Manulife China Bank Life Assurance Corporation

Financial Statements
December 31, 2015 and 2014

and

Independent Auditors' Report

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

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, 2015 and 2014, 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.

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, 2015 and 2014, 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.

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PTR No. 5321621, January 4, 2016, Makati City

April 5, 2016

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2015	2014
ASSETS		
Cash and Cash Equivalents (Notes 4, 6 and 21)	**₱1,159,372,967**	₱1,078,277,645
Insurance Receivables (Notes 3 and 21)	**29,003,750**	32,038,144
Reinsurance Assets (Notes 3, 10 and 11)	**2,779,410,733**	2,265,277,539
Financial Assets (Notes 5 and 21)		
Financial assets at fair value through profit or loss (Note 6)	**18,058,059,585**	16,360,372,446
Available-for-sale financial assets	**1,698,262,447**	1,701,434,109
Loans and receivables (Note 23)	**132,706,120**	217,571,366
Accrued Income (Notes 3, 7 and 21)	**127,652,598**	93,083,900
Property and Equipment (Notes 3, 8 and 23)	**20,204,266**	15,594,559
Other Assets (Notes 9 and 23)	**15,002,549**	10,304,012
	₱24,019,675,015	₱21,773,953,720
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 3, 10 and 21)	**₱21,907,792,209**	₱19,604,552,253
Insurance payable (Notes 11, 14 and 21)	**716,447,117**	498,169,127
Policyholders' dividends (Note 21)	**87,499,562**	57,469,050
Reserve for policyholders' dividends	**2,108,714**	359,928
Accounts payable and accrued expenses (Notes 12 and 21)	**230,020,362**	200,401,477
Due to related parties (Notes 14 and 21)	**149,804,400**	68,886,106
Income tax payable	**233,833**	–
	23,093,906,197	20,429,837,941
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)	**(53,896,954)**	254,596,055
Retained earnings (Deficit)	**(45,334,228)**	64,519,724
	925,768,818	1,344,115,779
	₱24,019,675,015	₱21,773,953,720

See accompanying Notes to Financial Statements.

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31	
	2015	2014
REVENUES		
Gross premiums earned on insurance contracts	**₱5,542,686,849**	₱5,606,144,189
Reinsurers' share of gross premiums earned on insurance contracts	**(611,625,328)**	(606,333,162)
Insurance premiums earned (Note 15)	**4,931,061,521**	4,999,811,027
Investment and other income - net (Note 16)	**231,524,486**	135,406,937
Gain on sale of available-for-sale financial assets (Note 5)	**197,276,294**	127,481,537
Foreign currency exchange gains - net	**14,967,255**	1,253,407
Total revenues	**5,374,829,556**	5,263,952,908
BENEFITS AND OPERATING EXPENSES		
Change in insurance contract liabilities	**4,508,538,710**	4,608,654,246
Gross benefits and claims incurred on insurance contracts	**79,002,881**	51,638,324
Reinsurers' share of benefits and claims incurred on insurance contracts	**(24,388,233)**	(13,866,659)
Benefits and claims (Note 17)	**4,563,153,358**	4,646,425,911
Commission expense	**343,854,260**	280,578,512
General and administrative expenses (Note 18)	**486,896,481**	347,018,279
Insurance taxes	**28,572,668**	35,731,402
Dividends and interest on policyholders' dividends	**40,873,185**	29,215,370
Total benefits and operating expenses	**5,463,349,952**	5,338,969,474
LOSS BEFORE INCOME TAX	**(88,520,396)**	(75,016,566)
PROVISION FOR INCOME TAX (Note 20)	**21,333,556**	19,985,574
NET LOSS	**(₱109,853,952)**	(₱95,002,140)

See accompanying Notes to Financial Statements.

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2015	2014
NET LOSS	**(₱109,853,952)**	(₱95,002,140)
OTHER COMPREHENSIVE LOSS		
Items that will be reclassified to profit or loss in subsequent periods:		
Net change in fair value of available-for-sale financial assets (Note 5)	**(308,493,009)**	(85,557,383)
	(308,493,009)	(85,557,383)
TOTAL COMPREHENSIVE LOSS	**(₱418,346,961)**	(₱180,559,523)

See accompanying Notes to Financial Statements.

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Notes 13 and 23)	**Contributed Surplus** (Note 13)	**Reserve for Fluctuation in Value of Available-for-sale Financial Assets** (Note 5)	**Retained Earnings (Deficit)**	**Total**
Balances at January 1, 2015	**₱500,000,000**	**₱525,000,000**	**₱254,596,055**	**₱64,519,724**	**₱1,344,115,779**
Net loss	**–**	**–**	**–**	**(109,853,952)**	**(109,853,952)**
Other comprehensive loss	**–**	**–**	**(308,493,009)**	**–**	**(308,493,009)**
Total comprehensive loss	**–**	**–**	**(308,493,009)**	**(109,853,952)**	**(418,346,961)**
Balances at December 31, 2015	**₱500,000,000**	**₱525,000,000**	**(₱53,896,954)**	**(₱45,334,228)**	**₱925,768,818**
Balances at January 1, 2014	₱500,000,000	₱525,000,000	₱340,153,438	₱159,521,864	₱1,524,675,302
Net loss	–	–	–	(95,002,140)	(95,002,140)
Other comprehensive loss	–	–	(85,557,383)	–	(85,557,383)
Total comprehensive loss	–	–	(85,557,383)	(95,002,140)	(180,559,523)
Balances at December 31, 2014	₱500,000,000	₱525,000,000	₱254,596,055	₱64,519,724	₱1,344,115,779

See accompanying Notes to Financial Statements.

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	**(₱88,520,396)**	(₱75,016,566)
Adjustments for:		
Change in insurance contract liabilities – non-unit-linked (Note 17)	**555,265,228**	599,274,016
Depreciation and amortization (Notes 8 and 18)	**8,926,710**	7,032,469
Fair value loss (gains) on financial assets at fair value through profit or loss (Note 16)	**4,364,700**	(4,185,655)
Increase in reserve for policyholders' dividends	**1,748,786**	92,381
Net gain on disposal of property and equipment	**–**	(444,958)
Foreign currency exchange gains-net	**(14,967,255)**	(1,253,407)
Interest income (Note 16)	**(91,552,136)**	(95,284,304)
Gains on sale of available-for-sale financial assets (Note 5)	**(197,276,294)**	(127,481,537)
Operating income before changes in working capital	**177,989,343**	302,732,439
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets at fair value through profit or loss (Note 5)	**(1,705,866,238)**	(4,615,698,842)
Insurance receivables	**3,034,394**	6,920,260
Reinsurance assets	**(514,133,194)**	(594,475,759)
Loans and receivables	**89,793,353**	204,954,503
Other assets	**(4,698,537)**	(6,184,656)
Increase (decrease) in:		
Insurance contract liabilities – unit-linked (Note 10)	**1,717,937,841**	4,418,422,187
Policy and contract claims	**30,036,887**	(6,827,206)
Insurance payables	**218,277,990**	152,387,787
Policyholders' dividends	**30,030,512**	21,473,819
Accounts payable and accrued expenses	**29,618,885**	(77,375,266)
Due to related parties	**80,918,294**	47,639,164
Income tax payable	**233,833**	(569,358)
Net cash generated by (used in) operations	**153,173,363**	(146,600,928)
Income taxes paid	**(21,333,556)**	(19,985,574)
Net cash generated by (used in) operating activities	**131,839,807**	(166,586,502)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**58,583,810**	79,436,199
Proceeds from sale/maturities of:		
Available-for-sale financial assets (Note 5)	**294,525,102**	533,885,317
Property and equipment (Note 8)	**–**	671,625
Acquisitions of:		
Available-for-sale financial assets (Notes 5)	**(409,098,634)**	(644,032,597)
Property and equipment (Note 8)	**(13,536,417)**	(7,559,766)
Withdrawal (addition) of seed money	**18,781,654**	(4,000,000)
Net cash used in investing activities	**(50,744,485)**	(41,599,222)

(Forward)

	Years Ended December 31	
	2015	2014
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**₱81,095,322**	(₱208,185,724)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,078,277,645**	1,286,463,369
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱1,159,372,967**	₱1,078,277,645

See accompanying 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, based on the Share Purchase Agreement and the Deed of Absolute Sale of Shares of Stock and Transfer of Contributed Surplus entered into between the Manulife Philippines and the Bank, 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 after the sale now has forty (40%) stake in the Company. The Bank and Manulife Philippines have contemporaneously entered into the Bancassurance Agreement and the Addendum to Administrative Services Agreement.

The Bancassurance Agreement is an amendment of Bancassurance Alliance Agreement in 2007 which set out the initial terms of cooperation between the Bank and the Company in connection with their promotion and sale of life insurance products for an initial term of 15 years. The term of the new agreement shall be for ten (10) years commencing from July 1, 2014 during which time Manulife Philippines shall, in exchange for an increased equity stake in the Company and other valuable consideration given to the Bank by the Company, have exclusive access to the Distribution Network and Bank Customers for the duration of the new term.

Manulife Philippines administers the Company's operations as provided by the Administrative Services Agreement. The Addendum to Administrative Services Agreement prescribes the amendment of the basis of the services fees charged by Manulife Philippines to the Company.

The registered office address of the Company is 24th Floor, LKG Tower, 6801 Ayala Avenue, Makati City.

The accompanying financial statements were approved and authorized for issue by the BOD on April 5, 2016.

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 Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2015. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments were applied for the first time in 2015, they did not have a material impact on the annual financial statements of the Company. The nature and the impact of each new standard or amendment are described below:

- Amendments to Philippine Accounting Standard (PAS) 19, *Defined Benefit Plans: Employee Contributions*
  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. This amendment has no impact to the Company.

Annual Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Company. They include:

- 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 and clarifies that a contingent consideration that is not classified as equity is 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. This amendment has no impact to the Company.

- 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,* and PAS 38*, Intangible Assets – 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. This amendment has no impact to the Company.

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

Annual Improvements to PFRSs (2011-2013 cycle)
These improvements are effective for annual periods beginning on or after from January 1, 2015 and are not expected to have a material impact on the Company. They include:

- 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.

  The Company is not a joint arrangement, and thus this amendment is not relevant for the Company.

- 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. The Company does not apply the portfolio exception in PFRS 13.

- PAS 40, *Investment Property*
  The description of ancillary services in PAS 40 differentiates between the investment property and owner-occupied property (i.e., property, plant and equipment). 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 a business combination. This amendment has no impact to the Company.

Standards issued but not yet effective

Enumerated below are standards issued but not yet effective up to the date of issuance of the Company 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 parent company financial statements.

Deferred

- 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 interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision for services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The Securities and Exchange Commission and Financial Reporting Standards Council 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 not have any impact on the financial statements of the Company.

Effective January 1, 2016

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*
  These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are effective for annual periods beginning on or after January 1, 2016.

  These amendments are not expected to have any impact on the Company.

- Amendments to PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements*
  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. 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 on the Company's financial statements.

- Amendments to PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests*
  The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to 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 on the Company.

- Amendments to PAS 1, *Presentation of Financial Statements – Disclosure Initiative*
  The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:
  - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
  - That specific line items in the statement of income and OCI and the statement of financial position may be disaggregated
  - That entities have flexibility as to the order in which they present the notes to financial statements

- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item and classified between those items that will or will not be subsequently reclassified to profit or loss.

Early application is permitted and entities do not need to disclose that fact as the amendments are considered to be clarifications that do not affect an entity's accounting policies or accounting estimates. The Company is currently assessing the impact of these amendments on its financial statements.

- 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 income and OCI. The standard requires disclosure of 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.

- Amendments to PAS 16 and PAS 41, *Agriculture – Bearer Plants*
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.

- Amendments to PAS 16 and PAS 38, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization*
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 will not have any impact to the Company financial statements.

Annual Improvements PFRSs (2012-2014 cycle)
These improvements are effective for annual periods beginning on or after January 1, 2016. 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 for continuing involvement 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 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 the 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*
  In July 2014, the IASB issued the final version of PFRS 9, *Financial Instruments*. The new standard (renamed as 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 providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) 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.

- International Financial Reporting Standard (IFRS) 15, *Revenue from Contracts with Customers*
  IFRS 15 was issued in May 2014 by the International Accounting Standards Board (IASB) and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. 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 January 1, 2018. Early adoption is 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.

- IFRS 16, *Leases*
  On January 13, 2016, the IASB issued its new standard, IFRS 16, *Leases*, which replaces International Accounting Standards (IAS) 17, the current leases standards, and the related Interpretations.

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15, *Revenue from Contracts with Customers*. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Company is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

<u>IC Circular Letter (CL) No. 2014-42-A</u>
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 cash flow 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 on June 30, 2016 with a transition cut-off date as at January 1, 2016. The Company is currently assessing the impact of the standard.

Reclassification of Accounts

The Company previously classifies certain income from sale of unit-linked policies such as premium load and bid offer spread as part of other income. In 2015, the Company classified these to form part of 'Gross Premiums' as management believes that this presentation more faithfully reflects the nature of the income. Prior year financial statements have been restated to be consistent with the current year presentation.

The impact of the reclassification of the accounts in 2014 statement of financial position and statement of income follows:

Increase (decrease):	
Gross premiums earned on insurance contracts	₱71,408,963
Other income:	
Premium load	(69,657,185)
Bid offer spread	(1,751,778)

The above reclassification has no impact on the 2014 net income, and on the total assets, total liabilities and equity as of December 31, 2014. Accordingly, the Company did not present a statement of financial position as at the beginning of the earliest period presented.

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 and other income - net" 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 up 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.

The Company's peso and dollar-denominated debt securities and equity securities under insurance investment funds are designated at FVPL as these financial instruments are managed and their performance are evaluated on a fair value basis, in accordance with the Company's investment strategy.

As of December 31, 2015 and 2014, the Company has no financial liabilities classified as FVPL.

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, 2015 and 2014, 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, 2015 and 2014, the Company's loans and receivables represent mainly cash and cash equivalents, insurance receivables, accrued income, accounts receivable, security fund contributions, policy loans, due from related parties 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, 2015 and 2014, other financial liabilities include the Company's insurance payables, 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.

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

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

For the DB minimum guarantee plan, the liability is determined based on the present value of the excess of the projected DB obligation over the projected DC obligation at the end of the reporting period. The DB obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The Company determines the net interest expense (income) on the net DB liability (asset) for the period by applying the discount rate used to measure the DB obligation at the beginning of the annual period to the then net DB liability (asset), taking into account any changes in the net DB liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the DB plan are recognized in profit or loss.

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

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

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

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 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 (including premium load and bid-offer spread) 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 and the monthly load and cost of insurance charges are 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 includes the sum of the individual amounts that are due and have already been approved for payment but have not actually been paid as of the end of the reporting period. This also includes accrual of reported claims that are not yet approved for payment. This is recognized when due and measured on initial recognition at fair value. Subsequent to initial recognition, this is measured at amortized cost using the effective interest rate method.

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 (deficit) represent accumulated net income (losses) 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 and other income - net
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 includes 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.

<u>Benefits and Claims Recognition</u>
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.

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.

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.

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, 2015 and 2014, the carrying value of loans and receivables amounted to ₱132.71 million and ₱217.57 million, respectively (see Note 5). As of December 31, 2015, insurance receivables, reinsurance assets, and accrued income amounted to ₱29.00 million, ₱2.78 billion and ₱127.65 million, respectively. As of December 31, 2014, insurance receivables, reinsurance assets, and accrued income amounted to ₱32.04 million, ₱2.27 billion, and ₱93.08 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, 2015 and 2014, the carrying value of property and equipment amounted to ₱20.20 million and ₱15.59 million, respectively (Note 8).

Fair values of financial assets and liabilities
Fair value determinations for financial assets and liabilities are based generally on listed market prices or broker or dealer price quotations. Currency swaps are valued based on the valuation provided by the swap counterparty. The use of different pricing models and assumptions could produce materially different estimates of fair value. Structured notes are valued based on the valuation methodologies incorporating the prevailing index closing yield.

In determining the fair values, management evaluates the normal volatility in the share price, the financial health of the investee, and the industry and sector performance, like changes in operational and financial cash flows. Any indication of deterioration in the above factors can have a negative impact on the fair value. The fair values of financial assets and liabilities are shown in Note 21.

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.

Recognition of Pension liability
The cost of defined benefit pension plans and other post employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. As of December 31, 2015, net defined benefit liability amounted to nil (see Note 19).

The assumed discount rates were determined using a single weighted average discount rate. The average discount rate was based on bootstrapped PDEX PDST-R2 rates at various tenors as of the end of the year. Rates for intermediate durations were interpolated. The rates were then weighted by the expected benefits payments at those durations to arrive at the single weighted average rate.

The mortality rate represents the proportion of current plan members who might die prior to retirement and hence be entitled to death benefits instead of retirement benefits.

Further details about the assumptions used are provided in Note 19.

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.

4. Cash and Cash Equivalents

This account consists of:

	2015	2014
Cash on hand (Note 21)		
Petty cash fund	**₱95,753**	₱68,934
Cash in commercial banks (Note 21)	**119,032,173**	200,834,849
Short-term deposits in commercial banks (Note 21)	**78,580,224**	5,249,291
	197,708,150	206,153,074
Cash held in insurance investment funds (Notes 6 and 21):		
Cash in banks	**183,783,131**	208,362,631
Short-term deposits	**777,881,686**	663,761,940
	961,664,817	872,124,571
	₱1,159,372,967	₱1,078,277,645

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 1.25% to 3.50% and from 1.50% to 3.25% in 2015 and 2014, respectively.

5. Financial Assets

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

	2015	2014
Financial assets at FVPL (Note 6)	**₱18,058,059,585**	₱16,360,372,446
AFS financial assets	**1,698,262,447**	1,701,434,109
Loans and receivables	**132,706,120**	217,571,366
	₱19,889,028,152	₱18,279,377,921

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):

	2015	2014
Debt securities:		
Peso-denominated government securities	**₱8,190,717,863**	₱7,089,798,691
Dollar-denominated	**1,491,593,855**	1,646,771,739
Listed equity securities		
Peso-denominated	**7,212,197,720**	₱6,323,751,506
Dollar-denominated	**1,163,550,147**	1,300,050,510
	₱18,058,059,585	₱16,360,372,446

b) AFS Financial Assets

AFS financial assets represent mainly fixed-rate treasury notes with interest rates ranging from 3.25% to 8.125% and 5.75% to 12.5% in 2015 and 2014, respectively. Interest earned amounted to ₱83.54 million and ₱89.45 million in 2015 and 2014, respectively (see Note 16).

The roll-forward analysis of AFS financial assets follows:

	2015	2014
Balance at beginning of year	**₱1,701,434,109**	₱1,551,647,719
Additions	**1,108,430,548**	644,032,597
Disposals/maturities	**(993,857,016)**	(533,885,317)
Net premium amortization	**(6,528,479)**	(2,285,044)
Fair value gains (loss) recognized in other comprehensive income	**(111,216,715)**	41,924,154
Balance at end of year	**₱1,698,262,447**	₱1,701,434,109

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

	2015	2014
Balance at beginning of year	**₱254,596,055**	₱340,153,438
Changes in fair value of available-for-sale financial assets	**(111,216,715)**	41,924,154
Realized gains transferred to statements of income	**(197,276,294)**	(127,481,537)
Net change during the year	**(308,493,009)**	(85,557,383)
Balance at end of year	**(₱53,896,954)**	₱254,596,055

In 2015, the Company participated in a bond swap initiated by the Bureau of Treasury. Government debt securities with interest ranging from 5.75% to 8.125% were exchanged for 10-year and 25-year bonds with interest rates ranging from 3.625% to 4.625%. A gain amounting to ₱116.63 million was realized and is included in Gain on sale of available-for-sale financial assets in the statement of income.

Details of this transaction are shown below:

Additions	₱699,331,914
Disposals at amortized cost	582,702,815
Realized gain	₱116,629,099

Government securities classified as AFS financial assets with aggregate carrying value of ₱185.48 million and ₱192.25 million and face amount of ₱125 million as of December 31, 2015 and 2014, 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:

	2015	2014
Policy loans	**₱69,382,577**	₱60,527,744
Accounts receivable held in IIF (Note 6)	**20,978,622**	136,142,597
Due from related parties (Note 14)	**1,306,383**	1,306,383
Security fund contribution	**141,244**	141,244
Other receivables	**40,897,294**	19,453,398
	₱132,706,120	₱217,571,366

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% per annum in 2015 and 2014.

Accounts receivable held in IIF consists of peso receivables amounting to ₱20.98 million and ₱136.14 million as of December 31, 2015 and 2014, 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 accrued management fee income from unit-linked transactions and 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, 2015, 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, Peso Target Income Fund, Peso 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, US Dollar Bond Pool, Asia Bond Pool, Asean Growth Pool, Peso Cash Pool and Wealth Premier Pool.

The Company and Hongkong and Shanghai Banking Corporation (HSBC) entered into a non-fiduciary fund administration agreement where the HSBC shall act as the Administrator of the UFs. The Administration is limited to performing administrative services and does not have any discretion or control with respect to the management or disposition of the UFs. The administration fee of HSBC is charged directly against the UFs.

The details of the IIFs are as follows:

December 31, 2015

	Assets (Notes 4 and 5)	Due to unit-linked holders (Note 10)	Seed Capital	Total
Peso Dynamic Allocation Fund	**₱3,449,480,804**	**₱3,447,463,047**	**₱2,017,757**	**₱3,449,480,804**
Summit Peso Bond Fund	**164,851,999**	**161,253,848**	**3,597,151**	**164,850,999**
Summit Peso Stable Fund	**86,112,885**	**82,596,325**	**3,516,560**	**86,112,885**
Summit Peso Equity Fund	**208,847,799**	**204,765,173**	**4,082,626**	**208,847,799**
Peso Balanced Fund	**104,458,579**	**102,430,900**	**2,027,679**	**104,458,579**
Summit Dollar Bond Fund	**150,883,784**	**147,989,194**	**2,894,590**	**150,883,784**
Peso Secure Fund	**2,819,290,955**	**2,816,203,661**	**3,087,294**	**2,819,290,955**
Peso Diversified Value Fund	**2,202,420,222**	**2,198,938,594**	**3,481,628**	**2,202,420,222**
Peso Growth Fund	**4,174,706,733**	**4,168,719,491**	**5,987,242**	**4,174,706,733**
US Dollar Secure Fund	**765,060,274**	**758,053,790**	**7,006,484**	**765,060,274**
Peso Target Income Fund	**118,146,883**	**116,282,701**	**1,864,182**	**118,146,883**
Peso Target Distribution Fund	**2,918,746,095**	**2,916,887,717**	**1,858,378**	**2,918,746,095**
Asia Pacific Bond Fund	**507,369,894**	**505,505,619**	**1,864,275**	**507,369,894**
Asean Growth Fund	**1,196,844,188**	**1,195,049,722**	**1,794,466**	**1,196,844,188**
Peso Cash Fund	**30,498,316**	**29,492,452**	**1,005,864**	**30,498,316**
Wealth Premier Fund	**221,923,726**	**220,290,539**	**1,633,187**	**221,923,726**
	₱19,119,642,136	**₱19,071,922,773**	**₱47,719,363**	**₱19,119,642,136**

December 31, 2014

	Assets (Notes 4 and 5)	Due to unit-linked holder (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
Peso Target Income Fund	64,392,746	62,385,585	2,007,161	64,392,746
Peso 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

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

December 31, 2015

	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
Peso Dynamic Allocation Fund	**₱1,549,964,200**	**₱–**	**₱1,906,060,964**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**(₱6,544,360)**	**₱3,449,480,804**
Summit Peso Bond Fund	**155,085,404**	**9,973,921**	–	–	–	–	–	–	**(208,326)**	**164,850,999**
Summit Peso Stable Fund	**51,868,806**	**11,693,154**	**22,677,627**	–	–	–	–	–	**(126,702)**	**86,112,885**
Summit Peso Equity Fund	–	–	**209,199,147**	–	–	–	–	–	**(351,348)**	**208,847,799**
Peso Balanced Fund	**46,941,786**	–	**57,692,911**	–	–	–	–	–	**(176,118)**	**104,458,579**
Peso Target Income Fund	**91,610,746**	**3,697,792**	**23,076,181**	–	–	–	–	–	**(237,836)**	**118,146,883**
Peso Target Distribution Fund	**2,263,620,071**	**91,404,652**	**570,197,133**	–	–	–	–	–	**(6,475,761)**	**2,918,746,095**
Summit Dollar Bond Fund	–	–	–	**151,108,986**	–	–	–	–	**(225,202)**	**150,883,784**
Peso Secure Fund	**2,575,713,203**	**247,738,617**	–	–	–	–	–	–	**(4,160,865)**	**2,819,290,955**
Peso Diversified Value Fund	**1,305,309,262**	**383,563,852**	**517,262,822**	–	–	–	–	–	**(3,715,714)**	**2,202,420,222**
Peso Growth Fund	–	–	**4,182,615,473**	–	–	–	–	–	**(7,908,740)**	**4,174,706,733**
US Dollar Secure Fund	–	–	–	**766,357,462**	–	–	–	–	**(1,297,188)**	**765,060,274**
Asia Pacific Bond Fund	–	–	–	–	**508,235,668**	–	–	–	**(865,774)**	**507,369,894**
Asean Growth Fund	–	–	–	–	–	**1,199,113,536**	–	–	**(2,269,348)**	**1,196,844,188**
Peso Cash Fund	–	–	–	–	–	–	**30,504,350**	–	**(6,034)**	**30,498,316**
Wealth Premier Fund	–	–	–	–	–	–	–	**221,923,726**	–	**221,923,726**
	₱8,040,113,478	**₱748,071,988**	**₱7,488,782,258**	**₱917,466,448**	**₱508,235,668**	**₱1,199,113,536**	**₱30,504,350**	**₱221,923,726**	**(₱34,569,316)**	**₱19,119,642,136**

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
Peso 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 Peso Equity Fund	–	–	189,492,257	–	–	–	–	–	(316,334)	189,175,923
Peso Balanced Fund	37,037,836	–	55,199,468	–	–	–	–	–	(154,591)	92,082,713
Peso Target Income Fund	43,771,023	7,702,488	13,017,587	–	–	–	–	–	(98,352)	64,392,746
Peso 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

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

	2015	2014
Cash in banks (Note 4)	**₱183,783,131**	₱208,362,631
Short-term deposits (Note 4)	**777,881,686**	663,761,940
Debt securities (Note 5)		
Peso-denominated government securities	**8,190,717,863**	7,089,798,691
Dollar-denominated	**1,491,593,855**	1,646,771,739
Listed equity securities (Note 5)		
Peso-denominated	**7,212,197,720**	6,323,751,506
Dollar-denominated	**1,163,550,147**	1,300,050,510
Accounts receivable held in IIF (Note 5)	**20,978,622**	136,142,597
Accrued income (Note 7)	**113,508,428**	83,321,059
Accrued management fees (Note 12)	**(34,569,316)**	(29,728,558)
	₱19,119,642,136	₱17,422,232,115

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 2015, investment loss of the IIFs amounted to ₱566.27 million while in 2014, the IIFs earned an investment income which amounted to ₱1.51 billion. Redemptions amounted to ₱1.73 billion and ₱1.42 billion, in 2015 and 2014, respectively.

7. Accrued Income

This account consists of accrued interest and dividend income from:

	2015	2014
Held in IIF (Note 6)		
Accrued interest income	**₱113,391,568**	₱83,285,714
Accrued dividend income	**116,860**	35,345
	113,508,428	83,321,059
Fixed-rate treasury notes	**14,137,144**	9,755,423
Policy fee receivable	**2,814**	2,776
Other receivables	**4,212**	4,642
	₱127,652,598	₱93,083,900

8. Property and Equipment

The roll-forward analysis of this account follows:

December 31, 2015

	EDP Equipment	**Leasehold Improvements**	**Furniture and Fixtures**	**Transportation Equipment**	**Total**
Cost					
Balances at beginning of year	**₱92,139,767**	**₱1,192,703**	**₱64,599**	**₱26,764,950**	**₱120,162,019**
Additions	**4,411,270**	**809,647**	**–**	**8,315,500**	**13,536,417**
Balances at end of year	**96,551,037**	**2,002,350**	**64,599**	**35,080,450**	**133,698,436**
Accumulated depreciation and amortization					
Balances at beginning of year	**88,279,527**	**968,815**	**39,999**	**15,279,119**	**104,567,460**
Depreciation and amortization (Note 18)	**2,744,237**	**311,575**	**24,600**	**5,846,298**	**8,926,710**
Balances at end of year	**91,023,764**	**1,280,390**	**64,599**	**21,125,417**	**113,494,170**
Net book value	**₱5,527,273**	**₱721,960**	**₱–**	**₱13,955,033**	**₱20,204,266**

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
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

9. Other Assets

This account consists of:

	2015	2014
Prepayments	**₱8,245,381**	₱4,353,597
Refundable deposits - net of allowance for impairment losses of ₱701,583 and ₱703,793 in 2015 and 2014, respectively	**6,757,168**	5,950,415
	₱15,002,549	₱10,304,012

Prepayments include creditable withholding tax and other prepayments.

10. **Insurance Contract Liabilities**

This account consists of:

	2015	2014
Legal policy reserves	**₱21,872,976,191**	₱19,599,773,122
Policy and contract claims	**34,816,018**	4,779,131
	₱21,907,792,209	₱19,604,552,253

Details of the legal policy reserves are as follows:

	2015	2014
Unit-linked (Note 6)	**₱19,071,922,773**	₱17,353,984,932
Ordinary life insurance	**2,784,450,931**	2,245,788,190
Group life insurance	**16,450,766**	–
Accident and health	**151,721**	–
	₱21,872,976,191	₱19,599,773,122

The movements in legal policy reserves are as follows:

December 31, 2015

	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities**	**Net of reinsurance**
Gross legal policy reserves at beginning of year	**₱19,599,773,122**	**₱2,199,552,248**	**₱17,400,220,874**
Tabular net premiums or considerations	**3,340,050,398**	**3,218,471,211**	**121,579,187**
Tabular interest	**231,817,973**	**225,415,690**	**6,402,283**
Other increases – unit-linked	**1,717,937,841**	**–**	**1,717,937,841**
Total	**24,889,579,334**	**5,643,439,149**	**19,246,140,185**
Less tabular cost	**2,983,060,932**	**2,942,642,945**	**40,417,987**
Reserves released by other terminations (net)	**33,542,211**	**33,257,331**	**284,880**
Legal policy reserves as at end of year	**₱21,872,976,191**	**₱2,667,538,873**	**₱19,205,437,318**

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

The movements in policy and contract claims are as follows:

	2015	2014
At beginning of year	**₱4,779,131**	₱11,606,337
Additions during the year	**79,002,881**	51,638,324
Paid during the year	**(48,965,994)**	(58,465,530)
At end of year	**₱34,816,018**	₱4,779,131

11. **Insurance Contract Liabilities and Reinsurance Assets - Terms, Assumptions and Sensitivities**

Life Insurance Contracts
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.

Terms
Life insurance contracts offered by the Company mainly include whole life, term insurance, endowments and unit-linked products.

Whole life and term insurance are conventional products where lump sum benefits are payable on death, provided death occurs within the terms of the policy.

Endowment products are products where lump sum benefits are payable after a fixed period or upon death if it occurs before the period is completed.

Unit-linked products differ from conventional policies in that premium, net of applicable charges, are allocated to units in a pooled investment fund and the policyholder benefits directly from the total investment growth and income of the fund.

Key Assumptions
Material judgment is required in determining the liabilities and in the choice of assumptions relating to insurance and investment contracts. Assumptions used are based on past experience, current internal data and conditions and external market indices and benchmarking, which reflect current observable market prices and other published information. Such assumptions are determined as appropriate and prudent estimates at the date of valuation, and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations. Assumptions are also subject to the provisions of the Code and guidelines set by the Insurance Commissions.

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

- *Mortality and Morbidity Rates*
  Mortality assumptions are based on standard tables of mortality and morbidity. For life assurance policies, increased mortality and morbidity rates would lead to larger number of claims and claims occurring sooner than anticipated, increasing the expenditure and reducing profits for the shareholders.

- *Discount Rates*
  Discount rates relate to the time value of money. Discount rate assumptions are based on current observed rates in the market adjusted for default risk. The discount rate ranges from 3% to 6%, depending on the assets assumed to back the life insurance provisions.

  The assumptions are reviewed and revised at each reporting date. Interest rates are capped at 6% as required by the Insurance Commissions. A decrease in discount rate would result in increase in expenditure, thereby reducing profits for the shareholders.

Reinsurance - Assumptions and Methods
The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on surplus-share basis with retention limits varying by product. Amounts receivable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the parent company statements of financial position as reinsurance assets.

Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

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, 2015 and 2014, the Company's insurance payable to Manulife Philippines amounted to ₱716.45 million and ₱498.17 million, respectively.

As of December 31, 2015 and 2014, the Company's reinsurance assets related to this agreement amounted to ₱2.78 billion and ₱2.27 billion. The balance as of December 31, 2015 and 2014 comprised of reinsurers' share of insurance contract liabilities of ₱2.67 billion and ₱2.20 billion, respectively and receivable related to death claims ceded by the Company to Manulife Philippines of ₱111.87 million and ₱65.73 million, respectively.

12. Accounts Payable and Accrued Expenses

This account consists of:

	2015	2014
Accrued expenses including accrued salaries	**₱114,977,140**	₱92,896,088
Advance premiums and other policy-related liabilities	**55,644,448**	80,203,476
Taxes payable	**23,687,482**	5,753,026
Accounts payable	**12,342,777**	964,782
Commissions payable	**9,262,325**	11,782,186
Other liabilities	**14,106,190**	8,801,919
	₱230,020,362	₱200,401,477

Accrued expenses pertain to accrued cost of agency conferences, management fees related to IIFs amounting to ₱34.57 million and ₱29.73 million, in 2015 and 2014, respectively (Note 6) and various liabilities to suppliers.

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

Taxes payable consists of withholding taxes related to the cost allocation from Manulife Philippines, fringe benefit and premium taxes.

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 deposits 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, 2015 and 2014. 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, 2015

	Entities	Financial Statement Account	Nature	Terms and Conditions	Transactions during the year	Outstanding Balance
Parent Company	Manulife Philippines	Insurance Payable	99% of in-force business ceded to the Parent Company and 1% retained by company	Unsecured, non-interest bearing, due and demandable	₱611,625,328	**₱716,447,117**
		Reinsurance Assets	Reinsurance assets	No term	514,133,194	**2,779,410,733**
		Due to Related Parties	Management fee related to unit-linked investment ceded out to Parent Company	Unsecured, non-interest bearing, due and demandable	273,549,898	**37,476,286**
		Due to Related Parties	Cost allocation for services rendered	Unsecured, non-interest bearing, due and demandable	91,911,561	**110,694,869**
Ultimate Parent Company	Manulife Financial Corporation	Due to Related Parties	Accrued Portia Charge	Unsecured, non-interest bearing, due and demandable	185,340	**657,780**
		Other Receivables	Reimbursement of expenses	Unsecured, non-interest bearing, no impairment	–	**1,306,383**
Under Common Control	Manulife Business Processing Services	Due to Related Parties	Accrued Portia Charge	Unsecured, non-interest bearing, due and demandable	346,715	**596,081**
	Manulife Regional Office	Due to Related Parties	Reimbursement of expenses	Unsecured, non-interest bearing, due and demandable	4,500	**379,384**
Bancassurance	China Banking Corporation	Commission Payable	Sales commissions	Unsecured, non-interest bearing, due and demandable	343,540,589	**9,262,325**

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, non-interest bearing, due and demandable	₱606,333,162	₱498,169,127
		Reinsurance Assets	Reinsurance assets	No term	594,475,759	2,265,277,539
		Due to Related Parties	Management fee related to unit-linked investment ceded out to Parent Company	Unsecured, non-interest bearing, due and demandable	265,334,280	34,402,150
		Due to Related Parties	Cost allocation for services rendered	Unsecured, non-interest bearing, due and demandable	33,378,266	33,378,266

(Forward)

	Entities	Financial Statement Account	Nature	Terms and Conditions	Transactions during the year	Outstanding Balance
Ultimate Parent Company	Manulife Financial Corporation	Due to Related Parties	Accrued Portia Charge	Unsecured, non-interest bearing, due and demandable	₱432,184	₱472,439
		Other Receivables	Reimbursement of expenses	Unsecured, non-interest bearing, no impairment	–	1,306,383
Under Common Control	Manulife Business Processing Services	Due to Related Parties	Accrued Portia Charge	Unsecured, non-interest bearing, due and demandable	244,342	249,367
	Manulife Regional Office	Due to Related Parties	Reimbursement of expenses	Unsecured, non-interest bearing, due and demandable	383,884	383,884
Bancassurance	China Banking Corporation	Commission Payable	Sales Commission	Unsecured, non-interest bearing, due and demandable	279,694,153	11,782,186

15. Insurance Premiums Earned

The details of insurance premiums earned are as follows:

	2015	2014
Gross premiums earned on insurance contracts:		
Unit-linked	**₱4,662,028,661**	₱4,649,292,410
Ordinary life insurance	**844,161,375**	956,851,779
Group Life Insurance	**36,496,813**	–
	5,542,686,849	5,606,144,189
Reinsurers' share of gross premiums earned on insurance contracts (Note 14):		
Ordinary life insurance	**660,872,750**	789,899,901
Unit-linked	**(49,247,422)**	(183,566,739)
	611,625,328	606,333,162
	₱4,931,061,521	₱4,999,811,027

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.

With the Bancassurance Agreement entered into by Manulife Philippines and the Bank in 2014, the reinsurance agreement between the Company and Manulife Philippines ceased except for those policies with inception dates prior to July 1, 2014.

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

Investment income consists of:

	2015	2014
Interest income on:		
AFS financial assets (Note 5)	**₱85,539,671**	₱89,449,823
Loans and receivables	**4,928,107**	3,926,459
Cash and cash equivalents	**1,084,358**	1,908,022
	91,552,136	95,284,304
Fair value gains (losses) from insurance investment fund classified as FVPL	**(4,364,700)**	4,185,655
Other income	**144,337,050**	35,936,978
	₱231,524,486	₱135,406,937

Other income consists of:

	2015	2014
Management fee income	**₱87,473,699**	₱15,236,030
Cost of insurance	**35,498,640**	4,778,532
Processing fee	**12,243,739**	809,050
Miscellaneous revenue	**9,120,972**	15,113,366
	₱144,337,050	₱35,936,978

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

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

Miscellaneous revenue consists of the income gained from employee loans and car plan, policy fees of unit-linked products and overdue premiums.

17. **Benefits and Claims**

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

	2015	2014
Ordinary life insurance	**₱63,520,632**	₱46,458,177
Group life insurance	**10,484,904**	–
Unit-Linked	**4,997,345**	5,180,147
	₱79,002,881	₱51,638,324

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

	2015	2014
Unit- Linked	**(₱24,380,808)**	(₱4,290,389)
Ordinary life insurance	**(7,425)**	(9,576,270)
	(₱24,388,233)	(₱13,866,659)

Change in insurance contract liabilities during the year consist of:

	2015	2014
Unit-linked	**₱4,421,260,107**	₱4,578,883,446
Ordinary life insurance	**70,676,116**	29,770,800
Group life insurance	**16,450,766**	–
Accident and Health	**151,721**	–
	₱4,508,538,710	₱4,608,654,246

The reinsurers' share of gross change in legal policy reserves in 2015 and 2014 amounted to ₱467.98 million and ₱569.50 million, respectively.

18. General and Administrative Expenses

This account consists of:

	2015	2014
Salaries, wages and employee benefits (Note 19)	**₱257,494,932**	₱200,722,664
Administrative charges (Note 14)	**91,911,561**	33,650,367
Advertising	**54,415,159**	37,996,586
Travel	**18,360,141**	15,035,682
Telephone and communications	**14,676,150**	16,574,627
Rent and utilities (Note 22)	**9,191,653**	10,076,520
Depreciation and amortization (Note 8)	**8,926,710**	7,032,469
Taxes and licenses	**7,380,270**	1,644,965
Outside services	**6,695,923**	7,346,201
Professional and other fees	**4,090,051**	4,294,174
Equipment and supplies	**3,375,939**	3,369,783
Repairs and maintenance	**2,133,787**	2,106,023
Others	**8,244,205**	7,168,218
	₱486,896,481	₱347,018,279

Administrative charges
The Company and Manulife Philippines entered into an Administrative Services Agreement on October 1, 2007. On September 29, 2014, the parties entered into a share purchase agreement including the addendum to the Administrative Services Agreement between the Company and Manulife Philippines. The parties have agreed that the addendum to the agreement shall apply only to life insurance policies issued by Company on or after July 1, 2014. This agreement requires the Company to pay Manulife Philippines for the services rendered equal to:

- the Actual cost incurred by Manulife Philippines in rendering the services plus 5% mark-up on life insurance policies issued the effective date of the addendum; and
- the Net Costs incurred by Manulife Philippines in rendering the services plus 5% mark-up on life insurance policies issued prior to effective date.

19. **Retirement Cost**

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

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

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

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

The latest actuarial valuation study of the Company's minimum retirement obligation under RA No. 7641 was made as of December 31, 2015. As of December 31, 2015, the Company's DC obligation is higher than the projected DB obligation. Consequently, no net pension asset/liability was recognized.

In 2015, contributions made by the Company amounted to ₱3.10 million, while retirement expense amounted to ₱8.69 million.

The following tables summarize the components of the net benefit expense recognized in profit or loss and amounts recognized in the statements of financial position for the plan:

Net benefit expense follows:

	2015
Current service cost	**₱8,221,883**
Net interest cost	**467,007**
	₱8,688,890

Remeasurement effects to be recognized in other comprehensive income follow:

	2015
Actuarial gain	**₱21,717,127**
Loss on return on plan assets	**(926,020)**
	₱20,791,107

The amounts recognized in the statements of financial position follow:

	2015
Present value of benefit obligation	**₱20,557,406**
Fair value of plan assets	**(25,763,365)**
	(₱5,205,959)

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

	2015
At January 1	**₱34,285,978**
Current service cost	**8,221,883**
Interest cost on benefit obligation	**1,601,155**
Benefits paid	**(1,834,483)**
Actuarial gain	**(21,717,127)**
At December 31	**₱20,557,406**

Changes in the fair value of the plan assets follow:

	2015
At January 1	**₱24,285,829**
Interest income included in net interest cost	**1,134,148**
Loss on return on plan assets	**(926,020)**
Actual contributions	**3,103,891**
Benefits paid	**(1,834,483)**
At December 31	**₱25,763,365**
Actual return on plan assets	**₱208,128**

The principal assumptions used in determining the defined benefit obligation for the Company are as follows:

	2015
Discount rate	**5.06%**
Annual rate of increase in compensation projection	**8.00%**

Below illustrates the sensitivity analysis to a reasonably possible change in retirement benefit obligation, with all other variables held constant.

2015			
Discount rate	**Salary increase rate**	**Change in basis points**	**Retirement Benefit Obligation**
6.06%		**+100**	**₱19,763,878**
4.06%		**-100**	**27,885,015**
	9.00%	**+100**	**₱27,910,228**
	7.00%	**-100**	**178,026,264**

The retirement plan is co-owned by the Company and Manulife Philippines, which is in the form of a trust administered by a trustee bank. The carrying value as of December 31, 2015 of the fund which approximates its fair value is as follows:

	2015
Investments in government debt securities	**₱219,864,059**
Cash	**1,040,716**
Total	**220,904,775**
Trust fee payable	**94,130**
Other payables	**21,233,805**
Total	**21,327,935**
	₱199,576,840

As of December 31, 2015, the retirement fund pertaining to the Company amounted to ₱25.76 million.

The Company's expected contribution to the retirement plan in 2016 amounted to ₱3,316,790.

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

Plan Year	Expected Benefit Payments
Less than 1 year	₱–
More than 1 to 5 years	–
More than 5 to 10 years	2,089,165
More than 10 to 15 years	5,161,964
More than 15 to 20 years	50,760,070
More than 20 years	619,142,034

20. Income Taxes

The provision for income tax consists of:

	2015	2014
Final taxes on interest income	**₱18,604,371**	₱18,696,395
MCIT	**2,729,185**	1,289,179
	₱21,333,556	₱19,985,574

The components of net deferred tax assets as of December 31, 2015 and 2014 are as follows:

	2015	2014
Deferred tax assets on:		
Accrued expenses	**₱4,490,177**	₱376,022
	4,490,177	376,022
Deferred tax liability on:		
Unrealized foreign exchange gain	**4,490,177**	376,022
	4,490,177	376,022
Net deferred tax asset	**₱–**	₱–

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

	2015	2014
Loss before income tax	**(₱88,520,396)**	(₱75,016,565)
Income tax expense at statutory income tax rate	**(26,556,119)**	(22,504,969)
Additions to (reductions in) income tax expense resulting from:		
Exempt gain on sale of long term investment in bonds	**(59,182,888)**	(38,244,461)
Interest income - net of final tax	**(7,382,838)**	(9,396,473)
Fair value loss (gains) on financial assets at FVPL exempt from tax	**1,309,410**	(1,225,697)
Amortization of debt securities	**1,958,552**	685,513
Change in temporary differences without recognized deferred tax assets and others	**111,187,439**	90,671,661
	₱21,333,556	₱19,985,574

The Company is subjected to MCIT in 2015 (*if applicable*) and 2014. 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
2015	₱2,729,185	₱341,320,137	December 31, 2018
2014	1,289,179	308,994,300	December 31, 2017
2013	6,471,592	8,617,730	December 31, 2016
	₱10,489,956	₱658,932,167	

NOLCO amounting to ₱49,239,515 and MCIT amounting to ₱4,863,176 pertaining to 2012 expired in 2015.

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.

	2015	2014
NOLCO	**₱658,932,167**	₱366,851,545
MCIT	**10,489,956**	12,623,947
Accrued expenses	**40,455,053**	9,244,507
Provision for IBNR	**4,446,132**	1,754,548
Provision for policyholders' dividends	**1,841,167**	92,381

The following are the movements in NOLCO and MCIT:

	2015	2014
NOLCO		
Balance at beginning of year	**₱366,851,545**	₱93,719,648
Addition	**341,320,137**	308,994,300

(Forward)

	2015	2014
Expired/applied	**(49,239,515)**	(35,862,403)
Balance at end of year	**₱658,932,167**	₱366,851,545

	2015	2014
MCIT		
Balance at beginning of year	**₱12,623,947**	₱15,108,514
Addition	**2,729,185**	1,289,179
Expired	**(4,863,176)**	(3,773,746)
Balance at end of year	**₱10,489,956**	₱12,623,947

21. 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:

	2015	2014
Whole Life Insurance		
Gross	**₱1,290,951,547**	₱1,023,036,743
Net	**439,926,215**	141,692,467
Endowment		
Gross	**3,478,837,189**	3,429,773,162
Net	**295,765,800**	157,249,360
Term Policies		
Gross	**1,558,199,622**	1,221,234,141
Net	**1,164,068,278**	571,615,154
Unit-linked Policies		
Gross	**29,607,955,068**	23,229,502,366
Net	**12,161,124,378**	4,599,392,734
Accident and Health		
Gross	**314,988,547**	–
Net	**235,955,329**	–
Group Insurance		
Gross	**11,109,111,074**	–
Net	**11,109,111,074**	–
Total		
Gross	**47,360,043,047**	28,903,546,412
Net	**25,405,951,074**	5,469,949,715

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, 2015				
	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%**	**₱24,718**	**₱4,531**	**(₱4,531)**	**(₱4,531)**
Valuation interest rate	**-1%**	**363,530**	**19,394**	**(19,394)**	**(19,394)**
	+1%	**(363,530)**	**(19,394)**	**19,394**	**19,394**

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

	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)
	+1%	(15,008)	(616)	616	616

**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, 2015 and 2014:

	2015		2014	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets at FVPL				
Debt securities				
Peso-denominated government securities	**₱8,190,717,863**	**₱8,190,717,863**	₱7,089,798,691	₱7,089,798,691
Dollar-denominated	**1,491,593,855**	**1,491,593,855**	1,646,771,739	1,646,771,739
Listed equity securities				
Peso-denominated	**7,212,197,720**	**7,212,197,720**	6,323,751,506	6,323,751,506
Dollar-denominated	**1,163,550,147**	**1,163,550,147**	1,300,050,510	1,300,050,510
AFS financial assets				
Peso-denominated government securities	**1,698,262,447**	**1,698,262,447**	1,701,434,109	1,701,434,109
Loans and receivables				
Cash and cash equivalents				
Cash on hand	**95,753**	**95,753**	68,934	68,934
Cash in commercial banks	**119,032,173**	**119,032,173**	200,834,849	200,834,849
Short term deposits in commercial banks	**78,580,224**	**78,580,224**	5,249,291	5,249,291
Cash held in IIF	**961,664,817**	**961,664,817**	872,124,571	872,124,571
Accounts receivable held in IIF	**20,978,622**	**20,978,622**	136,142,597	136,142,597
Insurance receivable	**29,003,750**	**29,003,750**	32,038,144	32,038,144
Reinsurance assets	**2,779,410,733**	**2,779,410,733**	2,265,277,539	2,265,277,539

(Forward)

	2015		2014	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Policy loans	**₱69,382,577**	**₱69,382,577**	₱60,527,744	₱60,527,744
Security fund contributions	**141,244**	**141,244**	141,244	141,244
Due from related parties	**1,306,383**	**1,306,383**	1,306,383	1,306,383
Other receivables	**40,897,294**	**40,897,294**	19,453,398	19,453,398
Accrued income				
Held in IIF	**113,508,428**	**113,508,428**	83,321,059	83,321,059
Fixed-rate treasury notes	**14,137,144**	**14,137,144**	9,755,423	9,755,423
Other receivables	**7,026**	**7,026**	7,418	7,418
Total financial assets	**₱23,984,468,200**	**₱23,984,468,200**	₱21,748,055,149	₱21,748,055,149
Financial Liabilities				
Other financial liabilities				
Insurance payable	**₱716,447,117**	**₱716,447,117**	₱498,169,127	₱498,169,127
Policyholders' dividends	**87,499,562**	**87,499,562**	57,469,050	57,469,050
Accounts payable and accrued expenses*	**206,332,880**	**206,332,880**	194,648,451	194,648,451
Due to related parties	**149,804,400**	**149,804,400**	68,884,106	68,884,106
Policy and contract claims	**34,816,018**	**34,816,018**	4,779,131	4,779,131
Total financial liabilities	**₱1,194,899,977**	**₱1,194,899,977**	₱823,949,865	₱823,949,865

**excluding statutory liabilities amounting to ₱23.69 million and ₱5.75 million in 2015 and 2014, 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:* were determined based on valuation methodologies incorporating the prevailing index closing level as of December 31, 2015, which is considered as a market observable input. The notes are fully funded and fully collateralized, thereby eliminating both counterparty and the Company's own non-performance risk.

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

- *Loans and receivables:* 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 these accounts payable, their carrying values reasonably approximate their fair 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.

Fair Value Hierarchy
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, 2015 and 2014:

	December 31, 2015		
	Level 1	**Level 2**	**Level 3**
Available-for-sale financial assets			
Government debt securities			
Local currency	**₱725,647,197**	**₱972,615,250**	**₱–**
Financial Assets designated at FVPL			
Debt securities held in segregated funds			
Peso - denominated	**6,473,182,274**	**1,717,535,589**	–
Dollar - denominated	**247,228,897**	**1,244,364,958**	–
Equity securities held in segregated funds			
Peso denominated	**7,212,197,720**	–	–
Dollar denominated	**1,163,550,147**	–	–
Total	**₱15,821,806,235**	**₱3,934,515,797**	**₱–**

	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	₱–

There were no changes in the valuation technique used by the Company. In 2015 and 2014, 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. Loans to policyholders are granted against the surrender value of policies.

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, 2015

	Non-Linked	Unit-linked	Total
Financial assets at FVPL			
Debt securities			
Peso-denominated government securities	**₱–**	**₱8,190,717,863**	**₱8,190,717,863**
Dollar-denominated	**–**	**1,491,593,855**	**1,491,593,855**
Listed equity securities			
Peso-denominated	**–**	**7,212,197,720**	**7,212,197,720**
Dollar-denominated	**–**	**1,163,550,147**	**1,163,550,147**
AFS financial assets			
Government debt securities			
Local currency	**1,698,262,447**	**–**	**1,698,262,447**
Loans and receivables			
Cash and cash equivalents			
Cash on hand	**95,753**	**–**	**95,753**
Cash in commercial banks	**119,032,173**	**–**	**119,032,173**
Short term deposits in commercial banks	**78,580,224**	**–**	**78,580,224**
Cash held in IIF	**–**	**961,664,817**	**961,664,817**
Accounts receivable held in IIF	**–**	**20,978,622**	**20,978,622**
Insurance receivable	**29,003,750**	**–**	**29,003,750**
Reinsurance assets	**2,779,410,733**	**–**	**2,779,410,733**
Policy loans	**69,382,577**	**–**	**69,382,577**
Security fund contribution	**141,244**	**–**	**141,244**
Due from related parties	**1,306,383**	**–**	**1,306,383**
Other receivables	**40,897,294**	**–**	**40,897,294**
Accrued income			
Held in IIF	**–**	**113,508,428**	**113,508,428**
Fixed-rate treasury notes	**14,137,144**	**–**	**14,137,144**
Other receivables	**7,026**	**–**	**7,026**
	₱4,830,256,748	**₱19,154,211,452**	**₱23,984,468,200**

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	2,265,277,539	–	2,265,277,539
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
	₱4,296,094,476	₱17,451,960,673	₱21,748,055,149

The following tables provide information regarding the credit risk exposure of the Company as of December 31, 2015 and 2014 by classifying financial assets according to credit ratings of the counterparties:

December 31, 2015

	Neither past due nor impaired			
	Investment Grade	**Non-investment Grade Satisfactory**	**Not Rated**	**Total**
Financial assets at FVPL				
Debt securities				
Peso-denominated government securities	**₱8,190,717,863**	**₱–**	**₱–**	**₱8,190,717,863**
Dollar-denominated	**1,491,593,855**	**–**	**–**	**1,491,593,855**
Listed equity securities				
Peso-denominated	**–**	**–**	**7,212,197,720**	**7,212,197,720**
Dollar-denominated	**–**	**–**	**1,163,550,147**	**1,163,550,147**
AFS financial assets				
Government debt securities				
Local currency	**1,698,262,447**	**–**	**–**	**1,698,262,447**
Loans and receivables				
Cash and cash equivalents				
Cash on hand	**95,753**	**–**	**–**	**95,753**
Cash in commercial banks	**119,032,173**	**–**	**–**	**119,032,173**
Short term deposits in commercial banks	**78,580,224**	**–**	**–**	**78,580,224**
Cash held in IIF	**961,664,817**	**–**	**–**	**961,664,817**
Accounts receivable held in IIF	**20,978,622**	**–**	**–**	**20,978,622**
Insurance receivable	**–**	**29,003,750**	**–**	**29,003,750**
Reinsurance assets	**–**	**–**	**2,779,410,733**	**2,779,410,733**
Policy loans	**–**	**–**	**69,382,577**	**69,382,577**
Security fund contribution	**–**	**–**	**141,244**	**141,244**
Due from related parties	**–**	**–**	**1,306,383**	**1,306,383**
Other receivables	**–**	**–**	**40,897,294**	**40,897,294**
Accrued income				
Held in IIF	**–**	**113,508,428**	**–**	**113,508,428**
Fixed-rate treasury notes	**–**	**14,137,144**	**–**	**14,137,144**
Other receivables	**–**	**7,026**	**–**	**7,026**
	₱12,560,925,754	**₱156,656,348**	**₱11,266,886,098**	**₱23,984,468,200**

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	–	–	2,265,277,539	2,265,277,539
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
	₱11,652,424,781	₱125,122,044	₱9,970,508,324	₱21,748,055,149

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 Scriptless 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, 2015 and 2014, 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, 2015 and 2014.

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, 2015					
	Up to a year	1 to 5 years	Over 5 years	No term	Variable Unit-Linked	Total
Financial assets at FVPL	**₱–**	**₱–**	**₱–**	**₱–**	**₱18,058,059,585**	**₱18,058,059,585**
AFS financial assets	**91,268,799**	**456,343,995**	**2,963,280,091**	–	–	**3,510,892,885**
Loans and receivables						
Cash and cash equivalents						
Cash on hand	**95,753**	–	–	–	–	**95,753**
Cash in commercial banks	**119,032,173**	–	–	–	–	**119,032,173**
Short term deposits in commercial banks	**78,580,224**	–	–	–	–	**78,580,224**
Cash held in IIF	–	–	–	–	**961,664,817**	**961,664,817**
Accounts receivable held in IIF	–	–	–	–	**20,978,622**	**20,978,622**
Insurance receivables	**29,003,750**	–	–	–	–	**29,003,750**
Reinsurance assets	**2,779,410,733**	–	–	–	–	**2,779,410,733**
Security fund contribution	–	–	–	**141,244**	–	**141,244**
Policy loans	**69,382,577**	–	–	–	–	**69,382,577**
Due from related parties	**1,306,383**	–	–	–	–	**1,306,383**
Other receivables	**40,897,294**	–	–	–	–	**40,897,294**
Accrued income						
Held in IIF	–	–	–	–	**113,508,428**	**113,508,428**
Fixed-rate treasury notes	**14,137,144**	–	–	–	–	**14,137,144**
Other receivables	**7,026**	–	–	–	–	**7,026**
Total financial assets	**3,223,121,856**	**456,343,995**	**2,963,280,091**	**141,244**	**19,154,211,452**	**25,797,098,638**
Legal policy reserves	**9,955,879**	**13,344,933**	**2,777,752,606**	–	**19,071,922,773**	**21,872,976,191**
Reserves for policyholders' dividends	**2,108,714**	–	–	–	–	**2,108,714**
Insurance payable	**716,447,117**	–	–	–	–	**716,447,117**
Policyholders' dividends	**87,499,562**	–	–	–	–	**87,499,562**
Accounts payable and accrued expenses	**230,020,362**	–	–	–	–	**230,020,362**
Due to related parties	**149,804,400**	–	–	–	–	**149,804,400**
Policy and contract claims	**34,816,018**	–	–	–	–	**34,816,018**
Total financial liabilities	**1,230,652,052**	**13,344,933**	**2,777,752,606**	–	**19,071,922,773**	**23,093,672,364**
Net excess liquidity	**₱1,992,469,804**	**₱442,999,062**	**₱185,527,485**	**₱141,244**	**₱82,288,679**	**₱2,703,426,274**

	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

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.

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 market risk on unit linked financial assets.

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, 2015 and 2014 that are exposed to fair value interest rate risk presented by maturity profile (see Note 5):

December 31, 2015

		Maturity				
	Interest rate	**Within a year**	**1 to 2 years**	**3 to 4 years**	**More than 5 years**	**Total**
AFS financial assets						
Government debt securities						
Peso denominated	**3.25% - 8.125%**	**₱–**	**₱–**	**₱–**	**₱1,698,262,447**	**₱1,698,262,447**

December 31, 2014

		Maturity				
	Interest rate	Within a year	1 to 2 years	3 to 4 years	More than 5 years	Total
AFS financial assets						
Government debt securities						
Peso denominated	5.75% - 12.50%	₱–	₱–	₱–	₱1,701,434,109	₱1,701,434,109

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.

	2015		2014	
Currency	**Change in Basis points**	**Impact on equity Increase (Decrease)**	Change in Basis points	Impact on equity Increase (Decrease)
Philippine Peso	**+100**	**(₱213,034,143)**	+100	(₱204,109,537)
	-100	**213,034,143**	-100	204,109,537

The Company determined the reasonably possible change in fair value interest rate risk by using the trend analyses of the Company's monthly sustainable portfolio yields for the past three years.

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, 2015 and 2014:

	2015		2014	
Assets	**US$**	**PHP**	US$	PHP
Cash and cash equivalents	**$1,407,616**	**₱66,242,416**	$1,290,814	₱57,725,199
Loans and receivables	**92,091**	**4,333,803**	301,444	13,480,568
	1,499,707	**70,576,219**	1,592,258	71,205,767
Policy and contract claims	**38,569**	**1,815,048**	39,145	1,750,561
Net exposures	**$1,461,138**	**₱68,761,171**	$1,553,113	₱69,455,206

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 ₱47.06 to $1 and ₱44.72 to $1 as of December 31, 2015 and 2014, 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).

	2015	
	Change in Variable	**Increase (Decrease) on Income before Tax**
USD	**+4.70%**	**₱3,234,805**
	-4.70%	**(3,234,805)**

	2014	
	Change in Variable	Increase (Decrease) on Income before Tax
USD	+0.84%	₱576,817
	-0.84%	(576,817)

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.

Equity Price Risk
The Company has no price risk exposure at year-end related to underlying equity financial assets of insurance investment funds. While the values of the these equity financial assets will fluctuate as a result of changes in market prices, such fluctuation will not affect either the Company's income before tax or other comprehensive income.

22. **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, 2015 and 2014 are as follows:

	2015	2014
Within one (1) year	**₱4,712,538**	₱5,628,131
After one (1) year but not more than five (5) years	**10,050,737**	13,509,275
	₱14,763,275	₱19,137,406

Rent expense incurred by the Company in 2015 and 2014 amounted to ₱6.03 million and ₱6.42 million, respectively.

23. **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, 2015 and 2014, 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, 2015 and 2014 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, 2015 and 2014, the estimated amounts of non-admitted assets, as defined in the Code are as follows:

	2015	2014
Loans and receivables	**₱9,656,371**	₱20,882,636
Property and equipment – net	**14,676,992**	11,734,320
Other assets	**9,580,433**	3,708,871
	₱33,913,796	₱36,325,827

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:

	2015 (Estimated)	2014 (Actual)
Total admitted assets	**₱24,093,786,086**	₱19,247,367,337
Total liabilities	**23,156,164,118**	18,205,769,587
Total net worth	**937,621,968**	1,041,597,750
Less capital stock	**568,168,417**	568,168,417
Surplus available for MOS	**369,453,551**	473,429,333
Required MOS	**55,346,383**	55,346,383
Excess over MOS	**₱314,107,168**	₱418,082,950

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:

	2015 (Estimated)	2014 (Actual)
Net worth	**₱937,621,968**	₱1,041,597,750
RBC requirement	**48,719,200**	33,440,500
RBC Ratio	**1925%**	3115%

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.

Pursuant to Section 194 of the Amended Insurance Code (R.A 10607), the Insurance Commission conducted a review of the current Risk-based Capital (RBC) Framework contained in Insurance Memorandum Circular Numbered 6-2006 and 7-2006 both dated October 5, 2006. On June 10, 2015, the Insurance Commission issued Circular Letter No. 2015-30 requiring all life and non-life insurance companies to participate in parallel runs for the RBCQ15 (Quantitative Impact Study).

Also on June 10, 2015, the IC issued Circular Letter No. 2015-29 that implements the provisions of Section 189 of the Amended Insurance Code which provides for the financial reporting framework of all insurance and reinsurance companies to ensure the transparent and consistent application of accounting principles. The new financial reporting framework is effective June 30, 2016.

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 2015.

24. Current and Non-Current classification

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

	2015			2014		
	Current	**Non-current**	**Total**	Current	Non-current	Total
Assets						
Cash and cash equivalents	**₱1,159,372,967**	**₱–**	**₱1,159,372,967**	₱1,078,277,645	₱–	₱1,078,277,645
Insurance receivables	**29,003,750**	**–**	**29,003,750**	32,038,144	–	32,038,144
Reinsurance assets	**2,779,410,733**	**–**	**2,779,410,733**	2,265,277,539	–	2,265,277,539
Financial assets						
Financial assets at fair value through profit or loss	**18,058,059,585**	**–**	**18,058,059,585**	16,360,372,446	–	16,360,372,446
Available-for-sale financial assets	**–**	**1,698,262,447**	**1,698,262,447**	–	1,701,434,109	1,701,434,109
Loans and receivables	**132,564,876**	**141,244**	**132,706,120**	217,430,122	141,244	217,571,366
Accrued income	**127,652,598**	**–**	**127,652,598**	93,083,900	–	93,083,900
Property and equipment	**–**	**20,204,266**	**20,204,266**	–	15,594,559	15,594,559
Other assets	**9,908,346**	**5,094,203**	**15,002,549**	4,353,597	5,950,415	10,304,012
	22,295,972,855	**1,723,702,160**	**24,019,675,015**	20,050,833,393	1,723,120,327	21,773,953,720
Liabilities						
Insurance contract liabilities	**19,116,694,670**	**2,791,097,539**	**21,907,792,209**	17,364,174,523	2,240,377,730	19,604,552,253
Insurance payable	**716,447,117**	**–**	**716,447,117**	498,169,127	–	498,169,127
Policyholders' dividends	**87,499,562**	**–**	**87,499,562**	57,469,050	–	57,469,050
Reserve for policyholders' dividends	**2,108,714**	**–**	**2,108,714**	359,928	–	359,928
Accounts payable and accrued expenses	**230,020,362**	**–**	**230,020,362**	200,401,477	–	200,401,477
Due to related parties	**149,804,400**	**–**	**149,804,400**	68,886,106	–	68,886,106
Income tax payable	**233,833**	**–**	**233,833**	–	–	–
	₱20,302,808,658	**₱2,791,097,539**	**₱23,093,906,197**	₱18,189,460,211	₱2,240,377,730	₱20,429,837,941

25. Note to Statement of Cash Flows

The noncash investing transaction of the Company pertains to the bond swap participated by the Company during 2015. The debt securities acquired amounted to ₱699.33 million which consisted of 10-year and 25-year bonds with minimum coupon rates ranging from 3.635% to 4.625% in exchange of debt securities with a net book value and fair value of ₱582.70 million and ₱699.33 million, respectively (see Note 5).