C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

1 5 6 6 7 5

C O M P A N Y   N A M E

C I T Y P L A N S ,   I N C O R P O R A T E D

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

3 / F   C i t y l a n d   C o n d o .   1 0 ,
T o w e r   2 ,   1 5 4   H . V .   d e   l a
C o s t a   S t . ,   S a l c e d o   V i l l a g e ,
M a k a t i   C i t y

Form Type	Department requiring the report	Secondary License Type, If Applicable
A A F S	C R M D	N A

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
cityplans_inc@yahoo.com	8819-1111 / 8893-6060	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
10	2nd Tuesday of March	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
RUDY GO	cdc_rg@cityland.net	8893-6060	N/A

CONTACT PERSON'S ADDRESS

3/F Cityland Condo. 10 Tower 2, 154 H.V. de la Costa St., Salcedo Village, Makati City

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

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

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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

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, 2019 and 2018, 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, 2019 and 2018, 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.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 25 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Cityplans, Incorporated. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-AR-4 (Group A),
October 22, 2019, valid until October 21, 2022
Tax Identification No. 102-082-670
BIR Accreditation No. 08-001998-63-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 8125214, January 7, 2020, Makati City

June 10, 2020

CITYPLANS, INCORPORATED
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Cash and cash equivalents (Note 5)	**₱87,811,825**	₱22,804,338
Short-term cash investments (Note 5)	**46,450,000**	87,100,000
Financial assets:		
Equity instrument designated at fair value through other comprehensive income (FVOCI) (Note 6)	**11,803,332**	12,115,340
Investments in trust funds (Note 7)	**36,066,950**	36,407,997
Loans and receivables (includes installment contracts receivable and other receivables) (Note 9)	**36,415,724**	24,659,203
Insurance premium fund (Note 8)	**150,000**	200,000
Investment properties (Note 11)	**111,203,817**	133,123,175
Other assets (Note 12)	**21,269,279**	20,806,095
TOTAL ASSETS	**₱351,170,927**	₱337,216,148
LIABILITIES AND EQUITY		
Liabilities		
Pre-need reserves (Note 7)	**₱33,260,782**	₱30,394,126
Accounts payable and accrued expenses (Note 13)	**10,502,394**	8,833,121
Other reserves (Notes 7 and 8)	**7,289,472**	10,965,713
Deferred income tax liabilities - net (Note 19)	**3,896,660**	2,107,632
Income tax payable	**–**	73,596
Total Liabilities	**54,949,308**	52,374,188
Equity		
Paid-up capital stock - ₱1.00 par value		
Authorized - 200,000,000 shares		
Issued and outstanding - 137,500,000 shares	**137,500,000**	137,500,000
Unrealized fair value changes on financial assets at FVOCI (Note 6)	**7,596,627**	7,908,635
Unrealized fair value changes on financial assets at FVOCI held in trust funds (Note 7)	**305,329**	130,255
Accumulated re-measurement loss on defined benefit plans - net of deferred income tax effect (Note 18)	**(320,124)**	(137,742)
Retained earnings (Note 22):		
Unrestricted	**149,755,005**	136,885,840
Restricted	**1,384,782**	2,554,972
Total Equity	**296,221,619**	284,841,960
TOTAL LIABILITIES AND EQUITY	**₱351,170,927**	₱337,216,148

See accompanying Notes to Financial Statements.

CITYPLANS, INCORPORATED
STATEMENTS OF INCOME

	Years Ended December 31	
	2019	2018
REVENUE		
Sales of real estate properties (Note 9)	**₱28,103,838**	₱37,636,256
Rental income (Notes 9 and 11)	**13,109,185**	13,451,431
Interest income (Notes 5 and 9)	**9,582,142**	6,036,617
Trust fund income (Note 7)	**1,780,687**	1,720,203
Unrealized re-measurement gain on investment properties (Note 7)	**–**	983,680
Premium revenue (Note 14)	**–**	50,399
Other income (Notes 6 and 15)	**958,447**	1,705,923
	53,534,299	61,584,509
COST AND EXPENSES		
Cost of real estate sales (Note 10)	**15,991,823**	19,630,584
Cost of contracts issued:		
Plan benefit expense (inclusive of trust fund contributions) (Note 7)	**5,897,191**	3,620,460
Increase (decrease) in reserves for trust fund deficiency (Note 7)	**(3,556,975)**	1,434,456
Documentary stamp tax and Securities and Exchange Commission and Insurance Commission registration fees	**151,500**	150,795
Increase (decrease) in pre-need reserves (Note 7)	**2,866,655**	(1,316,737)
Insurance liabilities and others	**(14,023)**	(12,276)
Unrealized re-measurement loss on investment properties (Note 7)	**1,170,190**	–
General and administrative expenses (Note 16)	**15,179,729**	16,406,507
Other direct costs and expenses	**–**	17,907
	37,686,090	39,931,696
INCOME BEFORE INCOME TAX	**15,848,209**	21,652,813
PROVISION FOR INCOME TAX (Note 19)	**4,149,234**	5,216,328
NET INCOME	**₱11,698,975**	₱16,436,485

See accompanying Notes to Financial Statements.

CITYPLANS, INCORPORATED
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2019	2018
NET INCOME	**₱11,698,975**	₱16,436,485
OTHER COMPREHENSIVE INCOME (LOSS)		
Not to be reclassified to profit or loss in subsequent periods:		
Changes in fair value of financial assets at FVOCI (Note 6)	**(312,008)**	(3,044,549)
Changes in fair value of financial assets at FVOCI in trust funds (Note 7)	**175,074**	(542,322)
Re-measurement gain (loss) on defined obligation plan, net of income tax effect (Note 18)	**(182,382)**	195,618
	(319,316)	(3,391,253)
TOTAL COMPREHENSIVE INCOME	**₱11,379,659**	₱13,045,232

See accompanying Notes to Financial Statements.

CITYPLANS, INCORPORATED

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Capital Stock	Unrealized Fair Value Changes on financial assets at FVOCI (Note 6)	Unrealized Fair Value Changes on financial assets at FVOCI held in Trust Funds (Note 7)	Accumulated Re-measurement Loss on Defined Benefit Plan - Net of Deferred Income Tax Effect (Note 18)	Retained Earnings (Notes 7 and 20) Unrestricted	Retained Earnings (Notes 7 and 20) Restricted	Total
BALANCES AT JANUARY 1, 2018	**₱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 19)	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**
BALANCES AT DECEMBER 31, 2018	**137,500,000**	**7,908,635**	**130,255**	**(137,742)**	**136,885,840**	**2,554,972**	**284,841,960**
Net income	–	–	–	–	11,698,975	–	11,698,975
Other comprehensive income (loss)	–	(312,008)	175,074	(182,382)	–	–	(319,316)
Total comprehensive income	–	(312,008)	175,074	(182,382)	11,698,975	–	11,379,659
Trust fund income	–	–	–	–	–	1,780,687	1,780,687
Plan benefit expense, exclusive of trust fund contributions	–	–	–	–	–	1,085,968	1,085,968
Increase in pre-need reserves	–	–	–	–	–	(2,866,655)	(2,866,655)
Unrealized re-measurement gain on investment properties	–	–	–	–	1,170,190	(1,170,190)	–
BALANCES AT DECEMBER 31, 2019	**₱137,500,000**	**₱7,596,627**	**₱305,329**	**(₱320,124)**	**₱149,755,005**	**₱1,384,782**	**₱296,221,619**

See accompanying Notes to Financial Statements.

CITYPLANS, INCORPORATED
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱15,848,209**	₱21,652,813
Adjustments for:		
Depreciation expense (Notes 11 and 16)	**5,927,535**	6,485,423
Interest income (Notes 5 and 9)	**(9,582,142)**	(6,036,617)
Increase (decrease) in reserves for trust fund deficiency (Note 7)	**(3,556,975)**	1,434,456
Increase (decrease) in pre-need reserves (Note 7)	**2,866,655**	(1,316,737)
Trust fund income (Note 7)	**(1,780,687)**	(1,720,203)
Dividend income (Notes 6 and 15)	**(607,013)**	(403,375)
Unrealized re-measurement loss (gain) on investment properties (Note 7)	**1,170,190**	(983,680)
Retirement benefits cost (Note 18)	**49,721**	51,666
Operating income before working capital changes	**10,335,493**	19,163,746
Decrease (increase) in:		
Real estate properties for sale (Note 10)	**15,991,823**	19,630,584
Installment contracts receivable (Note 9)	**(11,833,327)**	(11,437,382)
Other receivables	**12,268**	(103,878)
Other assets (Note 12)	**(766,003)**	(553,747)
Increase (decrease) in:		
Accounts payable and accrued expenses (Note 13)	**1,669,273**	(329,524)
Other reserves (Note 7)	**(119,266)**	(102,150)
Cash flows generated from operations	**15,290,261**	26,267,649
Interest received	**9,646,680**	5,747,562
Contribution to the plan (Note 18)	**(7,447)**	(44,682)
Income taxes paid, including creditable and final withholding taxes	**(2,355,638)**	(3,137,244)
Net cash flows from operating activities	**22,573,856**	28,833,285
CASH FLOWS USED IN INVESTING ACTIVITIES		
Proceeds from (placements of) short-term cash investments and insurance premium fund	**40,700,000**	(14,100,000)
Contributions to investments in trust funds (Note 7)	**(3,419,654)**	(2,247,053)
Withdrawals from investments in trust funds (Note 7)	**4,546,272**	3,582,813
Dividends received (Note 6)	**607,013**	403,375
Net cash flows from (used in) investing activities	**42,433,631**	(12,360,865)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**65,007,487**	16,472,420
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**22,804,338**	6,331,918
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱87,811,825**	₱22,804,338

See accompanying 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, 2019 and 2018, 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, 2019 and 2018 and for the years then ended were authorized for issuance by the Board of Directors (BOD) on June 10, 2020.

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) 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 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, 2019.

- PFRS 16, *Leases*

  PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

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. Therefore, PFRS 16 did not have an impact for leases where the Company is the lessor.

PFRS 16 has no significant impact to the Company since its contract with a lessor is a short-term lease with a period of 12 months or less. Rent expense incurred by the Company amounted to ₱229,775, and ₱239,218 as of December 31, 2019 and 2018, respectively (see Note 16). Further, the Company has no sublease and leaseback transactions.

- 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*. It 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 is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty.

  Upon adoption of the Interpretation, the Company has assessed whether it has any uncertain tax position. The Company applies significant judgement in identifying uncertainties over its income tax treatments. The Company determined, based on its assessment, in consultation with its tax counsel, that it is probable that its uncertain tax treatments will be accepted by the taxation authorities. Accordingly, the Interpretation did not have an impact on the financial statements of the Company.

- 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.

  These amendments had no impact on the financial statements of the Company.

- 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 had no impact on the financial statements of Company as it did not have any plan amendments, curtailments, or settlements during the period.

- 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*.

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

  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 had no impact on the financial statements of the Company as there is no transaction where joint control is obtained.

- 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 had no impact on the financial statements of 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.

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

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

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 (FVPL).

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

In order for a financial asset to be classified and measured at amortized cost or FVOCI, 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 rate (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 as of December 31, 2019 and 2018.

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 (see Notes 6 and 7).

Financial assets at FVPL
Financial assets at FVPL 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 FVPL 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 FVPL as of December 31, 2019 and 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 which can be described as follows:

Financial liabilities at FVPL
Financial liabilities at FVPL 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 FVPL.

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. 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.

<u>Real Estate Properties for Sale</u>
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 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 2019 and 2018, 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, 2019 and 2018, 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.

<u>Capital Stock</u>
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.

<u>Retained Earnings</u>
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.

<u>Revenue Recognition</u>
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.

<u>Contract Balances</u>
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).

Premium 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" 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, 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 23 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

Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Company intends to adopt these pronouncements when they become effective.

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.

The Company is currently assessing the impact of the standard to the financial statements.

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.

<u>Judgments</u>
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
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.

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 21).

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.

Investment properties amounted to ₱111.20 million and ₱133.12 million as of December 31, 2019 and 2018, respectively (see Note 11). Investment properties included in "Investments in trust funds" account in the statements of financial position amounted to ₱4.00 million and ₱5.17 million as of December 31, 2019 and 2018, respectively (see Note 7).

Determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates
Upon adoption of the Interpretation, the Company has assessed whether it has any uncertain tax position. The Company applies significant judgement in identifying uncertainties over its income tax treatments.

The Company determined, based on its management's assessment, that it is probable that its uncertain tax treatments will be accepted by the taxation authorities. Accordingly, the interpretation did not have significant impact on the financial statements of the Company.

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 21.

Provision for expected credit losses of installment contract receivables
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 21.

As of December 31, 2019 and 2018, installment contracts receivable and other receivables aggregated to ₱35.54 million and ₱23.70 million, respectively. There was no provision for expected credit loss on receivables in 2019 and 2018 (see Note 21). As of December 31, 2019 and 2018, the financial assets at amortized cost and loans and receivables in the Company's investments in trust funds amounted to ₱24.00 million and ₱24.26 million, 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.

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 corporate assets - real estate as of December 31, 2019 and 2018 amounted to ₱111.20 million and ₱133.12 million, respectively (see Note 11).

Determination of fair value of investment properties
Real estate 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, 2019 and 2018 amounted to ₱4.0 million and ₱5.17 million, respectively (see Note 7). The fair value of the Company's real estate properties held under trust funds amounted to ₱254.27 million and ₱287.63 million as of December 31, 2019 and 2018, respectively (see Notes 11 and 21).

Determination of impairment indicators on real estate properties
The Company determines whether its nonfinancial assets, such as real estate 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, 2019 and 2018. Net book value of real estate properties as of December 31, 2019 and 2018 amounted to ₱111.20 million and ₱133.12 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 18.

Net retirement benefits cost amounted to ₱49,721 and ₱51,666 in 2019 and 2018, respectively. As of December 31, 2019 and 2018, retirement plan assets, which is included under "Other assets" account in the statements of financial position amounted to ₱0.38 million and ₱0.69 million, respectively (see Note 18).

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, 2019 and 2018, total reserves amounted to ₱40.55 million and ₱41.36 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 3.58% and 4.79% in 2019 and 2018, respectively, and the IC rate of 6.00%.

As of December 31, 2019, 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	3.58%	–	–	02/19/1996	37	–	–	–
Product B	3.58%	–	–	02/19/1996 10/13/1995 11/26/1993 05/17/1993 07/16/1992 09/10/1991 12/14/1990 02/05/1990	37 1 1006 359 601 899 938 116	–	–	–

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	3.58%	–	–	02/19/1996	37	–	–	–
Product B	3.58%	–	–	02/19/1996	37	–	–	–
				10/13/1995 11/26/1993 05/17/1993 07/16/1992 09/10/1991 12/14/1990 02/05/1990	1 1006 359 601 899 938 116			

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	–	₱39,962,768	–	–	–	₱–	–	₱–
Product A	3.58%	2,261,001	–	02/19/1996	37	–	–	–
Product B	3.58%	37,701,767	–	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, 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 11/26/1993 05/17/1992 07/16/1992 09/10/1991 12/14/1990 02/05/1990	1 1006 359 601 899 938 116			

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, 2019:

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

- Plans issued prior to 2006 and after - 3.58% 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 2020 and after - 3.58% discount rate (ROI rate) and no surrender rates were assumed for fully paid plans.

December 31, 2018:

c. 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.

d. 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.

Recognition of deferred income 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. Gross deferred tax assets amounted to ₱0.28 million and ₱0.21 million as of December 31, 2019 and 2018, respectively (see Note 19).

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 deferment 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 deferment 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.

<u>Memorandum Circular No. 1, Series of 2009</u>
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.

<u>Pre-need Rule 31, As Amended: Accounting Standards for Pre-need Plans and PNUCA</u>
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.

<u>SEC Interpretative Bulletin No. 1, Series of 2008</u>
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:

Year	Discount Interest Rates
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 shares 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 (Phil Ratings).

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, 2019 and 2018, 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 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, 2019, 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.

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

Cash and cash equivalents consist of:

	2019	2018
Cash on hand and in banks	**₱2,411,825**	₱904,338
Cash equivalents	**85,400,000**	21,900,000
	₱87,811,825	₱22,804,338

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 ₱46.45 million and ₱87.10 million as of December 31, 2019 and 2018, 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 ₱6.84 million and ₱3.89 million in 2019 and 2018, respectively.

6. Equity instrument designated at fair value through other comprehensive income (FVOCI)

Equity instrument designated at FVOCI consist of investments in equity securities amounting to ₱11.80 million and ₱12.12 million as of December 31, 2019 and 2018, respectively. These pertain to shares of stock of a Philippine telecommunication company and related parties - City & Land Developers, Incorporated (CLDI) and CDC.

Movement in unrealized fair value changes on equity instrument designated at FVOCI in 2019 and 2018 are as follows:

	2019	2018
Balance at beginning of year	**₱7,908,635**	₱10,953,184
Market to market loss for year	**(312,008)**	(3,044,549)
Balance at end of year	**₱7,596,627**	₱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 stocks amounted to ₱0.61 million in 2019 and ₱0.40 million in 2018 included under "Other income" account in the statements of income.

There were no acquisitions and disposals of financial assets at FVOCI in 2019 and 2018.

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 ₱36.07 million and ₱36.41 million as of December 31, 2019 and 2018, 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 as of December 31 are as follows:

	2019	2018
Assets		
Cash and cash equivalents:		
Cash in banks	**₱38,185**	₱60,187
Cash equivalents	**5,841,550**	3,833,875
Financial assets at amortized cost	**20,940,736**	21,034,947
Financial assets at FVOCI	**2,893,397**	3,837,676
Loans and receivables - net	**3,062,026**	3,221,755
Investment properties	**3,999,490**	5,169,680
Other assets	**268,257**	261,523
	37,043,641	37,419,643
Liabilities		
Accrued trust fees	**32,285**	73,661
Accrued taxes	**177,121**	203,480
Unrealized gain on sale of investment property	**490,918**	511,780
Other liabilities	**276,367**	222,725
	976,691	1,011,646
Net equity	**₱36,066,950**	₱36,407,997

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

	2019	2018
Net Equity		
Fund balances at beginning of year	**₱36,407,997**	₱35,582,196
Additional contribution	**3,419,654**	2,247,053
Withdrawals	**(4,546,272)**	(3,582,813)
Unrealized re-measurement gain (loss) on investment properties	**(1,170,190)**	983,680
Trust fund income	**1,780,687**	1,720,203
Other comprehensive gain (loss) for the year:		
Unrealized fair value changes on financial assets at FVOCI	**175,074**	(542,322)
Fund balances at end of year	**₱36,066,950**	₱36,407,997

a) Cash equivalents

Cash equivalents comprise of time deposits and short-term investments with maturity periods of thirty days to ninety two days and earn interest ranging from 2.80% to 3.20% and 4.00% to 5.48% in 2019 and 2018, respectively.

b) Financial assets at amortized cost

The investments in trust funds include debt securities amounting to ₱20.94 million and ₱21.03 million as of December 31, 2019 and 2018, respectively, of which ₱18.86 million pertains to government securities. These investments in government securities will mature on September 27, 2032 and December 16, 2035.

c) Financial assets at FVOCI

As of December 31, 2019 and 2018, financial assets at FVOCI pertain to:

At fair value	**2019**	2018
Debt securities	**₱2,177,271**	₱3,182,208
Equity securities - listed	**716,126**	655,468
Total financial assets at fair value through OCI	**₱2,893,397**	₱3,837,676

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

Movement in unrealized fair value changes on financial assets at FVOCI in 2019 and 2018 are as follows:

	2019	2018
Balance at January 1	**₱130,255**	₱672,577
Market to market gain (loss) for the year	**175,074**	(542,322)
Balance at December 31	**₱305,329**	₱130,255

d) Loans and receivables

	2019	2018
Loans	**₱2,868,730**	₱3,018,597
Less allowance for doubtful accounts	**16,203**	17,172
Net loans	**2,852,527**	3,001,425
Accrued interest receivable	**209,499**	220,330
	₱3,062,026	₱3,221,755

e) Investment properties

The investment properties in the table in the previous page are recorded in accordance with Section 34 (c) of the Pre-Need Code wherein it allows the appraisal increase of real estate to be recorded up to sixty percent (60%), provided that the recorded value shall not exceed twelve percent (12%) of the total trust fund amount as prescribed under the same section in 2019 and carried at fair value in 2018. For the purpose of financial reporting to IC, the Company, however, valued investment properties under the trust funds at cost in 2018. Accordingly, the following are the values submitted to the IC and as certified by the trustees:

	2019	2018
Investment properties, beginning	**₱5,169,680**	₱4,186,000
Unrealized re-measurement gain (loss)	**(1,170,190)**	983,680
Investment properties, ending	**3,999,490**	5,169,680
Accumulated unrealized re-measurement gain	**–**	(2,554,972)
Investment properties reported to IC	**₱3,999,490**	₱2,614,708

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 ₱5.59 million and ₱5.17 million as of December 31, 2019 and 2018, respectively. The latest valuation report dated January 2, 2020 was for the Company’s investment properties held in trust fund as of December 31, 2019. Original cost of the properties amounted to ₱2.61 million as of December 31, 2019 and 2018.

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 (₱1.17) million and ₱0.98 million in 2019 and 2018, respectively.

f) Other liabilities

Other liabilities comprise of rental deposits of lessees on the investment properties and custodial 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 ₱30.38 million and ₱23.56 million as of December 31, 2019 and 2018, respectively, in its investments in trust fund comprised 80.53% and 76.73% 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 ₱39.96 million and ₱40.65 million as of December 31, 2019 and 2018, 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 ₱33.26 million and ₱30.39 million as of December 31, 2019 and 2018, respectively, and is shown under "Pre-need reserves" account in the statements of financial position.

The following trust fund deficiency amounting to ₱3.35 million as of December 31, 2019 should be placed in the trust fund within 60 days from June 30, 2020 following the valuation date:

Pre-need reserves as of December 31, 2019	₱33,260,782
Adjusted fund balance available for reserves per actuarial report	29,909,789
Trust fund deficiency	₱3,350,993

Trust fund deficiency as of December 31, 2019 amounting to ₱3.35 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:

	2019	2018
Due within one year	**₱2,133,952**	₱2,416,195
Due after one year	**31,126,830**	27,977,931
	₱33,260,782	₱ 30,394,126

As of December 31, 2019 and 2018, total reserves consist of the following:

	2019	2018
Pre-need reserves	**₱33,260,782**	₱30,394,126
Other reserves:		
Reserve for trust fund deficiency	**6,701,986**	10,258,961
Pension bonus reserve	**485,254**	577,569
Insurance premium reserve (Note 8)	**102,232**	129,183
	7,289,472	10,965,713
	₱40,550,254	₱41,359,839

Although not required, in 2019 and 2018, the BOD has deemed it prudent and opted to set-up the difference in net contractual liabilities and transitory pre-need reserve amounting to ₱6.70 million (to be funded for the next 2 years) and ₱10.26 million (to be funded for the next 3 years) under "Other reserves" account as of December 31, 2019 and 2018, respectively.

8. Insurance Premium Fund

Insurance premium fund amounting to ₱0.15 million and ₱0.20 million as of December 31, 2019 and 2018 respectively, 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 under the liabilities in the statements of financial position amounted to ₱0.10 million and ₱0.13 million as of December 31, 2019 and 2018, 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 ₱28.10 million and ₱37.64 million as of December 31, 2019 and 2018, respectively, 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 2019 and 2018.

Installment contracts receivable as of December 31, 2019 and 2018 amounted to ₱35.54 million and ₱23.70 million, respectively.

The installment contracts receivable arise from sale of real estate properties and is collectible in monthly installments for periods ranging from one (1) to ten (10) years which bear monthly interest rates ranging from 0.92% to 1.46% in 2019 and 0.92% to 2.00% in 2018 computed based on the diminishing balance.

Interest income earned from installment contracts receivable amounted to ₱2.74 million in 2019 and ₱2.15 million in 2018.

As of December 31, 2019 and 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 covers condominium unit and the Company concluded that there is one performance obligation in this contract.

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, 2019 and 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:

	2019	2018
Balances at beginning of year	**₱–**	₱3,945,572
Transfer from investment properties (Note 11)	**15,991,823**	15,685,012
Disposals (cost of real estate sales)	**(15,991,823)**	(19,630,584)
Balances at end of year	**₱–**	₱–

11. Investment Properties

Movements in investment properties are as follows:

	2019	2018
Cost		
Balances at beginning of year	**₱156,404,101**	₱174,956,590
Transfer to real estate properties for sale (Note 10)	**(19,042,351)**	(18,552,489)
Balances at end of year	**137,361,750**	156,404,101
Accumulated Depreciation		
Balances at beginning of year	**23,280,926**	19,662,980
Transfer to real estate properties for sale (Note 10)	**(3,050,528)**	(2,867,477)
Depreciation (Note 16)	**5,927,535**	6,485,423
Balances at end of year	**26,157,933**	23,280,926
Net Book Values	**₱111,203,817**	₱133,123,175

The fair value of investment properties amounted to ₱254.27 million and ₱287.63 million as of December 31, 2019 and 2018, respectively (see Note 21), 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 real estate 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 ₱13.11 million and ₱13.45 million in 2019 and 2018, respectively.

Direct operating expenses on investment properties amounting to ₱5.93 million and ₱6.49 million pertain to depreciation charges in 2019 and 2018, respectively (see Note 16).

12. Other Assets

Other assets consist of:

	2019	2018
Deposits for purchase of condominium units	**₱19,421,038**	₱19,421,038
Prepaid income tax	**872,917**	–
Retirement plan assets (Note 18)	**383,280**	686,099
Deposits and others	**592,044**	698,958
	₱21,269,279	₱20,806,095

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 (see Note 20). The expected completion date of OTR is September 2022. These will be sold to third parties upon turn-over of the said units.

13. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	2019	2018
Benefits payable	**₱4,103,316**	₱3,150,589
Customers' deposits	**3,112,698**	2,912,940
Trade payables	**2,014,250**	1,747,058
Accrued expenses	**1,154,002**	907,553
Withholding taxes payable	**69,553**	67,388
Others	**48,575**	47,593
	₱10,502,394	₱8,833,121

Benefits payable consists of unclaimed maturity values, pension bonus and termination value of planholders. Customers' deposits consist of customers' reservation fees, rental deposits and collected deposits for water and electric meters of the sold units. Trade payables consist of payables to suppliers, contractors and other counterparties. Accrued expenses consist of taxes and licenses, premiums, and other accruals. Other payables consist substantially of contributions payable, planholders' deposits and counselor's bond reserves.

14. Compliance with PNUCA

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

The total premium collections amounted to nil and ₱50,399 in 2019 and 2018, respectively. There were no outstanding and reinstated lapsed plans in 2019 and 2018.

15. **Other Income**

Other income consists of:

	2019	2018
Dividend income (Note 6)	**₱607,013**	₱403,375
Miscellaneous income	**351,434**	1,302,548
	₱958,447	₱1,705,923

Miscellaneous income amounting to ₱0.35 million and ₱1.30 million in 2019 and 2018, respectively, pertain to penalties for customers' late payments, forfeiture of reservations/down-payments received for sale which were not consummated, charges made to the client for the application of billed deposits to MERALCO, and fees charged to client for handling notarial, titles and other legal fees.

16. **General and Administrative Expenses**

General and administrative expenses consist of:

	2019	2018
Personnel (Note 17)	**₱6,150,437**	₱6,818,794
Depreciation (Note 11)	**5,927,535**	6,485,423
Taxes and licenses	**1,267,328**	1,289,256
Professional fees	**424,202**	358,603
Membership dues	**321,530**	317,774
Repairs and maintenance	**316,645**	267,614
Rentals	**229,775**	239,218
Outside services	**97,480**	109,048
Insurance	**592**	2,629
Others	**444,205**	518,148
	₱15,179,729	₱16,406,507

17. **Personnel Expenses**

Personnel expenses consist of:

	2019	2018
Salaries and wages	**₱2,634,441**	₱2,612,748
Bonuses and other employee benefits	**1,825,729**	1,873,346
Commissions	**1,690,267**	2,332,700
	₱6,150,437	₱6,818,794

18. **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 16) are as follows:

	2019	2018
Current service cost	**₱99,806**	₱74,912
Net interest income on net defined benefit obligation	**(50,085)**	(23,246)
Net retirement benefits cost	**₱49,721**	₱51,666

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

	2019	2018
Actuarial loss (gain) on defined benefit obligation:		
Due to change in financial assumption	**₱345,081**	(₱89,555)
Due to experience adjustments	**(8,836)**	49,156
Gain on plans assets excluding amounts included in net interest cost	**(75,700)**	(239,055)
Re-measurement loss (gain)	**260,545**	(279,454)
Tax effect	**(78,163)**	83,836
	₱182,382	(₱195,618)

Changes in the accumulated re-measurement loss on defined benefit plan, net of deferred taxes, are as follows:

	2019	2018
Beginning balances	**(₱137,742)**	(₱333,360)
Re-measurement gain (loss) on defined obligation plan	**(182,382)**	195,618
Ending balances	**(₱320,124)**	(₱137,742)

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

	2019	2018
Beginning balances	**₱686,099**	₱413,629
Retirement benefits cost	**(49,721)**	(51,666)
Contributions (Note 20)	**7,447**	44,682
Re-measurement gain (loss)	**(260,545)**	279,454
Ending balances	**₱383,280**	₱686,099

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

	2019	2018
Fair value of plan assets	**₱2,684,993**	₱2,424,833
Present value of defined benefit obligation	**2,301,713**	1,738,734
Retirement plan assets	**₱383,280**	₱686,099

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

	2019	2018
Beginning balances	**₱1,738,734**	₱1,613,540
Current service cost	**99,806**	74,912
Interest cost on defined benefit obligation	**126,928**	90,681
Actuarial loss (gain)	**336,245**	(40,399)
Ending balances	**₱2,301,713**	₱1,738,734

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

	2019	2018
Beginning balance	**₱2,424,833**	₱2,027,169
Interest income included in net interest cost	**177,013**	113,927
Contributions	**7,447**	44,682
Actuarial gain excluding amount recognized in net interest cost	**75,700**	239,055
Ending balances	**₱2,684,993**	₱2,424,833

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:

	2019	2018
Cash and cash equivalents	**52.64%**	49.94%
Investment properties	**43.31%**	45.72%
Investments in equity securities	**3.88%**	4.14%
Receivables	**0.23%**	0.28%
Payables	**(0.06%)**	(0.08%)
	100.00%	100.00%

Cash and cash equivalents consist of savings deposits and short-term time deposits with maturities of less than 3 months. Investment properties pertain to condominium units which are held for lease and are stated at fair value. 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.

The Company does not expect to contribute to the retirement fund in 2020.

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

The latest actuarial valuation report is as of December 31, 2019. The principal assumptions used in determining retirement benefits cost for the Company's plan are as follows:

	2019	2018
Discount rate	**7.30%**	5.62%
Future salary increases	**5.00%**	4.00%
Mortality rate	**1994 Group Annuity Mortality**	1994 Group Annuity Mortality
Disability rate	**1952 Disability Study**	1952 Disability Study

As of December 31, 2019, 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, 2019 and 2018.

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, 2019 and 2018, assuming all other assumptions were held constant:

	Increase (decrease) in Basis Points	Increase (decrease) in defined benefit obligation	
		2019	2018
Discount rate	+0.50%	**(₱76,670)**	(₱63,574)
	-0.50%	**79,958**	66,320
Salary increase rate	+1.00%	**160,527**	136,440
	-1.00%	**(150,514)**	(127,607)

Shown below is the maturity analysis of the undiscounted expected benefit payments as of December 31:

Plan year	Number of retirees	Total benefits	
		2019	2018
More than 5 years to 10 years	1	**₱4,538,738**	₱4,558,330
More than 20 years	1	**5,515,895**	5,613,689
	2	**₱10,054,633**	₱10,172,019

The average duration of the defined benefit obligation is 18 years in 2019 and 2018.

19. **Income Taxes**

a. Provision for income tax consists of:

	2019	2018
Current	**₱913,478**	₱3,263,447
Deferred	**1,867,192**	1,175,154
	2,780,670	4,438,601
Final tax on interest income	**1,368,564**	777,727
	₱4,149,234	₱5,216,328

The Company's current provision for income tax represents the RCIT in 2019 and in 2018.

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

	2019	2018
Deferred income tax assets on accrued expenses	**₱284,687**	₱213,825
Deferred income tax liabilities on:		
Unrealized gain on real estate transactions	**4,066,363**	2,115,627
Retirement plan assets	**252,180**	264,862
	4,318,543	2,380,489

(Forward)

	2019	2018
Net deferred income tax liabilities recognized in profit or loss	**₱4,033,856**	₱2,166,664
Deferred income tax asset recognized in other comprehensive income - actuarial loss on defined benefit plan	**137,196**	59,032
Net deferred income tax liabilities	**₱3,896,660**	₱2,107,632

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

	2019	2018
Income tax at statutory tax rate	**₱4,754,463**	₱6,495,844
Additions to (reductions in) income tax resulting from:		
Interest income subjected to final tax (Note 5)	**(2,052,845)**	(1,166,591)
Nondeductible plan benefit expense	**651,401**	6,209
Trust fund income subjected to final tax (Note 7)	**(534,206)**	(516,061)
Nontaxable unrealized re-measurement gain (loss) on investment properties (Note 7)	**351,057**	(295,104)
Nontaxable decrease (increase) in pre-need reserves and reserves for trust fund deficiency	**(207,096)**	35,316
Nontaxable dividend income (Note 6)	**(182,104)**	(121,012)
Provision for income tax	**2,780,670**	4,438,601
Provision for final tax on interest income	**1,368,564**	777,727
Provision for income tax	**₱4,149,234**	₱5,216,328

20. **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 transactions and account balances with related parties consisting mainly of the following:

Nature of transaction	**Amount of Transactions**	**Outstanding balance as of December 31, 2019** Receivable	Payable*	**Terms and Condition**
Ultimate Parent (CI)				
Sharing of expenses charged by CI (b)	**₱641,714**	**₱–**	**₱641,714**	**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**
Retirement plan				
Contribution to the fund (c)	**7,447**	–	–	**Settled in cash**
		₱–	**₱791,714**	

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

Nature of transaction	Amount of Transactions	Outstanding balance as of December 31, 2018 Receivable	Payable*	Terms and Condition
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
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	

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 ₱2.68 million and ₱2.42 million as of December 31, 2019 and 2018, respectively (see Note 18). 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 18). 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 investments in CDC amounted to ₱4.84 million and ₱4.43 million as of December 31, 2019 and 2018, respectively, with original cost of ₱3.40 million and ₱3.16 million respectively. Unrealized gain on changes of fair value of these investments amounted to ₱1.45 million and ₱1.28 million as of December 31, 2019 and 2018, 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 in 2019 and 2018. The retirement plan assets as of December 31, 2019 and 2018 include fair value of investment properties held for lease amounting to ₱54.04 million and ₱48.99 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 ₱7,447 and ₱44,682 in 2019 and in 2018, respectively (see Note 18).

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 2019 and 2018.

21. **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 Equity instrument designated at FVOCI and financial assets at amortized cost, 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, 2019 and 2018 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, 2019:

	Gross maximum Exposure	**Fair value of collaterals**	**Net exposure**	**Financial effect of collaterals**
Financial assets at amortized cost:				
Cash and cash equivalents	**₱5,879,735**	**₱–**	**₱5,879,735**	**₱–**
Receivable from:				–
Clients	**2,770,446**	–	**2,770,446**	–
Plan holders	**82,081**	–	**82,081**	–
Accrued interest	**209,499**	–	**209,499**	–
Financial assets at amortized cost	**20,940,736**	–	**20,940,736**	–
Financial assets at other comprehensive income - Debt securities	**2,177,271**		**2,177,271**	
Total credit risk exposure	**₱32,059,768**	**₱–**	**₱32,059,768**	**₱–**

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	₱–

Assets not held in trust

December 31, 2019:

	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	**₱87,811,325**	**₱–**	**₱87,811,325**	**₱–**
Short-term cash investments	**46,450,000**	–	**46,450,000**	–
Installment contracts receivable	**35,536,045**	**51,987,570**	–	**35,536,045**
Refundable deposits under “Other assets”	**84,960**	–	**84,960**	–
Other receivables:				
Accrued interest	**654,309**	–	**654,309**	–
Advances to customers	**222,165**	–	**222,165**	–
Others	**3,204**	–	**3,204**	–
Total credit risk exposure	**₱170,762,008**	**₱51,987,570**	**₱135,225,963**	**₱35,536,045**

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 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

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, 2019:

	High Grade*	**Medium Grade****	**Impaired**	**Total**
Financial assets at amortized cost:				
Cash and cash equivalents	**₱5,879,735**	**₱–**	**₱–**	**₱5,879,735**
Receivables from:				
Clients	**–**	**2,770,446**	**–**	**2,770,446**
Plan holders	**–**	**82,081**	**–**	**82,081**
Accrued interest	**–**	**209,499**	**–**	**209,499**
Financial assets at amortized cost	**20,940,736**	**–**	**–**	**20,940,736**
Financial assets at other comprehensive income - Debt securities	**2,177,271**	**–**	**–**	**2,177,271**
	₱28,997,742	**₱3,062,026**	**₱–**	**₱32,059,768**

**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, 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.*

Assets not held in trust

December 31, 2019:

	High Grade*	Medium Grade**	Impaired	Total
Financial assets at amortized cost:				
Cash and cash equivalents, excluding cash on hand	**₱87,811,325**	**₱–**	**₱–**	**₱87,811,325**
Short-term cash investments	**46,450,000**	**–**	**–**	**46,450,000**
Installment contracts receivable	**35,536,045**	**–**	**–**	**35,536,045**
Refundable deposits	**84,960**	**–**	**–**	**84,960**
Other receivables:				
Accrued interest	**654,309**	**–**	**–**	**654,309**
Advances to customers	**–**	**222,165**	**–**	**222,165**
Others	**3,204**	**–**	**–**	**3,204**
	₱170,539,843	**₱222,165**	**₱–**	**₱170,762,008**

**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, 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.*

Stocks amounted to ₱11.80 million and ₱12.12 million as of December 31, 2019 and 2018, respectively. These investments are considered high-grade.

The Company has performed an 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 equivalents and short-term cash investments rounds to nil.

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

Assets held in trust

December 31, 2019:

	Current	Days Past Due: Less than 30 days	Days Past Due: 31 to 90 days	Days Past Due: Over 90 days	Total
Financial assets at amortized cost:					
Cash and cash equivalents, excluding cash on hand	**₱5,879,735**	**₱–**	**₱–**	**₱–**	**₱5,879,735**
Receivables from:					
Clients	**2,770,446**	**–**	**–**	**–**	**2,770,446**
Plan holders	**82,081**	**–**	**–**	**–**	**82,081**
Accrued interest	**209,499**	**–**	**–**	**–**	**209,499**
Financial assets at amortized cost	**20,940,736**	**–**	**–**	**–**	**20,940,736**
	₱29,882,497	**₱–**	**₱–**	**₱–**	**₱29,882,497**

December 31, 2018:

	Current	Days Past Due: Less than 30 days	Days Past Due: 31 to 90 days	Days Past Due: Over 90 days	Total
Financial assets at amortized cost:					
Cash and cash equivalents, excluding cash on hand	₱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
	₱28,150,764	₱–	₱–	₱–	₱28,150,764

Assets not held in trust

December 31, 2019:

	Not Past Due	Days Past Due: Less than 30 days	Days Past Due: 31 to 90 days	Days Past Due: Over 90 days	Total
Financial assets at amortized cost:					
Cash and cash equivalents, excluding cash on hand	**₱87,811,325**	**₱–**	**₱–**	**₱–**	**₱87,811,325**
Short-term cash investments	**46,450,000**	**–**	**–**	**–**	**46,450,000**
Installment contracts receivable	**35,516,638**	**15,027**	**–**	**4,380**	**35,536,045**
Other receivables:					
Accrued interest	**654,309**	**–**	**–**	**–**	**654,309**
Advances to customers	**195,473**	**–**	**3,207**	**23,485**	**222,165**
Others	**3,204**	**–**	**–**	**–**	**3,204**
	₱170,630,949	**₱15,027**	**₱3,207**	**₱27,865**	**₱170,677,048**

December 31, 2018:

		Days Past Due			
	Not Past Due	Less than 30 days	31 to 90 days	Over 90 days	Total
Financial assets at amortized cost:					
Cash and cash equivalents, excluding cash on hand	₱22,804,338	₱–	₱–	₱–	₱22,804,338
Short-term cash investments	87,100,000	–	–	–	87,100,000
Installment contracts receivable	23,702,718	–	–	–	23,702,718
Other receivables:					
Accrued interest	718,847	–	–	–	718,847
Advances to customers	205,003	–	30,940	–	235,943
Others	1,695	–	–	–	1,695
	₱134,532,601	₱–	₱30,940	₱–	₱134,563,541

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 financial assets at FVOCI. 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
2019	**+/-0.10**	**+/-₱1,222,856**
2018	+/-0.14	+/-₱1,747,846

<u>Liquidity Risk</u>
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 funds

December 31, 2019:

	On demand	90 days or less	91-180 Days	181-365 days	Above 1 year	Total
Financial assets						
Cash and cash equivalents	₱2,411,325	₱85,400,000	₱–	₱–	₱–	₱87,811,325
Short-term cash investments	–	–	41,350,000	5,100,000	–	46,450,000
Installment contracts receivable	344,526	598,508	924,619	1,934,285	31,734,107	35,536,045
Other receivables	26,692	852,987	–	–	–	879,679
Refundable deposits	–	–	–	–	84,960	84,960
Equity instruments designated at fair value through other comprehensive income	–	–	–	–	11,803,332	11,803,332
	2,782,543	86,851,495	42,274,619	7,034,285	43,622,399	182,565,341
Financial liabilities						
Accounts payable and accrued expenses*	7,877,635	32	47	95	2,465,027	10,342,836
	(₱5,095,092)	₱86,851,463	₱42,274,572	₱7,034,190	₱41,157,372	₱172,222,505

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	₱4,103,316	₱–	₱–	₱–	₱–	4,103,316
Trade payables	1,121,591	32	47	95	–	1,121,765
Accrued rental and deposits	1,075,722	–	–	–	2,078,820	3,154,542
Accrued expenses	797,889	–	–	–	236,207	1,034,096
Due to affiliates (Note 20)	641,714	–	–	–	150,000	791,714
Others	137,403	–	–	–	–	137,403
Total	₱7,877,635	₱32	₱47	₱95	₱2,465,027	₱10,342,836

**Excludes statutory liabilities amounting to ₱159,558.*

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 20)	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.*

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, 2019:

	Carrying amount	Fair value Level 1	Level 2	Level 3
Assets Held in Trust				
Assets measured at fair value				
Financial assets at FVOCI				
Debt securities	**₱2,177,271**	**₱2,177,271**	**₱–**	**₱–**
Equity securities - listed	**716,126**	**716,126**	**–**	**–**
Investment properties	**5,587,680**	**–**	**–**	**5,587,680**
Assets Not Held in Trust				
Assets measured at fair value				
Financial assets at FVOCI				
Equity securities - listed	**11,803,332**	**11,803,332**	**–**	**–**
Assets for which fair value is disclosed				
Investment properties	**111,203,817**	**–**	**–**	**254,266,906**

As of December 31, 2018:

	Carrying amount	Fair value Level 1	Level 2	Level 3
Assets Held in Trust				
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
Assets Not Held in Trust				
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

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 FVOCI
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, 2019 and 2018 represent the highest and best use of the said properties which is the same with its current use.

22. **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, 2019 and 2018, 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, 2019 and 2018, the Company's capital is as follows:

	2019	2018
Total equity	**₱296,221,619**	₱284,841,960
Less (add):		
Reserve for fluctuation in value of financial assets at FVOCI (Note 6)	**7,596,627**	7,908,635

(Forward)

	2019	2018
Reserve for fluctuation in value of financial assets at FVOCI held in trust funds (Note 7)	**₱305,329**	₱130,255
Accumulated re-measurement loss on defined benefit plans (Note 18)	**(320,124)**	(137,742)
	7,581,832	7,901,148
Capital	**₱288,639,787**	₱276,940,812

As of December 31, 2019, 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.

On May 27, 2020, the Board approved the declaration of the 15% stock dividends to stockholders as of record date. The said stock dividends shall be presented to the stockholders during the special stockholders' meeting on June 16, 2020.

As of December 31 2019 and 2018, the Company has a restriction of retained earnings amounted to ₱1,384,782 and ₱2,554,972, respectively, for the appraisal increase of its investment properties under investments in trust funds.

23. Segment Reporting

The Company derives its revenue from sales of real estate and its investments in trust funds. The Company does not have any major customers and all sales of real estate properties are made to external customers.

Segment Revenue and Expenses

	2019		
	Sales/Lease of Real Estate Properties	**Pension Plan Operations**	**Total**
Income:			
Sales of real estate	**₱28,103,838**	**₱–**	**₱28,103,838**
Rental income	**13,109,185**	**–**	**13,109,185**
Interest income	**9,532,712**	**49,430**	**9,582,142**
Trust fund income	**–**	**1,780,687**	**1,780,687**
Other income	**181,049**	**777,398**	**958,447**
Expenses:			
Cost of real estate sales	**15,991,823**	**–**	**15,991,823**
Cost of contracts issued - net	**–**	**5,344,348**	**5,344,348**
General and administrative expenses	**7,238,545**	**7,941,184**	**15,179,729**
Unrealized re-measurement loss on investment properties	**–**	**1,170,190**	**1,170,190**
Provision for income tax	**7,639,473**	**(3,490,239)**	**4,149,234**
Net income (loss)	**₱20,056,943**	**(₱8,357,968)**	**₱11,698,975**

	2018		
	Sales/Lease of Real Estate Properties	Pension Plan Operations	Total
Income:			
Sales of real estate	₱37,636,256	₱–	₱37,636,256
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 (benefit from) income tax	8,707,313	(3,490,985)	5,216,328
Net income (loss)	₱21,589,512	(₱5,153,027)	₱16,436,485

Segment Assets and Liabilities

December 31, 2019:

	Sales/Lease of Real Estate Properties	**Pension Plan Operations**	**Total**
Total assets	**₱220,860,896**	**₱130,310,031**	**₱351,170,927**
Total liabilities	**13,415,666**	**41,533,642**	**54,949,308**

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

24. Events After Reporting Period

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020.

On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine (ECQ) throughout the island of Luzon until April 12, 2020, which was subsequently extended to May 15, 2020. After which, modified ECQ was implemented in Metro Manila until May 31, 2020.

On May 29, 2020, the President of the Philippines declared that Metro Manila will be under general community quarantine beginning June 1 until June 15, 2020.

These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. Due to the COVID-19 pandemic, the Company expects a lower collection from its rental operations brought about by the payment extension granted by the government to residential leases. As to the Company's installment contracts receivable, there might be a slower collection of the monthly amortizations also as per the moratorium granted to those buyers of residential units.

The Company considers the measure taken by the government as a non-adjusting subsequent event, which does not impact its financial position and performance as of and for the year ended December 31, 2019. However, it could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Company cannot determine at this time the impact to its financial position, performance and cash flows. The Company will continue to monitor the situation.

25. Supplementary Information under Revenue Regulations (RR) No. 15-2010

In compliance with the requirements set forth by RR No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year:

a. The Company is a VAT-registered company with VAT output tax declaration of ₱1,420,160 for the year based on the amount reflected in the sales account of ₱11,834,669.

   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.

   The Company has no zero-rated sales/exempt sale transactions pursuant to Section 109 of the 1997 Tax Code, as amended.

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	165,444
Input VAT from exempt sale	(25,676)
Total available input VAT during the period	139,768
Less claims for tax credit/refund and other adjustments	139,768
Balance at end of the year	₱–

c. The Company does not have any importations in 2019.

d. Details of taxes and licenses are shown below:

Business permit and registration	₱697,676
Real estate taxes	567,228
Other taxes	2,424
	₱1,267,328

e. Withholding taxes

The following are the categories of the Company's withholding taxes in 2019:

Compensation and benefits	₱252,638
Final expanded taxes	112,095
	₱364,733

The outstanding balance of withholding taxes amounted to ₱69,553 as of December 31, 2019.

f. Tax contingencies:

i. The Company has no final deficiency tax assessments as of December 31, 2019.
ii. The Company has no tax cases, litigation, and/or prosecution in courts or bodies outside the BIR.

SGV
Building a better working world

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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
ON THE SUPPLEMENTARY SCHEDULE OF
RETAINED EARNINGS AVAILABLE
FOR DIVIDEND DECLARATION**

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, 2019 and 2018 and for the years then ended, on which we have rendered the attached report dated June 10, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Supplementary Schedule of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management. This schedule is presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and is not part of the basic financial statements. This has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-AR-4 (Group A),
October 22, 2019, valid until October 21, 2022
Tax Identification No. 102-082-670
BIR Accreditation No. 08-001998-63-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 8125214, January 7, 2020, Makati City

June 10, 2020

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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, 2019 and 2018 and for the years then ended, on which we have rendered the attached report dated June 10, 2020.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the above Company has nine (9) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-AR-4 (Group A),
October 22, 2019, valid until October 21, 2022
Tax Identification No. 102-082-670
BIR Accreditation No. 08-001998-63-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 8125214, January 7, 2020, Makati City

June 10, 2020

CITYPLANS, INCORPORATED

SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION DECEMBER 31, 2019

Retained earnings, beginning	₱136,885,840
Add: Net income during the year closed to retained earnings	11,698,975
Unrealized re-measurement gain on investment properties	1,170,190
	12,869,165
Retained earnings available for dividend declaration, end	₱149,755,005