PRU LIFE U.K.

Listening. Understanding. Delivering.

2018 Annual Report

We Do DARE

We Do DARE
2018 Annual Report

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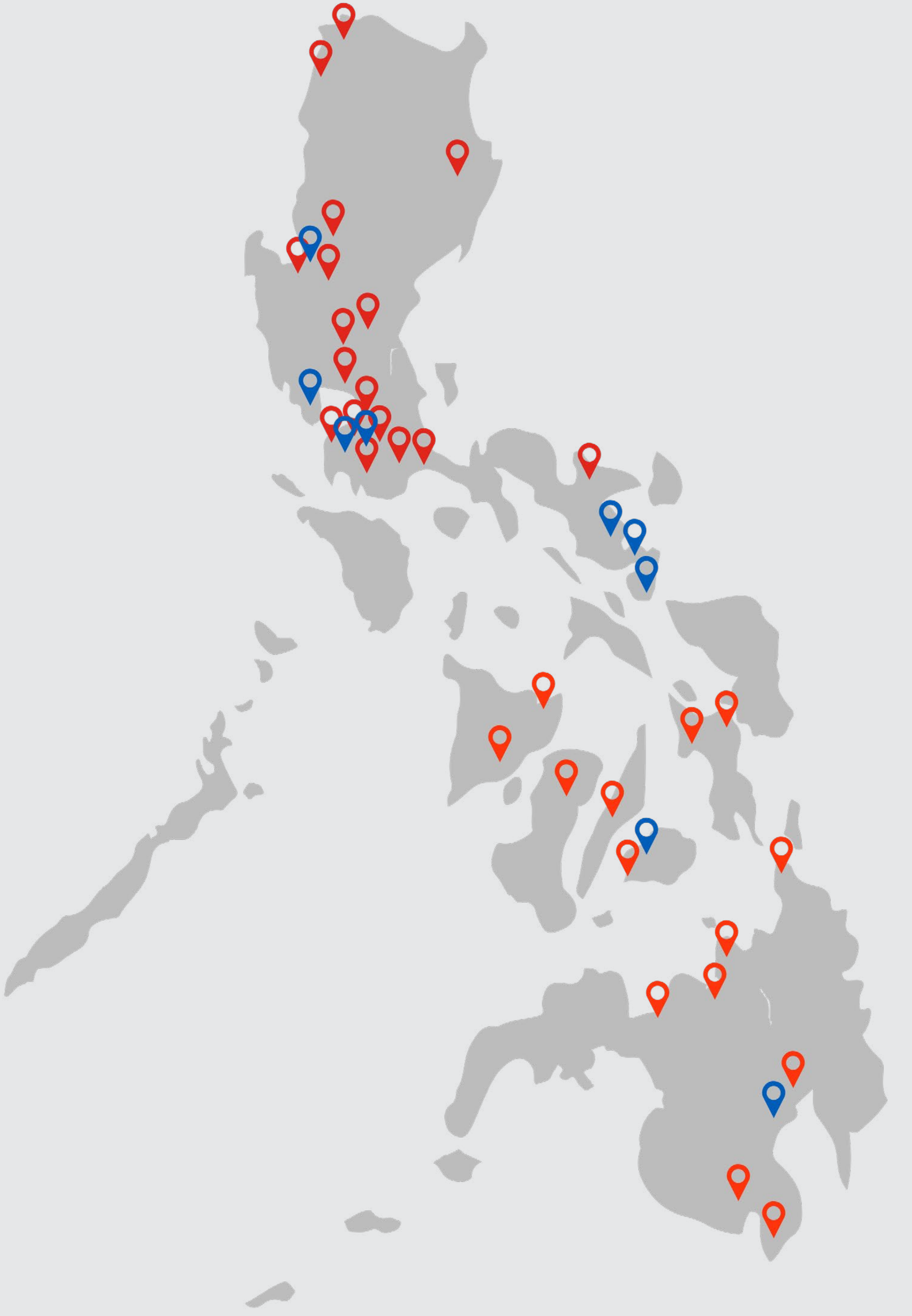
Pru Life UK's domestic footprint

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

89	73
BRANCHES	GENERAL AGENCIES

as of March 2018



Message from the Chairman of the Board

Strengthening our core and expanding our capabilities – these are what we dared to achieve in 2018.

Withstanding high inflation pressures and global trade tensions, the Philippines sustained its growth momentum with a 6.2% rise in gross domestic product, which remains one of the fastest rates in Asia. This economic expansion likewise translated to a milestone in the local insurance industry, which posted its highest penetration rate in five years at 1.76%.[1]

It was a tough year, however, for the global and local financial markets. Both bond and equity markets experienced renewed volatility brought about by a slew of risks that included the slowing global economy and continued geopolitical worries.

Nonetheless, we at Pru Life UK boldly soldiered on to meet our strategic goals amid a challenging yet potent macroeconomic environment. We continued to develop leaders and built a 27,000-strong agency force who reach out to more and more Filipinos across the country every day. We also reestablished our bancassurance channel through our partnership with one of the country's fastest-growing commercial banks, Robinsons Bank. This expanded scale has remarkably increased our customer base and in-force policies.

Pru Life UK also continued to push boundaries in introducing new solutions that are adaptive to a variety of shifting lifestyles, technology, and financial market backdrop. In April 2018, we broke ground for the life insurance industry's first-of-its-kind personalized DNA-based health program, myDNA Pro, bundled with our suite of insuravest plans.

In September 2018, we made investing in offshore markets accessible to a broader market via the PRULink Peso Cash Flow Fund, the local currency-hedged share class of our successful PRULink USD Cash Flow Fund. Finally, in November 2018, we launched PRULife Your Term, an affordable yearly renewable and upgradable term insurance, to fit the protection and investment needs of the younger and more discerning generation. It is also in 2018 that we made breakthroughs in diversifying our business. We set our sights on offering a wider range of financial solutions through a wholly owned subsidiary, Pru Life UK Asset Management and Trust Corporation.

Pru Life UK remained committed in championing financial literacy and inclusion. Our flagship and award-winning corporate social responsibility program, Cha-Ching, was one of the finalists in the Asia Pacific Excellence Awards. We also take pride in our initiatives to strengthen insurance and health awareness via the country's largest cycling festival, PRUride PH 2018. This won for Pru Life UK its first bronze International Business Award in the Communications or PR campaign category. Indeed, Pru Life UK has achieved more than what we aimed for, accelerating while going uphill. We dared to do, and we did more in 2018 amid challenges that only made us stronger.

As we brave the future, we will continue serving the evolving health, protection, and investment needs of Filipinos by listening, understanding, and more importantly, delivering.

On behalf of the Board, I would like to thank and congratulate our team from PRU, our competent senior management, hardworking staff, and passionate agency force for delivering record-breaking results in 2018. To our valued and esteemed policyholders, my most heartfelt appreciation for your unwavering faith and confidence in the company. Trust that Pru Life UK remains highly committed in helping you progress in life.

Mabuhay!

Henry Joseph M. Herrera
Chairman

Sources:

1 Source: Philippine Insurance Commission website (https://www.insurance.gov.ph/PR/insurers-post-18-premium-growth-as-of-end-q3-insurers-post-highest-penetration-rate-in-five-years/)

Message from the CEO

In 2018, Pru Life UK implemented many changes to continue delivering our commitment to Filipinos: an opportunity to progress in life. We have taken on the challenge and dared to take a leap forward.

We made several milestones in 2018 because we DARED to:

Develop more leaders. Pru Life UK believes in nurturing agency leaders who will guide and inspire our more than 27,000-strong agency force, the largest in the country's life insurance industry. We appointed more agency leaders in 2018 to form a better flow of command in our ever-growing agency force, enabling our hardworking agents to be unified in the mission of securing the financial future of Filipino families.

Accelerate our business. Pru Life UK once again delivered an outstanding performance in 2018, posting an annualized premium equivalent of PhP6.1 billion in sales or a 22% growth from the previous year. The company now ranks third in the industry in terms of new business annual premium income, according to the Insurance Commission — a clear indication of the success of Pru Life UK's winning strategy and unwavering focus on delivering sound financial planning solutions.

In 2018, Pru Life UK launched two innovative products: the myDNA Pro, an insuravest package that includes a lifestyle program tailor fit to the DNA of the policyowner; and PRULife Your Term, an affordable and upgradable term product that encourages millennials to pursue their passion without worry. This is aligned with our strategy to focus on protection products to help bolster growth and further contribute to narrowing the protection gap in the Philippines. Protection products accounted for 92% of our sales in 2018.

We also invested in digitizing agency recruitment and learning tools through JoinPRU and Digital BTC, respectively, for immediate field deployment while maintaining quality. By strengthening our ranks and speeding up the process from recruitment to deployment, more agents can be mobilized immediately to contribute to growing the business.

Reach more lives. Aside from building and strengthening our empire of agency force to ensure that more Filipinos are tapped and become insured, Pru Life UK also expanded its reach across the country by opening more business centers. To date, we have 162 branches nationwide with complete facilities and competent customer service associates well armed to address the policy needs of our customers.

Moreover, we forged a robust partnership with Robinsons Bank that revitalized our reach to more Filipinos through the bank's strong distribution platform. Through this alliance, we are now able to offer our comprehensive financial planning solutions to Robinsons Bank's extensive network of customers.

Exponentially grow our company. Since its establishment in 1996, Pru Life UK has always been in the pursuit of growing the company in all aspects, whether in terms of developing its agency force and employees, making processes seamless for both backend and customers, or making the Pru Life UK brand a household name — all in line with our commitment to meet the Filipinos' evolving protection needs.

And so we announced in 2018 the establishment of the Pru Life UK Asset Management and Trust Corporation. Having a trust company as our wholly owned subsidiary will allow us to provide more value to our customers by offering more financial planning options with Pru Life UK, whether relating to protection, insuravest, or investments.

In 2018, we DARED and we succeeded, and even outperformed the benchmarks we have set for ourselves. It is because of this fortitude — together with our innovative products, persevering people, and efficient systems and platforms — that we were able to rise in rank. We were able to uphold the tradition of excellence, innovation, collaboration and care — the same values cultivated by our British parent company, Prudential plc, for over 170 years.

On behalf of the Executive Committee, I would like to thank everyone in Pru — from the board of directors, senior management, employees, and agency force — for your hard work and contribution in the growth of our company. We are excited to face the next years with all of you as We Do continue to listen, understand, and deliver financial protection solutions for the Filipino.

Cheers,

Antonio G. De Rosas
President and Chief Executive Officer

www.prulifeuk.com.ph

Corporate objectives, mission, vision, and guiding principles

Corporate objectives

Distribution

- To increase the number of productive agents
  - 29% by year 2018,
  - 18% by year 2019,
  - 17% by year 2020, and
  - 16% by year 2021
- To pursue geographic expansion nationwide by increasing the number of sales offices
  - 24% by year 2018,
  - 10% by year 2019,
  - 10% by year 2020, and
  - 10% by year 2021

Operations

- To increase customer-to-staff ratio by 30% from 2018 up to 2021

Products

- To release at least one simple and affordable insurance product and at least one rider every year beginning 2018 until 2020 to make insurance products more accessible to customers

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 a 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.

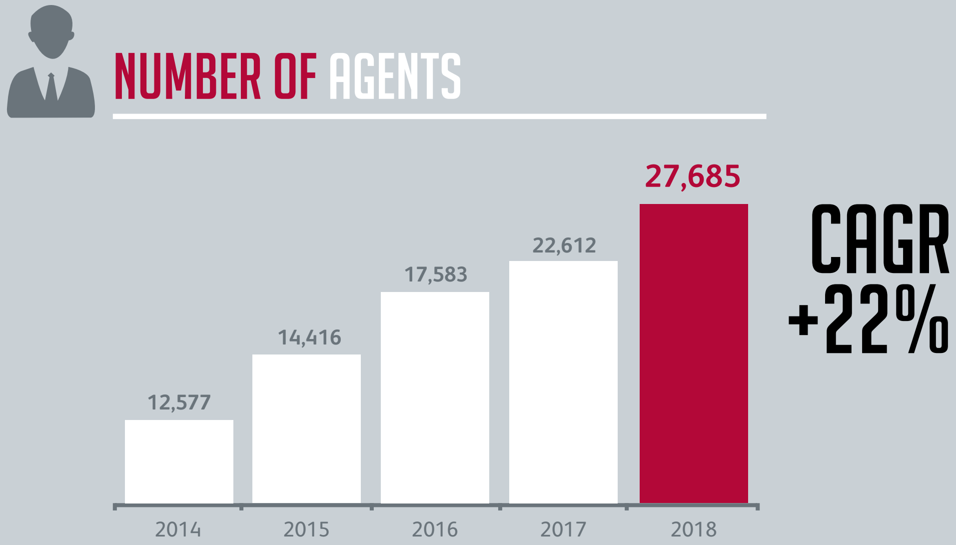
Management's discussion and analysis

(Financial and non-financial indicators)

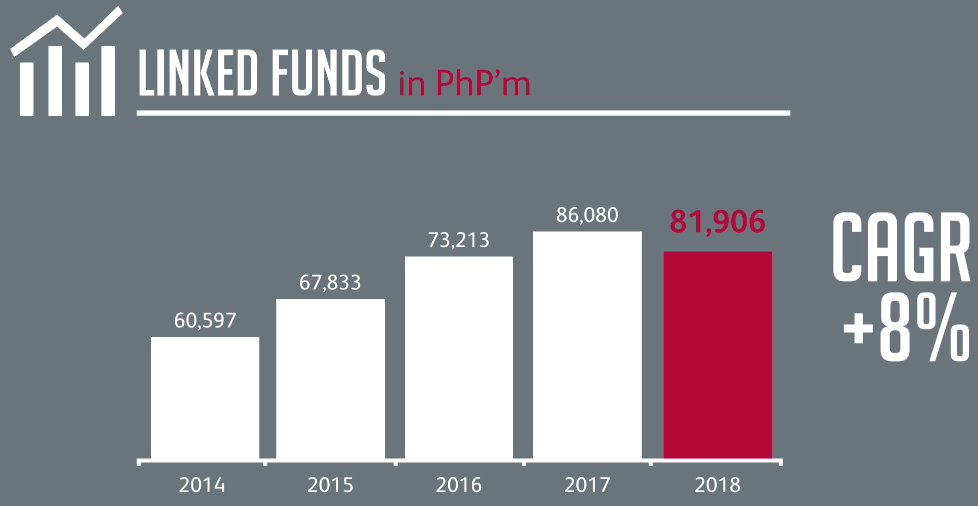
Financial Higlights

Pru Life UK achieved another year of robust performance in 2018, generating PhP 6.1 billion in sales or a 22% growth from the previous year. The Company sustained its strategic focus on protection products which accounted for about 92% of sales. It also inked a bancassurance partnership with Robinsons Bank which provided opportunities to expand market reach.

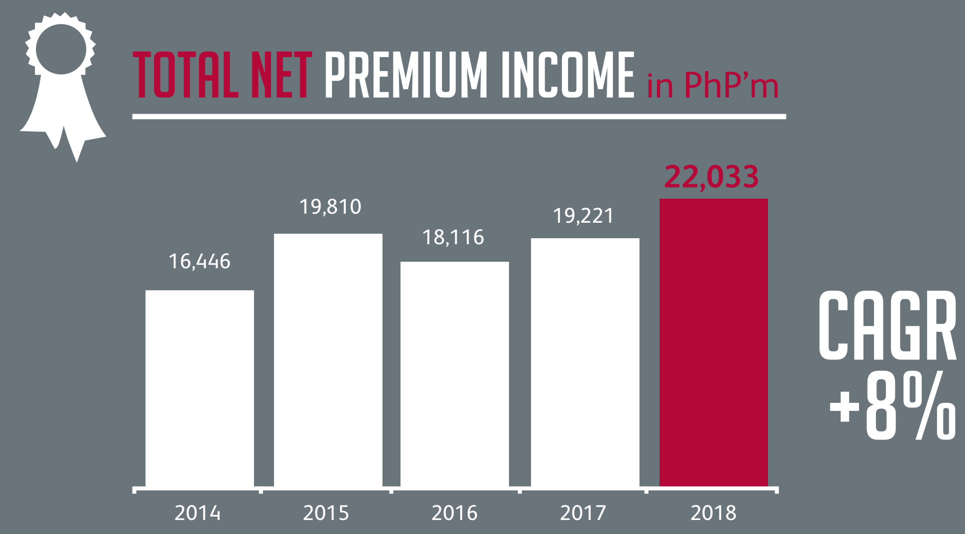
Complementing the Company's main effort on protection strategy, two products were introduced in the market - **myDNA Pro**, an investment linked product with health-related value services and **PRULife Your Term**, an affordable and customizable protection product.



The Agency Force continued to expand to over 27,000 agents in 2018 and maintained its status as the largest Agency Force in the industry. The Build-Your-Business program remained an effective approach in recruiting a fresh cadre of candidates. Concomitantly, solid support from Agency Leaders proved invaluable in ensuring successful careers for the recruits. The Company also invested in digitizing recruitment and learning tools to speed up the gestation period of recruits for immediate field deployment.

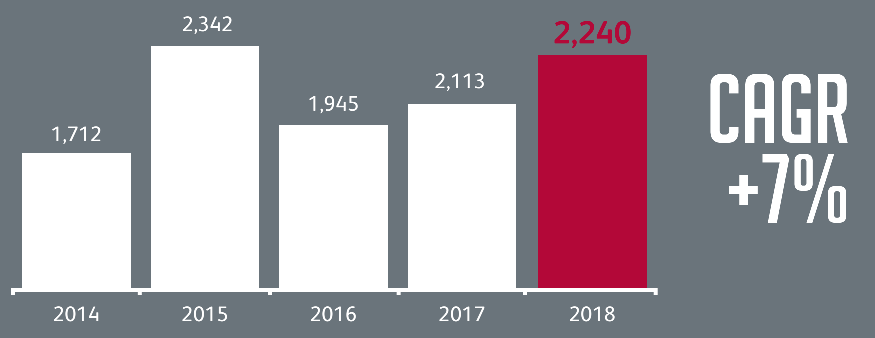


2018 was a challenging year as the Company along with its peers in the industry, endured the steep rise in interest rates and the slump in equity market that resulted in lower linked fund valuations. Still, fresh contributions and the low incidence of surrenders somehow cushioned the impact of negative price actions. Total linked funds contracted by 5% for the year though 8% on CAGR over 5 years.



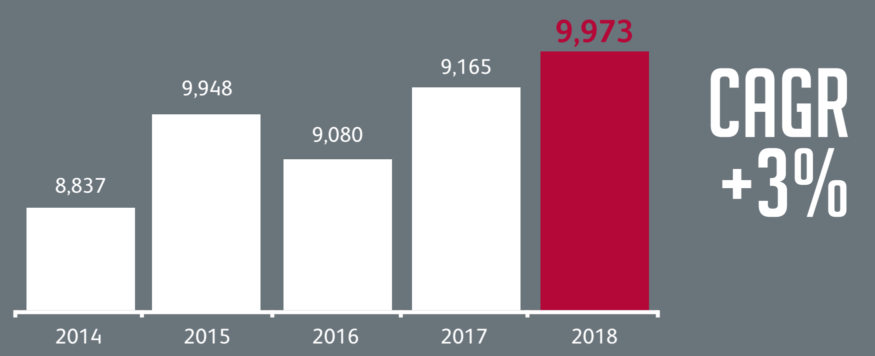
The Company shifted to selling protection products in 2016, indicated by the decline in total premium income for the year. Subsequently, the Company's renewed thrust gathered momentum and was sustained over the years. This was realized through strong sales of protection products and solid growth in renewal business. Total net premium income grew at a CAGR of 8% from 2014 to 2018.

NET INCOME EXCLUDING UNREALIZED GAINS/LOSSES in PhP'm



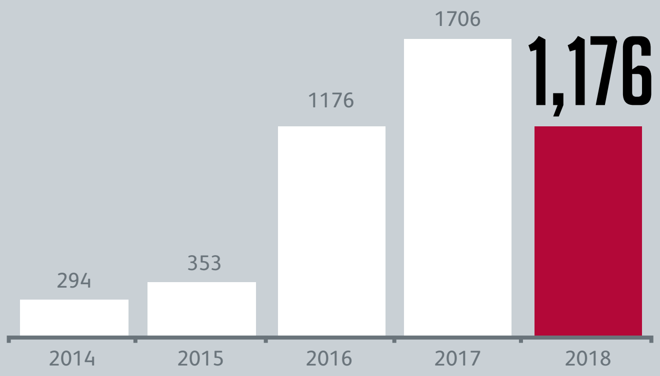
Net income is reported inclusive of unrealized gains/losses based on market valuation through Fair Value through Profit and Loss. Excluding unrealized gains/losses, net income in 2018 grew modestly by 6%, mainly due to the increase in insurance margins brought by favorable retention of renewal business.

EQUITY in PhP'm



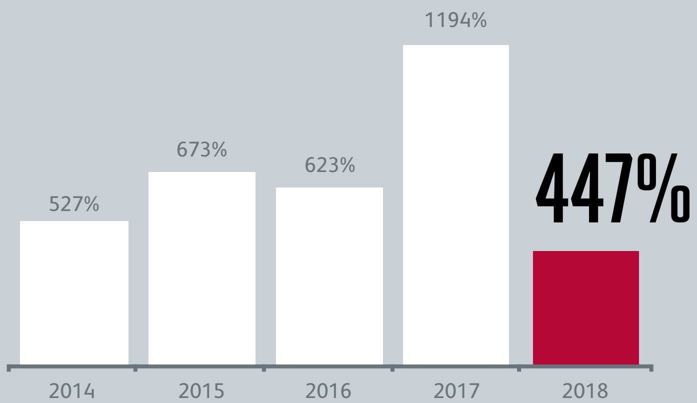
The Company's equity position rose by 9% in 2018, mostly boosted by the release of gross premium reserves from a higher yield curve used to calculate the reserve valuation for traditional insurance policies in 2018 compared to 2017.

GROSS CASH REMITTANCE in PhP'm



Sustained profitability enabled the Company to remit PhP 1.0 billion net of taxes, for the year 2018. Overall, the Company had repatriated a total of PhP 4.5 billion to its principal shareholder Prudential Corporation Holdings Limited (PCHL) which started in 2010. This is equivalent to 5 times the total capital infused during the nascent years of the Company's operations.

RBC RATIO



Under the current Insurance Commission (IC) regulations, insurance companies must comply with prescribed minimum capital requirements and Risk-Based Capital (RBC) ratios to mitigate the risk of insolvency and default. In 2017, the IC introduced a new framework in calculating RBC. The significant decline in the 2018 ratio was influenced by a number of factors such as a higher confidence level requirement in 2018 at 97.5% (compared to 95% in 2017) as well as investments in a new subsidiary. Despite the decline, the Company's RBC score is still way above the minimum RBC ratio requirement of 100%.

Financial statements

PRU LIFE INSURANCE CORPORATION OF U.K.

SEPARATE FINANCIAL STATEMENTS
December 31, 2018 and 2017

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

R.G. Manabat & Co., the independent auditors appointed by the Board of Directors, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the Board of Directors and Stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

HENRY JOSEPH M. HERRERA
Chairman of the Board

ANTONIO G. DE ROSAS
President & Chief Executive Officer

LEE C. LONGA
Executive Vice President & Chief Financial Officer

Signed this 14th day of March 2019

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 Separate Financial Statements

Opinion

We have audited the separate financial statements of Pru Life Insurance Corporation of U.K. (the Company), which comprise the separate statements of financial position as at December 31, 2018 and 2017, and the separate 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 separate financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis of 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 Separate 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 separate 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 Separate Financial Statements

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

In preparing the separate 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 Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate 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 separate financial statements taken as a whole. The supplementary information in Note 30 to the basic separate financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic separate 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 separate financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic separate 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
SEC Accreditation No. 1472-AR-1, Group A,
valid until July 2, 2021
Tax Identification No. 162-411-175
BIR Accreditation No. 08-001987-34-2017
Issued September 4, 2017; valid until September 3, 2020
PTR No. MKT 7333620
Issued January 3, 2019 at Makati City

March 14, 2019
Makati City, Metro Manila

REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY SEPARATE 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 separate financial statements of Pru Life Insurance Corporation of U.K. (the Company), as at and for the year ended December 31, 2018, on which we have rendered our report dated March 14, 2019.

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
CPA License No. 0092183
IC Accreditation No. SP-2017/016-R, Group A, valid until August 26, 2020
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March 14, 2019
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 separate financial statements of Pru Life Insurance Corporation of U.K. (the Company), as at and for the year ended December 31, 2018, on which we have rendered our report dated March 14, 2019.

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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March 14, 2019
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 separate financial statements of Pru Life Insurance Corporation of U.K. (the Company), as at and for the year ended December 31, 2018, on which we have rendered our report dated March 14, 2019.

Our audit was made for the purpose of forming an opinion on the basic separate 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 separate financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic separate financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic separate 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
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March 14, 2019
Makati City, Metro Manila

PRU LIFE INSURANCE CORPORATION OF U.K.

SEPARATE STATEMENTS OF FINANCIAL POSITION

(Amounts in thousands)

		December 31	
	Note	2018	2017
ASSETS			
Cash and cash equivalents	7	**P1,976,604**	P1,971,024
Interest receivable	5	**124,896**	118,801
Investments	8	**9,279,727**	9,737,274
Investment in subsidiary	9	**341,803**	-
Premiums due from policyholders	5	**14,881**	14,759
Policy loans receivables - net	5, 10	**373,587**	384,026
Coverage debt receivables - net	5, 12	**436,595**	318,612
Reinsurance assets	5	**27,353**	40,000
Property and equipment - net	13	**640,839**	552,163
Deferred acquisition costs	5, 14	**7,651,595**	6,498,363
Other assets - net	15	**971,991**	829,835
Total General Assets		**21,839,871**	20,464,857
Assets Held to Cover Linked Liabilities	11	**81,905,744**	86,080,089
		P103,745,615	P106,544,946
LIABILITIES AND EQUITY			
General Liabilities			
Legal policy reserves	5, 16	**P5,334,105**	P5,952,236
Claims payable	5, 17	**498,438**	448,520
Reinsurance payable	5, 18	**98,220**	84,386
Deferred tax liability - net	25	**2,109,251**	1,592,561
Accounts payable, accrued expenses and other liabilities	19	**3,826,610**	3,222,498
Total General Liabilities		**11,866,624**	11,300,201
Technical Provisions for Linked Liabilities	5, 11	**81,905,744**	86,080,089
Total Liabilities		**93,772,368**	97,380,290
Equity			
Capital stock	28	**500,000**	500,000
Additional paid-in capital	28	**462,000**	462,000
Total paid-up capital		962,000	962,000
Contributed surplus		**50,386**	50,386
Fair value reserve	8	**2,771**	101
Retirement fund reserve		**30,731**	27,381
Remeasurement on life insurance reserve		**(254,516)**	(939,449)
Retained earnings	16, 28	**9,181,875**	9,064,237
Total Equity		**9,973,247**	9,164,656
Total General Liabilities and Equity		**21,839,871**	20,464,857
		P103,745,615	P106,544,946

See Notes to the Separate Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.

SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(Amounts in thousands)

		Years Ended December 31	
	Note	2018	2017
NET PREMIUMS			
Premiums	*20*	**P22,478,288**	P19,606,756
Premiums ceded to reinsurers	*18, 20*	**(445,144)**	(385,550)
		22,033,144	19,221,206
OTHER REVENUE			
Policy administration fees	*21*	**1,693,657**	1,661,734
Investment loss - net	*22*	**(788,677)**	(343,808)
Share in loss of the subsidiary	*9*	**(18,445)**	-
Others - net		**54,494**	75,469
		941,029	1,393,395
BENEFITS AND CLAIMS			
Costs on premiums of variable insurance	*11*	**6,991,661**	5,029,506
Gross benefits and claims	*23*	**7,477,576**	8,144,789
Reinsurer's share of gross benefits and claims	*23*	**(30,451)**	(47,814)
Gross change in legal policy reserves	*16, 23*	**66,802**	(115,445)
		14,505,588	13,011,036
OPERATING EXPENSES			
Commissions, bonuses and other agents expenses		3,781,523	3,127,244
Salaries, allowances and employees' benefits		1,283,031	1,015,685
Trainings, seminars and contests		660,528	732,233
Utilities		363,818	289,372
Rent	*27*	352,202	253,045
Advertising and marketing		264,058	105,972
Depreciation and amortization	*13*	203,413	193,597
Insurance taxes, licenses and fees		134,369	81,341
Dividends to policyholders		122,666	116,354
Office supplies		111,361	84,423
Communications		110,963	87,946
Representation and entertainment		78,644	53,931
Professional fees		76,606	40,390
Security and janitorial services		65,071	60,913
Taxes and licenses		48,279	73,540
Interest expense related to policies		42,516	43,129
Amortization of software development costs	*15*	36,469	36,422
Others		60,421	19,983
Deferred expenses - net	*14*	(1,153,232)	(904,553)
		6,642,706	5,510,967

Forward

		Years Ended December 31	
	Note	2018	2017
INCOME BEFORE INCOME TAX EXPENSE		**P1,825,879**	P2,092,598
INCOME TAX EXPENSE	*25*	**531,771**	463,985
NET INCOME		**1,294,108**	1,628,613
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*	**2,670**	4,360
Items that will not be reclassified to profit or loss			
Remeasurement on life insurance reserve	*16*	**684,933**	121,307
Gain on remeasurement of retirement liability	*24*	**4,786**	52,351
Income tax effect	*25*	**(1,436)**	(15,705)
		690,953	162,313
TOTAL COMPREHENSIVE INCOME		**P1,985,061**	P1,790,926

See Notes to the Separate Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.

SEPARATE STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Amounts in thousands)

	Note	Capital Stock (Note 28)	Additional Paid-in Capital (Note 28)	Contributed Surplus	Fair Value Reserve (Note 8)	Retirement Fund Reserve	Remeasurement on Life Insurance Reserve	Retained Earnings: Appropriated (Note 16)	Retained Earnings: Unappropriated (Note 28)	Total	Total Equity
Balance at January 1, 2018		**P500,000**	**P462,000**	**P50,386**	**P101**	**P27,381**	**(P939,449)**	**P38,571**	**P9,025,666**	**P9,064,237**	**P9,164,656**
Total comprehensive income											
Net income		-	-	-	-	-	-	-	**1,294,108**	**1,294,108**	**1,294,108**
Other comprehensive income:											
Item that may be reclassified to profit or loss	8	-	-	-	**2,670**	-	-	-	-	-	**2,670**
Items that will not be reclassified to profit or loss		-	-	-	-	**3,350**	**684,933**	-	-	-	**688,283**
Total comprehensive income		-	-	-	**2,670**	**3,350**	**684,933**	-	**1,294,108**	**1,294,108**	**P1,985,061**
Transaction with owner of the Company											
Dividends	28	-	-	-	-	-	-	-	**(1,176,470)**	**(1,176,470)**	**(1,176,470)**
Appropriation of reserves	16	-	-	-	-	-	-	**5,489**	**(5,489)**	-	-
Balance at December 31, 2018		**P500,000**	**P462,000**	**P50,386**	**P2,771**	**P30,731**	**(P254,516)**	**P44,060**	**P9,137,815**	**P9,181,875**	**P9,973,247**
Balance at January 1, 2017		P500,000	P462,000	P50,386	(P4,259)	(P9,265)	(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	28	-	-	-	-	-	-	-	(1,705,883)	(1,705,883)	(1,705,883)
Appropriation of reserves	16	-	-	-	-	-	-	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

See Notes to the Separate Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.

SEPARATE STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Note	Years Ended December 31: 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax expense		**P1,825,879**	P2,092,598
Adjustments for:			
Unrealized loss on valuation of investments	8, 22	**946,334**	484,639
Amortization of deferred acquisition costs	14	**883,331**	757,780
Depreciation and amortization	13	**203,413**	193,597
Interest expense related to policies		**42,516**	43,129
Amortization of software development costs	15	**36,469**	36,422
Provision for impairment losses	10, 12, 15	**32,349**	17,562
Reversal of provision for impairment losses	10, 15	**(3,961)**	(3,376)
Loss (gain) on disposal of property and equipment		**459**	(1,605)
Foreign exchange loss (gain)		**(63,153)**	3,690
Share in loss of the subsidiary	9	**18,445**	-
Interest income	22	**(522,277)**	(535,876)
Loss (gain) on disposal of investments	8, 22	**20,858**	(1,883)
		3,420,662	3,086,677
Changes in:			
Accounts payable, accrued expenses and other liabilities		**691,943**	197,066
Legal policy reserves	16, 23	**66,802**	(115,445)
Claims payable		**49,918**	129,067
Reinsurance payable		**13,834**	6,833
Reinsurance assets		**12,647**	(28,651)
Policy loans receivables		**6,633**	69,584
Premiums due from policyholders		**(122)**	14,834
Other assets		**(136,566)**	(61,720)
Coverage debt receivables		**(144,496)**	(113,831)
Deferred acquisition costs		**(2,036,563)**	(1,662,333)
		1,944,692	1,522,081
Interest paid		**(41,773)**	(42,253)
Contributions to retirement fund	24	**(85,224)**	(65,113)
Income tax paid		**(15,153)**	(9,445)
Net cash provided by operating activities		**1,802,542**	1,405,270

Forward

	Note	Years Ended December 31 2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of investments	*8*	**(P1,945,103)**	(P1,716,236)
Proceeds from disposal of investments	*8*	**1,491,151**	1,413,295
Investment in subsidiary	*9*	**(360,248)**	-
Interest received		**516,182**	545,341
Acquisitions of property and equipment	*13*	**(294,068)**	(147,341)
Proceeds from disposal of property and equipment		**1,520**	10,243
Acquisitions of software costs	*15*	**(40,056)**	(54,096)
Net cash provided by (used in) investing activities		**(630,622)**	51,206
CASH FLOW FROM A FINANCING ACTIVITY			
Dividends paid	*28*	**(1,176,470)**	(1,705,883)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(4,550)**	(249,407)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	*7*	**1,971,024**	2,220,198
EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS		**10,130**	233
CASH AND CASH EQUIVALENTS AT END OF YEAR	*7*	**P1,976,604**	P1,971,024

See Notes to the Separate Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.

NOTES TO THE SEPARATE 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 was incorporated in United Kingdom and 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. 2019/69-R issued by the IC to transact in life insurance business until December 31, 2021.

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 separate 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 Company elected not to prepare a consolidated financial statement since Prudential plc, the ultimate parent company, prepares consolidated financial statements that comply with IFRS.

The separate financial statements were authorized for issue by the Board of Directors (BOD) on March 14, 2019.

Basis of measurement

The separate 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
Investment in subsidiary	Share in the net assets of the subsidiary less any impairment losses.
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 separate 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.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these separate financial statements, except for the changes in accounting policies as discussed below.

Adoption of Amendments to Standards

The Company has adopted the following amendments to standards starting January 1, 2018. The adoption of these amendments to standards did not have any significant impact on the Company's separate financial statements.

- *Applying PFRS 9, Financial Instruments with PFRS 4 Insurance Contracts (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, 2022.

  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.

  As permitted by the standard, the Company availed of the temporary exemption and deferred application of PFRS 9.

- *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 PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

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 dividends payable to policyholders account which is included in "Accounts payable, accrued expenses and other liabilities" account in the separate 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, 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.

Investment in Subsidiary

A subsidiary is an entity controlled by the parent company. The parent company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiary are included in the consolidated financial statements from the date on which the control commences except if the following conditions are met:

- it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

- its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and

- its ultimate or any intermediate parent produces financial statements that are available for public use and comply with IFRS 10, Consolidated Financial Statements, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this IFRS 10.

The Company met the aforementioned criteria, thus, did not present a consolidated financial statements.

The Company's investment in a subsidiary is accounted for using the equity method, under which, the investment is initially recognized at cost in the separate statement of financial position. The carrying amount of investment is increased or decreased to recognize the Company's share of the profit or loss of the subsidiary after the date of acquisition. The Company's share of the subsidiary's profit or loss is recognized under "Share in the profit or loss of the subsidiary" account in the profit or loss. Distributions received from the subsidiary reduce the carrying amount of the investment. Adjustments to the carrying amount of the investment in subsidiary may also arise from changes in the Company's proportionate interest in the subsidiary arising from changes in the subsidiary's other comprehensive income.

For an investment in a subsidiary accounted for using the equity method, goodwill that forms part of the carrying amount of the investment in the subsidiary is not tested for impairment separately. Instead, the entire carrying amount of the investment in the subsidiary is tested for impairment as a single asset in accordance with PAS 36 Impairment of Assets.

The investment is derecognized when the Company losses control over the subsidiary.

Financial Instruments

Derivative Financial Assets

Derivative financial instruments are initially recognized at fair value on the date when the derivative contract is entered into and are subsequently remeasured at fair value. A derivative is reported as an asset when fair value is positive and as a liability when fair value is negative.

The Company's derivative financial asset consists of non-deliverable forward contracts under "Assets Held to Cover Linked Liabilities" account.

Non-derivative Financial Assets

Date of Recognition. Financial instruments are recognized in the separate 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) investments, 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, 2018 and 2017, 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 is 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 separate 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, 2018 and 2017, 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 P9.27 billion and P9.73 billion as at December 31, 2018 and 2017, respectively (see Note 8). Also, the Company's held-for-trading investments portfolio under "Assets held to cover linked liabilities" amounted to P115.22 billion and P122.27 billion as at December 31, 2018 and 2017 (see Note 11).

As at December 31, 2018 and 2017, the Company's held-for-trading securities include government, quasi-government, corporate debt, equity securities and derivative financial instruments.

The Company's technical provisions for linked liabilities classified as financial liabilities at FVPL amounted to P81.91 billion and P86.08 billion as at December 31, 2018 and 2017, respectively (see Note 11).

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, 2018 and 2017, 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 such as trade receivables 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, 2018 and 2017, the Company's AFS financial assets amounted to P14.36 million and P11.69 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 liabilities to government agencies). This category also includes liability to other funds, accrued expense, and trade payable (excluding liabilities to government agencies) under assets held to cover linked liabilities.

Financial statements

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 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 separate 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 separate 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 15).

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 represent 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 pertain 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 separate statement of financial position.

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 carry-forward 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 separate 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 separate financial statements but are disclosed in the notes to separate 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 separate financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the separate 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, 2019. However, the Company has not applied the following new or revised and amended standards in preparing these separate financial statements. Except for PFRS 16, Leases, the Company is currently assessing the potential impact of these on its separate 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, 2019

• *PFRS 16 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.

Company as a lessee
The Company will recognize new assets and liabilities for its leased property. The nature of expenses related to those leases will now change because the Company will recognize a depreciation charge for the right-of-use asset and interest expense on lease liabilities.

Previously, the Company recognized operating lease expense on a straight-line basis over the term of the lease, and recognize assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognized.

Based on the information currently available, the Company estimates that it will recognize lease assets and related liabilities of P637.63 million at January 1, 2019.

• *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.

• *Plan Amendment, Curtailment or Settlement (Amendments to PAS 19 Employee Benefits)*. The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

The amendments apply for plan amendments, curtailments or settlements that occur on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. Earlier application is permitted.

• Annual Improvements to PFRS 2015 - 2017 Cycle.
This cycle of improvements contains amendments to:

• Income tax consequences of payments on financial instruments classified as equity (Amendments to PAS12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits, i.e. in profit or loss, other comprehensive income or equity.

The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. When an entity first applies those amendments, it shall apply them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

To be Adopted January 1, 2020

• Amendments to References to Conceptual Framework in PFRS sets out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:

• a new chapter on measurement;
• guidance on reporting financial performance;
• improved definitions of an asset and a liability, and guidance supporting these definitions; and
• clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some PFRS, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments are effective for annual reporting periods beginning on or after January 1, 2020.

• Definition of Material (Amendments to PAS 1 *Presentation of Financial Statements* and PAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:

(a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';
(b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;
(c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
(d) clarifying the explanatory paragraphs accompanying the definition; and
(e) aligning the wording of the definition of material across PFRS and other publications.

The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

The amendments apply prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

To be Adopted January 1, 2022

• *PFRS 9 (2014)*. PFRS 9 (2014) replaces PAS 39 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.

• *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

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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.

To be Adopted January 1, 2023

• PFRS 17 *Insurance Contracts*. The replaces the interim standard, PFRS 4. Reflecting the view that an insurance contract combines features of both a financial instrument and a service contract, and considering the fact that many insurance contracts generate cash flows with substantial variability over a long period, PFRS 17 introduces a new approach that:

(a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract;
(b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and
(c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in other comprehensive income.

Under PFRS 17, groups of insurance contracts are measured based on fulfilment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policy holders, and a contractual service margin, which represents the unearned profit the entity will recognize as it provides services over the coverage period. Subsequent to initial recognition, the liability of a group of insurance contracts represents the liability for remaining coverage and the liability for incurred claims, with the fulfilment cash flows remeasured at each reporting date to reflect current estimates.

Simplifications or modifications to the general measurement model apply to groups of insurance contracts measured using the 'premium allocation approach', investment contracts with discretionary participation features, and reinsurance contracts held.

PFRS 17 brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings.

PFRS 17 is effective for annual periods beginning on or after January 1, 2023. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. Early application is permitted for entities that apply PFRS 9 and PFRS 15 on or before the date of initial application of PFRS 1.

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, 2018 and 2017, 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, 2018 and 2017, the Company has recognized allowance for impairment loss amounting to P182.68 million and P154.29 million (see Notes 10, 12 and 15), 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 separate 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, 2018 and 2017, 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 P93.15 million and P80.52 million as at December 31, 2018 and 2017, respectively (see Note 17).

(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, 2018 and 2017 computed under the requirements of PFRS 4, amounted to cash inflows of P22.19 billion and P19.32 billion, respectively. Accordingly, the recorded legal policy reserves which is calculated in accordance with the requirements of the Insurance Code amounting to P5.33 billion and P5.95 billion as at December 31, 2018 and 2017, respectively (see Note 16), 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, 2018 and 2017, the Company's financial instruments carried at fair value are classified as Level 1 and Level 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, 2018 and 2017, the carrying amounts of property and equipment and software development costs amounted to P819.01 million and P720.98 million, respectively (see Notes 13 and 15).

(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, 2018 and 2017, the carrying amount of deferred acquisition costs amounted to P7.65 billion and P6.50 billion, respectively (see Note 14).

(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, 2018 and 2017, the carrying value of the Company's policy loans receivables, coverage debt receivables and advances to employees and agents amounted to P886.69 million and P766.60 million, respectively. Provisions for impairment losses amounted to P32.35 million and P17.56 million in 2018 and 2017, respectively (see Notes 10, 12 and 15).

(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 separate statement of financial position date.

As at December 31, 2018 and 2017, the Company's net retirement liability amounted to P8.78 million and P14.65 million, respectively (see Note 24).

(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, 2018 and 2017, the Company recognized deferred tax assets amounting to P205.18 million and P374.46 million, respectively. However, unrecognized deferred tax assets amounted to P805.59 million and P876.71 million as at December 31, 2018 and 2017, respectively (see Note 25).

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, 2018 and 2017, 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 IC released CL No. 2016-69 which provides, among other things, that the level of sufficiency for the RBC2 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. RBC2 Framework shall be made effective January 1, 2017.

The following table shows the RBC ratio of the Company as at December 31, 2018 and 2017, using the RBC2 Framework:

	2018	2017
TAC	**P1,743,179**	P2,325,939
RBC requirement	**389,780**	194,844
RBC ratio	**447%**	1,194%

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 determination of admitted and non-admitted assets as defined under the Insurance Code. As at December 31, 2018 and 2017, 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 separate statement of financial position. These assets, which are subject to final determination by the IC, are as follows:

	Note	2018	2017
Deferred acquisition cost	14	**P7,651,595**	P6,498,363
Property and equipment - net		**571,832**	475,278
Other assets		**708,069**	525,580
		P8,931,496	P7,499,221

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 legal policy reserves by type of life insurance contract (in thousands):

	Note	2018	2017
Whole and term life		P3,779,053	P4,349,061
Endowment		1,061,485	1,142,525
Personal accident		16,920	17,157
Group and accident & health		17,003	10,320
Riders and others products		459,644	433,173
	16	P5,334,105	P5,952,236

Classification by Attained Age

The table below presents the concentration of legal policy reserves by attained age as at December 31, 2018 and 2017. For individual insurance, exposure is concentrated on age brackets of 55-59 in 2018 and 50-54 in 2017.

	2018 Individual		2017 Individual	
Attained Age	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
<20	P269,059	5.06%	P342,810	5.77%
20 - 24	171,656	3.23%	182,194	3.07%
25 - 29	188,579	3.55%	223,442	3.76%
30 - 34	228,298	4.29%	249,776	4.20%
35 - 39	294,200	5.53%	373,488	6.29%
40 - 44	587,739	11.05%	709,918	11.95%
45 - 49	758,026	14.26%	884,761	14.89%
50 - 54	789,994	14.86%	893,113	15.03%
55 - 59	798,584	15.02%	853,733	14.37%
60 - 64	575,646	10.83%	597,570	10.06%
65 - 69	351,282	6.61%	347,045	5.84%
70 - 74	203,312	3.82%	185,819	3.13%
75 - 79	71,414	1.34%	64,826	1.09%
80 +	29,313	0.55%	33,421	0.55%
Total	P5,317,102	100.00%	P5,941,916	100.00%

For group insurance, exposure is concentrated on age bracket 35-39 in 2018 and 2017.

	2018 Group			
	Gross of Reinsurance		Net Reinsurance	
Attained Age	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
20 - 24	P93	0.54%	P93	0.64%
25 - 29	362	2.13%	362	2.48%
30 - 34	404	2.38%	404	2.77%
35 - 39	13,632	80.17%	11,222	76.90%
40 - 44	398	2.34%	398	2.73%
45 - 49	434	2.55%	434	2.97%
50 - 54	421	2.48%	421	2.88%
55 - 59	824	4.85%	824	5.65%
60 +	435	2.56%	435	2.98%
Total	P17,003	100.00%	P14,593	100.00%

	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%

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 rates are based on the Bloomberg Valuation reference rates 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 therefrom, 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.

		2018	2017
	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%	(P45.49)	(P53.07)
	-5%	47.55	53.88
Valuation interest rate	+ 100 basis points	535.04	621.44
	- 100 basis points	(687.00)	(793.23)
Expense assumption	+10%	(98.26)	(106.85)
	-10%	88.16	96.23
Lapse rates	+10%	25.92	32.00
	-10%	(27.97)	(33.73)

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 P58.70 billion (91.61%) and P58.14 billion (90.89%) of the Company's total financial assets as at December 31, 2018 and 2017, respectively (see Notes 8 and 11).

The table below provides information regarding the credit risk exposure of the Company as at December 31, 2018 and 2017 by classifying assets according to the Company's credit grading of counterparties.

2018

	Note	Neither Past Due nor Impaired				
	Note	Investment High-grade	Non-investment Grade - Satisfactory	Total Financial Assets Neither Past Due nor Impaired	Past Due and Impaired	Total
Cash in bank and cash equivalents		P1,975,896	P -	P1,975,896	P -	P1,975,896
Interest receivable		124,896	-	124,896	-	124,896
Coverage debt receivable	12	-	436,595	436,595	164,616	601,211
Financial Assets at FVPL	8	9,265,366	-	9,265,366	-	9,265,366
Premiums due from policyholders		-	14,881	14,881	-	14,881
Policy loans receivable	10	-	373,587	373,587	14,875	388,462
Reinsurance assets		-	27,353	27,353	-	27,353
Other assets (excluding withholding tax receivables, software development costs, nonrefundable deposits and prepayments)		-	287,437	287,437	3,187	290,624
Assets Held to Cover Linked Liabilities						
Cash and cash equivalents	11	1,044,988	-	1,044,988	-	1,044,988
Interest receivables	11	325,820	-	325,820	-	325,820
Receivable from life fund	11	213,633	-	213,633	-	213,633
Investment in debt securities	11	49,668,150	-	49,668,150	-	49,668,150
Other assets	11	130,738	-	130,738	-	130,738
		P62,749,487	P1,139,853	P63,889,340	P182,678	P64,072,018

2017

	Note	Neither Past Due nor Impaired				
	Note	Investment High-grade	Non-Investment Grade - Satisfactory	Total Financial Assets Neither Past Due nor Impaired	Past Due and 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	12	-	318,612	318,612	138,103	456,715
Financial Assets at FVPL	8	9,725,583	-	9,725,583	-	9,725,583
Premiums due from policyholders		-	14,759	14,759	-	14,759
Policy loans receivable	10	-	384,026	384,026	11,069	395,095
Reinsurance assets		-	40,000	40,000	-	40,000
Other assets (excluding withholding tax receivables, software development costs, nonrefundable deposits and prepayments)		-	268,689	268,689	5,118	273,807
Assets Held to Cover Linked Liabilities						
Cash and cash equivalents	11	1,839,938	-	1,839,938	-	1,839,938
Interest receivables	11	347,960	-	347,960	-	347,960
Receivable from life fund	11	114,680	-	114,680	-	114,680
Investment in debt securities	11	48,633,515	-	48,633,515	-	48,633,515
Other assets	11	37,224	-	37,224	-	37,224
		P62,788,068	P1,026,086	P63,814,154	P154,290	P63,968,444

The Company has no past due but not impaired financial assets as at December 31, 2018 and 2017.

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, 2018 and 2017:

2018

	Note	Carrying Amount	Contractual Cash Flow
Technical provision for linked liabilities	11	P81,905,744	P81,905,744
Claims payable	17	498,438	498,438
Reinsurance payable	18	98,220	98,220
Accounts payable, accrued expenses and other liabilities*		3,300,679	3,300,679
Assets Held to Cover Linked Liabilities			
Liability to life fund and other linked funds	11	34,643,540	34,643,540
Accrued expenses	11	105,568	105,568
Trade payable	11	278,667	278,667
		P120,830,856	P120,830,856

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

2017

	Note	Carrying Amount	Contractual Cash Flow
Technical provision for linked liabilities	11	P86,080,089	P86,080,089
Claims payable	17	448,520	448,520
Reinsurance payable	18	84,386	84,386
Accounts payable, accrued expenses and other liabilities*		2,809,031	2,809,031
Assets Held to Cover Linked Liabilities			
Liability to life fund and other linked funds	11	38,309,798	38,309,798
Accrued expenses	11	103,637	103,637
Trade payable	11	115,066	115,066
		P127,950,527	P127,950,527

*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 11 to the separate 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:

	2018	2017
Short-term time deposits	**$3,958**	$2,362
Investments	**342,617**	374,802
	$346,575	$377,164
Foreign exchange rate to the Philippine peso used*	**52.72**	49.92
	P18,271,434	P18,828,027

**Exchange rate used is based on Bangko Sentral ng Pilipinas foreign exchange rate as at December 28, 2018 and December 29, 2017.*

A 3% (2017: 3%) strengthening of U.S. dollar against Philippine peso as at December 31, 2018, 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 P0.55 billion (2017: P0.56 billion). A 3% (2017: 3%) 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 2018 and 2017, 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.

Currency	Changes in variables	2018		2017	
		+50 bps	-50 bps	+50 bps	-50 bps
Philippine peso		**(P814,349)**	**P854,673**	(P929,543)	P991,489
U.S. dollar		**(339,694)**	**365,392**	(415,989)	447,344
Fair value sensitivity		**(P1,154,043)**	**P1,220,065**	(P1,345,532)	P1,438,833

In 2018 and 2017, 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 investments are mainly composed of the investments in equity securities under "Assets Held to Cover Linked Liabilities" amounting to P65.55 billion and P73.64 billion (see Note 11) as at December 31, 2018 and 2017, respectively. However, any fair value changes in these equity investments has corresponding increase or decrease in "Technical Provisions for Linked Liabilities" and will not affect the equity and profit before income tax of the Parent Company. Thus, the Parent Company has insignificant exposure to equity price risk.

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, software development costs, non-refundable 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	2018 Level 1	Level 2	Total
Financial assets				
Financial assets at FVPL	8	**P9,265,366**	**P -**	**P9,265,366**
AFS financial assets	8	**14,361**	**-**	**14,361**
Financial assets at FVPL under assets held to cover linked liabilities	11	**115,216,495**	**1,845**	**115,218,340**

	Note	2017 Level 1	Level 2	Total
Financial assets				
Financial assets at FVPL	8	P9,725,583	P -	P9,725,583
AFS financial assets	8	11,691	-	11,691
Financial assets at FVPL under assets held to cover linked liabilities	11	122,268,788	-	122,268,788

The Company has no financial instruments categorized under Level 3. Also, there has been no transfer between levels in 2018 and 2017.

7. Cash and Cash Equivalents

	2018	2017
Cash on hand and in banks	**P1,244,026**	P842,411
Short-term placements	**732,578**	1,128,613
	P1,976,604	P1,971,024

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 ranging from 0.20% to 2.10% and 0.10% to 0.95% per annum in 2018 and 2017, respectively.

Interest income recognized in profit or loss which is presented under “Investment income” amounted to P16.55 million and P13.48 million in 2018 and 2017, respectively.

8. Investments

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

December 31, 2018

	Note	AFS Financial Assets	Financial Assets at FVPL	Total Investments
Cost at January 1, 2018		**P11,590**	**P9,916,785**	**P9,928,375**
Unrealized (losses) gains at January 1, 2018		**101**	**(191,202)**	**(191,101)**
Fair value at January 1, 2018		**11,691**	**9,725,583**	**9,737,274**
Fair value gain (loss) recognized in:				
Profit or loss	22	**-**	**(946,334)**	**(946,334)**
Other comprehensive income		**2,670**	**-**	**2,670**
Foreign exchange gain	22	**-**	**53,023**	**53,023**
Purchases		**-**	**1,945,103**	**1,945,103**
Proceeds from disposal of financial assets		**-**	**(1,491,151)**	**(1,491,151)**
Loss on disposal of financial assets	22	**-**	**(20,858)**	**(20,858)**
Fair value at December 31, 2018	5, 6	**P14,361**	**P9,265,366**	**P9,279,727**
Cost at December 31, 2018		**P11,590**	**P10,349,879**	**P10,361,469**
Unrealized gains (losses) at December 31, 2018		**P2,771**	**(P1,084,513)**	**(P1,081,742)**

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	22	-	(484,639)	(484,639)
Other comprehensive income		4,360	-	4,360
Foreign exchange gain	22	-	(3,923)	(3,923)
Purchases		-	1,716,236	1,716,236
Proceeds from disposal of financial assets		-	(1,413,295)	(1,413,295)
Gain on disposal of financial assets	22	-	1,883	1,883
Fair value at December 31, 2017	5, 6	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)

The Company’s investments consist of the following:

	Note	2018	2017
Government bonds	5	**P9,029,425**	P9,504,355
Corporate debt securities	5	**143,470**	121,502
Quasi government bonds	5	**92,471**	99,726
Equity securities	5	**14,361**	11,691
		P9,279,727	P9,737,274

Interest rates range from 00.000% to 15.000% in 2018 and 2017.

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

	2018	2017
Balance at beginning of year	**P101**	(P4,259)
Fair value gain	**2,670**	4,360
Balance at end of year	**P2,771**	P101

9. Investment in Subsidiary

The Monetary Board of the Bangko Sentral ng Pilipinas (BSP), in its Resolution No. 778 dated May 11, 2018, has approved the establishment of Pru Life UK Asset Management and Trust Corporation (PAMTC), a wholly-owned subsidiary. PAMTC was incorporated and registered with the Philippine SEC on November 26, 2018, primarily to carry and engage in trust business activities, other fiduciary business and investment management activities; to have and exercise all authority and powers, to do and perform all acts, and to transact all business which may legally be done by trust corporations organized under and in accordance with the General Banking Law and its implementing Rules and Regulations and such other applicable laws, rules and regulations on trust corporations, and to do all other things incident thereto and necessary and proper in connection with said purposes as may be determined by the Monetary Board of the BSP.

PAMTC’s registered address is at the 2/F Uptown Parade 2, 36th Street, Fort Bonifacio, Taguig City Fourth District, Philippines.

As at December 31, 2018, PAMTC is still in the process of securing the Certificate of Authority to Operate from BSP.

The movements in this account are as follows:

	2018
Balance at beginning of year	**P -**
Investments during the year	**360,248**
Share in loss of the subsidiary	**(18,445)**
Balance at end of year	**P341,803**

The key financial information of the subsidiary as at and for the year ended December 31, 2018 is as follows:

	2018
Total assets	**P360,604**
Total liabilities	**18,801**
Net assets	**341,803**
Net loss	**18,445**

10. Policy Loans Receivables

	Note	2018	2017
Policy loans receivables		P388,462	P395,095
Allowance for impairment losses		(14,875)	(11,069)
	5	P373,587	P384,026

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 P3.81 million and P0.85 million in 2018 and 2017, 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:

	2018	2017
Balance at beginning of year	P11,069	P11,724
Provision for impairment losses	3,806	850
Reversals taken up to profit or loss	-	(1,505)
Balance at end of year	P14,875	P11,069

11. 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	2018	2017
Cash and cash equivalents	5	P1,044,988	P1,839,938
Interest receivables	5	325,820	347,960
Receivable from life fund	5	213,633	114,680
Investments in treasury notes and other funds	6	115,218,340	122,268,788
Other assets	5	130,738	37,224
Liability to other funds	5	(34,643,540)	(38,309,798)
Accrued expense	5	(105,568)	(103,637)
Trade payable	5	(278,667)	(115,066)
Net assets		P81,905,744	P86,080,089

Investments in treasury notes and other funds are composed of:

	Note	2018	2017
Investments in treasury notes	5	P34,380,903	P34,976,677
Investments in shares of stocks		46,268,481	49,069,788
Investment in other funds:			
Investment in bond fund	5	15,287,247	13,656,838
Investment in equity fund		19,279,864	24,565,485
Non-deliverable forward contract		1,845	-
Total investments	6	P115,218,340	P122,268,788

Total premiums and costs from the unit-linked product for the years ended 2018 and 2017 are as follows:

	Note	2018	2017
Link premiums	20	P21,830,639	P18,932,127
Costs on premiums of variable insurance		(6,991,661)	(5,029,506)
Surrenders		(6,909,387)	(7,487,444)
Net linked premiums		P7,929,591	P6,415,177

12. Coverage Debt Receivables

	Note	2018	2017
Coverage debt receivables		P601,211	P456,715
Allowance for impairment losses		(164,616)	(138,103)
	5	P436,595	P318,612

Coverage debt receivables pertain to policy charges billed against the investment account of unit-linked policyholders.

These receivables normally arise from policy charges 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 P26.51 million and P13.36 million in 2018 and 2017, respectively, were recognized in profit or loss.

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

	2018	2017
Balance at beginning of year	P138,103	P124,739
Provision for impairment losses	26,513	13,364
Balance at end of year	P164,616	P138,103

13. Property and Equipment

The movements in this account are as follows:

2018

	Computer Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Condominium Unit	Leasehold Improvements	Office Improvement in Progress	Total
Gross Carrying Amount							
Beginning balance	P211,515	P168,203	P88,438	P10,027	P631,564	P39,228	P1,148,975
Additions	28,705	15,791	22,347	-	173,205	54,020	294,068
Disposals	(763)	(13,074)	(8,563)	-	(72)	-	(22,472)
Ending balance	239,457	170,920	102,222	10,027	804,697	93,248	1,420,571
Accumulated Depreciation and Amortization							
Beginning balance	138,250	92,445	41,644	6,407	318,066	-	596,812
Depreciation and amortization	36,168	23,986	18,882	414	123,963	-	203,413
Disposals	(763)	(11,231)	(8,499)	-	-	-	(20,493)
Ending balance	173,655	105,200	52,027	6,821	442,029	-	779,732
Carrying Amount							
Beginning balance	P73,265	P75,758	P46,794	P3,620	P313,498	P39,228	P552,163
Carrying Amount							
Ending balance	P65,802	P65,720	P50,195	P3,206	P362,668	P93,248	P640,839

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

14. Deferred Acquisition Costs

	Note	2018	2017
Beginning balance		**P6,498,363**	P5,593,810
Movements during the year:			
Deferred expenses		**2,036,563**	1,662,333
Amortization of deferred acquisition costs		**(883,331)**	(757,780)
		1,153,232	904,553
Ending balance	*5*	**P7,651,595**	P6,498,363

15. Other Assets

	Note	2018	2017
Receivable from unit linked fund		**P183,589**	P193,936
Prepayments		**265,843**	191,007
Software development costs - net		**178,175**	168,820
Nonrefundable deposits		**116,145**	90,686
Advances to employees and agents		**79,694**	69,077
Due from related parties	*26*	**18,547**	-
Others		**133,185**	121,427
		975,178	834,953
Allowance for impairment losses on advances to employees and agents		**(3,187)**	(5,118)
		P971,991	P829,835

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

Prepayments consist of prepaid rent, insurance, and licenses.

Software development costs consist of amounts capitalized for the development and launching of products for the Company's bank partner. 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:

	2018	2017
Balance at beginning of year	**P5,118**	P3,641
Provision for impairment losses	**2,030**	3,348
Reversals taken up to profit or loss	**(3,961)**	(1,871)
Balance at end of year	**P3,187**	P5,118

The Company collected advances to employees and agents that have been previously written off amounting to P3.96 million and P1.87 million in 2018 and 2017, respectively.

The movements of software development costs in 2018 and 2017 are as follows:

	2018	2017
Gross Carrying Amount		
Beginning balance	**P463,529**	P409,433
Acquisitions	**40,056**	54,096
Write-off	**-**	-
Ending balance	**503,585**	463,529
Accumulated Amortization		
Beginning balance	**294,709**	258,923
Amortization	**36,469**	36,422
Write-off	**(5,768)**	(636)
Ending balance	**325,410**	294,709
Net Carrying Amount		
Beginning balance	**P168,820**	P150,510
Ending balance	**P178,175**	P168,820

16. Legal Policy Reserves

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

	Note	2018	2017
Beginning balance		P5,952,236	P6,188,988
Gross change in reserves:			
New business		71,493	54,427
Net premiums written		108,675	178,744
Liabilities released for payments on death, surrenders and other terminations		(523,591)	(558,089)
Accretion of interest		281,836	102,950
Other movements		128,389	106,523
Total Gross Change in Reserves	23	66,802	(115,445)
Remeasurement on life insurance reserve		(684,933)	(121,307)
Ending balance	5	P5,334,105	P5,952,236

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 P44.06 million and P38.57 million in 2018 and 2017, respectively.

17. Claims Payable

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

	Note	2018	2017
Beginning balance:			
Notified payable		P367,999	P298,143
IBNR		80,521	21,310
		448,520	319,453
Cash paid for claims settled during the year		(736,204)	(714,223)
Increase in liabilities		786,122	843,290
Ending balance		P498,438	P448,520
Notified claims payable		P405,290	P367,999
IBNR		93,148	80,521
	5	P498,438	P448,520

18. Reinsurance Payable

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

	Note	2018	2017
Beginning balance		P84,386	P77,553
Premium ceded to reinsurers	20	445,144	385,550
Paid during the year		(431,310)	(378,717)
Ending balance	5	P98,220	P84,386

19. Accounts Payable, Accrued Expenses and Other Liabilities

The account consists of the following:

	Note	2018	2017
Dividends payable to policyholders		P1,086,498	P1,029,071
Accrued expenses		871,255	855,824
Agent's commission payable		534,995	410,265
Premium suspense account		352,951	264,359
Provident fund payable		252,929	222,082
Due to related parties	26	244,268	124,496
Due to unit-linked funds		213,643	114,757
Premium deposit fund		48,293	47,785
Withholding tax payable		41,784	48,599
Premium tax payable		41,053	21,112
Retirement liability	24	8,777	14,653
Other liabilities		130,164	69,495
		P3,826,610	P3,222,498

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 26).

Due to unit-linked fund pertains to the investment portion of premiums received from the policyholders that 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.

20. Net Premiums

Gross premiums on insurance contracts:

	Note	2018	2017
Unit-linked insurance	11	P21,830,639	P18,932,127
Group life insurance		393,346	412,120
Ordinary life insurance		212,154	204,131
Accident and health		42,149	58,378
		P22,478,288	P19,606,756

Reinsurer's share of gross premiums on insurance contracts:

	Note	2018	2017
Unit-linked insurance		P138,377	P56,836
Group life insurance		296,314	324,198
Ordinary life insurance		10,453	4,327
Accident and health		-	189
	18	P445,144	P385,550

Net premiums on insurance contracts:

	2018	2017
Unit-linked insurance	P21,692,262	P18,875,291
Group life insurance	97,032	87,922
Ordinary life insurance	201,701	199,804
Accident and health	42,149	58,189
	P22,033,144	P19,221,206

21. 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:

	2018	2017
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 (U.S. dollar)	1.95%	1.95%
Cash Flow Fund (Philippine peso)	1.95%	-
Asian Balanced Fund	1.95%	1.95%

Policy administration fees amounted to P1.69 billion and P1.66 billion in 2018 and 2017, respectively.

22. Investment Loss

The account consists of the following:

	Note	2018	2017
Interest income		P522,277	P535,876
Foreign exchange gain (loss)	8	53,023	(3,923)
Gain (loss) on disposal of investments	8	(20,858)	1,883
Final withholding tax		(95,991)	(103,341)
Unrealized loss on valuation of investments	8	(946,334)	(484,639)
Investment management expense		(300,794)	(289,778)
Dividends		-	114
		(P788,677)	(P343,808)

23. Benefits and Claims

Gross benefits and claims on insurance contracts:

2018

	Gross Benefits and Claims	Reinsurers' Share of Gross Benefits and Claims	Net
Unit-linked insurance	**P7,189,322**	**(P27,013)**	**P7,162,309**
Ordinary life insurance	**9,336**	**-**	**9,336**
Group life insurance	**274,401**	**(3,438)**	**270,963**
Accident and health	**4,517**	**-**	**4,517**
	P7,477,576	**(P30,451)**	**P7,447,125**

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

Gross change in increase in legal policy reserves:

	Note	**2018**	2017
Unit-linked insurance		**P21,782**	P27,082
Ordinary life insurance		**39,240**	(85,473)
Group life insurance		**5,937**	3,525
Accident and health		**(157)**	(60,579)
	16	**P66,802**	(P115,445)

24. 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, 2018, 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.

	2018		
	DBO	**FVPA**	**Net Defined Benefit Liability**
Balance at January 1, 2018	**P385,250**	**P370,597**	**P14,653**
Included in Profit or Loss			
Current service cost	**85,092**	**-**	**85,092**
Interest cost	**21,390**	**22,348**	**(958)**
	106,482	**22,348**	**84,134**
Included in Other Comprehensive Income			
Remeasurements gain:			
Actuarial gain arising from:			
Financial assumptions	**(11,767)**	**-**	**(11,767)**
Experience adjustment	**(29,621)**	**-**	**(29,621)**
Return on plan assets excluding interest income	**-**	**(36,602)**	**36,602**
	(41,388)	**(36,602)**	**(4,786)**
Others			
Contributions paid by the employer	**-**	**85,224**	**(85,224)**
Benefits paid	**(24,476)**	**(24,476)**	**-**
	(24,476)	**60,748**	**(85,224)**
Balance at December 31, 2018	**P425,868**	**P417,091**	**P8,777**

	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

The retirement expense under "Salaries, allowances and employees' benefits" account in profit or loss amounted to P84.13 million and P66.13 million in 2018 and 2017, respectively.

The Company's plan assets consist of the following:

	2018	2017
Cash and cash equivalents	**P41**	P -
Receivables	**3,421**	2,705
Government securities	**243,975**	209,676
Deposit instruments	**20,196**	-
Unit investments trust funds	**1,013**	25,296
Investment in mutual funds	**83,465**	71,250
Corporate bonds	**65,399**	62,100
Trust fee payable	**(419)**	(430)
	P417,091	P370,597

The expected contribution to the defined benefit retirement plan in 2019 is P75.27 million.

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

	2018	2017
Discount rate	**7.00%**	5.75%
Future salary growth	**6.00%**	6.00%

The weighted-average duration of the defined benefit obligation is 14 years and 16 years in December 31, 2018 and 2017, respectively.

Maturity analysis of the benefit payments:

2018

	Carrying amount	Contractual cash flows	Within 1 Year	Within 1-5 Years	More than 5 Years
Retirement liability	**P425,868**	**P427,184**	**P27,894**	**P115,115**	**P284,175**

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

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 percentages shown below:

	Defined Benefit Obligation	
	Increase	Decrease
Discount rate (1% movement)	(0.94%)	2.02%
Future salary growth (1% movement)	2.02%	(0.96%)

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.

25. Income Taxes

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

	2018	2017
Current tax expense	P16,517	P18,282
Deferred tax expense	515,254	445,703
	P531,771	P463,985

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

	2018	2017
Income before income tax expense	P1,825,879	P2,092,598
Income tax using the domestic corporation tax rate	P547,764	P627,779
Additions to (reduction in) income tax resulting from:		
Non-deductible expenses	18,820	12,938
Other income subjected to final tax	(216,023)	(211,815)
Non-taxable gain from disposal of investments	(19,382)	(42,133)
Interest income subjected to final tax	(385,846)	(356,070)
Non-deductible loss on valuation of investments	274,430	145,172
Expired recognized NOLCO	194,013	170,908
Effect of unrecognized deferred tax assets	101,478	98,924
Expired MCIT	16,517	18,282
	P531,771	P463,985

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, 2018 and 2017 are as follows:

	2018		2017	
	Tax Base	Deferred Tax Assets	Tax Base	Deferred Tax Assets
NOLCO	P285,510	P85,653	P125,007	P37,502
Accrued expenses	880,033	264,010	870,477	261,143
Agent's Commission	534,995	160,499	410,265	123,079
Provident fund	252,929	75,879	222,082	66,625
IBNR	93,148	27,944	80,521	24,156
MCIT	115,250	115,250	82,374	82,374
Remeasurement on life insurance reserve	254,516	76,355	939,449	281,835
	P2,416,381	P805,590	P2,730,175	P876,714

Below is the movement of the deferred tax assets and deferred tax liability recognized as at December 31, 2018 and 2017.

2018

	Beginning Balance	Amount Charged to Profit or Loss	Amount Recognized in Other Comprehensive Income	Ending Balance
NOLCO	P374,464	(P169,284)	P -	P205,180
Retirement liability	(17,516)	-	(1,436)	(18,952)
Deferred acquisition costs	(1,949,509)	(345,970)	-	(2,295,479)
Deferred tax liability - net	(P1,592,561)	(P515,254)	(P1,436)	(P2,109,251)

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)

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
2015	P16,517	P16,517	P -	December 31, 2018
2016	25,046	-	25,046	December 31, 2019
2017	40,811	-	40,811	December 31, 2020
2018	49,393	-	49,393	December 31, 2021
	P131,767	P16,517	P115,250	

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
2015	P646,711	P646,711	P -	December 31, 2018
2016	612,929	-	612,929	December 31, 2019
2017	113,581	-	113,581	December 31, 2020
2018	242,932	-	242,932	December 31, 2021
	P1,616,153	P646,711	P969,442	

26. 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.

The following are the significant related party transactions by the Company:

Category/Transaction	Year	Note	Amount Of The Transaction	Due to Related Parties (Note 19)	Due from Related Parties (Note 15)	Terms	Conditions
Eastspring (Under Common Control)							
Investment management	**2018**	*a*	**P285,079**	**P69,452**	**P -**	**30 days; noninterest - bearing**	**Unsecured**
	2017		273,917	71,815	-	30 days; noninterest - bearing	Unsecured
PSA (Under Common Control)							
IT service costs	**2018**	*b*	**199,156**	**147,726**	**-**	**30 days; noninterest - bearing**	**Unsecured**
	2017		247,160	32,912	-	30 days; noninterest - bearing	Unsecured
PHL (Under Common Control)							
Allocation of expenses	**2018**	*c*	**137,476**	**27,090**	**-**	**30 days; noninterest - bearing**	**Unsecured: not impaired**
	2017		141,135	19,769	-	30 days; noninterest - bearing	Unsecured
Prudence Foundation Limited (Under Common Control)							
Allocation of expenses	**2018**	*d*	**8,357**	**-**	**-**		
	2017		-	-	-	30 days; noninterest - bearing	Unsecured
PAMTC							
Allocation of expenses	**2018**	*e*	**-**	**-**	**18,547**	**30 days; noninterest - bearing**	**Unsecured**
	2017		-	-	-		
TOTAL	**2018**			**P244,268**	**P18,547**		
TOTAL	2017			P124,496	P -		

Outstanding receivables from and payables to related parties which are expected to be settled in cash, are included under "Other assets" (see Note 15) and "Accounts payable, accrued expenses and other liabilities" (see Note 19) 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 11) 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.

e. Transactions with PAMTC pertain to various advances made by the Company on behalf of PAMTC for the cost incurred during the set-up of the latter.

The entities from a to d above are wholly-owned subsidiaries of Prudential while PAMTC is wholly-owned by the Company.

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 KMP compensation is as follows:

	2018	2017
Short-term employee benefits	**P167,696**	P169,148
Post-employment benefits	**11,357**	10,160
	P179,053	P179,308

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

27. 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:

	2018	2017
Rent expense	**P352,202**	P253,045
Nonrefundable security deposit	**94,181**	70,962
Prepaid rent	**87,885**	76,258

Future minimum lease payments are payable as follows:

	2018	2017
Less than one year	**P318,793**	P195,580
Between one and five years	**451,869**	289,172
	P770,662	P484,752

28. Equity

The details of this account are as follows:

	2018	2017
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 22, 2018, the BOD of the Company declared cash dividends amounting to P1.18 billion or P235.29 per share. This was approved by the IC on April 13, 2018 and was paid on May 21, 2018.

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.

As at December 31, 2018, the Company's unappropriated retained earnings of P9.14 billion is in excess of its paid-up capital of P962 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 IC, thus, exempted from prohibition of 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 indicates 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."

29. Contingent Liabilities

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

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 separate 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 separate financial statements which were prepared in accordance with PFRS.

The following is the tax information required for the taxable year ended December 31, 2018:

A. Documentary Stamp Tax

On others	P20,741,970

B. Withholding Taxes

Creditable withholding taxes	P398,402,743
Final withholding taxes	413,703,815
Tax on compensation and benefits	201,658,469
	P1,013,765,027

C. All Other Taxes (Local and National)

Premiums tax	P93,712,356
License and permit fees	36,215,150
Fringe benefits tax	7,884,285
Real estate taxes	85,919
	P137,897,710

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, 2018.

Combined financial statements

PRU LIFE INSURANCE CORPORATION OF U.K.
PRULINK OPERATED BY THE LINKED FUND

COMBINED FINANCIAL STATEMENTS
December 31, 2018 and 2017

www.prulifeuk.com.ph

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, 2018 and 2017, 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, 2018 and 2017, 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 combined 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 combined 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 combined 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
Partner
CPA License No. 0092183
IC Accreditation No. SP-2017/016-R,
Group A, valid until August 26, 2020
SEC Accreditation No. 1472-AR-1, Group A,
valid until July 2, 2021
Tax Identification No. 162-411-175
BIR Accreditation No. 08-001987-34-2017
Issued September 4, 2017; valid until
September 3, 2020
PTR No. MKT 7333620
Issued January 3, 2019 at Makati City

March 14, 2019
Makati City, Metro Manila

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, 2018 *(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		P6,461	P58,871	P17,925	P76,318	P658,982	P75,632	P34,989	P13	P1,125	P134	P114,033	P505	P1,044,988
Interest receivables		1	180,722	130,585	10	11,967	2,531	4	-	-	-	-	-	325,820
Receivable from life fund	*2, 8*	1,603	679	-	30,243	98,426	1	16,842	-	160	315	65,307	57	213,633
Investments at fair value through profit or loss	*5*	5,577,127	18,672,804	7,270,179	12,256,893	44,221,160	195,666	16,733,091	629,300	1,251,266	762,502	7,580,888	67,464	115,218,340
Other assets	*8*	5,000	-	13,310	-	36,995	-	-	1,451	3,145	3,195	67,378	264	130,738
		5,590,192	18,913,076	7,431,999	12,363,464	45,027,530	273,830	16,784,926	630,764	1,255,696	766,146	7,827,606	68,290	116,933,519
LIABILITIES														
Liability to life fund and other linked funds	*2, 8*	(8,478)	(15,313,092)	(32,406)	(2,625)	(19,279,851)	(286)	-	(377)	(1,897)	(998)	(3,467)	(63)	(34,643,540)
Accrued expenses	*8*	(90)	(3,999)	(1,576)	(269)	(14,292)	(30)	(838)	(2,440)	(2,488)	(1,517)	(77,904)	(125)	(105,568)
Trade payable	*8*	-	-	-	-	(117,837)	-	-	(10)	(623)	(131)	(159,697)	(369)	(278,667)
NET ASSETS		P5,581,624	P3,595,985	P7,398,017	P12,360,570	P25,615,550	P273,514	P16,784,088	P627,937	P1,250,688	P763,500	P7,586,538	P67,733	P81,905,744

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)

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	*2,8*	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	*8*	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 CHANGES IN NET ASSETS OF THE PRULINK OPERATED BY THE LINKED FUND FOR THE YEAR ENDED DECEMBER 31, 2018 *(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
Net assets at beginning 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
Net additions (withdrawals) to the fund for creation of units	(562,176)	(744,500)	(1,699,663)	1,336,448	4,730,116	(157,833)	(49,473)	(193,068)	(31,453)	43,129	1,435,599	46,259	4,153,385
	6,128,307	3,875,884	7,142,395	14,013,168	29,117,879	268,624	18,916,346	609,118	1,422,865	843,245	7,823,048	72,595	90,233,474
FUND INCOME													
Unrealized appreciation (depreciation) of investment at fair value through profit or loss	-	(1,592,053)	(27,900)	-	(7,344,671)	(133)	-	8,190	(176,678)	(75,158)	(26,281)	(3,498)	(9,238,182)
Interest income	113	1,067,938	413,531	786	6,297	3,594	669	-	-	-	4	-	1,492,932
Gain (loss) on sale of investment at fair value through profit or loss	-	(395,094)	(3,175)	-	968,241	4,689	-	23,360	33,983	12,572	220,232	(284)	864,524
Dividend income	-	-	-	-	720,076	-	-	-	-	-	-	-	720,076
Profit (loss) from interfund investments	(540,085)	1,076,526	-	(1,635,238)	3,170,263	-	(2,071,466)	-	-	-	-	-	-
FUND EXPENSES													
Management fees	(6,688)	(299,208)	(126,788)	(17,989)	(1,021,276)	(1,645)	(61,327)	(12,731)	(29,482)	(17,159)	(139,691)	(1,080)	(1,735,064)
Distribution expense	-	-	-	-	-	-	-	-	-	-	(290,773)	-	(290,773)
Tax expense	(23)	(138,008)	(46)	(157)	(1,259)	(1,615)	(134)	-	-	-	(1)	-	(141,243)
	(546,683)	(279,899)	255,622	(1,652,598)	(3,502,329)	4,890	(2,132,258)	18,819	(172,177)	(79,745)	(236,510)	(4,862)	(8,327,730)
NET ASSETS AT END OF YEAR	P5,581,624	P3,595,985	P7,398,017	P12,360,570	P25,615,550	P273,514	P16,784,088	P627,937	P1,250,688	P763,500	P7,586,538	P67,733	P81,905,744

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)*

	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	(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, 2018 *(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 EquityFund	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	(P546,683)	(P279,899)	P255,622	(P1,652,598)	(P3,502,329)	P4,890	(P2,132,258)	P18,819	(P172,177)	(P79,745)	(P236,510)	(P4,862)	(P8,327,730)
Adjustments for:													
Unrealized depreciation of investment at fair value through profit or loss	-	1,592,053	414,133	-	7,344,671	133	-	25,242	243,152	115,666	429,021	7,082	10,171,153
Interest income	(113)	(1,067,938)	(413,531)	(786)	(6,297)	(3,594)	(669)	-	-	-	(4)	-	(1,492,932)
Gain (loss) on sale of investment at fair value through profit or loss	-	395,094	3,175	-	(968,241)	(4,689)	-	(23,360)	(33,983)	(12,572)	(220,232)	284	(864,524)
Dividend income	-	-	-	-	(720,076)	-	-	-	-	-	-	-	(720,076)
Foreign exchange gain	-	-	(387,185)	-	-	-	-	(33,432)	(66,474)	(40,508)	(402,740)	(3,584)	(933,923)
Profit (loss) from interfund investments	540,085	(1,076,526)	-	1,635,238	(3,170,263)	-	2,071,466	-	-	-	-	-	-
Operating loss before working capital changes	(6,711)	(437,216)	(127,786)	(18,146)	(1,022,535)	(3,260)	(61,461)	(12,731)	(29,482)	(17,159)	(430,465)	(1,080)	(2,168,032)
Decrease (increase) in:													
Receivable from life fund	(1,475)	(20)	-	(14,405)	(29,559)	(1)	(10,400)	-	2,214	(167)	(45,343)	203	(98,953)
Other assets	7,000	-	(13,310)	-	(26,995)	-	1,000	5,776	(477)	210	(67,378)	660	(93,514)
Increase (decrease) in:													
Liability to life fund and other linked funds	(722)	1,650,374	(1,124)	2,625	(5,285,596)	271	(25,602)	(7,362)	(403)	(1,243)	3,467	(943)	(3,666,258)
Trade payable	-	-	-	(10,000)	104,837	-	-	(207)	(2,851)	130	77,324	(5,632)	163,601
Accrued expenses	38	905	(12,300)	125	1,721	(7)	271	(119)	(457)	(99)	11,770	83	1,931
Net additions (withdrawals) to the fund	(562,176)	(744,500)	(1,699,663)	1,336,448	4,730,116	(157,833)	(49,473)	(193,068)	(31,453)	43,129	1,435,599	46,259	4,153,385
Net cash provided by (used in) operating activities	(564,046)	469,543	(1,854,183)	1,296,647	(1,528,011)	(160,830)	(145,665)	(207,711)	(62,909)	24,801	984,974	39,550	(1,707,840)

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	P566,568	(P1,587,609)	P1,418,752	(P1,263,110)	P188,836	P8,362	P104,965	P206,480	P59,664	(P24,695)	(P956,236)	(P45,187)	(P1,323,210)
Interest received	112	1,052,421	431,429	778	6,278	1,250	669	-	-	-	4	-	1,492,941
Dividends received	-	-	-	-	742,207	-	-	-	-	-	-	-	742,207
Net cash provided by (used in) investing activities	566,680	(535,188)	1,850,181	(1,262,332)	937,321	9,612	105,634	206,480	59,664	(24,695)	(956,232)	(45,187)	911,938
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,634	(65,645)	(4,002)	34,315	(590,690)	(151,218)	(40,031)	(1,231)	(3,245)	106	28,742	(5,637)	(795,902)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,827	124,516	20,975	42,003	1,249,672	226,850	75,020	1,244	4,370	28	85,291	6,142	1,839,938
EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	-	-	952	-	-	-	-	-	-	-	-	-	952
CASH AND CASH EQUIVALENTS AT END OF YEAR	P6,461	P58,871	P17,925	P76,318	P658,982	P75,632	P34,989	P13	P1,125	P134	P114,033	P505	P1,044,988

See Notes to the Combined Financial Statements.

	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, 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	-	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

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.

Cash Flow Fund - Peso Hedged Share Class - seeks to provide investors with regular income and capital growth 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. This Fund may in addition, at the Fund Manager's discretion, invest up to 20% of its assets in dividend yielding equities. It aims to provide investors with a return correlated to the base currency performance of the fund, by reducing the effect of exchange rate fluctuations between the base and hedged currency.

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 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 14, 2019.

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:

	2018	2017
Proactive Fund invested at Bond Fund (Peso)	P8,358,402	P7,017,961
Managed Fund invested at Bond Fund (Peso)	4,466,954	4,920,161
Growth Fund invested at Equity Fund	9,795,002	10,910,305
Proactive Fund invested at Equity Fund	8,374,689	11,891,561
Growth Fund invested at Bond Fund (Peso)	2,461,891	1,718,716
Managed Fund invested at Equity Fund	1,110,173	1,763,619
	P34,567,111	P38,222,323

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

	2018	2017
Liability of Bond Fund (Peso) to Proactive Fund	P8,358,407	P7,017,961
Liability of Bond Fund (Peso) to Managed Fund	4,466,959	4,920,161
Liability of Equity Fund to Growth Fund	9,794,995	10,910,305
Liability of Equity Fund to Proactive Fund	8,374,684	11,891,561
Liability of Bond Fund (Peso) to Growth Fund	2,461,893	1,718,716
Liability of Equity Fund to Managed Fund	1,110,172	1,763,619
	P34,567,110	P38,222,323

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 P213.63 million and P114.68 million as at December 31, 2018 and 2017, respectively (see Note 8).

Liability to life fund and other link funds includes amount advanced by the Company to settle investment withdrawals and surrenders by unit-linked policyholders. The balance amounted to P34.64 billion and P38.31 billion as at December 31, 2018 and 2017, respectively (see Note 8).

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, 2018 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, 2018

- *Applying PFRS 9, Financial Instruments with PFRS 4 Insurance Contracts (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, 2022.

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.

As permitted by the standard, the Company availed of the temporary exemption and deferred application of PFRS 9.

Financial Instruments

Derivative Financial Assets

Derivative financial instruments are initially recognized at fair value on the date when the derivative contract is entered into and are subsequently remeasured at fair value. A derivative is reported as an asset when fair value is positive and as a liability when fair value is negative.

The Cash Flow Fund - Peso Hedged Share Class holds derivative financial instrument to manage its foreign currency risk exposures through non-deliverable forward (NDF) contracts.

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, 2018 and 2017, 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 P115.22 billion and P122.27 billion as at December 31, 2018 and 2017, 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, 2018 and 2017, the Funds' combined loans and receivables amounted to P1.72 billion and P2.34 billion, respectively (see Note 8).

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, 2018 and 2017, the Funds' other financial liabilities amounted to P35.03 billion and P38.53 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 is 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 January 1, 2019. 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.

To be Adopted January 1, 2020

- Amendments to References to Conceptual Framework in PFRS sets out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:

- a new chapter on measurement;
- guidance on reporting financial performance;
- improved definitions of an asset and a liability, and guidance supporting these definitions; and
- clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some PFRS, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments are effective for annual reporting periods beginning on or after January 1, 2020.

- Definition of Material (Amendments to PAS 1 *Presentation of Financial Statements* and PAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:

(a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';
(b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;
(c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
(d) clarifying the explanatory paragraphs accompanying the definition; and
(e) aligning the wording of the definition of material across PFRS and other publications.

The amendments are expected to help entities make better materiality judgements without substantively changing existing requirements.

The amendments apply prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

To be Adopted January 1, 2020

• PFRS 9 (2014). PFRS 9 (2014) replaces PAS 39 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.

• *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. Critical Accounting Estimates and Judgments

The Funds makes 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 has 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.

Estimates

(a) Fair Value Estimation

The fair value of financial instruments traded in active markets (such as investments at FVPL) 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, 2018 and 2017, the Funds' financial instruments carried at fair value are classified as Level 1 and Level 2 in the fair value hierarchy.

Combined financial statements

5. Investments at Fair Value through Profit or Loss

This account as at December 31 consists of:

	2018													
	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
Investment in shares of stocks		P -	P -	P -	P -	P40,064,170	P -	P -	P -	P1,207,739	P740,300	P -	P38,220	P42,050,429
Accumulated fair value gain (loss)		-	-	-	-	4,156,990	-	-	-	43,527	22,202	-	(4,667)	4,218,052
	8	-	-	-	-	44,221,160	-	-	-	1,251,266	762,502	-	33,553	46,268,481
Investment in bond funds		3,852,459	-	-	2,512,958	-	-	8,423,143	-	-	-	-	-	14,788,560
Accumulated fair value gain (loss)		614,495	-	-	(51,067)	-	-	(64,741)	-	-	-	-	-	498,687
	8	4,466,954	-	-	2,461,891	-	-	8,358,402	-	-	-	-	-	15,287,247
Investment in equity funds		1,039,380	-	-	8,374,342	-	-	8,088,657	-	-	-	-	-	17,502,379
Accumulated fair value gain		70,793	-	-	1,420,660	-	-	286,032	-	-	-	-	-	1,777,485
	8	1,110,173	-	-	9,795,002	-	-	8,374,689	-	-	-	-	-	19,279,864
Investment in debt securities		-	20,633,741	7,357,764	-	-	195,659	-	556,372	-	-	7,296,377	33,698	36,073,611
Accumulated fair value gain (loss)		-	(1,960,937)	(87,585)	-	-	7	-	72,928	-	-	282,666	213	(1,692,708)
	8	-	18,672,804	7,270,179	-	-	195,666	-	629,300	-	-	7,579,043	33,911	34,380,903
Accumulated fair value gain - NDF		-	-	-	-	-	-	-	-	-	-	1,845	-	1,845
		P5,577,127	P18,672,804	P7,270,179	P12,256,893	P44,221,160	P195,666	P16,733,091	P629,300	P1,251,266	P762,502	P7,580,888	P67,464	P115,218,340

		2017												
	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
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
	8	-	-	-	-	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
	8	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
	8	1,763,619	-	-	10,910,305	-	-	11,891,561	-	-	-	-	-	24,565,485
Investment in debt securities		-	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
	8	-	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

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:

	2018	2017
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%	1.95%

7. Number of Units and Unit Prices

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

	2018	2017
Managed Fund	1,931,619	2,120,935
Bond Fund (Peso)	1,506,745	1,813,659
Bond Fund (Dollar)	56,134	69,239
Growth Fund	3,303,020	2,953,022
Equity Fund	11,654,246	9,562,231
Proactive Fund	8,292,641	8,308,752
Money Market Fund	259,027	410,176
Asian Local Bond Fund	11,734	15,327
Asia Pacific Equity Fund	24,918	25,397
Global Emerging Market Fund	14,847	14,130
Cash Flow Fund (Dollar)	151,104	132,023
Cash Flow Fund (Peso Hedged Share Class)	496,441	-
Asian Balanced Fund	1,401	520
	27,703,877	25,425,411

The corresponding December 31 unit prices are as follows:

	2018	2017
Unit price in PhP		
Managed Fund	P2.88961	P3.15450
Bond Fund (Peso)	2.38659	2.54755
Growth Fund	3.74220	4.29280
Equity Fund	2.19796	2.55043
Proactive Fund	2.02397	2.28263
Money Market Fund	1.05593	1.03969
Unit price in US$		
Bond Fund (Dollar)	$2.49966	$2.55801
Asian Local Bond Fund	1.01496	1.04835
Asia Pacific Equity Fund	0.95197	1.14701
Global Emerging Market Fund	0.97533	1.13426
Cash Flow Fund (Dollar)	0.89207	0.96912
Cash Flow Fund (Peso Hedged Share Class)	0.96379	-
Asian Balanced Fund	0.91704	1.01503

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

	December 28, 2018	December 29, 2017
Unit price in PhP		
Managed Fund	P2.88932	P3.15478
Bond Fund (Peso)	2.38615	2.54774
Growth Fund	3.74267	4.29331
Equity Fund	2.19837	2.55074
Proactive Fund	2.02404	2.28290
Money Market Fund	1.05572	1.03965
Unit price in US$		
Bond Fund (Dollar)	$2.49760	$2.55790
Asian Local Bond Fund	1.01100	1.04845
Asia Pacific Equity Fund	0.94698	1.14714
Global Emerging Market Fund	0.97451	1.13439
Cash Flow Fund (Dollar)	0.89000	0.96922
Cash Flow Fund (Peso Hedged Share Class)	0.95748	-
Asian Balanced Fund	0.91351	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 exists 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 P49.67 billion as at December 31, 2018 and P48.63 billion as at December 31, 2017 which are 42.48% and 39.03% of its total assets, respectively.

The table below provides information regarding the credit risk exposure of the Funds as at December 31, 2018 and 2017 by classifying assets according to the Funds' credit grading of counterparties.

2018

	Note	Neither Past Due nor Impaired			Past Due but not impaired	Total
		Investment High-grade	Non-investment Grade - Satisfactory	Total Financial Assets Neither Past Due nor Impaired		
Cash and cash equivalents		P1,044,988	P -	P1,044,988	P -	P1,044,988
Interest receivables		325,820	-	325,820	-	325,820
Receivable from life fund	2	213,633	-	213,633	-	213,633
Investment in bond funds	5	15,287,247	-	15,287,247	-	15,287,247
Investment in debt securities	5	34,380,903	-	34,380,903	-	34,380,903
Other assets		130,738	-	130,738	-	130,738
		P51,383,329	P -	P51,383,329	P -	P51,383,329

2017

	Note	Neither Past Due nor Impaired			Past Due but not impaired	Total
		Investment High-grade	Non-investment Grade - Satisfactory	Total Financial Assets Neither Past Due nor Impaired		
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	2	114,680	-	114,680	-	114,680
Investment in bond funds	5	13,656,838	-	13,656,838	-	13,656,838
Investment in debt securities	5	34,976,677	-	34,976,677	-	34,976,677
Other assets		37,224	-	37,224	-	37,224
		P50,973,317	P -	P50,973,317	P -	P50,973,317

The Funds has no past due but not impaired financial assets as at December 31, 2018 and December 31, 2017.

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, 2018 and 2017:

2018

	Note	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	2	P34,643,540	P -	P -	P -	P -	P -	P34,643,540
Accrued expenses		105,568	-	-	-	-	-	105,568
Trade payable		278,667	-	-	-	-	-	278,667
		P35,027,775	P -	P -	P -	P -	P -	P35,027,775

					2017			
	Note	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	2	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

(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:

	2018	2017
Short-term time deposits	$340	$245
Investments	333,085	365,263
	$333,425	365,508
Foreign exchange rate to the Philippine peso used*	52.72	49.92
	P17,578,166	P18,246,159

**Exchange rate used is based on BSP foreign exchange rate as at December 28, 2018 and December 29, 2017.*

A 3% and 3% strengthening of Philippine peso against the U.S. dollar as at December 31, 2018 and 2017, with all variables remain constant, would have affected the measurement of profit before tax and equity by P527.39 million and P547.42 million, respectively. A 3% and 3% weakening of the Philippine peso in relation to the U.S. dollar as at December 31, 2018 and 2017, 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, 2018	*Increase*	*Decrease*
Currency		
Philippine peso	(P533,992)	P560,623
US dollar	(309,177)	330,738
Fair value sensitivity	(P843,169)	P891,361

	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

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 P65.55 billion and P73.64 billion as at December 31, 2018 and 2017, 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 7% increase in stock prices would have increased profit before income tax and equity by P4.59 billion and P6.63 billion as at December 31, 2018 and 2017, 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, 2018		
	Note	Level 1	Level 2	Total
Financial Assets				
Investments at fair value through profit or loss	5	**P115,216,495**	**P1,845**	**P115,218,340**

		December 31, 2017		
	Note	Level 1	Level 2	Total
Financial Assets				
Investments at fair value through profit or loss	5	P122,268,788	P -	P122,268,788

The Funds has no financial instruments categorized under Level 3. Also, there has been no transfer between levels in 2018 and 2017.

Market review

2018 turned out to be a dismal year for most asset classes and the worst year for global stock markets since the global financial crisis in 2008/9. Equity markets were buffeted by macro risks – from a slowing global economy and the tightening of monetary policy in the US, to geopolitical tensions including a US-China trade war and Brexit uncertainty. Bond markets generally benefited from the heightened risk aversion during the period although returns were volatile, with investors responding to the changing expectations around inflation and the path of the Federal Reserve's interest rates. During the year, the Federal Reserve continued to normalize monetary policy, raising Federal funds rate by 100 basis points (bps) to 2.25 – 2.50% amid robust US economic readings. Additionally, the European Central Bank also announced an end to their bond purchase program at the end of the year. However, higher risk corporate bonds and high yielding bonds in particular, suffered from risk aversion as investors sought defensive, high quality Government bonds.

Despite the US stock market lagging the MSCI[1] All Country World index in December, it was one of the best performing developed markets in 2018. Conversely, the UK and Europe were among the worst performing developed markets, as investors were spooked by the Brexit saga, budget turmoil in Italy, and renewed worries about Greece's debt problems.

During the year, a stronger US dollar caused a headwind for many Emerging Markets, although in the final quarter of 2018 they enjoyed a period of outperformance versus global equities. Of the larger markets, the performance of China was disappointing in 2018, reflecting the impact of a slowing economy and the trade spat with the US. However, there were some bright spots, including Brazil – where the election of far-right candidate Jair Bolsonaro as President was well received by investors – and Russia, which was helped by a higher price of oil in the first three quarters of last year.

Asian markets were weak, led by China and countries sensitive to international trade, notably South Korea. The persistent concerns around the US-China trade conflict, and worries about its impact on global economic growth dragged on investor sentiment. Weakening Chinese economic growth figures further troubled investors, and seemingly confirmed growth fears towards the end of the period.

Defensive sectors, such as utilities and healthcare, were the clear outperformers over the year, as well as the technology sector, despite a vicious sell-off in the final quarter of the year. Cyclical sectors, especially banks, materials, and industrials fared the worst in 2018, as did the energy sector, which fell on the back of a sharply falling oil price in the fourth quarter.

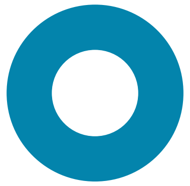
For the Philippines, equities had a soft 2018, following previous year's strong gains. The Philippine Stock Exchange Index (PSEi) ended the year with a near 13% loss. Equities started the year on a strong note and reached an all-time high in early January and started to fall by the end of the same month, tracking rising global bond yields and dragged by the escalating trade war between China and the US.

However, losses were trimmed in the second half of the year, helped by interest rate hikes that helped stem the Peso decline. Also, inflation concerns somewhat receded amid weaker oil prices, and passage of the rice tariff bill. The central bank raised interest rates five times over the year to 4.75%.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

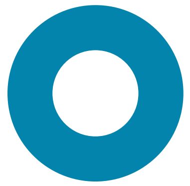
Foreign-denominated funds

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

- **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

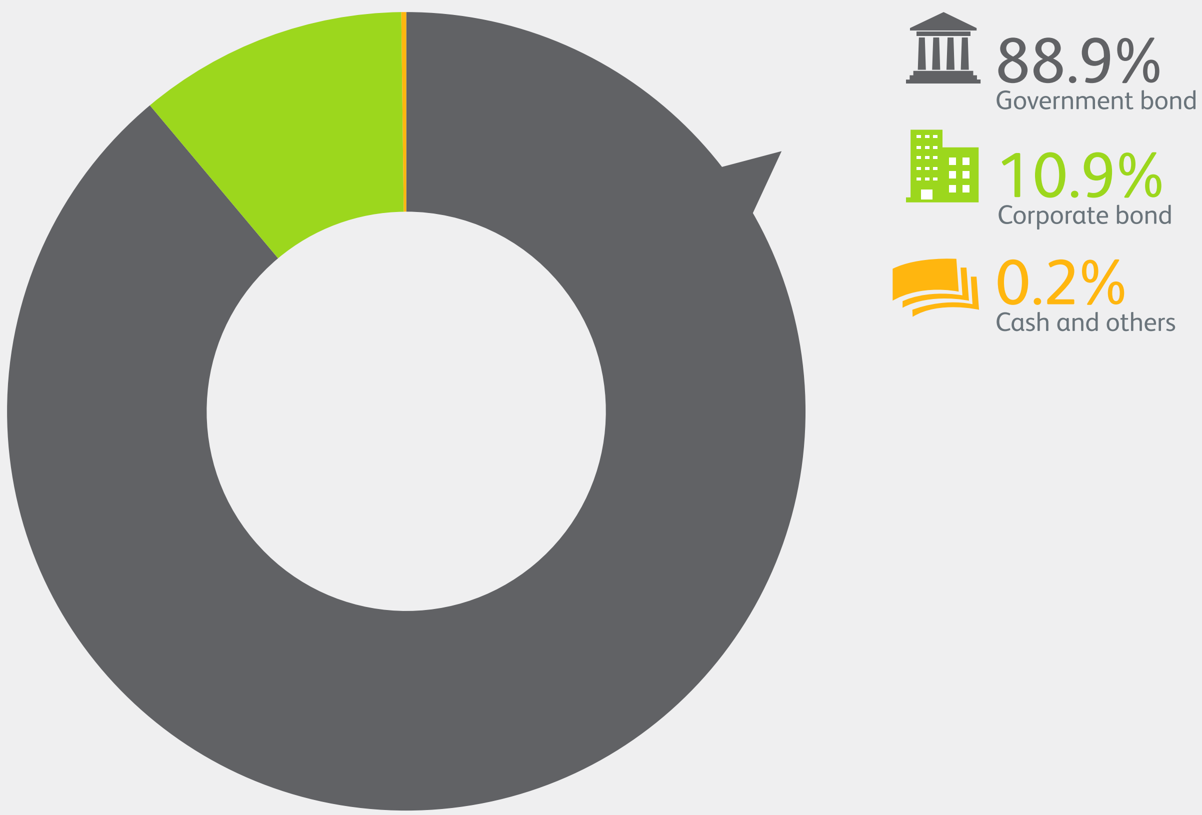
PRULink Bond Fund

The Philippine bond market experienced a challenging year in 2018 amid the emergence of external and domestic macroeconomic headwinds. Philippine government bond yields rose sharply across the curve. Domestically, increased volatility in the Philippine peso amid worsening current account position, as well as rising inflationary pressure exacerbated the sentiment onshore. During the year, headline inflation surged to multi-year high of 6.7% YoY in September-October period, driven by higher food prices. In response to the developments, the Philippine central bank raised policy rates five times by a total of 175 bps to rein in the inflationary pressure and currency volatility. Non-monetary measures, such as the removal of rice import quota and easing of non-tariff restrictions on food imports, were also announced by the government to ease pressure on food prices. Nevertheless, the significant rises in policy rates pushed government bond yields higher, particularly for shorter-dated bonds.

The Fund's duration overweight position detracted from relative performance in the earlier part of the year given the broad sell-off in the domestic bond market. However, the Fund benefitted from a subsequent market rebound amid expectation of a peak in inflationary pressure. Positive carry effect also added to gains relative to the benchmark.

Looking forward, the Manager continues to expect a robust growth picture in Philippines in the new year, supported by household consumption and strong fiscal spending. Inflation has declined, and the trend is estimated to continue due to base effects and normalized rice supply conditions. The Manager will continue to maintain a moderate duration overweight.

Asset allocation



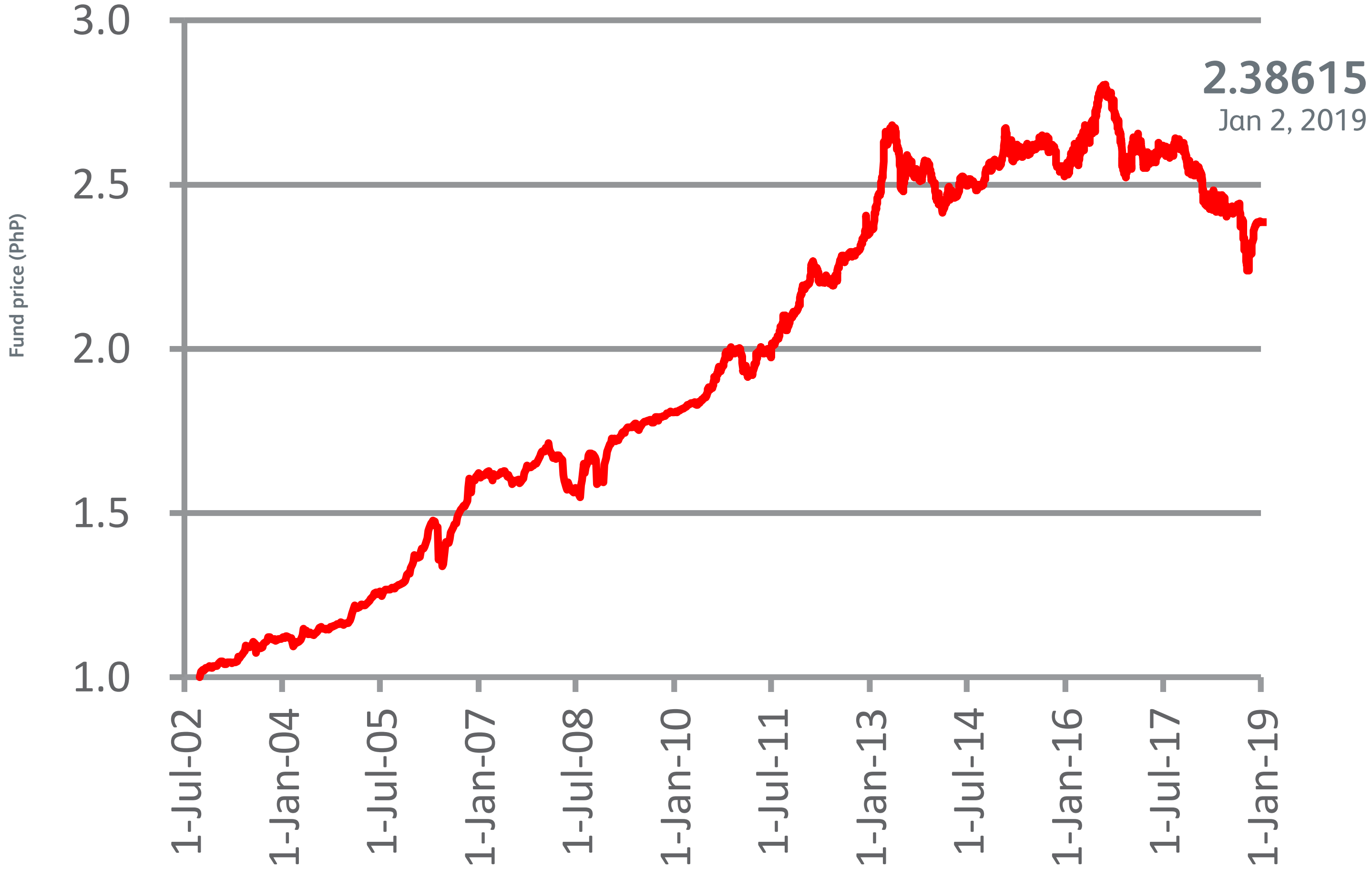
Performance

-6.34%
Actual year-on-year

5.49%
Since inception
(per annum)

PhP 2.38615
Unit price
as of Jan 2, 2019

Performance chart



Top five holdings

Philippine government 4.625% 12/04/2022	9.0%
Philippine government 8.000% 7/19/2031	7.0%
Philippine government 8.125% 12/16/2035	5.4%
Philippine government 3.625% 09/09/2025	4.5%
Philippine government 6.125% 10/24/2037	4.3%

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

PRULink Managed Fund

The Fund's overweight equities position during the first quarter was a drag as domestic equities underperformed relative to domestic bonds. However, the broadly neutral stance for the remainder of the year was beneficial as equities underperformed for the period as a whole. Underlying stock selection was also a drag on relative returns during the period. While the Manager tactically shifted asset allocation – being generally cautious around exposure to equities given the highly uncertain backdrop during the year – asset allocation was negative for the period as a whole.

For the underlying equity portfolio, overweight positions in First Gen, First Philippine Holdings and Vista Land & Lifescapes were key contributors during 2018. The overweight to East West Banking Corp., ABS-CBN, and underweight to Jollibee Foods were key detractors, however. In addition, we have an underweight to index heavyweight, SM Investments. This stock has been a key outperformer over the past two years and our inability to rise above the 10% single stock limit has been a drag on relative performance.

For the underlying fixed income portfolio, the portfolio experienced a challenging year in 2018 amid the emergence of external and domestic macroeconomic headwinds although it outperformed the index for the year as a whole (on a gross basis). The macroeconomic headwinds resulted in broad increases in Philippine government bond yields and the overall bond market declined 5.63% as proxied by the Markit iBoxx ALBI Philippines index.

The Manager, as at the end of 2018, is neutrally positioned equities against a highly uncertain global backdrop.

► Asset allocation

80.0%
Bond

19.9%
Equity

0.1%
Cash and others

► Performance

-8.41%
Actual year-on-year

6.73%
Since inception
(per annum)

PhP 2.88932
Unit price
as of Jan 2, 2019

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

► Performance chart

PRULink US Dollar Bond Fund

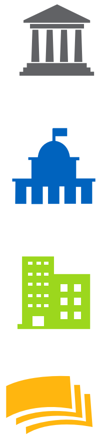
In 2018, the Philippine USD-denominated sovereign bonds registered a moderate decline of 0.71% (in USD terms). A broad rise in US interest rates, as well as moderate sovereign credit spread widening, weighed on the performance of the bond market.

Economic data in the US painted a robust picture of the economy as job market slack continued to tighten, while manufacturing activities expanded. The strong economic readings supported an initial hawkish tone of the US Federal Reserve officials, which put upward pressure on US interest rates. As a result, 10-year US Treasury yield surged to above 3.2% in October – the highest since 2011. Towards year-end, however, rising expectation of a slowdown in global economy and equity markets sell-off raised doubts on the sustainability of the growth momentum. The Fed also shifted to a more dovish tone subsequently as it lowered its median policy rate forecast for 2019 from three hikes to two at its December policy meeting. The shift in monetary policy stance saw some retracement in yield, with the 10-year US Treasury yield ending the year at 2.68%, 28 bps higher compared to the previous year end.

At the same time, risk aversion towards Emerging Market assets rose as the combination of tighter global funding condition, volatile oil prices, as well as emergence of US-China trade tensions, shook investor confidence. Credit spreads of Emerging Market sovereigns widened as a result, while portfolio outflows from Emerging Market debt markets continued. The Philippine sovereign bond market, however, was one of the outperformers with its sovereign credit spread widening only modestly. While the deepening current account deficit and higher inflationary pressure raised concerns during the year, economic growth remained largely robust, helped by strong domestic consumption. Remittances from overseas Filipino workers also continued to be steady.

The Fund's modest duration overweight position detracted from relative performance given the moderate rise in Philippine USD sovereign bond yields over the year.The Fund pared more long-dated bonds in December on outflows, but the Manager is inclined to maintain a slight overweight duration positioning. The Fed's rate hiking cycle is expected to moderate, on the back of recent comments from various policymakers. Likewise, the Manager is cautious of downside risks stemming from trade tensions, and a potential extended period of uncertainty surrounding Brexit and the US-China trade policy, which could continue to support a more accommodative monetary policy stance in the US.

Asset allocation



93.6% Government bond

5.7% Quasi government

0.6% Corporate bond

0.1% Cash and others

Performance

-2.36%
Actual year-on-year

6.05%
Since inception
(per annum)

USD 2.49760
Unit price
as of Jan 2, 2019

Top five holdings

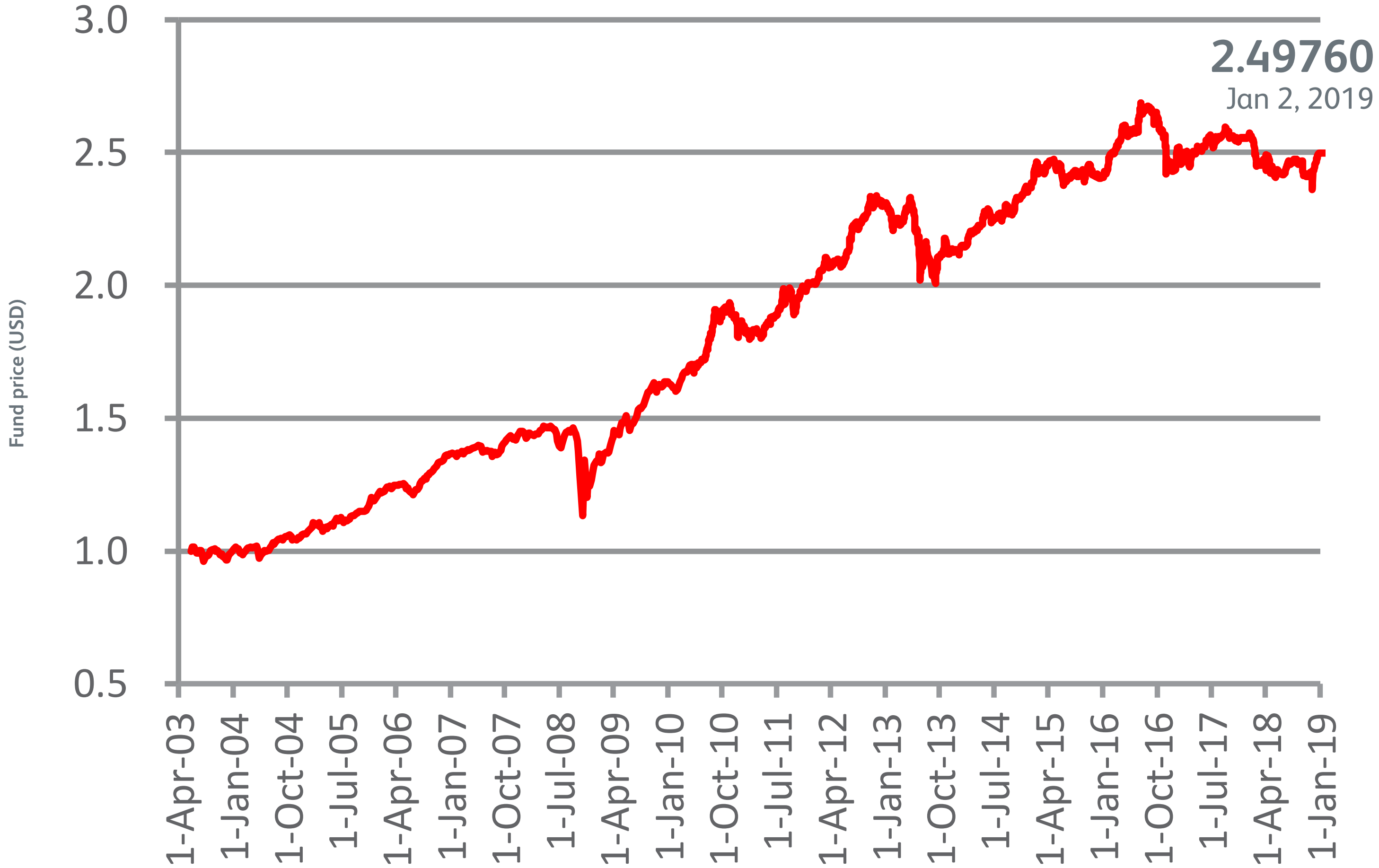
Republic of the Philippines 9.5% 02/02/2030	11.6%
Republic of the Philippines 10.625% 03/16/2025	9.3%
Republic of the Philippines 6.375% 10/23/2034	8.9%
Republic of the Philippines 7.75% 01/14/2031	8.6%
Republic of the Philippines 3.950% 01/20/2040	7.3%

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

Performance chart



PRULink Growth Fund

The Fund's overweight equities position during the first quarter was a drag as domestic equities underperformed relative to domestic bonds. However, the broadly neutral stance for the remainder of the year was beneficial as equities underperformed the period as a whole. Underlying stock selection was also a drag on relative returns during the period. While the Manager tactically shifted asset allocation – being generally cautious around exposure to equities given the highly uncertain backdrop during the year – asset allocation was negative for the period as a whole.

For the underlying equity portfolio, overweight positions in First Gen, First Philippine Holdings and Vista Land & Lifescapes were key contributors during 2018. The overweight to East West Banking Corp., ABS-CBN, and underweight to Jollibee Foods were key detractors, however. In addition, we have an underweight to index heavyweight, SM Investments. This stock has been a key outperformer over the past two years and our inability to rise above the 10% single stock limit has been a drag on relative performance.

For the underlying fixed income portfolio, the portfolio experienced a challenging year in 2018 amid the emergence of external and domestic macroeconomic headwinds although it outperformed the index for the year as a whole (on a gross basis). The macroeconomic headwinds resulted in broad increases in Philippine government bond yields and the overall bond market declined 5.63% as proxied by the Markit iBoxx ALBI Philippines index.

The Manager, as at the end of 2018, is neutrally positioned equities, against a highly uncertain global backdrop.

Asset allocation

79.4%
Equity

19.9%
Bond

0.7%
Cash and others

Performance

-12.83%
Actual year-on-year

10.30%
Since inception
(per annum)

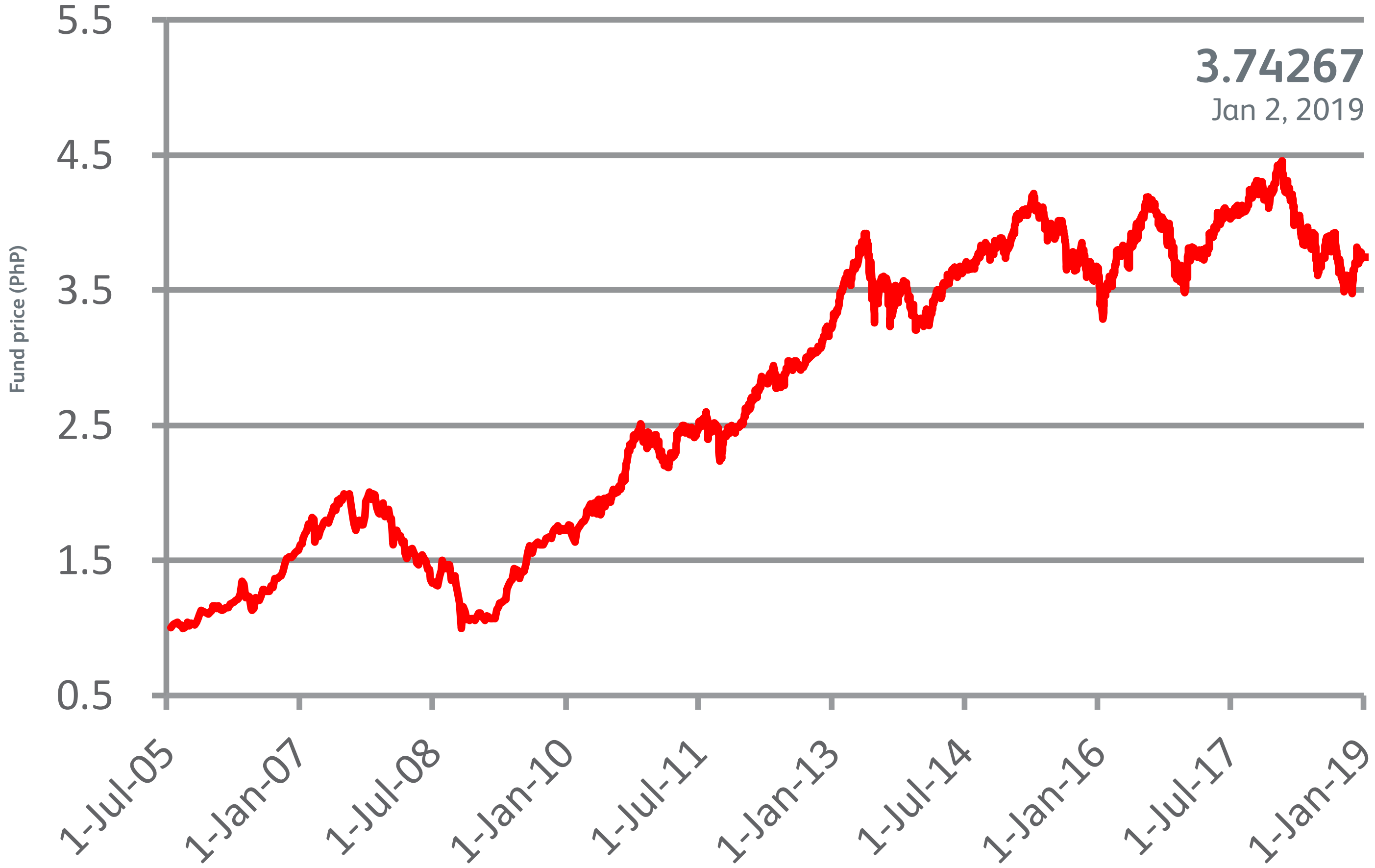
PhP 3.74267
Unit price
as of Jan 2, 2019

Highest and lowest unit price achieved

Initial (19 Jul 2005) 1.00000
Highest (30 Jan 18) 4.45577
Lowest (28 Oct 2008) 0.99584

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.

Performance chart



PRULink Equity Fund

Philippine equities had a soft 2018, following previous year's strong gains. The Philippine Stock Exchange Index (PSEi) ended the year with a near 13% loss. Equities started the year on a weak note, tracking rising global bond yields and dragged by the escalating trade war between China and the US.

However, losses were trimmed in the second half of the year, helped by interest rate hikes that helped stem the Peso decline. Also, inflation concerns somewhat receded amid weaker oil prices, and passage of the rice tariff bill. The central bank raised interest rates five times over the year to 4.75%. The overweight positions in First Gen, First Philippine Holdings and Vista Land & Lifescapes, contributed to the Fund's relative performance in 2018.

First Gen's share price rallied in the last quarter, following an agreement with Tokyo Gas to develop an LNG terminal in Batangas. This development eased the uncertainty of future gas supply for its power plants. Parent First Philippine Holdings also rode on the positive sentiment and closed higher over the year. Vista Land & Lifescape's share price outperformed this year, benefiting from resilient financial performance. Against this, the overweight positions in East West Banking Corp. and ABS-CBN Holdings, as well as an underweight position in Jollibee Foods, hurt relative performance in 2018.
The overweight position in East West Banking Corp. was negative for relative performance; the lender's share price succumbed to profit-taking reversing the stellar gains of 2017.

Shares in ABS-CBN Holdings declined over the year, as sentiment in the TV broadcaster remained muted amid weak advertising outlook and uncertainty of its franchise renewal. However, the company's valuation priced in the above concerns. The underweight position in Jollibee Foods, whose share price outperformed over the year, also weighed on relative performance. The fast food chain operator's financial performance was in line with consensus expectations.
As domestic equities did not perform well during the year, the underlying stock selection added further to the negative returns of the fund during the period.

Asset allocation

30.4% Financials

25.6% Industrials

21.5% Real estate

7.8% Utilities

5.3% Telecommunication

4.4% Consumer staples

2.7% Consumer discretionary

0.9% Energy

1.4% Cash and others

Performance

-13.81%
Actual year-on-year

7.28%
Since inception
(per annum)

PhP 2.19837
Unit price
as of Jan 2, 2018

Top five holdings

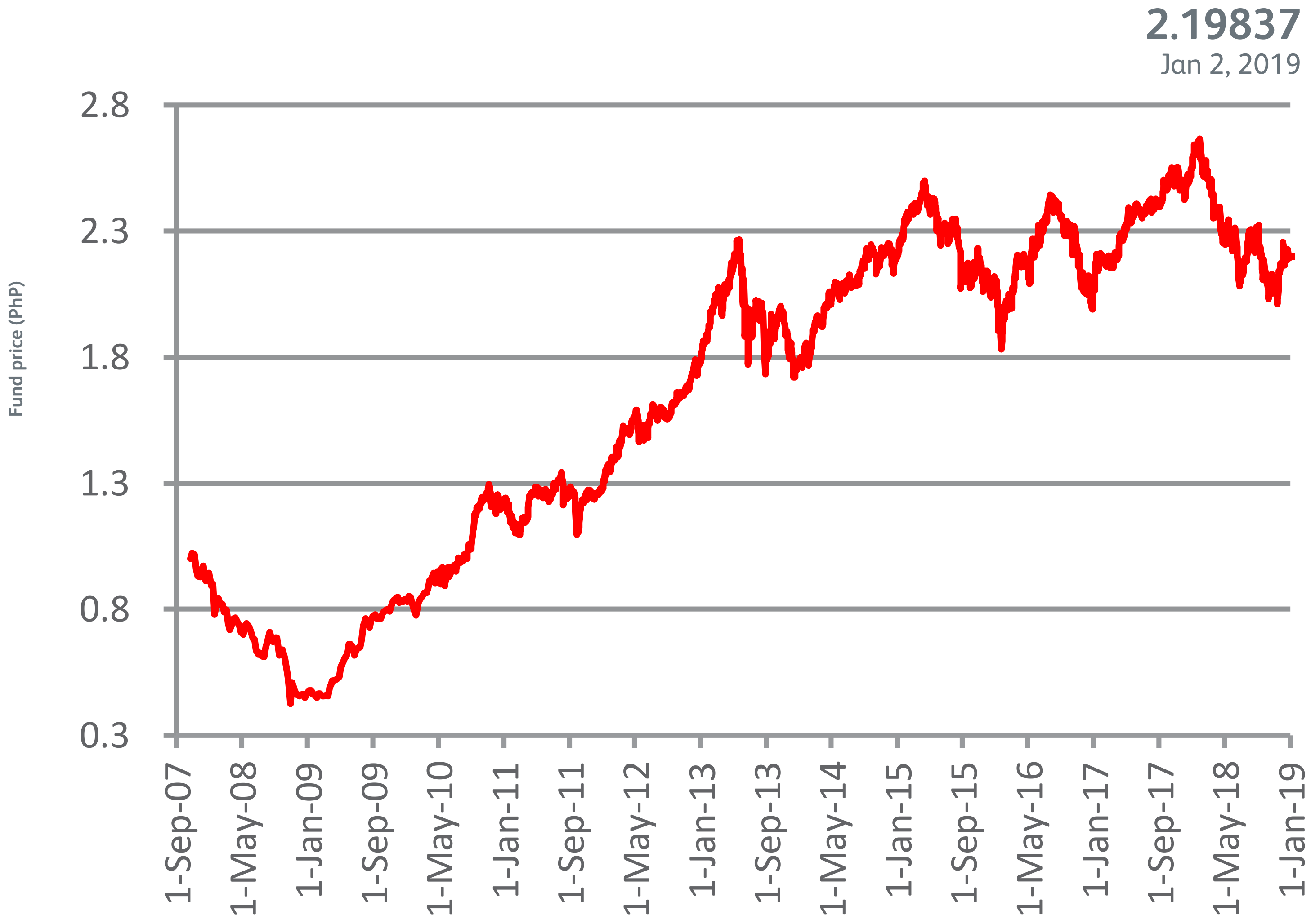
SM INVESTMENTS CORP	9.7%
AYALA LAND INC.	8.4%
SM PRIME HOLDINGS INC.	7.9%
BDO UNIBANK INC	6.7%
AYALA CORP	6.3%

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 (23 Oct 2007) 1.00000
Highest (30 Jan 18) 2.66632
Lowest (28 Oct 2008) 0.42505

Performance chart



PRULink Proactive Fund

The Fund's overweight equities position during the first quarter was a drag as domestic equities underperformed relative to domestic bonds. However, the broadly neutral stance for the remainder of the year was beneficial as equities underperformed the period as a whole. Underlying stock selection was also a drag on relative returns during the period. While the Manager tactically shifted asset allocation – being generally cautious around exposure to equities given the highly uncertain backdrop during the year – asset allocation was negative for the period as a whole.

For the underlying equity portfolio, overweight positions in First Gen, First Philippine Holdings and Vista Land & Lifescapes were key contributors during 2018. The overweight to East West Banking Corp., ABS-CBN, and underweight to Jollibee Foods were key detractors, however. In addition, we have an underweight to index heavyweight, SM Investments. This stock has been a key outperformer over the past two years and our inability to rise above the 10% single stock limit has been a drag on relative performance.

For the underlying fixed income portfolio, the portfolio experienced a challenging year in 2018 amid the emergence of external and domestic macroeconomic headwinds although it outperformed the index for the year as a whole (on a gross basis). The macroeconomic headwinds resulted in broad increases in Philippine government bond yields and the overall bond market declined 5.63% as proxied by the Markit iBoxx ALBI Philippines index.

The Manager, as at the end of 2018, is neutrally positioned equities, against a highly uncertain global backdrop.

▸ Asset allocation

49.9%
Equity

49.8%
Bond

0.3%
Cash and others

▸ Performance

-11.34%
Actual year-on-year

7.40%
Since inception
(per annum)

PhP 2.02404
Unit price
as of Jan 2, 2019

▸ Highest and lowest unit price achieved

Initial (17 Feb 2009) 1.00000
Highest (30 Jan 2018) 2.34008
Lowest (03 Mar 2009) 0.99950

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.

▸ Performance chart

PRULink Asian Local Bond Fund

2018 was a challenging year for Asian domestic bond markets as government bond yields rose, while Asian currencies weakened against the US dollar (USD). Over the year, the custom Markit iBoxx Asian Local Bond index declined by 1.50% in USD.

Global interest rates generally rose during the year as major central banks continued to normalize monetary policies. Against this backdrop, government bond yields in most Asian markets generally tracked the US Treasury yields higher. The Indonesian and Philippine bond and currency markets emerged as the key underperformers. Significant yield increases were seen in these two markets, where the central banks raised policy rates significantly by 175 bps during the year. In Indonesia, the aggressive rate hikes were implemented to mitigate sustained weakness in the Indonesian rupiah, while the more hawkish monetary policy stance in the Philippines was also targeted at reining in the elevated inflationary pressures. China and Korean government bond yields, however, bucked the trend as softer domestic growth conditions there resulted in more dovish monetary policy expectation.

On the currency front, Asian currencies weakened against the US dollar amid continued monetary policy tightening by the US Fed and weaker investor sentiment towards Emerging Markets. Asian currencies in countries with higher external vulnerabilities were hit hardest as the tighter liquidity concerns raised concerns over the countries' ability to meet their external liabilities. This resulted in the underperformance of Indonesian rupiah, Indian rupee, as well as the Philippine peso. The Thai baht was the only exception as it appreciated by 0.8%, supported by its strong current account surplus position.

The Fund benefitted from its active duration positioning through HKD bonds and US interest rate futures. The Fund's initial duration underweight bias there and the subsequent shift to duration overweight contributed positively to relative returns. The Fund's underweight in the Korean won was another key positive contributor as the currency was weighed down by trade concerns. However, the gains were negated by the Fund's overweight in Indonesian rupiah, Indian rupee and the Chinese renminbi. The overweight in corporate bonds was also negative for relative performance as spreads widened amid an overall cautious risk environment.

The Manager expects the investment environment to remain volatile in early 2019, as investors struggle with an uncertain economic outlook. However, benign inflation rate, coupled with more benign Fed policy path, is expected to keep a lid on Asian interest rates and provide room for more accommodative monetary policy stance. In this environment, the Manager maintains moderate duration overweight and will look to increase risk exposure in currencies and credit on opportunity.

Asset allocation

75.9%
Treasury

4.7%
Foreign agencies

4.1%
Other financial institutions

3.2%
Other Real estate investment trusts (REIT)

1.9%
Banking

1.6%
Home construction

1.3%
Other industry

0.8%
Wireless

0.6%
Food and Beverage

5.9%
Cash and others

Performance

-3.57%
Actual year-on-year

0.16%
Since inception
(per annum)

USD 1.01100
Unit price
as of Jan 2, 2019

Top five holdings

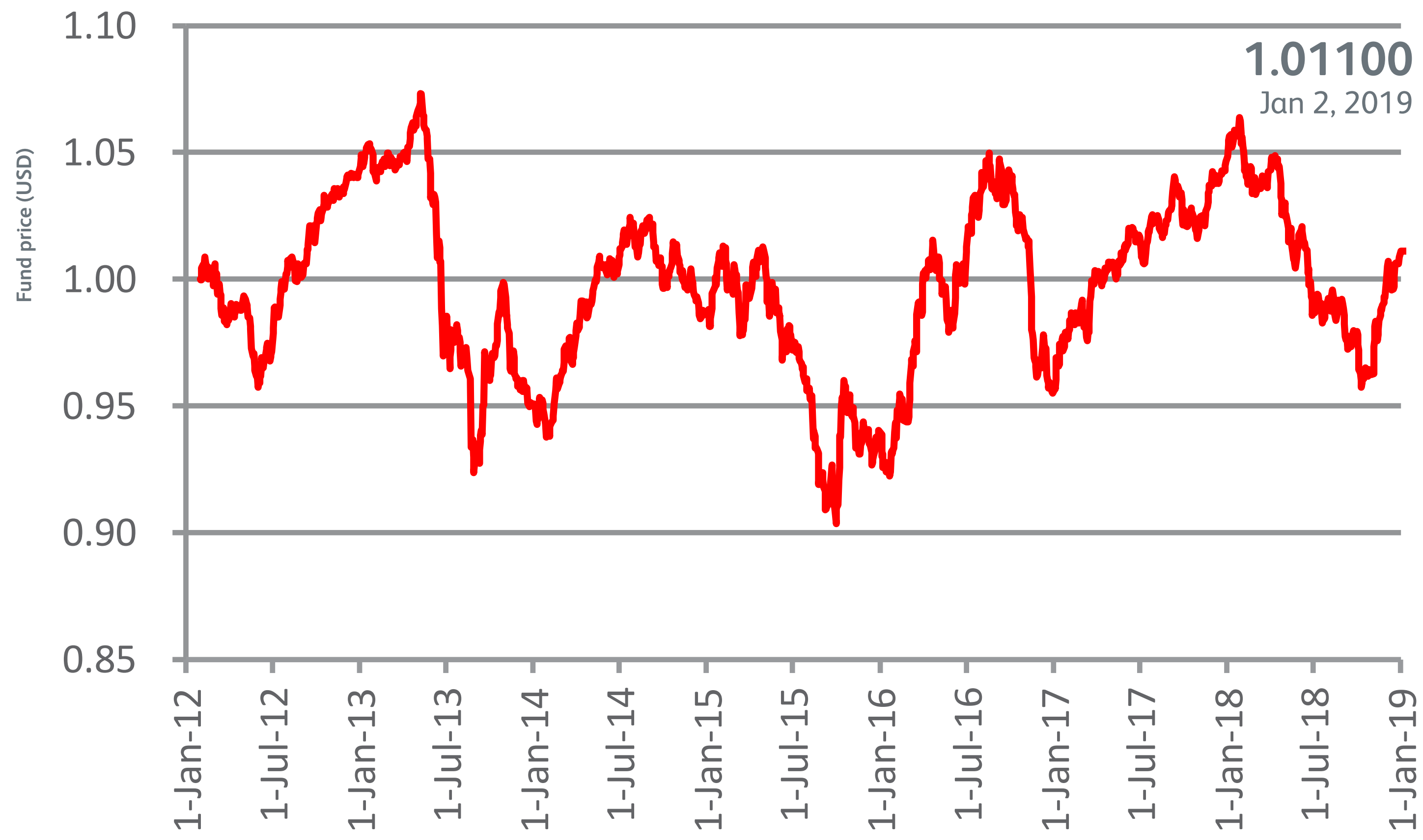
Korea (Republic of) 2.125% 06/10/2027	1.5%
Indonesia (Republic of) 5.625% 05/15/2023	1.5%
India (Republic of) 7.17% 01/08/2028	1.2%
India (Republic of) 7.16% 05/20/2023	1.1%
Indonesia (Republic of) 6.125% 05/15/2028	1.1%

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 (28 Jan 12) 1.00000
Highest (09 May 2013) 1.07329
Lowest (30 Sep 2015) 0.90362

Performance chart



Fund performance review

PRULink Asia Pacific Equity Fund

Asian markets were weak, led by China and countries sensitive to international trade, notably South Korea. The persistent concerns around the US-China trade conflict, and worries about its impact on global economic growth dragged on investor sentiment. Weakening Chinese economic growth figures further troubled investors, and seemingly confirmed growth fears towards the end of the period.

Southeast Asia outperformed the northern Asia markets in part because of its lack of exposure to the technology sector, and partly because of central bank moves to counter both inflationary pressures and related currency depreciation. The Philippines remained a worry to investors and ended the year 16.1% lower as the central bank dithered on policy but elsewhere Indonesia saw its market stabilize after a run on its currency provoked a 1.75% rate hike from its central bank over the year. Thailand's 5.3% fall proved to be the best index return in Asia reflecting the country's lack of technology exposure and further evidence of economic stability.

From a Fund perspective, stock selection in Utilities and Healthcare contributed to performance while stock selection in Industrials and Consumer Goods dragged on performance. Among countries, stock selection in China and South Korea helped performance while picks in Taiwan and India detracted from performance.

▸ Asset allocation

31.6% Financials
19.1% Information technology
8.2% Communication services
7.6% Consumer discretionary
7.5% Industrials
7.1% Real estate
5.5% Materials
5.5% Energy
2.8% Consumer staples
1.5% Utilities
3.6% Cash and others

▸ Performance

-17.45%
Actual year-on-year

-0.93%
Since inception
(per annum)

USD 0.94698
Unit price
as of Jan 2, 2019

▸ Top five holdings

Taiwan Semiconductor Manufacturing CO. LTD.	5.2%
Tencent Holdings LTD.	4.4%
Samsung Electronics LTD.	4.2%
China Construction Bank CORP. H.	4.2%
Infosys LTD.	3.2%

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 (29 Jan 18) 1.24563
Lowest (22 Jan 2016) 0.69551

▸ Performance chart

PRULink Global Emerging Markets Dynamic Fund

Emerging Markets followed their Developed Markets counterparts in January 2018 and ended 8.3% higher. But from then on, every month was negative, apart from two small bumps higher in July and November. By year end., the MSCI Emerging Markets index ended 14.2% lower against a Developed Markets index down 8.2%.

Regionally, Latin America (-6.2%) outperformed other Emerging Markets while the EMEA region was dogged by performances in Turkey and Russia, with both seeing severe currency depreciations. The MSCI EMEA index fell 15.6%.

Asia also had a weak year with the MSCI Asia Pac ex Japan 13.7% down for the year. Almost all asset classes in the region – except for Asia ex Japan REITS – fell. The market drivers here were like other Emerging Markets with an appreciating US dollar pushing many Asia currencies lower, particularly in economies with "twin deficits". Index heavyweights China and Korea led the way down with losses of 18.7% and 20.5% respectively as technology stocks in both markets fell sharply, then the accelerating trade war between the US and China began pressuring broader parts of the Chinese economy.

China started the year as it left 2017 and had a very strong January, propelled by news that the country had scrapped term limits for its president, almost guaranteeing President Xi would remain in power. But as the trade-dispute rhetoric descended into actual tariffs in March and April, the stock market turned south with the PBOC reversing its tightening course and loosening policy instead. This offered some support for the market but in a pattern repeated many times during the year, the PBOC support led to a brief rally, only for this to be more than countered by a disappointing turn of events in the trade dispute.

The export-heavy Korean market was dragged into this quagmire with its exports to China affected by the slowdown in growth there and its technology sector pressured by weakness in the chip sub-sector and a notable slowdown in earnings growth countrywide. A 25bps rate hike in November didn't help matters while a general rapprochement with the North offered only sentimental support for the equity market. Another Asian market dominated by technology, Taiwan, also saw a weak year but with a loss of just 8.2%, it outperformed its north Asian neighbours. A slowdown in Apple iPhone sales and a declining chip-making sector as cryptocurrencies collapsed were the main reasons for the selloff here but three strong months in the summer offset some of the losses, while the economy was less affected by the US-imposed export tariffs.

Southeast Asia outperformed the northern Asia markets in part because of its lack of exposure to the technology sector, and partly because of central bank moves to counter both inflationary pressures and related currency depreciation. The Philippines remained a worry to investors and ended the year 16.1% lower as the central bank dithered on policy but elsewhere Indonesia saw its market stabilise after a run on its currency provoked a 1.75% rate hike from its central bank over the year

Malaysia was another market that outperformed with a 6.0% drop for the 12 months, but it was a year of political change for the country rather than market performance that dominated the headlines. In May, former President Mahathir Mohamad was unexpectedly re-elected, defeating incumbent Najib Razak, and he soon set to work re-opening an investigation into the 1MDB scandal and securing a pardon for aspiring leader Anwar Ibrahim.

India also saw an outperformance relative to other Emerging Markets albeit with a 7.3% loss in dollar terms, but here the depreciation of the rupee was largely to blame as the local-currency denominated indices performed notably better. Markets broadly brushed off political challenges including a division between the central bank governor and the prime minister which resulted in the former unexpectedly resigning in December. Earlier, a large-scale fraud in its banking sector damaged foreign investor sentiment and then a default by one of the country's non-banking financial companies also weighed.

From a Fund perspective, being underweight China, and in particular the large IT/Communication Services stocks that dominated that market's performance in 2017, contributed to the Fund's return this year, reversing 2018 pattern. An underweight position in India helped as that market struggled with returns and overweight positions in Brazil, Mexico and the Philippines benefitted the Fund. On the downside, being overweight in Korea (a slowing Chinese economy) and Russia (a weakening oil price in the fourth quarter, and weakness in consumer names) detracted.

► Asset allocation

27.6% Financials
19.8% Information technology
11.0% Industrials
8.6% Consumer discretionary
8.5% Consumer staples
7.8% Communication services
7.1% Energy
3.0% Materials
2.8% Utilities
1.7% Real estate
2.1% Cash and others

► Performance

-14.09%
Actual year-on-year

-0.54%
Since inception
(per annum)

USD 0.97451
Unit price
as of Jan 2, 2019

► Top five holdings

Taiwan Semiconductor Manufacturing CO. LTD.	5.6%
Samsung Electronics LTD.	4.8%
China Construction Bank CORP-H	4.0%
Naspers LTD.	3.4%
Infosys ADR.	3.2%

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 (29 Jan 18) 1.24055
Lowest (22 Jan 2016) 0.63696

► Performance chart

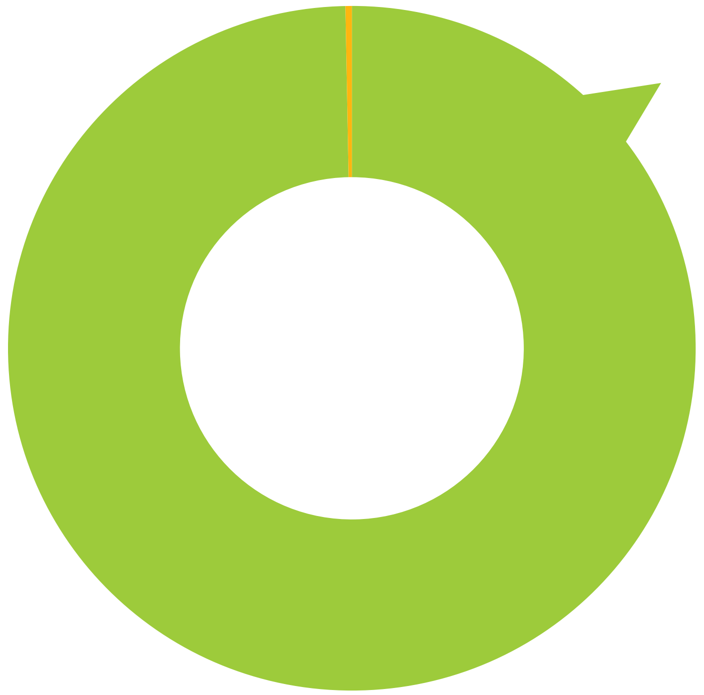
PRULink Cash Flow Fund

The asset allocation added to the gains of the fund, though the underlying stock selection within both the US High Yield and Asian Bond portfolios was negative and was the key drag on relative returns.

Performance during 2018 had benefited from the Fund's bias towards risk assets (US High Yield Bonds, as well as a small overweight in equities), while the Fund held an underweight to Asian bonds. The latter's positioning also reflected the decision to avoid Asia amid the ongoing US-China trade war rhetoric. Outperformance of the US faded going into the final quarter of the year, however, with the sharp sell-off in December seeing US equities record the worst December returns since the since the Great Depression of 1931. In hindsight, the Manager had closed the equities overweight earlier in the quarter, although credit assets – in particular US High Yield bonds – sold off in line with equities, which was a drag on relative performance.

As at the end of 2018 the Manager has a neutral weighting to both US High Yield credit and Asian bonds.

▶ Asset allocation



99.7%
Bond

0.3%
Cash and others

▶ Performance

-8.17%
Actual year-on-year

-2.78%
Since inception
(per annum)

USD 0.89000
Unit price
as of Jan 2, 2019

▶ Top five holdings

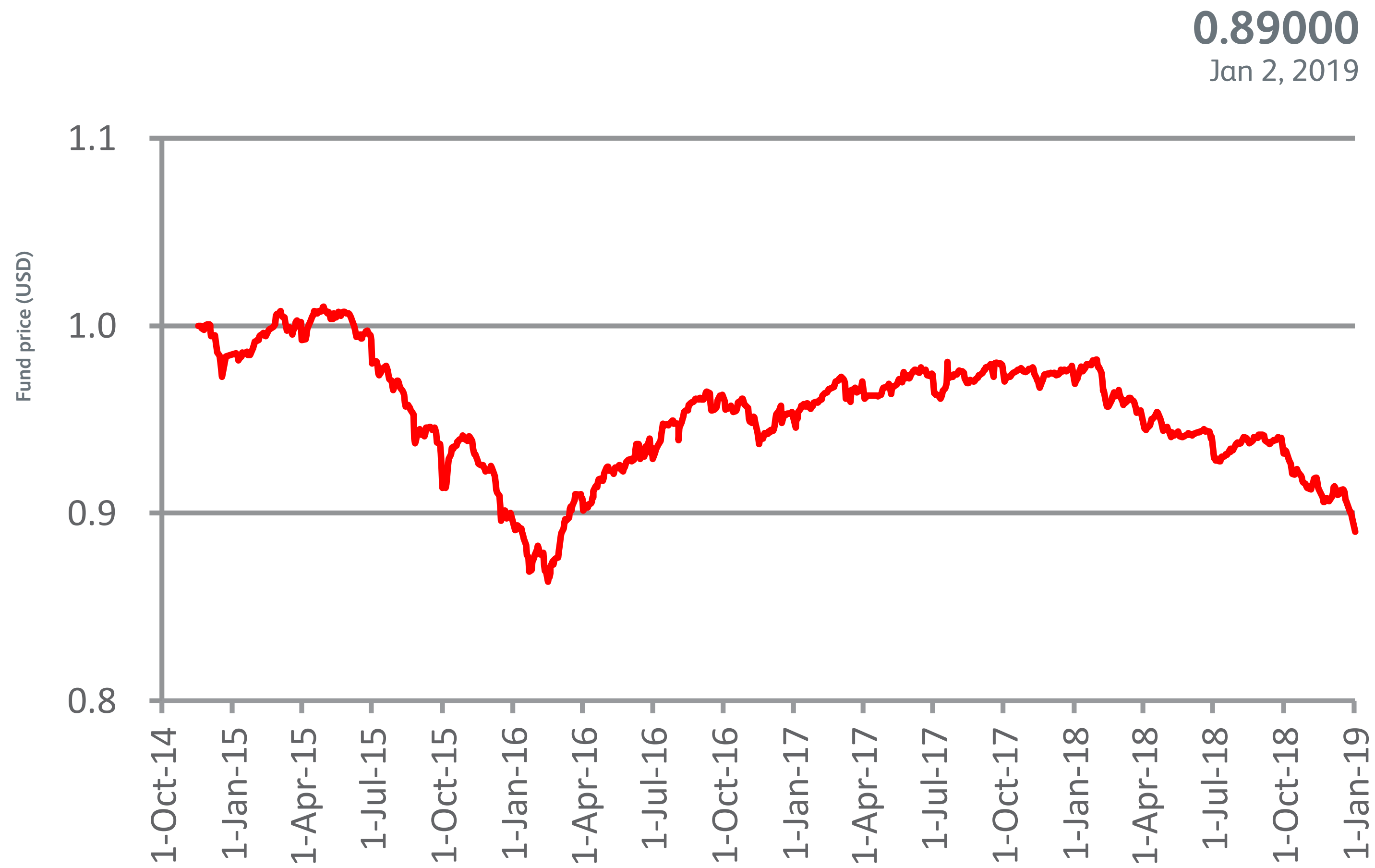
Eastspring Investments US High Yield Bond - D Class	49.9%
Eastspring Investments Asian Bond - D Class	49.8%
USD CASH (Alpha Committed)	0.3%

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

▶ Performance chart



PRULink Asian Balanced Fund

The fund benefited from the asset allocation by the Manager. However, the stock selection within the underlying portfolios (Asian bonds,
Asian local bonds, and Asia Pacific equities) was negative and was the key drag on relative returns.

Performance during 2018 benefited from the initial equity overweight, while the Manager reduced exposure to the asset class as the year progressed and held a broadly neutral position amid the ongoing US-China trade war rhetoric. This was beneficial for performance going into the end of the year particularly as equities sold off sharply in December. In addition, a bias towards USD-denominated Asian bonds relative to Asian local bonds supported performance, as the latter underperformed for much of the year due to the vulnerability of Emerging Markets local currencies to the ongoing US-China trade tensions. The Manager closed the overweight position towards the end of the period.

As at the end of 2018 the Manager has a broadly neutral weighting to Asian bonds, Asian local bonds, and Asia Pacific equities.

Asset allocation

50.0%
Bond

49.6%
Equity

0.4%
Cash and others

Performance

-10.01%
Actual year-on-year

-7.07%
Since inception
(per annum)

USD 0.91351
Unit price
as of Jan 2, 2019

Top five holdings

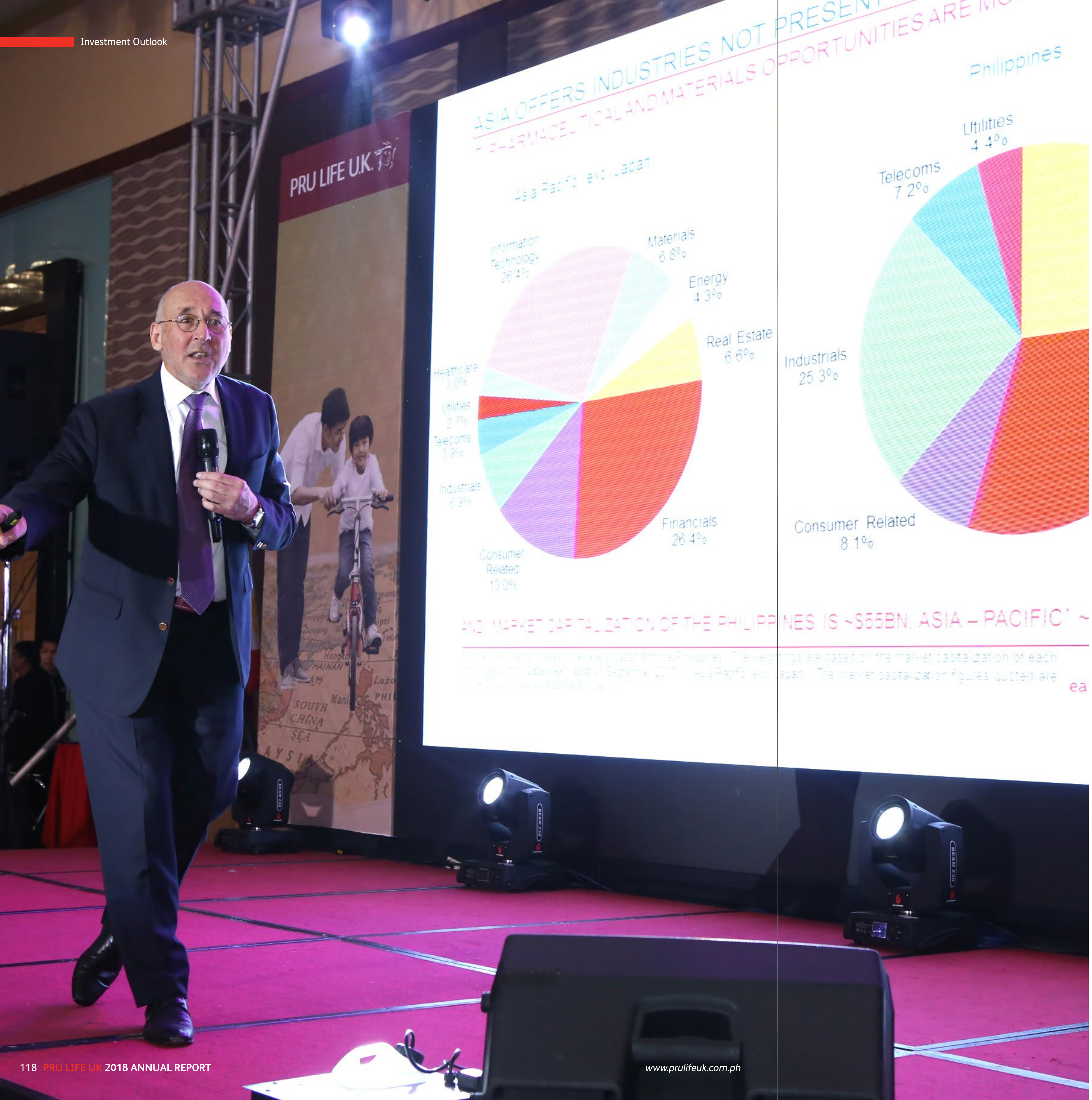
Eastspring Investments Asia Pacific Equity	49.6%
Eastspring Investments Asian Bond - D Class	25.2%
Eastspring Investments Asian Bond - D Class USD	24.8%
USD CASH (Alpha Committed)	0.4%

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 (29 Jan 18) 1.06900
Lowest (29 Oct 18) 0.89236

Performance chart



Investment outlook

Looking forward, from a global perspective, we have observed that global growth and earnings are still slowing, and the Fed has acknowledged the risks leading to a collapse in interest rate expectations for 2019, with no hikes now implied by the market. US-China trade tensions are also creating a difficult environment for risk assets globally, with financial conditions characterized by heightened global macro risks and growth concerns, increased monetary policy uncertainty and an uptick in volatility. This may be too benign as the underlying global economy still appears to be fundamentally sound even in Europe which has slowed the most recently.

Equities are rallying going into 2019 despite the cyclical weakness due to the decline in interest rate expectations. Investor sentiment has rebounded from excessively bearish levels back to neutral. In the short term, this may prove too optimistic if earnings forecasts keep falling and rate expectations move higher again.

In the context of the domestic market, it is unclear whether the Philippine equity market can deliver positive absolute returns purely due to an improved domestic inflation situation, while the global economy is fretting about the outlook for growth. It appears likely that inflation has peaked domestically, aided by base effects, a weaker oil price and a slightly stronger Peso. However, the central bank has become less hawkish of late, and left rates unchanged in December, so the rate cycle may be close to peaking. If inflation fails to fall back quickly, this may be a cause of concern on the equity market. Inflation's downward trajectory in 2019 could be tempered by the delayed fuel duty increase that took effect in January.

The Manager, as at the end of 2018, is neutrally positioned equities, against a highly uncertain global backdrop.

Fund managers' profile

Fund managers' profile

Low Guan Yi

Chartered Financial Analyst
Chief Investment Officer –
Fixed Income

Guan Yi is the portfolio manager of PRULink Asian Local Bond Fund. She joined Eastspring Investments, the Asian asset management business of Prudential plc, in August 2007. As CIO of the Fixed Income team, Guan Yi is responsible for overseeing the management of the firm's fixed income strategies. She is also the lead portfolio manager for Eastspring's Asian local currency and total return bond funds.

Prior to joining Eastspring Investments, Guan Yi managed Asian local currency and credit portfolios at Bank Pictet et Cie Asia Ltd, Fullerton Fund Management Company, and Standard Chartered Bank Singapore. Guan Yi has 21 years of investment experience.

Guan Yi is a CFA charterholder and holds a Bachelor of Business degree from Nanyang Technological University, Singapore.

Danny Tan

Chartered Financial Analyst
Investment Director –
Fixed Income

Danny is the lead portfolio manager of PRULink US Dollar Bond Fund and PRULink Bond Fund. He joined Eastspring Investments in February 2004. Danny is responsible for managing and overseeing portfolios of our insurance clients, as well as credit-focused portfolios.

Before joining the Fixed Income team in 2010, Danny worked as a portfolio manager and analyst in various investment teams within Eastspring, where he has built up an extensive investment and research experience in a wide range of asset classes, including fixed income, structured credits and equities. Prior to joining Eastspring Investments, Danny was an investment analyst with Tecity Management, covering equity and fixed income research. In all, he has more than 18 years of investment experience.

Danny is a CFA charterholder and holds a Bachelor of Business degree in Financial Analysis (Hons) from Nanyang Technological University, Singapore

Kenneth Lee

Chartered Financial Analyst
Senior Executive –
Fixed Income

Kenneth is the joint Portfolio Manager of PRULink US Dollar Bond Fund and PRULink Bond Fund. Kenneth joined Eastspring Investments in January 2015. He is currently responsible for the management of Thai and Philippine local currency fixed income funds.

Prior to joining Eastspring Investments, Kenneth worked with Phillip Securities Private Limited as an investment analyst. He was responsible for supporting portfolio managers of discretionary and separately-managed accounts, with a focus on Southeast Asian equity markets. Kenneth has over five years of investment experience.

Kenneth is a CFA charterholder and holds a Bachelor of Engineering (Chemical Engineering) degree and a Bachelor of Business Administration (Finance) degree from National University of Singapore.

David Hollis

Investment Director –
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 David. He joined Eastspring Investments in January 2018.

David is part of the Global Asset Allocation (GAA) team and is responsible for the investment strategy, tactical asset allocation and performance of several global multi-asset funds.

Together with the rest of the GAA team, David provides advice on strategic asset allocation, advisory and liability management of the Group's life insurance assets in Asia.

Prior to joining Eastspring Investments, David worked for 17 years at Allianz Global Investors (formerly Dresdner RCM) in London. For the last 10 years he was responsible for the management, performance and advisory of the global multi-asset funds in the UK, prior to this he worked in various roles within the global fixed income team at Dresdner RCM in London.

David has over 19 years of experience in a plethora of asset classes, having successfully combined a profound understanding of asset markets with active portfolio management for many years.

David holds a Bachelor of Science (First Class Hons) in Economics degree from The London School of Economics (1998).

Andrew Cormie

Chartered Financial Analyst
Portfolio Manager –
Equity

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 GEM 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 its 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 37 years of investment experience.

Andrew is a CFA charterholder and holds a bachelor degree 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 lead manager of the PRULink Equity Fund. Wing Kin is the team leader of the ASEAN Equity focus team. He joined Eastspring Investments in 1999. Wing Kin is also the lead manager for the Indonesian and Philippine equity strategies and co-manages the Singapore-ASEAN strategy.

Previously, Wing Kin was an investment analyst at The Insurance Corporation of Singapore. In all, Wing Kin has over 23 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

During the Annual Shareholders' Meeting of Pru Life Insurance Corporation of U.K. ("Pru Life UK") held on 21 June 2018, the following were elected as members of the Board of Directors for the year 2018 to 2019 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:** 59 years old
- **Date of first appointment:**
  17 June 2010 as Board Member
  23 August 2012 as Chairman of the Board
- **Length of service:** 8 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 Science 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:** 55 years old
- **Date of first appointment:**
  5 June 2008
- **Length of service:** 10 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 Corporate Development 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 Chief Risk Officer, Director of Tax & Compliance and Corporate Affairs Director, among others.

3. Teoh Kwui Ying
*Non-executive Board Member***

- **Age:** 47 years old
- **Date of first appointment:**
  24 August 2017
- **Length of service:** 1 year
- **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.

- **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., 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.

4. Antonio Manuel “Jumbing” G. De Rosas

Executive Board Member

- **Age:** 54 years old
- **Date of first appointment:**
  26 August 2010
- **Length of service:** 8 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 is a Certified Information Systems Auditor.

- **Relevant experience:**
  Jumbing joined Pru Life UK in 2007 as Senior Vice President 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.

5. Cesar P. Manalaysay

Independent Board Member

Age: 70 years old
Date of first appointment:
2 August 2006
Length of service: 12 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, the 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.

6. Jose “BoyF” A. Feria, Jr.

Non-executive Board Member

Age: 70 years old
Date of first appointment:
17 January 1996 to December 1997;
re-appointed in July 2003
Length of service: 17 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.

7. Romerico “Romy” S. Serrano

Independent Board Member

- **Age:** 68 years old
- **Date of first appointment:**
  2 August 2006
- **Length of service:** 12 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 2018, the directors attended the following training and continuing education programs:

Director	Training and continuing education programme attended
1. Henry Joseph M. Herrera	Board Education Session held on 30 August 2018 where the following topics were presented: - Updates on Prudential - Historical annual premium equivalent and the growth rate of the local business units of Prudential Corporation Asia - Updates on Pru Life UK's Agency Division
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	

Stephen Paul Bickell also attended the following training and continuing education program:

Date	Training and continuing education programme attended
30 January2018	Enforcement trends and individual accountability by Clifford Chance, held in Hong Kong
6-8 February 2018	Compliance Conference by Prudential Corporation Asia, held in Bangkok
12 March 2018	Independent Non-Executive Directors Forum by KPMG, held in Hong Kong
18 September 2018	PCAL Independent Non-Executive Directors Training Session (including updates on Solvency II internal model and IFRS17) by PCA, held in Hong Kong
30-31 October 2018	Government Relations Conference by PCA, held in Singapore
20 November 2018	PCAL Independent Non-Executive Directors Training Session (including updates on financial crimes prevention, competition law, insider information policies) by PCA, held in Hong Kong

III. Board meetings

For the year 2018, the Board of Directors of Pru Life UK held eight (8) meetings. Below are the details of the attendance of the directors in said meetings:

Date and type of board meeting	Directors present in the board meeting	Directors absent in the board meeting
1. Special meeting of the Board of Directors held on 10 January 2018	Antonio Manuel G. De Rosas Stephen Paul Bickell Teoh Kwui Ying Romerico S. Serrano Cesar P. Manalaysay	Henry Joseph M. Herrera Jose A. Feria, Jr.
2. Special meeting of the Board of Directors held on 14 February 2018	Henry Joseph M. Herrera Antonio Manuel G. De Rosas Cesar P. Manalaysay Romerico S. Serrano Jose A. Feria, Jr.	Stephen Paul Bickell Teoh Kwui Ying
3. Regular meeting of the Board of Directors held on 22 March 2018	Henry Joseph M. Herrera Antonio Manuel G. De Rosas Stephen Paul Bickell Romerico S. Serrano Cesar P. Manalaysay Jose A. Feria, Jr.	Teoh Kwui Ying
4. Organizational meeting of the Board of Directors held on 21 June 2018	Henry Joseph M. Herrera Antonio Manuel G. De Rosas Stephen Paul Bickell Teoh Kwui Ying Cesar P. Manalaysay Romerico S. Serrano Jose A. Feria, Jr.	None
5. Special meeting of the Board of Directors held on 29 June 2018	Henry Joseph M. Herrera Antonio Manuel G. De Rosas Stephen Paul Bickell Teoh Kwui Ying Romerico S. Serrano Jose A. Feria, Jr.	Cesar P. Manalaysay
6. Regular meeting of the Board of Directors held on 30 August 2018	Henry Joseph M. Herrera Antonio Manuel G. De Rosas Jose A. Feria, Jr. Cesar P. Manalaysay Romerico S. Serrano Stephen Paul Bickell Teoh Kwui Ying	None
7. Special meeting of the Board of Directors held on 8 October 2018	Henry Joseph M. Herrera Antonio Manuel G. De Rosas Stephen Paul Bickell Teoh Kwui Ying Jose A. Feria, Jr. Cesar P. Manalaysay Romerico S. Serrano	None
8. Regular Meeting of the Board of Directors held on 22 November 2018	Henry Joseph M. Herrera Antonio Manuel G. De Rosas Stephen Paul Bickell Teoh Kwui Ying Jose A. Feria, Jr. Cesar P. Manalaysay Romerico S. Serrano	None

Board Member	Percentage of attendance•••
Henry Joseph M. Herrera	87.5%
Stephen Paul Bickell	87.5%
Teoh Kwui Ying	75%
Antonio Manuel G. De Rosas	100%
Cesar P. Manalaysay	87.5%
Romerico S. Serrano	100%
Jose A. Feria, Jr.	87.5%

IV. The Nomination Committee

During the Organizational Board of Directors' meeting held on 21 June 2018, the following were elected as members of the Nomination Committee for the year 2018 and 2019 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 2018, the Nomination Committee of Pru Life UK held two (2) meetings. Below are the attendance details of each of its members in 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 22 March 2018	Cesar P Manalaysay Romerico S. Serrano Henry Joseph M. Herrera	None
2.	Regular meeting held on 22 November 2018	Cesar P Manalaysay Romerico S. Serrano Henry Joseph M. Herrera	None

Nomination Committee member	Percentage of attendance
Cesar P. Manalaysay	100%
Romerico S. Serrano	100%
Henry Joseph M. Herrera	100%

V. The Remuneration Committee

During the Organizational Board of Directors' meeting held on 21 June 2018, the following were elected as members of the Remuneration Committee for the year 2018 and 2019 and until their successors shall have been duly elected and qualified:

Romerico S. Serrano – Independent Chairman
Teoh Kwui Ying – Non-executive Member
Henry Joseph M. Herrera – Independent Member

For the year 2018, the Remuneration Committee of Pru Life UK held two (2) meetings. Below are the attendance details of each of its members in 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
3.	Regular meeting held on 22 March 2018	Romerico S. Serrano Henry Joseph M. Herrera	Teoh Kwui Ying
4.	Regular meeting held on 22 November 2018	Romerico S. Serrano Teoh Kwui Ying Henry Joseph M. Herrera	None

Remuneration Committee member	Percentage of attendance
Romerico S. Serrano	100%
Teoh Kwui Ying	50%
Henry Joseph M. Herrera	100%

VI. The Audit Committee

During the Organizational Board of Directors' Meeting held on 21 June 2018, the following were elected as members of the Audit Committee for the year 2018 to 2019 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 Science 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 former president of the Actuarial Society of the Philippines and a member of the International Actuarial Association. He is also a former 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 Corporate Development 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 Chief Risk Officer, Director of Tax & Compliance and Corporate Affairs Director, among others.

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 2018, 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 22 March 2018	Henry Joseph M. Herrera Stephen Paul Bickell Cesar P. Manalaysay Romerico S. Serrano	None
2.	Regular meeting of the Audit Committee held on 21 June 2018	Henry Joseph M. Herrera Stephen Paul Bickell Cesar P. Manalaysay Romerico S. Serrano	None
3.	Regular meeting of the Audit Committee held on 30 August 2018	Henry Joseph M. Herrera Stephen Paul Bickell Cesar P. Manalaysay Romerico S. Serrano	None
4.	Regular meeting of the Audit Committee held on 22 November 2018	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	100%
Cesar P. Manalaysay	100%
Romerico S. Serrano	100%

VII. Year 2018 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 2018, the Annual Performance Assessment Form was distributed to the directors after the Regular Meeting of the Board of Directors on 22 November 2018. The Corporate Secretary received the duly accomplished forms before the Board and Board Committee meetings held on 14 March 2019. The results of the performance assessments were tallied and summarized by the Corporate Secretary and reported to and discussed by the Board and the Nomination Committee during the Board and Nomination Committee meetings held on 14 March 2019. Recommendations and action items based on the results of the performance assessments were likewise discussed during said meetings.

VIII. External auditor

In the Audit Committee meeting of Pru Life UK held on 21 June 2018, 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 2018. In the Annual Meeting of the Shareholders of Pru Life UK held on 21 June 2018, R.G. Manabat & Co. was appointed as the external auditor for the audit year 2018. 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 2018, Pru Life UK paid R.G. Manabat & Co. a total of one million eight hundred sixty-one thousand four hundred six pesos (PhP 1,861,406) 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 2018.

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 2018, the Company declared and paid cash dividends of one billion one hundred seventy-six million four hundred seventy thousand five hundred eighty-eight pesos and 24/100 (PhP 1,176,470,588.24) inclusive of final tax.

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 2018, 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 2018 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 2018 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 & 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 (Henry Joseph M. Herrera, Cesar P. Manalaysay, Jose A. Feria, Jr., and Romerico S. Serrano) receive fixed directors' fees for every 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 (Stephen Paul Bickell and Teoh Kwui Ying) do not receive any remuneration for their directorship in Pru Life UK. The executive director of Pru Life UK (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 2018:

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
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, 2018 (amounts in PhP millions) :

Related Party	Nature	Transaction amount	Balance (as of Dec 31, 2018	Terms
Eastspring Investment (Singapore) Limited	Management fees for fund management and Investment marketing services	285	69	30 days upon billing
Prudential Services Asia	Cost of production application systems and infrastructure support	199	148	30 days upon billing
Prudential Holdings Limited (PHL)	Cost of expenses for international sales conventions and other expenses advanced by PHL	137	27	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
Pru Life UK Asset Management and Trust Corporation (PAMTC)	Allocation of shared expenses such as rent-als, utilities and others. This is a receivable from PAMTC	18	18	30 days upon billing
	Aggregate	639	262	

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 VP, Risk and VP, Compliance Officer directly reporting to Pru Life UK's Chief Executive Officer (CEO) with dotted reporting line to the Prudential Corporation Asia CRO and PCA Chief Compliance Officer. 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 VP, Risk and VP, Compliance Officer, 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 Executive Risk Committee are required to be escalated to the Board Risk Committee, the Audit Committee and an appropriate Regional Head Office Risk forum. The VP, Risk 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 VP, Risk and the risk management function are subjected to the oversight and evaluation of the Board and the Regional Head Office.

The Risk Appetite and Limits 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 andnon-financial stresses on earnings volatility, liquidity, and capital requirements, as well as limits on 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 (Executive Risk & Board Risk Committees, PCA Risk reporting), and Risk Management and Control (including Risk Appetite and limits, Large Risk Approval Process, Scenario 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 set in 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 insurance management operations include investments made to support 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 administering 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, regular experience monitoring and deep-dive reviews.

Risks from business operations could arise from the failure to comply with the ever-evolving regulatory and legislative requirements, mis-selling, failure to manage the third-party providers, unresponsive IT infrastructure, inadequate Information Security, risk on Data Privacy, Transformation and Implementation risk of strategic initiatives, 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 Customer Marketing Officer

Allan Tumbaga has experience in both local and international banks, particularly in corporate communications, product management, and brand management. He joined Pru Life UK as Chief Marketing Officer in 2017. And in 2019 assumed the post of Chief Customer Marketing Officer due to the Company's focus on Customer Experience.

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 and was appointed Senior Vice President and Chief Human Resources Officer in 2010. 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.

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.

In November 2012, he assumed the concurrent position of 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 in a span of seven months.

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 and
Chief 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

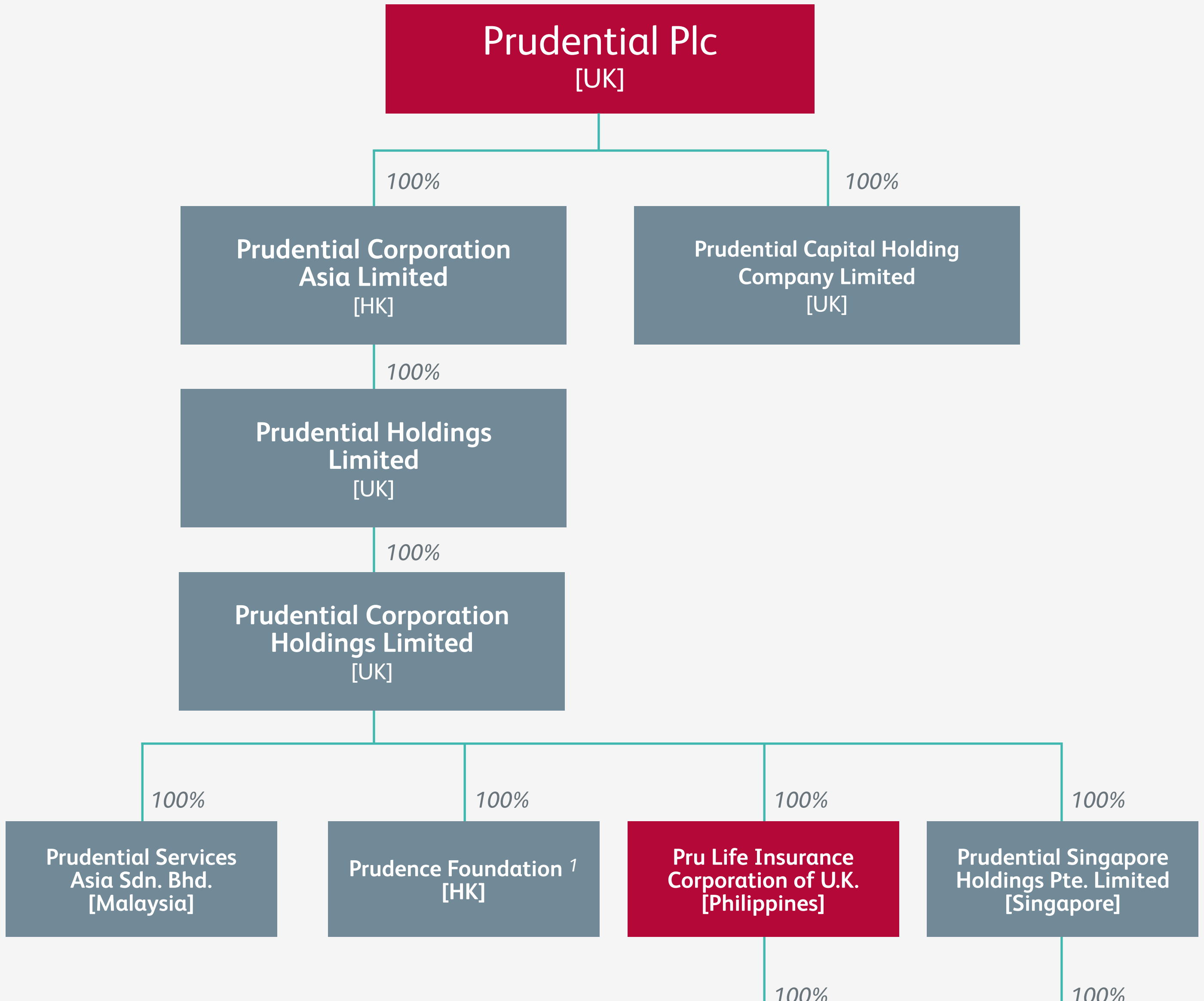
VELASQUEZ, Rina Isabel
Vice President -
Risk and Compliance

As at 31 December 2018

Shareholding structure and group corporate structure

Position as at 31 December2018

Holding structure for Pru Life Insurance Corporation of U.K. and its related parties



Notes:
1. Prudence Foundation, a company limited by guarantee and not having share capital
2. Countries of incorporation of each company are being indicated in square brackets above

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).

www.prulifeuk.com.ph

Pru Life UK - Official

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