Manulife Asset Management and Trust Corporation

[A Wholly-Owned Subsidiary of The Manufacturers Life Insurance Co. (Phils.), Inc.]

Financial Statements
December 31, 2018 and 2017

and

Independent Auditor's Report

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Manulife Asset Management and Trust Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Manulife Asset Management and Trust Corporation (the Company), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended December 31, 2018 and for the period February 1, 2017 to December 31, 2017, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the year ended December 31, 2018 and for the period February 1, 2017 to December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

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

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

The supplementary information required under Revenue Regulations 15-2010 for purposes of filing with the Bureau of Internal Revenue is presented by the management of Manulife Asset Management and Trust Corporation in a separate schedule. Revenue Regulations 15-2010 require the information to be presented in the notes to financial statements. Such information is not a required part of the basic financial statements. The information is also not required by Securities Regulation Code Rule 68. Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

SYCIP GORRES VELAYO & CO.

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November 13, 2018, valid until November 12, 2021
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February 26, 2018, valid until February 25, 2021
PTR No. 7332515, January 3, 2019, Makati City

April 4, 2019

MANULIFE ASSET MANAGEMENT AND TRUST CORPORATION
[A Wholly-Owned Subsidiary of The Manufacturers Life Insurance Co. (Phils.), Inc.]

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱173,120,596**	₱103,029,112
Due from related parties (Notes 16 and 18)	**36,832,024**	54,124,482
Receivables (Note 6)	**2,438,719**	693,114
Other current assets (Note 7)	**19,484,738**	2,256,390
Total Current Assets	**231,876,077**	160,103,098
Noncurrent Assets		
Financial assets at fair value through other comprehensive income (Note 8)	**118,760,465**	–
Available-for-sale financial assets (Note 8)	–	110,643,828
Property and equipment (Note 9)	**1,827,779**	388,986
Software costs (Note 10)	**6,710,253**	9,150,333
Deferred tax assets (Note 17)	**1,202,042**	833,553
Total Noncurrent Assets	**128,500,539**	121,016,700
TOTAL ASSETS	**₱360,376,616**	₱281,119,798
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 11)	**₱23,939,332**	19,463,802
Due to related parties (Note 18)	**58,653,420**	34,981,053
Income tax payable	–	7,896,919
Other liabilities (Note 12)	**12,002,468**	1,040,140
Total Current Liabilities	**94,595,220**	63,381,914
Noncurrent Liabilities		
Pension liability (Note 16)	**1,594,087**	2,778,509
	96,189,307	66,160,423
Equity		
Capital (Note 12)	**200,000,000**	200,000,000
Retained earnings	**67,659,302**	15,296,342
Remeasurement gain (loss) on pension plan (Note 16)	**613,881**	(550,555)
Unrealized loss on financial assets at fair value through other comprehensive income (Note 8)	**(4,085,874)**	–
Unrealized gain on available-for-sale financial assets (Note 8)	–	213,588
Total Equity	**264,187,309**	214,959,375
TOTAL LIABILITIES AND EQUITY	**₱360,376,616**	₱281,119,798

See accompanying Notes to Financial Statements.

MANULIFE ASSET MANAGEMENT AND TRUST CORPORATION
[A Wholly-Owned Subsidiary of The Manufacturers Life Insurance Co. (Phils.), Inc.]

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
AND FOR THE PERIOD FEBRUARY 1, 2017 TO DECEMBER 31, 2017*

	2018	2017
REVENUE		
Trust fees (Note 14)	**₱269,343,175**	₱75,600,948
Interest (Notes 5 and 8)	**6,567,966**	941,882
Foreign currency exchange gains (losses) – net	**(118,040)**	40,111
	275,793,101	76,582,941
EXPENSES		
Compensation and employee benefits (Note 15)	**68,042,582**	24,489,581
Service fees (Note 18)	**32,507,375**	1,176,594
Information technology	**28,003,439**	6,487,018
Taxes and licenses	**19,954,794**	982,397
Finance charges	**9,233,021**	33,853
License fees	**7,925,397**	3,207,532
Commission	**7,760,535**	733,273
Advertising and promotion	**7,025,376**	5,676,817
Professional fees	**3,162,142**	821,355
Depreciation and amortization (Notes 9 and 10)	**2,824,210**	610,020
Utilities	**2,427,415**	453,604
Entertainment, amusement and recreation	**1,103,156**	770,259
Others	**8,446,278**	900,245
	198,415,720	46,342,548
INCOME BEFORE INCOME TAX	**77,377,381**	30,240,393
PROVISION FOR INCOME TAX (Note 17)	**25,014,421**	12,327,541
NET INCOME	**52,362,960**	17,912,852
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may be reclassified to the statements of income in subsequent periods:		
Net change in fair value of financial assets at fair value through other comprehensive income (Note 8)	**(5,023,278)**	–
Income tax effect on net changes in fair value of financial assets at fair value through other comprehensive income (Note 17)	**723,816**	–
Net change in fair value of available-for-sale financial assets (Note 8)	**–**	213,588
Item that may not be reclassified to the statements of income in subsequent periods:		
Remeasurement gain (loss) on pension plan (Note 16)	**1,663,480**	(786,507)
Income tax effect on remeasurement gain (loss) on retirement plan (Note 17)	**(499,044)**	235,952
	(3,135,026)	(336,967)
TOTAL COMPREHENSIVE INCOME	**₱49,227,934**	₱17,575,885

**Manulife Asset Management and Trust Corporation was registered with the Securities and Exchange Commission on February 1, 2017.*

See accompanying Notes to Financial Statements.

MANULIFE ASSET MANAGEMENT AND TRUST CORPORATION
[A Wholly-Owned Subsidiary of The Manufacturers Life Insurance Co. (Phils.), Inc.]

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
AND FOR THE PERIOD FEBRUARY 1, 2017 TO DECEMBER 31, 2017*

	Capital Stock (Note 13)	Retained Earnings (Note 13)	Remeasurement Gain (Loss) on Pension Plan (Note 16)	Unrealized Loss on Financial Assets at FVOCI (Note 8)	Unrealized Gain on AFS Financial Assets (Note 8)	Total
As at January 1, 2018, as previously reported	**₱200,000,000**	**₱15,296,342**	**(₱550,555)**	**₱–**	**₱213,588**	**₱214,959,375**
Effect of the adoption of PFRS 9 (Note 2)	–	–	–	**213,588**	**(213,588)**	–
As at January 1, 2018, as restated	**200,000,000**	**15,296,342**	**(550,555)**	**213,588**	–	**214,959,375**
Net income	–	**52,362,960**	–	–	–	**52,362,960**
Other comprehensive income (loss)	–	–	**1,164,436**	**(4,299,462)**	–	**(3,135,026)**
Total comprehensive income (loss) for the year	–	**52,362,960**	**1,164,436**	**(4,299,462)**	–	**49,227,934**
As at December 31, 2018	**₱200,000,000**	**₱67,659,302**	**₱613,881**	**(₱4,085,874)**	–	**₱264,187,309**
As at February 1, 2017*	₱–	₱–	₱–	₱–	₱–	₱–
Issuance of capital stock	200,000,000	–	–	–	–	200,000,000
Cost of issuance of capital stock	–	(2,616,510)	–	–	–	(2,616,510)
Net income	–	17,912,852	–	–	–	17,912,852
Other comprehensive income (loss)	–	–	(550,555)	–	213,588	(336,967)
Total comprehensive income (loss) for the period	–	17,912,852	(550,555)	–	213,588	17,575,885
As at December 31, 2017	₱200,000,000	₱15,296,342	(₱550,555)	₱–	₱213,588	₱214,959,375

**Manulife Asset Management and Trust Corporation was registered with the Securities and Exchange Commission on February 1, 2017.*

See accompanying Notes to Financial Statements.

MANULIFE ASSET MANAGEMENT AND TRUST CORPORATION
[A Wholly-Owned Subsidiary of The Manufacturers Life Insurance Co. (Phils.), Inc.]

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
AND FOR THE PERIOD FEBRUARY 1, 2017 TO DECEMBER 31, 2017*

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱77,377,381**	₱30,240,393
Adjustments for:		
Interest income (Notes 5 and 8)	**(6,567,966)**	(941,882)
Depreciation and amortization (Note 9 and 10)	**2,824,210**	610,020
Operating income before changes in working capital	**73,633,625**	29,908,531
Changes in operating assets and liabilities:		
Decrease (Increase) in:		
Due from related parties	**17,292,458**	(52,335,283)
Receivables	**(1,436,414)**	(2,062,935)
Other assets	**(997,331)**	(333,680)
Increase in:		
Accounts payable and accrued expenses	**4,475,531**	19,463,802
Due to related parties	**23,672,367**	34,981,053
Pension liability	**479,058**	202,803
Other liabilities	**10,962,328**	1,040,140
Net cash from operations	**128,081,622**	30,864,431
Interest received	**4,410,501**	392,300
Income tax paid (including creditable withholding taxes)	**(49,286,075)**	(5,028,223)
Net cash generated from operating activities	**83,206,048**	26,228,508
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Financial assets at fair value through other comprehensive income (Note 8)	**(72,791,641)**	–
Property and equipment (Note 9)	**(1,822,923)**	(388,986)
Available-for-sale financial assets (Note 8)	**–**	(110,433,547)
Software costs (Note 10)	**–**	(9,760,353)
Proceeds from maturities of financial assets at fair value through other comprehensive income (Note 8)	**61,500,000**	–
Net cash used in investing activities	**(13,114,564)**	(120,582,886)
CASH FLOWS FROM FINANCING ACTIVITY		
Net proceeds from issuance of capital stock - net (Note 13)	**–**	197,383,490
NET INCREASE IN CASH AND CASH EQUIVALENTS	**70,091,484**	103,029,112
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**103,029,112**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱173,120,596**	₱103,029,112

**Manulife Asset Management and Trust Corporation was registered with the Securities and Exchange Commission on February 1, 2017.*

See accompanying Notes to Financial Statements.

1. Corporate Information

Manulife Asset Management and Trust Corporation (the Company or MAMTC) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on February 1, 2017 to engage in the business of trust, other fiduciary business and investment management activities. The Bangko Sentral ng Pilipinas (BSP) granted the Certificate of Authority on June 5, 2017 and the Company received the official notification to operate and perform trust and other fiduciary business services on June 13, 2017.

On September 12, 2017, MAMTC entered into the following agreements:
- Investment Advisory Agreements (IAA) with The Manufacturers Life Insurance Co. (Phils.), Inc. (the Parent Company or Manulife Philippines) and Manulife China Bank Life Assurance Corporation (MCBL), a subsidiary of the Parent Company (collectively, the Clients), whereby these affiliates availed of advisory services relative to the management and investment of the investible funds of the Clients' variable unit linked insurance products.
- Investment Management Agreements (IMA) with Manulife Philippines, MCBL and Manulife Financial Plans, Inc. (MFP), a subsidiary of the Parent Company (collectively, the Clients), whereby these affiliates availed of the services for the management and investments of the Clients' investable funds.

On September 14, 2017, MAMTC entered into an Administrative Service Agreement with Manulife Philippines, whereby the latter will provide certain administrative and other services which the former requires for its operations.

On September 18, 2017, MAMTC launched to the public the following Unit Investment Trust Funds (UITFs):
- Manulife Equity Wealth Fund.
- Manulife Income Builder Fund.
- Manulife Stable Income Fund.

On December 15, 2017, MAMTC (the Trustee) entered into a Trust Agreement with MFP (The Trustor) for the administration and management of the latter's pension and education block of business. The Trustor will establish 5 Trust Fund accounts for the benefit of the Trustor's planholders and or/designated beneficiary/ies. Five Trust Fund accounts were subsequently created on January 15, 2018.

In 2018, MAMTC launched to the public the following UITFs:
- Manulife Asia Best Select Equity Fund.
- Manulife Asia Pacific REIT Fund of Funds.
- Manulife Asia Dynamic Bond Feeder Fund.
- Manulife Dragon Growth Equity Feeder Fund.

The Company is a wholly-owned subsidiary of The Manufacturers Life Insurance Co. (Phils.), Inc., a life insurance company incorporated and with principal place of business in the Philippines. The ultimate parent company is Manulife Financial Corporation, a publicly traded company incorporated in Canada and is listed in Toronto Stock Exchange, Hong Kong Exchange, New York Stock Exchange and the Philippine Stock Exchange.

On November 16, 2018, the Board of Directors (BOD) approved the change in principal place of business of the Company to 10th Floor, NEX Tower, 6786 Ayala Avenue, Makati City. The Company officially moved to this address on February 26, 2019. Prior to such date, the registered office address of the Company was 20th Floor, LKG Tower, 6801 Ayala Avenue, Makati City.

The accompanying financial statements have been authorized for issue by the Company's Board of Directors on April 4, 2019.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements of the Company have been prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI) and available-for-sale (AFS) financial assets that are measured at fair value. The financial statements are presented in Philippine peso (₱), which is the Company's functional and presentation currency. All values are rounded to the nearest peso unless otherwise stated.

Statement of Compliance
The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Change in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

Amendments
- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*

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

New Standards
- PFRS 9, *Financial Instruments*

  PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement.* PFRS 9 also supersedes all earlier versions of the standard, thereby bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

  PFRS 9 is required to be applied on a modified retrospective basis. As permitted, the Company has not restated comparative information for 2017 for financial instruments in the scope of PFRS 9. Therefore, the comparative information for 2017 is reported under PAS 39 and is not comparable with the information presented for 2018. Differences arising from the adoption of PFRS 9 have been recognized directly in retained earnings as of January 1, 2018.

Classification and Measurement
Under PFRS 9, debt instruments are subsequent measured at fair value through profit or loss (FVTPL), amortized cost (AC), or FVOCI. The classification is based on two criteria: (1) the Company's business model for managing the assets; and (2) whether the instruments' contractual cash flows represent 'solely payments of principal and interest' (SPPI) on the principal amount outstanding.

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

The classification and measurement requirements of PFRS 9 did not have a significant impact on the Company. The following are the changes in the classification of the Company's financial assets:

- 'Due from related parties' and 'Receivables' previously classified as *Loans and receivables* are held to collect contractual cash flows and give rise to cash flows representing SPPI. These are now classified and measured as *Debt instruments at amortized cost.*

- Quoted debt instruments previously classified as *AFS financial assets* are now classified and measured as *Debt instruments at FVOCI.* The Company expects not only to hold the assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis. The Company's quoted debt instruments are government bonds and treasury bills that passed the SPPI test.

The Company has not designated any financial liabilities as at FVTPL. There are no changes in classification and measurement of the Company's financial liabilities.

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

		PFRS 9 measurement category	
		Amortized cost	**FVOCI**
PAS 39 measurement category			
Loans and receivables			
Due from related parties	₱54,124,482	₱54,124,482	₱–
Receivables from employees	25,000	25,000	–
AFS financial assets			
Quoted debt instruments	110,643,828	–	110,643,828
		₱54,149,482	₱110,643,828

Upon adoption, unrealized gains previously recognized under "Unrealized gain on available-for-sale financial assets" was reclassified to "Unrealized gain on financial assets at fair value through other comprehensive income".

Impairment
The adoption of PFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Company to recognize an allowance for ECLs for all debt instruments not held at FVTPL and contract assets, together with loan commitments and financial guarantee contracts.

As of January 1, 2018, no adjustment was made on the allowance for impairment losses since the quantified effect of the transition from PAS 39 to PFRS 9 is insignificant to the Company.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 11 *Construction Contracts,* PAS 18 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. In addition, guidance on interest and dividend income have been moved from PAS 18 to PFRS 9 without significant changes to the requirements.

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

  The Company assessed that the revenue recognition requirements for 'Trust fees' remain the same when the five-step model under PFRS 15 is applied (see detailed discussion in Revenue accounting policy).

Significant Accounting Policies

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

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

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

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

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

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

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

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Cash and Cash Equivalents

Short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in value are classified as cash equivalents.

Financial Instruments

Date of recognition

Financial instruments are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instruments. 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 settlement date.

Policies applicable beginning January 1, 2018

Initial recognition of financial instruments

Financial assets are recognized initially at fair value. Except for financial instruments at FVTPL, the initial measurement of financial instruments includes transaction costs.

Classification and measurement of financial assets

For purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer (under PAS 32, *Financial Instruments: Presentation*). All other non-derivative financial instruments are 'debt instruments'.

a. Financial Assets at Amortized Cost
Financial assets are measured at amortized cost if both of the following conditions are met:

- The asset is held within the Company's business model whose objective is to hold the financial assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are SPPI on the outstanding principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses, with the interest calculated recognized as 'Interest income' in the statement of comprehensive income. Gains and losses are recognized in statement of comprehensive income when these investments are derecognized or impaired, as well as through the amortization process. The ECL are recognized in the statement of comprehensive income under 'Provision for credit losses'. The effects of revaluation on foreign currency-denominated assets are recognized in the statement of comprehensive income.

The Company classified 'Cash and cash equivalents', 'Due from related parties', and 'Receivables' as financial assets at amortized cost.

The Company may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. As of December 31, 2018, the Company has not made such designation.

b. Financial assets at FVOCI
Financial assets at FVOCI consists of quoted debt securities. Debt securities are measured at FVOCI if both of the following conditions are met:

- The asset is held within the Company's business model whose objective is to hold the financial assets in order to collect contractual cash flows and selling; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are SPPI on the outstanding principal amount outstanding.

Debt securities meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of investment securities at FVOCI are excluded, net of tax as applicable, from the reported earnings and are included in the statement of comprehensive income as 'Net change in fair value of financial assets at fair value through other comprehensive income'. The effective yield component of debt securities at FVOCI, as well as the impact of translation of foreign currency-denominated debt securities at FVOCI to Philippine peso, is reported in the statement of comprehensive income. Interest earned on holding debt securities at debt securities at FVOCI are reported as 'Interest income' using the effective interest rate (EIR) method. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and securities gain (loss) - net'. The ECL arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Provision for credit losses' in the statement of comprehensive income.

Reclassification of financial assets
The Company can reclassify financial assets if the objective of its business model for managing those financial assets changes. Reclassification of financial assets designated as at FVTPL at initial recognition is not permitted. A change in the objective of the Company's business model must be

effected before the reclassification date. The reclassification date is the beginning of the next statement of financial position date following the change in the business model.

Impairment of financial assets
The Company recognizes an ECL for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

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

The Company assesses on a forward-looking basis the ECL associated with its debt instrument financial asset not measured at FVTPL. For cash in bank, debt financial assets at FVOCI, receivables from employees and accrued interest receivables, the Company applies the general approach in calculating ECL. The loss allowance is based on the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

For cash and cash equivalents and investment in debt securities, the Company applies the low credit risk simplification. The Company considers a debt financial asset to have low credit risk when its credit risk rating is equivalent to the definition of investment grade. At every reporting date, the Company evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Policies applicable prior to January 1, 2018
Initial recognition of financial instruments
Financial instruments are recognized initially at fair value. Except for financial instruments at FVTPL, the initial measurement of financial instruments includes transaction costs. The Company classifies its financial assets into the following categories: financial assets at FVTPL, held-to-maturity (HTM) investments, AFS financial assets, and loans and receivables. The Company classifies its financial liabilities either as financial liabilities at FVTPL or financial liabilities at amortized cost. 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.

Financial instruments issued by the Company are classified as equity in accordance with the substance of the contractual arrangement. Any interest, dividends, realized and unrealized gains and losses from financial instruments or a component considered as a financial liability are recognized in profit or loss for the period. Distributions to holders of financial instruments classified as equity are treated as owner-related and thus charged directly to equity.

AFS financial assets
AFS financial assets are those non-derivative financial assets that 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 (OCI) as 'Net change in fair value on AFS financial assets' and are presented within equity. 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 OCI is transferred to 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.

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 EIR method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included as part of interest income in statement of comprehensive income. The losses arising from the impairment of such loans and receivables are charged to current operations.

This category includes the Company's 'Due from related parties' and 'Receivables'.

Financial liabilities at amortized cost
Issued financial instruments or their components, which are not classified as at FVTPL, 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. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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 EIR. The amortization is included as part of interest expense in statement of comprehensive income.

This category includes the Company's 'Due to related parties'. It also applies to 'Accrued expenses' and 'Others' shown under 'Accounts payable and accrued expenses'.

As at December 31, 2017, the Company has no financial instruments at FVTPL and HTM investments.

Impairment of Financial Assets
The Company assesses at each reporting date whether there is objective evidence that 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 payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
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 such credit risk characteristics 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, normally based on the present value of the estimated future cash flows from the asset. The carrying amount of the loan is reduced through the use of an allowance account and the amount of loss is charged against the statement of comprehensive income. The loan, together with the associated allowance accounts, is written-off when there is no realistic prospect of future recovery. Subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for credit losses' account.

The present value of the estimated future cash flows is discounted at the loan's original EIR. Time value is generally not considered when the effect of discounting is not material.

AFS financial assets
For AFS financial assets, the Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity securities classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of comprehensive income - is removed from OCI and recognized in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive income. Increases in fair value after impairment are recognized directly in OCI.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of comprehensive income in 'Other income', unless it qualifies for recognition as some other type of asset. In cases where transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

Offsetting Financial Instruments
Financial instruments are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Derecognition of Financial Instruments
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized (that is, removed from the statement of financial position) when:

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either the Company:

    a. Has transferred substantially all the risks and rewards of the asset, or
    b. Has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset and has entered into pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associate liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

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

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of the equipment of the recognition criteria are met, but excludes repairs and maintenance cost. The initial cost of property and equipment comprises of its purchase price and other costs directly attributable to bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of furniture and fixtures.

Depreciation is calculated on a straight-line basis over the estimated useful life (EUL) of the assets as follows:

	Number of Years
Furniture and fixtures	5
Transportation equipment	5

The EUL and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in statement of comprehensive income in the year when the asset is derecognized.

Software Costs
Software costs include computer software licenses to be used in operations which are accounted for under the cost model.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are expensed as incurred. Subsequently, software is measured at cost less accumulated amortization and any accumulated impairment losses.

Costs are amortized on a straight-line basis over the EUL of three years as these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing.

Impairment of Non-Financial Assets
At each reporting date, the Company assesses whether there is any indication that its non-financial assets such as property and equipment and software may be impaired. When an indicator of

impairment exists, the Company estimates the recoverable amount of the impaired asset. The recoverable amount is the higher of fair value less costs to sell and value in use and is determined for an individual asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the impaired asset is written down to its recoverable amount. The impairment loss is charged to statement of comprehensive income in the year in which it arises. 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.

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

Equity
Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Additional paid-in capital' account. Direct costs, net of related tax benefit, incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Additional paid-in capital'. If the 'Additional paid-in capital' is not sufficient, the excess is charged against 'Retained earnings'.

Revenue Recognition
Prior to January 1, 2018, under PAS 18, revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the income can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized when control of services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Company assessed that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Trust fees
Trust fees related to trust accounts are recognized ratably over the period as the service is provided.

Revenue outside the scope of PFRS 15

Interest income
Interest income is accrued on a time proportion basis at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Expense Recognition
Expenses are recognized in the statement of comprehensive income when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in the statement of income:

- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or
- Immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial condition as an asset.

Expenses in the statement of comprehensive income are presented using the nature of expense method.

Pension Benefits
The Company maintains a defined contribution (DC) plan that covers all regular full-time employees. Under its DC plan, the Company pays fixed contributions based on the employees' monthly salaries. The Company, however, is covered by Republic Act (RA) No. 7641, The Philippine Retirement Law, which provides for its qualified employees a defined benefit (DB) minimum guarantee. The DB minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA 7641.

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 (income) on the net DB liability (asset) for the period by applying the discount rate used to measure the DB obligation at the beginning of the annual period to the then net DB liability (asset), taking into account any changes in the net DB liability (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 margin on asset returns, if any, 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.

Income Tax

Income tax on profit or loss for the year comprises current and deferred tax. Income tax is determined in accordance with Philippine Tax Law. Income tax is recognized in profit or loss, except to the extent that it relates to items directly in OCI.

Current tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date.

Deferred tax

Deferred tax is provided using the balance sheet liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from MCIT and unused NOLCO can be utilized.

Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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 the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable 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.

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

Foreign Currency-Denominated Transactions and Balances

Transactions in foreign currencies are initially recorded in the functional currency at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the closing rate prevailing at reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the closing rate prevailing at the end of the reporting period.

Foreign currency differences arising from translation are recognized in the statement of comprehensive income.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of past event and it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an 'Interest expense'.

Contingencies

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

Events after the Reporting Period

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

Standards Issued but not yet Effective

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

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

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

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

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

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Company is currently assessing the impact of adopting PFRS 16 and plans to adopt the new standard on the required effective date.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- *Annual Improvements to PFRSs* 2015-2017 Cycle
  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

Effective beginning on or after January 1, 2022

- PFRS 17, *Insurance Contracts*

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

3. Significant Accounting Judgments and Estimates

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

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

Estimates

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

a) *Impairment of financial assets*

Effective January 1, 2018

The measurement of impairment losses under PFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

For Cash in bank, Financial assets at FVOCI, Receivables from employees and Accrued interest receivables, the allowance estimate is determined by obtaining the 12-month point-in-time probability of default (PD) and loss given default (LGD) of the counterparties from market sources and multiplying these inputs with the exposure at default (EAD). The PD is an estimate of the likelihood of default over a given time horizon. The LGD is an estimate of loss arising in the case where a default occurs at a given time. The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principals and interest, whether scheduled by contract or otherwise (see Notes 5, 6 and 8).

For Due from related parties and Management fee receivables, the Company estimates ECL based on days past due for groupings of credit accounts with similar loss patterns. Credit accounts are grouped based on their nature. The provision matrix is based on historical loss experience adjusted for current and forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future (see Notes 5 and 18).

As at December 31, 2018, no impairment losses were recognized on these financial assets.

Effective before January 1, 2018

The Company maintains an allowance for impairment at a level considered adequate to provide for potential uncollectible receivables. The level of allowance is evaluated by the Company on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, age of balances and financial status of the customers. The Company reviews the age and status of receivables and specifically identifies the accounts to be provided with allowance on an annual basis.

As at December 31, 2017, no impairment losses were recognized on the Company's receivables (see Note 6).

The Company reviews its debt securities classified as AFS financial assets at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and receivables.

The recognition of an impairment loss may also be appropriate when there is evidence of deterioration in the financial health of the issuer, dismal industry and sector performance, adverse changes in technology, and operational and financing cash flows affecting the issuer.

As at December 31, 2017, the carrying value of AFS financial assets amounted to ₱110.64 million (see Note 8). There were no impairment losses recognized on AFS financial assets as at December 31, 2017.

b) *Realizability of deferred tax assets*
Management reviews at each reporting date the carrying amount of the Company's deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which the related tax assets can be utilized. Management believes that sufficient taxable profit will be generated in the foreseeable future to allow the recognized deferred tax assets to be utilized.

As at December 31, 2018 and 2017, the Company has recognized deferred tax assets amounting to ₱1.20 million and ₱0.83 million, respectively (see Note 17). There are no unrecognized deferred tax assets.

c) *Estimating pension obligation*
The determination of pension obligation is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions are described in Note 16 to the financial statements and include discount rates and future salary increases. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation.

The present value of the defined benefit obligation is determined by discounting the estimated future cash out flows using the interest rates of Philippine government bonds with terms consistent with the expected employee benefit payouts as at reporting date.

Salary increase rates are based on historical annual merit, market and promotional increase and future inflation rates.

Other assumptions, such as mortality rates and employee turnover rates, are based on publicly available mortality tables and the Company's historical experience.

Further details about the assumptions used and the carrying value of pension liability as at December 31, 2018 and 2017 are disclosed in Note 16.

4. Financial Risk Management Objectives and Policies

General Risk Management Structure
The Company's risk management program is a continuing, proactive and systematic process that focuses on the identification and assessment of financial risks guided by the principles set out in its risk management framework and seeks to implement the policies, procedures and guidelines established by the Company's Risk Oversight Committee.

The policies, procedures and guidelines are meant to manage financial risks to which the Company is exposed to. Discussed below are the risk management policies and measurement tools used by the Company in monitoring and managing its significant financial risks:

Liquidity Risk
Liquidity risk is the risk of not being able to meet funding obligations on due dates without incurring unacceptable losses due to disruption in funding sources, and/or inability to liquidate assets quickly due to changes in market conditions, and/or unplanned utilization of cash resources.

Liquidity risk is closely related to market risk as any adverse developments on foreign exchange rates, interest rates and market prices of securities could have an impact on liquidity.

Management of liquidity is the responsibility of the Operations Department. Given the nature of the Company's business, mitigation of liquidity risk involves in the first instance forecasting liquidity requirements and ensuring that sufficient balances of cash and cash equivalents to meet immediate needs are maintained.

All of the Company's financial assets and financial liabilities are current and will mature within one year after reporting date except for the financial assets at FVOCI and AFS financial assets. The table below analyzes the financial assets at FVOCI and AFS financial assets of the Company into their relevant maturity groups based on the remaining periods at the reporting date to their contractual maturities or expected repayment dates.

			2018		
	Up to a year	**1 to 5 years**	**Over 5 years**	**No term**	**Total**
Financial assets at FVOCI	**₱77,994,920**	**₱23,633,055**	**₱17,132,490**	**₱–**	**₱118,760,465**

			2017		
	Up to a year	1 to 5 years	Over 5 years	No term	Total
AFS financial assets	₱–	₱90,830,638	₱19,813,190	₱–	₱110,643,828

Credit Risk
Credit risk refers to the risk that the borrower, issuer or counterparty may fail to perform its obligation to pay on time or that its ability to perform such obligation may get impaired before delivery date. Credit risk is not limited to a company's lending activities but also arises whenever funds are extended, committed, invested, or otherwise exposed, through actual or implied contractual agreements, whether on or off the books.

The following table provides information regarding the maximum credit risk exposure of the Company as at December 31, 2018 and 2017:

	2018	2017
Financial assets at FVOCI	**₱118,760,465**	₱–
AFS financial assets	–	₱110,643,828
Cash and cash equivalents		
Cash in banks	**51,728,749**	13,029,112
Cash equivalents	**121,391,847**	90,000,000
Due from related parties	**36,832,024**	54,124,482
Receivables		
Management fee receivables	**977,960**	70,000
Accrued interest receivable	**862,080**	552,889
Receivable from employees	**458,519**	25,000
Other receivables	**140,160**	45,225
	₱331,151,804	₱268,490,536

As at December 31, 2018 and 2017, all of the Company's financial assets are neither past due nor impaired.

The Company utilizes an internal credit rating system based on its assessment of the quality of its financial assets. The Company classifies its financial assets into the following credit grades:

- *High grade* - This pertains to accounts with a very low probability of default as demonstrated by the debtor's long history of stability, profitability and diversity. The debtor has the ability to raise substantial amounts of funds through the public markets or external financing. The debtor has a strong debt service record and a moderate use of leverage.

- *Medium grade* - The debtor has no history of default. The debtor has sufficient liquidity to fully service its debt over the medium term. The debtor has adequate capital to readily absorb any potential losses from its operations and any reasonably foreseeable contingencies. The debtor reported profitable operations for at least the past three years.

- *Low grade* - 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. Operating performance could be marginal or on the decline. The borrower may have a history of default in interest but must have regularized its service record to date. The use of leverage is above industry standards but has contributed to shareholder value.

As at the end of each reporting period, the credit quality of the Company's financial assets that are neither past due nor impaired were determined to be high grade and are in stage 1 of the ECL model.

Market Risk
Market risk is the risk that movements of market prices will adversely affect the Company's financial condition. In managing its market risk exposure, the Company focuses on managing price risk which is the risk of loss arising from any change in the value of any asset or trading instrument.

- Foreign Currency Risk
  Foreign exchange risk arises when an investment's value varies due to changes in currency exchange rates. Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company undertakes certain transactions denominated in US Dollars (US$), hence, exposures to exchange rate fluctuations arise with respect to such transactions. Significant fluctuation in the exchange rates could significantly affect the Company's financial condition. The Company has no established policy in managing foreign exchange rate risk. Any favorable or unfavorable movements of foreign currency exchange rates are absorbed by the Company.

  The Company's exposure to foreign currency exchange risk arises from its US$-denominated cash in banks amounting to US$217,934 (₱11,458,966) and US$35,284 (₱1,761,732) as of December 31, 2018 and 2017, respectively. In translating US$-denominated cash in banks into Philippine Peso amounts, the exchange rate used was ₱52.58 and ₱49.94 to US$1.00 as at December 31, 2018 and 2017, respectively. The profit/equity for the periods ended December 31, 2018 and 2017 will decrease/increase by ₱114,590 and ₱17,621, respectively, should the Philippine Peso appreciate/depreciate by 100 basis points against the US$.

Interest Rate Risk
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The interest rate risk to which the Company is typically exposed to is fair value interest rate risk. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Company's fair value interest rate risk relates to financial assets at FVOCI, cash in banks and short-term deposits that carry fixed interest rates. The range of interest rates on these assets are disclosed in Notes 5 and 8.

The following table shows information relating to the Company's exposure to interest rate risk as at December 31, 2018 and 2017:

	Interest Rates	**On demand**	**Up to a year**	**1 to <2 years**	**2 to <3 years**	**More than 3 years**	**Total**
Financial assets at FVOCI	**3.375% - 8.00%**	**₱–**	**₱77,994,920**	**₱14,416,375**	**₱–**	**₱26,349,170**	**₱118,760,465**
Cash in banks	**0.25% - 1.50%**	**51,728,749**	**–**	**–**	**–**	**–**	**51,728,749**
Short term deposits	**0.375% - 6.50%**	**–**	**121,391,847**	**–**	**–**	**–**	**121,391,847**
		₱51,728,749	**₱199,386,767**	**₱14,416,375**	**₱–**	**₱26,349,170**	**₱291,881,061**

	Interest Rates	On demand	Up to a year	1 to <2 years	2 to <3 years	More than 3 years	Total
AFS debt securities	3.875% - 8.00%	₱–	₱–	₱70,839,048	₱39,804,780	₱–	₱110,643,828
Cash in banks	0.10% - 1.50%	13,029,112	–	–	–	–	13,029,112
Short term deposits	0.375% - 3.25%	–	90,000,000	–	–	–	90,000,000
		₱13,029,112	₱90,000,000	₱70,839,048	₱39,804,780	₱–	₱213,672,940

Fair Value Measurement
The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash and cash equivalents - The carrying value approximates the fair value because these are subject to an insignificant risk of change in value.

Receivables, due from related parties, accounts payable and accrued expenses (excluding taxes payable) and due to related parties - The fair values approximate their carrying amounts due to the short-term nature of these financial instruments.

Financial assets at FVOCI - The fair values are based on quoted prices published in markets.

AFS financial assets - The fair values are based on quoted prices published in markets.

The table below presents the fair value level of financial assets at FVOCI as at December 31, 2018 and AFS financial assets as at December 31, 2017:

	Carrying	**Fair Value**			
	Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVOCI	**₱118,760,465**	**₱87,677,720**	**₱31,082,745**	**₱–**	**₱118,760,465**

	Carrying	Fair Value			
	Value	Level 1	Level 2	Level 3	Total
AFS financial assets	₱110,643,828	₱49,784,400	₱60,859,428	₱–	₱110,643,828

In 2018, there were transfers between Level 1 and Level 2 and no transfers into and out of Level 3. Transfers in and out of fair value levels are recorded at the beginning of the year.

The table below shows the roll-forward for financial assets at FVOCI in 2018.

	Level 1	Level 2
Opening balance	₱49,784,400	₱60,859,428
Additions	67,871,601	4,920,040
Maturities	–	(61,500,000)
Transfer out of Level 1 to Level 2	(29,761,230)	29,761,230
Amortization of premiums/discount	1,246,268	602,006
Fair value movements	(1,463,319)	(3,559,959)
Closing balance	₱87,677,720	₱31,082,745

During the year, transfers from Level 1 to Level 2 are attributable to low trade activity. The Company has no Level 3 financial instruments as at December 31, 2018 and 2017. There were no transfers between levels in 2017.

5. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash in banks	**₱51,728,749**	₱13,029,112
Cash equivalents	**121,391,847**	90,000,000
	₱173,120,596	₱103,029,112

Cash in banks pertain to savings deposits while cash equivalents are time deposits which are due within three months from placement date. Cash in banks maintained with local banks earn annual interest rates of 0.25% to 1.50% and 0.10% to 1.50% in 2018 and 2017, respectively. Time deposits held by the Company earn annual interest rates of 6.30% to 6.50% and 0.375% to 3.25% in 2018 and 2017, respectively.

Interest income from cash in banks and time deposits amounted to ₱5.25 million and ₱0.81 million in 2018 and 2017, respectively.

6. Receivables

This account consists of:

	2018	2017
Management fee receivables	**₱977,960**	₱70,000
Accrued interest receivable	**862,080**	552,889
Receivable from employees	**458,519**	25,000
Others	**140,160**	45,225
	₱2,438,719	₱693,114

Receivable from employees represent short-term, non-interest-bearing cash advances to employees.

7. Other Current Assets

This account consists of:

	2018	2017
Creditable withholding taxes	**₱16,231,017**	₱–
Prepaid expenses	**3,253,721**	1,922,710
Input VAT	**–**	333,680
	₱19,484,738	₱2,256,390

Prepaid expenses represent prepayments for rent, insurance, local business tax and salaries.

8. Financial Assets at Fair Value through Other Comprehensive Income and Available-for Sale Financial Assets

As at December 31, 2017, the investments amounting to ₱110.64 million were classified under 'AFS financial assets'. In 2018, the investments were classified and measured at FVOCI in accordance with PFRS 9.

This account consists of investments in:

	2018	2017
Treasury bills	**₱68,250,200**	₱60,859,428
Government bonds	**50,510,265**	49,784,400
	₱118,760,465	₱110,643,828

The movements in financial assets at FVOCI/AFS financial assets follow:

	2018	2017
Balance at January 1	**₱110,643,828**	₱–
Acquisitions during the year	**72,791,641**	110,433,547
Maturities during the year	**(61,500,000)**	–
Amortization of discount (premium) - net	**1,848,274**	(3,307)
Changes in fair value recognized in equity	**(5,023,278)**	213,588
Balance at December 31	**₱118,760,465**	₱110,643,828

The amortized premium/discount of financial assets at FVOCI/AFS financial assets is presented under 'Interest' in the statements of comprehensive income.

Interest income earned on financial assets at FVOCI/AFS financial assets amounted to ₱1.32 million and ₱0.13 million, respectively.

The movements in net unrealized gain (loss) on financial assets at FVOCI/AFS financial assets recognized in OCI follow:

	2018	2017
Balance at January 1	**₱213,588**	₱–
Fair value changes during the year	**(5,023,278)**	213,588
Income tax effect on changes in fair value	**723,816**	–
Balance at December 31	**(₱4,085,874)**	₱213,588

In accordance with BSP Circular No. 884, otherwise known as the Guideline on the Establishment and Operation of Trust Corporations (TC), the Company is required to deposit with the BSP eligible government securities as security for the faithful performance of trust and other fiduciary duties and investment management activities equivalent to 0.05% of the total book value of the Assets Under Management (AUM). Provided, that at no time shall the basic security deposit (BSD) be less than ₱500,000. Further, after the first year of operation, the BSD shall be based on the trust rating of the most recent report of examination of the TC, as shown in the table below:

Trust Rating	**Required BSD**
4	₱500,000 or 0.03% of the total book value of the AUM, whichever is higher.
3	₱500,000 or 0.05% of the total book value of the AUM, whichever is higher.
2	₱500,000 or 0.10% of the total book value of the AUM, whichever is higher.
1	₱500,000 or 0.20% of the total book value of the AUM, whichever is higher.

The Company shall not withdraw, transfer or replace such securities without prior written approval of BSP (see Note 13).

As of December 31, 2018 and 2017, treasury bills with face values amounting to ₱70.10 million and ₱61.50 million, respectively, are deposited with the BSP in compliance with BSP Circular No. 884.

9. Property and Equipment

The composition of and movements in this account as of and for the year ended December 31, 2018 follow:

	Furniture and Fixtures	**Transportation Equipment**	**Total**
Cost			
Balance at January 1, 2018	**₱388,986**	**₱–**	**₱388,986**
Additions	**198,753**	**1,624,170**	**1,822,923**
Balance at December 31, 2018	**₱587,739**	**1,624,170**	**2,211,909**
Accumulated Depreciation			
Balance at January 1, 2018	–	–	–
Depreciation	**113,433**	**270,697**	**384,130**
Balance at December 31, 2018	**113,433**	**270,697**	**384,130**
Net Book Value, December 31, 2018	**₱474,306**	**₱1,353,473**	**₱1,827,779**

In December 2017, the Company acquired furniture and fixtures amounting to ₱0.39 million. The depreciation of these assets commenced in 2018.

As of December 31, 2018 and 2017, there were no fully depreciated property and equipment still in use.

10. Software Costs

The composition of and movements in this account follow:

	2018	2017
Cost		
At beginning of year	**₱9,760,353**	₱–
Additions	**–**	9,760,353
At end of year	**₱9,760,353**	9,760,353
Accumulated Amortization		
At beginning of year	**610,020**	–
Amortization	**2,440,080**	610,020
At end of year	**3,050,100**	610,020
Net Book Value	**₱6,710,253**	₱9,150,333

In 2017, the Company incurred development cost of in-house electronic data processing (EDP) software costing ₱9.76 million. The software will be amortized for a period of three years. There were no additions in 2018.

11. Accounts Payable and Accrued Expenses

This account consists of:

	2018	2017
Accrued expenses	**₱16,280,108**	₱13,323,499
Gross receipts tax (GRT) payable	**6,136,760**	3,984,294
Withholding taxes payable	**896,099**	2,081,009
Others	**626,365**	75,000
	₱23,939,332	₱19,463,802

Accrued expenses include accruals for BSP supervision fee, agents' commissions and employee bonuses. These are normally settled within one year.

12. Other Liabilities

This account consists of:

	2018	2017
Payable to managed funds	**₱11,316,614**	₱778,400
Others	**685,854**	261,740
	₱12,002,468	₱1,040,140

Payable to managed funds represents unsettled UITF subscriptions and redemptions. These are normally settled within two (2) business days.

13. **Equity**

Capital Stock
The table below summarizes the capital stock of the Company:

	Shares	Amount
Common shares - ₱1,000 par value		
Authorized	800,000	₱800,000,000
Issued and outstanding	200,000	200,000,000

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a strong capital ratio in order to support its business and maximize shareholder value.

The Company monitors capital on the basis of debt-to-equity ratio. The ratio is calculated as total debt divided by equity.

	2018	2017
Total liabilities	**₱96,189,307**	₱66,160,423
Total equity	**264,187,309**	214,959,375
Debt-to-equity ratio	**0.36**	0.31

In accordance with BSP Circular No. 884, the Company is required to have a minimum unimpaired capital of ₱300 million or 0.10% of the total book value of its AUM, whichever is higher. Upon incorporation, the Company may have an initial minimum paid-in capital of ₱100 million and shall be allowed to build-up capital over a period of 5 years. The minimum paid-in capital after 5 years shall be at least ₱300 million. Further, the minimum capital during the capital build-up phase shall be determined as follows:

Calendar Year	**Capital Requirement**
Year 0 - Upon incorporation	₱100 million
End of Year 1	₱140 million or 0.10% of AUM whichever is higher
End of Year 2	₱180 million or 0.10% of AUM whichever is higher
End of Year 3	₱220 million or 0.10% of AUM whichever is higher
End of Year 4	₱260 million or 0.10% of AUM whichever is higher
End of Year 5 and onwards	₱300 million or 0.10% of AUM whichever is higher

The AUM, for this purpose, shall be computed based on the average of the quarter-end balance of AUM for the calendar year.

As at December 31, 2018 and 2017, the Company has complied with this requirement.

Cost of issuance of capital stock
In 2017, the Company incurred documentary stamp taxes and SEC registration fees amounting to ₱1.00 million and ₱1.62 million, respectively, which were charged directly to equity.

14. **Trust Fees**

Set out below is the disaggregation of the Company's revenue arising from trust fees:

	2018	2017
Agency accounts	**₱211,432,530**	₱75,454,935
Advisory/consultancy	**36,788,862**	–
UITF and institutional trust accounts	**21,121,783**	146,013
Revenue from contracts with customers	**₱269,343,175**	₱75,600,948

15. **Compensation and Employee Benefits**

The account consists of:

	2018	2017
Employee salaries	**₱43,284,510**	₱10,286,447
Bonus	**17,803,877**	13,142,664
Pension benefits (Note 16)	**3,129,981**	619,633
Other benefits	**3,824,214**	440,837
	₱68,042,582	₱24,489,581

16. **Pension Plan**

As discussed in Note 2, the Company maintains a defined contribution (DC) plan which under PIC Q&A 2013-03 should be accounted for as a defined benefit plan.

Republic Act (RA) No. 7641, Retirement Pay Law, requires provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employee's retirement benefits in any collective bargaining and other agreements shall not be less than what is provided under the law. The law does not require minimum funding of the plan.

The Company established a formal defined contribution retirement plan for its regular employees. The retirement plan is non-contributory and of the defined contribution type. It provides a benefit at normal retirement equal to one hundred percent (100%) of the Member's Account Balance (Company contributions ranging from 5% to 10% of Plan Salary plus credited earnings depending on the tenure of eligible employees) or the benefit due under the Labor Code, whichever is greater. The benefit is paid in a lump sum upon retirement or separation in accordance with the terms of the retirement plan.

If the value of the Member's Company Account is less than the retirement benefits to which the Member is entitled under RA No. 7641, any forfeited Company contributions and earnings remaining in the retirement fund shall be used to satisfy the difference. Should such forfeited amounts be insufficient for the purpose, the Company shall pay the amount of any remaining shortfall directly to the Member.

The assets of the plan are held separately from those of the Company in a fund under the control of a trustee bank.

The latest actuarial valuation study of the Company's minimum retirement obligation under RA No. 7641 was made as at December 31, 2018.

The following table compares the present value of the Company's DB obligation and the projected DC obligation as of December 31, 2018 and 2017.

	2018	2017
DC obligation[1]	**₱15,426,449**	₱14,180,053
DB obligation[2]	**17,020,536**	16,958,562
Excess of DB over DC obligation	**₱1,594,087**	₱2,778,509

1. *Determined on an employee by employee basis as the present value of the projected benefits at retirement attributable to Company contributions to the DC plan, then prorated by accrued service over total service.*
2. *Determined on an employee by employee basis as the present value of the projected benefits based on the minimum guaranteed benefits under RA. 7641*

The following table summarizes the components of the net benefit expense recognized in the statements of comprehensive income and amounts recognized in the statements of financial position for the plan.

Pension benefits recognized in profit or loss follow:

	2018	2017
Current service cost	**₱2,969,105**	₱619,633
Net interest on the net defined benefit obligation	**160,876**	–
	₱3,129,981	₱619,633

Remeasurement effects recognized in OCI follow:

	2018	2017
Actuarial gain (loss)	**₱3,424,608**	(₱791,360)
Return on plan assets (excluding interest income)	**(1,761,128)**	4,853
	₱1,663,480	(₱786,507)

The amounts recognized in the statements of financial position follow:

	2018	2017
Present value of benefit obligation	**₱17,020,536**	₱16,958,562
Fair value of plan assets	**(15,426,449)**	(14,180,053)
	₱1,594,087	₱2,778,509

Changes in the present value of the defined benefit obligation follow:

	2018	2017
At January 1	**₱16,958,562**	₱–
Current service cost	**2,969,105**	619,633
Interest cost	**962,214**	–
Actuarial loss (gain) arising from:		
Experience adjustments	**759,878**	791,360
Changes in financial assumptions	**(4,184,486)**	–
Benefits paid	**(444,737)**	–
Transferred obligation from the Parent Company	–	15,547,569
At December 31	**₱17,020,536**	₱16,958,562

Changes in the fair value of the plan assets follow:

	2018	2017
At January 1	**₱14,180,053**	₱–
Interest income	**801,338**	–
Return on plan assets (excluding interest income)	**(1,761,128)**	4,853
Actual contributions	**2,650,923**	416,830
Benefits paid	**(444,737)**	–
Transferred plan assets from the Parent Company	**–**	13,758,370
At December 31	**₱15,426,449**	₱14,180,053

The transfer of defined benefit obligation and plan assets refers to the pension of the transferred employees from the Parent Company to the Company effective at the start of its operations (see Note 18).

The retirement fund is co-owned by the Company, the Parent Company, and its affiliate, MCBL, which is in the form of a trust administered by a trustee bank. The carrying values as at December 31, 2018 and 2017 of the fund, which approximate fair values, are as follows:

	2018	2017
Cash	**₱11,635**	₱3,951
Investments in government debt securities	**268,724,581**	251,759,758
Accrued income receivable	**4,230,857**	3,593,552
Other receivables	**–**	888
Total	**272,967,073**	255,358,149
Liabilities	**31,114,842**	28,177,168
	₱241,852,231	₱227,180,981

As at December 31, 2018 and 2017, the retirement fund pertaining to the Company amounted to ₱15.43 million and ₱14.18 million, respectively.

The average duration of the defined benefit obligation as at December 31, 2018 and 2017 is eighteen (18) years.

The Company's expects to contribute ₱2.94 million to the retirement plan in 2019.

Shown below is the maturity profile of the undiscounted benefit payments:

	2018	2017
Less than one year	**₱760,011**	₱680,043
One to less than five years	**4,677,948**	3,769,127
Five to less than ten years	**10,400,934**	8,293,412
Ten to less than fifteen years	**42,305,592**	36,749,383
Fifteen to less than twenty years	**37,762,623**	46,505,980
Twenty years and above	**89,488,860**	88,512,904

The principal assumptions used in determining the defined benefit obligation of the Company follow:

	2018	2017
Discount rate		
At January 1	**5.79%**	5.30%
At December 31	**7.34%**	5.79%
Future salary increase rate	**6.00%**	7.00%

The sensitivity analysis below showing estimated increase (decrease) in the retirement benefit obligation has been determined based on reasonably possible changes of each relevant significant assumption as at December 31, 2018 and 2017, assuming all other assumptions were held constant.

		Increase (decrease)	
	Change in basis points	**2018**	2017
Discount rate	+100	**(₱934,561)**	(₱1,502,598)
	-100	**1,296,004**	1,799,357
Salary increase rate	+100	**1,370,206**	1,706,744
	-100	**(1,003,871)**	(1,441,418)

17. **Income Tax**

RA No. 9397, *An Act Amending the National Internal Revenue Code*, provides that the Regular Corporate Income Tax (RCIT) rate shall be 30.00% and the interest expense allowed as a deductible expense shall be reduced by 33.00% of interest income subjected to final tax.

Provision for (benefit from) income tax consists of:

	2018	2017
Current		
RCIT	**₱24,520,240**	₱12,874,877
Final withholding tax	**637,898**	50,265
	25,158,138	12,925,142
Deferred	**(143,717)**	(597,601)
	₱25,014,421	₱12,327,541

The components of the Company's deferred tax assets follow:

	2018	2017
Pension liability	**₱478,226**	₱833,553
Unrealized losses from financial assets at FVOCI	**723,816**	–
	₱1,202,042	₱833,553

Reconciliation between the statutory income tax and the effective income tax follows:

	2018	2017
Income tax computed at statutory rates	**₱23,213,214**	₱9,072,118
Tax effects of:		
Non-deductible expenses	**3,098,245**	3,523,817
Income subject to final tax	**(937,312)**	(217,550)
Non-taxable income	**(359,726)**	(50,844)
Income tax expense	**₱25,014,421**	₱12,327,541

Benefit from income tax directly charged to OCI in 2018 and 2017 amounted to ₱0.22 million and ₱0.24 million, respectively.

18. Related Party Transactions

Related party relationships exist when one party has the ability to control, directly or indirectly, through one or more intermediaries, the other party, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its stockholders.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Details on significant related party transactions of the Company follow:

					December 31, 2018	
Relationship	**Entities**	**Financial Statement Account**	**Nature**	**Terms and conditions**	**Transactions during the year**	**Outstanding Balance**
Parent Company		**Due from related parties**	**Trust fees**	**Based on Management Fee Agreement**	**(₱18,063,298)**	**₱15,016,960**
			Assumed pension liability and collections and deposits	**Non-interest bearing**	**(8,740,546)**	**–**
			Receivable pertaining to withholding tax	**Non-interest bearing**	**417,927**	**417,927**
			Other receivable (RSU and bonuses)	**Non-interest bearing**	**13,696,898**	**13,696,898**
		Due to related parties	**Service fees**	**Non-interest bearing**	**17,352,536**	**18,529,130**
			Other allocated expenses	**Non-interest bearing**	**(6,950,249)**	**–**
			Pre-operating expense and advance charges	**Non-interest bearing**	**(7,229,564)**	**15,247,115**
			Other payable (RSU)	**Non-interest bearing**	**538,679**	**538,679**

(Forward)

Relationship	**Entities**	**Financial Statement Account**	**Nature**	**Terms and conditions**	**December 31, 2018**	
					Transactions during the year	**Outstanding Balance**
Under Common Control	**Manulife Financial Plans, Inc.**	**Due from related parties**	**Trust fees**	**Per investment Management Fee Agreement**	**1,048,032**	**1,475,032**
	Manulife Chinabank Life Assurance Corp	**Due from related parties**	**Trust fees**	**Per investment Management Fee Agreement**	**5,651,470**	**5,899,480**
			Receivable pertaining to withholding tax	**Non-interest bearing**	**325,727**	**325,727**
	Manulife Asset Management - Hongkong	**Due to related parties**	**Allocated Cost for sub-advisory fee**	**Non-interest bearing**	**153,534**	**153,534**
	Manulife Asset Management - Hongkong	**Due to related parties**	**Allocated Cost for sub-advisory fee**	**Non-interest bearing**	**94,644**	**94,644**
Ultimate Parent	**Manulife Financial Corporation**	**Due to related parties**	**Allocated Cost for the data management provided by ultimate parent**	**Non-interest bearing**	**11,345,028**	**15,062,818**
	John Hancock Life Insurance Company (USA)	**Due to related parties**	**Allocated Cost for the data management provided by affiliate**	**Non-interest bearing**	**8,367,760**	**9,027,501**

Relationship	Entities	Financial Statement Account	Nature	Terms and conditions	December 31, 2017	
					Transactions during the year	Outstanding Balance
Parent Company		Due from related parties	Trust fees	Based on Management Fee Agreement	₱33,080,258	₱33,080,258
			Assumed pension liability and collections and deposits	Non-interest bearing	8,740,546	8,740,546
		Due to related parties	Service fees	Non-interest bearing	1,176,594	1,176,594
			Other allocated expenses	Non-interest bearing	6,950,249	6,950,249
			Pre-operating expense and advance charges	Non-interest bearing	22,476,679	22,476,679
Under Common Control	Manulife Financial Plans, Inc.	Due from related parties	Trust fees	Per investment Management Fee Agreement	427,000	427,000
	Manulife Chinabank Life Assurance Corp	Due from related parties	Trust fees	Per investment Management Fee Agreement	11,550,950	11,550,950
			Receivable pertaining to withholding tax	Non-interest bearing	325,727	325,727

(Forward)

Relationship	Entities	Financial Statement Account	Nature	Terms and conditions	December 31, 2017 Transactions during the year	Outstanding Balance
Ultimate Parent	Manulife Financial Corporation	Due to related parties	Allocated Cost for the data management provided by ultimate parent	Non-interest bearing	3,717,790	3,717,790
	John Hancock Life Insurance Company (USA)	Due to related parties	Allocated Cost for the data management provided by affiliate	Non-interest bearing	659,741	659,741

The Company charged its related parties 0.05% of the net asset value of accounts under management plus VAT, accrued daily and collected monthly in accordance with the IAA (see Note 1).

The Company charged its related parties fees ranging from 0.18% to 0.90% of the net asset value of accounts under management plus VAT, accrued daily and collected monthly in accordance with the IMA (see Note 1).

In consideration for the performance of administrative services by the Parent Company in accordance with the Administrative Service Agreement (see Note 1), the Company pays service fees equivalent to the actual cost incurred by the Parent Company in rendering the service plus 5% mark-up plus VAT, accrued quarterly and paid monthly.

All transactions with related parties are to be settled in cash.

19. Trust Operations

Securities and other investments held by the Company in fiduciary or agency capacity for clients and beneficiaries amounting to ₱116.01 billion and ₱111.63 billion as at December 31, 2018 and 2017, respectively, are not included in the accompanying statements of financial position, since these are not assets of the Company.

The Company deposited treasury bills classified as financial assets at FVOCI and AFS financial assets with a total face value of ₱70.10 million and ₱61.50 million as at December 31, 2018 and 2017, respectively, in compliance with the requirements of the BSP relative to its operations (see Note 8).

In 2018 and 2017, trust fee income amounted to ₱269.34 million and ₱75.60 million, respectively. Trust fees are charged on a daily basis (and collected monthly) as a percentage of net asset value of accounts under management (see Notes 14 and 18).

20. Quantitative Indicators of Financial Performance

Below are the financial ratios that are relevant to the Company for the year ended December 31, 2018 and 2017:

	2018	2017
Return on average assets [(1)]	**15.73%**	7.03%
Return on average equity [(2)]	**21.73%**	8.50%
Percentage of total trust fees to total assets under management (AUM) [(3)]	**0.23%**	0.07%

1 Net income divided by average total assets. Average total assets is based on average monthly balances.
2 Net income divided by average total equity of the Company. Average total equity is based on average monthly balances.
3 Total trust fees divided by total assets under management