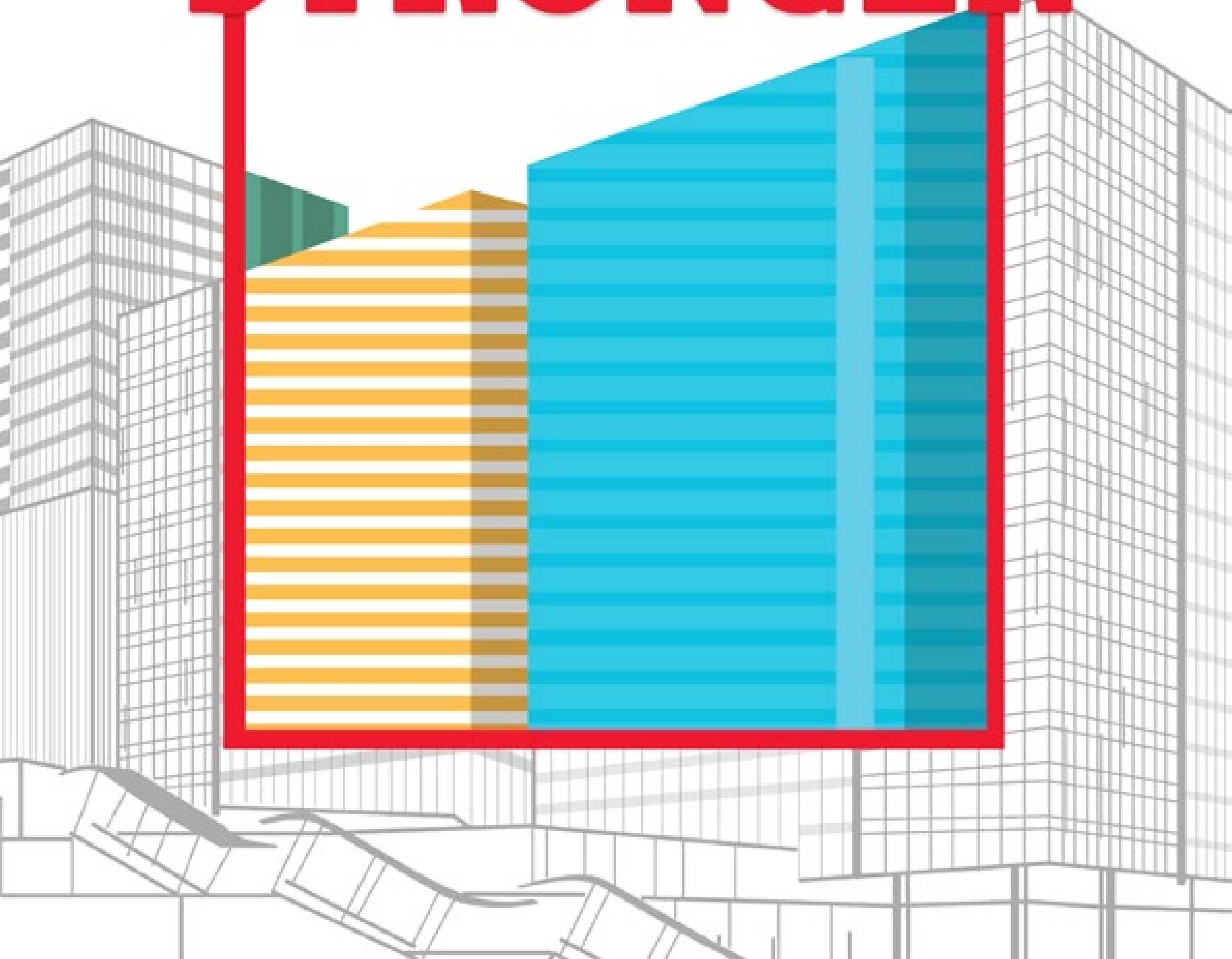
PRU LIFE U.K.

2017 Annual Report

BIGGER BOLDER STRONGER



2017 Annual Report

Bigger. Bolder. Stronger.

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Pru Life UK's domestic footprint

The Company has a comprehensive network of branches covering major cities across the Philippines.

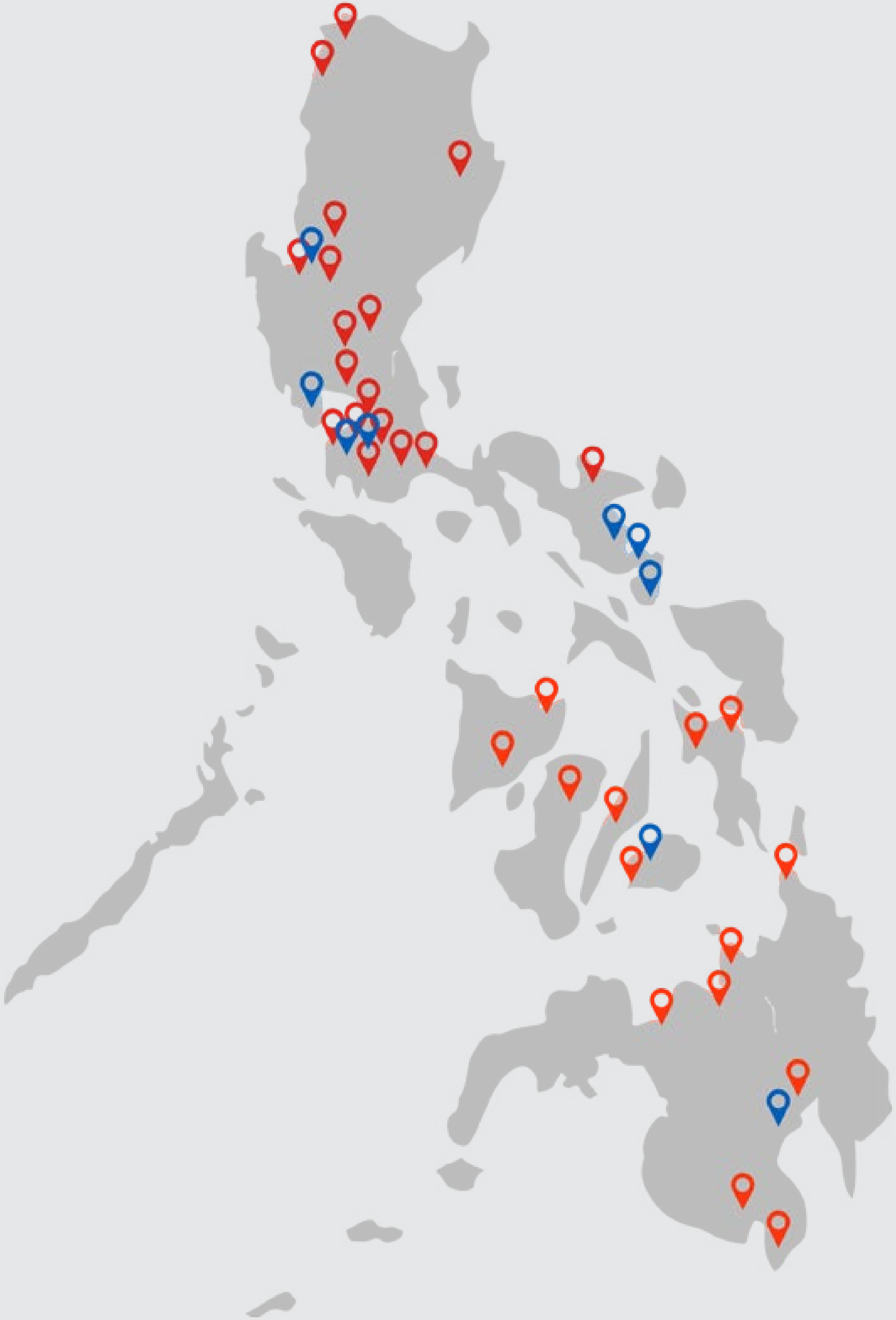
85

BRANCHES

46

GENERAL AGENCIES

as of March 2018



Message from the Chairman

For 170 years, our parent company Prudential plc has been known to be a brand not only of resilience but also of growth and progress.

This is why for 2017, Pru Life UK has taken on the challenge to be bigger, bolder, and stronger. While the Philippines posted a 6.7% gross domestic product[1] growth for the year—positioning the country to be one of the fastest-growing economies in Asia—industries are still faced with economic and political uncertainties, infrastructure risks, and threats on cybersecurity, among many others.

Despite these challenges, the Company is very confident in meeting its objectives. Pru Life UK has a robust corporate structure and governance in place—backed by the guidance of Prudential plc and experienced professionals in the Board—to steer the Company to success. We also have an effective risk governance ready to ensure that we are able to withstand the impact of and rise above any adversity.

In fact, the Company has received a citation from the Insurance Commission for topping the local insurance companies in the ASEAN Corporate Governance Scorecard (ACGS)—an industry evaluation benchmarked against international best practices in corporate governance. Among the 126 companies assessed, we were the only company to have achieved more than 100 points out of the maximum score of 124. Companies are evaluated in the ACGS based on the five core principles of corporate governance designed by the Organization for Economic Cooperation and Development, including the Rights of Shareholders, Equitable Treatment of Shareholders, Role of Stakeholders in Corporate Governance, Disclosure and Transparency, and Responsibilities of the Board. We also received significant bonus points for having an all-Independent Nomination Committee in place, and were also lauded for appointing a professional search firm for recruiting candidates to join the Board.

Sources:

[1]http://www.psa.gov.ph/nap-press-release

Such is the brand of corporate governance that Pru Life UK and our parent company Prudential plc uphold. Corporate governance is the corner stone of our sustainable development and this reverberates in everything we do, from boardroom discussions and decisions and the sales strategies our 22,612-strong agents execute, to the everyday operations of our more than 700 head office employees and the service we provide our customers in all our 131 branches nationwide.

This even resonates in the community work we do to propagate financial literacy among Filipinos with our flagship corporate social responsibility program Cha-Ching Financial Literacy for the Youth. Through this, we have already reached more than 157,000 students, trained more than 2,400 teachers, and rolled out in more than 800 partner educational institutions.

True enough, with such sound corporate governance framework in place, we were able to achieve brilliant results once again for 2017, carrying out our promise to our stakeholders, both internal and external. We posted an 11% Annual Premium Equivalent growth rate and extended our customer reach by 25%. Our weighted total premiums also increased by 21%.

On behalf of the Board, I would like to express my most heartfelt gratitude for the continued trust and confidence of our stakeholders—our esteemed policyholders, experienced executives and officers, hardworking staff, and dedicated agency force. It is this trust that fuels Pru Life UK's commitment to continuously provide the highest standard of management, pursue excellence, and deliver better results year after year.

Mabuhay!

Henry Joseph M. Herrera
Chairman

Message from the CEO

Pru Life UK helps to eliminate uncertainty from the most significant financial moments in the lives of our customers – from starting out on their own to building a family, from saving up for a child's education to planning for retirement. We provide Filipinos with peace of mind against the unexpected, at the same time slowly closing in on the protection gap. While there has been much progress on insuring the lives of many Filipinos over the last few years, our work is far from over.

So in 2017, we pledged to become **bigger, bolder, and stronger** than ever in various aspects of the business – an ambitious endeavor that was made challenging by a number of external forces like the volatile global economy and heightened competition within the industry. Nonetheless, Pru Life UK was successful in delivering outstanding results and reinforcing its position as one of the country's leading life insurers. Last year's brilliant performance demonstrates our winning strategy, which focuses on long-term growth, consistent innovation, dedication to give value to our customers, and an inclusive approach to protection.

A decade ago, Pru Life UK was considered small scale compared to its competitors. Twenty-two years since we first opened for business, **we've grown considerably bigger** and compete with the best,posting an Annual Premium Equivalent growth rate of 11% and customer growth rate of 25% last year. Weighted Total Premiums increased by 21%, outperforming market growth of 17%. We've likewise expanded our manpower – employing nearly 700 employees nationwide and continue to have the biggest agency force in the country with over 22,000 men and women from the PRU.

In 2017, **Pru Life UK took bolder strides** in the Philippine market when we laid claim to the term "insuravest" – a portmanteau of two concepts we advocate: "insurance" and "investment". With its new vibe and fresh take on finance, the Insuravest campaign effectively carved Pru Life UK's identity in this modern market. We also established our distinct brand of corporate governance with our recent award from the Insurance Commission for ranking first in the 2017 ASEAN Corporate Governance Scorecard, a general scorecard that allows companies to appraise and measure their corporate governance practices against international standards.

To strengthen our product portfolio even more, we introduced two new offerings in 2017 to address the ever-changing needs of the Filipino: the PRUlink elite protector series – an expanded version of the investment-linked product PRUlink elite protector 5 – and the PRUlink Asian balanced fund – a US dollar fund that invests in both bonds and equities of developed and emerging markets in Asia Pacific.
All of these milestones have brought forth success that is rooted on the hard work and perseverance of our agents, the steadfast support and creativity of our employees, under the highly effective leadership of the Board and senior management.

On behalf of the Executive Committee, I would like to thank everyone in PRU for your continued support and contribution in our mission to secure the future of Filipino families. We look forward to continuing our partnerships with each and every one of you in the next few years.

With foundations built for further pursuit of growth, we are confident that Pru Life UK will be able to weather what lies ahead. We remain committed to making lives better for more Filipinos by developing leaders that will uphold our reputation of integrity, forward-thinking, social responsibility, and sound corporate governance. We hope that our customers will continue to trust us with their dreams, as we embark to accelerate the business to achieve exponential growth this 2018. Here's to another exciting year full of surprises.

Cheers,

Antonio G. De Rosas
President and Chief Executive Officer

Corporate objectives, mission, vision, and guiding principles

Corporate objectives

Distribution

- To increase the number of productive agents:
  - 19% by year 2017,
  - 16% by year 2018,
  - 16% by year 2019,
  - 16% by year 2020, and
  - 16% by year 2021.

- To pursue geographic expansion nationwide by increasing the number of sales offices:
  - 27% by the end of 2017,
  - 20% by year 2018,
  - 20% by year 2019,
  - 20% by year 2020, and
  - 15% by year 2021.

Operations

- To process 90% of new business through the Automated Underwriting System by the end of 2017.

Products

- To launch at least 1 product offering by second Quarter of 2018 that will promote health, protection, and wellness.

People

- To develop talents by 100% implementation of individual development plans, 100% participation of talents in training programs, cross functional or geographical move or assignment of expanded responsibilities for:
  - 10% of talents in 2018,
  - 12% in 2018, and
  - 15% in 2020.

- To build an engaged workforce by formulating and implementing 100% of high priority and impact action plans to address engagement issues in 2018, achieving 80% employee participation in wellness programs for 2018 to 2020, and conduct another engagement survey in 2019.

- To develop and implement strategic workforce plan, including formulating and implementing action plans/solutions for different departments from 2018 to 2020.

Mission and vision

We take the risk out of people's lives.

We are the trusted leaders who listen and respond to the financial needs of the Filipino people.

We are committed to:

- dealing honestly and fairly with our public;
- exceeding customer expectation in services and products;
- caring for the well-being and development of our people;
- giving a fair return to our stakeholders; and
- contributing to the development of the Filipino community.

Our guiding principles

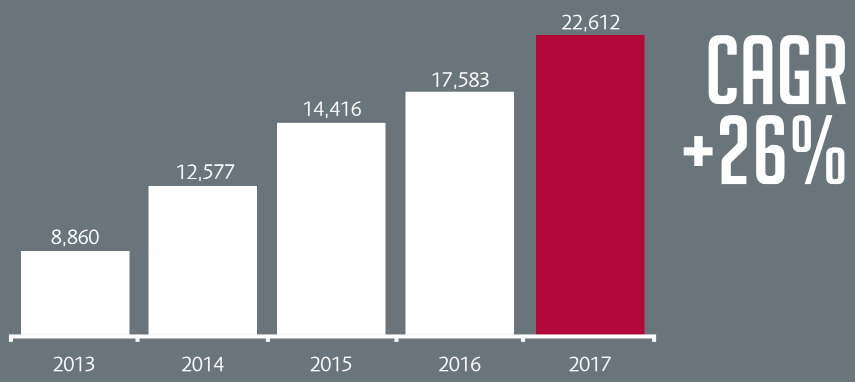
- We maintain and develop the Company's reputation for integrity, fair dealing and security.
- We work as a team, as a family, unified in purpose, treating each other with respect and care in an atmosphere of mutual trust and in a happy working environment.
- We promote the art of listening as it is only in listening to the needs of our customers that we can know and understand their specific needs.
- We communicate openly and constantly with our customers and our own people.
- We develop ourselves continually to our fullest potential to keep improving the quality of everything we do.
- We maintain a strong financial position to meet our promise of financial stability to all our customers.
- We are accurate and timely.
- We have a strong sense of responsibility and will work toward the achievement of the Philippines' economic goal.

Management's discussion and analysis

(Financial and non-financial indicators)

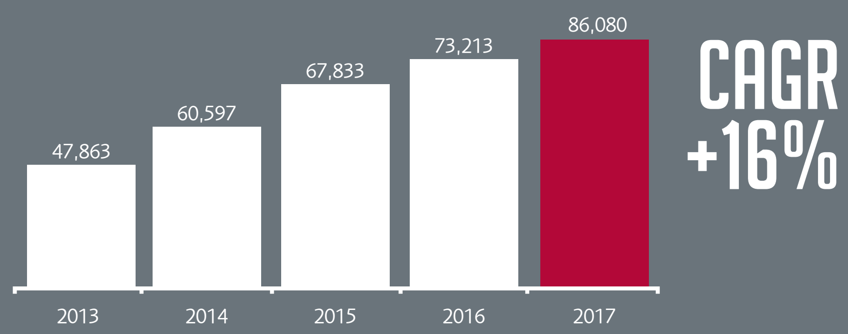
Pru Life UK scored solid gains yet again and sustained its growth momentum in 2017. The Company fortified its strategic franchise in protection products, generating sales of PhP 5 billion, which translated into an increase of 11.3% over the previous year.

NUMBER OF AGENTS



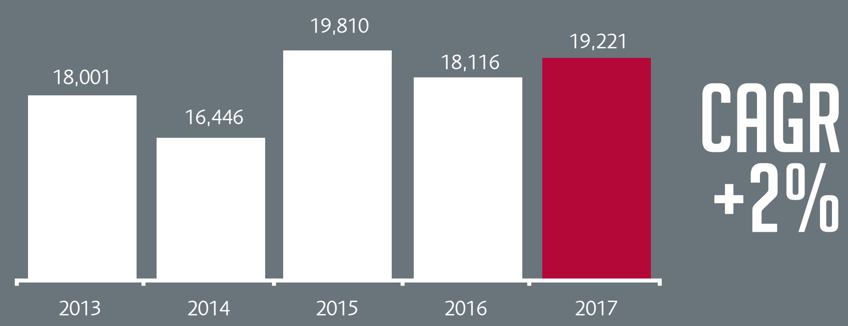
Remarkably, the Agency Force expanded by 29% in 2017 largely through targeted recruitment of high-potential candidates. Agent recruits went through a comprehensive training curriculum to enhance product knowledge, nurture Company core values, and develop competitive selling skills along with a deeper understanding of industry dynamics. By end 2017, the Agency Force numbered 22,612 agents, the biggest in the industry.

LINKED FUNDS in PhP'm



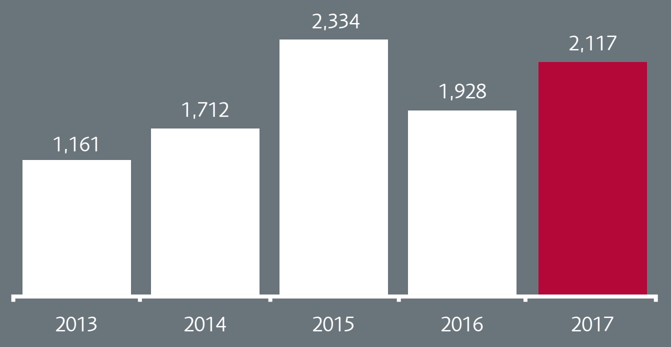
Unit-linked funds registered a respectable 18% growth over the prior year. Incidentally, the strong performance in the Philippine stocks (up 25% in 2017) augured well for investment income and fund valuations. Robust growth was achieved notwithstanding significant fund withdrawals during the period just as clients locked in profits amid exorbitant stock prices.

TOTAL NET PREMIUM INCOME in PhP'm



Growth in total premium income in 2017 was a modest 6% versus prior year. In passing, the heightened focus on protection products produced a 15% growth in first year premium income and 27% increase in renewal premiums.

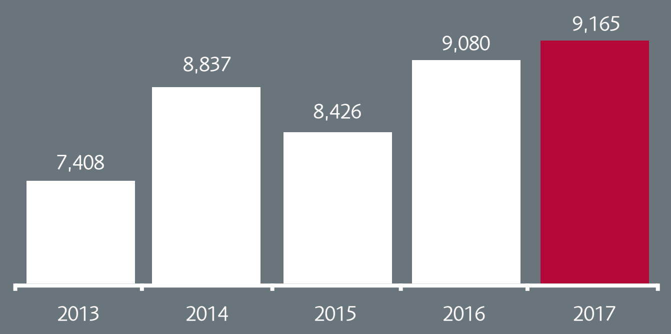
NET INCOME EXCLUDING UNREALIZED GAINS/LOSSES in PhP'm



CAGR +16%

Net income is reported inclusive of unrealized gains/losses based on market valuation through Fair Value through Profit and Loss. Excluding unrealized gains/losses, net income in 2017 grew 10% year-on-year mainly due to high retention of renewal business and an increase in policy administration fees from linked funds.

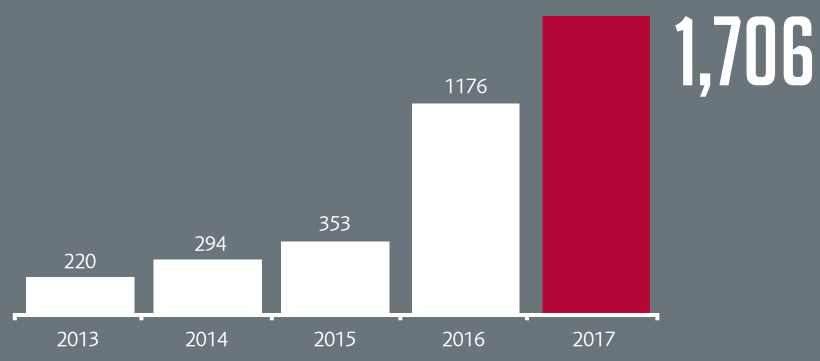
EQUITY in PhP'm



CAGR +5%

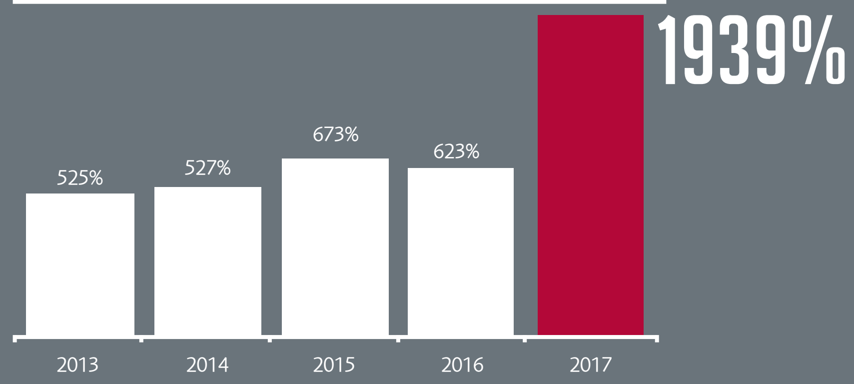
The Company's equity position was virtually flat in 2017. Growth was curtailed by higher gross cash remittances of PhP 1,706 million compared to only PhP 1,176 million in 2016.

GROSS CASH REMITTANCE in PhP'm



Notably, the Company's gross cash remittance of PhP 1,706 million in 2017 was higher by 45% than the previous year's figure. To date, total cash remittances to its principal shareholder Prudential Corporation Holdings Limited (PCHL) have reached PhP 3,500 million (net of taxes).

RBC RATIO



Under current Insurance Commission regulations, insurance companies must comply with prescribed minimum capital requirements and Risk-Based Capital (RBC) ratios to mitigate the risk of insolvency and default. Effective January 1, 2017, RBC will be calculated based on the new framework.

The Company has consistently exceeded the minimum RBC ratio requirement of 100% over the recent years by a substantial margin. The significant increase in RBC ratio in 2017 was attributed to the change in framework by the Insurance Commission.

Financial statements

PRU LIFE INSURANCE CORPORATION OF U.K.
(A wholly-owned subsidiary of Prudential Corporation Holdings Limited)

FINANCIAL STATEMENTS
December 31, 2017 and 2016

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Pru Life Insurance Corporation of U.K.
9/F Uptown Place Tower 1
1 East 11th Drive, Uptown Bonifacio
Taguig City 1634, Metro Manila
Philippines

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Pru Life Insurance Corporation of U.K. (the Company), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for opinion

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

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

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

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

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 30 to the basic financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

Tireso Randy F. Lapidez

TIRESO RANDY F. LAPIDEZ
Partner
CPA License No. 0092183
IC Accreditation No. SP-2017/016-R, Group A, valid until August 26, 2020
SEC Accreditation No. 1472-A, Group A, valid until April 30, 2018
Tax Identification No. 162-411-175
BIR Accreditation No. 08-001987-34-2017
Issued September 4, 2017; valid until September 3, 2020
PTR No. 6615138MD
Issued January 3, 2018 at Makati City

March 22, 2018
Makati City, Metro Manila

Report of independent auditors to accompany financial statements for filing with the Bureau of Internal Revenue

The Board of Directors and Stockholders
Pru Life Insurance Corporation of U.K.
9/F Uptown Place Tower 1
1 East 11th Drive, Uptown Bonifacio
Taguig City 1634, Metro Manila
Philippines

We have audited the accompanying financial statements of Pru Life Insurance Corporation of U.K. (the Company), as at and for the year ended December 31, 2017, on which we have rendered our report dated March 22, 2018.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholder of the Company.

R.G. MANABAT & CO.

Tireso Randy F. Lapidez

TIRESO RANDY F. LAPIDEZ
Partner
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IC Accreditation No. SP-2017/016-R, Group A, valid until August 26, 2020
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March 22, 2018
Makati City, Metro Manila

Report of independent auditors to accompany financial statements for filing with the Securities and Exchange Commission

The Board of Directors and Stockholders
Pru Life Insurance Corporation of U.K.
9/F Uptown Place Tower 1
1 East 11th Drive, Uptown Bonifacio
Taguig City 1634, Metro Manila
Philippines

We have audited the accompanying financial statements of Pru Life Insurance Corporation of U.K. (the Company), as at and for the year ended December 31, 2017, on which we have rendered our report dated March 22, 2018.

In compliance with Securities Regulation Code Rule 68, As Amended, we are stating that the said Company has one (1) stockholder owning one hundred (100) or more shares.

R.G. MANABAT & CO.

Tireso Randy F. Lapidez

TIRESO RANDY F. LAPIDEZ
Partner
CPA License No. 0092183
IC Accreditation No. SP-2017/016-R, Group A, valid until August 26, 2020
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Issued January 3, 2018 at Makati City

March 22, 2018
Makati City, Metro Manila

Report of independent auditors on supplementary information

The Board of Directors and Stockholders
Pru Life Insurance Corporation of U.K.
9/F Uptown Place Tower 1
1 East 11th Drive, Uptown Bonifacio
Taguig City 1634, Metro Manila
Philippines

We have audited the accompanying financial statements of Pru Life Insurance Corporation of U.K. (the Company), as at and for the year ended December 31, 2017, on which we have rendered our report dated March 22, 2018.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Company taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Company's management.

- Reconciliation of Retained Earnings Available for Dividend Declaration; and
- Schedule of Philippine Financial Reporting Standards

The supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

TIRESO RANDY F. LAPIDEZ
Partner
CPA License No. 0092183
IC Accreditation No. SP-2017/016-R, Group A, valid until August 26, 2020
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March 22, 2018
Makati City, Metro Manila

PRU LIFE INSURANCE CORPORATION OF U.K.

(A wholly-owned subsidiary of Prudential Corporation Holdings Limited)

STATEMENTS OF FINANCIAL POSITION

(Amounts in thousands)

	Note	December 31, 2017	2016 December 31 (As restated - see Note 29)	2016 January 1 (As restated - see Note 29)
ASSETS				
Cash and cash equivalents	*7*	**P1,971,024**	P2,220,198	P2,605,114
Interest receivable	5	**118,801**	128,266	125,751
Investments	*8*	**9,737,274**	9,916,652	9,616,867
Premiums due from policyholders	5	**14,759**	29,593	31,915
Policy loans receivables - net	*5,9*	**384,026**	452,955	457,571
Coverage debt receivables - net	*11*	**318,612**	218,145	217,047
Reinsurance assets	5	**40,000**	11,349	32,288
Property and equipment - net	*12*	**552,163**	607,057	487,121
Deferred acquisition costs	*5, 13*	**6,498,363**	5,593,810	4,859,892
Other assets - net	*14*	**829,835**	745,050	392,594
Total General Assets		**20,464,857**	19,923,075	18,826,160
Assets Held to Cover Linked Liabilities	*10*	**86,080,089**	73,213,153	67,832,693
		P106,544,946	P93,136,228	P86,658,853
LIABILITIES AND EQUITY				
General liabilities				
Legal policy reserves	*15*	**P5,952,236**	P6,188,988	P6,157,767
Claims payable	*5, 16*	**448,520**	319,453	286,485
Reinsurance payable	*5, 17*	**84,386**	77,553	93,356
Deferred tax liability-net	*24*	**1,592,561**	1,131,153	829,807
Accounts payable, accrued expenses and other liabilities	*18*	**3,222,498**	3,126,315	3,032,413
Total General Liabilities		**11,300,201**	10,843,462	10,399,828
Technical Provisions for Linked Liabilities	5, 10	**86,080,089**	73,213,153	67,832,693
Total Liabilities		**97,380,290**	84,056,615	78,232,521
Equity				
Capital stock	*27*	**500,000**	500,000	500,000
Additional paid-in capital	*27*	**462,000**	462,000	462,000
Total paid-up capital		**962,000**	962,000	962,000
Contributed surplus		**50,386**	50,386	50,386
Fair value reserve	*8*	**101**	(4,259)	(4,790)
Retirement fund reserve		**27,381**	(9,265)	(13,490)
Remeasurement on life insurance reserve		**(939,449)**	(1,060,756)	(1,106,264)
Retained earnings	15, 27, 29	**9,064,237**	9,141,507	8,538,490
Total Equity		**9,164,656**	9,079,613	8,426,332
Total General Liabilities and Equity		**20,464,857**	19,923,075	18,826,160
		P106,544,946	P93,136,228	P86,658,853

See Notes to the Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.

(A wholly-owned subsidiary of Prudential Corporation Holdings Limited)

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Amounts in thousands)

	Note	2017	2016 (As restated - see Note 29)
		Years Ended December 31	
NET PREMIUMS			
Premiums	*19*	**P19,606,756**	P18,554,100
Premiums ceded to reinsurers	*17, 19*	**(385,550)**	(437,732)
		19,221,206	18,116,368
OTHER REVENUE			
Policy administration fees	*20*	**1,661,734**	1,478,021
Investment income (loss) - net	*21*	**(343,808)**	20,699
Others - net		**75,469**	73,654
		1,393,395	1,572,374
BENEFITS AND CLAIMS			
Costs on premiums of variable insurance	*10*	**5,029,506**	6,758,932
Gross benefits and claims	*22*	**8,144,789**	5,831,728
Reinsurer's share of gross benefits and claims	*22*	**(47,814)**	(16,972)
Gross change in legal policy reserves	*22*	**(115,445)**	76,729
		13,011,036	12,650,417
OPERATING EXPENSES			
Commissions, bonuses and other agents' expenses		**3,127,244**	2,876,193
Salaries, allowances and employees' benefits		**1,015,685**	991,848
Trainings, seminars and contests		**732,233**	429,393
Utilities		**289,372**	227,183
Rent	*26*	**253,045**	247,904
Depreciation and amortization	*12*	**193,597**	142,211
Dividends to policyholders		**116,354**	108,328
Advertising and marketing		**105,972**	127,736
Communications		**87,946**	78,375
Office supplies		**84,423**	84,621
Insurance taxes, licenses and fees		**81,341**	47,134
Taxes and licenses		**73,540**	78,979
Security and janitorial services		**60,913**	49,241
Representation and entertainment		**53,931**	41,949
Interest expense related to policies		**43,129**	51,316
Professional fees		**40,390**	43,194
Amortization of software development costs	*14*	**36,422**	26,965
Others		**19,983**	36,706
Deferred expenses - net	*13*	**(904,553)**	(733,918)
		5,510,967	4,955,358

Forward

	Note	2017	2016 (As restated - see Note 29)
		Years Ended December 31	
INCOME BEFORE INCOME TAX EXPENSE		**P2,092,598**	P2,082,967
INCOME TAX EXPENSE	*24*	**463,985**	303,480
NET INCOME		**1,628,613**	1,779,487
OTHER COMPREHENSIVE INCOME			
Item that may be reclassified to profit or loss			
Net gain on fair value changes of available-for-sale financial assets	*8*	**4,360**	531
Items that will not be reclassified to profit or loss			
Remeasurement on life insurance reserve		**121,307**	45,508
Gain on remeasurement of retirement liability	*23*	**52,351**	6,036
Income tax effect	*24*	**(15,705)**	(1,811)
		162,313	50,264
TOTAL COMPREHENSIVE INCOME		**P1,790,926**	P1,829,751

See Notes to the Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.

(A wholly-owned subsidiary of Prudential Corporation Holdings Limited)

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(Amounts in thousands)

	Note	Capital Stock (Note 27)	Additional Paid-in Capital (Note 27)	Contributed Surplus	Fair Value Reserve (Note 8)	Retirement Fund Reserve	Remeasurement on Life Insurance Reserve (Note 29)	Retained Earnings: Appropriated (Note 15)	Retained Earnings: Unappropriated (Note 27)	Total	Total Equity
Restated balance at January 1, 2017		**P500,000**	**P462,000**	**P50,386**	**P -**	**P -**	**(P1,060,756)**	**P26,051**	**P9,115,456**	**P9,141,507**	**P9,079,613**
Total comprehensive income											
Net income		-	-	-	-	-	-	-	**1,628,613**	**1,628,613**	**1,628,613**
Other comprehensive income:											
Item that may be reclassified to profit or loss	8	-	-	-	**4,360**	-	-	-	-	-	**4,360**
Items that will not be reclassified to profit or loss		-	-	-	-	**36,646**	**121,307**	-	**-**	-	**157,953**
Total comprehensive income		-	-	-	**4,360**	**36,646**	**121,307**	-	**1,628,613**	**1,628,613**	**1,790,926**
Transaction with owner of the Company											
Dividends	27	-	-	-	-	-	-	-	**(1,705,883)**	**(1,705,883)**	**(1,705,883)**
Appropriation of reserves		-	-	-	-	-	-	**12,520**	**(12,520)**	-	-
Balance at December 31, 2017		**P500,000**	**P462,000**	**P50,386**	**P101**	**P27,381**	**(P939,449)**	**P38,571**	**P9,025,666**	**P9,064,237**	**P9,164,656**
Balance at January 1, 2016, as previously reported		P500,000	P462,000	P50,386	(P4,790)	(P9,443)	P -	P -	P8,950,166	P8,950,166	P9,948,319
Impact of restatement	29	-	-	-	-	(4,047)	(1,106,264)	25,159	(436,835)	(411,676)	(1,521,987)
Restated Balance at January 1, 2016		500,000	462,000	50,386	(4,790)	(13,490)	(1,106,264)	25,159	8,513,331	8,538,490	8,426,332
Total comprehensive income (restated)											
Net income		-	-	-	-	-	-	-	1,779,487	1,779,487	1,779,487
Other comprehensive income:											
Item that may be reclassified to profit or loss	8	-	-	-	531	-	-	-	-	-	531
Items that will not be reclassified to profit or loss		-	-	-	-	4,225	45,508	-	-	-	49,733
Total comprehensive income (restated)		-	-		531	4,225	45,508	-	1,779,487	1,779,487	1,829,751
Transaction with owner of the Company											
Dividends	27	-	-	-	-	-	-	-	(1,176,470)	(1,176,470)	(1,176,470)
Appropriation of reserves		-	-	-	-	--	-	892	(892)	-	-
Restated balance at December 31, 2016		P500,000	P462,000	P50,386	(P4,259)	(P9,265)	(P1,060,756)	P26,051	P9,115,456	P9,141,507	P9,079,613

See Notes to the Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.

(A wholly-owned subsidiary of Prudential Corporation Holdings Limited)

STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	Note	Years Ended December 31: 2017	2016 (As restated - see Note 29)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax expense		**P2,092,598**	P 2,082,967
Adjustments for:			
Unrealized loss on valuation of investments	*8, 21*	**484,639**	165,556
Amortization of deferred acquisition costs	*13*	**757,780**	644,508
Depreciation and amortization	*12*	**193,597**	142,211
Interest expense related to policies		**43,129**	51,316
Amortization of software development costs	*14*	**36,422**	26,965
Provision for impairment losses	*9, 11, 14*	**17,562**	17,625
Reversal of provision for impairment losses	*9, 14*	**(3,376)**	(323)
Loss (gain) on disposal of property and equipment		**(1,605)**	4,128
Foreign exchange loss (gain)		**3,690**	(32,372)
Interest income	*21*	**(535,876)**	(536,966)
Gain on disposal of investments	*8, 21*	**(1,883)**	(763)
		3,086,677	2,564,852
Changes in:			
Accounts payable, accrued expenses and other liabilities		**197,066**	140,761
Claims payable		**129,067**	32,968
Policy loans receivables		**69,584**	1,038
Premiums due from policyholders		**14,834**	2,322
Reinsurance payable		**6,833**	(15,803)
Reinsurance assets		**(28,651)**	20,939
Other assets		**(61,720)**	(269,413)
Coverage debt receivables		**(113,831)**	(13,969)
Legal policy reserves	*22*	**(115,445)**	76,729
Deferred acquisition costs		**(1,662,333)**	(1,378,426)
		1,522,081	1,161,998
Interest paid		**(42,253)**	(50,439)
Contributions to retirement fund	*23*	**(65,113)**	(43,509)
Income tax paid		**(9,445)**	(18,228)
Net cash provided by operating activities		**1,405,270**	1,049,822

Forward

			Years Ended December 31
	Note	2017	2016 (As restated - see Note 29)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of investments	8	**(P1,716,236)**	(P966,505)
Proceeds from disposal of investments	8	**1,413,295**	519,215
Interest received		**545,341**	534,451
Acquisitions of property and equipment	12	**(147,341)**	(297,844)
Proceeds from disposal of property and equipment		**10,243**	31,569
Acquisitions of software costs	14	**(54,096)**	(94,769)
Net cash provided by (used in) investing activities		**51,206**	(273,883)
CASH FLOWS FROM A FINANCING ACTIVITY			
Dividends paid	27	**(1,705,883)**	(1,176,470)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(249,407)**	(400,531)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7	**2,220,198**	2,605,114
EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS		**233**	15,615
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	**P1,971,024**	P2,220,198

See Notes to the Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.
(A wholly-owned subsidiary of Prudential Corporation Holdings Limited)

NOTES TO THE FINANCIAL STATEMENTS
(Amounts in thousands, except as indicated)

1. Reporting Entity

Pru Life Insurance Corporation of U.K. (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on January 17, 1996, primarily to engage in the business of life insurance. The Company started commercial operations in September 1996. On September 11, 2002, the Insurance Commission (IC) approved the Company's license to sell variable unit-linked insurance, a life insurance product which is linked to investment funds.

The Company is a wholly-owned subsidiary of Prudential Corporation Holdings Limited (Prudential). The Company's ultimate parent company is Prudential plc, an internationally-diversified organization providing life insurance and fund management services worldwide. Prudential plc has primary listing on the London Stock Exchange and secondary listings on Hong Kong, New York and Singapore stock exchanges.

The Company has a Certificate of Authority No. 2016/35-R issued by the IC to transact in life insurance business until December 31, 2018.

The Company's registered address is at the 9/F Uptown Place Tower 1, 1 East 11th Drive, Uptown Bonifacio, Taguig City 1634, Metro Manila, Philippines.

2. Basis of Preparation

Statement of Compliance

The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations.

The financial statements were authorized for issue by the Board of Directors (BOD) on March 22, 2018.

Basis of Measurement

The financial statements have been prepared on the historical cost basis, except for the following items which are measured on an alternative basis on each reporting date.

Items	Measurement bases
Financial instruments at fair value through profit or loss (FVPL)	Fair value
Available-for-sale (AFS) financial assets	Fair value
Investments in treasury notes and other funds under "Assets held to cover linked liabilities"	Fair value
Legal policy reserves	Present value of future benefits and expenses less the present value of future gross premiums arising from the policy discounted at appropriate risk-free discount rate.
Retirement liability	Present value of the defined benefit obligation (DBO) less the fair value of the plan assets (FVPA)

Functional and Presentation Currency

The financial statements of the Company are presented in Philippine peso, which is the Company's functional currency. All financial information presented in Philippine peso has been rounded off to the nearest thousands (P'000s), except when otherwise indicated.

Financial statements

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the change in accounting policy as explained in Note 29 to the financial statements.

Adoption of Amendments to Standards
The Company has adopted the following amendments to standards starting January 1, 2017. The adoption of these amendments to standards did not have any significant impact on the Company's financial statements.

- *Disclosure initiative (Amendments to PAS 7 Statement of Cash Flows)*. The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g., by providing a reconciliation between the opening and closing balances in the statements of financial position for liabilities arising from financing activities

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12 Income Taxes)*. The amendments clarify that:

  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;

  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;

  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and

  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

Insurance Contracts
Product classification
Insurance contracts are those contracts under which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risks.

Investment contracts are those contracts that transfer significant financial risk but can also transfer insignificant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable, provided in the case of a nonfinancial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period, unless all rights and obligations are extinguished or expired. Investment contracts can, however, be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Insurance and investment contracts are further classified as being with and without Discretionary Participation Feature (DPF). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- likely to be a significant portion of the total contractual benefits;

- the amount or timing of which is contractually at the discretion of the issuer; and

- contractually based on the following:

  - performance of a specified pool of contracts or a specified type of contract;
  - realized or an unrealized investment returns on a specified pool of assets held by the issuer; or
  - the profit or loss of the Company, fund or other entity that issues the contract.

The additional benefits include policy dividends that are declared annually, the amounts of which are computed using actuarial methods and assumptions, and are included under "Dividends to policyholders" account in profit or loss with the corresponding liability recognized under the "Dividends payable to policyholders" account which is included in "Accounts payable, accrued expenses and other liabilities" account in the statement of financial position.

Conventional Long-term Insurance Contracts
These contracts ensure events associated with human life (for example, death or survival) over a long duration. Premiums are recognized as revenue when they become payable by the policyholder. Benefits are recognized as an expense when they are incurred or when the policies reach maturity.

A liability for contractual benefits that is expected to be incurred in the future is recognized under "Legal policy reserves" for policies that are in-force as of each reporting date. Using gross premium valuation (GPV), the liability is determined as the sum of the present value of future benefits and expenses less the present value of future gross premiums arising from the policy discounted at appropriate risk-free discount rate. For this purpose, the expected future cash flows were determined using the best estimate assumptions with appropriate margin for adverse deviation from the expected experience. The liability is based on assumptions as to mortality, morbidity, lapse or persistency, non-guarantee benefits, expenses, reserve method, and interest rate approved by the IC.

Unit-linked Insurance Contracts
A unit-linked insurance contract is an insurance contract linking payments to units of an internal investment fund set up by the Company with the consideration received from the policyholders. The investment funds supporting the linked policies are maintained in segregated accounts in conformity with Philippine laws and regulations. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

Revenue from unit-linked insurance contracts consists of premiums received and policy administration fees.

Management assessed that the insurance contracts have no derivative components.

As allowed by PFRS 4, *Insurance Contracts*, the Company chose not to unbundle the investment portion of its unit-linked products.

Legal Policy Reserves
Legal policy reserves are determined by the Company's actuary in accordance with the requirements of the amended Insurance Code of the Philippines (Insurance Code) and represent the amounts which, together with future premiums and investment income, are required to discharge the obligations of the insurance contracts and to pay expenses related to the administration of those contracts. These reserves are determined using generally accepted actuarial practices and have been approved by the IC at the product approval stage.

Any movement in legal policy reserves of traditional life insurance policies arising from current period assumptions or changes in assumptions other than discount rate during the year are recognized under "Gross change in legal policy reserves" in profit or loss. While, net movement arising from changes in discount rate during the year are recognized directly in other comprehensive income as "Remeasurement on life insurance reserve".

Liability Adequacy Tests
At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of reinsurance assets. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities are used. Any deficiency is immediately recognized under "Gross change in legal policy reserves" in profit or loss.

Reinsurance Contracts Held
Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts above are classified as reinsurance contracts held. Contracts that do not meet those classification requirements are classified as financial assets.

The benefits to which the Company is entitled to under its reinsurance contracts held are recognized as reinsurance assets. These include short-term balances due from reinsurers. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as expense when due.

If there is objective evidence that reinsurance assets are impaired, the Company reduces the carrying amount of the reinsurance receivable and recognizes the impairment loss in profit or loss.

Receivables and Payables Related to Insurance Contracts
Receivables and payables are recognized when due. These include amounts due to and from policyholders and amounts due to agents and brokers. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable and recognizes the impairment loss in profit or loss.

Financial Instruments

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

Initial Recognition. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. The Company classifies its financial assets into the following categories: financial assets at FVPL, AFS financial assets, held-to-maturity (HTM) investment, and loans and receivables. The Company classifies its financial liabilities either as financial liabilities at FVPL or other financial liabilities.

The classification depends on the purpose for which the instruments were acquired or incurred and whether these are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As at December 31, 2017 and 2016, the Company has no financial assets classified as HTM investments.

Fair Value Measurement
A number of the Company's accounting policies and disclosures require the measurement of fair value for both financial and nonfinancial assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price), regardless of whether that price is directly observable or estimated using another valuation technique. Where applicable, 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.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair value are categorized in different levels in a fair value hierarchy based on the inputs used in the valuation technique (see Note 6).

Financial Instruments at FVPL. This category consists of financial instruments that are held-for-trading or designated by management on initial recognition. Financial instruments at FVPL are recorded in the statement of financial position at fair value, with changes in fair value recorded in profit or loss.

These are allowed to be designated by management on initial recognition in this category when any of the following criteria are met:

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

Held-for-trading securities are not reclassified subsequent to their initial recognition, unless they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met:

- if the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held-for-trading at initial recognition), then it may be reclassified if the Company has the intention and the ability to hold the financial asset in the foreseeable future or until maturity; and
- the financial asset may be reclassified out of the held-for-trading securities category only under "rare circumstances".

As at December 31, 2017 and 2016, the Company does not have any financial asset designated by management as financial instruments at FVPL. However, the Company's held-for-trading investments portfolio under "Investments" in the statements of financial position amounted to P9.74 billion and P9.92 billion as at December 31, 2017 and 2016, respectively (see Note 8). Also, the Company's held-for trading investments portfolio under "Assets held to cover linked liabilities" amounted to P122.27 billion and P104.68 billion as at December 31, 2017 and 2016 (see Note 10).

As at December 31, 2017 and 2016, the Company's held-for-trading securities include government, quasi-government, corporate debt and equity securities.

The Company's technical provisions for linked liabilities classified as financial liabilities at FVPL amounted to P86.08 billion and P73.21 billion as at December 31, 2017 and 2016, respectively (see Note 10).

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not held for trading.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment loss. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization, if any, is included as part of "Others - net" in profit or loss.
As at December 31, 2017 and 2016, the Company's cash and cash equivalents, premiums due from policyholders, policy loans receivables, coverage debt receivables, interest receivable, reinsurance assets, and other assets such as receivable from unit linked fund, advances to employees and agents, and due from affiliates are classified under this category. Cash and cash equivalents, interest receivable, receivable from life fund, and other assets under "Assets held to cover linked liabilities" are also classified under this category.

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 (3) or less and are subject to an insignificant risk of change in value.

AFS Financial Assets. AFS financial assets are financial assets which are designated as such, or do not qualify to be classified or have not been classified under any other financial asset category. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value. Changes in fair value, other than impairment loss and foreign currency differences on AFS equity securities, are recognized in other comprehensive income and presented as "Fair value reserve". The losses arising from the impairment of such securities are recognized in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is transferred to profit or loss. The effective yield component of AFS debt securities is reported in profit or loss.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of unobserved inputs such as in the case of unquoted equity instruments, these financial assets are allowed to be carried at cost less impairment, if any.

As at December 31, 2017 and 2016, the Company's AFS financial assets amounted to P11.69 million and P7.33 million, respectively, and primarily composed of equity securities (see Note 8).

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

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. The amortization is included as part of "Interest expense related to policies" in profit or loss.

This category includes the Company's claims payable, reinsurance payable, and accounts payable, accrued expenses and other liabilities such as dividends payable to policyholders, accrued expenses, due to unit-linked funds, due to related parties, agent's commission payable, provident fund payable and other liabilities (excluding premium suspense account, premium deposit fund and liabilities to government agencies). This category also includes liability to other funds, accrued expense, and trade payable under assets held to cover linked liabilities.

Impairment of Financial Assets
The Company assesses at each reporting date whether a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults.

Loans and Receivables. The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed accounts, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective assessment for impairment. For the purpose of a collective evaluation of impairment, loans and receivables are grouped on the basis of credit risk characteristics such as type of borrower, collateral type, credit and payment status and term.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the excess of loan's carrying amount over its net realizable value, based on the present value of the estimated future cash flows from the asset. The present value of the estimated future cash flows is discounted at the loan's original effective interest rate. Time value is generally not considered when the effect of discounting is not material.
The carrying amount of an impaired loan is reduced to its net

Financial statements

realizable value through the use of an allowance account and the accrual of interest is discontinued. If, in a subsequent period, the amount of the allowance for impairment loss decreases because of an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed to profit or loss to the extent that the resulting carrying amount of the asset does not exceed its amortized cost had no impairment loss been recognized.

*AFS Financial Assets Carried at Fair Value***.** In case of equity securities classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below cost. Where there is objective evidence of impairment, the cumulative loss in equity, measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized, is recorded in profit or loss. Subsequent increase in the fair value of an impaired AFS equity security is recognized in other comprehensive income.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is generally not the case with master netting agreements, thus, the related assets and liabilities are presented on a gross basis in the statement of financial position.

Income and expenses are presented on a net basis only when permitted under PFRS, such as in the case of any realized gains or losses arising from the Company's trading activities.

Derecognition of Financial Assets and Liabilities

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

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

Where the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over 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 pay.

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

Prepayments

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

Property and Equipment

Property and equipment are measured at cost less accumulated depreciation, amortization and impairment losses, if any.

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Company. The cost of day-to-day servicing of an asset is recognized as an expense when incurred.

Items of property and equipment are depreciated on a straight-line basis over the estimated useful lives of each component. Leasehold improvements are amortized over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Estimated useful lives are as follows:

	Number of years
Computer equipment	3 - 5
Furniture, fixtures and equipment	5
Transportation equipment	5
Condominium unit	25
Leasehold improvements	3 - 5 or term of lease, whichever is shorter

The residual value, useful lives, and depreciation and amortization methods for items of property and equipment are reviewed, and adjusted if appropriate, at each reporting date.

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and the related accumulated depreciation, amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss.

Office improvement in progress relates to the progress billings of unfinished projects. Such projects include renovations, various installations and system upgrades. When a certain project is finished, the account is credited and capitalized to the appropriate asset account.

No depreciation is recognized for office improvement in progress account because it is not yet available for use by the Company.

Software Development Costs

Costs directly associated with the development of identifiable computer software that is not an integral part of the hardware that generate expected future benefits to the Company are recognized as intangible asset. All other costs of developing and maintaining computer software are recognized as expense when incurred. Software development costs is recognized under "Other assets" (see Note 14).

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Software development costs are amortized from the date they are available for use, not to exceed five (5) years.

Impairment of Nonfinancial Assets

At each reporting date, the Company assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists, the Company estimates the recoverable amount of the impaired assets. The recoverable amount is the higher of the fair value less costs of disposal and value in use. Value in use is the present value of future cash flows expected to be derived from an asset while fair value less costs of disposal is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties less cost of disposal. 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 assessment of the time value of money and the risks specific to the asset.

Where the carrying amount of an asset exceeds its recoverable amount, the impaired asset is written down to its recoverable amount.

An impairment loss is recognized in profit or loss in the period in which it arises.

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

Deferred Acquisition Costs

Direct and indirect costs incurred to sell, underwrite and initiate new unit-linked insurance contracts are deferred to the extent that these costs are recoverable out of profit margins of future premiums from these new insurance contracts.

Subsequent to initial recognition, deferred acquisition costs are amortized on a straight-line basis over the period over which significant amount of profit margins from future premiums are expected to be recoverable. Changes in the pattern of future economic benefits for the deferred acquisition costs are accounted for by changing the amortization period and are treated as change in accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognized in profit or loss. Deferred acquisition costs are also considered in the liability adequacy test for each reporting period.

Deferred acquisition costs are derecognized when the related contracts are either pre-terminated or have matured before the end of amortization period.

Equity

Capital stock
Capital stock is composed of common shares, determined using the nominal value of shares that have been issued. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects.

Additional Paid-in Capital (APIC)
APIC pertains to the amount that the Company received in excess of the par value of capital stock.

Contributed Surplus
Contributed surplus represents additional contribution of shareholders as provided under the Insurance Code.

Fair Value Reserve
Fair value reserve pertains to the cumulative amount of gains and losses due to the revaluation of AFS financial assets.

Retirement Fund Reserve
This pertains to the cumulative amount of remeasurement of the retirement liability arising from actuarial gains and losses due to experience and demographic assumptions as well as gains and losses in the plan assets.

Remeasurement on Life Insurance Reserve
This represents the increase or decrease of the reserves brought by changes in discount rates.

Retained Earnings
Retained earnings are classified as unappropriated and appropriated. Unappropriated retained earnings represents profit attributable to the equity holders of the Company and reduced by dividends. It may also include effect of changes in accounting policy as may be required by the transitional provision of the standard.

Appropriated retained earnings pertains to the aggregate amount of negative reserves on a per policy basis as a result of GPV prescribed by the IC.

Revenue Recognition

Premiums
Premiums arising from insurance contracts are recognized as income on the effective date of the insurance policies for the first year premiums. For the succeeding premiums, gross earned recurring premiums on life insurance contracts are recognized as revenue when these become due from the policyholders.

The investment component received from the unit-linked insurance contracts is shown as part of premiums.

Premiums ceded to reinsurers on traditional and variable contracts are recognized as an expense when the policy becomes effective. This is presented net of experience refund received from reinsurers.

Policy Administration Fees
Policy administration fees are recognized as revenue in profit or loss when these become due from the policyholder. Receivable portion of policy administration fees form part of receivable from unit linked fund under "Other assets - net" account in the statement of financial position (see Note 14).

Investment Income or Loss
Investment income or loss consists of fair value changes of financial assets at FVPL, interest income from all interest-bearing investments and gain or loss on disposal of investments. Investment income which is net of investment management fees, is presented net of final tax.

Interest income for all interest-bearing financial instruments, including financial assets measured at FVPL, is recognized in profit or loss using the effective interest method.

Determining whether the Company is acting as Principal or an Agent
The Company assesses its revenue arrangements against the following criteria to determine whether it is acting as a principal or an agent:

- whether the Company has primary responsibility for providing the services;
- whether the Company has discretion in establishing prices; and
- whether the Company bears the credit risk.

If the Company has determined it is acting as a principal, the Company recognizes revenue on gross basis with the amount remitted to the other party being accounted as part of cost and expenses. If the Company has determined it is acting as an agent, only the net amount retained is recognized as revenue.

The Company has determined that it is acting as principal in its revenue arrangements.

Benefits, Claims and Expenses Recognition

Cost on Premiums of Variable Insurance
Cost on premiums of variable insurance represents the investment component of the unit-linked insurance contracts portion, net of withdrawals. Cost on premiums of variable insurance are recognized consequently as premiums are earned which is on the effective date of the insurance policy for first year premiums and when premiums become due for succeeding premiums.

Benefits and claims
Claims consist of benefits and claims paid to policyholders, which include, among others, excess gross benefit claims for unit-linked insurance contract, and movement of incurred but not reported (IBNR) claims and movement of legal policy reserves. Death claims, surrenders and withdrawals are recorded on the basis of notifications received. Maturities are recorded when due. Provision for IBNR is made for the cost of claims incurred as of each reporting date but not reported until after the reporting date based on the Company's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in profit or loss of subsequent years. Reinsurer's share of gross benefits and claims are accounted for in the same period as the underlying claim.

Operating expenses
Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

Employee benefits

Retirement benefits
The Company maintains a defined contribution (DC) plan with minimum defined benefit (DB) guarantee that covers all regular full time employees. Under its retirement plan, the Company pays fixed contributions based on the employees' monthly salaries, however, the retirement plan also provides for its qualified employees a DB minimum guarantee which is equivalent to a certain percentage of the monthly salary payable to an employee with the required credited years of service based on the provisions of the Company's retirement plan.

Accordingly, the Company accounts for its retirement obligation under the higher of the DB obligation relating to the minimum guarantee and the obligation arising from the DC Plan.

For the DB minimum guarantee plan, the liability is determined based on the present value of the excess of the projected DB obligation over the projected DC obligation at the end of the reporting period. The DB obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The Company determines the net interest expense or income on the net DB liability or asset during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the DB plan are recognized in profit or loss.

The DC liability, on the other hand, is measured at the fair value of the DC assets upon which the DC benefits depend, with an adjustment for any margin on asset returns where this is reflected in the DC benefits.

Remeasurements of the net DB liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains or losses on the settlement of a DB plan when the settlement occurs.

Short-Term Employee Benefits
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Leases

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

Taxes

Current tax and deferred income tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at each reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, and the carryforward tax benefits of the net operating loss carryover (NOLCO) and excess of the minimum corporate income tax (MCIT) over the regular corporate income tax. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted at each reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

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

Foreign Currency Transactions

Transactions in foreign currencies are initially recorded using the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rates prevailing at reporting date.

Exchange gains or losses arising from foreign exchange transactions are credited to or charged against operations for the year. For income tax reporting purposes,foreign exchange gains or losses are treated as taxable income or deductible expenses, in the period such are realized.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Contingencies

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

Events after the reporting date

Post year-end events that provide additional information about the Company's financial position at the reporting date (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.

New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017. However, the Company has not applied the following new or revised and amended standards in preparing these financial statements. The Company is currently assessing the potential impact of these on its financial statements.

The Company will adopt the new or revised standards and amendments to standards in the respective effective dates:

To be Adopted January 1, 2018

- *Applying PFRS 9 Financial Instruments with PFRS 4 (Amendments to PFRS 4).* The amendments provide a temporary exemption from PFRS 9, where an entity is permitted to defer application of PFRS 9 in 2018 and continue to apply PAS 39 Financial Instruments: Recognition and Measurement if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021. The amendments also provide an overlay approach to presentation when applying PFRS 9 where an entity is permitted to reclassify between profit or loss and other comprehensive income the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39, for designated financial assets. A financial asset is eligible for designation if it is not held for an activity that is unconnected with contracts in the scope of PFRS 4, and if it is measured at fair value through profit or loss under PFRS 9, but would not have been under PAS 39. An entity is generally permitted to start applying the overlay approach only when it first applies PFRS 9, including after previously applying the temporary exemption.

  The amendments permitting the temporary exemption is for annual periods beginning on or after January 1, 2018 and the amendments allowing the overlay approach are applicable when an entity first applies PFRS 9.

- *PFRS 9 (2014). PFRS 9 (2014) replaces PAS 39 Financial Instruments: Recognition* and Measurement and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

  The Company availed the temporary exemption in the implementation of PFRS 9 as allowed by PFRS 4 above.

- *PFRS 15 Revenue from Contracts with Customers replaces PAS 11 Construction Contracts, PAS 18 Revenue, International Financial Reporting Interpretations Committee (IFRIC) 13 Customer Loyalty Programmes, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue - Barter Transactions Involving Advertising Services.* The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

To be Adopted January 1, 2019

- *PFRS 16 Leases supersedes PAS 17 Leases and the related Philippine Interpretations.* The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

- *Philippine Interpretation IFRIC-23 Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12 *Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Company's chosen tax treatment. If it is not probable that the tax authority will accept the Company's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgements and estimates applied if facts and circumstances change - e.g., as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

- *Prepayment Features with Negative Compensation (Amendments to PFRS 9).* The amendments cover the following areas:

  - *Prepayment features with negative compensation.* The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination.

  The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

  - *Modification of financial liabilities.* The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e., the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss.

  If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

4. Use of Judgments and Estimates

The Company makes judgments and key estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

(a) Impairment of Financial Assets

Investments at Fair Value

The Company considers that investments are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share/market price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

As at December 31, 2017 and 2016, the Company has not recognized any impairment loss on its investments.

Receivables

The Company reviews its receivables to assess impairment at least on an annual basis, or as the need arises due to significant movements on certain accounts. Receivables from policyholders and reinsurance that are individually significant are assessed to determine whether objective evidence of impairment exists on an individual basis, while those that are not individually significant are assessed for objective evidence of impairment either on an individual or on collective basis. In determining whether an impairment loss should be recorded in the profit or loss, the Company makes judgment as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio.

As at December 31, 2017 and 2016, the Company has recognized allowance for impairment loss amounting to P154.29 million and P140.10 million (see Notes 9, 11 and 14), respectively.

(b) Classifying Financial Instruments

The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of financial position. In addition, the Company classifies assets by evaluating among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

As at December 31, 2017 and 2016, the Company classified its financial instruments as financial instruments at FVPL, AFS financial assets, loans and receivables, and other financial liabilities.

Estimates

(a) Liabilities arising from Claims made under Insurance Contracts

There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for such claims. Although the ultimate liability arising from life insurance contracts is largely determined by the face amount of each individual policy, the Company also issues accident and health policies and riders where the claim amounts may vary.

Claims estimation by the Company considers many factors such as industry average mortality or morbidity experience, with adjustments to reflect Company's historical experience. These liabilities form part of the Company's IBNR which amounted to P80.52 million and P21.31 million as at December 31, 2017 and 2016, respectively (see Note 16).

(b Legal Policy Reserves

At inception of the contract, the Company determines assumptions in relation to mortality, morbidity, persistency, investment returns and administration expenses. Assumptions are also set in relation to inflation rates, tax, dividend scale and sales commissions plus other incentives. A margin for risk and uncertainty is added to these assumptions. In every reporting period, the Company ensures that the assumptions used are best estimates, taking into account current experience at each reporting date to determine whether liabilities are adequate in the light of the latest current estimates and taking into consideration the provision of PFRS 4.

The liability adequacy test was performed using current best estimates on interest, mortality, lapsation and expenses. The net present value of future cash flows as at December 31, 2017 and 2016 computed under the requirements of PFRS 4, amounted to cash inflows of P19.32 billion and P7.07 billion, respectively. Accordingly, the recorded legal policy reserves which is calculated in accordance with the requirements of the Insurance Code amounting to P5.95 billion and P6.19 billion as at December 31, 2017 and 2016, respectively (see Note 15), is adequate using best estimate assumptions.

(c) Fair Value Estimation

The fair value of financial instruments traded in active markets (such as financial assets at FVPL and AFS financial assets) is based on quoted market prices or quoted prices for similar assets or liabilities at the reporting date. If the financial instrument is not traded in an active market, the fair value is determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

As at December 31, 2017 and 2016, the Company's financial instruments carried at fair value are classified as Level 1 and 2 in the fair value hierarchy.

(d) Estimating Useful Lives of Property and Equipment and Software Development Costs

The Company estimates useful lives of property and equipment and software development costs based on the period over which the assets are expected to be available for use and are updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence. The useful lives, and depreciation and amortization methods are reviewed periodically to ensure that the method and periods of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment, and software development costs.

As at December 31, 2017 and 2016, the carrying amounts of property and equipment and software development costs amounted to P720.98 million and P757.57 million, respectively (see Notes 12 and 14).

(e) Estimating Amortization Period of Deferred Acquisition Costs

The amortization period of deferred acquisition costs depends on the period over which the acquisition costs will be recovered through the future profits of the insurance contracts. Deferred acquisition costs of unit linked single premium are amortized over 10 years while unit linked regular premium are amortized over 15 years. The recoverability of the deferred acquisition costs are reviewed annually to ensure that the period of amortization is consistent with the profit pattern of the products and that the deferred acquisition costs are recoverable against the present value of future profits over the entire amortization period.

As at December 31, 2017 and 2016, the carrying amount of deferred acquisition costs amounted to P6.50 billion and P5.59 billion, respectively (see Note 13).

(f) Estimating Impairment of Financial Assets

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the receivables when scheduling future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

As at December 31, 2017 and 2016, the carrying value of the Company's policy loans receivables, coverage debt receivables and advances to employees and agents amounted to P766.60 million and P731.97 million, respectively. Provisions for impairment losses amounted to P17.56 million and P17.63 million in 2017 and 2016, respectively (see Notes 9, 11 and 14).

(g) Estimating Retirement and Other Employee Benefits

The determination of DB obligation relating to minimum guarantee and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, mortality rates and future salary increase rate. Due to the long term nature of these benefits, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields of Philippine government bonds with terms consistent with the expected employee benefit payout as at the statement of financial position date.

As at December 31, 2017 and 2016, the Company's net retirement liability amounted to P14.65 million and P65.99 million, respectively (see Note 23).

(h) Estimating Realizability of Deferred Tax Assets

The Company reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Any deferred tax asset will be re-measured if it might result to derecognition where the expected tax law to be enacted has a possible risk on the realization.

As at December 31, 2017 and 2016, the Company recognized deferred tax assets amounting to P374.46 million and P548.80 million, respectively. However, unrecognized deferred tax assets amounted to P876.71 million and P792.14 million as at December 31, 2017 and 2016, respectively (see Note 24).

5. Capital, Insurance and Financial Risks Management Objectives and Policies

The Company's activities expose it to a variety of risks such as capital, financial and insurance risks. The overall objective of risk management is to focus on the unpredictability of financial markets and insurance contingencies to minimize potential adverse effects on the financial position of the Company.

The Company has established a risk management functions with clear cut responsibilities and with the mandate to develop company-wide policies on market, credit, liquidity, insurance and operational risk management. It also supports the effective implementation of risk management policies at the individual business unit and process levels.

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

Regulatory Framework

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

The operations of the Company are subject to regulatory requirements of the IC.

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

Capital Management

The Company's capital includes capital stock, APIC, contributed surplus and retained earnings.

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is always higher than the minimum capital requirement set by the IC and the amount computed under the RBC model.

The Company manages capital through a process that determines future projected capital requirements through the development of long-term financial plans and projections that consider the impact on surplus of new businesses, profitability of in-force business and other major corporate initiatives that will affect capitalization requirements.

There were no changes made to the Company's capital base, objectives, policies and processes from previous year.

Networth Requirements

Under Section 194 of the Insurance Code, insurance company doing business in the Philippines shall have a networth of P250.00 million by June 30, 2013. Furthermore, said company must have an additional P300.00 million in networth by December 31, 2016; an additional P350.00 million in networth by December 31, 2019; and an additional P400.00 million in networth by December 31, 2022.

As at December 31, 2017 and 2016, the Company has complied with the minimum networth requirements.

RBC Requirements

The IC issued Circular Letter (CL) 2016-68, the Amended RBC2 Framework, effective January 1, 2017. This framework provides for the amended formula in computing for the RBC Ratio, which is calculated, by dividing Total Available Capital (TAC) by the RBC requirement. The minimum RBC ratio is set at 100%. All insurance companies are required to maintain the minimum RBC ratio and not fail the trend test. Trend test has failed in the event that all have occurred:

- the RBC ratio computed for the period (i.e. first quarter) is less than 125% but is not below 100%;
- the RBC ratio has decreased over the past period; and
- the difference between RBC ratio so computed and the decrease in the RBC ratio over the past period is less than 100%.

On December 28, 2016, the Insurance Commission released CL No. 2016-69 which provides, among other things, that the level of sufficiency for the RBC 2 Framework shall be at 95th percentile level of sufficiency for the year 2017, 97.5th percentile for the year 2018, and 99.5th percentile for the year 2019. RBC 2 Framework shall be made effective January 1, 2017.

The following table shows the RBC ratio of the Company as at December 31, 2017 and 2016, using the RBC 2 Framework:

	2017	2016
TAC	**P3,539,830**	P4,232,605
RBC requirement	**182,530**	227,636
RBC ratio	**1,939%**	1,859%

The figures above are internally computed by the Company and the final amount of the RBC ratio can be determined only after the accounts of the Company have been reviewed by IC specifically as to admitted and non-admitted assets as defined under the Insurance Code. As at December 31, 2017 and 2016, the Company has complied with the minimum RBC ratio of 100%.

The estimated non-admitted assets as defined in the Insurance Code are included in the statement of financial position. These assets, which are subject to final determination by the IC, are as follows:

	Note	2017	2016
Deferred acquisition cost	*13*	**P6,498,363**	P5,593,810
Property and equipment - net		**475,278**	516,347
Unrealized fair value gains - net		**-**	370,175
Other assets		**525,580**	385,698
		P7,499,221	P 6,866,030

Insurance Risk

The Company issues contracts that transfer insurance risk. This section summarizes the risks and the way the Company manages them.

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The main risks that the Company is exposed to are as follows:

- Mortality Risk - risk of loss due to policyholder death experience being different from expected.
- Morbidity Risk - risk of loss due to policyholder health and disability experience being different from expected.
- Investment Return Risk - risk of loss from actual return being different from expected.
- Expense Risk - risk of loss from expense experience being different from expected.
- Lapse Risk - risk of loss due to policyholder experiences (lapses and surrenders) being different from expected.

The Company manages these risks through its underwriting strategy and reinsurance agreements. The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of the type of risk and level of insured benefits. This is largely achieved through the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. The retention limit of the Company varies per product type.

For contracts where death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected.

Concentration of insurance risk

The table below sets out the concentration of life insurance contract by type of contract (in thousands):

	Note	2017	2016
Whole and term life		**P4,349,061**	P4,478,392
Endowment		**1,142,525**	1,292,450
Personal accident		**17,157**	12,848
Group and accident & health		**10,320**	8,193
Riders and others products		**433,173**	397,105
	15	**P5,952,236**	P6,188,988

Classification by Attained Age (Based on 2017 and 2016 Data of In-force Policies)

The table below presents the concentration of risk by attained age as at December 31, 2017 and 2016. For individual insurance, exposure is concentrated on age brackets of 50-54 in 2017 and 2016.

	2017 Individual		2016 Individual	
Attained Age	**Exposure '000**	**Concentration (%)**	Exposure '000	Concentration (%)
<20	**P342,810**	**5.77%**	P490,806	7.94%
20 - 24	**182,194**	**3.07%**	170,690	2.76%
25 - 29	**223,442**	**3.76%**	236,966	3.83%
30 - 34	**249,776**	**4.20%**	263,217	4.26%
35 - 39	**373,488**	**6.29%**	446,497	7.22%
40 - 44	**709,918**	**11.95%**	766,759	12.41%
45 - 49	**884,761**	**14.89%**	887,459	14.36%
50 - 54	**893,113**	**15.03%**	935,491	15.14%
55 - 59	**853,733**	**14.37%**	846,306	13.69%
60 - 64	**597,570**	**10.06%**	571,525	9.25%
65 - 69	**347,045**	**5.84%**	309,686	5.01%
70 - 74	**185,819**	**3.13%**	178,131	2.88%
75 - 79	**64,826**	**1.09%**	44,735	0.72%
80 +	**33,421**	**0.55%**	32,527	0.53%
Total	**P5,941,916**	**100.00%**	P6,180,795	100.00%

For group insurance, exposure is concentrated on age bracket 35 - 39 in 2017 and 2016.

	2017 Group			
	Gross of Reinsurance		Net Reinsurance	
Attained Age	**Exposure '000**	**Concentration (%)**	**Exposure '000**	**Concentration (%)**
20 - 24	**P -**	**-**	**P -**	**-**
25 - 29	**-**	**-**	**-**	**-**
30 - 34	**-**	**-**	**-**	**-**
35 - 39	**10,251**	**99.33%**	**7,935**	**99.14%**
40 - 44	**-**	**-**	**-**	**-**
45 - 49	**-**	**-**	**-**	**-**
50 - 54	**-**	**-**	**-**	**-**
55 - 59	**69**	**0.67%**	**69**	**0.86%**
60 +	**-**	**-**	**-**	**-**
Total	**P10,320**	**100.00%**	**P8,004**	**100.00%**

	2016 Group			
	Gross of reinsurance		Net reinsurance	
Attained Age	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
20 - 24	P -	-	P -	-
25 - 29	-	-	-	-
30 - 34	-	-	-	-
35 - 39	8,174	99.76%	5,327	99.64%
40 - 44	-	-	-	-
45 - 49	1	0.01%	1	0.01%
50 - 54	16	0.20%	16	0.30%
55 - 59	2	0.03%	2	0.05%
60 +	-	-	-	-
Total	P8,193	100.00%	P5,346	100.00%

Key assumptions The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

(a) ***Risk-free Discount Rates*** refer to the rates used in determining the value of life insurance liabilities. The value of life insurance liabilities are determined as the sum of the present value of future benefits and expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate risk-free discount rate. The risk-free discount rate is based on the equivalent zero-coupon spot yield of the PDST-R2 yield curve for peso and international yield curve from Bloomberg, with matching duration.

(b) ***Mortality and Morbidity Assumptions.*** Mortality refers to the rate at which death occurs for a defined group of people while morbidity refers to the rate at which accident or sickness, and recovery there from, for a defined group of people. For the purpose of liability valuation, expected future cash flows are determined using best estimate mortality and morbidity assumptions with due regard to significant recent experience and appropriate margin for adverse deviation from the expected experience.

(c) ***Lapse Rates*** refer to the rate at which a life insurance policy is surrendered or terminated caused by the failure to pay the premium due. For the purpose of liability valuation, expected future cash flows are determined using best estimate lapse assumptions with due regard to significant recent experience and appropriate margin for adverse deviation from the expected experience.

(d) ***Expense Assumptions*** refer to the expected future administrative and maintenance costs related to the issuance and maintenance of a life insurance policy with consideration of inflation. For the purpose of liability valuation, expected future cash flows are determined using best estimate expense assumptions with due regard to significant recent experience and appropriate margin for adverse deviation from the expected experience.

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on the Company's income before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear.

		2017	2016
	Changes in assumptions/ variables	Impact on income before income tax and equity increase (Decrease)	Impact on income before income tax and equity increase (Decrease)
		(Amounts in millions)	
Mortality and morbidity	+5%	**(P53.07)**	(P54.21)
	-5%	**53.88**	55.16
Valuation interest rate	+ 100 basis points	**621.44**	702.32
	- 100 basis points	**(793.23)**	(908.26)
Expense assumption	+10%	**(106.85)**	(107.40)
	-10%	**96.23**	97.66
Lapse rates	+10%	**32.00**	36.88
	-10%	**(33.73)**	(39.41)

The method used for deriving sensitivity information and significant assumptions did not change from previous years.

Investment Risk

The investment risk represents the exposure to loss resulting from cash flows from invested assets primarily for long-term fixed rate investments, being less than the cash flows to meet the obligations of the expected policy and contract liabilities and the necessary return on investments. Additionally, there exist a future investment risk associated with certain policies currently in-force which will have premium receipts in the future.

To maintain an adequate yield to match the interest necessary to support future policy liabilities, management's focus is required to reinvest the proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality.

The Company adopts the Prudential's investment strategy to invest primarily in high quality securities while maintaining diversifications to avoid significant exposure to issuer and industry.

The Company invests in equity and debt instruments as dictated by the Company's investment management strategy. Asset allocation is determined by the Company's Fund Manager, Eastspring Investments (Singapore) Limited, who manages the distribution of assets to achieve the investment objectives. Divergence from target asset allocations and the composition of the Company's portfolio is monitored by the Investment Committee.

For unit-linked contracts, the Company does not retain the price, currency, credit, or interest rate risk for these contracts as contractual arrangements are such that the linked fund policyholders bear the risks and rewards of the fund's investment performance.

There has been no change to the Company's exposure to investment risk or the manner in which it manages and measures the risk since prior financial year.

Financial risk

The Company has significant exposure to the following financial risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

There has been no change to the Company's exposure to financial risks (i.e. credit risk, liquidity risk and market risks) or the manner in which it manages and measures the risks since prior financial year.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause another party to incur a financial loss. The Company is exposed to credit risk primarily through its cash and cash equivalents, investments and loans granted to policyholders. The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date.

The Company's concentration of credit risk arises from its investments in government securities since the said investments amounted to P58.14 billion (90.89 %) and P56.00 billion (90.06 %) of the Company's total financial assets as at December 31, 2017 and 2016 respectively (see Notes 8 and 10).

The table below provides information regarding the credit risk exposure of the Company as at December 31, 2017 and 2016 by classifying assets according to the Company's credit grading of counterparties.

2017

	Note	Neither past due nor impaired: Investment high-grade	Non-investment grade - Satisfactory	Total financial assets neither past due nor impaired	Past due but not impaired	Total
Cash in bank and cash equivalents		P1,970,367	P -	P1,970,367	P -	P1,970,367
Interest receivable		118,801	-	118,801	-	118,801
Coverage debt receivable	11	-	318,612	318,612	138,103	456,715
Investments in debt securities	8	9,725,583	-	9,725,583	-	9,725,583
Premiums due from policyholders		-	14,759	14,759	-	14,759
Policy loans receivable	9	-	384,026	384,026	11,069	395,095
Reinsurance assets		-	40,000	40,000	-	40,000
Other assets (excluding withholding tax receivables and nonrefundable deposits and prepayments)		-	268,689	268,689	5,118	273,807
Assets held to cover linked liabilities						
Cash and cash equivalents	10	1,839,938	-	1,839,938	-	1,839,938
Interest receivables	10	347,960	-	347,960	-	347,960
Receivable from life fund	10	114,680	-	114,680	-	114,680
Investment in debt securities	10	48,633,515	-	48,633,515	-	48,633,515
Other assets	10	37,224	-	37,224	-	37,224
		P62,788,068	P1,026,086	P63,814,154	P154,290	P63,968,444

2016

	Note	Neither past due nor impaired: Investment high-grade	Non-investment grade - Satisfactory	Total financial assets neither past due nor impaired	Past due but not impaired	Total
Cash in bank and cash equivalents		P2,219,621	P -	P2,219,621	P -	P2,219,621
Interest receivable		128,266	-	128,266	-	128,266
Coverage debt receivable	11	-	218,145	218,145	124,739	342,884
Investments in debt securities	8	9,909,321	-	9,909,321	-	9,909,321
Premiums due from policyholders		-	29,593	29,593	-	29,593
Policy loans receivable	9	-	452,955	452,955	11,724	464,679
Reinsurance assets		-	11,349	11,349	-	11,349
Other assets (excluding withholding tax receivables and nonrefundable deposits and prepayments)		-	306,960	306,960	3,641	310,601
Assets held to cover linked liabilities						
Cash and cash equivalents	10	1,818,992	-	1,818,992	-	1,818,992
Interest receivables	10	349,712	-	349,712	-	349,712
Receivable from life fund	10	162,927	-	162,927	-	162,927
Investment in debt securities	10	46,349,855	-	46,349,855	-	46,349,855
Other assets	10	84,450	-	84,450	-	84,450
		P61,023,144	P1,019,002	P62,042,146	P140,104	P62,182,250

The Company has no past due but not impaired financial assets as at December 31, 2017 and 2016.

The Company uses a credit grading system based on the borrowers and counterparties overall credit worthiness, as described below:

Investment High-grade - This pertains to accounts with a very low probability of default as demonstrated by the borrower's strong financial position and reputation. The borrower has the ability to raise substantial amounts of funds through credit facilities with financial institutions. The borrower has a strong debt service record and a moderate use of leverage.

Non-investment Grade - Satisfactory - This pertains to current accounts with no history of default or which may have defaulted in the past, but the conditions and circumstances directly affecting the borrower's ability to pay has abated already. The borrower is expected to be able to adjust to the cyclical downturns in its operations. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues. The use of leverage may be above industry or credit standards but remains stable.

Past Due and Impaired - This pertains to the allowance for impairment losses that the Company recognizes due to the uncertainty of the collectability of the Company's receivables.

In compliance with the Insurance Code, the Company extends loans to its policyholders only up to the cash surrender value of their policy, pursuant to the provisions of the policy contract.

Credit risk arising from transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used. The Company monitors the credit ratings of the brokers to further mitigate this risk.

A substantial portion of the Company's total investments, including cash in bank, are held by Standard Chartered Bank, a reputable financial institution with high credit rating, under a custodianship agreement.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

To effectively manage liquidity risk, the Company ensures that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unnecessary costs or risking damage to the Company's reputation. Further, the Company's policy is to maintain sufficient liquidity to meet normal operating requirements.

The Company's financial liabilities are short-term and due within the next twelve (12) months. The tables below summarize the maturity profile of the financial liabilities of the Company based on remaining contractual obligations or on the estimated timing of net cash flows as at December 31, 2017 and 2016:

2017

	Note	Carrying amount	Contractual cash flow
Technical provision for linked liabilities	*10*	P86,080,089	P86,080,089
Claims payable	*16*	448,520	448,520
Reinsurance payable	*17*	84,386	84,386
Accounts payable, accrued expenses and other liabilities*		2,838,337	2,838,337
Assets held to cover linked liabilities			
Liability to life fund and other linked funds	*10*	38,309,798	38,309,798
Accrued expenses	*10*	103,637	103,637
Trade payable	*10*	115,066	115,066
		P127,979,833	P127,979,833

*Excluding premium suspense account, premium deposit fund, retirement liability and liabilities to government agencies.

2016

	Note	Carrying amount	Contractual cash flow
Technical provision for linked liabilities	*10*	P73,213,153	P73,213,153
Claims payable	*16*	319,453	319,453
Reinsurance payable	*17*	77,553	77,553
Accounts payable, accrued expenses and other liabilities*		2,763,978	2,763,978
Assets held to cover linked liabilities			
Liability to life fund and other linked funds	*10*	33,641,732	33,641,732
Accrued expenses	*10*	91,139	91,139
Trade payable	*10*	147,370	147,370
		P110,254,378	P110,254,378

*Excluding premium suspense account, premium deposit fund, retirement liability and liabilities to government agencies.

(c) Market Risk

Market risk embodies the potential for both gains and losses and includes currency risk, interest rate risk and equity price risk.

The Company's market risk is managed on a daily basis by the fund manager in accordance with policies and procedures in place. The Company's overall market positions are monitored, at least, on a quarterly basis by the Investment Committee of the Company.

Details of the nature of the Company investment portfolio at the reporting date are disclosed in Notes 8 and 10 to the financial statements.

Currency Risk

Currency risk is the risk that changes in foreign exchange rates will affect the fair values or cash flow of a recognized financial instrument. The Company may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Company is exposed to risks that the exchange rate of its currency relative to other foreign currencies the risk may change in a manner that has an adverse effect on the value of that portion of the Company's assets or liabilities denominated in currencies other than in Philippine peso.

The Company's main exposure to fluctuations in foreign currency exchange rates arise through the following assets denominated in U.S. dollar:

	2017	2016
Short-term time deposits	**$2,362**	$8,587
Investments	**374,802**	337,060
	$377,164	$345,647
Foreign exchange rate to the Philippine peso used*	**49.92**	49.81
	P18,828,027	P17,216,677

**Exchange rate used is based on Bangko Sentral ng Pilipinas foreign exchange rate as at December 29, 2017 and 2016.*

A 3% (2016: 6%) strengthening of U.S. dollar against Philippine peso as at December 31, 2017, with all other variables remaining constant, would have affected the measurement of financial instruments denominated in U.S. dollar and increased profit before tax and equity by P0.56 billion (2016: P1.03 billion). A 3% (2016: 6%) weakening of the U.S. dollar in relation to the Philippine peso, with all other variables held constant, would have an equal but opposite effect on the Company's profit before tax and equity.

In 2017 and 2016, the Company determined the reasonably possible change in foreign currency exchange rates based on the historical fluctuation of the assets denominated in U.S. dollar.

Interest Rate Risk

There are two types of interest rate risk:

Fair value interest rate risk - the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and

Cash flow interest rate risk - the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Significant portion of the Company's investments is composed mainly of interest-bearing debt instruments carried at fair value. As a result, the Company is subject to exposure to fair value interest rate risk.

The Company does not carry debt instrument with variable interest rate and, thus, is not exposed to cash flow interest rate risk.

Fair value interest rate risk is mitigated by the Company's Fund manager by constructing a portfolio of debenture instruments with diversified maturities. Any excess cash of the Company are invested in short-term time deposits with original terms of three months or less.

The analysis below details the impact of changes in market interest rate (stated in basis points or bps) to the fair value of the Company's investment in fixed-rate debt instruments. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

		2017		2016	
Currency	**Changes in variables**	**+50 bps**	**-50 bps**	+50 bps	-50 bps
Philippine peso		**(P929,543)**	**P991,489**	(P1,019,963)	P1,090,208
U.S. dollar		**(415,989)**	**447,344**	(375,280)	400,251
Fair value sensitivity		**(P1,345,532)**	**P1,438,833**	(P1,395,243)	P1,490,459

In 2017 and 2016, the Company determined the reasonably possible change in interest rate based on the historical percentage changes in weighted average yield rates of outstanding investments of the Company.

Equity Price Risk

Equity price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

The Company's equity price risk exposure relates to investments in equity securities with carrying balances of P73.65 billion and P58.33 billion (see Notes 8 and 10) as at December 31, 2017 and 2016, respectively. The value of these equity securities will fluctuate with changes in market conditions.

The analysis below is performed for reasonable possible movements in key variables with all other variables held constant, showing the impact on income before income tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear. In 2017 and 2016, the Company determined the reasonably possible change in Philippine Stock Exchange (PSE) Index based on the historical fluctuation of equity securities the Company holds as of the reporting date.

		2017		2016	
Market indices	Changes in variables	**Impact on income before income tax increase (decrease)**	**Impact on equity increase (decrease)**	Impact on income before income tax increase (decrease)	Impact on equity increase (decrease)
PSE index	+9%	**P -**	**P6,628,227**	P -	P4,083,435
PSE index	-9%	**-**	**(6,628,227)**	-	(4,083,435)

6. Fair Value Measurements and Disclosures

The fair value of the following financial assets and financial liabilities approximate their carrying amounts at the end of each accounting period due to their short term nature:

- Cash and cash equivalents;
- Interest receivables;
- Coverage debt receivables;
- Premiums due from policyholders;
- Policy loans receivables;
- Reinsurance assets;
- Other assets except for withholding tax receivables, nonrefundable deposits and prepayments.
- Cash and cash equivalents, interest receivables, receivable from life fund and other assets under assets held to cover linked liabilities
- Claims payable;
- Reinsurance payable;
- Accounts payable, accrued expenses and other liabilities except for liabilities payable to government agencies, premium suspense account, premium deposit fund and retirement liability; and
- Liability to other funds, accrued expense, and trade payable under assets held to cover linked liabilities.

The recurring fair values of financial assets at FVPL including those under assets held to cover linked liabilities, AFS financial assets, and technical provisions for linked liabilities are determined by reference to quoted market prices, at the close of business on the reporting date.

Fair Value Hierarchy
The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1:quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Note	**2017**
Level 1		
Financial assets		
Financial assets at FVPL	*8*	**P9,725,583**
AFS financial assets	*8*	**11,691**
Financial assets at FVPL under assets held to cover linked liabilities	*10*	**122,268,788**

	Note	2016
Level 1		
Financial assets		
Financial assets at FVPL	*8*	**P9,909,321**
AFS financial assets	*8*	**7,331**
Financial assets at FVPL under assets held to cover linked liabilities	*10*	**104,677,313**

The Company has no financial instruments categorized under Level 3. Also, there has been no transfer between levels in 2017 and 2016.

7. Cash and Cash Equivalents

	2017	2016
Cash on hand and in banks	**P842,411**	P804,524
Short-term placements	**1,128,613**	1,415,674
	P1,971,024	P2,220,198

Short-term placements are Philippine peso and U.S. dollar time deposits with various financial institutions with maturities ranging from overnight to ninety days and interest from 0.10% to 0.95% and 0.01% to 0.85% per annum in 2017 and 2016, respectively.

Interest income recognized in profit or loss which is presented under "Investment income" amounted to P13.48 million and P13.25 million in 2017 and 2016, respectively.

8. Investments

Reconciliation of the carrying amount of the investments at the beginning and end of the year is shown below.

For the year December 31, 2017

	Note	**AFS Financial assets**	**Financial assets at FVPL**	**Total investments**
Cost at January 1, 2017		**P11,590**	**P9,611,961**	**P9,623,551**
Unrealized (losses) gains at January 1, 2017		**(4,259)**	**297,360**	**293,101**
Fair value at January 1, 2017		**7,331**	**9,909,321**	**9,916,652**
Fair value gain (loss) recognized in:				
Profit or loss	*21*	**-**	**(484,639)**	**(484,639)**
Other comprehensive income		**4,360**	**-**	**4,360**
Foreign exchange gain	*21*	**-**	**(3,923)**	**(3,923)**
Purchases		**-**	**1,716,236**	**1,716,236**
Proceeds from disposal of financial assets		**-**	**(1,413,295)**	**(1,413,295)**
Gain (loss) on disposal of financial assets	*21*	**-**	**1,883**	**1,883**
Fair value at December 31, 2017		**P11,691**	**P9,725,583**	**P9,737,274**
Cost at December 31, 2017		**P11,590**	**P9,916,785**	**P9,928,375**
Unrealized gains (losses) at December 31, 2017		**P101**	**(P191,202)**	**(P191,101)**

For the year December 31, 2016

	Note	AFS Financial assets	Financial assets at FVPL	Total investments
Cost at January 1, 2016		P12,229	P9,163,269	P9,175,498
Unrealized (losses) gains at January 1, 2016		(4,790)	446,159	441,369
Fair value at January 1, 2016		7,439	9,609,428	9,616,867
Fair value gain (loss) recognized in:				
Profit or loss	*21*	-	(165,556)	(165,556)
Other comprehensive income		531	-	531
Foreign exchange gain	*21*	-	16,757	16,757
Purchases		-	966,505	966,505
Proceeds from disposal of financial assets		(352)	(518,863)	(519,215)
Gain (loss) on disposal of financial assets	*21*	(287)	1,050	763
Fair value at December 31, 2016		P7,331	P9,909,321	P9,916,652
Cost at December 31, 2016		P11,590	P9,611,961	P9,623,551
Unrealized gains (losses) at December 31, 2016		(P4,259)	P297,360	P293,101

The Company's investments consist of the following:

	Note	**2017**	2016
Government bonds		**P9,504,355**	P9,653,024
Corporate debt securities		**121,502**	136,017
Quasi govern-ment bonds		**99,726**	120,280
Equity securities		**11,691**	7,331
	5	**P9,737,274**	P9,916,652

Interest rates range from 0% to 15.00% in 2017 and 2016.

The rollforward analysis of the fair value reserve on AFS financial assets is as follows:

	2017	2016
Balance at beginning of year	**(P4,259)**	(P4,790)
Fair value gain	**4,360**	531
Balance at end of year	**P101**	(P4,259)

9. Policy Loans Receivables

	Note	2017	2016
Policy loans receivables		**P395,095**	P464,679
Allowance for impairment losses		**(11,069)**	(11,724)
	5	**P384,026**	P452,955

Policy loans receivables account pertains to the outstanding balances of loans granted to policyholders, fully secured by the cash surrender value of the underlying insurance policy at the time of issuance. These may be in the form of a cash loan applied by the policyholder or automatic policy loan to cover premiums due on the policy.

The Company provides an allowance for policy loans and the related capitalized interest periodically to reflect the estimated realizable value of the receivables as at each reporting date.

Provision for impairment losses on policy loans receivables amounting to P0.85 million and P3.58 million in 2017 and 2016, respectively, were recognized as expense under "Others" in profit or loss.

The rollforward analysis of the allowance for impairment losses in policy loans receivables are as follows:

	2017	2016
Balance at beginning of year	**P11,724**	P8,146
Provision for impairment losses	**850**	3,578
Reversals taken up to profit or loss	**(1,505)**	-
Balance at end of year	**P11,069**	P11,724

10. Assets Held to Cover Linked Liabilities

The IC approved on September 11, 2002 the Company's license to sell variable unit-linked insurance policies, a life insurance product that is linked to investment funds (see Note 1). The premium of this product is divided into two parts: the insurance portion and the investment portion. The investment portion of the premium, net of withdrawals, is recognized as "Costs on premiums of variable insurance" in the profit or loss and invested in a separately identifiable fund. The fund is valued regularly and is divided into units which represent the unit-linked policyholder's share in the fund. The value of the fund divided by the number of units is called the unit price. An amount equal to the "Assets held to cover linked liabilities" (representing the managed funds) is shown under the "Technical provisions for linked liabilities" account in the statements of financial position, a representation that the funds belong to the unit-linked policyholders.

Linked funds is a line of business in which the Company issues a contract where the benefit amount is directly linked to the fair value of the investments held in the particular segregated fund. Although the underlying assets are registered in the name of the Company and the linked fund contract holder has no direct access to the specific assets, the contractual arrangements are such that the linked fund policyholders bear the risks and rewards of the fund's investment performance. The Company derives fee income from linked funds, which is included in "Policy administration fees" in profit or loss.

Separate financial statements are prepared for the linked funds. Linked fund assets are carried at recurring fair value. Fair values are determined using the valuation method discussed in Note 6.

Assets held to cover linked liabilities are composed of:

	Note	2017	2016
Cash and cash equivalents		**P1,839,938**	P1,818,992
Interest receivables		**347,960**	349,712
Receivable from life fund		**114,680**	162,927
Investments in treasury notes and other funds		**122,268,788**	104,677,313
Other assets		**37,224**	84,450
Liability to other funds		**(38,309,798)**	(33,641,732)
Accrued expense		**(103,637)**	(91,139)
Trade payable		**(115,066)**	(147,370)
Net assets	5	**P86,080,089**	P73,213,153

Investments in treasury notes and other funds are composed of:

	Note	2017	2016
Investments in treasury notes		**P34,976,677**	P33,255,640
Investments in shares of stocks		**49,069,788**	37,911,473
Investment in other funds:			
Investment in bond fund		**13,656,838**	13,094,215
Investment in equity fund		**24,565,485**	20,415,985
Total investments	5, 6	**P122,268,788**	P104,677,313

Total premiums and costs from the unit-linked product for the period ended 2017 and 2016 are as follows:

	Note	2017	2016
Link premiums	19	**P18,932,127**	P17,705,753
Costs on premiums of variable insurance		**(5,029,506)**	(6,758,932)
Net link premiums		**P13,902,621**	P10,946,821

11. Coverage Debt Receivables

	Note	2017	2016
Coverage debt receivables		**P456,715**	P342,884
Allowance for impairment losses		**(138,103)**	(124,739)
	5	**P318,612**	P218,145

Coverage debt receivables pertain to policy administration fees charged to the investment account of unit-linked policyholders.

These receivables normally arise from policy administration fees covering mortality risk, taxes and administrative fees due from new unit-linked policyholders who have not accumulated enough investments to cover these fees.

The Company provides an allowance for uncollectible coverage debt charges for lapsed and terminated policies.

Provision for impairment losses on coverage debt receivables amounting to P13.36 million and P12.87 million in 2017 and 2016, respectively, were recognized in profit or loss.

The rollforward analysis of the allowance for impairment losses on coverage debt receivables are as follows:

	2017	2016
Balance at beginning of year	**P124,739**	P111,868
Provision for impairment losses	**13,364**	12,871
Balance at end of year	**P138,103**	P124,739

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12. Property and Equipment

The movements in this account are as follows:

2017

	Computer equipment	Furniture, fixtures and equipment	Transportation equipment	Condominium unit	Leasehold improvements	Office improvement in progress	Total
Gross carrying amount							
Beginning balance	P198,955	P161,229	P79,833	P10,027	P607,759	P12,038	P1,069,841
Additions	22,521	16,449	16,427	-	36,863	55,081	147,341
Disposals	(9,961)	(9,475)	(7,822)	-	(40,949)	-	(68,207)
Reclassifications	-	-	-	-	27,891	(27,891)	-
Ending balance	211,515	168,203	88,438	10,027	631,564	39,228	1,148,975
Accumulated depreciation and amortization							
Beginning balance	112,280	77,752	32,988	5,993	233,771	-	462,784
Depreciation and amortization	35,822	23,777	16,138	414	117,446	-	193,597
Disposals	(9,852)	(9,084)	(7,482)	-	(33,151)	-	(59,569)
Ending balance	138,250	92,445	41,644	6,407	318,066	-	596,812
Carrying amount							
Beginning balance	P86,675	P83,477	P46,845	P4,034	P373,988	P12,038	P607,057
Carrying amount							
Ending balance	P73,265	P75,758	P46,794	P3,620	P313,498	P39,228	P552,163

2016

	Computer equipment	Furniture, fixtures and equipment	Transportation equipment	Condominium unit	Leasehold improvements	Office improvement in progress	Total
Gross carrying amount							
Beginning balance	P192,843	P110,389	P73,720	P10,027	P460,040	P43,394	P890,413
Additions	22,665	70,610	28,235	-	123,415	52,919	297,844
Disposals	(16,553)	(19,770)	(22,122)	-	(59,971)	-	(118,416)
Reclassifications	-	-	-	-	84,275	(84,275)	-
Ending balance	198,955	161,229	79,833	10,027	607,759	12,038	1,069,841
Accumulated depreciation and amortization							
Beginning balance	87,767	71,841	34,737	5,579	203,368	-	403,292
Depreciation and amortization	30,830	19,056	14,762	414	77,149	-	142,211
Disposals	(6,317)	(13,145)	(16,511)	-	(46,746)	-	(82,719)
Ending balance	112,280	77,752	32,988	5,993	233,771	-	462,784
Carrying amount							
Beginning balance	P105,076	P38,548	P38,983	P4,448	P256,672	P43,394	P487,121
Carrying amount							
Ending balance	P86,675	P83,477	P46,845	P4,034	P373,988	P12,038	P607,057

13. Deferred Acquisition Costs

	2017	2016 (As restated - see Note 29)
Restated beginning balance	**P5,593,810**	P4,859,892
Movements during the year:		
Deferred expenses	**1,662,333**	1,378,426
Amortization of deferred acquisition costs	**(757,780)**	(644,508)
	904,553	733,918
Ending balance	**P6,498,363**	P5,593,810

14. Other Assets

	Note	2017	2016 (As restated - see Note 29
Receivable from unit linked fund		**P193,936**	P229,363
Prepayments		**191,007**	97,169
Software development cost- net		**168,820**	150,510
Nonrefundable deposits		**90,686**	103,074
Advances to employees and agents		**69,077**	64,509
Due from related parties	25	**-**	6,834
Others		**121,427**	97,232
		834,953	748,691
Allowance for impairment losses on advances to employees and agents		**(5,118)**	(3,641)
		P829,835	P745,050

Receivable from unit linked fund pertains to the amount to be received by the Company from Pru Link funds as reimbursement for the settlement of withdrawals or surrenders made from unit-linked policies.

Prepayments consist mainly of prepaid rent.

Software development costs consist of amounts capitalized for the development and launching of new variants of the Company's two (2) major products - the Unit Linked Regular Premium Pay products and the Unit Linked Single Premium Pay products. These also include costs for the development of major enhancements in the policy administration system used by the Company. These assets are amortized on a straight-line basis over five (5) years.

Nonrefundable deposits consist mainly of security lease deposits that can be applied at the end of the lease term.

Advances to employees and agents are collected through payroll deductions or through expense liquidation.

Others consist mainly of corporate give away inventories, gifts, income tax withheld and prudential guarantees.

The rollforward analysis for allowance for impairment losses on advances to employees and agents are as follows:

	2017	2016
Balance at beginning of year	**P3,641**	P2,788
Provision for impairment losses	**3,348**	1,176
Reversals taken up to profit or loss	**(1,871)**	(323)
Balance at end of year	**P5,118**	P3,641

The Company collected advances to employees and agents that have been previously written off amounting to P1.87 million and P0.32 million in 2017 and 2016, respectively.

The movements of software development costs in 2017 and 2016 are as follows:

	2017	2016
Gross carrying amount		
Beginning balance	**P409,433**	P314,664
Acquisitions	**54,096**	94,769
Write-off	**-**	-
Ending balance	**463,529**	409,433
Accumulated amortization		
Beginning balance	**258,923**	231,958
Amortization	**36,422**	26,965
Write-off	**(636)**	-
Ending balance	**294,709**	258,923
Net carrying amount		
Beginning balance	**P150,510**	P82,706
Ending balance	**P168,820**	P150,510

15. Legal Policy Reserves

Reconciliation of the carrying amount of the liability at the beginning and end of the year is shown below:

	2017	2016 (As restated - see Note 29)
Restated beginning balance	**P6,188,988**	P6,157,767
Net premiums written	**141,237**	233,943
Liabilities released for payments on death, surrenders and other terminations	**(582,585)**	(370,741)
Accretion of interest	**337,314**	245,200
Other movements	**(132,718)**	(77,181)
Ending balance	**P5,952,236**	P6,188,988

Starting January 1, 2017, the Company implemented the new valuation standards for traditional policies, using the GPV method is consistent with the CL No 2016-66 as issued by the IC last December 28, 2016.

The appropriated retained earnings for negative reserves amounted to P0.04 million and P0.03 million in 2017 and 2016, respectively.

16. Claims Payable

Reconciliation of the carrying amount of the liability at the beginning and end of the year is shown below:

	2017	2016
Beginning balance:		
Notified payable	**P298,143**	P236,862
IBNR	**21,310**	49,623
	319,453	286,485
Cash paid for claims settled during the year	**(714,223)**	(601,461)
Increase in liabilities	**843,290**	634,429
Ending balance	**P448,520**	P319,453
Notified claims payable	**P367,999**	P298,143
IBNR	**80,521**	21,310
	P448,520	P319,453

17. Reinsurance Payable

Reconciliation of the carrying amount of the liability at the beginning and end of the year is shown below:

	Note	2017	2016
Beginning balance		**P77,553**	P93,356
Premium ceded to reinsurers	19	**385,550**	437,732
Paid during the year		**(378,717)**	(453,535)
Ending balance		**P84,386**	P77,553

18. Accounts Payable, Accrued Expenses and Other Liabilities

The account consists of the following:

	Note	2017	2016 (As restated - see Note 29)
Dividends payable to policyholders		**P1,029,071**	P1,012,511
Accrued expenses		**855,824**	733,446
Agent's commission payable		**410,265**	375,683
Premium suspense account		**264,359**	194,765
Provident fund payable		**222,082**	183,808
Due to related parties	25	**124,496**	73,160
Due to unit-linked funds		**114,757**	170,913
Withholding tax payable		**48,599**	142,157
Premium deposit fund		**47,785**	50,912
Premium tax payable		**21,112**	18,590
Retirement liability	23	**14,653**	65,992
Other liabilities		**69,495**	104,378
		P3,222,498	P 3,126,315

Dividends payable to policyholders pertains to supplementary discretionary returns through participation in the surplus of the Company arising from participating business.

Accrued expenses primarily consist of performance and incentive bonuses payable.

Agent's commission payable pertains to unpaid commissions.

Premium suspense account pertains to amounts received from the policyholders who are in the process of policy application and unidentified collections. These collections will be applied to premiums due.

Provident fund payable represents the retirement fund for agents.

Due to related parties account includes payables to Eastspring Investments (Singapore) Limited, Inc. (Eastspring), Prudential Services Asia (PSA) and Prudential Holdings Limited (PHL) (see Note 25).

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

Premium deposit fund represents advance payment from policyholders which will be used for payment of any future unpaid premiums under the policy. The fund earns interest which is credited to the fund. The accumulated fund shall not exceed the total future premium payments under the policy

19. Net Premiums

Gross premiums on insurance contracts:

	Note	2017	2016
Unit-linked insurance	10	**P18,932,127**	P17,705,753
Group life insurance		**412,120**	592,637
Ordinary life insurance		**204,131**	225,341
Accident and health		**58,378**	30,369
		P19,606,756	P18,554,100

Reinsurer's share of gross premiums on insurance contracts:

	Note	2017	2016
Unit-linked insurance		**P56,836**	P85,755
Group life insurance		**324,198**	336,546
Ordinary life insurance		**4,327**	14,923
Accident and health		**189**	508
	17	**P385,550**	P437,732

Net premiums on insurance contracts:

	2017	2016
Unit-linked insurance	**P18,875,291**	P17,619,998
Group life insurance	**87,922**	256,091
Ordinary life insurance	**199,804**	210,418
Accident and health	**58,189**	29,861
	P19,221,206	P18,116,368

20. Policy Administration Fees

Policy administration fees are charged against the daily net asset value of the investment account of the policyholders based on the following rates per annum as specified in the policy document:

	2017	2016
Managed Fund	**1.79%**	1.79%
Bond Fund (Philippine peso)	**1.53%**	1.53%
Bond Fund (U.S. dollar)	**1.53%**	1.53%
Growth Fund	**2.25%**	2.25%
Equity Fund	**2.25%**	2.25%
Proactive Fund	**2.25%**	2.25%
Money Market Fund	**0.50%**	0.50%
Asian Local Bond Fund	**1.80%**	1.80%
Asia Pacific Equity Fund	**2.05%**	2.05%
Global Emerging Fund	**2.05%**	2.05%
Cash Flow Fund	**1.95%**	1.95%
Asian Balanced Fund	**1.95%**	-

Policy administration fees amounted to P1.66 billion and P1.48 billion in 2017 and 2016, respectively.

21. Investment Income (Loss)

The account consists of the following:

	Note	2017	2016
Interest income		**P535,876**	P536,966
Foreign exchange gain (loss)	8	**(3,923)**	16,757
Gain on disposal of investments	8	**1,883**	763
Final withholding tax		**(103,341)**	(102,288)
Unrealized loss on valuation of investments	8	**(484,639)**	(165,556)
Investment management expense		**(289,778)**	(265,943)
Dividends		**114**	-
		(P343,808)	P20,699

22. Benefits and Claims

Gross benefits and claims on insurance contracts:

2017

	Gross benefits and claims	Reinsurers' share of gross benefits and claims	Net
Unit-linked insurance	**P7,643,758**	**(P43,471)**	**P7,600,287**
Ordinary life insurance	**439,905**	**(1,166)**	**438,739**
Group life insurance	**37,155**	**(3,017)**	**34,138**
Accident and health	**23,971**	**(160)**	**23,811**
	P8,144,789	**(P47,814)**	**P8,096,975**

2016

	Gross benefits and claims	Reinsurers' share of gross benefits and claims	Net
Unit-linked insurance	P5,413,639	(P16,355)	P5,397,284
Ordinary life insurance	298,291	(572)	297,719
Group life insurance	118,668	-	118,668
Accident and health	1,130	(45)	1,085
	P5,831,728	(P16,972)	P5,814,756

Gross change in increase in legal policy reserves:

	2017	2016
Unit-linked insurance	**P27,082**	P68,212
Ordinary life insurance	**(85,473)**	13,473
Group life insurance	**3,525**	(5,597)
Accident and health	**(60,579)**	641
	(P115,445)	P76,729

23. Retirement Plan

As discussed in Note 3, the Company maintains a DC plan with minimum DB guarantee and is accounted for as a DB plan. As at December 31, 2017, the DB liability is more than the DC liability.

The following tables show reconciliation from the opening balances to the closing balances for net defined benefit liability and its components.

	2017		
	DBO	FVPA	Net Defined Benefit Liability
Balance at January 1, 2017	**P350,779**	**P284,787**	**P65,992**
Included in profit or loss			
Current service cost	**64,426**	**-**	**64,426**
Interest cost	**17,521**	**15,822**	**1,699**
	81,947	**15,822**	**66,125**
Included in other comprehensive income			
Remeasurements gain:			
Actuarial gain arising from:			
Financial assumptions	**(6,378)**	**-**	**(6,378)**
Experience adjustment	**(16,874)**	**-**	**(16,874)**
Return on plan assets excluding interest income	**-**	**29,099**	**(29,099)**
	(23,252)	**29,099**	**(52,351)**
Others			
Contributions paid by the employer	**-**	**65,113**	**(65,113)**
Benefits paid	**(24,224)**	**(24,224)**	**-**
	(24,224)	**40,889**	**(65,113)**
Balance at December 31, 2017	**P385,250**	**P370,597**	**P14,653**

	2016		
	DBO	FVPA	Net Defined Benefit Liability
Balance at January 1, 2016	P305,905	P256,988	P48,917
Included in profit or loss			
Current service cost	65,752	-	65,752
Interest cost	13,851	12,983	868
	79,603	12,983	66,620
Included in other comprehensive income			
Remeasurements gain:			
Actuarial gain arising from:			
Financial assumptions	(7,390)	-	(7,390)
Experience adjustment	(10,175)	-	(10,175)
Return on plan assets excluding interest income	-	(11,529)	11,529
	(17,565)	(11,529)	(6,036)
Others			
Contributions paid by the employer	-	43,509	(43,509)
Benefits paid	(17,164)	(17,164)	-
	(17,164)	26,345	(43,509)
Balance at December 31, 2016	P350,779	P284,787	P65,992

The retirement expense under "Salaries, allowances and employees' benefits" account in profit or loss amounted to P66.13 million and P66.62 million in 2017 and 2016, respectively.

The Company's plan assets consist of the following

	2017	2016
Cash and cash equivalents	**P -**	P39
Receivables	**2,705**	1,700
Government securities	**209,676**	84,904
Deposit instruments	**-**	18,100
Unit investments trust funds	**25,296**	35,654
Investment in mutual funds	**71,250**	101,119
Corporate bonds	**62,100**	63,100
Trust fee payable	**(430)**	(349)
Other payables	**-**	(19,480)
	P370,597	P284,787

The expected contribution to the defined benefit retirement plan in 2018 is P62.64 million.

The following were the principal actuarial assumptions at the reporting date:

	2017	2016
Discount rate	**5.75%**	5.25%
Future salary growth	**6.00%**	6.00%

The weighted-average duration of the defined benefit obligation is 13 years both in December 31, 2017 and 2016, respectively.

Maturity analysis of the benefit payments:

2017

	Carrying amount	Contractual cash flows	Within 1 Year	Within 1-5 Years	More than 5 Years
Retirement liability	P385,250	P358,753	P26,514	P92,475	P239,764

2016

	Carrying amount	Contractual cash flows	Within 1 Year	Within 1-5 Years	More than 5 Years
Retirement liability	P350,779	P311,000	P24,158	P88,722	P198,120

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	Defined benefit obligation	
	Increase	Decrease
Discount rate (1% movement)	(P26,004)	P18,299
Future salary growth (1% movement)	26,968	(19,263)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

These defined benefit plans expose the Company to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk.

The asset allocation of the plan is set and reviewed from time to time by the Plan Trustees taking into account the membership profile, the liquidity requirements of the plan and risk appetite of the plan sponsor. This also considers the expected benefit cash flows to be matched with asset durations.

24. Income Taxes

The components of the Company's income tax expense in profit or loss are as follows:

	2017	2016 (As restated-see Note 29)
Current tax expense	**P18,282**	P3,945
Deferred tax expense	**445,703**	299,535
	P463,985	P303,480

The reconciliation of the income tax expense computed at statutory tax rate to the income tax shown in profit or loss is as follows:

	2017	2016 (As restated-see Note 29)
Income before income tax expense	**P2,092,598**	P2,082,967
Income tax using the domestic corporation tax rate	**P627,779**	P624,890
Additions to (reduction in) income tax resulting from:		
Non-deductible expenses	**12,938**	15,395
Other income subjected to final tax	**(211,815)**	(190,939)
Non-taxable gain from disposal of investments	**(42,133)**	(112,150)
Interest income subjected to final tax	**(356,070)**	(376,565)
Non-deductible loss on valuation of investments	**145,172**	41,579
Expired recognized NOLCO	**170,908**	304,397
Effect of unrecognized deferred tax assets	**98,924**	(7,072)
Expired MCIT	**18,282**	3,945
	P463,985	P303,480

Deferred tax assets has not been fully recognized because it is not probable that future taxable profit will be available against which the Company can utilize the benefits from. The unrecognized deferred tax assets as at December 31, 2017 and 2016 are as follows:

	2017		2016 (As restated -see Note 29)	
	Tax Base	Deferred Tax Assets	Tax Base	Deferred Tax Assets
NOLCO	**P125,007**	**P37,502**	P -	P -
Accrued expenses	**870,477**	**261,143**	799,440	239,832
Agent's Commission	**410,265**	**123,079**	375,683	112,705
Provident fund	**222,082**	**66,625**	183,808	55,142
IBNR	**80,521**	**24,156**	21,310	6,393
MCIT	**82,374**	**82,374**	59,845	59,845
Remeasurement on life insurance reserve	**939,449**	**281,835**	1,060,756	318,227
	P2,730,175	**P876,714**	P2,500,842	P792,144

Below is the movement of the deferred tax assets and deferred tax liability recognized as at December 31, 2017 and 2016.

2017

	Beginning balance	Amount Charged to Profit or Loss	Amount recognized in other comprehensive income	Ending balance
NOLCO	P548,801	(P174,337)	P -	P374,464
Retirement liability	(1,811)	-	(15,705)	(17,516)
Deferred acquisition costs	(1,678,143)	(271,366)	-	(1,949,509)
Deferred tax liability- net	(P1,131,153)	(P445,703)	(P15,705)	(P1,592,561)

2016 (As restated - see Note 29)

	Beginning balance	Amount Charged to Profit or Loss	Amount recognized in other comprehensive income	Ending balance
NOLCO	P628,161	(P79,360)	P -	P548,801
Retirement liability	-	-	(1,811)	(1,811)
Deferred acquisition costs	(1,457,968)	(220,175)	-	(1,678,143)
Deferred tax liability- net	(P829,807)	(P299,535)	(P1,811)	(P1,131,153)

The details of the Company's MCIT available for offsetting against future current tax liabilities are as follows:

Year Incurred	Amount	Write-off/Application	Remaining balance	Date of expiration
2014	P18,282	P18,282	P -	December 31, 2017
2015	16,517	-	16,517	December 31, 2018
2016	25,046	-	25,046	December 31, 2019
2017	40,811	-	40,811	December 31, 2020
	P100,656	P18,282	P82,374	

The carry-forward benefits of NOLCO which are available for offsetting against future taxable income are as follows:

Year Incurred	Amount	Write-off/Application	Remaining balance	Date of expiration
2014	P569,695	P569,695	P -	December 31, 2017
2015	646,711	-	646,711	December 31, 2018
2016	612,929	-	612,929	December 31, 2019
2017	113,581	-	113,581	December 31, 2020
	P1,942,916	P569,695	P1,373,221	

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25. Related Party Transactions

Parties are considered related if one party has control, joint control, or significant influence over the other party in making financial and operating decisions. The key management personnel of the Company are also considered to be related parties.

The Company's key management personnel (KMP) are composed of the senior management and directors.

Category/Transaction	Year	Note	Amount of the transaction	Due to related parties (Note 18)	Due from related parties (Note 14)	Terms	Conditions
Eastspring (under common control)							
▶ Investment management	2017	*a*	P273,917	P71,815	P -	**30 days; noninterest - bearing**	**Unsecured**
	2016		265,943	64,386	-	30 days; noninterest - bearing	Unsecured
PSA (Under Common Control)							
▶ IT service costs	2017	*b*	247,160	32,912	-	**30 days; noninterest - bearing**	**Unsecured**
	2016		227,199	8,774	-	30 days; noninterest - bearing	Unsecured
PHL (Under Common Control)							
▶ Allocation of expenses	2017	*c*	141,135	19,769	-	**30 days; noninterest - bearing**	**Unsecured: not impaired**
	2016		198,571	-	5,277	30 days; noninterest - bearing	Unsecured
Prudence Foundation Limited (Under Common Control)							
▶ Allocation of expenses	2017	*d*	-	-	-		
	2016		5,127	-	1,557	30 days; noninterest - bearing	Unsecured
TOTAL	**2017**			**P124,496**	**P -**		
TOTAL	2016			P73,160	P6,834		

Outstanding receivables from and payables to related parties which are expected to be settled in cash, are included under "Other assets" (see Note 14) and "Accounts payable, accrued expenses and other liabilities" (see Note 18) accounts, respectively.

a. In the normal course of business, the Company has an investment management services agreement with Eastspring, whereby the latter shall act as investment advisor to the Company on the management of both the Company's investments and the investment funds (see Note 10) in consideration for a quarterly service fee as may be mutually agreed upon on an annual basis.

b.The Company entered into a Service Level Agreement with PSA to provide infrastructure services aligned to agreed service hours and delivery performance targets. The services involve system availability and operation, service desk, network availability, back-up and recovery, change management, disaster recovery plans and system capacity and resource monitoring.

c. These pertain to advances made by PHL on behalf of the Company for the expenses covering software maintenance, training for regional agency leaders and agents' conference. These are netted against the advances made by the Company on behalf of PHL for the settlement of certain administration costs.

d. Transactions with Prudence Foundation Limited (PFL) pertain to various advances made by the Company on behalf of PFL for activities related to corporate social responsibilities in the Philippines.

The entities mentioned above are wholly-owned subsidiaries of Prudential.

Compensation of KMP

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including director, whether executive or otherwise, of the Company.

The key management personnel compensation is as follows:

	2017	2016
Short-term employee benefits	**P169,148**	P155,820
Post-employment benefits	**10,160**	9,786
	P179,308	P165,606

These expenses are recorded under "Salaries, allowances and employees' benefits" in profit or loss.

26. Leases

The Company leases its head office and branches under operating lease.On November 6, 2014, the Company entered into a lease contract with Mega World Corporation for office space at Uptown Bonifacio Tower 1 for a period of five (5) years commencing on September 15, 2015 subject to a 5.00% escalation effective on the third year of the lease term and compounded annually thereafter at the same rate.

Leases for branches are for a period of three (3) to five (5) years. None of the leases include contingent rentals and restrictions.

Lease related transactions are as follows:

	2017	2016
Rent expense	**P253,045**	P247,904
Nonrefundable security deposit	**70,962**	75,954
Prepaid rent	**76,258**	61,247

Future minimum lease payments are payable as follows:

	2017	2016
Less than one year	**P195,580**	P220,853
Between one and five years	**289,172**	451,782
	P484,752	P672,635

27. Equity

The details of this account are as follows:

	2017	2016
Authorized		
Par value per share	**P100**	P100
Number of shares	**5,000,000**	5,000,000
Issued and Outstanding		
Number of shares	**5,000,000**	5,000,000
Capital stock	**P500,000**	P500,000
Additional paid-in capital	**462,000**	462,000
Total paid-up capital	**P962,000**	P962,000

On March 30, 2017, the BOD of the Company declared cash dividends amounting to P764.71 million or P152.94 per share. This was approved by the IC on April 20, 2017 and was paid on May 26, 2017. On September 22, 2017, additional cash dividends were declared by the BOD of the Company amounting to P941.18 million or P188.24 per share. This was approved by the IC on October 10, 2017 and was paid on November 14, 2017.

On May 19, 2016, the BOD of the Company declared cash dividends amounting to P588.24 million or P117.65 per share. This was approved by the IC on May 20, 2016 and was paid on June 24, 2016. On November 07, 2016, additional cash dividends were declared by the BOD of the Company amounting to P588.24 million or P117.65 per share. This was approved by the IC on November 7, 2016 and was paid on December 22, 2016.

As at December 31, 2017, the Company's unappropriated retained earnings of P9.03 billion is in excess of its paid-up capital of P962.00 million. However, the Company plans to use the excess retained earnings to comply with the increasing capital and new regulatory requirements by the IC, as well as the Company's plan for new investment initiatives. The Company being an insurance company has special circumstances due to special reserve requirements of the Insurance Commission, thus exempted from retaining surplus profits in excess of one hundred (100%) percent of paid-in capital stock, under Section 43 of the Corporation Code. The exemption provision indicate that "when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is need for special reserve for probable contingencies.

28. Contingent Liabilities

In the normal course of the Company's operations, there are outstanding contingent liabilities which are not reflected in the financial statements. The management of the Company does not anticipate losses that will materially affect the financial statements as a result of these contingencies.

29. Restatements

Effective January 1, 2017, the Company adopted GPV methodology in calculating its legal policy reserves in accordance with CL 2016-66, Valuation Standards for Life Insurance Policy Reserves, issued by the IC on December 28, 2016. Previously, the Company used net premium valuation methodology.

Additionally, the Company revisited its policy in recognizing deferred tax assets on its financial statements due to its history of consistent tax losses year-on-year. In the previous years, the Company's deferred tax assets were generally recognized up to the extent of available taxable temporary difference. However, current accounting standards allow an entity with history of current year losses to recognize a deferred tax assets arising from unused tax losses to the extent that the entity has sufficient taxable temporary differences of an appropriate type, that reverse in an appropriate period. Accordingly, the Company has concluded that it can only recognize such deferred tax assets on its NOLCO.

The above change in accounting policies were applied retrospectively and accordingly, the Company's comparative information as at January 1, 2016 and December 31, 2016 have been restated.

A summary of the impact on the statement of financial position as at January 1, 2016 is as follows:

		Adjustments		
	As Previously Reported	Impact of GPV	Reassessment of Deferred Tax Assets	As Restated
Statement of Financial Position				
Deferred acquisition costs	P4,965,663	(P105,771)	P -	P4,859,892
Legal policy reserves	(4,914,082)	(1,243,685)	-	(6,157,767)
Deferred tax liability - net	(557,215)	27,685	(300,277)	(829,807)
Accounts payable, accrued expenses and other liabilities	(3,132,474)	100,061	-	(3,032,413)
Retirement fund reserve	9,443	4,047	-	13,490
Remeasurement on life insurance reserve	-	1,106,264	-	1,106,264
Retained earnings	(8,950,166)	111,399	300,277	(8,538,490)

The impact on the statement of financial position, statements of profit or loss and other comprehensive income and cash flows as at and for the year ended December 31, 2016 is as follows:

		Adjustments		
	As Previously Reported	Impact of GPV	Reassessment of Deferred Tax Assets	As Restated
Statement of Financial Position				
Deferred acquisition costs	P5,677,319	(P83,509)	P -	P5,593,810
Other assets - net	728,958	-	16,092	745,050
Legal policy reserves	(5,007,216)	(1,181,772)	-	(6,188,988)
Deferred tax liability - net	(671,052)	21,006	(481,107)	(1,131,153)
Accounts payable, accrued expenses and other liabilities	(3,234,401)	108,086	-	(3,126,315)
Retirement fund reserve	5,218	4,047	-	9,265
Remeasurement on life insurance reserve	-	1,060,756	-	1,060,756
Retained earnings	(9,677,908)	71,386	465,015	(9,141,507)

		Adjustments		
	As Previously Reported	Impact of GPV	Reassessment of Deferred Tax Assets	As Restated
Statement of Profit or Loss and Other Comprehensive Income				
Gross change in legal policy reserves	P93,134	(P16,405)	P -	P76,729
Dividends to policyholders	116,351	(8,023)	-	108,328
Deferred expenses - net	(711,656)	(22,262)	-	(733,918)
Income tax expense	132,065	6,677	164,738	303,480
Overall Impact on Total Comprehensive Income	(P370,106)	(P40,013)	P164,738	(P245,381)
Statement of Cash Flows				
Income before income tax expense	P2,036,277	P16,405	P30,285	P2,082,967
Amortization of deferred acquisition costs	666,770	-	(22,262)	644,508
Legal policy reserves	93,134	(16,405)		76,729
Accounts payable, accrued expenses and other liabilities	148,784	-	(8,023)	140,761
Overall Impact on Net Cash Provided by Operating Activities	P2,944,965	P -	P -	P2,944,965

The impact as at and for the year ended December 31, 2017 is as follows:

Statement of Financial Position	
Deferred acquisition costs	(P22,262)
Legal policy reserves	(180,909)
Deferred tax liability - net	321,358
Remeasurement on life insurance reserve	121,307
Statement of Profit or Loss and Other Comprehensive Income	
Gross change in legal policy reserves	59,602
Deferred expenses - net	22,262
Income tax expense	(321,358)
Overall Impact on Total Comprehensive Income	(P239,494)

30. Supplementary information required by the Bureau of Internal Revenue (BIR) Based on Revenue Regulation No. 15-2010

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the notes to the financial statements which were prepared in accordance with PFRS.

The following is the tax information required for the taxable year ended December 31, 2017:

A. Documentary stamp tax

On others	P8,106,500

B. Withholding taxes

Creditable withholding taxes	P432,226,946
Final withholding taxes	556,933,824
Tax on compensation and benefits	191,870,362
	P1,181,031,132

C. All other taxes (Local and National)

Premiums tax	P82,667,449
License and permit fees	27,944,121
Fringe benefits tax	42,548,298
Real estate taxes	133,028
	P153,292,896

D. Tax contingencies

The Company has no deficiency tax assessment or any tax case, litigation, and/or prosecution in courts or bodies outside the BIR as at December 31, 2017.

Combined financial statements

PRU LIFE INSURANCE CORPORATION OF U.K.
(A wholly-owned subsidiary of Prudential Corporation Holdings Limited)
PRULINK OPERATED BY THE LINKED FUND

COMBINED FINANCIAL STATEMENTS
December 31, 2017 and 2016

Combined financial statements

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Pru Life Insurance Corporation of U.K.
9/F Uptown Place Tower 1
1 East 11th Drive, Uptown Bonifacio
Taguig City 1634, Metro Manila
Philippines

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying combined financial statements of Prulink operated by the Linked Fund (the Funds) of Pru Life Insurance Corporation of U.K. (the Company), which comprise the combined statements of assets and accountabilities as at December 31, 2017 and 2016, and the combined statements of changes in net assets and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined assets and accountabilities of the Funds as at December 31, 2017 and 2016, and its combined changes in net assets and its combined cash flows for the years then ended in accordance with the basis of preparation set out in Note 2 to the combined financial statements.

Basis for Opinion

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

Emphasis of Matter - Basis of Accounting

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Company in presenting the combined financial statements which is based on the financial statements of the individual linked funds. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with the basis of preparation set out in Note 2 to the combined financial statements, and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these combined 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 combined financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the combined financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined 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.

R.G. MANABAT & CO.

Tireso Randy F. Lapidez

TIRESO RANDY F. LAPIDEZ
Partner

CPA License No. 0092183
IC Accreditation No. SP-2017/016-R, Group A, valid until August 26, 2020
SEC Accreditation No. 1472-A, Group A, valid until April 30, 2018
Tax Identification No. 162-411-175
BIR Accreditation No. 08-001987-34-2017
Issued September 4, 2017; valid until September 3, 2020
PTR No. 6615138MD
Issued January 3, 2018 at Makati City

March 22, 2018
Makati City, Metro Manila

PRU LIFE INSURANCE CORPORATION OF U.K.

(A wholly-owned subsidiary of Prudential Corporation Holdings Limited)

COMBINED STATEMENTS OF ASSETS AND ACCOUNTABILITIES OF THE PRULINK OPERATED BY THE LINKED FUND AS AT DECEMBER 31, 2017 *(Amounts in thousands)*

	Note	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Money Market Fund	Proactive Fund	Asian Local Bond Fund	Asia Pacific Equity Fund	Global Emerging Market Fund	Cash Flow Fund	Asian Balanced Fund	Combined
ASSETS														
Cash and cash equivalents		P3,827	P124,516	P20,975	P42,003	P1,249,672	P226,850	P75,020	P1,244	P4,370	P28	P85,291	P6,142	P1,839,938
Interest receivables		-	165,205	148,483	2	34,079	187	4	-	-	-	-	-	347,960
Receivable from life fund	2	128	659	-	15,838	68,867	-	6,442	-	2,374	148	19,964	260	114,680
Investments at fair value through profit or loss	5	6,683,780	17,995,816	8,720,006	12,629,021	47,616,163	199,472	18,909,522	804,230	1,453,625	800,393	6,430,701	26,059	122,268,788
Other assets		12,000	-	-	-	10,000	-	1,000	7,227	2,668	3,405	-	924	37,224
		6,699,735	18,286,196	8,889,464	12,686,864	48,978,781	426,509	18,991,988	812,701	1,463,037	803,974	6,535,956	33,385	124,608,590
LIABILITIES														
Liability to life fund and other linked funds	2, 8	(9,200)	(13,662,718)	(33,530)	-	(24,565,447)	(15)	(25,602)	(7,739)	(2,300)	(2,241)	-	(1,006)	(38,309,798)
Accrued expenses	8	(52)	(3,094)	(13,876)	(144)	(12,571)	(37)	(567)	(2,559)	(2,945)	(1,616)	(66,134)	(42)	(103,637)
Trade payable	8	-	-	-	(10,000)	(13,000)	-	-	(217)	(3,474)	(1)	(82,373)	(6,001)	(115,066)
NET ASSETS		P6,690,483	P4,620,384	P8,842,058	P12,676,720	P24,387,763	P426,457	P18,965,819	P802,186	P1,454,318	P800,116	P6,387,449	P26,336	P86,080,089

See Notes to the Combined Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.

(A wholly-owned subsidiary of Prudential Corporation Holdings Limited)

COMBINED STATEMENTS OF ASSETS AND ACCOUNTABILITIES OF THE PRULINK OPERATED BY THE LINKED FUND AS AT DECEMBER 31, 2016 *(Amounts in thousands)*

	Note	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Money Market Fund	Proactive Fund	Asian Local Bond Fund	Asia Pacific Equity Fund	Global Emerging Market Fund	Cash Flow Fund	Combined
ASSETS													
Cash and cash equivalents		P25,048	P262,957	P133,077	P56,116	P1,045,470	P100,705	P81,921	P1,046	P1,581	P439	P110,632	P1,818,992
Interest receivables		1	161,517	161,869	2	26,315	5	3	-	-	-	-	349,712
Receivable from life fund	2	9,126	-	851	22,933	75,908	-	17,879	-	65	15	36,150	162,927
Investments at fair value through profit or loss	5	6,751,961	17,711,806	9,498,398	9,990,723	36,743,731	199,614	16,767,516	965,873	1,167,742	650,869	4,229,080	104,677,313
Other assets		-	30,000	-	-	20,000	-	-	2,749	4,385	2,409	24,907	84,450
		6,786,136	18,166,280	9,794,195	10,069,774	37,911,424	300,324	16,867,319	969,668	1,173,773	653,732	4,400,769	107,093,394
LIABILITIES													
Liability to life fund and other linked funds	2, 8	(6,376)	(13,156,631)	(13,911)	(6,295)	(20,415,998)	(12,081)	(995)	(1,275)	(2,508)	(1,454)	(24,208)	(33,641,732)
Accrued expenses	8	(135)	(6,069)	(3,320)	(270)	(18,740)	(45)	(1,026)	(4,156)	(4,409)	(2,451)	(50,518)	(91,139)
Trade payable	8	-	-	-	(20,000)	-	-	(30,000)	-	(41)	(194)	(97,135)	(147,370)
NET ASSETS		P6,779,625	P5,003,580	P9,776,964	P10,043,209	P17,476,686	P288,198	P16,835,298	P964,237	P1,166,815	P649,633	P4,228,908	P73,213,153

See Notes to the Combined Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.

(A wholly-owned subsidiary of Prudential Corporation Holdings Limited)

COMBINED STATEMENTS OF CHANGES IN NET ASSETS OF THE PRULINK OPERATED BY THE LINKED FUND FOR THE YEAR ENDED DECEMBER 31, 2016 *(Amounts in thousands)*

	Note	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Money Market Fund	Proactive Fund	Asian Local Bond Fund	Asia Pacific Equity Fund	Global Emerging Market Fund	Cash Flow Fund	Combined
Net assets at beginning of year		P6,915,204	P4,690,995	P9,257,761	P9,680,478	P15,939,835	P188,291	P16,108,655	P968,887	P1,082,220	P566,382	P2,433,985	P67,832,693
Net additions (withdrawals) to the fund for creation of units		(142,122)	295,677	(139,910)	546,223	1,905,940	99,038	1,068,743	(86,294)	(41,207)	(50,851)	1,478,679	4,933,916
		6,773,082	4,986,672	9,117,851	10,226,701	17,845,775	287,329	17,177,398	882,593	1,041,013	515,531	3,912,664	72,766,609
FUND INCOME													
Unrealized appreciation (depreciation) of investment at fair value through profit or loss		-	(399,004)	292,198	-	(1,050,555)	701	-	93,486	162,005	162,356	512,812	(226,001)
Interest income		153	1,038,459	497,834	464	4,465	1,493	1,106	-	-	-	-	1,543,974
Gain (loss) on sale of investment at fair value through profit or loss		-	372,793	29,306	-	29,415	478	-	7,182	(12,744)	(15,257)	13,544	424,717
Dividend income		-	-	-	-	636,462	-	-	-	-	-	-	636,462
Profit (loss) from interfund investments		14,791	(391,476)	-	(168,440)	825,224	-	(280,099)	-	-	-	-	-
FUND EXPENSES													
Management fees	6	(8,370)	(324,528)	(160,223)	(15,423)	(813,208)	(1,413)	(62,885)	(19,024)	(23,459)	(12,997)	(64,661)	(1,506,191)
Distribution expense		-	-	-	-	-	-	-	-	-	-	(145,451)	(145,451)
Tax expense		(31)	(279,336)	(2)	(93)	(892)	(390)	(222)	-	-	-	-	(280,966)
		6,543	16,908	659,113	(183,492)	(369,089)	869	(342,100)	81,644	125,802	134,102	316,244	446,544
NET ASSETS AT END OF YEAR		P6,779,625	P5,003,580	P9,776,964	P10,043,209	P17,476,686	P288,198	P16,835,298	P964,237	P1,166,815	P649,633	P4,228,908	P73,213,153

See Notes to the Combined Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.

(A wholly-owned subsidiary of Prudential Corporation Holdings Limited)

COMBINED STATEMENTS OF CHANGES IN NET ASSETS OF THE PRULINK OPERATED BY THE LINKED FUND FOR THE YEAR ENDED DECEMBER 31, 2017 *(Amounts in thousands)*

	Note	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Money Market Fund	Proactive Fund	Asian Local Bond Fund	Asia Pacific Equity Fund	Global Emerging Market Fund	Cash Flow Fund	Asian Balanced Fund	Combined
Net assets at beginning of year		P6,779,625	P5,003,580	P9,776,964	P10,043,209	P17,476,686	P288,198	P16,835,298	P964,237	P1,166,815	P649,633	P4,228,908	P -	P73,213,153
Net additions (withdrawals) to the fund for creation of units		(391,484)	(323,560)	(1,416,027)	639,519	2,593,028	135,514	(85,407)	(247,154)	(92,297)	(44,019)	2,051,703	25,897	2,845,713
		6,388,141	4,680,020	8,360,937	10,682,728	20,069,714	423,712	16,749,891	717,083	1,074,518	605,614	6,280,611	25,897	76,058,866
FUND INCOME														
Unrealized appreciation (depreciation) of investment at fair value through profit or loss		-	(724,366)	151,519	-	8,390,568	(56)	-	74,185	383,820	203,139	384,275	494	8,863,578
Interest income		53	955,250	466,831	279	6,349	1,286	248	-	-	-	-	-	1,430,296
Gain on sale of investment at fair value through profit or loss		-	21,845	12,141	-	978,801	4,276	-	27,467	23,845	6,466	50,319	17	1,125,177
Dividend income		-	-	-	-	705,936	-	-	-	-	-	-	-	705,936
Profit (loss) from interfund investments		307,719	175,171	-	2,006,598	(4,757,094)	-	2,267,606	-	-	-	-	-	-
FUND EXPENSES														
Management fees	6	(5,419)	(292,307)	(149,349)	(12,829)	(1,005,241)	(1,686)	(51,876)	(16,549)	(27,865)	(15,103)	(103,050)	(72)	(1,681,346)
Distribution expense		-	-	-	-	-	-	-	-	-	-	(224,706)	-	(224,706)
Tax expense		(11)	(195,229)	(21)	(56)	(1,270)	(1,075)	(50)	-	-	-	-	-	(197,712)
		302,342	(59,636)	481,121	1,993,992	4,318,049	2,745	2,215,928	85,103	379,800	194,502	106,838	439	10,021,223
NET ASSETS AT END OF YEAR		P6,690,483	P4,620,384	P8,842,058	P12,676,720	P24,387,763	P426,457	P18,965,819	P802,186	P1,454,318	P800,116	P6,387,449	P26,336	P86,080,089

See Notes to the Combined Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.

(A wholly-owned subsidiary of Prudential Corporation Holdings Limited)

COMBINED STATEMENTS OF CASH FLOWS OF THE PRULINK OPERATED BY THE LINKED FUND FOR THE YEAR ENDED DECEMBER 31, 2017 *(Amounts in thousands)*

	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Money Market Fund	Proactive Fund	Asian Local Bond Fund	Asia Pacific Equity Fund	Global Emerging Market Fund	Cash Flow Fund	Asian Balanced Fund	Combined
CASH FLOWS FROM OPERATING ACTIVITIES													
Net increase (decrease) in net assets from operations for the year	P302,342	(P59,636)	P481,121	P1,993,992	P4,318,049	P2,745	P2,215,928	P85,103	P379,800	P194,502	P106,838	P439	P10,021,223
Adjustments for:													
Unrealized depreciation (appreciation) of investment at fair value through profit or loss	-	724,366	(132,305)	-	(8,390,568)	56	-	(72,413)	(380,617)	(201,375)	(370,106)	(437)	(8,823,399)
Interest income	(53)	(955,250)	(466,831)	(279)	(6,349)	(1,286)	(248)	-	-	-	-	-	(1,430,296)
Gain on sale of investment at fair value through profit or loss	-	(21,845)	(12,141)	-	(978,801)	(4,276)	-	(27,467)	(23,845)	(6,466)	(50,319)	(17)	(1,125,177)
Dividend income	-	-	-	-	(705,936)	-	-	-	-	-	-	-	(705,936)
Foreign exchange gain	-	-	(19,241)					(1,772)	(3,203)	(1,764)	(14,169)	(57)	(40,206)
Profit (loss) from interfund investments	(307,719)	(175,171)	-	(2,006,598)	4,757,094	-	(2,267,606)	-	-	-	-	-	-
Operating loss before working capital changes	(5,430)	(487,536)	(149,397)	(12,885)	(1,006,511)	(2,761)	(51,926)	(16,549)	(27,865)	(15,103)	(327,756)	(72)	(2,103,791)
Decrease (increase) in:													
Receivable from life fund	8,998	(659)	851	7,095	7,041	-	11,437	-	(2,309)	(133)	16,186	(260)	48,247
Other assets	(12,000)	30,000	-	-	10,000	-	(1,000)	(4,478)	1,717	(996)	24,907	(924)	47,226
Increase (decrease) in:													
Liability to life fund and other linked funds	2,824	506,087	19,619	(6,295)	4,149,449	(12,066)	24,607	6,464	(208)	787	(24,208)	1,006	4,668,066
Trade payable	-	-	-	(10,000)	13,000	-	(30,000)	217	3,433	(193)	(14,762)	6,001	(32,304)
Accrued expenses	(83)	(2,975)	10,556	(126)	(6,169)	(8)	(459)	(1,597)	(1,464)	(835)	15,616	42	12,498
Net additions (withdrawals) to the fund for creation of units	(391,484)	(323,560)	(1,416,027)	639,519	2,593,028	135,514	(85,407)	(247,154)	(92,297)	(44,019)	2,051,703	25,897	2,845,713
Net cash provided by (used in) operating activities	(397,175)	(278,643)	(1,534,398)	617,308	5,759,838	120,679	(132,748)	(263,097)	(118,993)	(60,492)	1,741,686	31,690	5,485,655

Forward

	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Money Market Fund	Proactive Fund	Asian Local Bond Fund	Asia Pacific Equity Fund	Global Emerging Market Fund	Cash Flow Fund	Asian Balanced Fund	Combined
CASH FLOWS FROM INVESTING ACTIVITIES													
Net acquisitions (disposals) of investments	P375,900	(P811,360)	P942,052	(P631,700)	(P6,260,157)	P4,362	P125,600	P263,295	P121,782	P60,081	(P1,767,027)	(P25,548)	(P7,602,720)
Interest received	54	951,562	480,217	279	6,333	1,104	247	-	-	-	-	-	1,439,796
Dividends received	-	-	-	-	698,188	-	-	-	-	-	-	-	698,188
Net cash provided by (used in) investing activities	375,954	140,202	1,422,269	(631,421)	(5,555,636)	5,466	125,847	263,295	121,782	60,081	(1,767,027)	(25,548)	(5,464,736)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(21,221)	(138,441)	(112,129)	(14,113)	204,202	126,145	(6,901)	198	2,789	(411)	(25,341)	6,142	20,919
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	25,048	262,957	133,077	56,116	1,045,470	100,705	81,921	1,046	1,581	439	110,632	-	1,818,992
EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	-	-	27	-	-	-	-	-	-	-	-	-	27
CASH AND CASH EQUIVALENTS AT END OF YEAR	P3,827	P124,516	P20,975	P42,003	P1,249,672	P226,850	P75,020	P1,244	P4,370	P28	P85,291	P6,142	P1,839,938

See Notes to the Combined Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.
(A wholly-owned subsidiary of Prudential Corporation Holdings Limited)

COMBINED STATEMENTS OF CASH FLOWS OF THE PRULINK OPERATED BY THE LINKED FUND FOR THE YEAR ENDED DECEMBER 31, 2016 *(Amounts in thousands)*

	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Money Market Fund	Proactive Fund	Asian Local Bond Fund	Asia Pacific Equity Fund	Global Emerging Market Fund	Cash Flow Fund	Combined
CASH FLOWS FROM OPERATING ACTIVITIES												
Net increase (decrease) in net assets from operations for the year	P6,543	P16,908	P659,113	(P183,492)	(P369,089)	P869	(P342,100)	P81,644	P125,802	P134,102	P316,244	P446,544
Adjustments for:												
Unrealized depreciation (appreciation) of investment at fair value through profit or loss	-	399,004	211,200	-	1,050,555	(701)	-	(42,296)	(100,115)	(127,862)	(288,679)	1,101,106
Interest income	(153)	(1,038,459)	(497,834)	(464)	(4,465)	(1,493)	(1,106)	-	-	-	-	(1,543,974)
Gain (loss) on sale of investment at fair value through profit or loss	-	(372,793)	(29,306)	-	(29,415)	(478)	-	(7,182)	12,744	15,257	(13,544)	(424,717)
Dividend income	-	-	-	-	(636,462)	-	-	-	-	-	-	(636,462)
Foreign exchange gain	-	-	(510,451)	-	-	-	-	(51,190)	(61,890)	(34,494)	(224,133)	(882,158)
Profit (loss) from inter-fund investments	(14,791)	391,476	-	168,440	(825,224)	-	280,099	-	-	-	-	-
Operating loss before working capital changes	(8,401)	(603,864)	(167,278)	(15,516)	(814,100)	(1,803)	(63,107)	(19,024)	(23,459)	(12,997)	(210,112)	(1,939,661)
Decrease (increase) in:												
Receivable from life fund	433	11,416	(428)	59,719	15,799	198	39,191	-	281	(15)	78,959	205,553
Other assets	-	(30,000)	-	-	150,000	-	-	2,431	(4,056)	(1,064)	(24,907)	92,404
Increase (decrease) in:												
Liability to life fund and other linked funds	3,696	(2,928,182)	7,467	3,104	4,623,709	12,077	27	(4,327)	2,179	(174)	24,208	1,743,784
Trade payable	-	-	-	(90,000)	(153,520)	-	(30,000)	-	(49)	41	78,269	(195,259)
Accrued expenses	(84)	(1,306)	20	(119)	2,320	27	(558)	3,124	3,923	2,194	26,069	35,610
Net additions (withdrawals) to the fund for creation of units	(142,122)	295,677	(139,910)	546,223	1,905,940	99,038	1,068,743	(86,294)	(41,207)	(50,851)	1,478,679	4,933,916
Net cash provided by (used in) operating activities	(146,478)	(3,256,259)	(300,129)	503,411	5,730,148	109,537	1,014,296	(104,090)	(62,388)	(62,866)	1,451,165	4,876,347

Forward

	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Money Market Fund	Proactive Fund	Asian Local Bond Fund	Asia Pacific Equity Fund	Global Emerging Market Fund	Cash Flow Fund	Combined
CASH FLOWS FROM INVESTING ACTIVITIES												
Net acquisitions (disposals) of investments	P106,300	P2,443,671	(P88,449)	(P695,000)	(P5,767,706)	(P128,278)	(P1,482,001)	P104,375	P63,638	P62,810	(P1,359,792)	(P6,740,432)
Interest received	154	1,072,056	491,670	469	4,431	3,171	1,120	-	-	-	-	1,573,071
Dividends received	-	-	-	-	633,241	-	-	-	-	-	-	633,241
Net cash provided by (used in) investing activities	106,454	3,515,727	403,221	(694,531)	(5,130,034)	(125,107)	(1,480,881)	104,375	63,638	62,810	(1,359,792)	(4,534,120)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(40,024)	259,468	103,092	(191,120)	600,114	(15,570)	(466,585)	285	1,250	(56)	91,373	342,227
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	65,072	3,489	22,932	247,236	445,356	116,275	548,506	761	331	495	19,259	1,469,712
EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	-	-	7,053	-	-	-	-	-	-	-	-	7,053
CASH AND CASH EQUIVALENTS AT END OF YEAR	P25,048	P262,957	P133,077	P56,116	P1,045,470	P100,705	P81,921	P1,046	P1,581	P439	P110,632	P1,818,992

See Notes to the Combined Financial Statements.

Combined financial statements

PRU LIFE INSURANCE CORPORATION OF U.K.
(A wholly-owned subsidiary of Prudential Corporation Holdings Limited)

NOTES TO THE COMBINED FINANCIAL STATEMENTS OF THE PRULINK OPERATED BY THE LINKED FUND
(Amounts in thousands, except as indicated)

1. Organization and Business

Pru Life Insurance Corporation of U.K. (the Company) was incorporated in the Philippines on January 17, 1996, primarily to engage in the business of life insurance. On September 11, 2002, the Insurance Commission (IC) also approved the Company's license to sell variable or unit-linked life insurance contracts, an insurance policy either on a group or on an individual basis, which provides for benefits or other contractual payments or values there under that may vary so as to reflect investment results. The objective of PRUlink (the "Funds") is to provide policyholders with above average return over the medium and long-term period through both capital appreciation and income. Currently, there are twelve funds available for investment, for which these combined financial statements have been prepared.

The Company is a wholly-owned subsidiary of Prudential Corporation Holdings Limited (Prudential). The Company's ultimate parent company is Prudential plc, an internationally diversified organization providing life insurance and fund management services worldwide.

a. Managed Fund - a fund denominated in Philippine peso and invested in an optimal mix of medium to long-term capital and income growth through investments in fixed income securities, money market instruments and shares of stocks listed in the Philippine Stock Exchange (PSE).

b. Bond Fund (Peso) - a fund denominated in Philippine peso and invested in the medium-term together with long-term capital growth through investments in fixed income securities and money market instruments.

c. Bond Fund (Dollar) - a fund denominated in United States (U.S.) dollars and invested in the medium-term together with long-term capital growth through investments in fixed income securities and money market instruments denominated in U.S. dollars.

d. Growth Fund - a fund denominated in Philippine peso and invested in an optimal mix of medium to long-term capital and income growth, with emphasis on strong capital growth, through investments in fixed income securities, money market instruments and with a greater focus of investment in shares of stocks listed in the PSE.

e. Equity Fund - a fund denominated in Philippine peso and invested in medium to long-term income growth through investments in money market instruments and shares of stocks listed in the PSE.

f. Money Market Fund - seeks to provide a stable return through investment in fixed-income instruments issued by the Philippine government and short-term instruments such as deposit placements.

g. Proactive Fund - seeks to optimize medium to long-term capital and income growth with emphasis on dynamic asset allocation by fund managers through investment in fixed income securities, money market instruments and shares of stocks listed in PSE.

h. Asian Local Bond Fund - invests in a diversified portfolio consisting primarily of fixed income or debt securities issued by Asian entities or their subsidiaries. This Fund's portfolio primarily consists of offshore securities denominated in the various Asian currencies and aims to maximize total returns through investing in fixed income or debt securities that are rated as well as unrated. Asian Local Bond Fund is structured as a feeder fund which invests in the Asian Local Bond Fund of Eastspring Investments (Singapore) Limited (formerly known as "Prudential Asset Management Singapore").

i. Asia Pacific Equity Fund - aims to maximize long-term total return by investing primarily in equity and equity-related securities of companies, which are incorporated, listed in or have their area of primary activity in the Asia Pacific excluding Japan Region.

j. Global Emerging Market Fund - a fund structured as a feeder fund and invests in the Eastspring Investments - Global Emerging Markets Dynamic Fund, which aims to generate long-term capital growth through a concentrated portfolio of equities, equity-related securities and bonds. This fund invests primarily in securities of companies which are incorporated, or listed in, or operating principally from, or carrying on significant business in, or derive substantial revenue from, or whose subsidiaries, related or associated corporations derive substantial revenue from the emerging markets worldwide. This fund may also invest in depository receipts including American Depositary Receipts and Global Depositary Receipts, preference shares and warrants.

k. Cash Flow Fund - seeks to provide investors with regular payouts and capital growth by investing into Luxembourg domiciled Eastpring Investments - U.S. High Yield Bond, Asian Bond Fund, World Value Equity Fund, North American Value Fund, Asian Equity Income Fund and iShares Select Dividend Exchange Traded Funds (ETF).

l. Asian Balanced Fund - aims to maximize total return in the medium to long term by investing primarily in equities or equity-related securities of companies, which are incorporated, listed in or have their area of primary activity in the Asia Pacific (i.e. Japan region) as well as fixed income and debt securities issued by Asian entities or their subsidiaries. The fund will be investing in dollar-denominated and Luxembourg-domiciled Eastspring Asian Société d'investissement à Capital Variable (SICAV) Funds.

Investment activities of the Funds are managed by Eastspring Investments (Singapore) Limited (see Note 6), an entity under common control with the Company, the valuation and unit pricing calculation is done by Standard Chartered Bank (SCB) in accordance with the Prudential Corporation Asia (PCA) mandate.

The Company's registered address is at the 9/F Uptown Place Tower 1, 1 East 11th Drive, Uptown Bonifacio, Taguig City 1634, Metro Manila, Philippines.

2. Basis of Preparation

Statement of Compliance
The accompanying combined financial statements have been prepared to present the combined statements of assets and accountabilities, combined statements of changes in net assets and combined statements of cash flows of the Funds. The financial information used in presenting these combined financial statements is based on the financial statements of individual linked funds.

The combined financial statements of the Funds were authorized for issue by the Board of Directors of the Company on March 22, 2018.

Basis of Measurement
The individual financial statements of the Funds have been prepared in accordance with the recognition, measurement and disclosure principles that are consistent with Philippine Financial Reporting Standards (PFRS). The combined financial statements have been prepared on the historical cost basis, except for investments at fair value through profit or loss (FVPL) which is measured at fair value.

Basis of Combination
The combined financial statements are prepared for a group of commonly controlled entities. Where the entities have been under common control but do not form a legal group, the financial statements can be presented on a combined or aggregated basis. The fundamental difference between combined and consolidated financial statements is that there are no controlling financial interests present between or among the combined entities. For the purpose of the combined financial statements, interfund transactions are not eliminated.

The interfund investments under "Investments at fair value through profit or loss" account not eliminated are as follows:

	2017	2016
Proactive Fund invested at Bond Fund (Peso)	**P7,017,961**	P6,371,734
Managed Fund invested at Bond Fund (Peso)	**4,920,161**	5,120,737
Growth Fund invested at Equity Fund	**10,910,305**	8,388,979
Proactive Fund invested at Equity Fund	**11,891,561**	10,395,782
Growth Fund invested at Bond Fund (Peso)	**1,718,716**	1,601,744
Managed Fund invested at Equity Fund	**1,763,619**	1,631,224
	P38,222,323	P33,510,200

The interfund liabilities taken up as part "Liability to life fund and other linked funds" account not eliminated are as follows:

	2017	2016
Liability of Bond Fund (Peso) to Proactive Fund	**P7,017,961**	P6,371,734
Liability of Bond Fund (Peso) to Managed Fund	**4,920,161**	5,120,737
Liability of Equity Fund to Growth Fund	**10,910,305**	8,388,979
Liability of Equity Fund to Proactive Fund	**11,891,561**	10,395,782
Liability of Bond Fund (Peso) to Growth Fund	**1,718,716**	1,601,744
Liability of Equity Fund to Managed Fund	**1,763,619**	1,631,224
	P38,222,323	P33,510,200

Receivable from life fund pertains to the investment portion of the premiums received from unit-linked policyholders by the Company that have not yet been transferred to the Funds. The balance amounted to P114.68 million and P162.93 million as at December 31, 2017 and 2016, respectively.

Liability to life fund and other link funds includes amount advanced by the Company from the life fund to settle investment withdrawals and surrenders by unit-linked policyholders. The balance amounted to P87.48 million and P131.53 million as at December 31, 2017 and 2016, respectively.

Functional and Presentation Currency
The combined financial statements are presented in Philippine peso, which is the Funds' functional currency. All financial information presented in Philippine peso have been rounded off to the nearest thousands (P000s), except when otherwise indicated. Transactions in foreign currencies pertain to foreign denominated cash and cash equivalents and acquisitions and disposals of financial assets at FVPL that are translated to the functional currency using the foreign currency exchange rate prevailing at the date of transaction. These cash and cash equivalents and financial assets at FVPL are translated to Philippine peso using the foreign currency closing exchange rate prevailing at the reporting date. The resulting foreign currency exchange differences are included in unrealized appreciation (depreciation) of financial assets at FVPL.

Use of Estimates and Judgments
The preparation of the combined financial statements require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the combined financial statements are described in Note 4.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently by the individual funds to all years presented in these combined financial statements except for the changes in accounting policies as discussed below:

Adoption of Amendments to Standards and Interpretations
The Funds have adopted the following amendment to standards starting January 1, 2017 and accordingly, changed its accounting policies. The adoption of this amendment to standards did not have any significant impact on the Funds' combined financial statements.

Effective January 1, 2017

► *Disclosures initiatives (Amendments to Philippine Accounting Standards (PAS) 7, Cash Flows)*. The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g., by providing a reconciliation between the opening and closing balances in the combined statements of assets and accountabilities for liabilities arising from financing activities.

Financial Instruments

Non-derivative Financial Assets
The Funds initially recognizes loans and receivables on the date that they originated. All other financial assets, including assets designated at FVPL, are recognized initially on the trade date, which is the date that the Funds become a party to the contractual provisions of the instrument.

The Funds classifies non-derivative financial assets into the following categories: financial assets at FVPL, available-for-sale (AFS) financial assets, held-to-maturity (HTM) investments and loans and receivables.

As at December 31, 2017 and 2016, the Funds has no investments classified as AFS financial assets and HTM investments.

a. Financial Assets at FVPL

A financial asset is classified at FVPL if it is classified as held for trading or is designated as such on initial recognition. Financial assets are designated at FVPL if the Funds manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Funds' documented risk management or investment strategy. Attributable transaction costs are recognized in combined statements of changes in net assets as incurred. Financial assets at FVPL are measured at fair value and changes therein, which takes into account any dividend income, are recognized in combined statements of changes in net assets.

The Funds' held for trading account consists of traded government and corporate debt securities, equity securities listed in the PSE and investments in mutual funds. These financial assets are measured at fair value and changes therein are recognized in the combined statements of changes in net assets. Investments at fair value through profit or loss amounted to P122.27 billion and P104.68 billion as at December 31, 2017 and 2016, respectively (see Note 5).

The fair value for financial instruments traded in active markets at each reporting date is based on the quoted market price, dealer price quotations or net asset value of these financial assets, without any deduction for transaction costs.

b. Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

The Funds' combined financial assets classified as loans and receivables comprise cash and cash equivalents, interest receivables and receivable from life fund and other assets. As at December 31, 2017 and 2016, the Funds' combined loans and receivables amounted to P2.34 billion and P2.42 billion, respectively.

Cash and cash equivalents comprise cash balances and all deposits with maturities of three (3) months or less from the acquisition date that are subject to an insignificant risk of changes in value, and are used by the Funds in the management of its short-term commitments.

Impairment

Non-derivative Financial Assets
A financial asset not classified at FVPL is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that the financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Funds on terms that the Funds would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Financial Assets Measured at Amortized Cost
The Funds considers evidence of impairment for financial assets measured at amortized cost at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Funds uses historical trends of the probability of default, the timing of recoveries and the amount of the loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in the combined statement of changes in net assets and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognized. When an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the combined statement of changes in net assets to the extent that the resulting carrying value of the asset does not exceed its carrying amount had no impairment loss has been recognized.

Offsetting of Financial Instruments
Financial assets and liabilities are offset and the net amount presented in the combined statement of net assets and accountabilities when, and only when, the Funds has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under PFRSs, such as in the case of any realized gains or losses arising from the Funds' trading activities.

Derecognition of Financial Assets
The Funds derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

- The right to receive cash flows from the asset has expired;

- The Funds retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or

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

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

Non-derivative Financial Liabilities
Financial liabilities are recognized when, and only when, the Funds becomes a party to the contractual provisions of the financial instrument. The Funds determines the classification of financial liabilities at initial recognition.

The Funds initially recognizes financial liabilities on the date they are originated. Financial liabilities are initially recognized at fair value plus transaction costs for all financial liabilities not carried at FVPL.

The Funds derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

The Funds classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The Funds' other financial liabilities comprise of liability to life fund and other linked funds, accrued expenses and trade payable. As at December 31, 2017 and 2016, the Funds' other financial liabilities amounted to P38.53 billion and P33.88 billion, respectively.

Revenue Recognition
Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity, if any. Revenue is recognized to the extent that it is probable that economic benefits will flow to the Funds and the revenue can be measured reliably.

Determining whether the Funds are Acting as Principal or an Agent
The Funds assesses its revenue arrangements against the following criteria to determine whether it is acting as a principal or agent:

- whether the Funds has primary responsibility for providing the services;
- whether the Funds has discretion in establishing prices; and
- whether the Funds bears the credit risk.

If the Funds has determined it is acting as a principal, the Funds recognizes revenue on gross basis with the amount remitted to the other party being accounted as part of cost and expenses. If the Funds has determined it is acting as an agent, only the net amount retained is recognized as revenue.

The Funds has determined it is acting as principal in its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

Investment income
Investment income consists of fair value changes of investments at FVPL (net of final tax), interest income from all interest-bearing investments, dividend income from stock investments and gain/loss on sale of investment at FVPL.

Interest income for all interest-bearing financial instruments, including financial assets at FVPL, is recognized in the combined statements of changes in net assets using the effective interest method.

Gain/loss on sale of investment at FVPL is recognized upon sale of investments when the consideration received is higher or lower than the recorded cost of the investments.

Dividend income for stock investments is recognized in the combined statements of changes in net assets when the right to receive payment is established.

Profit (Loss) from Interfund Investments
Profit (loss) from interfund investments consists of fair value changes and realized gain or loss from interfund investments.

Expenses
All expenses, including management fees (see Note 6), custodian fees and distribution expenses are recognized when incurred.

Taxation
Dividend and interest income received by the Funds may be subject to withholding tax imposed in the country of origin. Interest income from interest-bearing investments is recorded gross of final tax.

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

Events After the Reporting Date
Post year-end events that provide additional information about the Funds' financial position at the reporting date (adjusting events) are reflected in the combined financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the combined financial statements when material.

New Standards Not Yet Adopted
A number of new standards are effective for annual periods beginning after January 1, 2017. However, the Funds has not applied this new standard in preparing these combined financial statements. Unless otherwise stated, this is not expected to have a significant impact on the Funds' combined financial statements.

Effective January 1, 2018

PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts (Amendment to PFRS 4). The amendments

- provide a temporary exemption from PFRS 9, where an entity is permitted to defer application of PFRS 9 in 2018 and continue to apply PAS 39 *Financial Instruments: Recognition and Measurement* if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021. The amendments also provide an overlay approach to presentation when applying PFRS 9 where an entity is permitted to reclassify between profit or loss and other comprehensive income the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39, for designated financial assets. A financial asset is eligible for designation if it is not held for an activity that is unconnected with contracts in the scope of PFRS 4, and if it is measured at fair value through profit or loss under PFRS 9, but would not have been under PAS 39. An entity is generally permitted to start applying the overlay approach only when it first applies PFRS 9, including after previously applying the temporary exemption.

The amendments permitting the temporary exemption is for annual periods beginning on or after January 1, 2018 and the amendments allowing the overlay approach are applicable when an entity first applies PFRS 9.

PFRS 9 (2014). PFRS 9 (2014) replaces PAS 39 Financial Instruments: Recognition and Measurement and

- supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The Funds availed the temporary exemption in the implementation of PFRS 9 as allowed by PFRS 4 above.

4. Critical Accounting Estimates and Judgments

The Funds make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgment
In the process of applying the Funds' accounting policies, management has made the following judgment, apart from those involving estimation, which have the most significant effects or amounts recognize in the combined financial statements

Determination of Functional Currency
Based on the economic substance of the underlying circumstance relevant to the Funds, the functional currency of the Funds has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Funds operates. It is the currency that mainly influences the income and costs arising from the Funds' operations.

5. Investments at Fair Value through Profit or Loss

This account as at December 31 consists of:

2017	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Money Market Fund	Proactive Fund	Asian Local Bond Fund	Asia Pacific Equity Fund	Global Emerging Market Fund	Cash Flow Fund	Asian Balanced Fund	Combined
Investment in shares of stocks	P -	P -	P -	P -	P36,091,352	P -	P -	P -	P1,167,857	P -	P -	P -	P37,259,209
Accumulated fair value gain	-	-	-	-	11,524,811	-	-	-	285,768	-	-	-	11,810,579
	-	-	-	-	47,616,163	-	-	-	1,453,625	-	-	-	49,069,788
Investment in bond funds	3,860,455	-	-	1,650,122	-	-	6,556,133	-	-	-	-	-	12,066,710
Accumulated fair value gain	1,059,706	-	-	68,594	-	-	461,828	-	-	-	-	-	1,590,128
	4,920,161	-	-	1,718,716	-	-	7,017,961	-	-	-	-	-	13,656,838
Investment in equity funds	1,381,221	-	-	7,748,181	-	-	9,825,559	-	-	-	-	-	18,954,961
Accumulated fair value gain	382,398	-	-	3,162,124	-	-	2,066,002	-	-	-	-	-	5,610,524
	1,763,619	-	-	10,910,305	-	-	11,891,561	-	-	-	-	-	24,565,485
Treasury notes	-	18,364,701	8,306,780	-	-	199,331	-	700,314	-	665,698	5,797,081	25,565	34,059,470
Accumulated fair value gain (loss)	-	(368,885)	413,226	-	-	141	-	103,916	-	134,695	633,620	494	917,207
	-	17,995,816	8,720,006	-	-	199,472	-	804,230	-	800,393	6,430,701	26,059	34,976,677
	P6,683,780	P17,995,816	P8,720,006	P12,629,021	P47,616,163	P199,472	P18,909,522	P804,230	P1,453,625	P800,393	P6,430,701	P26,059	P122,268,788

2016	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Money Market Fund	Proactive Fund	Asian Local Bond Fund	Asia Pacific Equity Fund	Global Emerging Market Fund	Cash Flow Fund	Combined
Investment in shares of stocks	P -	P -	P -	P -	P33,609,489	P -	P -	P -	P1,263,007	P -	P -	P34,872,496
Accumulated fair value gain (loss)	-	-	-	-	3,134,242	-	-	-	(95,265)	-	-	3,038,977
	-	-	-	-	36,743,731	-	-	-	1,167,742	-	-	37,911,473
Investment in bond funds	3,903,209	-	-	1,487,786	-	-	5,734,429	-	-	-	-	11,125,424
Accumulated fair value gain	1,217,528	-	-	113,958	-	-	637,305	-	-	-	-	1,968,791
	5,120,737	-	-	1,601,744	-	-	6,371,734	-	-	-	-	13,094,215
Investment in equity funds	1,552,814	-	-	7,129,331	-	-	10,502,380	-	-	-	-	19,184,525
Accumulated fair value gain (loss)	78,410	-	-	1,259,648	-	-	(106,598)	-	-	-	-	1,231,460
	1,631,224	-	-	8,388,979	-	-	10,395,782	-	-	-	-	20,415,985
Treasury notes	-	17,356,325	9,215,724	-	-	199,416	-	934,083	-	717,730	3,970,967	32,394,245
Accumulated fair value gain (loss)	-	355,481	282,674	-	-	198	-	31,790	-	(66,861)	258,113	861,395
	-	17,711,806	9,498,398	-	-	199,614	-	965,873	-	650,869	4,229,080	33,255,640
	P6,751,961	P17,711,806	P9,498,398	P9,990,723	P36,743,731	P199,614	P16,767,516	P965,873	P1,167,742	P650,869	P4,229,080	P104,677,313

Combined financial statements

6. Management fees

Management fees are charged against the daily net asset value of the investment account of the policyholders based on the following rates per annum as specified in the policy contract:

	2017	2016
Managed Fund	**1.79%**	1.79%
Bond Fund (Peso)	**1.53%**	1.53%
Bond Fund (Dollar)	**1.53%**	1.53%
Growth Fund	**2.25%**	2.25%
Equity Fund	**2.25%**	2.25%
Proactive Fund	**2.25%**	2.25%
Money Market Fund	**0.50%**	0.50%
Asian Local Bond Fund	**1.80%**	1.80%
Asia Pacific Equity Fund	**2.05%**	2.05%
Global Emerging Market Fund	**2.05%**	2.05%
Cash Flow Fund	**1.95%**	1.95%
Asian Balanced Fund	**1.95%**	-

7. Number of units and unit prices

As at December 31, the Funds' number of units issued are as follows:

	2017	2016
Managed Fund	**2,120,935**	2,244,856
Bond Fund (Peso)	**1,813,659**	1,938,811
Bond Fund (Dollar)	**69,239**	80,410
Growth Fund	**2,953,022**	2,793,516
Equity Fund	**9,562,231**	8,468,202
Proactive Fund	**8,308,752**	8,341,656
Money Market Fund	**410,176**	279,524
Asian Local Bond Fund	**15,327**	20,193
Asia Pacific Equity Fund	**25,397**	27,165
Global Emerging Market Fund	**14,130**	14,962
Cash Flow Fund	**132,023**	89,716
Asian Balanced Fund	**520**	-
	25,425,411	24,299,011

The corresponding December 31 unit prices are as follows:

	2017	2016
Unit price in PhP		
Managed Fund	**3.15450**	P3.02007
Bond Fund (Peso)	**2.54755**	2.58075
Growth Fund	**4.29280**	3.59519
Equity Fund	**2.55043**	2.06380
Proactive Fund	**2.28263**	2.01822
Money Market Fund	**1.03969**	1.03103
Unit price in US$		
Bond Fund (Dollar)	**2.55801**	$2.44090
Asian Local Bond Fund	**1.04835**	0.95860
Asia Pacific Equity Fund	**1.14701**	0.86230
Global Emerging Market Fund	**1.13426**	0.87161
Cash Flow Fund	**0.96912**	0.94627
Asian Balanced Fund	**1.01503**	-

The corresponding published unit prices as of the last working day of the year are as follows:

	December 29, 2017	December 29, 2016
Unit price in PhP		
Managed Fund	**P3.15478**	P3.02050
Bond Fund (Peso)	**2.54774**	2.58111
Growth Fund	**4.29331**	3.59567
Equity Fund	**2.55074**	2.06406
Proactive Fund	**2.28290**	2.01851
Money Market Fund	**1.03965**	1.03099
Unit price in US$		
Bond Fund (Dollar)	**$2.55790**	$2.43610
Asian Local Bond Fund	**1.04845**	0.95717
Asia Pacific Equity Fund	**1.14714**	0.85967
Global Emerging Market Fund	**1.13439**	0.86697
Cash Flow Fund	**0.96922**	0.94568
Asian Balanced Fund	**1.01514**	-

8. Financial Risk Management

The nature and extent of the financial instruments outstanding at the reporting date and the risk management policies employed by the Funds are discussed below.

Investment Risk

The investment risk represents the exposure to loss resulting from cash flows from invested assets primarily for long-term fixed rate investments, being less than the cash flows to meet the obligations of the expected policy and contract liabilities and the necessary return on investments. Additionally, there exist a future investment risk associated with certain policies currently in-force which will have premium receipts in the future.

To maintain an adequate yield to match the interest necessary to support future policy liabilities, management focus is required to reinvest the proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality.

The Funds adopts the Prudential's investment strategy to invest primarily in high quality securities while maintaining diversifications to avoid significant exposure to issuer and industry.

The Funds invests in equity and debt instruments as dictated by the Funds' investment management strategy. Asset allocation is determined by the Funds' manager who manages the distribution of the assets to achieve the investment objectives. Divergence from target asset allocations and the composition of the Funds' portfolio is monitored by the Investment Committee.

There has been no change to the Funds' exposure to investment risk or the manner in which it manages and measures the risk since prior financial year.

Financial risk

The Funds have significant exposure to the following financial risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

There has been no change to the Funds' exposure to financial risks (i.e. credit risk, liquidity risk and market risks) or the manner in which it manages and measures the risks since prior financial year.

(a) Credit risk

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Funds. The Funds is exposed to credit risk primarily through its cash and cash equivalents, interest receivables, receivable from life fund, investment in debt securities and other assets. The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date.

The Funds' investment in debt securities classified as investments at FVPL consists primarily of government securities. As these are direct obligations of their respective governments, these are generally considered to be free of credit risk.

The Funds' concentration of credit risk arises from its investments in government securities since the said investments amounted to P48.63 billion as at December 31, 2017 and P46.35 billion as at December 31, 2016 which are 39.03% and 43.28% of its total assets, respectively.

The table below provides information regarding the credit risk exposure of the Funds as at December 31, 2017 and 2016 by classifying assets according to the Funds' credit grading of counterparties.

2017

	Neither Past Due nor Impaired				
	Investment high-grade	Non-investment Grade - Satisfactory	Total Financial Assets Neither Past Due nor Impaired	Past due but not impaired	Total
Cash and cash equivalents	P1,839,938	P -	P1,839,938	P -	P1,839,938
Interest receivables	347,960	-	347,960	-	347,960
Receivable from life fund	114,680	-	114,680	-	114,680
Investment in debt securities	48,633,515	-	48,633,515	-	48,633,515
Other assets	37,224	-	37,224	-	37,224
	P50,973,317	P -	P50,973,317	P -	P50,973,317

2016					
	Neither Past Due nor Impaired				
	Investment high-grade	Non-investment Grade - Satisfactory	Total Financial Assets Neither Past Due nor Impaired	Past due but not impaired	Total
Cash and cash equivalents	P1,818,992	P -	P1,818,992	P -	P1,818,992
Interest receivables	349,712	-	349,712	-	349,712
Receivable from life fund	162,927	-	162,927	-	162,927
Investment in debt securities	46,349,855	-	46,349,855	-	46,349,855
Other assets	84,450	-	84,450	-	84,450
	P48,765,936	P -	P48,765,936	P -	P48,765,936

The Funds has no past due but not impaired financial assets as at December 31, 2017 and December 31, 2016.

The Funds uses a credit grading system based on the borrowers and counterparties overall credit worthiness, as described below:

Investment High-grade - This pertains to accounts with a very low probability of default as demonstrated by the borrower's strong financial position and reputation. The borrower has the ability to raise substantial amounts of funds through credit facilities with financial institutions. The borrower has a strong debt service record and a moderate use of leverage.

Non-investment Grade - Satisfactory - This pertains to current accounts with no history of default or which may have defaulted in the past, but the conditions and circumstances directly affecting the borrower's ability to pay has abated already. The borrower is expected to be able to adjust to the cyclical downturns in its operations. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues. The use of leverage may be above industry or credit standards but remains stable.

Past Due and Impaired - This pertains to the allowance for the impairment losses that the Funds recognizes due to the uncertainty of the collectability of the Funds' receivable.

Credit risk arising from transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used. The Funds monitors the credit ratings of the brokers used to further mitigate the risk.

Substantially all of the assets, including cash and cash equivalents, of the Funds are held by the SCB, Philippine Branch pursuant to a custodianship agreement entered into by the Funds with SCB, a reputable financial institution with high credit rating.

(b) Liquidity risk

The Funds is exposed to the liquidity risk of meeting policyholders' redemptions at any time. The Funds does not hold significant financial liabilities.

The Funds' investment in equity and debenture instruments are considered to be readily realizable as they are all listed on the major stock and debt exchanges. Thus, the Funds has limited exposure to liquidity risk.

The tables below summarize the maturity profile of the financial liabilities of the Funds based on remaining contractual obligations or on the estimated timing of net cash flows as at December 31, 2017 and 2016:

2017	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Liability to life fund and other linked funds	P38,309,798	P -	P -	P -	P -	P -	P38,309,798
Accrued expenses	103,637	-	-	-	-	-	103,637
Trade payable	115,066	-	-	-	-	-	115,066
	P38,528,501	P -	P -	P -	P -	P -	P38,528,501

2016	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Liability to life fund and other linked funds	P33,641,732	P -	P -	P -	P -	P -	P33,641,732
Accrued expenses	91,139	-	-	-	-	-	91,139
Trade payable	147,370	-	-	-	-	-	147,370
	P33,880,241	P -	P -	P -	P -	P -	P33,880,241

(c) Market risk

Market risk embodies the potential for both losses and gains and includes currency risk, interest rate risk and equity price risk.

The Funds' strategies on the management of investment risk are driven by the individual Funds' investment objective (see Note 1). The Funds' market risk is managed on a daily basis by the Funds' manager in accordance with policies and procedures in place. The Funds' overall market positions are monitored on at least a quarterly basis by the Investment Committee of the Company.

Details of the nature of the Funds' investment portfolio at the reporting date are disclosed in Note 5.

Currency risk

The Funds may invest in financial instruments and enter into transactions denominated in currencies other than Philippine peso, the Funds' functional currency. Consequently, the Funds is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Funds' assets or liabilities denominated in currencies other than Philippine peso.

The Funds' most significant exposure to fluctuations in foreign currency exchange rates is through its assets denominated in U.S. dollar:

	2017	2016
Short-term time deposits	**$245**	$2,672
Investments	**365,263**	331,479
	365,508	334,151
Foreign exchange rate to the Philippine peso used*	**49.92**	49.81
	P18,246,159	P16,644,061

**Exchange rate used is based on BSP foreign exchange rate as at December 29, 2017 and 2016.*

A 3% and 6% strengthening of Philippine Peso against the U.S. dollar as at December 31, 2017 and 2016, with all variables remain constant, would have affected the measurement of profit before tax and equity by P547.42 million and P998.64 million, respectively. A 3% and 6% weakening of the Philippine peso in relation to the U.S. dollar as at December 31, 2017 and 2016, respectively, would have an equal but opposite effect, on the basis that all other variables remain constant.

Interest Rate Risk

There are two types of interest rate risk:

- ***Fair Value Interest Rate Risk*** - the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and
- ***Cash Flow Interest Rate Risk*** - the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

A significant portion of the Funds' investments in debt instruments carried at FVPL is interest-bearing. As a result, the Funds is subject to exposure to fair value interest rate risk. The Funds does not carry debt instruments with variable interest rates and, thus, are not exposed to cash flow interest rate risk.

Interest rate risk is mitigated by the Funds' manager by constructing a portfolio of debenture instruments with diversified maturities.

Any excess cash and cash equivalents of the Funds are invested in short-term time deposits with the term to maturity of up to three (3) or six (6) months.

The analysis below details the impact of changes in market interest rate to the fair value of the Funds' investment in fixed-rate debt instruments. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Changes in variables	
	50 basis points	50 basis points
December 31, 2017	***Increase***	***Decrease***
Currency		
Philippine peso	**(P601,119)**	**P635,311**
US dollar	**(385,103)**	**413,485**
Fair value sensitivity	**(P986,222)**	**P1,048,796**

	Changes in variables	
	50 basis points	50 basis points
December 31, 2016	*Increase*	*Decrease*
Currency		
Philippine peso	(P644,012)	P683,514
US dollar	(360,067)	383,771
Fair value sensitivity	(P1,004,079)	P1,067,285

Equity price risk

Equity price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

The Funds' equity price risk exposure relates to investments in equity securities held amounting to P73.64 billion and P58.33 billion as at December 31, 2017 and 2016, respectively (see Note 5). The value of these equity securities fluctuates upon changes in market conditions.

Equity price risk is managed by the Funds' manager by constructing a diversified equity portfolio.

All of the Funds' equity investments are listed in the PSE. A 9% increase in stock prices would have increased profit before income tax and equity by P6.63 billion and P4.08 billion as at December 31, 2017 and 2016, respectively. An equal change in the opposite direction would have decreased profit before income tax and equity by an equal but opposite amount.

Fair value measurement

Many of the Funds' financial instruments are carried at fair value on the combined statements of assets and accountabilities. Usually, the fair value of the financial instruments can be reliably determined within a reasonable range of estimates. For other financial instruments, including cash and cash equivalents, interest receivables, receivable from life fund, other assets, accrued expenses, trade payable and liability to life funds and other linked funds, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

The recurring fair values of financial assets at FVPL are determined by reference to quoted market prices, at the close of business on the reporting date.

Fair Value Hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Investments at fair value through profit or loss	**P122,268,788**	**P -**	**P -**	**P122,268,788**

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Investments at fair value through profit or loss	P104,677,313	P -	P -	P104,677,313

There have been no transfers from Level 1 to Levels 2 or 3 in 2017 and 2016.

Market review

2017 was a stellar year for equities. Supportive macroeconomic conditions, strong corporate earnings, and attractive headline valuations underpinned numerous rallies across the globe. On top of these conditions, high levels of liquidity induced investors to shrug off political concerns and propel many markets, even the expensive ones, to all-time highs. Volatility was at record lows.

Markets also got a boost from soft global inflation data. As the year progressed, it became evident that core inflation in the US, Eurozone, and Japan seemed set to either remain subdued or fall short of target. Investors took this as a sign that monetary policy tightening would be gradual. As it turned out, both the European Central Bank and the Bank of Japan left rates unchanged while the US Federal Reserve (Fed) hiked rates thrice in line with its guidance.

Reversing the pattern evident in 2012 to 2015, when investors abandoned the emerging for the developed markets, 2017's rallies were driven mostly by emerging rather than developed markets while in the sector league, technology stocks topped the tables.

Asian markets outperformed other emerging markets with the MSCI AC Asia ex Japan gaining 42.08% in US dollar terms. The stellar performance on the technology and internet stocks underpinned the rallies in North Asian markets as did the progress of key reforms in many countries. In addition, Chinese stocks advanced on the back of improving economic data and MSCI's decision to include mainland A-shares in its key indices. Korean shares surged in the second quarter, after Moon Jae-in was elected president and promised he would make chaebol reform a central plank of his legislative agenda. India had a good year, benefitting from the ruling party's electoral victories as well as the passage of the Goods and Services Tax bill.

Among the ASEAN markets, Singapore recorded solid gains, owing to better-than-expected economic data which led to another strong performance from its banking sector. Decent returns were also seen in other markets. Indonesian shares rose after Standard & Poor's upgraded the country's credit rating to investment grade, citing an improvement in the budget. In the Philippines, the benchmark stock index touched a record high in December as investors lauded the passage of a key tax reform package. In Thailand, positive developments on both economic and political fronts underpinned investors' sentiment.

While equities stood out as 2017's clear winner, bonds turned in a better-than-expected performance, supported by a relatively benign interest rate environment and ample liquidity. And much like the previous year, tighter spreads prevailed while better valuations seen at the longer-duration and higher-yielding ends of the bond universe led to higher yielding bonds outperforming their sovereign counterparts. Asia and emerging bond markets benefitted from renewed portfolio inflows as the demand for yield and income continued to hold up.

For the Philippines, 2017 marked a stark change from the previous year, as investor sentiment recovered from the lows in 2016. Reforms chatter gathered pace, while resilient economic growth also helped. The Philippines Stock Exchange Index (PSEi) returned 27.15% as the passage of a key tax reform plan and a credit rating upgrade supported sentiment. The tax package is expected to generate around PhP 90 billion in incremental net tax revenue in 2018. Key features of the package include a reduction in personal income taxes, increase in taxes for petroleum and tobacco products, and restructuring of estate taxes.

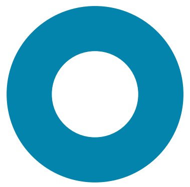
On the economic front, gross domestic product grew at a robust pace of 6.7% for 2017, making it one of the fastest growing economies in Asia. Inflation remained moderate at 3.2% and as a result, the central bank was able to maintain rates to support the growing economy.

Looking ahead, the Philippines' macro fundamentals remain intact and are underpinned by strong domestic demand. Recent concerns around slowing remittances and business process outsourcing are being allayed amid positive trends. Inflation is expected to pick up on a weak peso while the current account will likely remain in deficit in the near team owing to widening trade deficit.

Source:
[1]MSCI, Bloomberg, Philippines Statistics Authority

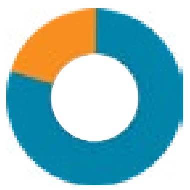
Fund objectives

Local-denominated funds



PRUlink peso bond fund

The fund seeks to achieve an optimal level of income in the medium term together with long-term capital growth through investments in fixed income securities and money market instruments.

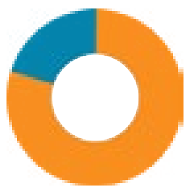


PRUlink managed fund

The Fund seeks to optimize medium- to long-term capital and income growth through investment in fixed income securities, money market instruments, and shares of stocks listed in the Philippine Stock Exchange.

PRUlink proactive fund

The Fund seeks to optimize medium- to long-term capital and income growth with emphasis on dynamic asset allocation by fund managers through investment in fixed income securities, money market instruments, and shares of stocks listed in the Philippines.



PRUlink growth fund

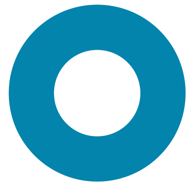
The Fund seeks to optimize medium- to long-term capital and income growth, with an emphasis on strong capital growth, through a greater focus of investment in shares of stocks listed in the Philippines. The Fund also invests in fixed income securities and money market instruments.

PRUlink equity fund

The Fund seeks to optimize medium- to long-term capital growth through investments in shares of stocks listed in the Philippines.

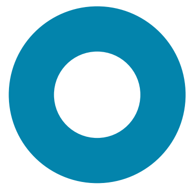
Bonds
Equities

Foreign-denominated funds



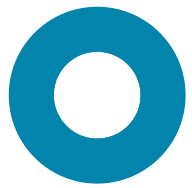
PRUlink US dollar bond fund

The Fund seeks to achieve an optimal level of income in the medium term together with long-term capital growth through investments in fixed income securities denominated in USD.



PRUlink Asian local bond fund

The Fund is structured as a feeder fund which invests in the Eastspring Investments – Asian Local Bond Fund (EI-Asian Local Bond Fund). The EI-Asian Local Bond Fund invests in a diversified portfolio consisting primarily of fixed income or debt securities issued by Asian entities or their subsidiaries. This Fund's portfolio primarily consists of offshore securities denominated in the various Asian currencies and aims to maximize total returns through investing in fixed income or debt securities that are rated as well as unrated.



PRUlink cash flow fund

The Fund seeks to provide investors with regular payout by investing in a diversified portfolio consisting primarily of high yield bonds and other fixed income/debt securities denominated in US dollars, issued in the US market rated below BBB-, as well as fixed income/debt securities issued by Asian entities or their subsidiaries. The Fund may, in addition, at the Fund Manager's discretion, invest up to twenty percent (20%) of its assets in dividend yielding equities.

PRUlink Asian balanced Fund

The Fund aims to maximize total return in the medium to long term by primarily investing in equities/equity-related securities of companies, which are incorporated, listed in, or have their area of primary activity in the Asia Pacific region (excluding Japan) as well as fixed income/debt securities issued by Asian entities or their subsidiaries. The Fund is invested in three US dollar-denominated and Luxembourg-domiciled Asian SICAV funds of Eastspring Investments, namely, Asia Pacific Equity Fund, Asian Local Bond Fund, and Asian Bond Fund.

PRUlink Asia Pacific equity fund

The Fund is structured as a feeder fund which invests in the Eastspring Investments – Asia Pacific Equity Fund, that aims to maximize long-term total return by investing primarily in equity and equity-related securities of companies which are incorporated, listed in, or have their area of primary activity in the Asia Pacific Region (excluding Japan). This Fund may also invest in depository receipts including American Depositary Receipts and Global Depositary Receipts, debt securities convertible into common shares, preference shares, and warrants.

PRUlink global emerging markets dynamic fund

The Fund is structured as a feeder fund which invests in the Eastspring Investments – Global Emerging Markets Dynamic Fund, that aims to generate long-term capital growth through a concentrated portfolio of equities, equity-related securities and bonds. This Fund will invest primarily in securities of companies which are incorporated, or listed in, or operating principally from, or carrying on significant business in, or derive substantial revenue from, or whose subsidiaries, related or associated corporations derive substantial revenue from the emerging markets worldwide. This Fund may also invest in depository receipts including American Depositary Receipts and Global Depositary Receipts, preference shares, and warrants.

Fund performance review

Fund performance review

- **PRU**link bond fund
- **PRU**link managed fund
- **PRU**link US dollar bond fund
- **PRU**link growth fund
- **PRU**link equity fund
- **PRU**link proactive fund
- **PRU**link Asian local bond fund
- **PRU**link Asia Pacific equity fund
- **PRU**link global emerging markets dynamic fund
- **PRU**link cash flow fund
- **PRU**link Asian balanced fund

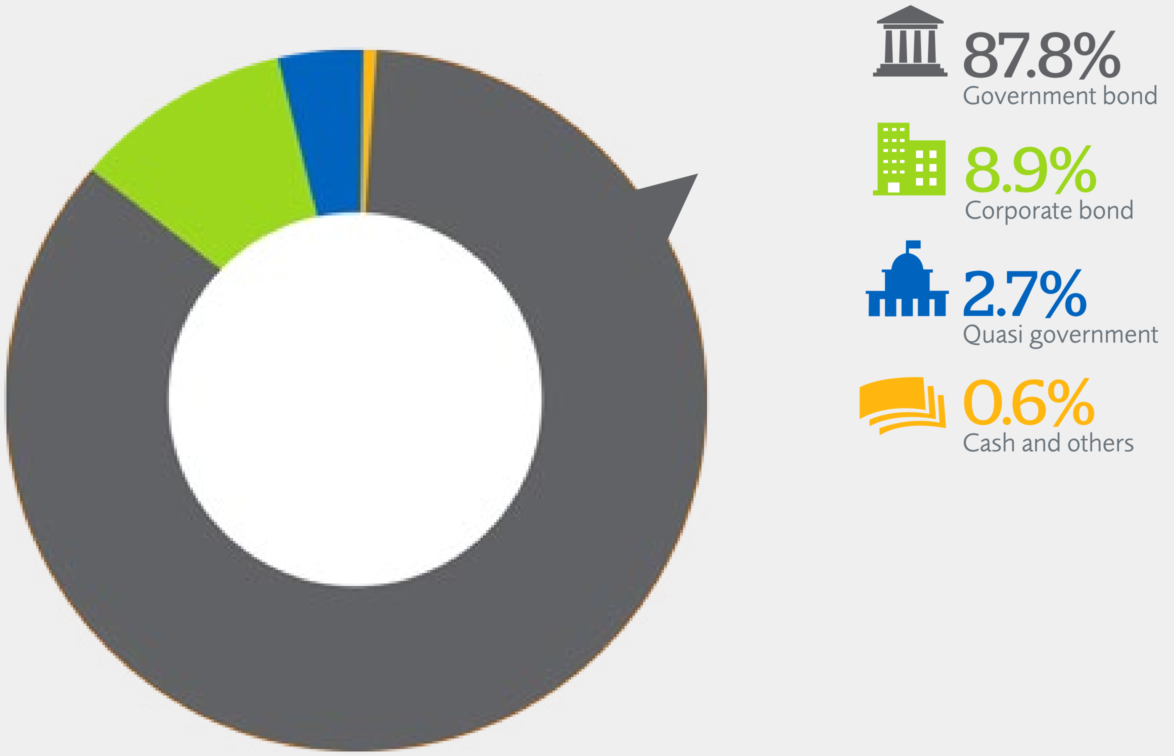
PRUlink bond fund

Over the year, the Fund experienced a challenging year as rises in domestic bond yields weighed on market performance. During the year, improvements in the global growth outlook led to expectation of tighter monetary policies in the developed markets. The prospect of interest rate normalization in the developed markets, coupled with rising inflation expectations locally, influenced the Philippine government bond yields higher.

As a result, the Philippine government bond yield rose broadly with the two-year government bond yield rising by 97 basis points and the 10-year government bond yield rising by 41 basis points.

Domestic inflation fluctuated throughout 2017, with headline inflation hitting a 2.5-year high of 3.5% year-on-year in October and yearly lows of 2.7% in January and June, before finally settling at 3.3% at year's end. While domestic inflation rate remained firmly within the central bank's target range of 3.0% ± 1.0% for the year, the central bank sounded cautious tone as it stated that it would "remain vigilant" against upside risks to inflation to ensure that the dual goals of price stability and economic growth are evenly balanced. Nevertheless, the central bank kept the key overnight reverse repurchase (RRP) facility rate unchanged at 3.0% throughout 2017.

Asset allocation



Performance

-1.29%
Actual year-on-year

6.31%
Since inception
(per annum)

PhP 2.54774
Unit price
as of Jan 2, 2018

Top five holdings

Philippine government 8.000% 07/19/2031	9.3%
Philippine government 8.125% 12/16/2035	6.7%
Philippine government 6.125% 10/24/2037	5.7%
Philippine government 5.875% 03/01/2032	4.6%
Philippine government 3.625% 09/09/2025	3.9%

Notes:
The fund returns are net of Annual Management Charge. Past performance is not necessarily indicative of the future or likely performance of the fund.

Highest and lowest unit price achieved

Initial (24 Sep 02) 1.00000
Highest (11 Aug 16) 2.80424
Lowest (24 Sep 02) 1.00000

Performance chart

PRUlink managed fund

The Fund posted a positive return in 2017. Value was added through asset allocation, with the Fund's overweight to domestic equity and underweight to domestic bonds contributing positively to relative performance. Stock selection within both of the underlying portfolios was a drag, however.

Whilst posting strong absolute returns, the equity portfolio underperformed relative to its benchmark due to a combination of cash drag and stock specific issues. The overweight positions in First Gen, which weakened during the year as start-up losses in its new power plants weighed on sentiment, and parent company – First Philippine Holdings – detracted, as did the underweight in index heavyweight SM Investments. SM Investments did well in 2017, but the portfolio's natural underweight (the stock accounts for around 13% of the benchmark whilst the portfolio's exposure is capped at 10% to ensure diversification) was a drag.

The underlying fixed income portfolio's underperformance was mainly attributed to the final quarter of the year, as domestic government bond yields moved significantly higher across the curve during the period. In this environment, the portfolio's broad duration overweight was a detractor.

Looking forward, our central scenario remains one of benign inflation, combined with moderate economic and earnings growth. Central banks' reluctance to "take away the punch bowl", should prevent them from hiking aggressively, so long as wage inflation remains muted.

Global valuations are supported by strong earnings. Whilst on traditional valuation measures US equities look expensive, this has not always historically been a precursor to negative stock returns.

We have considered the risk events that could cause a regime shift and derail our "Goldilocks" scenario. These include the Fed tightening more aggressively than the market currently expects, a China-led slowdown, and a sudden spike in wage inflation due to labor market tightness.

As such, the fund manager continues to target an overweight to equities (vs. the neutral allocation of 20%).

Asset allocation

73.5%
Government bond

26.4%
Equity

0.1%
Cash and others

Performance

4.45%
Actual year-on-year

7.81%
Since inception
(per annum)

PhP 3.15478
Unit price
as of Jan 2, 2018

Highest and lowest unit price achieved

Initial (24 Sep 2002) 1.00000
Highest (11 Aug 2016) 3.34119
Lowest (23 Oct 2002) 0.99568

Notes:
1. The fund returns are net of Annual Management Charge. Past performance is not necessarily indicative of the future or likely performance of the fund.
2. The Peso Bond Fund and Equity Fund have served as underlying funds of the Managed and Growth Funds prior to the funds'launch date.

Performance chart

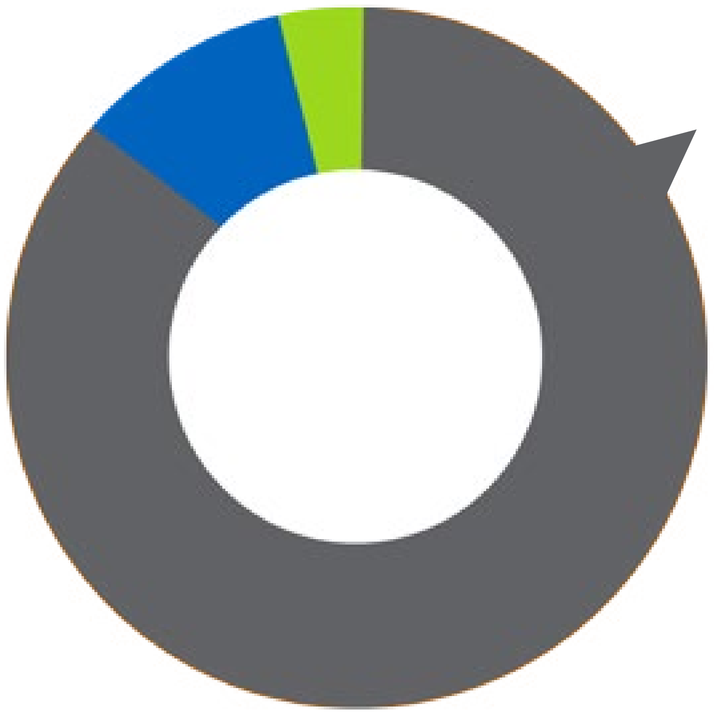
PRUlink US dollar bond fund

The Fund posted a positive return in 2017. Moderately tighter credit spreads and yield declines at the long-end of the US Treasury (UST) yield curve contributed to the positive returns of the Philippine US dollar sovereign bond market.

In the first quarter of the year, US growth expectations remained elevated on the Trump election win but the failure of the new administration in passing the healthcare reform bill led to fears over the ability of the administration in pushing through other stimulus measures. However, the passing of the tax reform bill at year-end kept growth expectations strong and the US Federal Reserve's resolve in following through on its expected three rate increases in 2017 drove short-end yields up sharply.

However, the long end of the yield curve remained largely stable with the 10-year and 30-year UST yield closing the year 4 bps and 33 bps tighter respectively. The Philippine sovereign bond market fared well in this environment, boosted by a long duration profile that benefitted from the bear flattening of the UST yield curve. Investors' hunt for yield and resilient economic fundamentals in the Philippines has also contributed to slight tightening of the Philippine sovereign credit spread.

Asset allocation



87.6% Government bond

9.1% Quasi government

3.3% Corporate bond

0.0% Cash and others

Performance

5.00%
Actual year-on-year

6.65%
Since inception
(per annum)

USD 2.5579
Unit price
as of Jan 2, 2018

Top five holdings

Republic of Philippines 9.500% 02/02/2030	10.3%
Republic of Philippines 7.750% 01/14/2031	10.3%
Republic of Philippines 6.375% 10/23/2034	9.7%
Republic of Philippines 10.625% 03/16/2025	8.4%
Republic of Philippines 3.950% 01/20/2040	6.7%

Notes:
The fund returns are net of Annual Management Charge. Past performance is not necessarily indicative of the future or likely performance of the fund.

Highest and lowest unit price achieved

Initial (03 June 03) 1.00000
Highest (12 Jul 2016) 2.68720
Lowest (05 Aug 03) 0.96080

Performance chart

PRUlink growth fund

The Fund posted a positive return in 2017. Value was added through asset allocation, with the Fund's overweight to domestic equity and underweight to domestic bonds contributing positively to relative performance. Stock selection within both of the underlying portfolios was a drag, however.

Whilst posting strong absolute returns, the equity portfolio underperformed relative to its benchmark due to a combination of cash drag and stock specific issues. The overweight positions in First Gen, which weakened during the year as start-up losses in its new power plants weighed on sentiment, and parent company – First Philippine Holdings – detracted, as did the underweight in index heavyweight SM Investments. SM Investments did well in 2017, but the portfolio's natural underweight (the stock accounts for around 13% of the benchmark whilst the portfolio's exposure is capped at 10% to ensure diversification) was a drag.

The underlying fixed income portfolio's underperformance was mainly attributed to the final quarter of the year, as domestic government bond yields moved significantly higher across the curve during the period. In this environment, the portfolio's broad duration overweight was a detractor.

Looking forward, our central scenario remains one of benign inflation, combined with moderate economic and earnings growth. Central banks' reluctance to "take away the punch bowl", should prevent them from hiking aggressively, so long as wage inflation remains muted.

Global valuations are supported by strong earnings. Whilst on traditional valuation measures US equities look expensive, this has not always historically been a precursor to negative stock returns.

We have considered the risk events that could cause a regime shift and derail our "Goldilocks" scenario. These include the Fed tightening more aggressively than the market currently expects, a China-led slowdown, and a sudden spike in wage inflation due to labor market tightness.

As such, the fund manager continues to target an overweight to equities.

Asset allocation

86.2%
Equity

13.7%
Bond

0.1%
Cash and others

Fund performance review

Performance

19.40%
Actual year-on-year

12.41%
Since inception
(per annum)

PhP 4.29331
Unit price
as of Jan 2, 2018

Highest and lowest unit price achieved

Initial (19 Jul 2005) 1.00000
Highest (18 Oct 2017) 4.30871
Lowest (28 Oct 2008) 0.99584

Notes:
1. The fund returns are net of Annual Management Charge. Past performance is not necessarily indicative of the future or likely performance of the fund.
2. The Peso Bond Fund and Equity Fund have served as underlying funds of the Managed and Growth Funds prior to the funds'launch date.

Performance chart

www.prulifeuk.com.ph

PRUlink equity fund

The Philippine equities posted a strong year in 2017, with the Philippine Stock Exchange Index (PSEi) returning 27.15% as the passage of a key tax reform plan and a credit rating upgrade supported sentiment. The year 2017 marked a stark change from the previous year, as investor sentiment recovered from the lows in 2016. Reforms chatter gathered pace, while resilient economic growth also helped.

Amid a rally in global equities, the PSEi steadily climbed over the months to reach a record high in December, where President Rodrigo Duterte signed the first tax reform package into law. The tax package is expected to generate around PhP 90 billion in incremental net tax revenue in 2018. Key features of the package include a reduction in personal income taxes, increase in taxes for petroleum and tobacco products, and restructuring of estate taxes.

For the full year, overweight positions in East West Banking Corp. and Energy Development Corp., as well as the underweight positon in Universal Robina, contributed to relative performance.

East West Banking Corp. was one of the top stock performers in 2017, posting a stellar 72% gain in share price. While solid earnings helped bolster the lender's share price, speculation over a potential acquisition also boosted sentiment.

Shares in geothermal power company Energy Development Corp. surged, following a tender offer by a consortium comprising units of Macquarie and Singapore's GIC.

The underweight position in Universal Robina Corporation aided relative performance, as its shares have lagged the broad market for the year-to-date period. The company continued to face intense competition in some of its business segments, such as instant coffee in the Philippines.

Asset allocation

- 30.4% Financials
- 26.3% Industrials
- 21.4% Real estate
- 6.7% Utilities
- 4.6% Telecommunication
- 4.2% Consumer staples
- 2.7% Consumer discretionary
- 1.2% Energy
- 2.5% Cash and others

Performance

23.58%
Actual year-on-year

9.61%
Since inception
(per annum)

PhP 2.55074
Unit price
as of Jan 2, 2018

Top five holdings

SM Investments	9.6%
Ayala Land	8.3%
SM Prime Holdings	7.8%
BDO Unibank	7.3%
Ayala Corporation	5.8%

Notes:
The fund returns are net of Annual Management Charge. Past performance is not necessarily indicative of the future or likely performance of the fund.

Highest and lowest unit price achieved

Initial (23 Oct 2007) 1.00000
Highest (08 Nov 2017) 2.5525
Lowest (28 Oct 2008) 0.42505

Performance chart

Fund performance review

PRUlink proactive fund

The Fund posted a positive return in 2017. Value was added through asset allocation, with the Fund's overweight to domestic equity and underweight to domestic bonds contributing positively to relative performance. Stock selection within both of the underlying portfolios was a drag, however.

Whilst posting strong absolute returns, the equity portfolio underperformed relative to its benchmark due to a combination of cash drag and stock specific issues. The overweight positions in First Gen, which weakened during the year as start-up losses in its new power plants weighed on sentiment, and parent company – First Philippine Holdings – detracted, as did the underweight in index heavyweight SM Investments. SM Investments did well in 2017, but the portfolio's natural underweight (the stock accounts for around 13% of the benchmark whilst the portfolio's exposure is capped at 10% to ensure diversification) was a drag.

The underlying fixed income portfolio's underperformance was mainly attributed to the final quarter of the year, as domestic government bond yields moved significantly higher across the curve during the period. In this environment, the portfolio's broad duration overweight was a detractor.

Looking forward, our central scenario remains one of benign inflation, combined with moderate economic and earnings growth. Central banks' reluctance to "take away the punch bowl", should prevent them from hiking aggressively, so long as wage inflation remains muted.

Global valuations are supported by strong earnings. Whilst on traditional valuation measures US equities look expensive, this has not always historically been a precursor to negative stock returns.

We have considered the risk events that could cause a regime shift and derail our "Goldilocks" scenario. These include the Fed tightening more aggressively than the market currently expects, a China-led slowdown, and a sudden spike in wage inflation due to labor market tightness.

As such, the fund manager continues to target an overweight to equities.

Asset allocation

62.7%
Equity

37.0%
Bond

0.3%
Cash and others

Performance

13.10%
Actual year-on-year

9.74%
Since inception
(per annum)

PhP 2.2829
Unit price
as of Jan 2, 2018

Highest and lowest unit price achieved

Initial (17 Feb 2009) 1.00000
Highest (20 Oct 2017) 2.30822
Lowest (03 Mar 2009) 0.99950

Notes:
1. The fund returns are net of Annual Management Charge. Past performance is not necessarily indicative of the future or likely performance of the fund.
2. The Peso Bond Fund and Equity Fund have served as underlying funds of the Managed and Growth Funds prior to the funds'launch date.

Performance chart

www.prulifeuk.com.ph

PRUlink Asian local bond fund

Asian bond market returns were mostly positive in local currency terms and were bolstered by the rally in Asian currencies.

While changes in government bond yields were uneven across the region and yield curves, most Asian domestic bond markets registered positive returns over the year, aided partly by accrual income. Additionally, an intense reach for yield globally boosted demand for higher-yielding markets, such as Indonesia, where investor sentiment was also strengthened by an upgrade by Fitch. However, on the heels of policy rate hikes in the US, yield increases in some Asian domestic bond markets with higher sensitivity to US rates or stronger domestic inflation expectations, such as Korea and the Philippines, mitigated gains. Asian currencies were mostly stronger across the board, driven by a weaker US dollar and improved external demand.

Asset allocation

70.2% Government

5.9% Real estate management and development

5.2% Diversified finance

4.4% Banks

1.6% Real estate investment trusts (reits)

1.5% Diversified telecom

1.5% Government agency

0.7% Hotels and restaurants

0.6% Diversified industries

8.4% Cash and others

Performance

9.54%
Actual year-on-year

0.80%
Since inception
(per annum)

USD 1.04845
Unit price
as of Jan 2, 2018

Top five holdings

Korea Treasury Bond 2.125% 06/10/2027	2.1%
Thailand Government 4.000% 06/17/2066	1.7%
Korea Treasury Bond 2.000% 09/10/2022	1.4%
Thailand Government 1.875% 06/17/2022	1.3%
Korea Treasury Bond 1.875% 03/10/2022	1.3%

Notes:
The fund returns are net of Annual Management Charge. Past performance is not necessarily indicative of the future or likely performance of the fund.

Highest and lowest unit price achieved

Initial (30 Jan 2012) 1.00000
Highest (09 May 2013) 1.07329
Lowest (30 Sep 2015) 0.90362

Performance chart

PRUlink Asia Pacific equity fund

Global equity markets were very strong in 2017, with emerging markets outperforming the developed markets by a substantial margin. The MSCI AC Asia Pacific ex Japan equity index returned 37.3% over the year against the MSCI AC World Index return of 24.6%. All countries in Asia registered positive returns with the technology-heavy north Asia indices of China and Korea outperforming while Southeast Asia lagged somewhat, albeit still with all markets recording double-digit returns.

Regionally, China and Korea's outperformance was led by high-growth technology and e-commerce stocks including Alibaba, Tencent, Baidu and Samsung Electronics, which accelerated sharply especially in the second half of the year on improved corporate earnings and growth prospects. Technology supply chain stocks also performed well, meaning Taiwan also outperformed the Asia Pac ex Japan index while laggards included ASEAN markets, bottomed by Malaysia that recorded "only" a 28% return over the year.

The Philippine equity markets ended almost at its year-long highs, with the MSCI Philippines index returning 25.2% for the year. The return was also below other Southeast Asian markets, and substantially below those of north Asia. Regardless, by historical standards, the Philippines still had a very strong year in terms of absolute return.

From a Fund perspective, stock picks in Australia and Taiwan contributed the most during the year, although we held an underweight position in Australia and an overweight position in Taiwan. In contrast, the Fund's overweight positions in China and Singapore dragged performance back slightly.

Asset allocation

33.9% Financials
27.6% Information technology
7.3% Industrials
6.4% Real estate
6.3% Consumer discretionary
6.0% Energy
4.8% Materials
2.7% Consumer staples
1.7% Telecommunication services
3.3% Cash and others

Performance

33.44%
Actual year-on-year

2.87%
Since inception
(per annum)

USD 1.14714
Unit price
as of Jan 2, 2018

Top five holdings

Taiwan Semiconductor Manufacturing	6.0%
Samsung Electronics	4.7%
Tencent Holdings	4.7%
China Construction Bank-H	4.2%
Australia And New Zealand Banking Group	2.9%

Notes:
The fund returns are net of Annual Management Charge. Past performance is not necessarily indicative of the future or likely performance of the fund.

Highest and lowest unit price achieved

Initial (26 Feb 2013) 1.00000
Highest (02 Jan 2018) 1.14714
Lowest (22 Jan 2016) 0.69551

Performance chart

PRUlink global emerging markets dynamic fund

Global equity markets were very strong in 2017, with emerging markets outperforming the developed markets by a substantial margin.

The MSCI Emerging Markets equity index returned 37.2% over the year against the MSCI AC World Index return of 24.6%. All countries in Asia registered positive returns with the technology-heavy north Asia indices of China and Korea outperforming while Southeast Asia lagged somewhat, albeit still with all markets recording double-digit returns.

Globally and in Asia, the equity markets were supported by three pillars which sustained the gains through the year. First, high liquidity levels with economic stimulus programmes still in place in Japan and Europe; second, benign inflation in almost all developed countries and below the targets of the main central banks; and third, strength in corporate earnings. The upside surprise here was led chiefly by IT stocks and their associated supply chains and this led to an outperformance by north Asia stock markets over Southeast Asia, EMEA (which rose 25.2% over the year) and Latin America (up 24.2%).

In Asia, China and Korea's outperformance was led by high-growth technology and e-commerce stocks including Alibaba, Tencent, Baidu and Samsung Electronics, which accelerated sharply especially in the second half of the year on improved corporate earnings and growth prospects. Technology supply chain stocks also performed well, meaning Taiwan also outperformed the Asia Pac ex Japan index while laggards included ASEAN markets, bottomed by Malaysia that recorded "only" a 28% return over the year.

The Philippine equity markets ended almost at its year-long highs, with the MSCI Philippines index returning 25.2% for the year. The return was roughly in line with other Southeast Asia markets, as well as EMEA and Latin America, but substantially below those of north Asia.

EMEA underperformed although within the region the returns were mixed, with Poland recording a 55% gain, the Czech Republic 38.9% and South Africa 36.8%. Here, the markets were pulled up by a late surge in December when the pro-reform Cyril Ramaphosa was elected leader of the ANC, and thus the likely next president. But elsewhere in the region, the returns were lacklustre with Russia gaining just 6% as the weakness of the US dollar hurt the oil-centric equity market.

Latin America also underperformed although the Chilean market benefitted from a pro-market candidate Sebastian Penera winning its presidential election run off in December. The Brazilian equity market performed in line with the region although it was a laggard for much of the year as President Temer fought off corruption allegations and was struggling to progress social security reform. But a late surge in December saw the Brazil market play catch up on the region and the rest of the emerging markets as it appeared he had succeeded in avoiding many of the charges.

From a Fund perspective, being underweight in China and in particular the large IT stocks that dominated that market's performance, detracted from the Fund's return. Being underweight in India also detracted while overweight positions in Korea and the Philippines also marginally hurt performance. On the positive side, an underweight position in Indonesia helped as that market struggled with returns however stock selection in Mexico, Russia and South Africa benefited the Fund.

Asset allocation

30.2%
Financials

18.8%
Information technology

13.6%
Consumer discretionary

8.2%
Industrials

7.0%
Consumer staples

5.8%
Energy

5.3%
Materials

4.0%
Telecommunication services

2.9%
Real estate

4.2%
Cash and others

Performance

30.85%
Actual year-on-year

3.41%
Since inception
(per annum)

USD 1.13439
Unit price
as of Jan 2, 2018

Top five holdings

Taiwan Semiconductor Manufacturing	5.4%
Naspers Limited N	4.6%
China Construction Bank-H	4.0%
Baidu Inc - Spon Adr	3.6%
Barclays Africa Group	2.8%

Notes:
The fund returns are net of Annual Management Charge. Past performance is not necessarily indicative of the future or likely performance of the fund.

Highest and lowest unit price achieved

Initial (01 Apr 2014) 1.00000
Highest (02 Jan 2018) 1.13439
Lowest (22 Jan 2016) 0.63696

Performance chart

PRUlink cash flow fund

The Fund posted a positive return in 2017. Value was added through asset allocation, with the off-benchmark exposure to equities adding substantially to relative performance during the period. The Fund further benefited from the increasing allocation to the asset class during the period. The underweight to Asian Bonds relative to US High Yield further supported performance – with the latter outperforming and Asian Bonds performing least well for the year – whilst underlying stock selection was also positive within both fixed income portfolios. The Fund was well positioned to benefit from the "Goldilocks" environment in 2017 – broadening economic growth, coupled with benign inflation and low interest rates – through its equity exposure and overweight to the riskier US High Yield Bonds. More details on the markets during the year are provided below:

Global equity and fixed income markets ended 2017 higher, with all major asset classes producing positive returns for the year as a whole. Markets were buoyed by strong corporate earnings, encouraging global economic growth and ample liquidity, amid continued low inflation. Indeed, returns from global equities were positive for each and every month of the calendar year, a first for the market, with volatility remaining low. Although there were a number of notable events during the year – elections and terrorist attacks in Europe, US airstrikes on Syria, North Korean missile launches and ongoing tensions in the Korean peninsula – recovery from any weakness tended to be swift.

In addition, focus was on the US and President Trump's ability to deliver on his policy promises. Whilst there were set backs, including failure to pass healthcare legislation, the end of the year delivered the final passage of US tax reform legislation; eagerly anticipated by the market after some uncertainty during the second half of the year. Asia and emerging markets outperformed developed markets for the year as a whole (in US dollar terms), after initial fears of US protectionism eased during the early months of 2017, combined with stronger economic data and US dollar weakness. Rising commodity prices lent support to various countries in the region towards the end of the period, whilst the strength of the technology sector buoyed others – notably South Korea, China and Taiwan.

In the context of fixed income, the US Federal Reserve (Fed) raised rates three times during the year (March, June and December). For the early part of the year US High Yield bonds performed well, benefiting from their lower sensitivity to rate rises. The asset class also performed well for the year as a whole. It was, however, long duration US Treasuries (UST) that significantly outperformed other fixed income asset classes during the year. Despite the three rate rises, the Fed's upgrading of its 2018 growth outlook for the US economy and the appointment of a new Fed Chairman – one expected to continue the policy stance of his predecessor, once sworn in – fixed income markets generally focused on the continued low inflation readings that characterised 2017 and favor duration risk for the year as a whole. Whilst this was the case, all major fixed income asset classes posted positive returns for the year; with emerging markets credit and US High Yield bonds amongst the best performing sectors after long duration UST.

Looking forward, our central scenario remains one of benign inflation, combined with moderate economic and earnings growth. Central banks' reluctance to "take away the punch bowl", should prevent them from hiking aggressively, so long as wage inflation remains muted.

Global valuations are supported by strong earnings. Whilst on traditional valuation measures US equities look expensive, this has not always historically been a precursor to negative stock returns.

We have considered the risk events that could cause a regime shift and derail our "Goldilocks" scenario. These include the Fed tightening more aggressively than the market currently expects, a China-led slowdown, and a sudden spike in wage inflation due to labor market tightness.

As such, the fund manager continues to target an overweight to equities and US High Yield credit. The manager is underweight Asian bonds.

Asset allocation

86.9%
Bond

13.0%
Equity

0.1%
Cash and others

Performance

2.49%
Actual year-on-year

-0.99%
Since inception
(per annum)

USD 0.96922
Unit price
as of Jan 2, 2018

Top five holdings

Esin-US High Yield Bond D	53.9%
Esin-Asian Bond D	33.0%
Esin-Asian Equity Inc D	6.5%
Esin-World Value Equity D	6.5%
Cash	0.1%

Notes:
The fund returns are net of Annual Management Charge. Past performance is not necessarily indicative of the future or likely performance of the fund.

Highest and lowest unit price achieved

Initial (14 Nov 2014) 1.00000
Highest (29 Apr 2015) 1.01016
Lowest (15 Feb 2016) 0.86352

Performance chart

PRUlink Asian balanced fund

The Fund posted a positive return from the time it was launched in October 2017. The Fund's overweight to Asian Local Bonds relative to Asian USD-denominated Bonds was beneficial, as the former outperformed. The overall overweight to equity was a mild drag during the period, however, with stock selection within the underlying Asian equity portfolio the largest detractor from relative performance. Given the underlying Asia Equity Fund's Value investment approach, the significant Value equity style underperformance in Asia was a headwind for the equity exposure for the period as a whole.

Global equity and fixed income markets ended 2017 higher, with all major asset classes producing positive returns for the year as a whole. Markets were buoyed by strong corporate earnings, encouraging global economic growth and ample liquidity, amid continued low inflation. Indeed, returns from global equities were positive for each and every month of the calendar year, a first for the market, with volatility remaining low. Although there were a number of notable events during the year – elections and terrorist attacks in Europe, US airstrikes on Syria, North Korean missile launches and ongoing tensions in the Korean peninsula – recovery from any weakness tended to be swift.

In addition, focus was on the US and President Trump's ability to deliver on his policy promises. Whilst there were set backs, including failure to pass healthcare legislation, the end of the year delivered the final passage of US tax reform legislation; eagerly anticipated by the market after some uncertainty during the second half of the year. Asia and emerging markets outperformed developed markets for the year as a whole (in USD terms), after initial fears of US protectionism eased during the early months of 2017, combined with stronger economic data and US dollar weakness. Rising commodity prices lent support to various countries in the region towards the end of the period, whilst the strength of the technology sector buoyed others – notably South Korea, China and Taiwan.

In the context of fixed income, performance was relatively disparate across Asian bond and local bond markets. The period under review coincided with the US Federal continuing on its course of monetary policy tightening, as it hiked rates for the fifth time in the current rate hike cycle in December 2017, bringing the Fed Funds Target Rate to a range of 1.25% - 1.5%.

Alongside monetary policy normalisation, US Treasury yields rose over the period with yield increases more prominent on the short end of the curve. Longer-dated Treasury yields rose by a smaller margin. The increase in US interest rates weighed on the performance of Asian USD-denominated bonds. However, with a synchronised global economic expansion continuing into the end of 2017, Asian economies remained on the path of sustained growth, driving a trend of improving corporate profitability in the region. This provided stability for Asian credit spreads, while accrual income helped offset the impact of higher US interest rates, resulting in an overall flattish return over the period. Similarly, in the Asian Local bond market, bond yields were influenced higher in most markets amid the continued rate normalisation in the US. However, market performance was lifted by Asian currency strength, as strong economic conditions and broad USD weakness underpinned the currencies' ascent.

Looking forward, our central scenario remains one of benign inflation, combined with moderate economic and earnings growth. Central banks' reluctance to "take away the punch bowl", should prevent them from hiking aggressively, so long as wage inflation remains muted.

Global valuations are supported by strong earnings. Whilst on traditional valuation measures US equities look expensive, this has not always historically been a precursor to negative stock returns.

We have considered the risk events that could cause a regime shift and derail our "Goldilocks" scenario. These include the Fed tightening more aggressively than the market currently expects, a China-led slowdown, and a sudden spike in wage inflation due to labor market tightness.

As such, the fund manager continues to target an overweight to equities.

▸ Asset allocation

52.7%
Equity

45.7%
Bond

1.6%
Cash and others

▸ Performance

N.A.
Actual year-on-year

N.A.
Since inception
(per annum)

USD 1.01514
Unit price
as of Jan 2, 2018

▸ Top five holdings

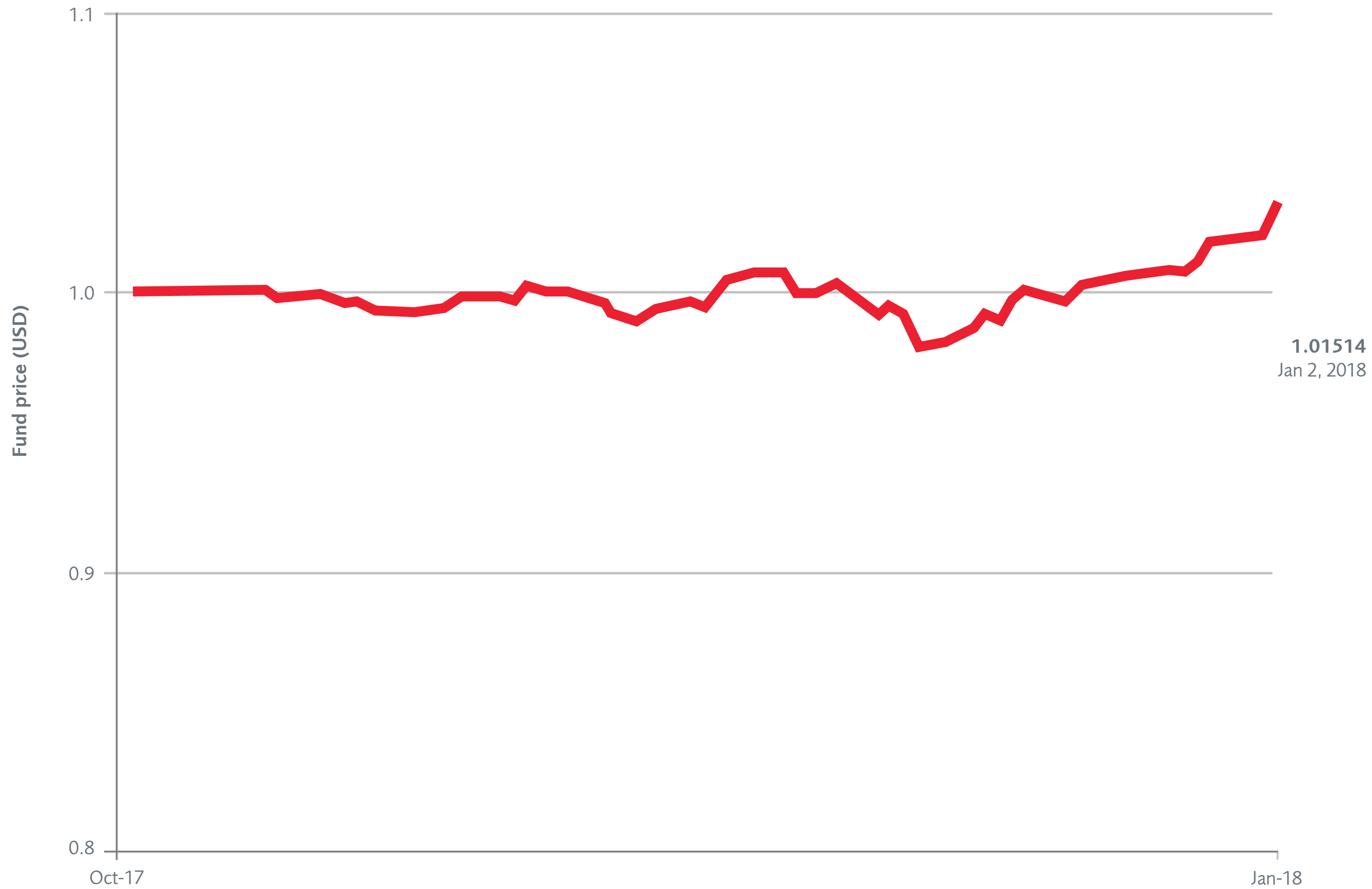
Esin-Asia Pacific Eq D	52.7%
Esin-Asian Local Bd D	24.9%
Esin-Asian Bd D	20.8%
Tardeable United States Dollar - Currency	1.6%

Notes:
The fund returns are net of Annual Management Charge. Past performance is not necessarily indicative of the future or likely performance of the fund.

▸ Highest and lowest unit price achieved

Initial (09 Oct 2017) 1.00000
Highest (02 Jan 2018) 1.01514
Lowest (07 Dec 2017) 0.98453

▸ Performance chart



Investment outlook

Looking forward, the Global Asset Allocation (GAA) team's central scenario remains one of benign inflation, combined with moderate economic and earnings growth. Central banks' reluctance to "take away the punch bowl", should prevent them from hiking aggressively, so long as wage inflation remains muted.

Global valuations are supported by strong earnings. Whilst on traditional valuation measures US equities look expensive, this has not always historically been a precursor to negative stock returns.

We have considered the risk events that could cause a regime shift and derail our "Goldilocks" scenario. These include the Fed tightening more aggressively than the market currently expects, a China-led slowdown, and a sudden spike in wage inflation due to labor market tightness.

The Philippines' macro fundamentals remain intact, underpinned by strong domestic demand. However, valuations of large-caps are no longer attractive following their strong performance in recent years.

The government's tax reform package is expected to reduce personal income tax burden for low-to-middle income earners and boost private consumption. Additional revenue from higher top-bracket income tax rates and excise duty on fuel, tobacco and sugar will also improve funding for large-scale infrastructure initiatives, which will in turn support long-term economic growth.

The peso was one of the worst-performing Asian currencies in 2017 despite the country's strong economic growth. The currency is expected to remain under pressure going forward, driven by concerns over the country's deteriorating balance of payment, increase in US interest rates, and stronger inflationary pressures amidst higher commodity prices.

The Fund is overweight in a select group of utilities due to their attractive valuations. It is also overweight attractively valued property stocks that are trading at a steep discount to their appraised net asset values. The Philippines' favorable demographics, growing income, and low-interest rates will likely continue to support demand for homes in the long run.

Fund managers' profile

Low Guan Yi

Chartered Financial Analyst
Investment Director –
Fixed Income

Guan Yi is the manager of PRUlink bond fund and PRUlink Asian local bond fund. She has 20 years of investment experience in Asian fixed income. She joined Eastspring Investments (Singapore) Limited in 2007 and is responsible for the Pan-Asian local currency bond portfolios, as well as single-country Philippine and Thai bond portfolios.

Guan Yi is the lead portfolio manager for Asian local bond strategies. Prior to joining Eastspring Investments, she was managing Asian local currency and credit portfolios at Bank Pictet et Cie Asia Ltd, Fullerton Fund Management Company and at Standard Chartered Bank Singapore. She holds a Bachelor of Business degree from Nanyang Technological University, Singapore.

Leong Wai Mei

Certified Public Accountant
Investment Director –
Fixed Income

PRUlink US dollar bond fund is managed by Wai Mei who has 18 years of investment experience. She is currently the lead portfolio manager for Asian hard currency fixed income portfolios, including Asian Bond and High Yield Bond Fund. Wai Mei is also managing single-country Philippine US dollar bond strategy.

Prior to joining Eastspring Investments, Wai Mei has worked in various capacities in relation to credit including holding positions as Senior Analyst at the Bank of Nova Scotia Asia Ltd, Commerce International Merchant Bankers in Malaysia, and ABN AMRO Bank in Singapore. She holds a Postgraduate Diploma (Finance) from Melbourne University and a Bachelor of Business (Accounting) degree from RMIT in Australia. She is a Certified Public Accountant.

Phua Zhenghao

Chartered Financial Analyst
Portfolio Manager –
Global Asset Allocation

The PRUlink managed fund, PRUlink proactive fund, PRUlink growth fund, PRUlink Asian balanced fund and PRUlink cash flow fund are managed by Zhenghao. He joined Eastspring Investments in September 2010. Besides being a portfolio manager in the Global Asset Allocation team, Zhenghao also provides support to the senior investment team in the area of research, fund management and quant/database. Prior to joining Eastspring Investments, Zhenghao was Asset Allocation Research Analyst. Zhenghao is a CFA charterholder and has 10 years of investment experience. Zhenghao graduated from National University of Singapore in 2008 with a Bachelor of Business Administration (Honours) degree.

Andrew Cormie

Chartered Financial Analyst
Portfolio Manager –
Equity

The PRUlink Asia Pacific equity fund and PRUlink global emerging markets (GEM) dynamic fund are managed by Andrew Cormie. Andrew joined Eastspring Investments in 2008. Andrew is the team leader for the Global Emerging Markets focus team as well as a member of the Regional Asia focus team. He is also the lead manager for the Asia Pacific equity strategy as well as GEM Dynamic Fund.

Andrew began his investment career in 1982 with National Mutual Life Association. He then worked as an Equity Dealer for JP Morgan Investment Management, Melbourne in 1984 and became their Director, responsible for Australian Equity and Balance business three years later. In 1997, Andrew became the Head of Global Equity Team of JP Morgan Investment Management, London. Andrew was the founding partner and Director of Voyager Funds Management Pty Limited between 2006/07. In all, Andrew has over 36 years of investment experience.

Andrew is a CFA charterholder and holds a Bachelor in Business Administration degree from Griffith University, Brisbane and a diploma from Securities Institute of Australia.

Chow Wing Kin

Chartered Financial Analyst
Investment Director –
Equity

Wing Kin is the manager of PRUlink equity fund. Wing Kin is the team leader of the ASEAN Equity focus team and joined Eastspring Investments in 1999. Wing Kin is also the lead manager for the ASEAN, Indonesia and Philippines equity strategies.

Previously, Wing Kin was an investment analyst at The Insurance Corporation of Singapore. In all, Wing Kin has over 22 years of investment experience.

Wing Kin is a CFA charterholder and holds a Bachelor of Business degree from Nanyang Technological University, Singapore.

Corporate governance

Corporate governance

I. The Board of Directors

In the Annual Shareholders' Meeting of Pru Life Insurance Corporation of U.K. ("Pru Life UK") held on 22 June 2017, the following were elected as members of the Board of Directors for the year 2017 to 2018 and until their successors shall have been duly elected and qualified:

1. Henry Joseph "Henry" M. Herrera

Independent Chairman of the Board of Directors

- **Age:** 58 years old
- **Date of first appointment:**
  17 June 2010 as Board Member
  23 August 2012 as Chairman of the Board
- **Length of service:** 7 years
- **Directorship in other listed companies:** None

- **Qualifications:**
  Henry is a Statistics cum laude and Masters of Business Administration graduate of the University of the Philippines, and has accomplished courses at the Asian Institute of Management, the Wharton Graduate School of Business, and the Harvard School of Business. He has also earned units in Master of Science in Mathematics major in Actuarial Services from the University of the Philippines.

  Henry is the first recipient of the ASEAN Young Insurance Manager Award in 1995, Outstanding Alumni Awardee, UP College of Business Administration in 2007, and The Outstanding Thomasian Alumni Award also in the same year.

  Henry is a Fellow and past president of the Actuarial Society of the Philippines and a member of the International Actuarial Association. He is also a past president of the Philippine Life Insurance Association, Inc.

- **Relevant experience:**
  Henry's experience in the insurance industry spans over 30 years. He was President and Chief Executive Officer (CEO) of Sun Life of Canada (Philippines), Inc. from January 2007 to July 2009. Henry's first CEO position was with Philippine Asia Life Assurance Corporation, where he was appointed in May 1994. Among his many achievements are multiple appointments as President and CEO, and various stints as Chief Actuary, Head of Investments, and Head of Operations. Henry also served as the Assistant Vice President, Financial Controller and Analyst of United Coconut Planters Life from 1984 up to 1988.

2. Stephen Paul "Steve" Bickell

Non-executive Board Member

- **Age:** 53 years old
- **Date of first appointment:**
  5 June 2008
- **Length of service:** 9 years
- **Directorship in other listed companies:** None

- **Qualifications:**
  Steve graduated with a Diploma of Business Studies from the Waltham Forest College of Higher Education.

- **Relevant experience:**
  Steve is the Chief Risk Officer of Prudential Corporation Asia, the regional headquarters of Pru Life UK. He has worked in Prudential since 1979 in various capacities, holding positions as Director of Tax & Compliance and Corporate Affairs Director, among others.

3. Azim Khursheid Ahmed Mithani

Non-executive Board Member*

- **Age:** 46 years old
- **Date of first appointment:**
  26 August 2015
- **Length of service:** 2 years
- **Directorship in other listed companies:** None

- **Qualifications:**
  Azim earned his Bachelor's degree with first class honors in Physics from the University of Durham in England, United Kingdom (UK). He is also a Fellow of the Institute of Actuaries and has a diploma in Islamic Finance from the Chartered Institute of Management Accountants in the UK.

- **Relevant experience:**
  Azim is the Chief Operating Officer for Insurance of Prudential Corporation Asia (PCA), Pru Life UK's regional headquarters. He previously served as Chief Executive Officer of Prudential BSN Takaful Berhad.

**Azim Khursheid Ahmed Mithani resigned as member of the Board effective 23 August 2017.*

4. . Teoh Kwui Ying

Non-executive Board Member**

- **Age:** 46 years old
- **Date of first appointment:**
  24 August 2017
- **Length of service:** Newly appointed
- **Directorship in other listed companies:** None

- **Qualifications:**
  Ying earned her Bachelor of Economics and Master of Economics from the Macquarie University in Sydney, Australia. She is a Fellow of the Institute of Actuaries of Australia.

***In the Regular Meeting of the Board of Directors of Pru Life UK held on 24 August 2017, Teoh Kwui Ying was elected as a member of the Board of Directors to replace Azim Khursheid Ahmed Mithani from 24 August 2017 to 2018 and until her successor shall have been duly elected and qualified.*

- **Relevant experience:**
  Ying is the Chief Performance Officer for Insurance of Prudential Corporation Asia (PCA). She previously served as Regional Director for Strategic Management, Insurance.

  Ying is currently a Board Member of Prudential (Cambodia) Life Assurance Plc, Citic-Prudential Life Insurance Company Limited, Sri Han Suria Sdn Bhd., Nova Sepadu Sdn Bhd., Prudential Vietnam Assurance Private Limited, and Prudential Vietnam Finance Company.

  Prior to joining PCA, Ying worked in ING Life as its Chief Risk Officer and Executive Director-Head of Product.

5. Antonio Manuel "Jumbing" G. De Rosas

Executive Board Member

- **Age:** 52 years old
- **Date of first appointment:**
  7 December 2010
- **Length of service:** 7 years
- **Directorship in other listed companies:** None

- **Qualifications:**
  Jumbing completed his Bachelor of Science in Business Administration major in Accounting degree (Summa Cum Laude) at the University of San Francisco in the United States, and Master of Business Economics at the University of Asia and the Pacific.

  In 2012, Jumbing became the first Filipino in the Philippines to receive the Chartered Global Management Accountant designation from the American Institute of Certified Public Accountants (AICPA) and the Chartered Institute of Management Accountants. He is licensed by AICPA, a fellow of the Hong Kong Institute of Certified Public Accountants, and a Certified Information Systems Auditor.

- **Relevant experience:**
  Jumbing joined Pru Life UK in 2007 as General Manager and Chief Financial Officer (CFO) and assumed the top post of President and Chief Executive Officer in 2010.

  Jumbing worked in Hong Kong with consulting firms Arthur Andersen & Company, Ernst & Young, and Asia Commercial Bank, where he eventually became CFO. He moved to Manila in 1997 as Senior Vice President, CFO, and Treasurer of Nippon Life Insurance Company of the Philippines, Inc. before joining Pru Life UK.

6. Cesar P. Manalaysay

Independent Board Member

Age: 69 years old
Date of first appointment:
2 August 2006
Length of service: 11 years
Directorship in other listed companies: None

Qualifications:
Cesar received both his Bachelor of Arts and Bachelor of Laws degrees from the Ateneo de Manila University, and received his Master of Laws degree from the Boalt Hall School of Law at the University of California, Berkeley.

Cesar is a member of the Integrated Bar of the Philippines, Philippine Bar Association, and Rotary Club of Manila (Paul Harris Fellow).

Relevant experience:
- Cesar is the Managing Partner of Siguion Reyna, Montecillo and Ongsiako Law Offices. He is a member of the Board of Directors or an officer of various companies.

7. Jose "BoyF" A. Feria, Jr.

Non-executive Board Member

Age: 69 years old
Date of first appointment:
17 January 1996 to December 1997;
re-appointed in July 2003
Length of service: 16 years
Directorship in other listed companies: Liberty Flour Mills, Inc.

Qualifications:
BoyF earned a double degree of Bachelor of Science in Business Administration and Bachelor of Arts in Economics at the De La Salle University. He received his Bachelor of Laws degree at the University of Santo Tomas. He is a member of the Integrated Bar of the Philippines (IBP).

BoyF served as President of the Philippine Bar Association (PBA), which is the oldest voluntary national organization of lawyers in the Philippines.

- **Relevant experience:**
  BoyF is a senior partner of Feria Tantoco Daos Law Office. He is concurrently Chairman, Director, and Corporate Secretary of several companies in various industries in the Philippines.

8. Romerico "Romy" S. Serrano

Independent Board Member

- **Age:** 67 years old
- **Date of first appointment:**
  2 August 2006
- **Length of service:** 11 years
- **Directorship in other listed companies:** None

- **Qualifications:**
  Romy received his Bachelor of Science degree in Management from San Beda College and completed the Management Development Program at the Asian Institute of Management and the Advance Management Program/ International Senior Managers Program at the Harvard Business School in Boston.

- **Relevant experience:**
  Romy held top positions in various companies, as President of Fuji Xerox Philippines, Inc. and Country Manager of Motorola Inc.,- South Asia, among others.

II. Training and continuing education programme of directors

For the year 2017, the training and continuing education program attended by the directors were as follows:

Director	Training and continuing education programme attended
1. Henry Joseph M. Herrera 2. Stephen Paul Bickell 3. Teoh Kwui Ying 4. Antonio Manuel G. De Rosas 5. Cesar P. Manalaysay 6. Jose A. Feria, Jr. 7. Romerico S. Serrano	Board Education Session held on 24 August 2017 where the following topics were presented: - Updates on Prudential - Annual Performance Assessment - 2017 Key Performance Indicators of Pru Life UK

Jose A. Feria, Jr. also attended the following training and continuing education program:

Date	Training and continuing education programme attended
22 November 2017	4th SEC-PSE Corporate Governance Forum at Philippine international Convention Center, PICC Complex, Pasay City, Manila

Stephen Paul Bickell also attended the following training and continuing education program:

Date	Training and continuing education programme attended
13 March 2017	Independent Non-Executive Directors (INED) Forum in The Hong Kong Bankers' Club, Hong Kong by KPMG
24 April 2017	Anti-bribery and Corruption Enforcement Round Up in Freshfields Bruckhaus Deringer's Office, Hong Kong by Freshfields Bruckhaus Deringer
19 June 2017	Independent Non-Executive Directors (INED) Forum in The Hong Kong Bankers' Club, Hong Kong by KPMG
4 July 2017	The Common Reporting Standard in KPMG Office, Hong Kong by KPMG
4 July 2017	Anti-Money Laundering Internal Online Annual Training by Prudential
1 September 2017	Conference on Business Ethics for Listed Companies 2017 in Hong Kong Convention & Exhibition Centre, Hong Kong by Hong Kong Business Ethics Development Centre
6 September 2017	Conflict of Interest Internal Online Annual Training by Prudential
6 September 2017	Fraud Awareness Internal Online Annual Training by Prudential
6 September 2017	Anti-bribery and Corruption Internal Online Annual Training by Prudential
13 September 2017	Independent Non-Executive Directors (INED) Forum in The Hong Kong Bankers' Club, Hong Kong by KPMG
20 September 2017	Fact-finding and Decision-making in a Crisis in Freshfields Bruckhaus Deringer's Office, Hong Kong by Freshfields Bruckhaus Deringer
10-11 October 2017	The Pan Asian Regulatory Summit 2017 in Grand Hyatt Hotel, Hong Kong by EY
25 October 2017	Asia Pacific Financial Services Tax Executives Conference in St. Regis, Singapore by PricewaterhouseCoopers (PwC)
28 October 2017	Information Security and Data Privacy Internal Online Annual Training by Prudential
28 October 2017	Speak Out Internal Online Training by Prudential
1 December 2017	Inside Information Policy and Information Barrier Policy Internal Online Annual Training by Prudential

III. Board meetings

For the year 2017, the Board of Directors of Pru Life UK held six (6) meetings. Below are the details of the attendance of the directors in said six (6) board meetings:

Date and type of board meeting	Directors present in the board meeting	Directors absent in the board meeting
1. Regular meeting of the Board of Directors held on 30 March 2017	Henry Joseph M. Herrera Antonio Manuel G. De Rosas Azim Khursheid Ahmed Mithani Romerico S. Serrano Cesar P. Manalaysay Jose A. Feria, Jr.	Stephen Paul Bickell
2. Organizational meeting of the Board of Directors held on 22 June 2017	Henry Joseph M. Herrera Stephen Paul Bickell Azim Khursheid Ahmed Mithani Antonio Manuel G. De Rosas Romerico S. Serrano Cesar P. Manalaysay Jose A. Feria, Jr.	None
3. Regular meeting of the Board of Directors held on 24 August 2017	Henry Joseph M. Herrera Stephen Paul Bickell Teoh Kwui Ying Antonio Manuel G. De Rosas Romerico S. Serrano Cesar P. Manalaysay Jose A. Feria, Jr.	None
4. Special Board of Directors Education Session held on 24 August 2017	Henry Joseph M. Herrera Stephen Paul Bickell Teoh Kwui Ying Antonio Manuel G. De Rosas Romerico S. Serrano Cesar P. Manalaysay Jose A. Feria, Jr.	None
5. Special meeting of the Board of Directors held on 22 September 2017	Henry Joseph M. Herrera Stephen Paul Bickell Teoh Kwui Ying Antonio Manuel G. De Rosas Jose A. Feria, Jr.	Romerico S. Serrano Cesar P. Manalaysay
6. Regular meeting of the Board of Directors held on 23 November 2017	Henry Joseph M. Herrera Stephen Paul Bickell Teoh Kwui Ying Antonio Manuel G. De Rosas Romerico S. Serrano Cesar P. Manalaysay Jose A. Feria, Jr.	None

Board Member	Percentage of attendance•••
Henry Joseph M. Herrera	100%
Stephen Paul Bickell	83%
Azim Khursheid Ahmed Mithani	100%
Teoh Kwui Ying	100%
Antonio Manuel G. De Rosas	100%
Cesar P. Manalaysay	83%
Romerico S. Serrano	83%
Jose A. Feria, Jr.	100%

****Azim Khursheid Ahmed Mithani served as director only until 23 August 2017 while Teoh Kwui Ying served as director only from 24 August 2017.*

IV. The Nomination Committee

In the Organizational Board of Directors' Meeting held on 22 June 2017, the following were elected as members of the Nomination Committee for the year 2017 to 2018 and until their successors shall have been duly elected and qualified:

Cesar P. Manalaysay – *Independent Chairman*
Henry Joseph M. Herrera – *Independent Member*
Romerico S. Serrano – *Independent Member*

For the year 2017, the Nomination Committee of Pru Life UK held two (2) meetings. Below are the attendance details of each of its members in the said two (2) meetings:

Date and type of Nomination Committee meeting	Members present in the Nomination Committee meeting	Members absent in the Nomination Committee meeting
1. Regular meeting held on 30 March 2017	Cesar P. Manalaysay Henry Joseph M. Herrera Romerico S. Serrano	None
2. Regular meeting held on 23 November 2017	Cesar P. Manalaysay Henry Joseph M. Herrera Romerico S. Serrano	None

Nomination Committee member	Percentage of attendance
Cesar P. Manalaysay	100%
Henry Joseph M. Herrera	100%
Romerico S. Serrano	100%

V. The Remuneration Committee

In the Organizational Board of Directors' meeting held on 22 June 2017, the following were elected as members of the Remuneration Committee for the year 2017 to 2018 and until their successors shall have been duly elected and qualified:

Romerico S. Serrano – *Independent Chairman*
Henry Joseph M. Herrera – *Independent Member*
Azim Khursheid Ahmed Mithani – *Non-executive Member*

Azim Khursheid Ahmed Mithani served as non-executive member of the Remuneration Committee only until 23 August 2017. In the Regular Board of Directors' Meeting held on 24 August 2017, Ms. Teoh Kwui Ying was elected as non-executive member of the Remuneration Committee with effect until 2018 or until her successor shall have been duly elected and qualified.

For the year 2017, the Remuneration Committee of Pru Life UK held two (2) meetings. Below are the attendance details of each of its members in the said two (2) meetings:

Date and type of Remuneration Committee meeting	Members present in the Remuneration Committee meeting	Members absent in the Remuneration Committee meeting
1. Regular meeting held on 30 March 2017	Romerico S. Serrano Henry Joseph M. Herrera Azim Khursheid Ahmed Mithani	None
2. Regular meeting held on 23 November 2017	Romerico S. Serrano Henry Joseph M. Herrera Teoh Kwui Ying	None

Remuneration Committee member	Percentage of attendance••••
Romerico S. Serrano	100%
Henry Joseph M. Herrera	100%
Azim Khursheid Ahmed Mithani	100%
Teoh Kwui Ying	100%

*****Azim served as non-executive member only until 23 August 2017 while Ying served as non-executive member only from 24 August 2017.*

VI. The Audit Committee[1]

In the Organizational Board of Directors' Meeting held on 22 June 2017, the following were elected as members of the Audit Committee for the year 2017 to 2018 and until their successors shall have been duly elected and qualified:

1. Henry Joseph "Henry" M. Herrera

Independent Chairman of the Audit Committee

- **Qualifications:**
  Henry is a Statistics cum laude and Masters of Business Administration graduate of the University of the Philippines, and has also accomplished courses at the Asian Institute of Management, the Wharton Graduate School of Business, and the Harvard School of Business. He has also earned units in Master of Science in Mathematics major in Actuarial Services from the University of the Philippines.

  Henry is the first recipient of the ASEAN Young Insurance Manager Award in 1995, Outstanding Alumni Awardee, UP College of Business Administration in 2007, and The Outstanding Thomasian Alumni Award also in the same year.

  Henry is a Fellow and past president of the Actuarial Society of the Philippines and a member of the International Actuarial Association. He is also a past president of the Philippine Life Insurance Association, Inc.

- **Relevant experience:**
  Henry's experience in the insurance industry spans over 30 years. He was President and Chief Executive Officer (CEO) of Sun Life of Canada (Philippines), Inc. from January 2007 to July 2009. Henry's first CEO position was with Philippine Asia Life Assurance Corporation, where he was appointed in May 1994. Among his many achievements are multiple appointments as President and CEO, and various stints as Chief Actuary, Head of Investments, and Head of Operations. Henry also served as the Assistant Vice President, Financial Controller and Analyst of United Coconut Planters Life from 1984 up to 1988.

2. Stephen Paul "Steve" Bickell

Non-executive Member of the Audit Committee

- **Qualifications:**
  Steve graduated with a Diploma of Business Studies from the Waltham Forest College of Higher Education.

- **Relevant experience:**
  Steve is the Chief Risk Officer of Prudential Corporation Asia, the regional headquarters of Pru Life UK. He has worked in Prudential since 1979 in various capacities, holding positions as Director of Tax & Compliance and Corporate Affairs Director, among others.

[1]In the Regular Board of Directors' Meeting held on 24 August 2017, the Board approved the creation of the Related Party Transactions Committee separate from the Audit Committee pursuant to the instructions of the Insurance Commission in its letter dated 19 July 2017. While the separation of the two Committees took effect only on 24 August 2017, the Audit Committee will be referred to in this Annual Report as Audit Committee and not Audit and Related Party Transactions Committee.

3. Cesar P. Manalaysay

Independent Member of the Audit Committee

- **Qualifications:**
Cesar received both his Bachelor of Arts and Bachelor of Laws degrees from the Ateneo de Manila University, and received his Master of Laws degree from the Boalt Hall School of Law at the University of California, Berkeley.

Cesar is a member of the Integrated Bar of the Philippines, Philippine Bar Association, and Rotary Club of Manila (Paul Harris Fellow).

- **Relevant experience:**
Cesar is the Managing Partner of Siguion Reyna, Montecillo and Ongsiako Law Offices. He is a member of the Board of Directors or an officer of various companies.

4. Romerico "Romy" S. Serrano

Independent Member of the Audit Committee

- **Qualifications:**
Romy received his Bachelor of Science degree in Management from San Beda College and completed the Management Development Program at the Asian Institute of Management and the Advance Management Program/ International Senior Managers Program at the Harvard Business School in Boston.

- **Relevant experience:**
Romy held top positions in various companies, as President of Fuji Xerox Philippines, Inc. and Country Manager of Motorola Inc.,- South Asia, among others.

For the year 2017, the Audit Committee of Pru Life UK held four (4) meetings. Below are the attendance details of each of its members in the said four (4) meetings:

	Date and type of Audit Committee meetings	Members present in the Audit Committee meetings	Members absent in the Audit Committee meetings
1.	Regular Meeting of the Audit Committee held on 30 March 2017	Henry Joseph M. Herrera Cesar P. Manalaysay Romerico S. Serrano	Stephen Paul Bickell
2.	Regular Meeting of the Audit Committee held on 22 June 2017	Henry Joseph M. Herrera Stephen Paul Bickell Cesar P. Manalaysay Romerico S. Serrano	None
3.	Regular Meeting of the Audit Committee held on 24 August 2017	Henry Joseph M. Herrera Stephen Paul Bickell Cesar P. Manalaysay Romerico S. Serrano	None
4.	Regular Meeting of the Audit Committee held on 23 November 2017	Henry Joseph M. Herrera Stephen Paul Bickell Cesar P. Manalaysay Romerico S. Serrano	None

Audit Committee member	Percentage of attendance
Henry Joseph M. Herrera	100%
Stephen Paul Bickell	75%
Cesar P. Manalaysay	100%
Romerico S. Serrano	100%

VII. Year 2017 Annual Performance Assessments of the Board of Directors, the Individual Board Members, the Board Committees, and the Chief Executive Officer

On a yearly basis, the directors of Pru Life UK conduct a performance assessment of the Board, members of the Board, board committees and Chief Executive Officer. The annual performance assessment is based on the self-assessment questionnaire on the observance of the different principles of good governance in the Insurance Commission Circular Letter No. 31-2005 entitled *"Corporate Governance Principles and Leading Practices."*

For year 2017, the Annual Performance Assessment Form was distributed to the directors on 23 November 2017. The Corporate Secretary received the duly accomplished forms before the Board and Board Committee meetings held on 22 March 2018. The results of the performance assessments were tallied and summarized by the Corporate Secretary and reported to and discussed by the Board and Board Committees during the Board and Board Committee meetings held on 22 March 2018. Recommendations and action items based on the results of the performance assessments are scheduled to be discussed and determined by the Board and Board Committees during the Board and Board Committee meetings in June 2018.

VIII. External auditor

In the Audit Committee meeting of Pru Life UK held on 22 June 2017, the Audit Committee endorsed to the Shareholders of Pru Life UK the appointment of R.G. Manabat & Co. as external auditor for the audit year 2017. In the Annual Meeting of the Shareholders of Pru Life UK held on 22 June 2017, R.G. Manabat & Co. was appointed as the external auditor for the audit year 2017. None of the directors and senior management of Pru Life UK were former employees and partners of R.G. Manabat & Co. for the past two (2) years.

For the year 2017, Pru Life UK paid R.G. Manabat & Co. a total of one million and nine hundred thousand pesos (PhP 1,900,000.00) for audit fees, exclusive of out-of-pocket expenses and twelve percent (12%) value added tax.

No non-audit fees were paid to R.G. Manabat & Co. for the year 2017.

IX. Dividend policy

Pru Life UK shall declare and pay cash dividends, the amount of which shall be determined through consideration of the following factors: (a) surplus position; (b) liquidity position (c) solvency ratios; (d) strategic initiatives, and (e) provisions for regulatory changes.

For 2017, the Company declared and paid cash dividends of one billion seven hundred five million eight hundred eighty two thousand three hundred fifty two pesos and ninety four centavos (PhP 1,705,882,352.94) before taxes.

X. Compliance and Risk Management

Pru Life UK's Board Audit Committee (AC) and Board Risk Committee (RC) provide the risk oversight roles at board level. These include review of the framework and effectiveness of the Company's system of internal control; seeking assurance from Management that they have performed their duty in respect of their application of the Prudential Group Risk Framework; reviewing approvals for deviations from any regional policies; and reviewing Management's and the external and internal auditors' reports on the effectiveness of systems for internal control, financial reporting, and risk management. The RC which was created in 2016 has the primary function to assist the Board of Directors of Pru Life UK in assessing the material risks to which Pru Life UK is or could be exposed to, as well as the effectiveness of its internal control and risk management systems. The risk oversight by the AC and RC is mainly supported by the Chief Executive Officer (CEO), Chief Risk Officer, Compliance Officer, the Risk and Compliance function, and the executive level Risk Committee. The reporting and discussion on the risk management and compliance form part of the standing agenda of the AC and RC.

For the year 2017, the Board of Directors conducted a review of Pru Life UK's material controls (including operational, financial and compliance controls), internal controls and risk management systems and confirmed the adequacy thereof. The Board of Directors acknowledged the Annual Statement of Compliance of Pru Life UK, duly signed by the President and Chief Executive Officer, Antonio Manuel G. De Rosas, and the Executive Vice President and Chief Financial Officer, Lee C. Longa, for the year 2017 which demonstrated Pru Life UK's compliance, in all material respects, with the risk management policies and that all material controls and risk management systems have been operating effectively throughout the year.

XI. Speak Out Confidential Helpline (Whistle Blowing Policy)

For concerns and complaints on possible violation of rights and illegal (including corruption) and unethical behavior, please contact us using the details below. All concerns/complaints and any information given will be treated in confidence and every effort will be made not to reveal your identity if that is your wish.

Head office address:
9/F Uptown Place Tower 1, 1 East 11th Drive, Uptown Bonifacio, 1634 Taguig City, Philippines

Telephone numbers:
Dial direct access number (depending on your telecommunications provider):

1010-5511-00 (PLDT-Tagalog Operator)
At English prompt, dial:
855-860-2158

105-11 (Globe, Philcom, Digitel, Smart)
At English prompt, dial:
855-860-2158

105-12 (Globe, Philcom, Digitel, Smart-Tagalog Operator)
At English prompt, dial:
855-860-2158

Email address: pcahelpline@prudential.com.hk
Website: www.prudentialspeakout.ethicspoint.com

XII. Code of corporate governance

As part of the Prudential Group, Pru Life UK is required to comply with the Prudential Group Corporate Governance standard. The Company runs an annual self-certification exercise (Turnbull*) to ensure compliance with the governance manual. The CEO of Pru Life UK presented to the 2017 Board Audit Committee the Annual Statement of Compliance including the Prudential Group corporate governance standard which showed Pru Life UK's compliance, in all material respects, with the Corporate Governance standard.

** "Turnbull" is the annual certification of compliance with governance, risk management, and internal control requirements including Principle C2 of the UK Corporate Governance Code and Section 302 of the Sarbanes Oxley Act 2002 (Sox).*

XIII. Remuneration Policy for Executive Directors and Chief Executive Officer

Pru Life UK's total rewards package provides an effective mix of fixed and variable components that is geared towards rewarding contribution, performance, and value to the business. The CEO reward components support our rewards philosophy.

- Fixed component consisting of base pay and fixed bonus (13th month pay) to reflect market and internal value of the role and recognize individual performance (through base pay increases)

- Variable annual incentive bonus to encourage high performance against key financial and strategic metrics and individual performance and to enable the individual to share in the success (and risk) of the business

- Variable long term incentives to attract and retain executives and key talent, recognize contribution to the long term success of Prudential, and create sense of ownership

- Benefits to supplement cash compensation and provide long term security and protection

Executive directors of Pru Life UK do not receive a separate remuneration for holding such position.

XIV. Fee Structure and Remuneration of Directors

The non-executive external directors* of Pru Life UK (i.e. Henry Joseph M. Herrera, Cesar P. Manalaysay, Jose A. Feria, Jr., and Romerico S. Serrano) receive fixed directors' fees per meeting attended and do not receive any other additional remuneration for their directorship in Pru Life UK. The non-executive internal directors** of Pru Life UK (i.e. Stephen Paul Bickell, Azim Khursheid Ahmed Mithani (who resigned on 23 August 2017), and Teoh Kwui Ying (who was appointed on 24 August 2017)) do not receive any remuneration for their directorship in Pru Life UK. The executive director of Pru Life UK (i.e. Antonio Manuel G. De Rosas) does not receive any remuneration for his directorship in Pru Life UK.

Below are the details of the remuneration received by the directors of Pru Life UK for the year 2017:

Name	Classification as director	Fee structure/Remuneration as director
Henry Joseph M. Herrera	Independent Non-Executive Chairman of the Board (*External)	Total annual gross director's fee in the amount of eight hundred thousand pesos (PhP 800,000)
Stephen Paul Bickell	Non-Executive (**Internal) Board Member	Did not receive any director's fee
Azim Khursheid Ahmed Mithani	Non-Executive (**Internal) Board Member	Did not receive any director's fee
Teoh Kwui Ying	Non-Executive (**Internal) Board Member	Did not receive any director's fee
Antonio Manuel G. De Rosas	Executive Board Member	Did not receive any director's fee
Cesar P. Manalaysay	Independent Non-Executive (*External) Board Member	Total annual gross director's fee in the amount of two hundred thousand pesos (PhP 200,000)
Jose A. Feria, Jr.	Non-Executive (*External) Board Member	Total annual gross director's fee in the amount of two hundred thousand pesos (PhP 200,000)
Romerico S. Serrano	Independent Non-Executive (*External) Board Member	Total annual gross director's fee in the amount of two hundred thousand pesos (PhP 200,000)

**a director who does not hold any position in Pru Life UK or its parent company, affiliates and subsidiaries*
*** a director of Pru Life UK who is also an officer or employee of Pru Life UK's parent company, affiliates or subsidiaries*

XV. Related Party Transactions

Policies and Procedures in Managing RPTs

A policy on Related Party Transactions (RPTs) is in place to ensure that RPT transactions of Pru Life UK are only undertaken on an arm's length basis for the financial, commercial, and economic benefit the Company and the entire group to which it belongs. The Policy ensures that there are appropriate oversight and effective control systems for managing RPT exposures to prevent situations that will lead to abuses which would be disadvantageous to the Company, its policyholders, claimants, creditors, and other stakeholders.

"Related Party" or "Related Parties" covers the Company's subsidiaries as well as affiliates and special purpose entities that the Company exerts direct/indirect control over or that exert significant influence over the Company; its board members; officers; stockholders and related interests; and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of the Company, hence is identified as Related Party.

All RPTs shall be conducted in the regular course of business and not undertaken on more favorable economic terms (e.g. price, commissions, interest rates, fees, tenor, and collateral requirement) to such Related Parties than similar transactions with non-related parties under similar circumstances.

An effective price discovery mechanism is in place to ensure that transactions are engaged into terms that promote the best interest of the Company and its stakeholders. The price discovery mechanism includes, but is not limited to, the validation procedures to determine the nature, components, and price of the services to be provided, acquiring the services of an external expert, and where applicable, opening the transaction to a bidding process, canvassing, or benchmarking, or any other applicable due diligence procedures.

Managing of conflict of interest or potential conflict of interest

The Company adopts the Regional-Wide Conflict of Interest Policy. It is committed to ensuring that all related parties operate at the highest level of integrity in all their dealings and business relationships, either within or outside the Compay. The members of the Board, employees, stockholders, and management shall disclose to the Board whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting the Company. Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting the Company.

The Company has a Whistleblowing Mechanism in place where employees are encouraged to communicate, confidentially and without risk of reprisal, legitimate concerns about illegal, unethical or questionable RPTs.

The RPT Committee and its Responsibility

The RPT Committee is composed of three (3) members of the Board, all of whom are independent directors. The Chairman and the members of the Committee are appointed by the Board and have a term of one (1) year or until their successors are appointed by the Board.

Thr primary responsibilities of the RPT Committee include, among others, (1) ensuring that all RPT Transactions are carried out on an arms length basis, (2) ensuring that appropriate disclosures are made, and/or information is provided to regulating and supervising authorities, (3) reviewing and approving annual public disclosures in accordance with the requirements of the regulator, and (4) reporting to the Board on a regular basis, the status and aggregate exposures of the Company to each Related Party as well as the total amount of exposures to all Related Parties.

Original and Existing Exposure with the Related Parties as of Dec 31, 2017 (amounts in PhP milions):

Related Party	Nature	Transaction amount	Balance (as of Dec 31, 2017	Terms
Eastspring Investment (Singapore) Limited	Management fees for fund management and Investment marketing services	274	72	30 days upon billing
Prudential Services Asia	Cost of production ap-plication systems and infrastructure support	247	33	30 days upon billing
Prudence Foundation Limited	Cost of Corporate Social Responsibility (CSR) activities advanced by Pru Life UK	-	-	30 days upon billing
Prudential Holdings Limited (PHL)	Cost of expenses for international sales conventions and other expenses advanced by PHL	33	20	30 days upon billing
Prudential Capital Holdings Company Limited	Assistance in Foreign Exchange hedging for capital remittance	(no cost involved)	(no cost involved)	30 days upon billing
	Aggregate	557	125	

Risk management
(Key risks)

Pru Life UK, as part of Prudential plc, generates shareholder value by selectively taking exposure to risks which can be appropriately quantified and managed, and where the risk is adequately rewarded. The approach is to retain risks where doing so contributes to value creation, to the extent that the Company is able to withstand the impact of an adverse outcome, and has the necessary capabilities, expertise, processes, controls, and capital to appropriately manage the risk.

Risk Management System

Pru Life UK complies with the Prudential plc Enterprise Risk Management System which includes Risk Governance, Risk Framework, Risk Appetite and Limit, the Risk Management Process, and the Risk Management Culture. These are set out in the Pru Life UK Risk and Governance Framework.

Pru Life UK regards risk as the uncertainty that the Company faces in successfully implementing its strategies and objectives. This includes all internal and external events, acts, or omissions that have the potential to threaten the success and survival of the Company. As such, material risks will be retained only where these are consistent with the Prudential Group and Pru Life UK Risk Appetite and the philosophy towards risk-taking.

Pru Life UK Risk Governance refers to the organizational structures; reporting relationships; delegation of authority; and roles and responsibilities of individuals, committees, and functions involved in making decisions and control in its activities on risk-related matters.

The Risk Framework requires Pru Life UK to establish processes for identifying, evaluating, and managing the key risks based on the "three lines of defense" model which comprises of risk-taking and management, risk control and oversight, and independent assurance. The independent risk control and oversight function is supported by the risk management and compliance function led by the Chief Risk Officer (CRO) who directly reports to Pru Life UK's Chief Executive Officer (CEO) with dotted reporting line to the Prudential Corporation Asia CRO. The quarterly Pru Life UK Board and Management level risk committees are the key risk governance forums. Being the standing committee of the Board of Directors of Pru Life UK, the Board level Risk Committee has the primary function to assist the Board in assessing the material risks that Pru Life UK is exposed to and the effectiveness of its internal control and risk management systems. The management level risk committee is chaired by Pru Life UK CEO, facilitated by the CRO, and supported by the senior management team as members of the Committee. The key risks that the Company is exposed to and any key issues arising from the Risk Committee are required to be escalated to the Board level Risk Committee, the Audit Committees, and an appropriate Regional Head Office Risk forum. The Pru Life UK CRO is a member of various key business decision committees including Pru Life UK's Executive Committee, Investment Committee, Product Steering Committee, Claims Committee, Outsourcing Committee, Sales Disciplinary Committee, Life Operations Committee, Digital Steering Committee, and Persistency Steering Committee. The overall effectiveness of the CRO and the risk management function are subjected to the oversight of the Board and the Regional Head Office.

The Risk Appetite and Limit defines the extent to which Pru Life UK is willing to take risk in pursuit of its objective to create shareholder value, taking into account the policyholders and other stakeholders' interest. It is defined by a number of risk appetite statements, operationalized through measures such as limits, triggers, and indicators. Aggregate risk limits are defined and monitored based on financial and non-financial stresses for our earnings volatility, liquidity, and capital requirements as well as limit on the counterparty and credit exposure. There is no appetite for material losses (direct or indirect) suffered as a result of failing to develop, implement, and monitor appropriate controls to manage operational risks.

The risk management process includes Risk Identification (including top down, bottom up, and emerging risk identification), Risk Measurement and Assessment (including Solvency II Economic Capital, Local Capital, Earnings volatility, Liquidity, emergence of experience), Risk Monitoring and Reporting (Risk Committee), and Risk Management and Control (including Risk Appetite and limits, Large Risk Approval Process, Stress Testing, Reverse Stress Testing, Risk-Based Decision Making). The risk management process is embedded in the key business activities.

Risk Management Culture is instilled by embedding risk considerations in the business decisions. It is further embedded via the engagement of various stakeholders within the organization with the aim of enhancing the understanding of sound risk management practices and the awareness of its relevance to their roles. This includes new hire orientation to the Pru Life UK risk management practice and specific training sessions to different functions, executive members and the Board members.

Key risk exposure and mitigating actions

The key risks inherent in the insurance management operation include investments made to support the insurance product liabilities, the products offered, and business operations.

Risks from investments could arise from the uncertainty of investment returns, including fluctuation in equity prices, interest rates, and defaults of credit instruments. Unit-linked products are exposed to equity risk, as the revenue is linked to funds under management. Traditional products are exposed to interest rate risks arising from asset liability mismatch. Mitigating actions include establishing clear market risk taking policies, risk appetite statements, limits and trigger, reporting of the regular management information, and appropriate strategic asset allocation which matches the liabilities profile and the investment performance oversight provided by the investment committee.

Risks arising from products offered include adverse experience relative to that expected: i) mortality or morbidity claims, ii) policyholders surrender, or iii) incurred expenses for launching and administrating the policies. The risks are mainly mitigated by robust governance and oversight on the product development and the approval process, adequate training and sales process, appropriate underwriting and claim process, responsive customer service, appropriate risk transfer arrangements, ability to re-price, appropriate asset allocation, investment performance monitoring, disciplined expense management, post-sale regular experience monitoring, and the deep-dive reviews.

Risks from business operations could possibly arise from the failure to comply with the ever evolving regulatory and legislative requirements, mis-selling, failure to manage the third parties, IT infrastructure, information security, and business continuity. The risks are mainly mitigated by a sound and effective operational risk management framework, robust compliance processes and culture, timely and insightful management information on key operational risk and control assessments, scenario analysis, and internal and external incidents reporting.

Corporate officers

Antonio "Jumbing" G. De Rosas

President and Chief Executive Officer

Antonio "Jumbing" De Rosas graduated Summa Cum Laude from the University of San Francisco with a degree in Business Administration, major in Accounting. He also holds a Master's degree in Business Economics from the University of Asia and the Pacific.

Mr. De Rosas' extensive experience in business and finance began in the banking sector abroad, in his early years, and later, for some of the country's top insurance companies where his previous roles includes being Senior Vice President and Chief Finance Officer and Head of Information Technology for the Philippine and Hong Kong operations. He is a member of both the American and Hong Kong Institute of Certified Public Accountants and is a Certified Information Systems Auditor.

Mr. De Rosas is a martial arts expert, with the rank of karate black-belt, 4th dan. He is a skilled athlete who continues to be involved in long-distance swimming and running.

Lee C. Longa

Executive Vice President and Chief Financial Officer

Lee Longa is a Certified Public Accountant with a wealth of experience in various Finance and Audit functions. He started his career with Joaquin Cunanan & Co./Pricewaterhouse Coopers where he was the Assurance and Business Services Advisory Manager.

Mr. Longa's insurance experience commenced when he joined Nippon Life as Chief Audit Executive. He has also had stints as a member of the senior management team and Head of Finance for the Blue Cross Group of Companies, AsianLife Financial Assurance Corp. and AsianLife and General Assurance Corp. Prior to joining Pru Life, he was Vice President and Chief Finance Officer of ACE Insurance Philippines. He earned his Accounting degree from the Ateneo de Davao University.

Maria Divina H. Furagganan

Senior Vice President and Chief Agency Officer

Maria Divina "Divine" Heres-Furagganan joined Pru Life UK in 2010 as Sales Director and has since led branches/agencies from different regions in becoming significant contributors to the Company's sales performance and business expansion. She currently serves as Senior Vice President and Chief Agency Officer, tasked to direct the Company's entire Agency force.

Ms. Furagganan has over 25 years of experience in sales, holding key roles in a number of insurance companies including Philippine AXA Life Insurance Corporation, Manufacturer's Life Insurance Corporation, and John Hancock Life Insurance Corporation. She graduated Cum Laude from the Mapua Institute of Technology with a Bachelor's degree in Management and Industrial Engineering.

Francis P. Ortega

Senior Vice President and Chief Actuary

Francis Ortega joined Pru Life UK as Head of Pricing and Product Development in 2007. As head of the actuarial pricing team, he was responsible for the development of the Company's long line of innovative and profitable products and has helped manage the agency compensation structure and set up the distribution agreement for several bank partners. In 2011, he ascended to the role of Chief Actuary and currently oversees all areas of the actuarial function which covers Financial Reporting and Valuation, Experience Studies and Monitoring, Actuarial Risk Management, Pricing and Product Development, and Product Management.

Mr. Ortega is a Fellow of the Actuarial Society of the Philippines and the Life Office Management Institute and has more than 20 years' experience in the life insurance industry. He began his career with PhilamLife in 1996 and has served in various senior actuarial roles prior to joining Prudential. He graduated Cum Laude from the University of Santo Tomas with a Bachelor's degree in Mathematics, major in Actuarial Science.

Allan M. Tumbaga

Senior Vice President and Chief Marketing Officer

Allan Tumbaga has experience in both local and international banks, particularly in corporate communications, product management and brand management.

Prior to joining Pru Life UK, Mr. Tumbaga was with EastWest Bank where he was the Vice President and Head of Bank Marketing and Corporate Communications. He also held key leadership positions as Marketing Head for AIG PhilAm Bank, Marketing Division Head of RCBC, Country Marketing Manager of Bank of America Savings Bank, and Marketing and Public Relations Group Head of Asiatrust Development Bank. He started his banking career with Citibank.

Mr. Tumbaga graduated with a Bachelor of Science degree in Physics from De La Salle University and completed his Master's degree in Business Management from the Asian Institute of Management. He is the author of a handbook on products and services published by the Bankers Association of the Philippines.

Rey Antonio M. Revoltar

Senior Vice President and Chief Human Resources Officer

Rey Revoltar has been with Pru Life UK since 1999 where he began his Prudential career as a Human Resources Manager. From January 2004 to April 2006, Mr. Revoltar was part of the Prudential Corporation Asia Regional Office in Hong Kong where he was HR Manager and subsequently Regional Training and Development Manager in the PRUuniversity Team. He moved back to Pru Life UK as Senior Manager for Training and Development before he moved up and assumed the post of Assistant Vice President for HR.

In 2008, Mr. Revoltar joined the Company's Executive Committee when he became Vice President for Human Resources. Before joining Pru Life UK, he has done significant work for another life company and a well-known leisure park. Mr. Revoltar is a graduate of the Ateneo de Manila University where he took up Management Economics.

Manuel T. Nera, Jr.

Senior Vice President and Chief Information Officer

Manuel "Manny" Nera holds a degree in Bachelor of Science in Electronics and Communication Engineering from Don Bosco Technical College.

He was a Certified Project Management Professional and was a member of the Project Management Institute (PMI) - a known non-profit global organization of project management professionals.

Mr. Nera brings with him more than two decades of Information Technology experience, starting with PLDT, one of the largest telecommunications company in the Philippines. He assumed various roles with two other life insurance companies, Sun Life Financial Shared IT Services as its Regional IT Manager and Generali Pilipinas as its Chief Information Officer.

In 2010, he joined Pru Life UK as Vice President for Information Technology and ascended to the role of Senior Vice President and Chief Information Officer in 2011. In 2017, he also assumed the role of Chief Digital Officer.

Corporate officers

Michael R. Mabalay

Senior Vice President and Chief Operations Officer

Michael Mabalay has over 20 years' experience in life insurance operations, strategic planning and implementation, and corporate project management. He joined Pru Life UK in 2000 and led the team responsible for the development of backroom support services for variable unit-linked (VUL) life insurance products. He became Vice President for Corporate Project Management in 2010 and set-up a robust framework for managing the Company's significant initiatives. From November 2012 to June 2013, he was appointed by Prudential Corporation Asia as Senior Vice President and Project Director of the Integration Management Office of Prudential Thailand where he successfully managed the simultaneous acquisition of a life insurance company and implementation of a bancassurance partnership.

Mr. Mabalay currently serves as the Senior Vice President and Chief Operations Officer of Pru Life UK. He holds a degree in Bachelor of Science, Major in Management from the Ateneo de Manila University.

Ma. Emeren V. Vallente

Senior Vice President and Chief Legal and Government Relations Officer

Em Vallente currently serves as the Senior Vice President and Chief Legal and Government Relations Officer of Pru Life UK. She has been with the Company since 2010. Prior to working with Pru Life UK, she was Country Lead Lawyer and Corporate Secretary of a multinational insurance corporation where she authored the Regional Board Standards adopted and used by all of the corporation's affiliates within the region. Atty. Vallente has been sharing her expertise in legal matters with the life insurance industry since 1997. She also has extensive experience in both corporate governance and compliance and has successfully completed with Distinction the One-Year Course on Trust Operations and Investment Management conducted by the Trust Institute Foundation of the Philippines, the Neville-Clarke International Training Course for Internal Quality Auditor, and the Basic Management Program of the Asian Institute of Management. She obtained her Juris Doctor degree from the Ateneo de Manila University.

Johnny Lee

Senior Vice President and Chief Risk Officer

Johnny Lee joined Pru Life UK as Senior Vice President and Chief Risk Officer in 2016. He is leading the Risk Management and Compliance function.

Mr. Lee brings with him over 20 years of solid experience in the life and pension industry in Asia, with the recent focus on European Solvency II implementation and financial risk management. Before joining Pru Life UK, he served as Prudential Corporation Asia's Director for Financial Risk Management. He has also worked for various product development, financial reporting and pension consulting roles in Prudential Corporation Asia, AIA, Manulife, and William Mercer.

He earned both his undergraduate degree in Actuarial Science and postgraduate degree in Financial Engineering and Risk Management from the University of Hong Kong. He is a Fellow of the Society of Actuaries since 2003.

ACEDERA, Ma. Christia
Vice President -
Contact Center Management

BALBIN, Samuel
Vice President -
Underwriting and Claims

DE LEON, Arnolfo
Vice President -
Agency Operations

DETALLA, Marylin
Vice President -
Sector Head for Metro Manila

GARCES, Antonio II
Vice President and
Chief Investment Officer

GARCIA, Ramon
Vice President -
Third Party Distribution
Business Development

GREGORIO, Esperanza
Vice President -
General Agencies Director

ISIDRO, Maribel
Vice President and
Sector Head for Luzon

JARANILLA, Ma. Leticia
Vice President -
Third Party Distribution

KATINDOY, Elaine
Vice President -
PRU Agent Academy

KINTANAR, Ma. Xenas
Vice President and
Sector Head for Visayas and Mindanao

LASA, Roseanne
Vice President -
PRU Leadership Academy

MARAÑO, Ma. Cecilia
Vice President -
Financial Planning, Reporting and Analysis

MARASIGAN, Dante
Vice President and
Financial Controller

MIGALLOS, Mark Anthony
Vice President -
General Agencies and Fast Track

NGAN, Winkie
Vice President -
Compliance Officer, Money Laundering
Prevention Officer and AMLA
Compliance Officer

PATULOT, Andrea Margie
Vice President -
Policy Administration

RABOT, Maria Cecilia
Vice President -
IT Business Solutions

RAMIREZ, Kenn Melecio
Vice President -
Channel Incubation Administrator

Shareholding structure and group corporate structure

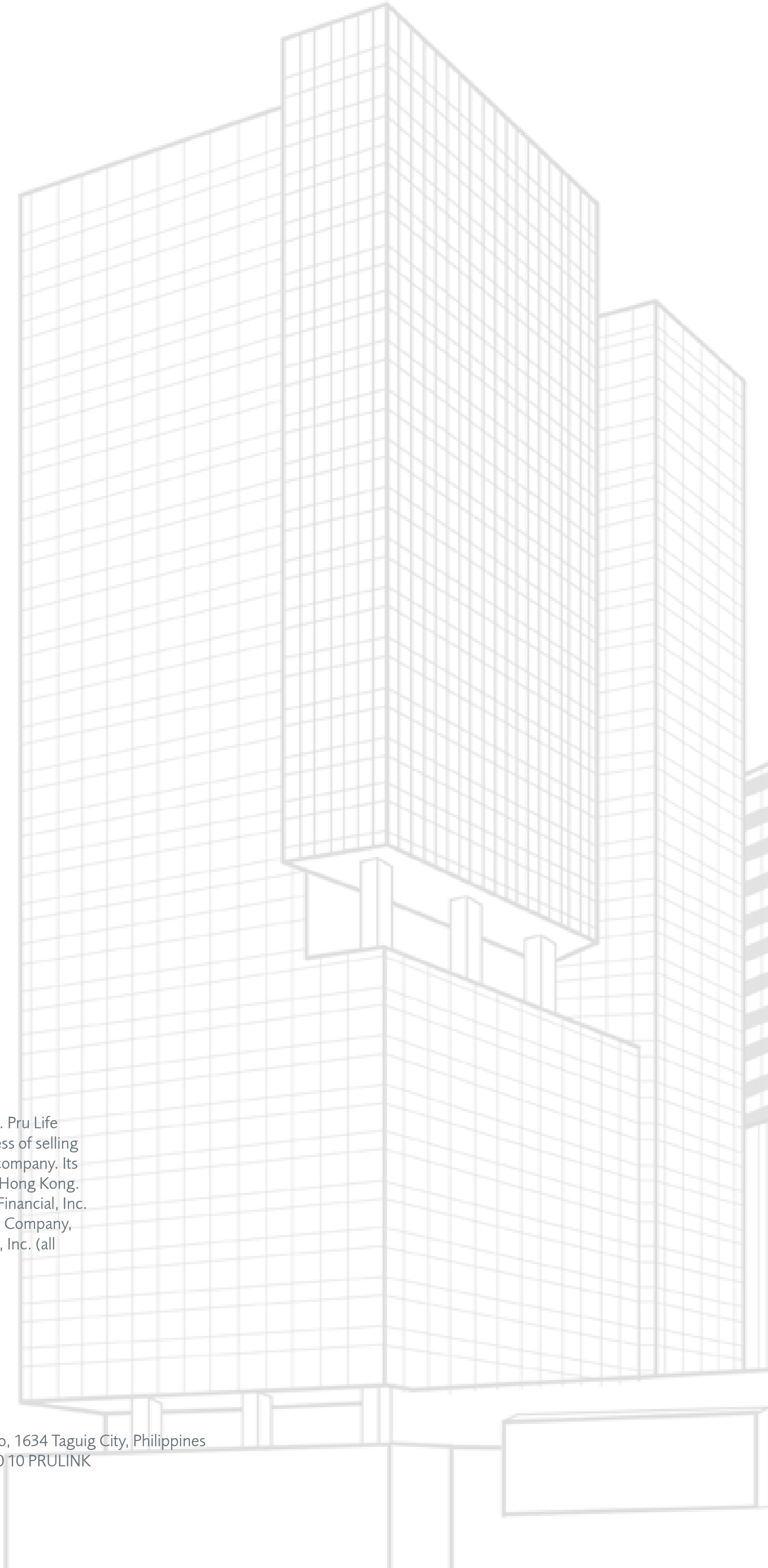
Position as of 31 December 2017

Extract from the Prudential plc ownership chart for Pru Life Insurance Corporation of U.K.

- **Prudential plc** [UK]
  - 100% **The Prudential Assurance Company Limited** [UK]
  - 100% **M&G Group Limited** [UK]
    - 100% **M&G Limited** [UK]
  - 100% **Prudential Corporation Asia Limited** [HK]
    - 100% **Prudential Holdings Limited** [UK]
      - 100% **Prudential Corporation Holdings Limited** [UK]
        - 100% **Pru Life Insurance Corporation of U.K.** [Philippines]
  - 100% **Prudential (US Holdco 1) Limited** [UK]
    - 100% **Jackson National Life Insurance Company** [USA] Note 3

Notes:

1. *Place of incorporation of each company are being indicated in square brackets above.*
2. *The above chart shows only Prudential plc's principal business units.*
3. *Immediate holding companies for **Jackson National Life Insurance Company** do not appear on this ownership chart.*
4. *Ownership of Pru Life Insurance Corporation of U.K. is **fully** reflected in this ownership chart.*



Established in 1996, Pru Life UK is a subsidiary of Prudential plc. Pru Life UK is a life insurance company and is not engaged in the business of selling pre-need plans. Prudential plc is a United Kingdom-registered company. Its regional headquarters, Prudential Corporation Asia, is based in Hong Kong. Pru Life UK and Prudential plc are not affiliated with Prudential Financial, Inc. (a US-registered company), Philippine Prudential Life Insurance Company, Prudentialife Plans, Inc. or Prudential Guarantee and Assurance, Inc. (all Philippine-registered companies).

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