Manulife China Bank Life Assurance Corporation

Financial Statements
December 31, 2014 and 2013

and

Independent Auditors' Report

SGV
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Certified True Copy

Paul Anthony P. Mandal
Corporate Secretary
Date: May 7, 2015

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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Manulife China Bank Life Assurance Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Manulife China Bank Life Assurance Corporation, which comprise the statements of financial position as at December 31, 2014 and 2013, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Corporate Secretary
Date: May 7, 2015

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Manulife China Bank Life Assurance Corporation as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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 China Bank Life Assurance 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, As Amended (2011). Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

SYCIP GORRES VELAYO & CO.

Lucy L. Chan

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Partner
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PTR No. 4751267, January 5, 2015, Makati City

March 31, 2015

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Paul Anthony P. Mandal
Corporate Secretary
Date: May 7, 2015

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2014	2013
ASSETS		
Cash and Cash Equivalents (Notes 4, 6 and 20)	**₱1,078,277,645**	₱1,286,463,369
Insurance Receivables (Note 20)	**32,038,144**	38,958,404
Reinsurance Assets (Notes 3, 10 and 11)	**2,265,277,539**	1,670,801,780
Financial Assets (Notes 5 and 20)		
Financial assets at fair value through profit or loss (Note 6)	**16,360,372,446**	11,735,234,542
Available-for-sale financial assets	**1,701,434,109**	1,551,647,719
Loans and receivables (Note 22)	**217,571,366**	418,599,410
Accrued Income (Notes 3, 7 and 20)	**93,083,900**	78,877,210
Property and Equipment (Notes 3, 8 and 22)	**15,594,559**	15,293,929
Other Assets (Notes 9 and 22)	**10,304,012**	4,119,356
	₱21,773,953,720	₱16,799,995,719
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 3, 10 and 20)	**₱19,604,912,181**	₱14,593,950,803
Insurance payable (Notes 11, 14 and 20)	**498,169,127**	345,781,340
Policyholders' dividends (Note 20)	**57,469,050**	35,995,231
Accounts payable and accrued expenses (Notes 12 and 20)	**200,401,477**	277,776,743
Due to related parties (Notes 14 and 20)	**68,886,106**	21,246,942
Income tax payable	**–**	569,358
	20,429,837,941	15,275,320,417
Equity		
Capital stock (Note 13)	**500,000,000**	500,000,000
Contributed surplus (Note 13)	**525,000,000**	525,000,000
Reserve for fluctuation in value of available-for-sale financial assets (Note 5)	**254,596,055**	340,153,438
Retained earnings	**64,519,724**	159,521,864
	1,344,115,779	1,524,675,302
	₱21,773,953,720	₱16,799,995,719

See accompanying Notes to Financial Statements.

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Paul Anthony P. Mandal
Corporate Secretary
Date: May 7, 2015

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31	
	2014	2013
REVENUES		
Gross premiums earned on insurance contracts	**₱5,534,735,226**	₱8,443,505,802
Reinsurers' share of gross premiums earned on insurance contracts	**(606,333,162)**	(238,808,797)
Insurance premiums earned (Note 15)	**4,928,402,064**	8,204,697,005
Investment and other income - net (Note 16)	**206,815,900**	108,912,975
Gain on sale of available-for-sale financial assets (Note 5)	**127,481,537**	2,023,835
Foreign currency exchange gains - net	**1,253,407**	9,891,469
Total revenues	**5,263,952,908**	8,325,525,284
BENEFITS AND OPERATING EXPENSES		
Change in insurance contract liabilities (Note 17)	**4,608,654,246**	7,504,313,976
Gross benefits and claims incurred on insurance contracts	**51,638,324**	47,056,593
Reinsurers' share of benefits and claims incurred on insurance contracts	**(13,866,659)**	(21,018,609)
Benefits and claims	**4,646,425,911**	7,530,351,960
Commission expense	**280,578,512**	334,174,939
General and administrative expenses (Note 18)	**347,018,279**	309,160,526
Insurance taxes	**35,731,402**	29,393,056
Dividends and interest on policyholders' dividends	**29,215,370**	22,235,041
Total benefits and operating expenses	**5,338,969,474**	8,225,315,522
INCOME (LOSS) BEFORE INCOME TAX	**(75,016,566)**	100,209,762
PROVISION FOR INCOME TAX (Note 19)	**19,985,574**	23,981,645
NET INCOME (LOSS)	**(₱95,002,140)**	₱76,228,117

See accompanying Notes to Financial Statements.

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2014	2013
NET INCOME (LOSS)	**(₱95,002,140)**	₱76,228,117
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will be reclassified to profit or loss in subsequent periods:		
Net change in fair value gains (loss) on available-for-sale financial assets (Note 5)	**(85,557,383)**	83,962,024
	(85,557,383)	83,962,024
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱180,559,523)**	₱160,190,141

See accompanying Notes to Financial Statements.

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Paul Anthony P. Mandal
Corporate Secretary
Date: May 7, 2015

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Notes 13 and 22)	**Contributed Surplus** (Note 13)	**Reserve for Fluctuation in Value of Available-for-sale Financial Assets** (Note 5)	**Retained Earnings**	**Total**
Balances at January 1, 2014	**₱500,000,000**	**₱525,000,000**	**₱340,153,438**	**₱159,521,864**	**₱1,524,675,302**
Net income	**–**	**–**	**–**	**(95,002,140)**	**(95,002,140)**
Other comprehensive income	**–**	**–**	**(85,557,383)**	**–**	**(85,557,383)**
Total comprehensive income	**–**	**–**	**(85,557,383)**	**(95,002,140)**	**(180,559,523)**
Balances at December 31, 2014	**₱500,000,000**	**₱525,000,000**	**₱254,596,055**	**₱64,519,725**	**₱1,344,115,779**
Balances at January 1, 2013	₱500,000,000	₱525,000,000	₱256,191,414	₱83,293,747	₱1,364,485,161
Net income	–	–	–	76,228,117	76,228,117
Other comprehensive income	–	–	83,962,024	–	83,962,024
Total comprehensive income	–	–	83,962,024	76,228,117	160,190,141
Balances at December 31, 2013	₱500,000,000	₱525,000,000	₱340,153,438	₱159,521,864	₱1,524,675,302

See accompanying Notes to Financial Statements.

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Paul Anthony P. Mandal
Corporate Secretary
Date: May 7, 2015

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**(₱75,016,566)**	₱100,209,762
Adjustments for:		
Change in insurance contract liabilities (Note 17)	**4,608,654,246**	7,504,313,976
Depreciation and amortization (Notes 8 and 18)	**7,032,469**	7,504,771
Net gain on disposal of property and equipment	**(444,958)**	(26,600)
Fair value gains on financial assets at fair value through profit or loss (Note 16)	**(4,185,655)**	(12,999,693)
Foreign currency exchange gains-net	**(1,253,407)**	(9,891,469)
Interest income (Note 16)	**(95,284,304)**	(88,178,369)
Gains on sale of available-for-sale financial assets (Note 5)	**(127,481,537)**	(2,023,835)
Operating income before changes in working capital	**4,312,020,288**	7,498,908,543
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets at fair value through profit or loss (Note 5)	**(4,223,643,104)**	(5,760,485,899)
Insurance receivables	**6,920,260**	(9,907,648)
Reinsurance assets	**(594,475,759)**	(585,274,095)
Loans and receivables	**201,028,044**	(363,792,250)
Other assets	**(6,184,656)**	2,825,062
Increase (decrease) in:		
Insurance contract liabilities	**(6,827,206)**	9,572,902
Insurance payables	**152,387,787**	242,124,725
Policyholders' dividends	**21,566,200**	17,032,016
Accounts payable and accrued expenses	**(77,375,266)**	(25,653,069)
Due to related parties	**47,639,164**	12,574,594
Net cash generated by (used in) operations	**(166,944,248)**	1,037,924,881
Income taxes paid	**(20,554,932)**	(24,598,163)
Net cash generated by (used in) operating activities	**(187,499,180)**	1,013,326,718
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**100,348,877**	88,831,040
Proceeds from sale/maturities of:		
Available-for-sale financial assets (Note 5)	**533,885,317**	29,427,856
Property, Plant and Equipment (Note 8)	**671,625**	385,000
Acquisitions of:		
Available-for-sale financial assets (Notes 5)	**(644,032,597)**	(209,864,476)
Property and equipment (Note 8)	**(7,559,766)**	(5,511,422)
Additional investments in IIFs (Note 5)	**(4,000,000)**	(25,400,000)
Net cash used in investing activities	**(20,686,544)**	(122,132,002)

(Forward)

	Years Ended December 31	
	2014	2013
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(₱208,185,724)**	₱917,194,102
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,286,463,369**	369,269,267
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱1,078,277,645**	₱1,286,463,369

See accompanying Notes to Financial Statements.

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Paul Anthony P. Mandal
Corporate Secretary
Date: May 7, 2015

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Manulife China Bank Life Assurance Corporation (formerly The Pramerica Life Insurance Company, Inc.) (the Company) was incorporated and registered with the Securities and Exchange Commission (SEC) in 1998 to carry on the business of life insurance. The Company received its Certificate of Authority from the Insurance Commission of the Philippines (IC) in the same year.

On May 12, 2006, The Manufacturers Life Insurance Company of Canada (Manulife Canada), a corporation established and existing under the laws of Canada, acquired the entire shareholdings of the Company, a wholly-owned subsidiary of Prudential International Insurance Holdings, Ltd. (PII), a company based in New Jersey, USA. PII is in turn a wholly-owned subsidiary of Prudential Financial, Inc. (PFI), a company based in Newark, New Jersey, USA. As a result of this transaction, the Company became a wholly owned subsidiary of Manulife Canada and its ultimate parent became Manulife Financial Corporation (MFC).

On January 5, 2007, a Bancassurance Alliance Agreement (the Agreement) was made and entered by and between Manulife Canada and China Banking Corporation (the Bank), a corporation duly organized under Philippine laws and registered with the SEC. The parties have agreed to enter into a 15-year exclusive bancassurance alliance to distribute life insurance products to the Bank's customers, and the Bank has undertaken not to distribute, market or endorse the products of any other life insurance company during the term of the 15-year exclusive bancassurance alliance.

On March 5, 2007, in the special meeting of the Company's Board of Directors (BOD), majority of the members of BOD approved the change in name of the Company from The Pramerica Life Insurance Company, Inc. to Manulife China Bank Life Assurance Corporation. The SEC approved the Company's application for the change in name on March 23, 2007.

On August 8, 2007, the Bank acquired 5% of the Company's capital stock, equivalent to 125,000 common shares.

On December 3, 2008, The Manufacturers Life Insurance Co. (Phils.), Inc. (Manulife Philippines), a subsidiary of MFC, purchased the 95% of the Company's capital stock from Manulife Canada.

On September 12, 2014, Manulife Philippines has sold 1,750,000 Common Shares representing thirty five percent (35%) of the total issued shares in the capital stock of the company and contributed surplus to the Bank. The Bank and Manulife Philippines have contemporaneously entered into the Bancassurance Agreement, the Addendum to Administrative Services Agreement, the Share Purchase Agreement and the Deed of Absolute Sale of Shares of Stock and Transfer of Contributed Surplus. The Bank after the sale now has forty (40%) stake in the Company.

The registered office address of the Company is 24th Floor, LKG Tower, 6801 Ayala Avenue, Makati City. Manulife Philippines administers the Company's operations

The accompanying financial statements were approved and authorized for issue by the BOD on March 31, 2015.

2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on the historical cost basis except for available-for-sale (AFS) financial assets and financial instruments at fair value through profit or loss (FVPL) which have been measured at fair value.

The financial statements are presented in Philippine Peso (₱), which is also the Company's functional currency.

Statement of Compliance
The financial statements which are prepared for submission to the SEC and the Bureau of Internal Revenue (BIR) have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations based on equivalent interpretation from International Financial Reporting Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PAS and PFRS mandatory for financial years beginning on or after January 1, 2014. Unless indicated otherwise, these new, revised and amended standards, interpretations and improvements to PFRS did not have any impact on the accounting policies, financial position or performance of the Company.

- PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements* (Amendments)
  These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments must be applied retrospectively, subject to certain transition relief.

  These amendments have no impact to the Company's financial statements.

- PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)
  These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively.

  These amendments have no impact on the Company's financial statements.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Company as the Company has not novated its derivatives during the current or prior periods.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
  These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

  The application of these amendments has no material impact on the disclosure in the Company's financial statements.

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The adoption of the standard has no impact on the Company's financial statements.

- Annual Improvements to PFRSs (2010-2012 cycle)
  In the 2010 – 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no impact on the Company's financial statements.

- Annual Improvements to PFRSs (2011-2013 cycle)
  In the 2011 – 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards–First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Company as it is not a first time PFRS adopter.

<u>Standards Issued but not yet Effective</u>
Enumerated below are standards issued but not yet effective up to the date of issuance of the Company's financial statements. The Company will adopt the relevant standards when these become effective. The Company does not expect the adoption of these new and amended PFRS to have significant impact on the Company's financial statements.

- PFRS 9, *Financial Instruments* – Classification and Measurement (2010 version)
  PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income

(OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine FRSC. Such adoption, however, is still for approval by the Board of Accountancy (BOA).

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will have not any impact on the company financial statements.

The following new standards and amendments issued were already adopted by FRSC but are still for approval of the Philippine Board of Accountancy (BOA).

Effective January 1, 2015

- PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)
  PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Company, since it has no defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to PFRSs and are effective for annual periods beginning on or after January1, 2015. The Company will adopt these Annual Improvements when these become effective. The Company does not expect the adoption of these Annual Improvements to have significant impact on the Company's financial statements.

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
  - A performance condition must contain a service condition
  - A performance target must be met while the counterparty is rendering service
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
  - A performance condition may be a market or non-market condition
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity in subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments,* if early adopted). The Company shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments are applied retrospectively and clarify that:
  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
  The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

- PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to PFRSs and are effective for annual periods beginning on or after January 1, 2015. The Company will adopt these Annual Improvements when these become effective. The Company does not expect the adoption of these Annual Improvements to have significant impact on its financial statements.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*
  The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (*or PFRS 9, as applicable*).

- PAS 40, *Investment Property*
  The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Effective January 1, 2016

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture – Bearer Plants* (Amendments)
  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company as the Company does not have any bearer plants.

- PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements* (Amendments)
  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016.with early adoption permitted. These amendments will not have any impact to the Company's financial statements.

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after 1 January 2016.

- PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
  The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company.

- PFRS 14, *Regulatory Deferral Accounts*
  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Company is an existing PFRS preparer, this standard would not apply.

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle) contain non-urgent but necessary amendments to PFRS and are effective for annual periods beginning on or after January 1, 2016. The Company will adopt these annual improvements when these become effective. The Company does not expect the adoption of these annual improvements to have a significant impact on the company financial statements. They include:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
  The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*
  PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, *Employee Benefits – regional market issue regarding discount rate*
  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, *Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'*
  The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

- PFRS 9, *Financial Instruments* – Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)
  PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

  PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets but will have no impact on the classification and measurement of the Company's financial liabilities. The Company is currently assessing the impact of adopting this standard.

- *PFRS 9, Financial Instruments (2014 or final version)*
  In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The Company is currently assessing the impact of adopting this standard.

The following new standard issued by the IASB has not yet been adopted by the FRSC

- IFRS 15 Revenue from Contracts with Customers
  IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised 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.

  The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

IC Circular Letter (CL) No. 2014-42-A
On October 30, 2014, the IC issued CL No. 2014-42-A, *Valuation Standards for Life Insurance Policy Reserves*. The following are the more significant provisions of this Circular:

1. A life insurance company must value the policy reserves of its life business at the end of each calendar year as required by the IC, in accordance with this set of Valuation Standards for Life Insurance Policy Reserves.

2. The methods and valuation assumptions must:
   a. be appropriate to the type of business and its risk profile;
   b. include appropriate margins for adverse deviations in respect of the risks that arise under the insurance policy;
   c. be in accordance with the internationally accepted actuarial standards; and
   d. consider the generally accepted actuarial principles concerning financial reporting framework promulgated by the Actuarial Society of the Philippines (ASP).

3. Unless the context othenrvise requires, the following terms shall be taken to mean:
   a. “variable contract" is as defined in Section 238 (b) of the Amended Insurance Code (RA 10607)
   b. "traditional policy" is a policy other than variable contract, which includes life, health or accident, annuity contracts and supplementary benefits or riders
   c. "company" is a life insurance company supervised by the IC.

Valuation Methodology

1. An actuary duly accredited by the IC shall be responsible in determining the level of policy reserves based on his professional valuation of the company's life insurance liabilities using a basis no less stringent than that prescribed in the following paragraphs.

2. Subject to paragraphs 3 to 5 below, the reserves for traditional life insurance policies must be valued, where appropriate, using gross premium valuation. This is calculated as the sum of the present value of future benefits and expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate risk-free discount rate. For this purpose, the expected future cash flows shall be determined using best estimate assumptions with due regard to significant recent experience and appropriate margin for adverse deviation from the expected experience.

3. For any traditional life insurance policy where the guaranteed cash value as at valuation date is greater than zero, the reserve calculated based on paragraph 2 must be floored at the guaranteed cash value.

4. For any traditional life insurance policy where the guaranteed cash value as at valuation date is zero, and the corresponding reserve calculated based on paragraph 2 is negative, the company must appropriate from the unassigned surplus an amount equal to the aggregate of the negative reserves calculated on a per policy basis.

5. For any traditional life insurance policy with a term of one year or less, the reserve shall be calculated using the unearned premium method.

6. A company shall value the reserves for variable life insurance contracts as the sum of the:

   a. market value of the underlying assets backing the separate accounts relating to the policy, excluding any seed capital; and
   b. unearned cost of insurance or unearned risk charge.

7. A more conservative basis of valuation may be adopted by the Actuary resulting in higher policy reserves compared to the standards set out above, if, in his professional judgment, it is appropriate to do so.

8. Where the reserve of a life insurance policy cannot be appropriately valued using this set of valuation standards, the valuation shalt be done using the basis approved by the IC.

Data Systems

1. The company's Chief Executive Officer (CEO), or responsible officer with a rank of at least Vice President or its equivalent, shall ensure that the company's database is properly maintained so that the data on business in force is accurate and complete. The CEO or the responsible officer shall furnish the data to the actuary and grant him/her reasonable access to its database.

2. Reasonable tests shall be applied on the data to check both its integrity and completeness before starting the valuation process.

Valuation Assumptions

1. Discount rates

   a. The risk-free discount rate shall be used for all cash flows to determine the liability of a traditional life insurance policy.

   b. The yield curve used as basis for the risk-free discount rate shall be obtained from the following sources:
      i. for Philippine Peso policies : PDST-R2 rates
      ii. for US Dollar policies: International Yield Curve (IYC) from Bloomberg

   c. The risk-free discount rate shall be the equivalent zero-coupon spot yield of the above yield curve with matching duration. Duration is the term to maturity of each future cash flow.

   d. If the duration of the cashflow is more than that of the longest available bond, then the discount rate shall be based on the longest bond yield rate.

   e. Where yields at certain durations are not available, these yields shall be appropriately interpolated from available information.

   f. The IC will provide the yield curve and risk-free discount rate annually, and may change the sources of the yield curve when appropriate.

2. Non-guaranteed Benefits

   The level of non-guaranteed benefits under traditional life insurance policies to be valued, including policy dividends, shall be determined with due regard to the company's duty to treat its policyholders fairly and meet policyholders' reasonable expectations.

3. Expenses

   a. The expense assumptions shall be based on the company's experience derived from its latest expense study. Otherwise, basis and justification of the assumptions used must be provided.

   b. Suitable non-negative expense inflation rate shall be used. All projected expected expenses shall be recognized in the valuation process.

4. Mortality and Morbidity

   The mortality and morbidity assumptions shall be based on rates of mortality and morbidity that are appropriate to the nature of the risks covered based on the company's actual experience. If actual experience is not available or if the company's actual experience is inappropriate to be used, the basis and justification for the assumptions used must be provided.

5. Lapse and/or Persistency

   The lapse and/or persistency rates reflective of the company's actual experience shall be taken as the best estimate lapse and/or persistency assumption, with due regard to changing company practices and market conditions. If lapse and/or persistency experience is not yet available, the basis and justification for the assumption used must be provided.

Margin for Adverse Deviation (MfAD)

1. Fixed margins for adverse deviations (MfAD) will be used subject to a minimum of:
   a. Interest: +l-10% of discount rate
   b. Expense: 10% of best estimate expenses
   c. Other assumptions including but not limited to mortality, morbidity, lapse and conversion: +1-10% of best estimate assumptions

2. For mortality and lapse assumptions, the sign (positive or negative) of MfAD should be tested per group of products at the time of valuation. MfAD will have the same sign for all durations per group of products. The product grouping shall be whole life, endowment and term.

3. For interest assumption, the sign (positive or negative) of MfAD should be tested on aggregate basis.

4. The MfAD on expenses will be on expense components that are exposed to uncertainty. The commissions payable to agents/distributors and taxes may not be subject to MfAD.

5. The provision for adverse deviation or the additional reserves due to the MfAD for each component (i.e., expense, mortality/morbidity, lapse, interest) must be non-negative.

6. Any change in the level of MfAD used must be justified.

The above ICL will become effective December 31, 2015. The Company is currently assessing the impact of the standard.

Product Classification

Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder.

As a general guideline, the Company defines significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index, or other variable. Investment contracts mainly transfer significant financial risk but can also transfer insignificant insurance risk.

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

Insurance and investment contracts are further classified as being with or without discretionary participation features (DPF). DPF is a contractual right to receive, as a supplement to guaranteed contracts, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on the performance of a specified pool of contracts or a specified type of contract, realized and or unrealized investment returns on a specified pool of assets held by the issuer, or the profit or loss of the Company, fund or other entity that issues the contract.

For financial options and guarantees which are not closely related to the host insurance contract and/or investment contract with DPF, bifurcation is required to measure these embedded financial derivatives separately at FVPL. Bifurcation is not required if the embedded derivative is itself an insurance contract and/or investment contract with DPF or when the host insurance contract and/or investment contract with DPF itself is measured at FVPL. The options and guarantees within the insurance contracts issued by the Company are treated as derivative financial instruments which are clearly and closely related to the host insurance and therefore not bifurcated subsequently. As such, the Company does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). Likewise, the embedded derivative in unit-linked insurance contracts linking the payments on the contract to units of insurance investment funds meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of change in value.

Insurance Receivables

Insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortized cost, using the effective interest rate method. The carrying value of insurance receivables are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

Insurance receivables are derecognized when the derecognition criteria for financial assets have been met.

Reinsurance

The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

The reinsurance assets also consist of reinsurance companies' share in the insurance contract liabilities.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year.

Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the statement of income.

Ceded reinsurance arrangements do not relieve the Company from its obligations policyholders. Premiums and claims are presented on a gross basis for ceded reinsurance.

Financial Instruments

Date of Recognition

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

Initial Recognition of Financial Instruments

Financial instruments are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instrument measured at Fair Value through Profit or Loss. Financial assets are classified as: (1) financial assets at FVPL; (2) loans and receivables; (3) AFS financial assets. Financial liabilities are classified as: (1) financial liabilities at FVPL; or (2) other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Day 1 Difference
Where the transaction price in a non-active market is different from the fair value based on observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is recognized in the Company's statement of income only 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.

Fair Value Measurement
The Company measures financial instruments, such as, FVPL and AFS financial assets and derivatives at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 20.

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

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

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

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

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

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

Financial instruments at FVPL
Financial assets and financial liabilities at FVPL include those assets and liabilities held-for-trading purposes or those designated by management at FVPL on initial recognition. Derivative instruments, except those covered by hedge accounting relationships, are classified under this category.

Financial assets and financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term.
Financial assets and financial liabilities may be designated at FVPL when the following criteria are met:
(a) The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities recognizing gains or losses on them on a different basis;
(b) The assets or liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or
(c) The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear with little or no analysis that it would not be separately recorded.

Subsequent to initial recognition, these instruments are re-measured at fair value. Fair value gains and losses are recognized in the statement of income under the 'Fair value gains or losses on financial assets at FVPL account. Interest earned on debt instruments is reported as interest income under "Investment income" account.

The Company's financial assets at FVPL consist of peso and dollar-denominated government debt securities and debt and equity securities of the insurance investment funds.

The insurance investment funds set by the Company underlying the unit-linked insurance contracts are designated as at FVPL in accordance with the investment strategy and valuation provisions of the unit-linked policy contracts. Likewise, this is consistent with the valuation basis of the reserve for variable units held by policyholders.

AFS Financial Assets
AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. After initial recognition, AFS financial assets are re-measured at fair value with gains and losses being recognized as a separate component of other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in the statement of income.

As of December 31, 2014 and 2013, the Company's AFS financial assets represent investments in fixed-rate government treasury notes.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method less allowance for impairment losses. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

As of December 31, 2014 and 2013, the Company's loans and receivables represent mainly cash and cash equivalents, insurance receivables, accrued income, security fund contributions, policy loans and other receivables.

Other Financial Liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of income.

As of December 31, 2014 and 2013, other financial liabilities include the Company's insurance payable, policyholders' dividends, due to related parties, accounts payable and accrued expenses.

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

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt if it has a contractual obligation to:

- Deliver cash or another financial asset to another entity or
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. 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.

Impairment of 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. 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 has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortized Cost
For 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 financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original effective interest rate of the asset. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

If, in a subsequent year, 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 impairment and credit losses" account.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type and past due status.

AFS Financial Assets Carried at Fair Value
In case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and
the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income) is removed from other comprehensive income and recognized in the statement of income. Impairment losses on equity instruments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of investment income in the statement of income. If, in a subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Derecognition of Financial Instruments

Financial Asset

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

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

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

Financial Liability

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

Policy Loans

Policy loans, included in loans and receivables, are carried at their unpaid balances plus accrued interest and are secured by the cash surrender values and dividends on which the loans are made. Policy loans are accounted for based on the accounting policy for loans and receivables.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization, and any impairment in value.

Depreciation and amortization is calculated using the straight-line method over the estimated useful lives (EUL) of the property and equipment. Leasehold improvements are amortized over the EUL of the improvement or the term of the lease, whichever is shorter. The EUL of the individual significant components of property and equipment are as follows:

	Years
Electronic Data Processing (EDP) equipment	3
Leasehold improvements	Shorter of lease term or 5 years
Furniture and fixtures	5
Transportation equipment	5

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise 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 the statement of income in the year the item is derecognized.

The useful life and depreciation and amortization methods are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits for each item of property and equipment.

Impairment of Nonfinancial Assets

The carrying values of the Company's nonfinancial assets (e.g., property and equipment) are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units (CGU) are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less cost to sell and value in use. 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the statement of income.

A previously recognized impairment loss is reversed by a credit to current operations to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

Insurance Contract Liabilities

Life insurance contract liabilities

The provision for life insurance contracts or legal policy reserves is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing at the inception of the contract. Assumptions and actuarial valuation methods are also subject to the provisions of the Insurance Code (the Code) and guidelines set by the Insurance Commission.

For life insurance contracts with fixed and guaranteed terms, estimates are made in two stages. At the inception of the contracts, the Company determines assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. These assumptions are used for calculating the liabilities during the life of the contract. A margin for risk and uncertainty is added to these assumptions. These assumptions are "locked in" for the duration of the contract.

Subsequently, new estimates are developed at each reporting date to determine whether liabilities are adequate in the light of the latest current estimates. The initial assumptions are not altered if the liabilities are considered adequate. If the liabilities are not adequate, the assumptions are altered (unlocked) to reflect the latest current estimates; no margin is added to the assumptions in this event. As a result, the effect of changes in the underlying variables on insurance liabilities and related assets is not symmetrical. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant deteriorations in estimates have an impact.

The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used.

The liability is based on assumption as to mortality and morbidity, maintenance expenses and investment income that are established at the time the contract is issued.

The Company has different assumptions for different products. However, the reserves are computed to comply with the statutory requirements, which require discount rates to be not more than 6% compound interest and mortality and morbidity rates to be in accordance with the standard mortality and morbidity tables. Reserves are computed per thousand of sum insured and depend on the issue age and policy duration. A margin for adverse deviations is included in the assumptions.

Unit-linked insurance contracts
The Company issues unit-linked insurance contracts. In addition to providing life insurance coverage, a unit-linked contract links payments to insurance investment funds set-up by the Company with consideration received from the policyholders. As allowed by PFRS 4, the Company chose not to unbundle the investment portion of its unit-linked products. Premiums received from the issuance of unit-linked insurance contracts are recognized as premium revenue. Consideration received from policyholders that are transferred to the segregated funds is recognized as part of gross change in legal policy reserves in the statements of income.

The Company withdraws from the consideration received from the policyholders administrative and cost of insurance charges in accordance with the provisions of the unit-linked insurance contracts. After deduction of these charges, the remaining amounts in fund assets are equal to the surrender value of the unit-linked policies, and are withdrawable anytime.

The investment returns on the insurance investment funds belong to policyholders and the Company does not bear the risk associated with these assets (outside of guarantees offered). Accordingly, investment income earned and expenses incurred by these funds and payments to policyholders have the same corresponding change in the reserve for unit-linked liabilities. Such changes, have no effect on the Company's results of operations and are therefore not separately presented in the statements of income. Management fee income earned by the Company for managing the insurance investment funds is included in other income.

Insurance investment funds net assets are recorded at fair value and primarily include investments in debt securities, equities, short-term investments and cash and cash equivalents. The methodology applied to determine the fair value of the investments held in these funds is consistent with that applied to investments held by general fund. Reserve for unit-linked liabilities is measured based on the value of the insurance investment funds attributable to the policyholders.

The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to its total number of outstanding units multiplied by the net asset value per unit (NAVPU). The NAVPU is the market value of the fund divided by its total number of outstanding units.

Claims payable
Claims payable consists of unpaid claims which are payable to policyholders.

Liability adequacy tests
At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future cash flows, claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the statement of income by establishing a provision for losses arising from liability adequacy tests.

Discretionary Participation Feature
A discretionary participation feature (DPF) is a contractual right that gives policyholders the right to receive supplementary discretionary returns through participation in the surplus arising from the assets held in the specified fund. The supplementary discretionary returns are subject to the discretion of the Company and are within the constraints of the terms and conditions of the contract. The obligations for all supplementary returns which the policyholders did not withdraw from the Company and left to accumulate and earn interest are recognized in the policyholders' dividends account in the liabilities section in the statement of financial position. Estimated dividends due to participating policies for the next policy year are reflected under Reserve for policyholders' dividends. Policyholders' dividends are carried at amortized cost.

Insurance Payables
Insurance payables are recognized when due and measured on initial recognition at fair value of the premium due. Subsequent to initial recognition, these are measured at amortized cost using the effective interest rate method.

Equity
Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Contributed surplus represents the original contributions of the stockholders of the Company, in addition to the paid-up-capital stock, in order to comply with the pre-licensing requirements as provided under the insurance code.

Direct cost incurred related to the equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to equity.

Retained earnings
Retained Earnings represent accumulated net income of the Company, net of dividends declared.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. The Company assesses its revenue arrangement against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded 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.

Insurance premiums
Gross recurring premiums from life insurance contracts are recognized when due. For single premium business, revenue is recognized on the date from which the policy becomes effective. For regular premium contracts, receivables are recorded at the date when payments are due.

Investment income
Investment income is recognized in the statement of income as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated using the effective interest method.

Investment income also includes income from change in the net asset value (NAV) of units in the segregated fund that the Company owns. This resulted from the movement of fair market values in the segregated fund compared to the last valuation date.

Other income
Other income includes premium load, service fee, management fee from investment funds, cost of insurance, processing fee, monthly load and miscellaneous income. Service and management fees and other income are recognized when services are rendered.

Benefits and Claims Recognition
Benefits and claims
Life insurance business claims reflect the cost of all claims arising during the year, including claims handling costs. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Benefits recorded are then accrued as liabilities.

For unpaid benefits, a provision is made for the estimated cost of all claims and dividends notified but not settled at the reporting date, net of reinsurance recoveries, using the information available at the time. Provision is also made for the cost of claims incurred but not reported (IBNR) until after the reporting date based on the Company's experience and historical data.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Changes in legal policy reserves are recognized in the statement of income.

Expense Recognition
Expenses are recognized in the statement of income when incurred. These 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 can only be broadly or indirectly determined; or
- immediately when 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 position as an asset.

General and administrative expenses
General and administrative expenses are costs attributable to administrative and other business activities of the Company and are recognized in the statement of income as incurred.

Commission expenses
Commission expenses are charged against operations when incurred.

Dividend and dividend interest to policyholders
Dividend expense attributable to dividend entitlement of certain insurance policies is recognized as it accrues. Increases in reserve attributable to policyholders' dividend are recognized as expense during the period. Interest expense on accumulated policyholders' dividends is recognized in the statement of income as it accrues and is calculated by using the effective interest rate method. Accrued interest is credited to the liability account every policy anniversary date.

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenario: a, c or d above, and at the date of renewal or extension period for scenario b.

Company as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the profit and loss on a straight-line basis over the lease term. Indirect costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognized over the lease term on the same basis as the lease income. Minimum lease payments are recognized on a straight-line basis while the variable rent is recognized as an expense based the terms of the leased contract.

Foreign Currency-Denominated Transactions and Translations
Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange at the reporting date.

Differences arising from monetary and nonmonetary assets and liabilities are taken to the statement of income.

Nonmonetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the date of transaction and nonmonetary assets and liabilities that are measured at fair value are translated using the exchange rate when the fair value was determined.

Income Tax

Current tax

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

Deferred tax

Deferred tax is provided 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, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, excess MCIT over RCIT and unused NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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 income tax asset 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 asset to be recovered.

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 tax relate to the same taxable entity and the same taxation authority.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where 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 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 interest expense.

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

Events After Reporting Period
Post year-end events that provide additional information about the Company's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are non-adjusting events are disclosed in the notes to the financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The Company makes judgments, estimates and assumptions that affect the reported amounts of assets and liabilities. Judgments 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.

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

Product classification
The Company has determined that the traditional and unit-linked insurance policies (that link the payments on the contract to units of insurance investment funds) have significant insurance risk and, therefore meet the definition of an insurance contract and should be accounted for as such.

The options and guarantees within the insurance contracts issued by the Company are treated as derivative financial instruments which are clearly and closely related to the host insurance and therefore not bifurcated subsequently. As such, the Company does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

Impairment of financial assets at amortized cost
The Company reviews its loans and receivables at each reporting date to assess whether an allowance for impairment losses should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to age of balances, financial status of counterparties, payment behavior, legal opinion on recoverability in case of legal disputes and known market factors. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a regular basis. In addition to specific allowance against individually significant loans and receivables, the Company also makes a collective impairment allowance against exposures, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is generally based on the age and status of the accounts.

Estimates and Assumptions

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

Claims liability arising from insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. Claims estimation considers many factors including industry average mortality or morbidity experience, with adjustments depending on the Company's own experience. See Note 10 for related balances.

Estimation of allowance for impairment losses

The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the debtors, the debtor's payment behaviour and known market factors. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis.

In addition to specific allowance against individually significant loans and receivables, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired.

As of December 31, 2014 and 2013, the carrying value of loans and receivables amounted to ₱217.57 million and ₱418.60 million, respectively (see Note 5). As of December 31, 2014, the insurance receivables, reinsurance assets, and accrued income amounted to ₱32.04 million, ₱2.27 billion and ₱93.08 million, respectively. As of December 31, 2013, the insurance receivables, reinsurance assets, and accrued income amounted to ₱38.96 million, ₱1.67 billion, and ₱78.88 million, respectively.

Estimated useful lives of property and equipment

The Company reviews annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation and decrease the related asset accounts.

As of December 31, 2014 and 2013, the carrying value of property and equipment amounted to ₱15.59 million and ₱15.29 million, respectively (Note 8).

Determination of fair value
The fair value for financial instruments traded inactive markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking rpices are not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances sine the tine of the transaction.

Recognition of deferred tax assets
Deferred tax assets are recognized for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. See Note 19 for related balances.

Contingencies
The Company is currently involved in various proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and outside counsel handling the Company's defense in these matters and is based upon an analysis of potential results. The Company currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* is not disclosed as it may prejudice the outcome of these on-going claims and assessments. As of December 31, 2014, these assessments are still ongoing,

4. Cash and Cash Equivalents

This account consists of:

	2014	2013
Cash on hand		
Petty cash fund	**₱68,934**	₱30,000
Cash in banks (Note 25)		
Cash in commercial banks	**200,834,849**	328,766,618
Short-term deposits in commercial banks	**5,249,291**	112,610,276
	206,153,074	441,406,894
Cash held in insurance investment funds (Notes 6 and 25):		
Cash in banks	**208,362,631**	194,274,584
Short-term deposits	**663,761,940**	650,781,891
	872,124,571	845,056,475
	₱1,078,277,645	₱1,286,463,369

Cash in banks earns interest at the corresponding bank deposit rate. Short-term deposits are made for varying periods of between one (1) day and one month depending on the immediate cash requirements of the Company, and earn interest at the corresponding short-term deposit rate. The range of interest rates is from 1.50% to 3.25% and from 2.625% to 3.25% in 2014 and 2013, respectively. Interest earned amounted to ₱1.91 million and ₱1.79 million in 2014 and 2013, respectively (see Note 16).

5. Financial Assets

The assets included in each of the categories are detailed below:

	2014	2013
Financial assets at FVPL (Note 6)	**₱16,360,372,446**	₱11,735,234,542
AFS financial assets	**1,701,434,109**	1,551,647,719
Loans and receivables	**217,571,366**	418,599,410
	₱18,279,377,921	₱13,705,481,671

a) Financial Assets at FVPL

The breakdown of assets in insurance investment funds designated as financial assets at FVPL is as follows (see Note 6):

	2014	2013
Debt securities:		
Peso-denominated government securities	**₱7,089,798,691**	₱5,785,106,455
Dollar-denominated	**1,646,771,739**	1,513,114,857
Listed equity securities		
Peso-denominated	**6,323,751,506**	3,441,322,511
Dollar-denominated	**1,300,050,510**	995,690,719
	₱16,360,372,446	₱11,735,234,542

b) AFS Financial Assets

AFS financial assets represent mainly fixed-rate treasury notes with interest rates ranging from 5.75% to 12.5% and 7.63% to 12.5% in 2014 and 2013, respectively. AFS financial assets amounted to ₱1.70 billion and ₱1.55 billion, respectively.

The rollforward analysis of AFS financial assets follows:

	2014	2013
Balance at beginning of year	**₱1,551,647,719**	₱1,287,068,549
Additions	**644,032,597**	209,864,476
Disposals/maturities	**(533,885,317)**	(29,427,856)
Net premium amortization	**(2,285,044)**	(1,712,040)
Fair value gains recognized in other comprehensive income	**41,924,154**	85,985,859
Foreign currency exchange adjustments	**–**	(131,269)
Balance at end of year	**₱1,701,434,109**	₱1,551,647,719

The movement in unrealized fair value gains of AFS financial assets follows:

	2014	2013
Balance at beginning of year	**₱340,153,438**	₱256,191,414
Changes in fair value of available-for-sale financial assets	**41,924,154**	85,985,859
Realized gains transferred to statements of income	**(127,481,537)**	(2,023,835)
Net change during the year	**(85,557,383)**	83,962,024
Balance at end of year	**₱254,596,055**	₱340,153,438

Government securities classified as AFS financial assets with aggregate carrying value of ₱192.25 million and ₱186.25 million and face amount of ₱125 million as of December 31, 2014 and 2013, respectively, are deposited to the Insurance Commission pursuant to the provisions of the Insurance Code as security for the benefit of policyholders and creditors of the Company.

c) Loans and Receivables

This account consists of:

	2014	2013
Accounts receivable held in IIF (Note 6)	**₱136,142,597**	₱370,184,605
Policy loans	**60,527,744**	37,979,345
Due from related parties (Note 14)	**1,306,383**	1,306,383
Security fund contribution	**141,244**	141,244
Other receivables	**19,453,398**	8,987,833
	₱217,571,366	₱418,599,410

Accounts receivable held in IIF consists of peso receivables amounting to ₱136.14 million and ₱326.18 million as of December 31, 2014 and 2013, respectively, and dollar receivables equivalent to nil and ₱44.01 million as of December 31, 2014 and 2013, respectively.

Policy loans pertain to loans issued to policyholders. The loan is secured with the cash surrender value and earned dividends on the policy. Interest rates charged range from 7.5% to 8% in 2014 and 2013, respectively.

The security fund which is held by the Insurance Commission, in compliance with Sections 365 and 367 of the Code, as amended under Presidential Decree 1640, is to be used for payment of valid claims against insolvent insurance companies.

Other receivables include miscellaneous receivables from employees during the year.

6. **Insurance Investment Funds (IIF)**

The Company issues unit-linked insurance contracts where the payments to policyholders are linked to insurance investment fund set up by the Company. As of December 31, 2014, the Company has 16 IIFs namely: Peso Dynamic Allocation Fund, Summit Peso Bond Fund, Summit Peso Stable Fund, Summit Peso Equity Fund, Peso Balanced Fund, Summit Dollar Bond Fund, Peso Secure Fund, Peso Diversified Value Fund, Peso Growth Fund, Target Income Fund, Target Distribution Fund, US Dollar Secure Fund, Asia Pacific Bond Fund, Asean Growth Fund, Peso Cash Fund and Wealth Premier Fund. These funds are included as part of FVPL financial assets of the Company (see Note 5).

The debt and equity securities of these funds are included in the financial assets at FVPL of the Company (see Note 5).

The IIFs are set up using a fund-in-fund approach. Under this structure, the IIFs purchase units of a pool of assets, which are referred to as Underlying Funds (UF). The UFs consist of Peso Bond Pool, Peso Money Market Pool, Peso Equity Pool, Dollar Bond Pool, Asia Bond Pool, Asean Growth Pool, Peso Cash Pool and Wealth Premier Pool.

The details of the IIFs are as follows:

December 31, 2014

	Assets	Due to unit-linked holders (Note 10)	Seed Capital	Total
Peso Dynamic Allocation Fund	**₱2,842,233,863**	**₱2,840,111,396**	**₱2,122,467**	**₱2,842,233,863**
Summit Peso Bond Fund	**200,998,781**	**197,326,609**	**3,672,172**	**200,998,781**
Summit Peso Stable Fund	**93,326,969**	**89,697,633**	**3,629,336**	**93,326,969**
Summit Peso Equity Fund	**189,175,923**	**184,833,240**	**4,342,683**	**189,175,923**
Peso Balanced Fund	**92,082,713**	**89,955,056**	**2,127,657**	**92,082,713**
Summit Dollar Bond Fund	**152,744,751**	**150,022,871**	**2,721,880**	**152,744,751**
Peso Secure Fund	**3,416,632,840**	**3,413,474,852**	**3,157,988**	**3,416,632,840**
Peso Diversified Value Fund	**2,375,462,250**	**2,371,867,007**	**3,595,243**	**2,375,462,250**
Peso Growth Fund	**3,739,207,438**	**3,732,822,881**	**6,384,557**	**3,739,207,438**
US Dollar Secure Fund	**716,750,649**	**710,145,700**	**6,604,949**	**716,750,649**
Target Income Fund	**64,392,746**	**62,385,585**	**2,007,161**	**64,392,746**
Target Distribution Fund	**1,333,789,016**	**1,331,783,101**	**2,005,915**	**1,333,789,016**
Asia Pacific Bond Fund	**552,735,860**	**550,891,118**	**1,844,742**	**552,735,860**
Asean Growth Fund	**1,339,518,910**	**1,337,502,961**	**2,015,949**	**1,339,518,910**
Peso Cash Fund	**12,685,461**	**11,681,169**	**1,004,292**	**12,685,461**
Wealth Premier Fund	**300,493,945**	**279,483,753**	**21,010,192**	**300,493,945**
	₱17,422,232,115	**₱17,353,984,932**	**₱68,247,183**	**₱17,422,232,115**

December 31, 2013

	Assets	Due to unit-linked holders (Note 10)	Seed Capital	Total
Peso Dynamic Allocation Fund	₱1,072,032,279	₱1,070,131,806	₱1,900,473	₱1,072,032,279
Summit Peso Bond Fund	222,839,627	219,226,388	3,613,239	222,839,627
Summit Peso Stable Fund	104,075,954	100,658,940	3,417,014	104,075,955
Summit Peso Equity Fund	128,418,995	124,910,368	3,508,627	128,418,995
Peso Balanced Fund	34,040,824	32,140,309	1,900,514	34,040,823
Summit Dollar Bond Fund	145,553,141	143,053,529	2,499,612	145,553,141
Peso Secure Fund	3,808,311,323	3,805,194,629	3,116,694	3,808,311,323
Peso Diversified Value Fund	2,375,921,810	2,372,510,313	3,411,496	2,375,921,809
Peso Growth Fund	2,510,449,628	2,505,278,545	5,171,083	2,510,449,628
US Dollar Secure Fund	661,439,190	655,358,461	6,080,729	661,439,190
Target Income Fund	579,364,272	577,576,943	1,787,329	579,364,272
Target Distribution Fund	1,033,763,655	1,031,996,904	1,766,751	1,033,763,655
Asia Pacific Bond Fund	15,470,798	14,468,135	1,002,664	15,470,799
Asean Growth Fund	303,687,234	283,057,474	20,629,761	303,687,234
	₱12,995,368,730	₱12,935,562,744	₱59,805,986	₱12,995,368,730

The breakdown of the net assets of the IIFs is as follows

December 31, 2014

	Peso Bond Pool	Peso Money Market Pool	Peso Equity Pool	USD Bond Pool	Asia Bond Pool	Asean Growth Pool	Peso Cash Pool	Wealth Premier Pool	Accrued Management Fees	Total
Dynamic Allocation Fund	**₱1,143,295,742**	**₱–**	**₱1,704,298,109**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**(₱5,359,988)**	**₱2,842,233,863**
Summit Peso Bond Fund	**187,838,590**	**13,418,163**	–	–	–	–	–	–	**(257,972)**	**200,998,781**
Summit Peso Stable Fund	**55,858,813**	**12,813,276**	**24,794,086**	–	–	–	–	–	**(139,206)**	**93,326,969**
Summit Equity Fund	–	–	**189,492,257**	–	–	–	–	–	**(316,334)**	**189,175,923**
Peso Balanced Fund	**37,037,836**	–	**55,199,468**	–	–	–	–	–	**(154,591)**	**92,082,713**
Target Income Fund	**43,771,023**	**7,702,488**	**13,017,587**	–	–	–	–	–	**(98,352)**	**64,392,746**
Target Distribution Fund	**906,715,206**	**159,578,448**	**269,818,597**	–	–	–	–	–	**(2,323,235)**	**1,333,789,016**
Summit Dollar Bond Fund	–	–	–	**152,971,911**	–	–	–	–	**(227,160)**	**152,744,751**
Peso Secure Fund	**3,117,565,590**	**304,167,025**	–	–	–	–	–	–	**(5,099,775)**	**3,416,632,840**
Peso Diversified Value Fund	**1,402,234,306**	**409,190,473**	**568,025,053**	–	–	–	–	–	**(3,987,582)**	**2,375,462,250**
Peso Growth Fund	–	–	**3,746,260,940**	–	–	–	–	–	**(7,053,502)**	**3,739,207,438**
US Dollar Secure Fund	–	–	–	**717,964,132**	–	–	–	–	**(1,213,483)**	**716,750,649**
Asia Pacific Bond Fund	–	–	–	–	**553,680,379**	–	–	–	**(944,519)**	**552,735,860**
Asean Growth Fund	–	–	–	–	–	**1,342,068,542**	–	–	**(2,549,632)**	**1,339,518,910**
Peso Cash Fund	–	–	–	–	–	–	**12,688,688**	–	**(3,227)**	**12,685,461**
Wealth Premier Fund	–	–	–	–	–	–	–	**300,493,945**	–	**300,493,945**
	₱6,894,317,106	**₱906,869,873**	**₱6,570,906,097**	**₱870,936,043**	**₱553,680,379**	**₱1,342,068,542**	**₱12,688,688**	**₱300,493,945**	**(₱29,728,558)**	**₱17,422,232,115**

December 31, 2013

	Peso Bond Pool	Peso Money Market Pool	Peso Equity Pool	USD Bond Pool	Asia Bond Pool	Asean Growth Pool	Peso Cash Fund	Wealth Premier Fund	Accrued Management Fees	Total
Dynamic Allocation Fund	₱548,179,114	₱–	₱525,809,297	₱–	₱–	₱–	₱–	₱–	(₱1,956,132)	₱1,072,032,279
Summit Peso Bond Fund	207,039,869	16,085,368	–	–	–	–	–	–	(285,610)	222,839,627
Summit Peso Stable Fund	65,032,553	16,300,088	22,899,126	–	–	–	–	–	(155,813)	104,075,954
Summit Equity Fund	–	–	128,638,280	–	–	–	–	–	(219,285)	128,418,995
Peso Balanced Fund	17,423,064	–	16,673,217	–	–	–	–	–	(55,457)	34,040,824
Summit Dollar Bond Fund	–	–	–	145,769,069	–	–	–	–	(215,928)	145,553,141
Peso Secure Fund	3,463,220,415	350,734,649	–	–	–	–	–	–	(5,643,741)	3,808,311,323
Peso Diversified Value Fund	1,461,278,664	440,070,026	478,611,020	–	–	–	–	–	(4,037,900)	2,375,921,810
Peso Growth Fund	–	–	2,515,219,776	–	–	–	–	–	(4,770,148)	2,510,449,628
US Dollar Secure Fund	–	–	–	662,566,035	–	–	–	–	(1,126,845)	661,439,190
Asia Pacific Bond Fund	–	–	–	–	580,353,495	–	–	–	(989,223)	579,364,272
Asean Growth Fund	–	–	–	–	–	1,035,743,412	–	–	(1,979,757)	1,033,763,655
Peso Cash Fund	–	–	–	–	–	–	15,476,692	–	(5,894)	15,470,798
Wealth Premier Fund	–	–	–	–	–	–	–	303,687,234	–	303,687,234
	₱5,762,173,679	₱823,190,131	₱3,687,850,716	₱808,335,104	₱580,353,495	₱1,035,743,412	₱15,476,692	₱303,687,234	(₱21,441,733)	₱12,995,368,730

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Paul Anthony P. Mandal
Corporate Secretary
Date: May 7, 2015

The underlying funds included in the above pool of assets are composed of the following assets and liabilities:

	2014	2013
Cash in banks (Note 4)	**₱208,362,631**	₱194,274,584
Short-term deposits (Note 4)	**663,761,940**	650,781,891
Debt securities (Note 5)		
Peso-denominated government securities	**7,089,798,691**	5,785,106,455
Dollar-denominated	**1,646,771,739**	1,513,114,857
Listed equity securities (Note 5)		
Peso-denominated	**6,323,751,506**	3,441,322,511
Dollar-denominated	**1,300,050,510**	995,690,719
Accounts receivable held in IIF (Note 5)	**136,142,597**	370,184,605
Accrued income (Note 7)	**83,321,059**	66,334,840
Accrued management fees (Note 12)	**(29,728,558)**	(21,441,732)
	₱17,422,232,115	₱12,995,368,730

The Company's underlying assets in the IIFs are consolidated line by line with the other accounts of the Company.

Accrued management fee is the cost charged for the handling of the underlying funds and is netted against the gross amount of the IIFs to obtain the amount of the assets.

In 2014 and 2013, investment income (loss) of the IIFs amounted to ₱1.26 billion and (₱32.07 million), respectively, and redemptions amounted to ₱1.58 billion in both years.

7. Accrued Income

This account consists of interest income from:

	2014	2013
Held in IIF (Note 6)	**₱83,321,059**	₱66,334,840
Fixed-rate treasury notes	**9,755,423**	12,535,858
Policy fee receivable	**2,776**	2,655
Other receivables	**4,642**	3,857
	₱93,083,900	₱78,877,210

8. Property and Equipment

The rollforward analysis of this account follows:

December 31, 2014

	EDP Equipment	Leasehold Improvements	Furniture and Fixtures	Transportation Equipment	Total
Cost					
Balances at beginning of year	**₱89,526,101**	**₱1,192,703**	**₱39,999**	**₱22,643,450**	**₱113,402,253**
Additions	**2,613,666**	**–**	**24,600**	**4,921,500**	**7,559,766**
Disposals	**–**	**–**	**–**	**(800,000)**	**(800,000)**
Balances at end of year	**92,139,767**	**1,192,703**	**64,599**	**26,764,950**	**120,162,019**

(Forward)

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Corporate Secretary
Date: May 7, 2015

	EDP Equipment	Leasehold Improvements	Furniture and Fixtures	Transportation Equipment	Total
Accumulated depreciation and amortization					
Balances at beginning of year	**₱86,561,010**	**₱746,245**	**₱39,999**	**₱10,761,070**	**₱98,108,324**
Depreciation and amortization (Note 18)	**1,718,517**	**222,570**	**–**	**5,091,382**	**7,032,469**
Disposals	**–**	**–**	**–**	**(573,333)**	**(573,333)**
Balances at end of year	**88,279,527**	**968,815**	**39,999**	**15,279,119**	**104,567,460**
Net book value	**₱3,860,240**	**₱223,888**	**₱24,600**	**₱11,485,831**	**₱15,594,559**

December 31, 2013

	EDP Equipment	Leasehold Improvements	Furniture and Fixtures	Transportation Equipment	Total
Cost					
Balances at beginning of year	₱87,975,679	₱1,192,703	₱39,999	₱19,450,450	₱108,658,831
Additions	1,550,422	–	–	3,961,000	5,511,422
Disposals	–	–	–	(768,000)	(768,000)
Balances at end of year	89,526,101	1,192,703	39,999	22,643,450	113,402,253
Accumulated depreciation and amortization					
Balances at beginning of year	83,492,020	507,704	39,999	6,973,430	91,013,153
Depreciation and amortization (Note 18)	3,068,990	238,541	–	4,197,240	7,504,771
Disposals	–	–	–	(409,600)	(409,600)
Balances at end of year	86,561,010	746,245	39,999	10,761,070	98,108,324
Net book value	₱2,965,091	₱446,458	₱–	₱11,882,380	₱15,293,929

9. Other Assets

This account consists of:

	2014	2013
Refundable deposits - net of allowance for impairment losses of ₱703,793 in 2014 and 2013	**₱5,950,415**	₱3,838,683
Prepayments	**4,353,597**	280,673
	₱10,304,012	₱4,119,356

Prepayments include creditable withholding tax and other prepayments.

10. Insurance Contract Liabilities

This account consists of:

	2014	2013
Legal policy reserves	**₱19,599,773,122**	₱14,582,076,919
Policy and contract claims	**4,779,131**	11,606,337
Reserves for policyholders' dividends	**359,928**	267,547
	₱19,604,912,181	₱14,593,950,803

Details of the legal policy reserves are as follows:

	2014	2013
Unit-linked (Note 6)	**₱17,353,984,932**	₱12,935,562,745
Ordinary life insurance	**2,245,788,190**	1,646,514,174
	₱19,599,773,122	₱14,582,076,919

The movements in legal policy reserves are as follows:

December 31, 2014

	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities**	**Net of reinsurance**
Gross legal policy reserves at beginning of year	**₱14,582,076,919**	**₱1,630,049,030**	**₱12,952,027,889**
Tabular net premiums or considerations	**3,292,737,759**	**3,262,100,252**	**30,637,507**
Tabular interest	**194,881,293**	**192,915,507**	**1,965,786**
Other increases – unit-linked	**4,418,310,139**	**–**	**4,418,310,139**
Total	**22,488,006,110**	**5,085,064,789**	**17,402,941,321**
Less tabular cost	**2,857,302,256**	**2,854,892,663**	**2,409,593**
Reserves released by other terminations (net)	**30,930,732**	**30,619,878**	**310,854**
Legal policy reserves as at end of year	**₱19,599,773,122**	**₱2,199,552,248**	**17,400,220,874**

December 31, 2013

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net of reinsurance
Gross legal policy reserves at beginning of year	₱7,539,429,277	₱1,071,506,197	₱6,467,923,080
Tabular net premiums or considerations	4,419,975,631	4,375,775,874	44,199,757
Tabular interest	194,867,204	192,918,533	1,948,671
Other increases – unit-linked	6,481,204,392	–	6,481,204,392
Total	18,635,476,504	5,640,200,604	12,995,275,900
Less tabular cost	4,023,921,621	3,980,968,390	42,953,231
Reserves released by death	2,132,534	2,111,209	21,325
Reserves released by other terminations (net)	27,345,430	27,071,975	273,455
Legal policy reserves as at end of year	₱14,582,076,919	₱1,630,049,030	12,952,027,889

The movements in policy and contract claims are as follows:

	2014	2013
At beginning of year	**₱11,606,337**	₱2,033,436
Additions during the year	**46,663,715**	26,604,603
Paid during the year	**(53,490,921)**	(17,031,702)
At end of year	**₱4,779,131**	₱11,606,337

11. Reinsurance Agreement with Manulife Philippines

On January 1, 2008, the Company entered into a reinsurance agreement with Manulife Philippines. The reinsurance premiums to be paid by the Company to Manulife Philippines will be net of distribution loading, commission, premium taxes, documentary stamp taxes, value added taxes (VAT), local government and withholding taxes.

On June 30, 2014, the reinsurance agreement with Manulife Philippines was terminated. The reinsurance agreement continues to be valid for all policies covered by such agreement.

As of December 31, 2014 and 2013, the Company's insurance payable to Manulife Philippines amounted to ₱498.17 and ₱345.78, respectively.

As of December 31, 2014 and 2013, the Company's reinsurance assets related to this agreement amounted to ₱2.27 billion and ₱1.67 billion, respectively. The balance as of December 31, 2014 and 2013 comprised of reinsurers' share of insurance contract liabilities of ₱2.20 billion and ₱1.63 billion, respectively and receivable related to death claims ceded by the Company to Manulife Philippines of ₱65.73 million and ₱40.75 million, respectively.

12. Accounts Payable and Accrued Expenses

This account consists of:

	2014	2013
Advance premiums and other policy-related liabilities	**₱109,932,034**	₱186,473,334
Accrued expenses including accrued salaries	**63,167,530**	47,352,198
Commissions payable	**11,782,186**	15,704,584
Accounts payable	**964,782**	4,600,344
Taxes payable	–	7,880,313
Other liabilities	**14,554,945**	15,765,971
	₱200,401,477	₱277,776,744

Advance premiums and other policy-related liabilities includes premiums received from planholders awaiting the issuance or reinstatement of policies.

Other liabilities consist of Philhealth, Social Security System (SSS) contribution and salary loan, Home Development Mutual Fund (HDMF) contribution and loan, and other miscellaneous liabilities.

13. Capital Stock

The Company's capital stock amounting to ₱500.00 million (consisting of 5 million shares) are all issued and outstanding with a par value of ₱100 per share. The Company has ₱1.00 billion authorized capital stock equivalent to 10 million shares with a par value of ₱100 per share.

In October 2011, the Company received additional capital infusion from Manulife Philippines amounting to ₱121.25 million to comply with the regulatory requirements of Insurance Commission on required capital. In November 2011, the Company received additional capital infusion from China Bank amounting to ₱3.75 million. From this additional capital infusion, the Company recognized ₱50.00 million as "Contributed Surplus" and ₱75.00 million as "Deposit for future stock subscription."

On April 12, 2012, the ₱75.00 million deposit for future stock subscription has been approved by the IC and subsequently transferred to Capital Stock.

14. Related Party Transactions

The Company has entered into various transactions with related parties. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions or the parties are subject to common control (referred to as affiliates). Related parties may be individuals or corporate entities.

Outstanding balances at year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party payables or receivables. The Company has not recognized any impairment losses on amounts due from related parties for the years ended December 31, 2014 and 2013. This assessment is undertaken at each financial year through a review of the financial position of the related party and the market in which the related party operates.

The Company has the following volume of transactions and net outstanding balances due to related parties:

December 31, 2014

	Entities	Financial Statement Account	Nature	Terms and Conditions	Transactions during the year	Outstanding Balance
Parent Company	**Manulife Philippines**	**Insurance Payable**	**99% of inforce business ceded to the Parent Company and 1% retained by company**	**Unsecured**	**₱606,333,162**	**₱498,169,127**
		Reinsurance Assets	**Reinsurance assets**	**Unsecured**	**–**	**2,265,277,539**
		Due to Related Parties	**Management fee related to unit-linked investment ceded out to Parent Company**	**Unsecured**	**265,334,280**	**34,402,150**
		Due to Related Parties	**Cost allocation for services rendered**	**Unsecured**	**33,378,266**	**33,378,266**
Ultimate Parent Company	**Manulife Financial Corporation**	**Due to Related Parties**	**Accrued Portia Charge**	**Unsecured**	**432,184**	**472,439**
		Other Receivables	**Reimbursement of expenses**	**Unsecured**	**–**	**1,306,383**
Under Common Control	**Manulife Business Processing Services**	**Due to Related Parties**	**Accrued Portia Charge**	**Unsecured**	**244,342**	**249,367**
	Manulife Regional Office	**Due to Related Parties**	**Reimbursement of expenses**	**Unsecured**	**383,884**	**383,884**

December 31, 2013

	Entities	Financial Statement Account	Nature	Terms and Conditions	Transactions during the year	Outstanding Balance
Parent Company	Manulife Philippines	Insurance Payable	99% of inforce business ceded to the Parent Company and 1% retained by company	Unsecured	₱238,808,797	₱345,781,340
		Reinsurance assets		Unsecured	−	1,670,801,780
		Due to Related Parties	Management fee related to unit-linked investment ceded out to Parent Company	Unsecured	200,473,712	20,886,367
Ultimate Parent Company	Manulife Financial Corporation	Due to Related Parties	Accrued Portia Charge	Unsecured	3,179,316	355,550
Under Common Control	Manulife Business Processing Services	Due to Related Parties	Accrued Portia Charge	Unsecured	188,824	5,025
	Manufacturers Life Insurance Company– Canada	Other Receivables	Reimbursement of expenses	Unsecured	−	1,306,383

15. Insurance Premiums Earned

The details of insurance premiums earned are as follows:

	2014	2013
Gross premiums earned on insurance contracts:		
Unit-linked	**₱4,577,883,446**	₱7,499,528,350
Ordinary life insurance	**956,851,780**	943,977,452
	5,534,735,226	8,443,505,802
Reinsurers' share of gross premiums earned on insurance contracts (Note 14):		
Ordinary life insurance	**747,239,498**	778,916,340
Unit-linked	**(140,906,336)**	(540,107,543)
	606,333,162	238,808,797
	₱4,928,402,064	₱8,204,697,005

Pursuant to the reinsurance agreement between the Company and Manulife Philippines, the amount of reinsurer's share of gross premiums earned on insurance contracts include the amount ceded to Manulife Philippines, reduced by taxes and commissions paid by the Company.

16. **Investment and Other Income - Net**

Investment income consists of:

	2014	2013
Interest income on:		
AFS financial assets	**₱89,449,823**	₱84,299,405
Loans and receivables	**3,926,459**	2,085,624
Cash and cash equivalents (Note 4)	**1,908,022**	1,793,340
	95,284,304	88,178,369
Fair value gains from insurance investment fund classified as FVPL - net (Note 5)	**4,185,655**	12,999,693
Other income	**107,345,941**	7,734,913
	₱206,815,900	₱108,912,975

Other income consists of:

	2014	2013
Premium load	**₱69,657,185**	₱–
Management fee income	**15,236,030**	–
Cost of insurance	**4,778,532**	229,626
Miscellaneous revenue	**17,674,194**	7,505,287
	₱107,345,941	₱7,734,913

Interest income pertains to the interest earned on long-term bonds, policy loans, and time deposits.

Premium load pertains to an upfront charge deducted from the premium paid, before investing into the appropriate funds chosen by the policyowner.

Management fee income refers to the income from management and administration of assets by the Company charged to the unit linked funds.

Cost of insurance are charges used to provide for the mortality component of unit linked products.

Processing fee pertains to the policy charges used to cover administrative expenses.

Included in "Others" are the income earned by the Company from the bid-offer spread charged against the unit-linked policies during the purchases of units in the IIFs, and other management charges.

17. **Benefits and Claims**

Gross insurance contract benefits and claims incurred on insurance contracts consist of:

	2014	2013
Ordinary life insurance	**₱46,458,177**	₱46,808,160
Group life insurance	**5,180,147**	248,333
	₱51,638,324	₱47,056,493

Reinsurer's share of benefits and claims incurred on insurance contracts during the year consist of:

	2014	2013
Ordinary life insurance	**(₱9,576,270)**	(₱12,919,500)
Group life insurance	**(4,290,389)**	(8,099,109)
	(₱13,866,659)	(₱21,018,609)

Change in insurance contract liabilities during the year consist of:

	2014	2013
Unit-linked	**₱4,578,883,446**	₱7,498,672,129
Ordinary life insurance	**29,770,800**	5,641,847
	₱4,608,654,246	₱7,504,313,976

The reinsurers' share of gross change in legal policy reserves in 2014 and 2013 amounted to ₱569.52 million and ₱558.53 million, respectively.

18. General and Administrative Expenses

This account consists of:

	2014	2013
Salaries, wages and employee benefits	**₱200,722,664**	₱201,684,210
Advertising	**37,996,586**	35,048,193
Administrative charges (Note 14)	**33,650,367**	–
Telephone and communications	**16,574,627**	14,683,745
Travel	**15,035,682**	17,379,745
Rent and utilities (Note 21)	**10,076,520**	9,093,284
Outside services	**7,346,201**	6,281,984
Depreciation and amortization (Note 8)	**7,032,469**	7,504,771
Professional and other fees	**4,294,174**	2,127,330
Equipment and supplies	**3,369,783**	5,207,332
Repairs and maintenance	**2,106,023**	2,514,259
Taxes and licenses	**1,644,965**	1,357,209
Others	**7,168,218**	6,278,464
	₱347,018,279	₱309,160,526

19. Income Taxes

The provision for income tax consists of:

	2014	2013
Final taxes on interest income	**₱18,696,395**	₱17,510,053
MCIT	**1,289,179**	6,471,592
	₱19,985,574	₱23,981,645

The reconciliation of tax expense computed based on the pretax income at the statutory tax rate to the provision for income tax follows:

	2014	2013
Income (loss) before income tax	**(₱75,016,566)**	₱100,209,762
Income tax expense at statutory income tax rate	**(22,504,970)**	30,062,929
Additions to (reductions in) income tax expense resulting from:		
Change in temporary differences without recognized deferred tax assets	**90,408,522**	6,743,546
Tax exempt gain on sale of long term investment in bonds	**(39,500,158)**	(4,507,059)
Income subject to final tax	**(8,710,959)**	(8,317,771)
Nondeductible expense	**293,139**	–
	₱19,985,574	₱23,981,645

The Company is subjected to MCIT in 2014 and 2013. The unexpired NOLCO and MCIT, which are available for offset against future taxable income and income tax payable, respectively, are as follows:

Year incurred	MCIT	NOLCO	Expiry Dates
2014	₱1,289,179	₱308,994,300	December 31, 2017
2013	6,471,592	8,617,730	December 31, 2016
2012	4,863,176	49,239,515	December 31, 2015
	₱12,623,947	₱366,851,545	

NOLCO amounting to ₱35,862,403 and MCIT amounting to ₱3,773,746 pertaining to 2011 expired in 2014.

The components of net deferred tax assets as December 31, 2014 as follows:

Deferred tax asset on accrued expenses	₱376,022
Deferred tax liability on unrealized foreign exchange gain	376,022
	₱–

The Company did not recognize deferred tax assets from the following deductible temporary differences, NOLCO, and MCIT since management believes that the benefits will not be realized prior to their expiry dates.

	2014	2013
NOLCO	**₱366,851,545**	₱93,719,648
MCIT	**12,623,947**	15,108,514
Accrued expenses	**9,244,507**	21,174,335
Allowance for impairment losses	**703,793**	703,793
Unrealized foreign exchange loss	–	57,826
	₱389,423,792	₱130,764,116

The following are the movements in NOLCO and MCIT:

	2014	2013
NOLCO		
Balance at beginning of year	**₱93,719,648**	₱126,179,460
Addition	**308,994,300**	8,617,730
Expired/applied	**(35,862,403)**	(41,077,542)
Balance at end of year	**₱366,851,545**	₱93,719,648

	2014	2013
MCIT		
Balance at beginning of year	**₱15,108,514**	₱10,819,333
Addition	**1,289,179**	6,471,592
Expired	**(3,773,746)**	(2,182,411)
Balance at end of year	**₱12,623,947**	₱15,108,514

20. **Risk Management Policies**

Governance Framework

The Company has established a risk management function with clear terms of reference and with the responsibility for developing group wide policies on market, credit, liquidity, insurance and operational risk. It also supports the effective implementation of policies at the overall group and the individual business unit levels.

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

Insurance Risk

The risk under insurance contract is the possibility of the occurrence of an insured event and the uncertainty of the amount and timing of the resulting claim. The principal risk the Company faces under such insurance contracts is that the actual claims and benefit payments or the timing thereof differs from expectations. This could occur due to any of the following:

Occurrence Risk

The possibility that the number of insured events will differ from those expected.

Severity Risk

The possibility that the cost of the events will differ from those expected.

Development Risk

The possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The variability of risks is improved by the diversification of the risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

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

These risks currently do not vary significantly in relation to the location of the risk insured by the Company while undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

There are no mitigating terms and conditions that reduce the insured risk accepted for contracts with fixed and guaranteed benefits and fixed future premiums.

The Company has an objective to control and minimize insurance risk, and to reduce volatility of operating profits. The Company manages insurance risk through the following mechanism:

- Actuarial models based on past experience and statistical techniques aid in pricing decisions and monitoring claims patterns.
- Guidelines are issued for concluding insurance contracts and assuming insurance risks.
- Proactive claims handling procedures are followed to investigate and adjust claims thereby preventing settlement of dubious or fraudulent claims.
- Reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security.
- Diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well-diversified in terms of type and amount of risk, industry and geography.

Insurance risk is also affected by the policyholders' rights to terminate the contract, pay reduced premiums, refusal to pay premiums or to avail the guaranteed annuity option. Thus, the resultant insurance risk is subject to the policyholders' behavior and decisions.

The Company's concentration of insurance risk, before and after reinsurance, in relation to the type of insurance contract is as follows:

	2014	2013
Whole Life Insurance		
Gross	**₱1,023,036,743**	₱806,186,796
Net	**141,692,467**	8,061,868
Endowment		
Gross	**3,429,773,162**	3,305,227,931
Net	**157,249,360**	33,052,279
Term Policies		
Gross	**1,221,234,141**	934,732,519
Net	**571,615,154**	9,347,325
Unit-linked Policies		
Gross	**23,229,502,366**	17,303,724,240
Net	**4,599,392,734**	173,037,242
Total		
Gross	**28,903,546,411**	22,349,871,486
Net	**5,469,949,715**	223,498,714

Underwriting Risk
Underwriting risk represents the exposure to loss resulting from actual policy experience adversely deviating from assumptions made in the product pricing. Underwriting risks are brought about by a combination of the following:

- Mortality risk - risk of loss arising due to policyholder's death experience being different than expected.
- Morbidity risk - risk of loss arising due to policyholder's health experience being different than expected.
- Expense risk - risk of loss arising from expense experience being different than expected.
- Policyholder decision risk - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures.

Underwriting limits are in place to enforce appropriate risk selection criteria.

There are no mitigating terms and conditions that reduce the insured risk accepted for contracts with fixed and guaranteed terms.

Where a derivative is a part of an insurance contract (i.e., embedded derivative), it is treated as an insurance contract and valued as part of the host contract.

Sensitivities
The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis. It should also be noted that movements in these assumptions are non-linear and the degree of impacts cannot easily be gleaned from these results.

	December 31, 2014				
	Change in assumptions	**Increase (decrease) in gross liabilities**	**Increase (decrease) in net liabilities**	**Increase (decrease) in profit before tax**	**Increase (decrease) in equity***
			(In Thousands)		
Mortality	**+10%**	**₱18,252**	**₱1,748**	**(₱1,748)**	**(₱1,748)**
Valuation interest rate	**-1%**	**15,008**	**616**	**(616)**	**(616)**

**Impact on equity reflects adjustments for tax, when applicable*

	December 31, 2013				
	Change in assumptions	Increase (decrease) in gross liabilities	Increase (decrease) in net liabilities	Increase (decrease) in profit before tax	Increase (decrease) in equity*
			(In Thousands)		
Mortality	+10%	₱14,210	₱142	(₱142)	(₱142)
Valuation interest rate	+1%	(197,629)	(1,976)	1,976	1,976

**Impact on equity reflects adjustments for tax, when applicable*

Investment Risk
The investment risk represents the exposure to loss resulting from cash flows from invested assets, primarily long-term fixed rate investments, being less than the cash flows required to meet the obligations of the expected policy and contract liabilities and the necessary return on investments.

In addition, there exists a future investment risk associated with certain policies currently in force which will have premium receipts in the future. That is, the investment of those future premium receipts may be at yield below that required to meet future policy liabilities.

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

The Company adopts an investment strategy to invest primarily in high quality securities while maintaining diversification to avoid significant exposure to issuer, industry and/or country concentrations. The Company also adopts a strategy to produce cash flows required to meet maturing insurance liabilities. The Company invests in debt securities which are subject to declines in fair value. Generally, insurance regulations restrict the type of assets in which an insurance company may invest. When permitted by regulatory authorities and when deemed necessary to protect insurance assets including invested assets, from adverse movements of foreign currency exchange rates and interest rates, the Company may also enter into derivative transactions as end users.

The Company uses asset-liability matching as a management tool to determine the composition of the invested assets and appropriate investment and marketing strategies. As part of these strategies, the Company may determine that it is economically advantageous to be temporarily in an unmatched position due to anticipated interest rate or other economic changes.

Financial Instruments

The following table sets forth the carrying value and estimated fair value of financial instruments recognized as at December 31, 2014 and 2013:

	2014		2013	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets at FVPL				
Debt Securities				
Peso-denominated government securities	**₱7,089,798,691**	**₱7,089,798,691**	₱5,785,106,455	₱5,785,106,455
Dollar-denominated	**1,646,771,739**	**1,646,771,739**	1,513,114,857	1,513,114,857
Listed equity securities				
Peso-denominated	**6,323,751,506**	**6,323,751,506**	3,441,322,511	3,441,322,511
Dollar-denominated	**1,300,050,510**	**1,300,050,510**	995,690,719	995,690,719
AFS financial assets				
Peso-denominated government securities	**1,701,434,109**	**1,701,434,109**	1,551,647,719	1,551,647,719
Loans and receivables				
Cash and cash equivalents				
Cash on hand	**68,934**	**68,934**	30,000	30,000
Cash in commercial banks	**200,834,849**	**200,834,849**	328,766,618	328,766,618
Short term deposits in commercial banks	**5,249,291**	**5,249,291**	112,610,276	112,610,276
Cash held in IIF	**872,124,571**	**872,124,571**	845,056,475	845,056,475
Accounts receivable held in IIF	**136,142,597**	**136,142,597**	370,184,605	370,184,605
Insurance receivable	**32,038,144**	**32,038,144**	38,958,404	38,958,404
Reinsurance assets	**65,725,291**	**65,725,291**	40,752,750	40,752,750
Policy loans	**60,527,744**	**60,527,744**	37,979,345	37,979,345
Security fund contributions	**141,244**	**141,244**	141,244	141,244

(Forward)

	2014		2013	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Due from related parties	**₱1,306,383**	**₱1,306,383**	₱1,306,383	₱1,306,383
Other receivables	**19,453,398**	**19,453,398**	8,987,833	8,987,833
Accrued income				
Held in IIF	**83,321,059**	**83,321,059**	66,334,840	66,334,840
Fixed-rate treasury notes	**9,755,423**	**9,755,423**	12,535,858	12,535,858
Other receivables	**7,418**	**7,418**	6,512	6,512
Total financial assets	**₱19,548,502,901**	**₱19,548,502,901**	₱15,150,533,404	₱15,150,533,404
Financial Liabilities				
Other financial liabilities				
Insurance payable	**₱498,169,127**	**₱498,169,127**	₱345,781,340	₱345,781,340
Policyholders' dividends	**57,469,050**	**57,469,050**	35,995,231	35,995,231
Accounts payable and accrued expenses*	**199,586,544**	**199,586,544**	276,965,043	276,965,043
Due to related parties	**68,884,106**	**68,884,106**	21,246,942	21,246,942
Policy and contract claims	**4,779,131**	**4,779,131**	11,606,337	11,606,337
Total financial liabilities	**₱828,887,958**	**₱828,887,958**	₱691,594,893	₱691,594,893

**excluding statutory liabilities amounting to ₱814,933 and ₱811,701 in 2014 and 2013, respectively.*

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

- *Financial assets at FVPL:* fair values were determined using quoted market prices at reporting date.

- *AFS financial assets:* fair values were determined using quoted market prices at reporting date.

- *Loans and receivables:* interest rate on policy loan is based on rate mandated by the Insurance Commission, other loans and receivables are of short term in nature. Due to these, carrying amounts approximate fair values.

- *Insurance payable, policy and contract claims, policyholders' dividends:* due to the short term nature of insurance payable, their carrying value reasonably approximate their values at year end

- *Accounts payable and accrued expenses:* due to the short-term nature of the account, carrying amounts approximate fair values.

- *Due to related parties:* due to the short-term nature of the account, carrying amounts approximate fair values.

<u>Fair Value Hierarchy</u>
The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

The following table shows the analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at December 31, 2014 and 2013:

	December 31, 2014		
	Level 1	**Level 2**	**Level 3**
Available-for-sale financial assets			
Government debt securities			
Local currency	**₱632,595,473**	**₱1,068,838,636**	**₱–**
Financial Assets designated at FVPL			
Debt securities held in segregated funds			
Peso bonds	**5,014,251,661**	**2,075,547,030**	**–**
Dollar bonds	**195,286,875**	**1,451,484,864**	**–**
Equity securities held in segregated funds			
Peso denominated	**6,323,751,506**	**–**	**–**
Dollar denominated	**1,300,050,510**	**–**	**–**
Total	**₱13,465,936,025**	**₱4,595,870,530**	**₱–**

	December 31, 2013		
	Level 1	Level 2	Level 3
Available-for-sale financial assets			
Government debt securities			
Local currency	₱339,391,437	₱1,212,256,282	₱–
Financial Assets designated at FVPL			
Debt securities held in segregated funds			
Peso bonds	4,081,374,096	1,703,732,359	–
Dollar bonds	240,922,222	1,272,192,635	–
Equity securities held in segregated funds			
Peso denominated	3,441,322,511	–	–
Dollar denominated	995,690,719	–	–
Total	₱9,098,700,985	₱4,188,181,276	₱–

There were no changes in the valuation technique used by the Company. In 2014 and 2013, there have been no transfers between level 1 and level 2 fair value movements, and no transfers into and out of level 3 fair value measurement.

Financial Risk

The Company is exposed to financial risk through its financial assets, financial liabilities, insurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a loss to the other party by failing to discharge an obligation.

The Company secures satisfactory credit quality by setting maximum limits of portfolio securities with a single or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer.

The Company issues unit linked investment policies where the policyholder bears the investment risk on the assets held in the unit-linked funds, as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material credit risk on unit linked financial assets.

The tables below show the maximum exposure to credit risk for the components of the statements of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements.

December 31, 2014

	Non-Linked	Unit-linked	Total
Financial assets at FVPL			
Debt securities			
Peso-denominated government securities	**₱–**	**₱7,089,798,691**	**₱7,089,798,691**
Dollar-denominated	**–**	**1,646,771,739**	**1,646,771,739**
Listed equity securities			
Peso-denominated	**–**	**6,323,751,506**	**6,323,751,506**
Dollar-denominated	**–**	**1,300,050,510**	**1,300,050,510**
AFS financial assets			
Government debt securities			
Local currency	**1,701,434,109**	**–**	**1,701,434,109**
Loans and receivables			
Cash and cash equivalents			
Cash on hand	**68,934**	**–**	**68,934**
Cash in commercial banks	**200,834,849**	**–**	**200,834,849**
Short term deposits in commercial banks	**5,249,291**	**–**	**5,249,291**
Cash held in IIF	**–**	**872,124,571**	**872,124,571**
Accounts receivable held in IIF	**–**	**136,142,597**	**136,142,597**
Insurance receivable	**32,038,144**	**–**	**32,038,144**
Reinsurance assets	**65,725,291**	**–**	**65,725,291**
Policy loans	**60,527,744**	**–**	**60,527,744**
Security fund contribution	**141,244**	**–**	**141,244**
Due from related parties	**1,306,383**	**–**	**1,306,383**
Other receivables	**19,453,398**	**–**	**19,453,398**
Accrued income			
Held in IIF	**–**	**83,321,059**	**83,321,059**
Fixed-rate treasury notes	**9,755,423**	**–**	**9,755,423**
Cost of investment receivable	**4,162**	**–**	**4,162**
Policy fee receivable	**2,776**	**–**	**2,776**
Time deposit	**480**	**–**	**480**
	₱2,096,542,228	**₱17,451,960,673**	**₱19,548,502,901**

December 31, 2013

	Non-Linked	Unit-linked	Total
Financial assets at FVPL			
Debt securities			
Peso-denominated government securities	₱–	₱5,785,106,455	₱5,785,106,455
Dollar-denominated	–	1,513,114,857	1,513,114,857
Listed equity securities			
Peso-denominated	–	3,441,322,511	3,441,322,511
Dollar-denominated	–	995,690,719	995,690,719
AFS financial assets			
Government debt securities			
Local currency	1,551,647,719	–	1,551,647,719
Loans and receivables			
Cash and cash equivalents			
Cash on hand	30,000	–	30,000
Cash in commercial banks	328,766,618	–	328,766,618
Short term deposits in commercial banks	112,610,276	–	112,610,276
Cash held in IIF	–	845,056,475	
Accounts receivable held in IIF	–	370,184,605	370,184,605
Insurance receivable	38,958,404	–	38,958,404
Reinsurance assets	40,752,750	–	40,752,750
Policy loans	37,979,345	–	37,979,345
Security fund contribution	141,244	–	141,244
Due from related parties	1,306,383	–	1,306,383
Other receivables	8,987,833	–	8,987,833
Accrued income			
Held in IIF	–	66,334,840	66,334,840
Fixed-rate treasury notes	12,535,858	–	12,535,858
Other receivables	7,418	–	6,522
	₱2,133,723,848	₱13,016,810,462	₱14,305,476,939

The following tables provide information regarding the credit risk exposure of the Company as of December 31, 2014 and 2013 by classifying financial assets according to credit ratings of the counterparties:

December 31, 2014

	Neither past due nor impaired			
	Investment Grade	Non-investment Grade Satisfactory	Not Rated	Total
Financial assets at FVPL				
Debt securities				
Peso-denominated government securities	₱–	₱7,089,798,691	₱–	₱7,089,798,691
Dollar-denominated	–	1,646,771,739	–	1,646,771,739
Listed equity securities				
Peso-denominated	–	6,323,751,506	–	6,323,751,506
Dollar-denominated	–	1,300,050,510	–	1,300,050,510
AFS financial assets				
Government debt securities				
Local currency	–	1,701,434,109	–	1,701,434,109
Loans and receivables				
Cash and cash equivalents				
Cash on hand	68,934	–	–	68,934
Cash in commercial banks	200,834,849	–	–	200,834,849
Short term deposits in commercial banks	5,249,291	–	–	5,249,291
Cash held in IIF	872,124,571	–	–	872,124,571
Accounts receivable held in IIF	–	–	136,142,597	136,142,597
Insurance receivable	–	–	32,038,144	32,038,144
Reinsurance assets	–	–	65,752,291	65,752,291
Policy loans	–	–	60,527,744	60,527,744
Security fund contribution	–	–	141,244	141,244
Due from related parties	–	–	1,306,383	1,306,383
Other receivables	–	–	19,453,398	19,453,398
Accrued income				
Held in IIF	–	83,321,059	–	83,321,059
Fixed-rate treasury notes	–	9,755,423	–	9,755,423
Other receivables	–	7,418	–	7,418
	₱1,078,277,645	**₱18,154,890,455**	**₱315,361,801**	**₱19,548,529,901**

December 31, 2013

	Neither past due nor impaired			
	Investment Grade	Non-investment Grade Satisfactory	Not Rated	Total
Financial assets at FVPL				
Debt securities				
Peso-denominated government securities	₱–	₱5,785,106,455	₱–	₱5,785,106,455
Dollar-denominated	–	1,513,114,857	–	1,513,114,857
Listed equity securities				
Peso-denominated	–	3,441,322,511	–	3,441,322,511
Dollar-denominated	–	995,690,719	–	995,690,719
AFS financial assets				
Government debt securities				
Local currency	–	1,551,647,719	–	1,551,647,719
Loans and receivables				
Cash and cash equivalents				
Cash on hand	30,000	–	–	30,000
Cash in commercial banks	328,766,618	–	–	328,766,618
Short term deposits in commercial banks	112,610,276	–	–	112,610,276
Cash held in IIF	845,056,475	–	–	845,056,475
Accounts receivable held in IIF	–	–	370,184,605	370,184,605
Insurance receivables	–	–	38,958,404	38,958,404
Reinsurance assets	–	–	40,752,750	40,752,750
Policy loans	–	–	37,979,345	37,979,345
Security fund contribution	–	–	141,244	141,244
Due from related parties	–	–	1,306,383	1,306,383
Other receivables	–	–	8,987,833	8,987,833
Accrued income				
Held in IIF	–	–	66,334,840	66,334,840
Fixed-rate treasury notes	–	12,535,858	–	12,535,858
Other receivables	–	–	6,522	6,522
	₱1,286,463,369	₱13,299,418,119	₱564,651,926	₱15,150,533,414

The credit quality of the financial assets was determined as follows:

a) *Cash and Cash Equivalents*
These are deposited, placed or invested in foreign and local banks belonging to the top banks in the Philippines in terms of resources and profitability and are therefore classified as investment grade.

b) *Investment Securities*
In respect of investment securities pertaining to financial assets at FVPL and AFS financial assets, the Company secures satisfactory credit quality by setting maximum limits of portfolio securities with a single or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer.

The Company uses Standard and Poor's credit ratings as basis to determine whether a security is investment grade or non-investment grade. In the financial market, securities with credit rating of at least BBB are considered as investment grade securities while securities with credit rating lower than BBB are considered as non-investment grade. Investment grade financial assets are assets which have strong capacity to meet the Company's financial commitments and are unsusceptible to adverse effects of changes in economic conditions. Non-investment grade financial assets, on the other hand, are assets that are likely to be impaired in adverse economic conditions. However, no default or impairment is expected on these securities as these are issued by the Philippine Government.

All of the Company's securities are lodged in the Registry of Scripless Securities to mitigate misplacement of physical inventory of assets.

c) *Loans and Receivables*
The Company sets a maximum amount and limits that may be advanced to or placed with individual corporate counterparties which are set by reference to their long term ratings. Investment grade loans and receivables are assets which have strong capacity to meet the Company's financial commitments and are unsusceptible to adverse effects of changes in economic conditions. Non-investment grade loans and receivables, on the other hand, are assets that are likely to be impaired in adverse economic conditions.

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions, will only persist during the grace period specified in the policy document or trust deed on the expiry of which the policy is either paid up or terminated.

As of December 31, 2014 and 2013, bulk of the Company's FVPL and AFS investments pertains to Philippine government securities. The Company did not have other significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2014 and 2013.

Liquidity Risk
Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or inability to generate cash inflows as anticipated. The major liquidity risk confronting the Company is the daily operating cash requirements.

The Company manages liquidity through its liquidity risk policy, which determines what constitutes liquidity risk for the Company; specify minimum proportion of funds to meet emergency calls; setting up contingency funding plans; specifies the sources of funding and the events that would trigger the plan; and concentrates on funding sources; reporting of liquidity risk exposures and breaches to the monitoring authority; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

The Company uses all its outstanding financial assets to manage liquidity risks.

The tables below analyze financial assets and financial liabilities 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.

	As of December 31, 2014					
	Up to a year	**1 to 5 years**	**Over 5 years**	**No term**	**Variable Unit-Linked**	**Total**
Financial assets at FVPL	**₱–**	**₱–**	**₱–**	**₱–**	**₱16,360,372,446**	**₱16,360,372,446**
AFS financial assets	**92,664,775**	**463,323,874**	**2,621,840,516**	**–**	**–**	**3,177,829,165**
Loans and receivables						
Cash and cash equivalents						
Cash on hand	**68,934**	**–**	**–**	**–**	**–**	**68,934**
Cash in commercial banks	**200,834,849**	**–**	**–**	**–**	**–**	**200,834,849**
Short term deposits in commercial banks	**5,249,291**	**–**	**–**	**–**	**–**	**5,249,291**
Cash held in IIF	**–**	**–**	**–**	**–**	**872,124,571**	**872,124,571**
Accounts receivable held in IIF	**–**	**–**	**–**	**–**	**136,142,597**	**136,142,597**
Insurance receivables	**32,038,144**	**–**	**–**	**–**	**–**	**32,038,144**
Reinsurance assets	**2,265,277,539**	**–**	**–**	**–**	**–**	**2,265,277,539**
Security fund contribution	**–**	**–**	**–**	**141,244**	**–**	**141,244**
Policy loans	**60,527,744**	**–**	**–**	**–**	**–**	**60,527,744**
Due from related parties	**1,306,383**	**–**	**–**	**–**	**–**	**1,306,383**
Other receivables	**19,453,398**	**–**	**–**	**–**	**–**	**19,453,398**
Accrued income						
Held in IIF	**–**	**–**	**–**	**–**	**83,321,059**	**83,321,059**
Fixed-rate treasury notes	**9,755,423**	**–**	**–**	**–**	**–**	**9,755,423**
Other receivables	**7,418**	**–**	**–**	**–**	**–**	**7,418**
Total financial assets	**2,687,183,898**	**463,323,874**	**2,621,840,516**	**141,244**	**17,451,960,673**	**23,224,450,205**
Legal policy reserves	**5,410,460**	**21,501**	**2,240,356,229**	**–**	**17,353,984,932**	**19,599,773,122**
Reserves for policyholders' dividends	**359,928**	**–**	**–**	**–**	**–**	**359,928**
Insurance payable	**498,169,127**	**–**	**–**	**–**	**–**	**498,169,127**
Policyholders' dividends	**57,469,050**	**–**	**–**	**–**	**–**	**57,469,050**
Accounts payable and accrued expenses	**169,857,986**	**–**	**–**	**–**	**29,728,558**	**199,586,544**
Due to related parties	**68,886,106**	**–**	**–**	**–**	**–**	**68,886,106**
Policy and contract claims	**4,779,131**	**–**	**–**	**–**	**–**	**4,779,131**
Total financial liabilities	**804,931,788**	**21,501**	**2,240,356,229**	**–**	**17,383,713,490**	**20,429,023,008**
Net excess liquidity	**₱1,882,252,110**	**₱463,302,373**	**₱381,484,287**	**₱141,244**	**₱68,247,183**	**₱2,795,427,197**

	As of December 31, 2013					
	Up to a year	1 to 5 years	Over 5 years	No term	Variable Unit-Linked	Total
Financial assets at FVPL	₱–	₱–	₱–	₱–	₱11,735,234,542	₱11,735,234,542
AFS financial assets	–	–	1,551,647,719	–		1,551,647,719
Loans and receivables						
Cash and cash equivalents						
Cash on hand	30,000	–	–	–	–	30,000
Cash in commercial banks	328,766,618	–	–	–	–	328,766,618
Short term deposits in commercial banks	112,610,276	–	–	–	–	112,610,276
Cash held in IIF	–	–	–	–	845,056,475	845,056,475
Accounts receivable held in IIF	–	–	–	–	370,184,606	370,184,605
Insurance receivables	38,958,404	–	–	–	–	38,958,404
Reinsurance assets	1,670,801,780	–	–	–	–	1,670,801,780
Security fund contribution	–	–	–	141,244	–	141,244
Policy loans	37,979,345	–	–	–	–	37,979,345
Due from related parties	1,306,383	–	–	–	–	1,306,383
Other receivables	8,987,833	–	–	–	–	8,987,833
Accrued income						
Held in IIF	–	–	–	–	66,334,840	66,334,840
Fixed-rate treasury notes	12,535,858	–	–	–	–	12,535,858
Other receivables	6,552	–	–	–	–	6,552
Total financial assets	2,211,983,049	–	1,551,647,719	141,244	13,016,810,463	16,780,582,474

(Forward)

	As of December 31, 2013					
	Up to a year	1 to 5 years	Over 5 years	No term	Variable Unit-Linked	Total
Legal policy reserves	₱3,953,098	₱9,501	₱1,642,551,575	₱–	₱12,935,562,745	₱14,582,076,919
Reserves for policyholders' dividends	267,547	–	–	–	–	267,547
Insurance payable	345,781,340	–	–	–	–	345,781,340
Policyholders' dividends	35,995,231	–	–	–	–	35,995,231
Accounts payable and accrued expenses	248,454,699	–	–	–	21,441,732	269,896,431
Due to related parties	21,246,942	–	–	–	–	21,246,942
Policy and contract claims	11,606,337	–	–	–	–	11,606,337
Total financial liabilities	667,305,194	9,501	1,642,551,575	–	12,957,004,477	15,266,870,747
Net excess liquidity	₱1,544,677,855	(₱9,501)	(₱90,903,856)	₱141,244	₱59,805,986	₱1,513,711,727

Market Risk
Market risk is the risk of change in the fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (fair value interest rate risk) and market prices (equity price risk), whether such change in prices is caused by factors specific to the individual instrument or its issuer, or factors affecting all instruments traded in the market.

The Company manages market risk by minimizing the duration gap of its assets and liabilities, by ensuring that its liabilities are correctly matched to assets and by setting exposure limits.

The Company structures the levels of market risk it accepts through a group market risk policy that determines what constitutes market risk for the Company; basis used to fair value financial assets and liabilities; asset allocation and portfolio limit structure; diversification benchmarks by type of instrument and geographical area; and sets out the net exposure limits by each counterparty or group of counterparties, geographical and industry segments.

The Company's principal transactions with insurance and investment policyholders comprise of unit-linked contracts in which the unit prices (i.e., obligation to the policyholders) are based on fair values of investments and other assets within the portfolio. Therefore, there is no foreign currency, equity and interest rate risk for these contracts. However, the Company's exposure to such contracts is the risk of volatility in asset management fees due to the impact of interest rate and market price movements on the fair value of assets held in the linked funds, on which investment management fees are based. Within this category of contracts, there are insurance contracts with minimum guaranteed death benefits that expose the Company to the risk of decline in the value of underlying investments as a result of change in interest rates.

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 fixed rate investments in particular are exposed to such risk.

The Company manages fair value interest rate risk by minimizing the duration gap of its assets and liabilities.

The following tables show information relating to the Company's financial instruments as of December 31, 2014 and 2013 that are exposed to fair value interest rate risk presented by maturity profile (see Note 5):

December 31, 2014

		Maturity				
	Interest rate	**Within a year**	**1 to 2 years**	**3 to 4 years**	**More than 5 years**	**Total**
Financial asset at FVPL						
Debt securities						
Peso-denominated government securities	**4.63% - 12.38%**	**₱–**	**₱1,346,150,681**	**₱1,081,819,368**	**₱4,661,828,641**	**₱7,089,798,690**
Dollar denominated	**1.25% to 10.63%**	**314,030,502**	**232,063,913**	**175,817,590**	**924,154,016**	**1,646,066,021**
AFS financial assets						
Government debt securities						
Peso denominated	**5.75% - 12.50**	**–**	**–**	**–**	**1,701,434,109**	**1,701,434,109**

December 31, 2013

		Maturity				
	Interest rate	Within a year	1 to 2 years	3 to 4 years	More than 5 years	Total
Financial asset at FVPL						
Debt securities						
Peso-denominated	4.63% - 12.38%	₱162,964,577	₱173,994,818	₱648,513,410	₱4,799,633,650	₱5,785,106,455
Dollar denominated	1.25% to 10.63%	57,407,126	65,682,394	223,610,566	1,166,414,771	1,513,114,857
AFS financial assets						
Government debt securities						
Peso denominated	7.63% - 12.50	–	–	–	1,551,647,719	1,551,647,719
Dollar denominated	–	–	–	–	–	–

The table below demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's other comprehensive income through the impact of AFS financial assets.

	2014		2013	
Currency	**Change in Basis points**	**Impact on equity**	Change in Basis points	Impact on equity
Philippine Peso	**+100**	**(₱204,109,537)**	+100	(₱177,990,127)
	-100	**204,109,537**	-100	177,990,127

Currency Risk

Currency risk is the potential decline in the value of the financial instruments due to exchange rate fluctuations. Exposure to currency risk arises mainly when receivables and payables are denominated in a currency other than the Company's functional currency or will be denominated in such a currency in the planned course of business.

The following table shows the details of the Company's currency exposure in original currency (US$) and Philippine Peso equivalent (PHP) as of December 31, 2014 and 2013:

	2014		2013	
Assets	**US$**	**PHP**	US$	PHP
Cash and cash equivalents	**$1,290,814**	**₱57,725,199**	$1,306,046	₱57,981,912
Loans and receivables	**301,444**	**13,480,568**	159,905	7,098,986
	$1,592,258	**71,205,767**	$1,465,951	65,080,898
Policy and contract claims	**39,145**	**1,750,561**	2,344	104,051
Net exposures	**$$1,553,113**	**₱69,455,206**	$1,463,607	₱64,976,847

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Paul Anthony P. Mandal
Corporate Secretary
Date: May 7, 2015

Foreign currency risk is monitored and analyzed systematically. The Company's policy is to maintain foreign currency exposure within existing regulations, and within acceptable risk limits. The Company believes in ensuring that its foreign currency is at all times within limits prescribed for companies who are engaged in the same type of businesses.

The exchange rate used to restate the Company's Philippine dollar-denominated assets and liabilities is ₱44.72 to $1 and ₱44.40 to $1 as of December 31, 2014 and 2013, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rate, with all variables held constant, of the Company's income before tax (due to changes in the fair value of monetary assets and liabilities).

	2014	
	Change in Variable	**Impact on Income before Tax**
USD	**+4.851%**	**₱5,175,570**
	-4.851%	**(5,175,570)**

	2013	
	Change in Variable	Impact on Income before Tax
USD	+5.297%	₱3,559,101
	-5.297%	(3,559,101)

The sensitivity analysis above has been determined assuming that the change in interest rates has occurred at the reporting date and has been applied to the exposure to interest rate risk for interest bearing financial instruments in existence at that date. The increase or decrease in basis points represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

21. Lease Commitments

The Company has various operating lease agreements for its offices. These lease agreements are renewable and have escalation clauses ranging from 5% to 10%.

Future minimum lease payments under lease commitments existing as of December 31, 2014 and 2013 are as follows:

	2014	2013
Within one (1) year	**₱6,168,131**	₱5,236,555
After one (1) year but not more than five (5) years	**14,617,455**	21,010,337
	₱20,785,586	₱26,246,892

Rent expense incurred by the Company in 2014 and 2013 amounted to ₱6.42 million and ₱5.82 million, respectively.

22. **Regulatory Requirements and Capital Management Policies**

Capital Management Framework
The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is usually higher than the minimum capital requirements set by the regulators and the amount computed under the Risk-based Capital (RBC) Model.

The Company fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its capital base, objectives, policies and processes from the previous year.

The Company's risk management function has developed and implemented certain minimum stress and scenario tests for identifying the risks to which each of its business units and the Company as a whole is exposed, quantifying their impact on the volatility of economic capital. The results of these tests, particularly the anticipated impact on the realistic financial position and income account of each business unit, are reported to the Company's risk management function. The risk management function then considers the aggregate impact of the overall capital requirement revealed by the stress testing to assess how much capital is needed to mitigate the risk of insolvency to a selected remote level.

Regulatory Framework
A substantial portion of the Company's long-term insurance business comprises policies where the investment risk is borne by policyholders. Risk attributable to policyholders is actively managed keeping in view their investment objectives and constraints.

Regulators are interested in protecting the rights of the policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, regulators are also interested in ensuring that the Company maintains appropriate solvency position to meet unforeseen liabilities arising from claims and that the risks are at acceptable levels.

The operations of the Company are subject to the regulatory requirements of the Insurance Commission. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions, fixed capitalization requirements, RBC requirements) to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise.

Fixed Capitalization Requirements
Department of Finance Order (DO) No. 27-06 provides for the capitalization requirements for life, nonlife and reinsurance companies on a staggered basis for the years ended December 31, 2006 up to 2011. Depending on the level of the foreign ownership in the insurance company, the minimum statutory net worth and minimum paid-up capital requirements vary. The statutory net worth shall include the company's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the IC. The minimum paid-up capital is pegged at 50% of the minimum statutory net worth.

On October 29, 2008, the IC issued the Circular Letter No. 26-2008, which recalls that in view of the compliance of insurance companies with the requirement of IMC No. 10-2006, the scheduled increases due December 31, 2008 have been deferred for a year. Hence, the IMC reiterates that by December 31, 2008, insurance companies should comply with the increase previously scheduled for December 31, 2007.

On June 1, 2012, the Department of Finance issued DO No. 15-2012 which provides for minimum paid up capital requirements of all insurance and professional reinsurance companies to supplement the requirements of DO No. 27-06 after December 31, 2012. Under the said DO, the minimum paid up capital requirements is on a staggered basis for the years December 31, 2012 up to 2020. The DO also allows all existing insurance and professional reinsurance companies a one-time one-year deferral in the compliance to minimum paid up capital requirements provided it has met the RBC hurdle rate based on the schedule set out in the said DO.

The table below shows the amount of minimum paid-up capital and the schedule of compliance per DO No. 15-2012.

Paid-up capital	**Compliance Date**
₱250,000,000	On or before December 31, 2012 *(Pursuant to DO 27-06 and IMC No. 10-2006)*
400,000,000	On or before December 31, 2014
600,000,000	On or before December 31, 2016
800,000,000	On or before December 31, 2018
1,000,000,000	On or before December 31, 2020

On November 22, 2012, the IC issued an advisory to all insurance and reinsurance companies doing business in the Philippines regarding the implementation of DO No. 27-06. According to the advisory, the minimum paid-up capital for December 31, 2012 must at least be equal to the amount previously scheduled for December 31, 2011 per DO 27-06.

On December 11, 2012, DO No. 15-2012 was issued with a temporary restraining order. Accordingly, the minimum paid up capital requirement would be ₱250,000,000 by the end of 2012 as advised by the IC.

On August 5, 2013, the President of the Philippines approved the Republic Act No. 10607 to be known as the “New Insurance Code” which provides the new capitalization requirements of all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required net worth and the schedule of compliance per New Insurance Code:

Networth	**Compliance Date**
₱250,000,000	June 30, 2013
550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

On January 13, 2015, the IC issued CL No. 02-2015 which provide clarifications on the minimum capitalization requirements under Sections 194, 197, 200 and 289 of the Amended Code. It also supersedes DO No. 15-2012, DO No. 27-2006, CL No. 22-2008 and CL No. 26-2008. According to the CL, the minimum networth requirement would be ₱250,000,000 by December 31, 2013. The minimum networth shall be unimpaired at all times and shall increase to the amounts as follows:

Minimum Networth	**Compliance Date**
₱550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

As of December 31, 2014 and 2013, the required minimum statutory net worth and minimum paid-up capital for the Company is ₱250.00 million. The Company has complied with the minimum paid-up capital requirement.

Unimpaired Capital Requirement
On August 7, 2008, the Insurance Commission issued IMC 22-2008 providing that for purposes of determining compliance with the law, rules and regulations requiring that the paid-up capital should remain intact and unimpaired at all times, the statements of financial position should show that the net worth or equity is at least equal to the actual paid-up capital. The Company has complied with the unimpaired capital requirement.

The Amended Code provides that the Commissioner may require the adoption of the risk-based capital approach and other internationally accepted forms of capital framework. Together with the insurance industry, the IC is currently in the process of adopting a new RBC approach that would be more tailored to the Philippine insurance industry. Pending the adoption of the new RBC approach, the provisions of the Code on margin of solvency and IMC No. 6-2006 shall still be used for purposes of the December 31, 2014 and 2013 financial reporting.

MOS
Under the Code, a life insurance company doing business in the Philippines shall maintain at all times an MOS equal to ₱500.00 thousand or two pesos per thousand of the total amount of its insurance in-force as of the preceding calendar year on all policies, except term insurance, whichever is higher. The MOS shall be the excess of the value of its admitted assets (as defined under the same Code), exclusive of its paid-up capital and security deposits, over the amount of its liabilities, unearned premiums and reinsurance reserves.

As at December 31, 2014 and 2013, the estimated amounts of non-admitted assets, as defined in the Code are as follows:

	2014	2013
Loans and receivables	**₱7,827,747**	₱6,414,938
Property and equipment – net	**12,334,320**	12,328,839
Other assets	**3,628,550**	703,018
	₱23,790,617	₱19,446,795

If an insurance company failed to meet the minimum required MOS, the Insurance Commission is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such company until its authority is restored by the Insurance Commission.

The final amount of the MOS can be determined only after the accounts of the Company have been examined by the Insurance Commission, specifically as to admitted and non-admitted assets as defined under the same Code.

The following table shows the estimated balance of excess of MOS as of December 31:

	2014 (Estimated)	2013 (Actual)
Total admitted assets	**₱19,285,626,627**	₱14,790,480,746
Total liabilities	**18,232,321,960**	13,637,090,311
Total net worth	**1,053,304,667**	1,153,390,435
Less capital stock	**500,000,000**	500,000,000
Surplus available for MOS	**553,304,667**	653,390,435
Required MOS	**42,833,479**	42,833,479
Excess over MOS	**₱510,471,188**	₱610,556,956

RBC Requirements
IMC No. 6-2006 provides for the RBC framework for the life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every life insurance company is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as Net worth divided by the RBC requirement. Net worth shall include the company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the Insurance Commission. The RBC requirement is the ratio of the number of insurers which are able to meet the corresponding RBC hurdle rate requirement for a given year to the total number of insurers in the industry.

The following table shows how the RBC ratio was determined:

	2014 (Estimated)	2013 (Actual)
Net worth	**₱1,053,304,667**	₱1,153,390,435
RBC requirement	**48,719,200**	26,363,738
RBC Ratio	**2162%**	4375%

The final amount of the RBC can be determined only after the accounts of the Company have been examined by the Insurance Commission, specifically as to net worth as defined under the same Code.

Consolidated Compliance Framework
IMC 10-2006 integrates the compliance standards for the fixed capitalization and RBC framework. Under this IMC, all insurers shall annually comply with the RBC ratio requirements.

Subsequent to year 2006, the fixed capitalization requirements for a given year may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC ratio compliance rate. The IMC provides the annual schedule of progressive rates for the industry RBC ratio compliance rates and the RBC hurdle rates from 2007 to 2013.

23. Current and Non-Current classification

The Company's classification of its account is as follows:

December 31, 2014

	2014			2013		
	Current	**Non-current**	**Total**	Current	Non-current	Total
Assets						
Cash and cash equivalents	**₱1,078,277,645**	**₱–**	**₱1,078,277,645**	₱1,286,463,369	₱–	₱1,286,463,369
Insurance receivables	**32,038,144**	–	**32,038,144**	38,958,404	–	38,958,404
Reinsurance assets	**2,265,277,539**	–	**2,265,277,539**	1,670,801,780	–	1,670,801,780
Financial assets						
Financial assets at fair value through profit or loss	**16,360,372,446**	–	**16,360,372,446**	11,735,234,542	–	11,735,234,542
Available-for-sale financial assets	–	**1,701,434,109**	**1,701,434,109**	–	1,551,647,719	1,551,647,719
Loans and receivables	**217,430,122**	**141,244**	**217,571,366**	418,458,166	141,244	418,599,410
Accrued income	**93,083,900**	–	**93,083,900**	78,877,210	–	78,877,210
Property and equipment	–	**15,594,559**	**15,594,559**	–	15,293,929	15,293,929
Other assets	**4,353,597**	**5,950,415**	**10,304,012**	280,673	3,838,683	4,119,356
	20,050,833,393	**1,723,120,327**	**21,773,953,720**	15,229,074,144	1,570,921,575	16,799,995,719
Liabilities						
Insurance contract liabilities	**17,364,534,451**	**2,240,377,730**	**19,604,912,181**	12,951,389,727	1,642,561,076	14,593,950,803
Insurance payable	**498,169,127**	–	**498,169,127**	345,781,340	–	345,781,340
Policyholders' dividends	**57,469,050**	–	**57,469,050**	35,995,231	–	35,995,231
Accounts payable and accrued expenses	**200,401,477**	–	**200,401,477**	277,776,743	–	277,776,743
Due to related parties	**68,886,106**	–	**68,886,106**	21,246,942	–	21,246,942
Income tax payable	–	–	–	569,358	–	569,358
	₱18,189,460,211	**₱2,240,377,730**	**₱20,429,837,941**	**₱13,632,759,341**	**₱1,642,561,076**	**₱15,275,320,417**