number of lapsed plans reinstated	-	1

14. General and Administrative Expenses

General and administrative expenses consist of:

	2018	2017
Depreciation (Note 11)	₱6,485,423	₱7,209,083
Personnel (Note 15)	6,818,794	4,594,413
Taxes and licenses	1,289,256	1,174,749
Professional fees	358,603	548,570
Membership dues	317,774	512,021
Repairs and maintenance	267,614	296,676
Rentals	239,218	205,482
Outside services	109,048	95,952
Insurance (Note 9)	2,629	5,061
Others	518,148	451,195
	₱16,406,507	₱15,093,202

15. Personnel Expenses

Personnel expenses consist of:

	2018	2017
Salaries and wages	₱2,612,748	₱1,928,737
Bonuses and other employee benefits (Note 16)	1,873,346	1,392,183
Commissions	2,332,700	1,273,493
	₱6,818,794	₱4,594,413



16. Employee Benefits

The Company, jointly with affiliated companies, has a funded, noncontributory defined benefit retirement plan, covering all of its permanent employees. This provides for payment of benefits to covered employees upon retirement subject to certain condition which is based on a certain percentage of employee's final monthly salary and the number of years of service. The fund is administered by a trustee bank under the supervision of the retirement committee of the plan. The retirement committee is responsible for the investment strategy of the plan.

The details of net retirement benefits cost, which is included in "Personnel expense" account (see Note 15) are as follows:

	2018	2017
Current service cost	₱74,912	₱49,158
Net interest income on net defined benefit obligation	(23,246)	(18,944)
Net retirement benefits cost	₱51,666	₱30,214

Re-measurement loss (gain) on defined benefit pension plan recognized as other comprehensive income comprised the following:

	2018	2017
Actuarial loss (gain) on defined benefit obligation		
Due to change in financial assumption	(₱89,555)	(₱83,493)
Due to experience adjustments	49,156	36,205
Loss (gain) on plans assets excluding amounts included in net interest cost	(239,055)	24,748
Re-measurement gain	(279,454)	(₱22,540)
Tax effect	83,836	6,762
	(195,618)	(15,778)

Changes in the accumulated re-measurement loss on defined benefit plan are as follows:

	2018	2017
Beginning balances	(₱333,360)	(₱349,138)
Re-measurement gain on defined obligation plan	195,618	15,778
Ending balances	(₱137,742)	(₱333,360)

Movements in the net retirement plan assets during the years ended December 31 are as follows:

	2018	2017
Beginning balances	₱413,629	₱376,621
Retirement benefits cost	(51,666)	(30,214)
Contributions (Note 18)	44,682	44,682
Re-measurement gain	279,454	22,540
Ending balances	₱686,099	₱413,629



The details of the net retirement plan assets, which are included in "Other noncurrent assets" account in the statements of financial position, are as follows:

	2018	2017
Fair value of plan assets (Note 18)	₱2,424,833	₱2,027,169
Present value of defined benefit obligation	1,738,734	1,613,540
Retirement plan assets	₱686,099	₱413,629

Changes in the present value of defined benefit obligation are as follows:

	2018	2017
Beginning balances	₱1,613,540	₱1,534,485
Current service cost	74,912	49,158
Interest cost on defined benefit obligation	90,681	77,185
Actuarial gain	(40,399)	(47,288)
Ending balances	₱1,738,734	₱1,613,540

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

	2018	2017
Beginning balance	₱2,027,169	₱1,911,106
Interest income included in net interest cost	113,927	96,129
Contributions	44,682	44,682
Actuarial gain (loss) excluding amount recognized in net interest cost	239,055	(24,748)
Ending balances	₱2,424,833	₱2,027,169

The major categories of plan assets of the Company with its affiliated companies as a percentage of the fair value of net plan assets are as follows:

	2018	2017
Cash and cash equivalents	49.94%	50.66%
Investment properties	45.72%	42.72%
Investments in equity securities	4.14%	6.93%
Receivables	0.28%	0.23%
Payables	(0.08%)	(0.54%)
	100.00%	100.00%

Cash and cash equivalents consist of savings deposits and short-term time deposits with maturities of less than 3 months. Investments in equity securities consist of investment in shares of stock of listed companies. Investments in equity securities have quoted market prices in an active market. Loans and receivables include loans to individuals and accrued interest income. Investment properties pertain to condominium units which are held for lease and are stated at fair value (see Note 18).

The Company does not expect to contribute to the retirement fund in 2019.

The Company does not currently employ any asset-liability matching.



The latest actuarial valuation report is as of December 31, 2018. The principal assumptions used in determining retirement benefits cost for the Company's plan are as follows:

	2018	2017
Discount rate	5.62%	5.03%
Future salary increases	4.00%	4.00%
	1994 US Group	1994 US Group
	Annuity	Annuity
Mortality rate	Mortality	Mortality
	1952	1952
Disability rate	Disability Study	Disability Study

As of December 31, 2018, the discount rate is 7.30% and the future increase in salary is 5.00%.

There are two employees covered by the plan as of December 31, 2018 and 2017.

The defined benefit obligation is subject to several key assumptions. The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2018 and 2017, assuming all other assumptions were held constant:

	Increase (decrease) in Basis Points	Increase (decrease) in defined benefit obligation	
		2018	2017
Discount rate	+0.50%	(P63,574)	(P67,185)
	-0.50%	66,320	70,450
Salary increase rate	+1.00%	136,440	144,454
	-1.00%	(127,607)	(133,784)

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

Plan year	Number of retirees	Total benefits	
		2018	2017
More than 5 years to 10 years	1	P4,558,330	P4,140,911
More than 20 years	1	5,613,689	3,553,690
	2	P10,172,019	P7,694,601

The average duration of the defined benefit obligation is 18 years in 2018 and 2017.

17. Income Taxes

a. Provision for (benefits from) income tax consists of:

	2018	2017
Current	P3,263,447	P933,505
Deferred	1,175,154	(55,430)
	4,438,601	878,075
Final tax on interest income	777,727	315,881
	P5,216,328	P1,193,956



The Company's current provision for income tax represents the RCIT in 2018 and in 2017.

- b. The components of net deferred tax liabilities are as follows:

	2018	2017
Deferred income tax assets on accrued expenses	₱213,825	₱196,663
Deferred income tax liabilities on:		
Unrealized gain on real estate transactions	2,115,627	922,070
Retirement plan assets	264,862	266,103
	2,380,489	1,188,173
	2,166,664	991,510
Deferred income tax asset recognized in other comprehensive income - actuarial loss on defined benefit plan	59,032	142,868
Net deferred income tax liabilities	₱2,107,632	₱848,642

- c. The reconciliation of income tax computed at the statutory tax rates to provision for income tax follows:

	2018	2017
Income tax at statutory tax rate	₱6,495,844	₱3,436,951
Additions to (reductions in) income tax resulting from:		
Interest income subjected to final tax (Note 5)	(1,166,591)	(473,821)
Trust fund income already subjected to final tax (Note 7)	(516,061)	(685,512)
Nontaxable unrealized re-measurement gain (loss) on investment properties (Note 7)	(295,104)	273,818
Nontaxable dividend income (Note 6)	(121,012)	(66,380)
Nontaxable decrease in pre-need reserves and reserves for trust fund deficiency	35,316	(1,076,918)
Nondeductible plan benefit expense	6,209	626,238
Nontaxable interest income (Note 9)	-	(33,156)
Application of NOLCO	-	(720,619)
Application of MCIT	-	(402,526)
Provision for income tax	4,438,601	878,075
Provision for final tax on interest income	777,727	315,881
Provision for income tax	₱5,216,328	₱1,193,956

- d. Deferred income tax asset was not recognized in respect of the following as management believes this may not be realized in the future prior to its expiration:
- i. 2015 NOLCO expired in 2018 amounting to ₱2.40 million as of December 31, 2016, which can be claimed as deduction from future taxable income; and
 - ii. Excess MCIT over RCIT expiring in 2019 and 2018 amounting to ₱0.29 million and ₱0.11 million as of December 31, 2017 and 2016, respectively, which can be claimed as credit against future RCIT.



- e. In 2017, 2015 NOLCO amounting to ₱2.40 million was claimed as deduction from taxable income and MCIT aggregating to ₱0.40 million was claimed as credit to RCIT.

		Ending balance
2015 NOLCO		₱2,849,798
Applied in 2016		(447,734)
Applied in 2017		(2,402,064)
		<u>₱-</u>

MCIT incurred in:	Beginning balance	Applied in 2017	Ending balance
2015	₱114,502	(₱114,502)	₱-
2016	288,024	(288,024)	-
	<u>₱402,526</u>	<u>(₱402,526)</u>	<u>₱-</u>

18. 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.

The Company discloses the nature of the related party relationship and information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements, including, as a minimum, the amount of outstanding balances and its terms and conditions including whether they are secured, and the nature of the consideration to be provided in settlement.

The Company, in the normal course of business, has the following transactions and account balances with related parties consisting mainly of the following:

Nature of transaction	Amount of Transactions	Outstanding balance as of December 31, 2018		Terms and Condition
		Receivable	Payable*	
Ultimate Parent (CI)				
Sharing of expenses charged by CI (b)	₱-	₱-	₱41,154	To be settled in cash; due and demandable; non-interest-bearing
Parent Company (CDC)				
Expenses charged by CDC (b)	2,712	-	2,712	To be settled in cash; due and demandable; non-interest-bearing

(Forward)



	Amount of Transactions	Outstanding balance as of December 31, 2018		Terms and Condition
		Receivable	Payable*	
Affiliate (CLDI)				
Purchase of real estate properties (a)	₱-	₱ -	₱150,000	To be settled in cash; upon completion of the project; non-interest-bearing
Sharing of expenses charged by CLDI (b)	186,765	-	186,765	To be settled in cash; due and demandable; non-interest-bearing
Retirement plan				
Contribution to the fund (c)	44,682	-	-	Settled in cash
		₱-	₱380,631	

Nature of transaction	Amount of Transactions	Outstanding balance as of December 31, 2017		Terms and Condition
		Receivable	Payable*	
Ultimate Parent (CI)				
Sharing of expenses charged by CI (b)	₱39,301	₱-	₱-	To be settled in cash; due and demandable; non-interest-bearing
Parent Company (CDC)				
Sharing of expenses charged by CDC (b)	168,816	-	199,567	To be settled in cash; due and demandable; non-interest-bearing
Affiliate (CLDI)				
Purchase of real estate properties (a)	-	-	150,000	To be settled in cash; upon completion of the project; non-interest-bearing
Sharing of expenses charged by CLDI (b)	14,304	-	14,304	To be settled in cash; due and demandable; non-interest-bearing
Retirement plan				
Contribution to the fund (c)	44,682	-	-	Settled in cash
		₱-	₱363,871	

*recorded under "Accounts payable and accrued expenses" account in the statement of financial position.

- a. In 2016, the Company purchased condominium units of OTR from CLDI amounting to ₱19.42 million (see Note 12).
- b. The Company has various shared expenses with other affiliates pertaining to general and administrative expenses such as salaries, transportation, association dues, professional fees, and rent.
- c. The Company, jointly with affiliated companies under common control, has a trust fund for the retirement plan of their employees. The trust fund is being maintained by a third-party trustee bank under the supervision of the committee of the plan. The Retirement Committee is responsible for the investment strategy of the plan. The Company's share in the fair value of plan assets amounted to ₱2.42 million and ₱2.03 million as of December 31, 2018 and 2017, respectively (see Note 16). The Company's share in the carrying value of plan assets is equivalent to its share in the fair value.

The major categories of plan assets are cash and cash equivalents, investment properties, investments in equity securities and loans and receivables (see Note 16). Investments in equity securities of plan assets include investment in shares of CDC. The third-party trustee bank exercises



the voting rights over the shares. The fair value of the investment in CDC amounted ₱4.43 million and ₱5.96 million as of December 31, 2018 and 2017, respectively, with original cost of ₱3.16 million. Unrealized gain on changes of fair value of these investments amounted to ₱1.28 million and ₱2.81 million as of December 31, 2018 and 2017, respectively. Loans and receivables of plan assets include installment contracts receivable purchased in prior years on a non-recourse basis from CDC amounting to ₱0.11 million as of December 31, 2018 and 2017. The retirement plan assets as of December 31, 2018 and 2017 include fair value of investment properties held for lease amounting to ₱48.99 million and ₱36.79 million, respectively, which was purchased from CDC in 2013. The sale was conducted in the normal course of business and was measured at current selling price and settled in cash.

Contributions to the retirement fund amounted to ₱0.04 million in 2018 and 2017 (see Note 16).

- d. The Company has no standard arrangement with regard to the remuneration of its existing officers aside from the compensation received or any other arrangements in the employment contracts and compensatory plan. The Company does not have any arrangements for stock warrants or options offered to its employees.
- e. Key management personnel did not receive any compensation in 2018 and 2017.

19. Financial Instruments

Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise cash and cash equivalents, and short-term cash investments. The main purpose of these financial instruments is to finance the Company's operations. The Company's other financial instruments consist of available-for-sale financial assets, which are held for investing purposes and investments in trust funds to cover pre-need reserves obligation. The Company has various other financial instruments such as installment contracts receivables, other receivables, and accounts payable and accrued expenses which arise directly from its operations.

The main risks arising from the Company's financial instruments are credit risk, equity price risk, and liquidity risk. The BOD reviews and approves policies for managing these risks and they are summarized below:

Credit risk

Credit risk arises when the Company will incur a loss because its customers, clients, or counterparties fail to discharge their obligations. The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis with the result that the Company's exposure to bad debts is not significant. The risk is further mitigated because the Company holds the title to the real estate properties with outstanding installment contracts receivable balance and the Company can repossess such real estate properties upon default of the customer in paying the outstanding balance.

The Company's policy is to enter into transactions with a diversity of credit-worthy parties to mitigate any significant concentration of credit risk. There are no significant concentrations of credit risk within the Company.



The tables below show the exposure to credit risk for the components of the statement of financial position. The exposure as of December 31, 2018 and 2017 is shown at gross, before taking the effect of mitigation through the use of collateral agreements and other credit enhancement and the maximum exposure at net, after taking the effect of mitigation through the use of collateral agreements and other credit enhancement.

Assets held in trust

December 31, 2018:

	Gross maximum Exposure	Fair value of collaterals	Net exposure	Financial effect of collaterals
Financial assets at amortized cost:				
Cash and cash equivalents	₱3,894,062	₱-	₱3,894,062	₱-
Receivable from:				
Clients	2,928,843	-	2,928,843	-
Plan holders	72,582	-	72,582	-
Accrued interest	220,330	-	220,330	-
Financial assets at amortized cost	21,034,947	-	21,034,947	-
Financial assets at other comprehensive income – Debt securities	3,182,208		3,182,208	
Total credit risk exposure	₱31,332,972	₱-	₱31,332,972	₱-

December 31, 2017:

	Gross maximum Exposure	Fair value of collaterals	Net exposure	Financial effect of collaterals
Loans and receivables:				
Cash and cash equivalents	₱4,336,908	₱-	₱4,336,908	₱-
Receivable from:				
Clients	3,104,193	-	3,104,193	-
Plan holders	114,078	-	114,078	-
Accrued interest	201,622	-	201,622	-
Financial assets at FVPL	4,445,116	-	4,445,116	-
Total credit risk exposure	₱12,201,917	₱-	₱12,201,917	₱-

Assets not held in trust

December 31, 2018:

	Gross maximum exposure	Fair value of collaterals	Net exposure	Financial effect of collaterals
Financial assets at amortized cost:				
Cash and cash equivalents, excluding cash on hand	₱22,803,838	₱-	₱22,803,838	₱-
Short-term cash investments	87,100,000	-	87,100,000	-
Installment contracts receivable	23,702,718	36,461,409	-	23,702,718
Refundable deposits under “Other noncurrent assets”	96,375	-	96,375	-
Other receivables:				
Accrued interest	718,847	-	718,847	-
Advances to customers	235,943	-	235,943	-
Others	1,695	-	1,695	-
Total credit risk exposure	₱134,659,416	₱36,461,409	₱110,956,698	₱23,702,718



December 31, 2017:

	Gross maximum exposure	Fair value of collaterals	Net exposure	Financial effect of collaterals
Loans and receivables:				
Cash and cash equivalents, excluding cash on hand	₱6,302,375	₱-	₱6,302,375	₱-
Short-term cash investments	73,000,000	-	73,000,000	-
Installment contracts receivable	12,265,336	24,033,557	-	12,265,336
Refundable deposits under "Other noncurrent assets"	107,768	-	107,768	-
Other receivables:				
Accrued interest	429,792	-	429,792	-
Advances to customers	106,061	-	106,061	-
Others	27,699	-	27,699	-
Total credit risk exposure	₱92,239,031	₱24,033,557	₱79,973,695	₱12,265,336

The tables below show the credit quality by class of asset for loan-related statement of financial position lines based on the Company's credit rating system:

Assets held in trust

December 31, 2018:

	High Grade*	Medium Grade**	Impaired	Total
Financial assets at amortized cost:				
Cash and cash equivalents	₱3,894,062	₱-	₱-	₱3,894,062
Receivables from:				
Clients	-	2,928,843	-	2,928,843
Plan holders	-	72,582	-	72,582
Accrued interest	-	220,330	-	220,330
Financial assets at amortized cost	21,034,947	-	-	21,034,947
Financial assets at other comprehensive income - Debt securities	3,182,208	-	-	3,182,208
	₱28,111,217	₱3,221,755	₱-	₱31,332,972

*High Grade - financial assets with reputable counterparties and which management believes to be reasonably assured as recoverable.

**Medium Grade - financial assets for which there is low risk of default of collectivity from counterparties.

December 31, 2017:

	High Grade*	Medium Grade**	Impaired	Total
Loans and receivables:				
Cash and cash equivalents	₱4,336,908	₱-	₱-	₱4,336,908
Receivables from:				
Clients	-	3,104,193	-	3,104,193
Plan holders	-	114,078	-	114,078
Accrued interest	-	201,622	-	201,622
Financial assets at FVPL	4,445,116	-	-	4,445,116
	₱8,782,024	₱3,419,893	₱-	₱12,201,917

*High Grade - financial assets with reputable counterparties and which management believes to be reasonably assured as recoverable.

**Medium Grade - financial assets for which there is low risk of default of collectivity from counterparties.



Assets not held in trust

December 31, 2018:

	High Grade*	Medium Grade**	Impaired	Total
Financial assets at amortized cost:				
Cash and cash equivalents, excluding cash on hand	₱22,803,838	₱-	₱-	₱22,803,838
Short-term cash investments	87,100,000	-	-	87,100,000
Installment contracts receivable	23,702,718	-	-	23,702,718
Refundable deposits	96,375	-	-	96,375
Other receivables:				
Accrued interest	718,847	-	-	718,847
Advances to customers		235,943	-	235,943
Others	1,695	-	-	1,695
	₱134,423,473	₱235,943	₱-	₱134,659,416

*High Grade - financial assets with reputable counterparties and which management is reasonably assured to be recoverable.

**Medium Grade - financial assets for which there is low risk of default of counterparties.

December 31, 2017:

	High Grade*	Medium Grade**	Impaired	Total
Loans and receivables:				
Cash and cash equivalents, excluding cash on hand	₱6,302,375	₱-	₱-	₱6,302,375
Short-term cash investments	73,000,000	-	-	73,000,000
Installment contracts receivable	12,265,336	-	-	12,265,336
Refundable deposits	107,768	-	-	107,768
Other receivables:				
Accrued interest	429,792	-	-	429,792
Advances to customers		106,061	-	106,061
Others	27,699	-	-	27,699
	₱92,132,970	₱106,061	₱-	₱92,239,031

*High Grade - financial assets with reputable counterparties and which management is reasonably assured to be recoverable.

**Medium Grade - financial assets for which there is low risk of default of counterparties.

Financial assets at FVOCI and available-for-sale financial assets amounted to ₱12.12 million and ₱15.16 million as of December 31, 2018 and 2017, respectively. These investments are considered high-grade.

The Company has performed an expected credit loss (ECL) calculation for its financial assets at amortized cost. The expected credit loss is a product of the probability of default, loss given default and exposure at default.

In determining the probability of default, the Company used historical default rates for the last five years for the installment sales from its buyers and last two years for other receivables. The Company applied the possible effects of macroeconomic factors to the historical loss rate. For loss given default, the Company determined the fair value less cost of repossession of collaterals upon default is higher than the exposure at default. Thus, no expected credit loss was recognized for the Company's installment contract receivables and other receivables from its buyer.

The Company considers its cash and cash equivalent and short-term investments as high grade since these are placed in financial institution of high credit standing. Accordingly, ECL relating to cash and cash equivalent and short-term investment rounds to nil.



The following tables summarize the aging analysis of receivables on which expected credit loss rate was applied:

Assets held in trust

December 31, 2018:

	Contract Asset	Current	Days Past Due			Total
			Less than 30 days	31 to 90 days	Over 90 days	
Financial assets at amortized cost:						
Cash and cash equivalents, excluding cash on hand	P-	P3,894,062	P-	P-	P-	P3,894,062
Receivables from:						
Clients	-	2,928,843	-	-	-	2,928,843
Plan holders	-	72,582	-	-	-	72,582
Accrued interest	-	220,330	-	-	-	220,330
Financial assets at amortized cost	-	21,034,947	-	-	-	21,034,947
	P-	P28,150,764	P-	P-	P-	P28,150,764

December 31, 2017:

	Neither past due nor impaired		Past Due But Not Impaired	Impaired	Total
	Current	> One Year			
Receivables from:					
Clients	P3,104,193	P-	P-	P-	P3,104,193
Plan holders	114,078	-	-	-	114,078
Accrued interest	201,622	-	-	-	201,622
	P3,419,893	P-	P-	P-	P3,419,893

Assets not held in trust

December 31, 2018:

	Contract Asset	Current	Days Past Due			Total
			Less than 30 days	31 to 90 days	Over 90 days	
Financial assets at amortized cost:						
Cash and cash equivalents, excluding cash on hand	P-	P22,804,338	P-	P-	P-	P22,804,338
Short-term cash investments	-	87,100,000	-	-	-	87,100,000
Installment contracts receivable	3,652,174	20,050,544	-	-	-	23,702,718
Other receivables:						
Accrued interest	718,847	-	-	-	-	718,847
Advances to customers	138,937	66,066	-	30,940	-	235,943
Others	1,695	-	-	-	-	1,695
	P4,511,653	P130,020,948	P-	P30,940	P-	P134,563,541



December 31, 2017:

	Past Due But Not Impaired						Over 90 days	Total
	Current	> One Year	< 30 days	30-60 days	61-90 days			
Installment contracts receivable	P2,376,984	P9,787,834	P29,056	P-	P-	P71,462	P12,265,336	
Other receivables:								
Accrued interest	429,792	-	-	-	-	-	429,792	
Advances to customers	60,647	-	-	-	5,521	39,893	106,061	
Others	27,699	-	-	-	-	-	27,699	
	P2,895,122	P9,787,834	P29,056	P-	P5,521	P111,355	P12,828,888	

The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties. The Company assesses impairment into two areas: individually assessed allowances and collectively assessed allowances.

The Company determines allowance for each significant receivable on an individual basis. Among the factors that the Company considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. The Company also considers the fair value of the real estate collateralized in computing the impairment of the receivables. Receivables subjected to specific assessment are those classified under the installment contracts receivable account.

For collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is no objective evidence of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience, and other factors that may affect collectability.

Equity price risk

Equity price risk is the risk that the fair values of investments in equity securities will decrease as a result of changes in the market values of individual shares of stock. The Company is exposed to equity price risk because of investments in equity securities held by the Company as classified as available-for-sale financial assets. The Company employs the service of a third-party stockbroker to manage its investments in shares of stock.

Presented below is the table which demonstrates the sensitivity analysis of the Company's equity to a reasonably possible change in equity prices based on forecasted and average movements of equity prices (with all other variables held constant).

	Change in equity price	Effect on equity
2018	+/-0.14	+/-P1,747,846
2017	+/-0.08	+/-P1,284,029

Liquidity Risk

Liquidity risk is defined as the risk that the Company would not be able to settle or meet its obligations on time or at a reasonable price. The Company manages its liquidity needs by carefully monitoring cash outflows due in a day-to-day business.



The tables below summarize the maturity analysis of the Company's financial assets held for managing liquidity and financial liabilities based on contractual undiscounted payments, including benefits payable:

Assets not held in trust

December 31, 2018:

	On demand	90 days or less	91-180 Days	181-365 days	Above 1 year	Total
Financial assets						
Cash and cash equivalents	₱904,338	₱21,900,000	₱-	₱-	₱-	₱22,804,338
Short-term cash investments	-	-	87,100,000	-	-	87,100,000
Installment contracts receivable	367,511	664,171	1,024,652	1,595,840	20,050,544	23,702,718
Other receivables	30,940	859,479	-	-	66,066	956,485
Refundable deposits	-	-	-	-	96,375	96,375
Equity instruments designated at fair value through other comprehensive income	-	-	-	-	12,115,340	12,115,340
	1,302,789	23,423,650	88,124,652	1,595,840	32,328,325	146,775,256
Financial liabilities						
Accounts payable and accrued expenses*	4,991,353	351	526	1,053	3,741,929	8,735,212
	(₱3,688,564)	₱23,423,299	₱88,124,126	₱1,594,787	₱28,586,396	₱138,040,044

Details of accounts payable and accrued expenses:

	On demand	90 days or less	91-180 Days	181-365 days	Above 1 year	Total
Benefits payable	₱3,150,589	₱-	₱-	₱-	₱-	₱3,150,589
Trade payables	721,008	351	526	1,053	643,489	1,366,427
Accrued rental and deposits	7,212	-	-	-	2,948,440	2,955,652
Accrued expenses	861,028	-	-	-	-	861,028
Due to affiliates (Note 18)	230,631	-	-	-	150,000	380,631
Others	20,885	-	-	-	-	20,885
Total	₱4,991,353	₱351	₱526	₱1,053	₱3,741,929	₱8,735,212

*Excludes statutory liabilities amounting to ₱97,909.

December 31, 2017:

	On demand	90 days or less	91-180 Days	181-365 days	Above 1 year	Total
Financial assets						
Cash and cash equivalents	₱1,331,918	₱5,000,000	₱-	₱-	₱-	₱6,331,918
Short-term cash investments	-	-	73,000,000	-	-	73,000,000
Installment contracts receivable	100,518	621,881	617,764	1,137,339	9,787,834	12,265,336
Other receivables	45,414	518,138	-	-	-	563,552
Refundable deposits	-	-	-	-	107,767	107,767
Available-for-sale	-	-	-	-	15,159,890	15,159,890
	1,477,850	6,140,019	73,617,764	1,137,339	25,055,491	107,428,463
Financial liabilities						
Accounts payable and accrued expenses*	4,813,065	92	139	277	4,290,650	9,104,223
	(₱3,335,215)	₱6,139,927	₱73,617,625	₱1,137,062	₱20,764,841	₱98,324,240

Details of accounts payable and accrued expenses:

	On demand	90 days or less	91-180 Days	181-365 days	Above 1 year	Total
Benefits payable	₱3,181,404	₱-	₱-	₱-	₱-	₱3,181,404
Trade payables	906,320	92	139	277	437,443	1,344,271
Accrued rental and deposits	2,733	-	-	-	3,197,664	3,200,397
Accrued expenses	316,649	-	-	-	655,544	972,193
Due to affiliates (Note 18)	363,871	-	-	-	-	363,871
Reservation fee	30,491	-	-	-	-	30,491
Others	11,596	-	-	-	-	11,596
Total	₱4,813,064	₱92	₱139	₱277	₱4,290,651	₱9,104,223

*Excludes statutory liabilities amounting to ₱58,422.



Fair Values

The following tables provide fair value hierarchy of the Company's financial assets and investment properties, other than those with carrying amounts which are reasonable approximations of fair values:

As of December 31, 2018:

	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
<i>Assets Held in Trust</i>				
Assets measured at fair value				
Financial assets at FVOCI				
Debt securities	₱3,182,208	₱3,182,208	₱-	₱-
Equity securities – listed	655,468	655,468	-	-
Investment properties	5,169,680	-	-	5,169,680
<i>Assets Not Held in Trust</i>				
Assets measured at fair value				
Financial assets at FVOCI				
Equity securities – listed	12,115,340	12,115,340	-	-
Assets for which fair value is disclosed				
Investment properties	133,123,175	-	-	287,634,988

As of December 31, 2017:

	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
<i>Assets Held in Trust</i>				
Assets measured at fair value				
Financial assets at FVPL				
Debt securities	₱4,445,116	₱4,445,116	₱-	₱-
Financial assets at FVOCI				
Debt securities	18,646,689	18,646,689	-	-
Equity securities – listed	881,491	881,491	-	-
Investment properties	4,186,000	-	-	4,186,000
<i>Assets Not Held in Trust</i>				
Assets measured at fair value				
Financial assets at FVOCI				
Equity securities – listed	15,159,890	15,159,890	-	-
Assets for which fair value is disclosed				
Investment properties	155,293,610	-	-	277,312,453

The following method and assumptions were used to estimate the fair value of each class of financial instruments and investment properties, for which it is practicable to estimate such value.

Cash and cash equivalents, short-term cash investments, installment contracts receivable and other receivables

Due to the short-term nature of the transactions, the fair values of cash and cash equivalents, short-term cash investments, other receivables approximate their carrying amounts. The fair values of installment contracts receivable approximate its carrying amount as these carry interest rates that approximate the interest rates for comparable instruments in the market.

Accounts payable and accrued expenses

The accounts payable and accrued expenses are stated based on the actual expenses or the amount in which the Company expects the liabilities to be settled. These consist of meter deposit refund, refundable deposits, benefits payable, estimated registration expenses, and other related accrued expenses. These are normally settled in a 30-day to one-year term and are not interest-bearing.



The fair value of these accounts approximates their carrying amounts.

Financial assets at FVPL and financial assets at FVOCI

Financial assets at FVPL and financial assets at FVOCI are stated at fair value based on quoted market prices.

Investment properties

The fair value of certain investment properties is determined using sales comparison. Sales comparison approach considers the sales of similar or substitute properties and other related market data had the investment properties been transacted in the market. The significant unobservable inputs used in determining the fair value are the sales price per square meter of similar or substitute property, location, size, shape of lot and the highest and best use. The higher the sales price per square meter, the higher the fair value.

The fair values of the investment properties as of December 31, 2018 and 2017 represent the highest and best use of the said properties which is the same with its current use.

20. Capital Management

Under existing SEC rules for Pre-Need, which became effective September 21, 2001, the paid up capital of a Pre-Need Company should not be less than ₱100.00 million.

As of December 31, 2018 and 2017, the Company is in compliance with the minimum capital requirement for a Pre-Need Company. As such, the Company did not avail of the Multi-Year Capital & Trust Fund Build up discussed in Note 4.

The Company manages its capital structure and makes adjustment to it in light of changes in economic conditions.

The Company considers as capital its equity excluding the accumulated other comprehensive items. As of December 31, 2018 and 2017, the Company's capital is as follows:

	2018	2017
Total equity	₱284,841,960	₱271,796,728
Less (add):		
Reserve for fluctuation in value of financial assets at FVOCI (Note 6)	7,908,635	10,953,184
Reserve for fluctuation in value of financial assets at FVOCI held in trust funds (Note 7)	130,255	672,577
Accumulated re-measurement on defined benefit plan (Note 16)	(137,742)	(333,360)
	7,901,148	11,292,401
Capital	₱276,940,812	₱260,504,327

As of December 31, 2017, the Company's retained earnings exceeded its capital stock. In compliance with Section 43 of the Corporation Code which prohibits the Company from retaining surplus profits in excess of one hundred percent (100%) of their paid-in capital stock, the Company declared 10% stock dividends last February 21, 2018 to stockholders of record date March 5, 2018 and distributed on March 28, 2018.



21. Segment Reporting

The Company derives its revenue from the sales of real estate and marketing of pension plans. The Company does not have any major customers and all sales of real estate properties and marketing of pension plans are made to external customers.

Segment Revenue and Expenses

	2018		
	Sales/Lease of Real Estate Properties	Pension Plan Operations	Total
Income:			
Sales of real estate	P37,636,256	P-	P37,636,256
Rental income	13,451,431	-	13,451,431
Interest income	6,012,853	23,764	6,036,617
Trust fund income	-	1,720,203	1,720,203
Unrealized re-measurement gain on investment properties	-	983,680	983,680
Premium revenue	-	50,399	50,399
Other income	382,767	1,323,156	1,705,923
Expenses:			
Cost of real estate sales	19,630,584	-	19,630,584
Cost of contracts issued-net	-	3,876,698	3,876,698
General and administrative expenses	7,555,898	8,850,609	16,406,507
Others	-	17,907	17,907
Provision for income tax	8,707,313	(3,490,985)	5,216,328
Net income (loss)	P21,589,512	(P5,153,027)	P16,436,485
	2017		
	Sales/Lease of Real Estate Properties	Pension Plan Operations	Total
Income:			
Sales of real estate	P17,630,219	P-	P17,630,219
Rental income	14,298,027	-	14,298,027
Interest income	2,920,396	60,046	2,980,442
Trust fund income	-	2,285,042	2,285,042
Unrealized re-measurement loss on investment properties	-	(912,728)	(912,728)
Premium revenue	-	54,723	54,723
Other income	353,356	1,159,466	1,512,822
Expenses:			
Cost of real estate sales	10,234,161	-	10,234,161
Cost of contracts issued-net	-	1,043,096	1,043,096
General and administrative expenses	5,067,402	10,025,800	15,093,202
Others	-	21,586	21,586
Provision for (benefit from) income tax	5,785,039	(4,591,083)	1,193,956
Net income (loss)	P14,115,396	(P3,852,850)	P10,262,546



Segment Assets and Liabilities

December 31, 2018:

	Sales/Lease of Real Estate Properties	Pension Plan Operations	Total
Total assets	₱198,534,467	₱138,681,681	₱337,216,148
Total liabilities	11,146,180	41,228,008	52,374,188

December 31, 2017:

	Sales/Lease of Real Estate Properties	Pension Plan Operations	Total
Total assets	₱182,791,329	₱140,360,957	₱323,152,286
Total liabilities	16,992,554	34,363,004	51,355,558

22. Supplementary Information under Revenue Regulations No. 15-2010

In compliance with the requirements set forth in Revenue Regulations No. 15-2010, the information on taxes and license fees paid for the period ended December 31, 2018 or accrued as of December 31, 2018 is as follows:

- a. Net sales/receipts and output VAT declared in the Company's VAT returns filed in 2018 amounted to ₱18,953,428 and ₱2,274,411, respectively. The Company's net sales/receipts are based on actual collections received; hence, may not be the same as the amounts accrued/reflected as sales in the statement of income.

As of December 31, 2018, outstanding output VAT payable amounted to ₱30,520.

- b. Input VAT

The following table shows the sources of input VAT claimed:

Balance at beginning of the year	₱-
Purchases of:	
Services lodged under other accounts	169,287
Goods other than for resale	4,619
Total available input VAT during the period	173,906
Less claims for tax credit/refund and other adjustments	173,906
Balance at end of the year	₱-

- c. The Company does not have any importations in 2018.
- d. Taxes and licenses included under "General and administrative expense" account are shown below:

Real estate taxes	₱647,451
Business permit and registration	516,055
Other taxes	125,750
	₱1,289,256



e. Withholding taxes

The following are the categories of the Company's withholding taxes in 2018:

Compensation and benefits	₱240,319
Final expanded taxes	130,690
	<hr/>
	₱371,009

The outstanding balance of withholding taxes as of December 31, 2018, amounted to ₱67,388.

f. Tax contingencies:

- i. The Company has no final deficiency tax assessments as of December 31, 2018.
- ii. The Company has no tax cases, litigation, and/or prosecution in courts or bodies outside the BIR.





Building a better
working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001.
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Cityplans, Incorporated
3/F Cityland Condo. 10, Tower 2
154 H.V. de la Costa St.
Salcedo Village, Makati City

We have audited the accompanying financial statements of Cityplans, Incorporated as at December 31, 2018 and 2017 and for the years then ended, on which we have rendered the attached report dated March 20, 2019.

In compliance with Securities Regulation Code Rule 68 (As Amended 2011), we are stating that the above Company has nine stockholders owning 100 or more shares each.

SYCIP GORRES VELAYO & CO.


Aileen L. Saringan

Partner

CPA Certificate No. 72557

SEC Accreditation No. 0096-AR-4 (Group A),
August 18, 2016, valid until August 18, 2019

Tax Identification No. 102-089-397

BIR Accreditation No. 08-001998-58-2018,
February 26, 2018, valid until February 25, 2021

PTR No. 7332610, January 3, 2019, Makati City

March 20, 2019

