



Audited Financial Statements 2014
AXA Philippines

Philippine AXA Life Insurance Corporation

Financial Statements
December 31, 2014 and 2013

and

Independent Auditors' Report



INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine AXA Life Insurance Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Philippine AXA Life Insurance Corporation, which comprise the statements of financial position as at December 31, 2014 and 2013, and the 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 Philippine AXA Life Insurance Corporation as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 30 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine AXA Life Insurance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



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PTR No. 4751347, January 6, 2015, Makati City

February 23, 2015



PHILIPPINE AXA LIFE INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2014	2013
ASSETS		
Cash and cash equivalents (Notes 4, 24 and 25)	₱3,767,723,738	₱3,021,049,942
Short-term investments (Note 5)	–	154,413,194
Insurance receivables (Notes 6, 24 and 25)	186,182,590	158,316,735
Financial assets (Notes 7, 24 and 25)		
Financial assets at fair value through profit or loss	1,135,135,574	1,037,819,561
Available-for-sale financial assets	6,492,090,593	6,304,703,811
Loans and receivables - net	571,828,930	559,734,725
Accrued income (Notes 8, 24 and 25)	93,595,041	90,906,633
Investment properties - net (Notes 9 and 26)	8,159,805	14,023,139
Property and equipment - net (Note 10)	213,383,418	221,392,777
Intangible assets - net (Note 11)	1,587,373	2,694,711
Deferred tax asset (Note 23)	47,623,109	41,266,149
Other assets	73,726,699	64,420,709
	12,591,036,870	11,670,742,086
Assets held to cover unit-linked liabilities (Notes 12 and 25)	55,478,598,595	43,279,135,598
	₱68,069,635,465	₱54,949,877,684
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 13, 14, 24 and 25)	₱7,141,015,428	₱6,264,063,104
Premium deposit fund (Note 24)	107,261,237	128,838,523
Life insurance deposits (Note 24)	148,752,604	117,984,136
Insurance payables (Notes 15 and 24)	142,236,945	86,710,699
Trade and other liabilities (Notes 16, 24, 25 and 26)	843,188,286	928,882,497
Pension liability - net (Note 22)	21,720,810	9,380,205
Income tax payable (Note 23)	100,400,230	78,362,730
	8,504,575,540	7,614,221,894
Unit-linked liabilities (Note 12)	55,478,598,595	43,279,135,598
	63,983,174,135	50,893,357,492
Equity		
Capital stock (Note 17)	1,000,000,000	1,000,000,000
Contributed surplus	50,000,000	50,000,000
Contingency surplus	9,343,183	9,343,183
Revaluation reserves on available-for-sale financial assets (Note 18)	923,822,499	1,069,096,619
Actuarial gains (losses) on defined benefit plan (Note 22)	(361,151)	7,905,479
Retained earnings (Note 17)	2,103,820,177	1,920,338,289
Treasury stock (Note 17)	(163,378)	(163,378)
	4,086,461,330	4,056,520,192
	₱68,069,635,465	₱54,949,877,684

See accompanying Notes to Financial Statements.



PHILIPPINE AXA LIFE INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2014	2013
REVENUE		
Gross premiums on insurance contracts issued	₱18,404,482,543	₱18,319,992,792
Premiums ceded to reinsurers	(56,021,799)	(55,828,423)
Net insurance premiums (Notes 19 and 25)	18,348,460,744	18,264,164,369
Subscriptions allocated to investment in unit-linked funds	(13,447,645,011)	(14,280,229,366)
	4,900,815,733	3,983,935,003
Income on assets held to cover unit-linked liabilities (Notes 20 and 25)	4,852,371,906	–
Increase in unit-linked liabilities due to income on assets held to cover unit-linked liabilities	(4,852,371,906)	–
Asset management fees (Note 25)	785,466,460	615,107,036
Investment income (Notes 9, 19 and 25)	687,051,348	993,766,791
Foreign exchange gains - net	21,888,403	3,164,902
Gain on sale of property and equipment	616,371	320,771
Other income	52,875	53,100
	6,395,891,190	5,596,347,603
BENEFITS, CLAIMS AND OPERATING EXPENSES		
Gross benefits and claims	7,058,709,380	6,424,410,438
Reinsurers' share of gross benefits and claims (Note 19)	(46,423,142)	(17,416,305)
Policyholders' dividends and interest (Note 13)	47,056,669	41,508,258
Decrease in unit-linked liabilities due to surrenders	(6,115,109,772)	(5,123,187,209)
Net benefits and claims incurred (Notes 19 and 25)	944,233,135	1,325,315,182
Increase in legal policy reserves (Note 13)	713,825,128	97,226,869
Increase in reserves for policyholders' dividends (Note 13)	6,069,648	3,301,897
Net insurance benefits and claims	1,664,127,911	1,425,843,948
Operating and administrative expenses (Notes 21 and 25)	1,999,054,212	1,881,642,004
Commission expense (Note 25)	1,006,258,093	807,766,335
Premium and documentary stamp taxes	59,980,677	53,640,242
Agency development expenses	34,319,933	33,481,178
Interest on premium deposit fund	2,816,229	3,466,079
Medical and inspection fees	1,490,225	2,513,961
Interest on defined benefit obligation	507,496	401,076
Loss on assets held to cover unit-linked liabilities (Notes 20 and 25)	–	644,712,560
Decrease in unit-linked liabilities due to loss on assets held to cover unit-linked liabilities	–	(644,712,560)
	4,768,554,776	4,208,754,823
INCOME BEFORE INCOME TAX	1,627,336,414	1,387,592,780
PROVISION FOR INCOME TAX (Note 23)	400,854,526	203,577,297
NET INCOME	1,226,481,888	1,184,015,483
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will not be reclassified into profit or loss:		
Remeasurement gain (loss) on defined benefit plan (Note 22)	(11,809,472)	44,074
Income tax effect	3,542,842	(13,222)
	(8,266,630)	30,852
Item that will be reclassified into profit or loss:		
Net change in fair value of available-for-sale financial assets (Note 18)	(145,274,120)	(193,117,987)
	(153,540,750)	(193,087,135)
TOTAL COMPREHENSIVE INCOME	₱1,072,941,138	₱990,928,348



PHILIPPINE AXA LIFE INSURANCE CORPORATION
STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 17)	Contributed Surplus	Contingency Surplus (Note 17)	Revaluation Reserves on Available-for- sale Financial Assets (Note 18)	Actuarial Gains (Losses) on Defined Benefit Plan (Note 22)	Retained Earnings (Notes 3 and 17)	Treasury Stock (Notes 3 and 17)	Total
As of January 1, 2014	₱1,000,000,000	₱50,000,000	₱9,343,183	₱1,069,096,619	₱7,905,479	₱1,920,338,289	(₱163,378)	₱4,056,520,192
Net income	—	—	—	—	—	1,226,481,888	—	1,226,120,788
Other comprehensive loss	—	—	—	(145,274,120)	(8,266,630)	—	—	(153,540,750)
Total comprehensive income (loss)	—	—	—	(145,274,120)	(8,266,630)	1,226,481,888	—	1,072,941,138
Cash dividends	—	—	—	—	—	(1,043,000,000)	—	(1,043,000,000)
As of December 31, 2014	₱1,000,000,000	₱50,000,000	₱9,343,183	₱923,822,499	(₱361,151)	₱2,103,820,177	(₱163,378)	₱4,086,461,330
As of January 1, 2013	₱659,395,300	₱50,000,000	₱9,343,183	₱1,262,214,606	₱—	₱1,979,508,209	(₱163,378)	₱3,960,297,920
Effect of adoption of amendments to PAS 19 (Note 2)	—	—	—	—	7,874,627	(11,580,703)	—	(3,706,076)
As of January 1, 2013, as restated	659,395,300	50,000,000	9,343,183	1,262,214,606	7,874,627	1,967,927,506	(163,378)	3,956,591,844
Net income	—	—	—	—	—	1,184,015,483	—	1,184,015,483
Other comprehensive income (loss)	—	—	—	(193,117,987)	30,852	—	—	(193,087,135)
Total comprehensive income (loss)	—	—	—	(193,117,987)	30,852	1,184,015,483	—	990,928,348
Cash dividends	—	—	—	—	—	(891,000,000)	—	(891,000,000)
Stock dividends	340,604,700	—	—	—	—	(340,604,700)	—	—
As of December 31, 2013	₱1,000,000,000	₱50,000,000	₱9,343,183	₱1,069,096,619	₱7,905,479	₱1,920,338,289	(₱163,378)	₱4,056,520,192

See accompanying Notes to Financial Statements.



PHILIPPINE AXA LIFE INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱1,627,336,414	₱1,387,592,780
Adjustments for:		
Depreciation and amortization (Notes 9,10, 11 and 21)	83,564,720	88,307,883
Impairment loss on loans and receivables (Note 7)	208,292	2,503,514
Gain on sale of investment property (Notes 9 and 19)	(225,733)	–
Gain on sale of property and equipment	(616,371)	(320,771)
Unrealized foreign exchange gains	(12,081,433)	(10,440,472)
Dividend income (Note 19)	(19,490,299)	(17,635,999)
Gain on sale of available-for-sale financial assets (Note 18)	(76,234,668)	(458,581,255)
Fair value gain on financial assets at fair value through profit or loss (Note 7)	(89,925,486)	(17,583,921)
Interest income (Note 19)	(498,608,568)	(498,954,265)
Impairment loss on AFS financial assets (Note 7)	–	1,325,000
Operating income before changes in working capital	1,013,926,868	476,212,494
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Short-term investments	154,413,194	(154,413,194)
Insurance receivables	(27,865,855)	(26,491,875)
Loans and receivables	(12,302,497)	(25,843,374)
Other assets	(9,305,990)	(10,796,582)
Increase (decrease) in:		
Insurance contract liabilities	876,952,324	105,077,915
Premium deposit fund	(21,577,286)	(11,992,788)
Life insurance deposits	30,768,468	6,476,060
Pension liability – net	4,073,975	601,951
Insurance payables	55,526,246	29,606,657
Trade and other liabilities	(85,694,211)	268,589,145
Net cash generated from operations	1,978,915,236	657,026,409
Proceeds from disposal/maturities of:		
Available-for-sale financial assets (Note 7)	689,248,781	1,510,785,955
Financial assets at fair value through profit or loss (Note 7)	–	265,646,395
Acquisitions of:		
Available-for-sale financial assets (Note 7)	(956,776,869)	(898,219,456)
Financial assets at fair value through profit or loss (Note 7)	(7,390,527)	–
Interest received	506,459,444	519,509,934
Dividends received	20,052,869	17,134,741
Income taxes paid	(385,173,986)	(129,978,832)
Net cash provided by operating activities	1,845,334,948	1,941,905,146

(Forward)



	Years Ended December 31	
	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of investment property (Note 9)	₱6,000,000	₱687,104
Proceeds from disposals of property and equipment	766,645	–
Acquisitions of:		
Intangible assets (Note 11)	–	(1,009,441)
Property and equipment (Note 10)	(74,509,230)	(105,494,473)
Net cash used in investing activities	(67,742,585)	(105,816,810)
CASH FLOWS FROM FINANCING ACTIVITY		
Cash dividends paid	(1,043,000,000)	(891,000,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	734,592,363	945,088,336
EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	12,081,433	10,440,472
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,021,049,942	2,065,521,134
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱3,767,723,738	₱3,021,049,942

See accompanying Notes to Financial Statements.



PHILIPPINE AXA LIFE INSURANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Philippine AXA Life Insurance Corporation (the Company) was incorporated in the Philippines on November 30, 1962 to engage in selling personal and group insurance, including life insurance, accident and other insurance products that are permitted to be sold by a life insurance company in the Philippines. On May 22, 2003, the Insurance Commission (IC) approved the Company's license to sell variable or unit-linked insurance, a life insurance product which is linked to investment funds. On December 19, 2011, the Securities and Exchange Commission (SEC) approved the Company's application for extension of its corporate life.

On October 24, 2012, the Board of Directors (BOD) approved the change in principal place of business of the Company to 34th Floor, GT Tower International, 6813 Ayala Avenue, corner H.V. Dela Costa Street, Makati City. Prior to such date, the registered office address of the Company was Ground Floor, Philippine AXA Life Centre, Sen. Gil Puyat Avenue corner Tindalo Street, Makati City.

The Company is 45% owned by the AXA Group of Companies through AXA S.A., a company based in France, 28% owned by First Metro Investment Corporation (FMIC), a domestic corporation and 25% owned by GT Capital Holdings, Inc. (GT Capital), a domestic corporation.

The accompanying financial statements were authorized for issue by the BOD through the Board Risk Management, Audit and Compliance Committee (BRMACC) on February 23, 2015.

2. Summary of Significant Accounting Policies

Basis of Preparation

The financial statements of the Company have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets and financial assets 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 the Company's functional currency and recorded to the nearest peso.

Statement of Compliance

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

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, 2014. The nature and the impact of each new standard and amendment are described below:

Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments must be applied retrospectively, subject to certain transition relief. These amendments have no impact on the Company's financial statements since it has no investment that qualifies to be an investment entity under PFRS 10.



PAS 32, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (Amendments)

These amendments clarify the meaning of ‘currently has a legally enforceable right to set-off’ and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. The amendment does not have significant impact in the Company because although it has offsetting arrangements with the same counterparties, it has not offset yet the involved accounts since inception.

PAS 36, Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets (Amendments)

These amendments remove the unintended consequences of PFRS 13, Fair Value Measurement, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The amendments will not have an impact on the Company’s financial statements since it has no impaired non-financial assets.

Philippine Interpretation International Financial Reporting Interpretations Committee 21, Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Company as it has applied the recognition principles under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, consistent with the requirements of IFRIC 21 in prior years.

PAS 39, Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting (Amendments)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Company as it has not novated its derivatives during the current or prior periods.

Annual Improvements to PFRSs (2010-2012 cycle)

In the 2010-2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13. The amendment to PFRS 13 is effective immediately and it clarifies those short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment shall affect disclosure only of short-term receivables and payables.

Annual Improvements to PFRSs (2011-2013 cycle)

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



Future Changes in Accounting Policies

The Company will adopt the following new and amended Standards and Philippine Interpretations of IFRIC Interpretations enumerated below when these become effective.

Standards Issued but not yet Effective

Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the 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, 2015

PAS 19, Employee Benefits – Defined Benefit Plans: Employee Contributions (Amendments)

PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Company, since it does not have defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRSs (2010-2012 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) 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. A performance condition must contain a service condition
 - b. A performance target must be met while the counterparty is rendering service
 - c. A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
 - d. A performance condition may be a market or non-market condition
 - e. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.
- *PFRS 3, Business Combinations – Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39 if early adopted). The Company shall consider this amendment for future business combinations.



- *PFRS 8, Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments are applied retrospectively and clarify that:
 - a. 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'.
 - b. 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.
- *PAS 24, Related Party Disclosures – Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs (2011-2013 cycle)

The Annual Improvements to PFRSs (2011-2013 cycle) 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 3, Business Combinations – Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
 - a. Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
 - b. This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.
- *PFRS 13, Fair Value Measurement – Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.
- *PAS 40, Investment Property*
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).



Effective January 1, 2016

PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)

The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively with early adoption permitted. These amendments are not expected to have any impact to the Company given that it has not used a revenue-based method to depreciate its non-current assets.

PAS 16, Property, Plant and Equipment, and PAS 41, Agriculture – Bearer Plants (Amendments)

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

PAS 27, Separate Financial Statements – Equity Method in Separate Financial Statements (Amendments)

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The application of this new standard did not have an impact on the financial position or performance of the Company since it has no investment in subsidiary, associate or joint venture.

PFRS 10, Consolidated Financial Statements, and PAS 28, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016. The application of this new standard did not have an impact on the financial position or performance of the Company since it has no investment in subsidiary, associate or joint venture.



PFRS 11, Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (Amendments)

The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, 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. The application of this amended standard did not have an impact on the Company's financial position or performance since it has not entered into any joint arrangements.

PFRS 14, Regulatory Deferral Accounts

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

Annual Improvements to PFRSs (2012-2014 cycle)

The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Company. They include:

- *PFRS 5, Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*

The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- *PFRS 7, Financial Instruments: Disclosures – Servicing Contracts*

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



- *PFRS 7, Financial instruments: Disclosures – Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.
- *PAS 19, Employee Benefits – Regional Market Issue regarding Discount Rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- *PAS 34, Interim Financial Reporting – Disclosure of Information ‘elsewhere in the Interim Financial Report’*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

PFRS 9, Financial Instruments – Hedge Accounting and Amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)

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

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

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

PFRS 9, Financial Instruments (2014 or final version)

In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39 and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but



comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

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

PFRS 9, Financial Instruments – Classification and Measurement (2010 version)

PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, Financial Instruments: Recognition and Measurement. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

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

PFRS 15 Revenue from Contracts with Customers

PFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 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 PFRS 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 PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Company is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

Foreign Currency Translation

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated using the functional currency rate of exchange ruling at the reporting date.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. All foreign exchange differences are taken to profit or loss, except where it relates to



equity securities where gains or losses are recognized directly in other comprehensive income, the gain or loss is then recognized net of the exchange component in other comprehensive income.

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 internal 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 (including those under “Assets held to cover unit-linked liabilities”) 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 changes in value and are free of any encumbrances.

Short-term Investments

Short-term investments are placements in time deposits and other money market instruments with original maturities of more than three months but less than one year.



Insurance Receivables

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

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

Financial instruments are recognized initially at fair value. Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets and loans and receivables. The Company classifies its financial liabilities into financial liabilities at FVPL and 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.

Determination of fair value

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

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which observable current market prices exist, option pricing models, and other relevant valuation models. Any difference noted between the fair value and the transaction price is recognized in profit or loss, unless it qualifies for recognition as some type of asset or liability.

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.

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.

The Company's investment committee determines the policies and procedures for fair value measurement.

External valuers are involved for valuation of significant assets, such as investment properties. Involvement of external valuers is decided upon annually by the investment committee after discussion with and approval by the Company's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The investment committee decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the investment committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the investment committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The investment committee, in conjunction with the Company's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial assets 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.

'Day 1' profit or loss

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

Financial instruments at FVPL

This category consists of financial assets or financial liabilities that are held-for-trading or designated by management as at FVPL on initial recognition.

Financial assets or financial liabilities are classified as held-for-trading if they are entered into for the purpose of short-term profit taking.



Financial assets or financial liabilities classified in this category are designated by management as at FVPL on initial recognition when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and 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 or investment strategy, or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The investments (debt and equity securities) of the unit-linked funds set up by the Company underlying the unit-linked insurance contracts (included under “Assets held to cover unit-linked liabilities”) are designated as at FVPL since these are managed and their performance are evaluated on a fair value basis, in accordance with the investment strategy. Also, the Company designates the assets of the life insurance business that are managed under the Company’s Risk Management Statement on a fair value basis, and are reported to the Board on this basis. These assets have been valued on a fair value basis with movements taken through the profit or loss.

Financial assets at FVPL are recorded in the statement of financial position at fair value, with changes in the fair value recorded in profit or loss, included under the “Fair value gains or losses from financial assets at FVPL” account.

As of December 31, 2014 and 2013, the Company has no financial liabilities classified as FVPL.

Derivative financial instruments

Derivative financial instruments (including those under “Assets held to cover unit-linked liabilities”) are classified as held-for-trading unless they are designated as effective hedging instruments.

All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Derivative financial instruments held-for-trading are initially recorded at fair value and are typically entered into with the intention to settle in the near future. Subsequent to initial recognition, these instruments are remeasured at fair value. Changes in fair value of derivative instruments not accounted as hedges are recognized immediately in profit or loss.

In 2009, the Company’s unit-linked funds entered into a derivative transaction pertaining to a foreign exchange forward contract and bond swap classified under financial assets at FVPL (see Note 12).

Embedded derivatives

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at FVPL. Bifurcated embedded derivatives are accounted for at FVPL.



The Company assesses whether embedded derivatives are required to be separated from the host contracts when the Company becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows. The Company determines whether modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract, or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held-for-trading, nor designated as AFS or at FVPL. This accounting policy relates to the statement of financial position captions: (a) Insurance receivables, (b) Loans and receivables (including those under “Assets held to cover unit-linked liabilities”), and (c) Accrued income (including those under “Assets held to cover unit-linked liabilities”).

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included under “Investment income” account in profit or loss. The losses arising from impairment of such loans and receivables are recognized as “Provision for impairment losses” under the “Operating and administrative expenses” caption in profit or loss.

AFS financial assets

AFS financial assets are those which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include government securities, equity investments, and other debt instruments.

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in profit or loss.

Interest earned on holding AFS financial assets is reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in profit or loss when the right to receive payment has been established. Interests and dividends are recognized under “Investment income” account in profit or loss. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported in equity as “Revaluation reserve for AFS financial assets.” The losses arising from impairment of such financial assets are recognized as “Provision for impairment losses” under the “Operating and administrative expenses” caption in profit or loss. When a security is disposed of, the cumulative gain or loss previously recognized as other comprehensive income is reported as “Gain or loss on sale of AFS financial assets” in profit or loss.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment loss.



Other financial liabilities

Issued financial liabilities or their components, which are not designated as financial liabilities at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. This includes investment contracts which mainly transfer financial risk and has no or insignificant insurance risk.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate 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. Interest expense are charged to profit or loss as incurred.

Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

This accounting policy relates to the statement of financial position captions: (a) Premium deposit fund, (b) Life insurance deposits, (c) Insurance payables, (d) Trade and other liabilities and € Dividends payable that meet the above definition (other than liabilities covered by other accounting standards, such as pension liability and income tax payable). This accounting policy relates also to the payables included under the “Assets held to cover unit-linked liabilities” account.

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 unfavourable 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.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual agreement. Interests, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income.

Distributions to holders of financial instrument classified as equity are charged directly to liabilities and equity, net of any related income tax benefits.

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment of Financial Assets

The Company assesses at each reporting date whether 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.

Loans and receivables

For loans and receivables 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 an 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. 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 assets' carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in profit or loss. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. 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.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as type of borrower, collateral type, past-due status and term.

AFS financial assets carried at fair value

For equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of an investment below its cost or where other objective evidence of impairment exists. 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 profit or loss) is removed from equity and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. 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. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "Investment income" account in profit or loss. If, in a subsequent period, 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 profit or loss, the impairment loss is reversed through profit or loss.

AFS financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition of Financial Assets and Liabilities

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 material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its right to receive cash flows from the asset and either: (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 or has entered into a 'pass-through' arrangement 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 the consideration that the Company could be required to repay.

Financial liability

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



Reinsurance

The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is charged to profit or loss.

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

Reinsurance assets or liabilities are derecognized when the contractual right are extinguished, has expired, or when the contract is transferred to another party.

Investment Properties

Property held for long-term rental yields or for capital appreciation, or for both, is classified as investment property. These properties are initially measured at cost, which includes transaction cost, but excludes day-to-day servicing cost. Subsequently, at each end of the reporting period, such properties are carried at cost less accumulated depreciation and impairment in value.

Depreciation of investment property is computed using the straight-line method over its useful life, regardless of utilization. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties. The estimated useful life of the investment properties is 20 years.

Transfers are made to and from investment property when, and only when, there is a change in use, evidenced by ending of owner occupation, commencement of an operating lease to another party. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use.

Investment property is derecognized when it has been disposed of or when permanently withdrawn from use and no future benefit is expected from its disposal.

Any gain or loss on the retirement or disposal of investment properties is recognized in profit or loss in the year of derecognition.

Property and Equipment

Property and equipment, including owner occupied properties, are carried at cost less accumulated depreciation and amortization and accumulated impairment in value. Such cost includes initial transaction costs, but excludes day-to-day servicing cost. Replacement or major inspection cost is capitalized if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured.



Depreciation and amortization is computed using the straight-line method over the estimated useful life of the assets. Leasehold improvements are amortized over the estimated useful life of the improvements or the term of the related lease, whichever is shorter. The estimated useful lives of the different categories of property and equipment follow:

	Years
Building	20
Leasehold improvements	5
Transportation equipment	5
Computer equipment	3
Furniture and equipment	3

The assets' residual values, useful lives and depreciation and amortization method are reviewed at each reporting date and adjusted if appropriate to ensure that the period, residual value and the method of depreciation and amortization are consistent with the expected pattern of consumption of future economic benefits embodied in the asset.

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in profit or loss in the year the asset is derecognized. This is not applicable to items that still have useful lives but are currently classified as idle. Depreciation continues for those items until fully depreciated or disposed.

Intangible Assets

Intangible assets are carried at cost less accumulated amortization and impairment in value, if any. Intangible assets, consisting mainly of software (not an integral part of its related hardware), are capitalized at cost. These costs are amortized on a straight-line basis over their estimated useful lives ranging from 3 to 5 years. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Impairment of Nonfinancial Assets

At each reporting date, the Company assesses whether there is any indication that nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount.

Recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed for the cash generating unit to which the asset belongs.

Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount. 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 assessments of the time value of money and the risks specific to the asset (or cash generating unit).



An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

For nonfinancial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior periods. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase in other comprehensive income. After such reversal, the depreciation and amortization expense is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Insurance Contract Liabilities

Legal policy reserves

Life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each life operation. Assumptions and actuarial valuation methods are also subject to provisions of the Insurance Code (the Code) and guidelines set by IC.

Insurance contracts with fixed and guaranteed terms

The liability is determined as the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used. The liability is based on mortality, morbidity and investment income assumptions that are established at the time the contract is issued.

The Company has different assumptions for different products. However, liabilities for contractual benefits are computed to comply with 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 table of mortality and morbidity. Reserves are computed per thousand of sum insured and depend on the issue age and policy duration. The net change in legal policy reserves during the year is taken to profit or loss.

Claims and benefits payable

Claims and benefits payable consist of unpaid claims and benefits which are payable to policyholders.

Policyholders' dividends

DPF is a contractual right that gives policyholders the right to receive supplementary discretionary returns through participation in the surplus arising from participating business. These returns are subject to the discretion of the Company and are within the constraints of the terms and conditions of the contract. Dividends earned by the policyholders in prior policy years and left to accumulate and earn interest are presented under insurance contracts liabilities as Policyholders' Dividends.

Reserves for discretionary benefits, such as dividends, are currently set at the minimum allowed by regulation, which is the earned portion of dividends for the next policy year. These are presented under Reserves for policyholders' dividends.



Liability adequacy test

Liability adequacy tests are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

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 units of internal investment funds (unit-linked funds) set up by the Company with the consideration received from the policyholders. As allowed by PFRS 4, the Company chose not to unbundle the investment portion of its unit-linked products.

Premiums received from the issuance of unit-linked insurance contracts are recognized as premiums revenue. Consideration received from the policyholders that are transferred to the unit-linked funds is recognized as “Subscriptions allocated to investment in unit-linked funds” in the statement of comprehensive income. These are separated to fund assets from which the Company withdraws administrative and cost of insurance charges in accordance with the policy provisions of the unit-linked insurance contracts. After deduction of these charges together with applicable surrender fees, the remaining amounts in the fund assets are equal to the surrender value of the unit-linked policies, and are withdrawable anytime. The assets and liabilities of the unit-linked funds have been segregated and reflected in “Assets held to cover unit-linked liabilities” in the Company’s statement of financial position. Income or loss arising from the unit linked funds are classified under “Income on assets held to cover unit-linked liabilities” in the statement of comprehensive income. Withdrawals or surrenders of unit-linked funds are presented as “Decrease in unit-linked liabilities due to surrenders” in the statement of comprehensive income.

Investments under assets held to cover unit-linked liabilities are valued at market price. Changes in the assets held to cover unit-linked liabilities due to investment earnings or market value fluctuations result to the same corresponding change in the unit-linked liabilities. Such changes in fund value have no effect on the Company’s statement of comprehensive income. As of end of the reporting period, unit-linked liabilities are computed on the basis of the number of units allocated to the policyholders multiplied by the unit price of the underlying funds.

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 assets value per unit (NAVPU). The NAVPU is the market value of the fund divided by its total number of outstanding units.

Pension Benefit Obligation

Pension cost is actuarially determined using the projected unit credit method. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes service cost, net interest cost and remeasurement cost.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.



Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

The net pension liability or asset recognized by the Company in respect of its defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The present value of the defined benefit obligation, as computed by an independent actuary, is determined using a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Equity

Capital stock

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value.

Deposits for future stock subscriptions

Deposits for future stock subscriptions represents the additional capital invested by the stockholders that will be credited to capital stock upon approval by the SEC of the Company's application for increase in authorized capital stock.

Contributed surplus

Contributed surplus represents the original contribution 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.

Contingency surplus

Contingency surplus represents contributions of the stockholders to cover any unexpected deficiency in the Margin of Solvency (MOS) as required under the Insurance Code and can be withdrawn upon the approval of the IC.



Retained earnings

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

Treasury stock

Own equity instruments which are acquired (treasury stocks) are deducted from equity and accounted for at cost. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments. Voting rights related to treasury stocks are nullified for the Company and no dividends are allocated to them.

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 arrangements 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:

Premium income

Gross recurring premiums from life insurance contracts are recognized as revenue when payable by the policyholder. 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.

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS financial assets, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The change in carrying amount is recorded as interest income.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

For interest-bearing financial assets at FVPL, loans and receivables, cash and cash equivalents and short-term investments, interest income is recognized as it accrues.

Dividend income

Dividend income is recognized when the shareholders' right to receive the payment is established.

Rental income

Rental income from investment properties is recognized on a straight-line basis over the lease term.

Asset management fees

Unit-linked funds are charged for fund management and administration. These fees are recognized as revenue in the period in which the related services are rendered.

Other income

Other income is recognized in the profit or loss as it accrues.



Benefits, Claims and Expenses Recognition

Benefits and claims

Benefits and claims consist of cost of all claims and benefits incurred during the period, which includes excess benefit claims for unit-linked contracts, as well as changes in the valuation of legal policy reserves and reserves for policyholders' dividends. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

Interest expense

Interest expense on accumulated policyholders' dividends and premium deposit fund is recognized through profit or loss as it accrues and is calculated by using the effective interest rate method. Accrued interest is credited to the liability account every month.

Commission expense

Commission expense is recognized as incurred. Commissions are paid to agents and financial executives from selling individual and group policies. Rates applied on collected premiums vary depending on the type of product and payment terms of the contract. Referral fees are also paid in relation to the referrals made through the bancassurance business (see Note 25).

Taxes, operating and administrative and other expenses

Taxes, operating and administrative and other expenses are recognized in the statement of comprehensive income as 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 term, 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.

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

Company as a 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 profit or loss on a straight-line basis over the lease term. Minimum lease payments are recognized on a straight-line basis.

Company as a lessor

Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income.



Income Tax

Income tax for the year consists of current and deferred tax. Income tax is determined in accordance with Philippine tax laws. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income. Tax on these items is recognized in equity or other comprehensive income.

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 this amount are those that are enacted or substantively enacted as of the reporting date.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from excess MCIT and NOLCO 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 tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow all or part of the deferred tax assets to be recovered.

Current tax and deferred tax relating to items recognized directly in other comprehensive income are likewise recognized in other comprehensive income.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of end of the reporting period. Movements in the deferred tax assets and liabilities arising from changes in the rates are charged or credited to profit or loss for the period.

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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and when 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 discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.



Contingencies

Contingent liabilities are not recognized in the financial statements. They 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 benefits is probable.

Events After the Reporting Date

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

3. **Significant Accounting Judgments, Estimates and Assumptions**

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

Estimates and judgments 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

Product classification

The Company has determined that the traditional insurance policies and the unit-linked insurance policies have significant insurance risks and therefore meet the definition of insurance contracts and should be accounted for as such.

The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

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 expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Operating leases – Company as a lessor

The Company has entered into property leases on its investment property portfolio. The Company has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Operating leases – Company as a lessee

The Company has entered into contracts of lease for the office spaces of its branches. The Company has determined that all significant risks and rewards of ownership on these properties are retained by the respective lessors.



Estimates

Legal policy reserves

In determining the legal policy reserves, estimates are made as to the expected number of deaths, illness or injury for each of the years in which the Company is exposed to risk. These estimates are based on standard mortality and morbidity tables as required by the Code. The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments. In accordance with the provisions of the Code, estimates for future deaths, illness or injury and investment returns are determined at the inception of the contract and are used to calculate the liability over the term of the contract. The interest rate used to discount future liabilities does not exceed 6% as required by the Code. Likewise, no lapse, surrender and expense assumptions are factored in the computation of the liability.

The carrying values of legal policy reserves, shown as part of insurance contract liabilities, amounted to ₱6,165,791,870 and ₱5,451,966,742 as of December 31, 2014 and 2013 respectively (see Note 13).

Fair value of financial instruments

Fair value determinations for financial instruments are based generally on listed or quoted market prices. Where the fair values of financial assets and financial liabilities recorded in the statement of financial position or disclosed in the notes to the financial statements cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Certain financial assets and liabilities were initially recorded at fair values by using the discounted cash flow method.

As of December 31, 2014 and 2013, the carrying value of the financial assets at FVPL amounted to ₱1,135,135,574 and ₱1,037,819,561, respectively (see Note 7). As of December 31, 2014 and 2013, the carrying value of AFS financial assets recognized at fair value amounted to ₱6,492,090,593 and ₱6,304,703,811, respectively (see Note 7).

The Company has structured notes whose fair value is determined using valuation techniques as determined reasonable by management at time of valuation. The use of different assumptions could produce materially different estimates of fair value. The details of valuation techniques are provided in Note 24.

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

As of December 31, 2014 and 2013, the carrying value of the structured notes amounted to ₱472,568,532 and ₱463,803,678, respectively (see Notes 12 and 24).

Impairment of loans and receivables

The Company reviews its loans and receivables at each reporting date to assess whether an allowance for impairment should be recognized. 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 collectability of the accounts. These factors include, but are not limited to, age of balances, financial status of counterparties, payment behavior 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 based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

Insurance receivables consists of:

	2014	2013
Due from reinsurers	₱118,588,652	₱72,165,510
Premiums due and uncollected (Note 25)	67,593,938	86,151,225
	₱186,182,590	₱158,316,735

As of December 31, 2014 and 2013, the Company has not recognized any allowance for impairment losses on insurance receivables (see Note 6).

Loans and receivables consists of the following (see Note 7):

	2014	2013
Loans and receivables	₱578,405,101	₱566,102,604
Less allowance for impairment losses	6,576,171	6,367,879
	₱571,828,930	₱559,734,725

Impairment of AFS financial assets

The Company treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' as greater than 12 months for quoted equity investments.

In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate also when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, changes in technology and operational and financing cash flows.



The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

As of December 31, 2014 and 2013, the carrying value of AFS equity investments amounted to ₱249,999,533 and ₱200,412,763, respectively (see Note 7).

Estimated useful lives of property and equipment, investment properties and intangible assets

The Company reviews annually the estimated useful lives of property and equipment, investment properties and intangible assets 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, investment properties and intangible assets would increase recorded depreciation and amortization expense and decrease the related asset accounts.

The carrying values of the property and equipment, investment properties and intangible assets are as follows:

	2014	2013
Property and equipment (Note 9)	₱213,383,418	₱221,392,777
Investment properties (Note 10)	8,159,805	14,023,139
Intangible assets (Note 11)	1,587,373	2,694,711

Impairment of nonfinancial assets

The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amounts of assets may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if not possible, for the cash-generating unit to which the asset belongs.

The carrying values of the property and equipment, investment properties and intangible assets are as follows:

	2014	2013
Property and equipment (Note 9)	₱213,383,418	₱221,392,777
Investment properties (Note 10)	8,159,805	14,023,139
Intangible assets (Note 11)	1,587,373	2,694,711

Recognition of deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which these can be utilized.



Significant management judgment is required to determine the amount of deferred tax assets that can be recognized. These assets are periodically reviewed for realization. Periodic reviews cover the nature and amount of deferred income and expense items, expected timing when assets will be used or liabilities will be required to be reported, reliability of historical profitability of businesses expected to provide future earnings and tax planning strategies which can be utilized to increase the likelihood that tax assets will be realized.

As of December 31, 2014 and 2013, deferred tax assets amounted to ₱47,623,109 and ₱41,266,149, respectively (see Note 23).

Pension and other employee benefits

The determination of pension obligation and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rate, expected return on plan assets, salary increase rate, mortality rate, disability rate and turnover rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

The cost of defined benefit plan and the present value of the pension obligation are determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.

While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the market yields on Philippine government bonds with terms consistent with the expected term of the defined benefit obligation as of reporting date. The mortality rate is based on publicly available mortality tables in the Philippines. Future salary increases are based on expected future inflation rates. Refer to Note 22 for the details of assumptions used in the calculation.

The carrying value of net pension liabilities as of December 31, 2014 and 2013 amounted to ₱21,720,810 and ₱9,380,205, respectively (see Note 22).

The Company also estimates other employee benefit obligations and expenses, including costs of paid leaves based on historical leave availments of employees and subject to the Company's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

Accrued incentives and bonuses as of December 31, 2014 and 2013 amounted to ₱121,746,844 and ₱132,869,246, respectively (see Note 16).

Contingencies

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with legal counsels and based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position. It is possible, however, that the results of operations could be materially affected by changes in the estimates.



4. Cash and Cash Equivalents

This account consists of:

	2014	2013
Petty cash fund	₱674,676	₱531,575
Cash in banks (Notes 24 and 25)	188,966,432	293,364,908
Cash equivalents (Note 25)	3,578,082,630	2,727,153,459
	₱3,767,723,738	₱3,021,049,942

Cash in banks earns interest at the prevailing bank deposit rates that ranged from 0.25% to 2.75% in 2014 and in 2013. Cash equivalents are made for varying periods not exceeding three months depending on the immediate cash requirements of the Company, and earned interest at the prevailing short-term deposit rates that ranged from 0.25% to 1.85% and 0.25% to 1.50% in 2014 and 2013, respectively.

5. Short-term Investments

This account consists of time deposits with maturity of more than three months but less than one year from date of placement amounting to nil and ₱154,413,194 as of December 31, 2014 and 2013, respectively. The annual interest rate in 2013 ranged from 0.63% to 1.50%.

6. Insurance Receivables

This account consists of:

	2014	2013
Due from reinsurers	₱118,588,652	₱72,165,510
Premiums due and uncollected (Note 25)	67,593,938	86,151,225
	₱186,182,590	₱158,316,735

Due from reinsurers pertains to amounts recoverable from the reinsurers in respect of claims already incurred and paid by the Company which are due and demandable.

Premiums due and uncollected pertain to premiums receivable from policyholders that are due within the grace period.

The following table shows aging information of insurance receivables:

December 31, 2014

	< 30 days	30 – 60 days	61 – 120 days	121 – 180 days	> 180 days	Total
Due from reinsurers	₱535,648	₱5,509,679	₱20,501,839	₱6,638,916	₱85,402,570	₱118,588,652
Premiums due and uncollected	40,137,667	14,888,819	11,534,480	1,032,972	–	67,593,938
	₱40,673,315	₱20,398,498	₱32,036,319	₱7,671,888	₱85,402,570	₱186,182,590

December 31, 2013

	< 30 days	30 – 60 days	61 – 120 days	121 – 180 days	> 180 days	Total
Due from reinsurers	₱41,580	₱6,589,210	₱898,438	₱2,588,617	₱62,047,665	₱72,165,510
Premiums due and uncollected	57,061,035	13,196,582	14,895,271	998,337	–	86,151,225
	₱57,102,615	₱19,785,792	₱15,793,709	₱3,586,954	₱62,047,665	₱158,316,735



7. Financial Assets

The Company's financial assets are summarized by measurement categories as follows:

	2014	2013
AFS financial assets	₱6,492,090,593	₱6,304,703,811
Financial assets at FVPL	1,135,135,574	1,037,819,561
Loans and receivables – net	571,828,930	559,734,725
	₱8,199,055,097	₱7,902,258,097

As of December 31, 2014 and 2013, the financial assets at FVPL are designated by management as at FVPL on initial recognition.

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

Financial assets at FVPL

	2014	2013
Government debt securities - local currency	₱477,799,596	₱498,663,704
Listed equity securities	605,871,884	495,082,291
Investment in unit-linked funds (Note 12)	51,464,094	44,073,566
	₱1,135,135,574	₱1,037,819,561

Investments in government debt securities classified as financial assets at FVPL bear interest ranging from 2.13% to 18.25% and 7.75% to 10.25% in 2014 and 2013, respectively.

AFS financial assets

	2014	2013
Government debt securities – local currency	₱5,766,378,920	₱5,858,530,186
Corporate debt securities – local currency	475,712,140	245,760,862
Listed equity securities	235,920,433	188,233,663
Golf club shares	14,079,100	12,179,100
	₱6,492,090,593	₱6,304,703,811

Investments in government and corporate debt securities classified as AFS financial assets bear interest ranging from 2.13% to 18.25% and 3.88% to 18.25% in 2014 and 2013, respectively.

The carrying values of financial assets at FVPL and AFS financial assets have been determined as follows:

	Financial Assets at FVPL	AFS Financial Assets	Total
At January 1, 2013	₱1,285,882,035	₱6,652,583,140	₱7,938,465,175
Additions	–	898,219,456	898,219,456
Disposals/maturities	(265,646,395)	(1,510,785,955)	(1,776,432,350)
Fair value gains (Note 18)	17,583,921	264,138,268	281,722,189
Amortization of premium	–	548,902	548,902
At December 31, 2013	1,037,819,561	6,304,703,811	7,342,523,372
Additions	7,390,527	956,776,869	964,167,396
Disposals/maturities	–	(689,248,781)	(689,248,781)
Fair value gains (losses) (Note 18)	89,925,486	(69,039,452)	20,886,034
Amortization of discount	–	(11,101,854)	(11,101,854)
At December 31, 2014	₱1,135,135,574	₱6,492,090,593	₱7,627,226,167



As of December 31, 2014 and 2013, government securities totaling ₱87,500,000 classified under AFS financial assets are deposited with the IC in accordance with the provisions of the Code as security for the benefit of policyholders and creditors of the Company.

Loans and receivables

	2014	2013
Intercompany receivables (Note 25)	₱141,777,651	₱164,878,330
Due from officers and employees	26,747,454	24,627,930
Due from agents	20,727,574	16,270,107
Other receivables	8,802,822	14,532,083
	198,055,501	220,308,450
Less allowance for impairment losses	6,576,171	6,367,879
	191,479,330	213,940,571
Policy loans	380,349,600	345,794,154
	₱571,828,930	₱559,734,725

Due from officers and employees include secured interest-bearing loans pertaining to car plan and salary loans, and other unsecured noninterest-bearing loans and advances granted to the Company's officers and employees. Interest rates on interest-bearing loans range from 6% to 12% in 2014 and 2013. The Company's loans to officers and employees are secured by lease agreement or promissory note.

Due from agents are non-interest bearing accounts which pertain to receivable owed by certain agents that are due within one year.

Other receivables are non-interest bearing accounts which pertain to receivables owed by employees other than those covered in due from officers and employees account, such as payroll adjustments, cash advances and SSS loans, which are due within one year.

Policy loans pertain to loans granted to policyholders. The loan is granted with the cash surrender value of the policyholder's insurance policy as collateral. Interest rates on peso and dollar policy loans are pegged at 10% and 8%, respectively.

The reconciliation of the changes in the allowance for impairment losses on loans and receivables follows:

	Due from Officers and Employees	Due from Agents	Other Receivables	Total
At January 1, 2013	₱819,653	₱1,606,155	₱1,438,557	₱3,864,365
Provision (Note 21)	845,909	1,657,605	—	2,503,514
At December 31, 2013	1,665,562	3,263,760	1,438,557	6,367,879
Provision (Note 21)	208,292	—	—	208,292
At December 31, 2014	₱1,873,854	₱3,263,760	₱1,438,557	₱6,576,171

Loans and receivables amounting to ₱6,576,171 and ₱6,367,879 as of December 31, 2014 and 2013, respectively, are individually determined to be impaired.



8. Accrued Income

This account consists of:

	2014	2013
Interest receivable on:		
AFS financial assets	₱65,757,429	₱63,483,743
Loans and receivables	16,071,001	15,126,063
Financial assets at FVPL	10,347,056	10,347,056
Cash and cash equivalents	1,320,520	951,467
Short-term investments	–	336,699
	93,496,006	90,245,028
Dividend receivable	99,035	661,605
	₱93,595,041	₱90,906,633

9. Investment Properties

The rollforward analysis of this account follows:

December 31, 2014

	Land	Residential and Condominium Units	Total
Cost			
Beginning balances	₱9,569,805	₱16,304,432	₱25,874,237
Disposal	(1,410,000)	(5,344,000)	(6,754,000)
Ending balances	8,159,805	10,960,432	19,120,237
Accumulated Depreciation			
Beginning balances	–	11,851,098	11,851,098
Depreciation (Note 21)	–	89,067	89,067
Disposal	–	(979,733)	(979,733)
Ending balances	–	10,960,432	10,960,432
Net Book Value	₱8,159,805	₱–	₱8,159,805

December 31, 2013

	Land	Residential and Condominium Units	Total
Cost			
Beginning and ending balances	₱9,569,805	₱16,304,432	₱25,874,237
Accumulated Depreciation			
Beginning balances	–	11,094,377	11,094,377
Depreciation (Note 21)	–	756,721	756,721
Ending balances	–	11,851,098	11,851,098
Net Book Value	₱9,569,805	₱4,453,335	₱14,023,139



Land consist of 28 parcel of lands located in Taytay, Province of Rizal with total of area of 10,494 square meter.

In 2014, property at Tagaytay was sold at ₱6,000,000. Gain on sale recognized in statement of comprehensive income amounted to ₱225,733 (see Note 19).

Depreciation expense charged to operations amounted to ₱89,067 and ₱756,721 in 2014 and 2013, respectively (see Note 21).

Based on the appraisal conducted in February 2015 and December 2013, the investment properties have a total fair value of ₱26,262,000 and ₱31,858,000, respectively. The values were arrived at using the Sales Comparison Approach. This approach involves the analysis of rental and capital values of comparable properties in the vicinity. Adjustments are made to reflect the differences in use, location, tenure, size, amenities, efficiency, age and condition of the subject property. Upon confirmation with the Company's independent appraiser, management believes that there is no significant change in the fair value of the investment properties from the appraisal conducted in February 2015 and December 2013 compared to their values as of December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, the fair values of the properties are based on valuations performed by Colliers International Philippines, Inc., an accredited independent appraiser. Colliers International Philippines, Inc. is a specialist in valuing these types of investment properties.

Rental income and direct operating expenses on investment properties are as follows (see Notes 19, 25 and 26):

	2014	2013
Rental income	₱727,431	₱1,011,351
Direct operating expenses	(137,646)	(805,652)
Net income arising from investment properties	₱589,785	₱205,699

Description of valuation techniques used and key inputs to valuation on investment properties follow:

Valuation techniques	Level	Significant unobservable inputs	Range
Sales Comparison Approach	2	Estimated Computed Value per square meter	₱1,800 to ₱76,000 per square meter

The Company has determined that the highest and best use of the investment property is its current use. The highest and best use of this investment property has been determined to be for commercial utilization. The Company has no restrictions on the realizability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.



10. Property and Equipment

The rollforward analysis of this account follows:

December 31, 2014

	Building	Leasehold Improvements	Transportation Equipment	Computer Equipment	Furniture and Equipment (Note 25)	Total
Cost						
At January 1, 2014	₱138,983,737	₱222,523,571	₱15,090,559	₱261,360,214	₱82,793,638	₱720,751,719
Additions	—	8,219,290	—	63,916,212	2,373,728	74,509,230
Disposals	—	—	(1,036,623)	(6,850)	(358,080)	(1,401,553)
At December 31, 2014	138,983,737	230,742,861	14,053,936	325,269,576	84,809,286	793,859,396
Accumulated Depreciation and Amortization						
At January 1, 2014	105,966,559	106,575,454	11,492,326	205,108,780	70,215,823	499,358,942
Depreciation and amortization (Note 21)	6,312,950	31,545,560	1,188,558	36,830,904	6,490,343	82,368,315
Disposals	—	—	(930,713)	(4,757)	(315,809)	(1,251,279)
At December 31, 2014	112,279,509	138,121,014	11,750,171	241,934,927	76,390,357	580,475,978
Net Book Value	₱26,704,228	₱92,621,847	₱2,303,765	₱83,334,649	₱8,418,929	₱213,383,418

December 31, 2013

	Building	Leasehold Improvements	Transportation Equipment	Computer Equipment	Furniture and Equipment (Note 25)	Total
Cost						
At January 1, 2013	₱138,983,737	₱170,046,072	₱15,029,161	₱221,259,854	₱70,955,024	₱616,273,848
Additions	—	52,477,499	1,078,000	40,100,360	11,838,614	105,494,473
Disposals	—	—	(1,016,602)	—	—	(1,016,602)
At December 31, 2013	138,983,737	222,523,571	15,090,559	261,360,214	82,793,638	720,751,719
Accumulated Depreciation and Amortization						
At January 1, 2013	99,329,616	72,771,663	10,262,975	169,608,750	61,454,967	413,427,971
Depreciation and amortization (Note 21)	6,636,943	33,803,791	1,879,620	35,500,030	8,760,856	86,581,240
Disposals	—	—	(650,269)	—	—	(650,269)
At December 31, 2013	105,966,559	106,575,454	11,492,326	205,108,780	70,215,823	499,358,942
Net Book Value	₱33,017,178	₱115,948,117	₱3,598,233	₱56,251,434	₱12,577,815	₱221,392,777

Depreciation and amortization expense charged to operations amounted to ₱82,368,316 and ₱86,581,240 in 2014 and 2013, respectively (see Note 21). Cost of fully depreciated property and equipment still being used amounted to ₱264,815,967 and ₱230,173,539 as of December 31, 2014 and 2013, respectively.

11. Intangible Assets

The rollforward analysis of this account follows:

	2014	2013
Cost		
At January 1	₱78,599,122	₱77,589,681
Additions	—	1,009,441
At December 31	78,599,122	78,599,122

(Forward)



	2014	2013
Accumulated Amortization		
At January 1	₱75,904,411	₱74,934,489
Amortization (Note 21)	1,107,338	969,922
At December 31	77,011,749	75,904,411
Net Book Value	₱1,587,373	₱2,694,711

Intangible assets pertains to computer software purchased from third parties. Amortization expense charged to operations amounted to ₱1,107,338 and ₱969,922 in 2014 and 2013, respectively (see Note 21).

12. Assets Held to Cover Unit-Linked Liabilities / Unit-Linked Liabilities

Assets held to cover unit-linked liabilities consist of:

	2014	2013
Net asset values of the unit-linked funds (Note 25)	₱55,276,426,864	₱43,043,597,725
Subscriptions subsequently transferred to unit-linked funds (Note 16)	253,635,825	279,611,439
Investment in unit-linked funds under financial assets at FVPL (Note 7)	(51,464,094)	(44,073,566)
	₱55,478,598,595	₱43,279,135,598

Investment in unit-linked funds under financial assets at FVPL pertains to the seed capital invested by the Company.

The unit-linked funds' net assets consist of:

	2014	2013
Assets		
Cash and cash equivalents:		
Cash in banks	₱393,890,346	₱131,817,748
Cash equivalents	1,879,271,019	5,628,021,425
Financial assets at fair value through profit or loss:		
Government debt securities:		
Local currency	11,979,212,695	13,186,527,970
Foreign currency	10,586,792,008	10,499,465,322
Listed equity securities	30,085,061,054	13,104,448,016
Structured notes	472,568,532	463,803,678
Derivative asset	—	29,650,165
Accrued income:		
Interest receivable	327,724,471	370,162,461
Dividends receivable	7,324,215	8,944,329
Accounts receivable	70,728,906	23,750,742
	55,802,573,246	43,446,591,856

(Forward)



	2014	2013
Liabilities		
Accounts payable	₱372,342,329	₱260,435,890
Asset management fees payable (Note 25)	75,637,849	78,431,016
Service fees payable (Note 25)	59,682,363	43,080,991
Administration and custody fees payable	18,483,841	21,046,234
	526,146,382	402,994,131
	₱55,276,426,864	₱43,043,597,725

Cash and cash equivalents

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are made for varying periods not exceeding three months depending on the immediate cash requirements of the funds, and earn interest at the prevailing short-term deposit rates.

Financial assets at FVPL

The unit-linked funds' financial assets at FVPL are designated by management as at FVPL on initial recognition. As of December 31, 2014, government securities held by the Company bear interest ranging from 2.13% to 12.38% and from 4.20% to 10.63% for peso bonds and dollar bonds, respectively. As of December 31, 2013, government securities held by the Company bear interest ranging from 2.13% to 9.13% and from 4.00% to 10.63% for peso bonds and dollar bonds, respectively.

Structured notes

The Company, through AXA Philippine Peso Phoenix 5 Fund, AXA Philippine Peso Phoenix 7 Fund, AXA Philippine Dollar Phoenix 5 Fund and AXA Philippine Dollar Phoenix 7 Fund, purchased structured notes issued by foreign investment grade banks. The structured notes pertain to both peso and dollar equity-linked structured product with 5-year and 7-year tenors. The structured notes provide guarantee based on the single premium amount on maturity dates. At maturity date, unitholders of the fund will get the 80% guarantee, considering counterparty risk, plus upside based on the performance of both Philippines and China equity index. As of December 31, 2014 and 2013, the market value of peso structured notes amounting to ₱200,558,850 and ₱201,015,500, respectively and dollar structured notes amounting to US\$6,096,548 and US\$5,916,787, respectively, are derived from counterparty banks.

Derivative asset

The Company, through AXA Philippine Armor Fund, entered into a derivative transaction with Metropolitan Bank and Trust Company (MBTC), an affiliate. The derivative asset pertains to a bond swap classified under financial assets at FVPL. The Company exchanged ₱223,572,719 to buy US dollars amounting to US\$4,650,982 at US\$1 to ₱48.07 spot rate. Under this agreement, the Company used the US dollars to purchase US\$4,130,000 par value Republic of the Philippines (ROP) bonds maturing on January 14, 2014. At each coupon date, the Company uses the coupon payment to buy additional ROP bond. At maturity date, the aggregate face value of the ROP bonds plus the last coupon payment, both in US dollars, will be exchanged for Philippine peso using the pre-agreed forward rate of ₱51.62. The market value of the bonds and the unrealized gain on the currency forward derivative asset amounted to ₱49,456,160 and ₱29,650,165 as of December 31, 2013. The notional amount as of December 31, 2013 amounted to US\$1,114,000, respectively.

On January 14, 2014, AXA Philippine Armor Fund matured with total proceeds of ₱81,164,225. The aggregate face value of the ROP bonds plus the last coupon payment amounted to US\$1,572,341 at maturity date. Dollar exchange rate at maturity date amounted to ₱45 to US\$1. Realized gain on the currency forward derivative amounted to ₱10,408,880.



Interest receivable

Interest receivable pertains to interest accrued on short-term deposits and government debt securities.

Dividends receivable

Dividends receivable pertain to dividends accrued on listed equity securities.

Accounts receivable

Accounts receivable pertain to amounts due from brokers which represent receivables for securities sold that have been contracted for but not yet settled as of the end of the reporting period. It also includes subscriptions from unitholders.

Accounts payable

Accounts payable pertain to amounts due to brokers which represent payables for securities purchased that have been contracted for but not yet settled as of the end of the reporting period. It also includes redemptions payable to unitholders.

Asset management fees payable and service fees payable

Unit-linked funds were established through a Service Level Agreement between the unit-linked funds and MBTC. Under the Service Level Agreement (SLA), MBTC shall manage the unit-linked funds faithfully in accordance with the terms and conditions of the SLA. The Company is entitled to an asset management fee equivalent to 1.30% to 2.10% per annum based on the net asset value of the unit-linked funds. As compensation for services rendered, MBTC shall be entitled to a service fee equivalent to 0.10% to 0.30% per annum based on the net asset value of the unit-linked funds.

Administration and custody fees payable

The unit-linked funds and Citibank entered into a fund administration services agreement wherein Citibank shall perform administrative functions, which include, among others, the preparation and maintenance of books of accounts, computation of net asset value, and payment of expenses incurred by the unit-linked funds. As compensation for services rendered, Citibank shall be entitled to an administration and custody fee equivalent to 0.10% per annum based on the net asset value of the unit-linked funds.

The net asset values of the various unit-linked funds follow:

	2014	2013
AXA Philippine Wealth Balanced Fund	₱13,565,508,493	₱12,327,981,547
AXA Philippine Wealth Equity Fund	11,508,045,163	8,063,273,648
AXA Philippine Premium Bond Fund	8,298,628,499	8,961,197,751
AXA Philippine Chinese Tycoon Fund	6,471,861,327	838,592,656
AXA Philippine Global Advantage Fund	3,178,954,851	1,096,473,648
AXA Philippine Wealth Bond Fund	1,454,286,024	1,568,532,115
AXA Philippine Opportunity Fund	1,236,457,210	619,948,676
AXA Philippine 3Gxceed \$B20	1,210,914,687	1,119,479,503
AXA Philippine 3Gxceed B16 Series 2	963,326,884	1,224,377,628
AXA Philippine 3Gxceed \$B19	931,609,443	1,484,621,443
AXA Philippine Asia Growth Fund	788,210,378	—
AXA Philippine 3Gxceed B20	755,461,203	726,076,733
AXA Philippine European Wealth Fund	610,087,737	—

(Forward)



	2014	2013
AXA Philippine 3Gxceed B18 Series 2	₱597,826,149	₱690,697,130
AXA Philippine 3Gxceed B16	594,601,341	758,954,861
AXA Philippine 3Gxceed B17	529,448,722	753,856,730
AXA Philippine 3Gxceed B17 Series 2	379,760,134	554,138,181
AXA Philippine 3Gxceed B19	370,083,945	520,074,763
AXA Philippine 3Gxceed B21	328,863,770	260,657,638
AXA Philippine Spanish American Legacy Fund	315,039,317	87,991,053
AXA Philippine Capital Investment Fund	259,587,624	304,934,284
AXA Philippine 3Gxceed \$B21	221,947,333	134,217,015
AXA Philippine Dollar Phoenix 5 Fund	162,985,544	158,768,769
AXA Philippine Peso Liquidity Fund	131,116,461	140,900,366
AXA Philippine Peso Phoenix 5 Fund	122,399,550	122,828,750
AXA Philippine Dollar Phoenix 7 Fund	109,024,138	104,019,409
AXA Philippine 3Gxceed B18	102,231,636	129,404,235
AXA Philippine Peso Phoenix 7 Fund	78,159,301	78,186,750
AXA Philippine Locked and Loaded	—	145,202,322
AXA Philippine Armor Fund	—	68,210,121
	₱55,276,426,864	₱43,043,597,725

The movements in unit-linked liabilities during the year follow (in thousands):

	2014	2013
At January 1	₱43,279,136	₱33,758,320
Tabular net premiums or considerations	13,989,564	14,644,512
Tabular interest (cost)	4,842,512	(1,668,794)
	62,111,212	46,734,038
Reserves released by death	(46,447)	(50,960)
Reserves released by other terminations	(6,598,188)	(4,412,428)
	(6,644,635)	(4,463,388)
Foreign exchange adjustments	12,022	1,008,486
At December 31	₱55,478,599	₱43,279,136

13. Insurance Contract Liabilities

This account consists of:

	2014	2013
Legal policy reserves	₱6,165,791,870	₱5,451,966,742
Claims and benefits payable (Note 25)	765,887,715	640,641,563
Policyholders' dividends	183,622,121	151,810,725
Reserve for policyholders' dividends	25,713,722	19,644,074
	₱7,141,015,428	₱6,264,063,104



Insurance contract liabilities may be analyzed as follows (in thousands):

December 31, 2014

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Aggregate reserves for ordinary life policies	₱5,939,163	₱6,605	₱5,932,558
Aggregate reserves for group life policies	138,332	16,865	121,467
Cost of insurance related reserves	111,240	1,670	109,570
Aggregate reserves for accident and health policies	2,196	—	2,196
Policy and contract claims	765,888	—	765,888
Policyholders' dividends	183,622	—	183,622
Reserve for policyholders' dividends	25,714	—	25,714
	₱7,166,155	₱25,140	₱7,141,015

December 31, 2013

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Aggregate reserves for ordinary life policies	₱5,253,867	₱4,286	₱5,249,581
Aggregate reserves for group life policies	121,819	12,122	109,697
Cost of insurance related reserves	91,349	498	90,851
Aggregate reserves for accident and health policies	1,838	—	1,838
Policy and contract claims	640,641	—	640,641
Policyholders' dividends	151,811	—	151,811
Reserve for policyholders' dividends	19,644	—	19,644
	₱6,280,969	₱16,906	₱6,264,063

Legal policy reserves may be analyzed as follows:

	2014	2013
Gross		
With fixed and guaranteed terms:		
Partially fixed and guaranteed – participating	₱5,164,031,943	₱4,772,982,924
Fixed and guaranteed – nonparticipating	915,658,567	604,540,308
Cost of insurance	111,239,716	91,349,206
	6,190,930,226	5,468,872,438
Recoverable from reinsurers		
With fixed and guaranteed terms:		
Partially fixed and guaranteed – participating	1,321,979	815,928
Fixed and guaranteed – nonparticipating	22,146,371	15,591,552
Cost of insurance	1,670,006	498,216
	25,138,356	16,905,696

(Forward)



	2014	2013
Net		
With fixed and guaranteed terms:		
Partially fixed and guaranteed – participating	₱5,162,709,964	₱4,772,166,996
Fixed and guaranteed – nonparticipating	893,512,196	588,948,756
Cost of insurance	109,569,710	90,850,990
	₱6,165,791,870	₱5,451,966,742

The movements in legal policy reserves during the year follow (in thousands):

	2014			2013		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
At January 1	₱5,468,873	₱16,906	₱5,451,967	₱5,365,475	₱11,564	₱5,353,911
Tabular net premiums or considerations	1,955,444	–	1,955,444	1,576,104	–	1,576,104
Tabular interest	360,649	–	360,649	335,159	–	335,159
Other increase	18,269	8,232	10,037	17,853	5,342	12,511
	7,803,235	25,138	7,778,097	7,294,591	16,906	7,277,685
Tabular cost	(1,326,210)	–	(1,326,210)	(964,731)	–	(964,731)
Reserves released by death	(7,662)	–	(7,662)	(7,449)	–	(7,449)
Reserves released by other terminations	(278,498)	–	(278,498)	(854,367)	–	(854,367)
	(1,612,370)	–	(1,612,370)	(1,826,547)	–	(1,826,547)
Foreign exchange adjustments	65	–	65	829	–	829
At December 31	₱6,190,930	₱25,138	₱6,165,792	₱5,468,873	₱16,906	₱5,451,967

The movements during the year in claims and benefits payable follow:

	2014	2013
At January 1	₱640,641,563	₱657,810,615
Arising during the year (Note 19)	943,599,608	1,301,223,229
Paid during the year	(818,353,456)	(1,318,392,281)
At December 31	₱765,887,715	₱640,641,563

The movements during the year in policyholders' dividends follow:

	2014	2013
At January 1	₱151,810,725	₱130,921,529
Arising during the year	47,056,669	41,508,258
Paid during the year	(15,245,273)	(20,619,062)
At December 31	₱183,622,121	₱151,810,725

The movements during the year in reserves for policyholders' dividends follow:

	2014	2013
At January 1	₱19,644,074	₱16,342,177
Arising during the year	6,069,648	3,301,897
At December 31	₱25,713,722	₱19,644,074



14. Insurance Contract Liabilities – Terms and Assumptions

Terms

Life insurance contracts offered by the Company mainly include: (a) traditional whole life participating policies (with and without anticipated endowments) and a wide range of nonparticipating riders (i.e., accidental death and dismemberment, term, critical illness, hospital income, term life, etc.); (b) unit-linked products, both regular premium and single premium with nonparticipating riders; (c) various nonparticipating products; and (d) a participating US\$ single-premium product. In addition, the Company offers group yearly renewable term, credit life and personal accident insurance.

Life Insurance Contract Liabilities

For life insurance contracts with fixed and guaranteed terms (including partially fixed and guaranteed terms), the Company determines assumptions in relation to future deaths and investment returns at inception of the contracts. These assumptions are used for calculating the liabilities during the life of the contract. These assumptions, which may be changed during the life of the contract, are in compliance with statutory requirements.

Key assumptions

Material judgment is required in determining the liabilities and in the choice of assumptions relating to insurance contracts. Assumptions are based on past experience, current internal data and conditions, and external market indices and benchmarks, which reflect current observable market prices and other published information. Such assumptions are determined as appropriate at inception of the contract 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 subject to the provisions of the Code and guidelines set by the IC.

For insurance contracts, the Company determines the assumptions in relation to future deaths, illness or injury and investment returns at inception of the contract. Subsequently, new estimates are developed at each reporting date and liabilities are tested to determine whether such 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. 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 enough deteriorations in estimates have an impact.

The key assumptions to which the estimation and adequacy testing of liabilities are particularly sensitive follows:

- **Mortality and morbidity rates**
Assumptions are based on standard industry and national mortality and morbidity tables, according to the type of contract written and which may be adjusted where appropriate to reflect contract type. For life insurance policies, increased mortality and morbidity rates would lead to a larger number of claims and claims occurring sooner than anticipated, increased the expenditure, and reduced profits for the shareholders.



- **Discount rates**

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits, less the discounted value of the expected future theoretical premiums that would be required to meet these future cash outflows. The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long-term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments. Interest rates used for estimating liabilities are capped at 6% by the Code. An increase in investment return would lead to an increase in profits for the shareholders. A decrease in the discount rate will increase the value of the liability.

As required by the Code, lapse, surrender and expense assumptions are not factored in the computation of the insurance contract liabilities.

The assumptions that have the greatest effect on the statements of financial position and statements of comprehensive income of the Company in 2014 and 2013 are listed below:

Portfolio assumptions by product impacting net liabilities	Mortality and morbidity rates	Discount rates
Whole life / Endowment	90% 1980 CSO	6%
	1958 CSO	6%
	1980 CSO	6%
Term insurance	1958 CSO	6%

Sensitivities

The analysis below is performed for a reasonably possible movement in key assumptions with all other assumptions held constant, on 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.

December 31, 2014

	Change in assumptions	Increase/(decrease) in liabilities	Increase/(decrease) in profit before tax	Increase/(decrease) in equity
Mortality/morbidity	+ 10%	₱78,780,229	(₱78,780,229)	(₱78,780,229)
	- 10%	(69,013,833)	69,013,833	69,013,833
Discount rate	- 1%	754,259,318	(754,259,318)	(754,259,318)

December 31, 2013

	Change in assumptions	Increase/(decrease) in liabilities	Increase/(decrease) in profit before tax	Increase/(decrease) in equity
Mortality/morbidity	+ 10%	₱71,468,287	(₱71,468,287)	(₱71,468,287)
	- 10%	(60,624,174)	60,624,174	60,624,174
Discount rate	-1%	679,871,442	(679,871,442)	(679,871,442)

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



Reinsurance – Assumptions and Methods

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. Amounts receivable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented under the “Insurance receivables” account in the statement of financial position. 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. The Company is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any reinsurance contract.

15. Insurance Payables

The rollforward analysis of this account follows:

	2014	2013
At January 1	₱86,710,699	₱57,104,042
Arising during the year (Note 19)	56,021,799	55,828,423
Paid during the year	(495,553)	(26,221,766)
At December 31	₱142,236,945	₱86,710,699

Insurance payables pertain to premiums due to reinsurers which are non-interest bearing payable on a quarterly basis.

16. Trade and Other Liabilities

This account consists of:

	2014	2013
Subscriptions payable (Note 12)	₱253,635,825	₱279,611,439
Commissions payable (Note 25)	186,401,987	111,595,604
Accrued incentives and bonuses	121,746,844	132,869,246
Taxes payable	97,665,414	79,299,960
Accounts payable (Note 25)	82,959,545	87,886,526
Accrued shared service costs (Note 25)	72,009,608	198,830,322
Telemarketing expenses	–	28,904,506
Others	28,769,063	9,884,894
	₱843,188,286	₱928,882,497

Subscriptions payable pertain to subscriptions to be transferred to unit-linked funds. These are non-interest bearing and are payable on demand.

Commissions payable pertain to sales force commissions which are non-interest bearing and payable every month.

Accrued incentives and bonuses pertain to incentive plans based on business performance, accrual of unused leaves, mid-year and 13th month pay, medical reimbursements and provident plan contribution. These are non-interest bearing and payable within approved terms within one year.



Taxes payable include taxes withheld from staffs and agents, fringe benefits taxes, stamp duties and premium taxes. These are remitted to government agencies one month after the reporting date.

Accounts payable includes amounts due to investment brokers which represent payables for securities purchased that have been contracted for but not yet settled as of the end of the reporting period payable on demand.

Accrued shared service costs pertain to regional charges for IT services, consultancy and support services. These are charged based on actual costs incurred. These are non-interest bearing and are payable on demand.

Telemarketing expenses pertain to direct marketing costs of telemarketers. These expenses include telephone costs, computer costs and collection fees paid to Metrobank Card Corporation, the contractor of the telemarketers. These are non-interest bearing and are payable on demand. This was discontinued in the latter part of 2013.

Other liabilities pertain to accrued professional fees, accrued advertising expenses and other miscellaneous payables. These are non-interest bearing and are payable on demand.

17. Equity

Capital stock

This account consists of common stock net of treasury shares as of December 31, 2014 and 2013 as follows:

Authorized – 10,000,000 shares, ₱100 par value	
Issued – 100,000,000 shares	₱1,000,000,000
	<u>₱1,000,000,000</u>

The movements of the Company's common shares follow:

	2014	2013
At January 1	10,000,000	6,593,953
Issuance of shares	–	3,406,047
At December 31	<u>10,000,000</u>	<u>10,000,000</u>

Retained earnings

On October 23, 2014, the BOD approved the declaration of cash dividends amounting to ₱1,043,000,000 or ₱104.30 per share payable to all stockholders of record as of the same date. The cash dividends were paid on November 17, 2014 and December 5, 2014.

On October 16, 2013, the BOD approved the declaration of cash dividends amounting to ₱891,000,000 or ₱89.10 per share payable to all stockholders of record as of the same date. The cash dividends were paid on November 12, 2013.

On March 20, 2013, the BOD approved the declaration of stock dividends amounting to ₱340,604,700 consisting of 3,406,047 shares to all stockholders of record as of the same date. The stock dividends were issued on May 30, 2013.



As of December 31, 2014 and 2013, the balance of retained earnings includes the remaining balance of the deemed cost adjustment amounting to ₱5,315,506 and ₱6,425,852, respectively, related to investment properties and certain property and equipment which arose when the Company transitioned to PFRS in 2005. This amount has yet to be absorbed through additional depreciation in profit and loss.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the common shares held in treasury.

Treasury stock

Common shares held in treasury are 207 shares as of December 31, 2014 and 2013.

18. Revaluation Reserves for Available-for-sale Financial Assets

The rollforward analysis of this account follows:

	2014	2013
At January 1	₱1,069,096,619	₱1,262,214,606
Fair value gains (losses) (Note 7)	(69,039,452)	264,138,268
Transferred to profit and loss		
Gain on sale	(76,234,668)	(458,581,255)
Impairment loss	–	1,325,000
At December 31	₱923,822,499	₱1,069,096,619

The revaluation reserve for AFS financial assets records the difference between the amortized cost and fair value of debt instruments and acquisition cost and fair value of equity investments classified as AFS financial assets.

19. Revenue and Benefits and Claims

The net insurance premium revenue consists of:

	2014	2013
Premium revenue arising from contracts issued		
Unit-linked insurance contracts	₱16,105,652,050	₱16,228,580,402
Life insurance contracts (Note 25)	2,298,830,493	2,091,412,390
	18,404,482,543	18,319,992,792
Premium revenue ceded to reinsurers on contracts issued (Note 15)		
Life insurance contracts	41,816,477	44,408,970
Unit-linked insurance contracts	14,205,322	11,419,453
	56,021,799	55,828,423
	₱18,348,460,744	₱18,264,164,369



The investment income consists of:

	2014	2013
Interest on:		
AFS financial assets	₱348,425,857	₱341,871,088
Financial assets at FVPL	80,139,972	80,139,972
Loans and receivables	40,475,396	38,514,189
Cash and cash equivalents (Note 25)	29,567,343	37,244,697
Short-term investments	–	1,184,319
	498,608,568	498,954,265
Fair value gains on from financial assets at fair value through profit or loss (Notes 7 and 25)	89,925,486	17,583,921
Gain on sale of available-for-sale financial assets (Note 18)	76,234,668	458,581,255
Dividend income	19,490,299	17,635,999
Rental income (Notes 9, 25 and 26)	727,431	1,011,351
Gain on sale of investment property (Note 9)	225,733	–
Other income	1,839,163	–
	₱687,051,348	₱993,766,791

Net claims and benefits incurred during the year consist of (see Note 13):

	2014	2013
Death and hospitalization benefits (Note 25)	₱477,350,465	₱371,694,440
Surrenders	317,722,615	218,480,391
Maturities	110,717,820	678,386,098
Gross experience refunds (Note 25)	37,808,708	32,662,300
	943,599,608	1,301,223,229
Reinsurers' share on claims and benefits incurred	(46,423,142)	(17,416,305)
	897,176,466	1,283,806,924
Policyholders' dividends and interest	47,056,669	41,508,258
	₱944,233,135	₱1,325,315,182

20. Income (Loss) on Assets Held to Cover Unit-linked Liabilities

This account consists of:

	2014	2013
Income		
Interest on:		
Financial assets at FVPL	₱1,356,169,899	₱1,428,722,019
Cash and cash equivalents	23,321,220	37,628,540
Dividend income	409,445,470	259,895,727
Foreign exchange gain	–	20,878,955
Fair value gains on financial assets at FVPL	4,289,670,336	–
	6,078,606,925	1,747,125,241

(Forward



	2014	2013
Expenses		
Asset management and service fees (Note 12)	₱989,918,435	₱794,381,433
Fund administration and custody fees (Note 12)	48,288,907	39,402,907
Fair value losses on financial assets at FVPL	–	1,382,057,230
Other expenses	26,452,057	6,248,839
	1,064,659,399	2,222,090,409
Income (loss) before final tax	5,013,947,526	(474,965,168)
Final tax	161,575,620	169,747,392
	₱4,852,371,906	(₱644,712,560)

21. Operating and Administrative Expenses

This account consists of:

	2014	2013
Salaries, allowances and benefits (Note 22)	₱998,250,848	₱910,846,051
Shared service costs (Note 25)	160,319,268	86,361,066
Training and convention	116,608,068	114,445,521
Project development costs	109,934,891	161,994,298
Rent (Notes 25 and 26)	99,478,135	100,381,982
Advertising and promotions	90,566,657	107,065,236
Depreciation and amortization (Notes 9, 10 and 11)	83,564,720	88,307,883
Collection fees	78,247,075	106,690,428
Transportation and travel	67,332,760	53,672,378
Taxes, licenses and fees	50,573,567	13,338,540
Communication, light and water	55,524,572	56,471,190
Management and directors' fees (Note 25)	16,135,707	12,144,502
Courier costs	15,091,098	16,917,655
Supplies	15,001,100	13,484,566
Repairs and maintenance	3,019,513	5,828,426
Impairment loss on loans and receivables (Note 7)	208,292	2,503,514
Impairment loss on AFS financial assets (Note 7)	–	1,325,000
Miscellaneous	39,197,941	29,863,768
	₱1,999,054,212	₱1,881,642,004

Project development costs pertain to charges for information technology services and other expenditures.

Collection fees pertain to accrual of services in relation to premium collections of salary deduction policies and group policies. Fees are applied to collected premiums at various rates.

Shared service costs pertain to allocated regional charges for consultancy and support services based on the service level agreement.

Miscellaneous includes credit card fees, legal fees, bank charges and other expenses.



22. Employee Benefits

The Company has a noncontributory defined benefit pension plan, covering substantially all of its employees, which requires contributions to be made by the Company to an administered fund. The Company's retirement fund is administered by Metropolitan Bank and Trust Company (MBTC) as trustee (see Note 25), under the supervision of the Board of Trustees of the plan. The Board of Trustees is responsible for investment of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes account of the plans' objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The Board of Trustees delegates the implementation of the investment policy in accordance with the investment strategy as well as various principles and objectives to an Investment Committee, which also consists of members of the Board of Trustees.

Under the existing regulatory framework, Republic Act 7641 requires a 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 under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. The Company also provides additional post employment healthcare benefits to certain employees. These benefits are unfunded.



Changes in net defined benefit liability of funded funds are as follows:

2014												
Net benefit cost in statements of comprehensive income						Remeasurements in other comprehensive income						
	At January 1	Current service cost	Net interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes rising from changes in financial assumptions	Actuarial changes arising from experience adjustments	Subtotal	Contribution by employer	At December 31
Present value of defined benefit obligation	₱88,493,537	₱14,813,042	₱4,787,500	₱19,600,542	(₱8,365,293)	₱–	₱–	₱9,179,457	(₱516,906)	₱8,662,551	₱–	₱108,391,337
Fair value of plan assets	(79,113,332)	–	(4,280,031)	(4,280,031)	8,365,293	3,146,921	–	–	–	3,146,921	(14,789,378)	(86,670,527)
	₱9,380,205	₱14,813,042	₱507,469	₱15,320,511	₱–	₱3,146,921	₱–	₱9,179,457	(₱516,906)	₱11,809,472	(₱14,789,378)	₱21,720,810
2013												
Net benefit cost in statements of comprehensive income						Remeasurements in other comprehensive income						
	At January 1	Current service cost	Net interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes rising from changes in financial assumptions	Actuarial changes arising from experience adjustments	Subtotal	Contribution by employer	At December 31
Present value of defined benefit obligation	₱73,834,900	₱12,392,875	₱3,874,685	₱16,267,560	(₱6,820,014)	₱–	₱–	₱4,281,419	₱929,672	₱5,211,091	₱–	₱88,493,537
Fair value of plan assets	(65,012,572)	–	(3,473,609)	(3,473,609)	6,820,014	(5,255,165)	–	–	–	(5,255,165)	(12,192,000)	(79,113,332)
	₱8,822,328	₱12,392,875	₱401,076	₱12,793,951	₱–	(₱5,255,165)	₱–	₱4,281,419	₱929,672	(₱44,074)	(₱12,192,000)	₱9,380,205



The distribution of the plan assets follows:

	2014	2013
Cash and cash equivalents	₱13,290,286	₱6,084,545
Debt securities	55,092,658	61,811,788
Equity securities	16,991,970	5,319,028
Receivables	1,317,050	5,951,135
	86,691,964	79,166,496
Accounts payable	21,437	53,164
	₱86,670,527	₱79,113,332

The Company's plan assets consist of:

- Cash and cash equivalents include regular savings and time deposits;
- Investments in debt securities include investments in government consisting long-term treasury bills and bonds, which bear interest ranging from 4.13% to 10.69% and have maturities from August, 2015 to October, 2037;
- Equity instruments include investments in listed stocks and mutual funds and other equity instruments; and
- Receivables consist of interest and dividend receivables.
- Accounts payable pertains to trust fees payable.

The plan assets have diverse investments and do not have any concentration risk.

The Company plans to contribute ₱14,737,314 to the retirement fund in 2015.

The principal assumptions used in determining pension liability for the Company's plan follow:

	2014	2013
Discount rate	4.57%	5.41%
Rate of salary increase	7.00	7.00
Mortality rate	1994 GAM	1994 GAM
Average years of service	4.17 years	3.44 years

The Company plans to continue making contributions to the fund which consist of normal cost and unfunded actuarial liability. To adjust the normal cost for future salary changes and new entrants to the plan, the contributions for normal cost will be made on the basis of 4.12% of the annual covered compensation in effect at the time.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2014 and 2013, assuming if all other assumptions were held constant:

December 31, 2014

	Increase (decrease) in basis points	Impact on defined benefit obligation
Discount rate	+100 (100)	(₱10,784,023) 12,663,303
Rate of salary increase	+100 (100)	11,897,772 (10,393,180)



December 31, 2013

	Increase (decrease) in basis points	Impact on defined benefit obligation
Discount rate	+100 (100)	(P8,675,283) 10,172,187
Rate of salary increase	+100 (100)	9,667,254 (8,444,603)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The management performed an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of the Company's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans.

The average duration of the defined benefit obligation as of December 31, 2014 and 2013 is 15.79 years and 16.10 years, respectively.

The maturity analysis of the undiscounted benefit payments as of December 31, 2014 and 2013 follows:

December 31, 2014

	Sales	Non-sales	Total
Less than one year	P5,828,632	P4,768,602	P10,597,234
More than one year to five years	14,495,265	41,636,158	56,131,423
More than five years to 10 years	10,487,247	105,734,555	116,221,802
More than 10 years to 15 years	9,737,715	171,884,084	181,621,799
More than 15 years to 20 years	19,254,307	154,963,909	174,218,216
More than 20 years	3,117,642	278,836,448	281,954,090

December 31, 2013

	Sales	Non-sales	Total
Less than one year	P4,128,805	P4,740,425	P8,869,230
More than one year to five years	12,095,791	39,349,308	51,445,099
More than five years to 10 years	9,813,803	99,569,810	109,383,613
More than 10 years to 15 years	6,729,839	163,847,730	170,577,569
More than 15 years to 20 years	12,234,669	198,971,549	211,206,218
More than 20 years	2,733,226	275,709,617	278,442,843



Staff costs and other employee related costs consist of:

	2014	2013
Salaries and wages	₱900,167,831	₱823,324,254
Short-term employee benefits	38,725,816	37,772,915
Social security costs and Pag-ibig contributions	33,621,413	29,820,473
Net benefit expense	14,813,015	12,392,875
Others	10,922,773	7,535,534
	₱998,250,848	₱910,846,051

23. Income Taxes

Provision for income tax consists of:

	2014	2013
Current:		
RCIT	₱310,320,315	₱148,135,911
Final	93,348,329	95,632,480
	403,668,644	243,768,391
Deferred	(2,814,118)	(40,191,094)
	₱400,854,526	₱203,577,297

Deferred tax assets are recognized only to the extent that realization of the related tax benefit is probable. Components of recognized deferred tax assets and liabilities follow:

	2014	2013
Deferred tax assets:		
Affecting profit and loss:		
Accrual of nondeductible expenses	₱44,209,876	₱44,647,034
Net pension liability	5,695,127	5,784,338
Allowance for impairment losses	1,972,851	1,910,364
Affecting other comprehensive income:		
Remeasurement loss on defined benefit plan	3,542,842	—
	55,420,696	52,341,736
Deferred tax liabilities on:		
Unrealized foreign exchange gains	7,797,587	2,180,537
Unrealized gain on derivative asset	—	8,895,050
	7,797,587	11,075,587
Net deferred tax assets	₱47,623,109	₱41,266,149

In 2013, the unrecognized MCIT was applied since the Company is subject to RCIT.



The reconciliation of the statutory income tax rate to the effective income tax rate follows:

	2014	2013
Statutory income tax rate	30.00%	30.00%
Add (deduct) tax effects of:		
Interest income subjected to final tax	(2.70)	(3.06)
Income exempt from tax	(3.41)	(10.68)
Nondeductible expenses	1.31	0.28
Change in unrecognized deferred tax assets	(0.38)	(1.87)
Effective income tax rate	24.82%	14.67%

24. Management of Insurance and Financial Risks

Governance Framework

The Company has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risk. It also supports the effective implementation of policies at the overall company and 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, alignment of underwriting and reinsurance strategies to the corporate goals and specific reporting requirements.

Regulatory Framework

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

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

Capital Management

The Company manages its capital through its compliance with the statutory requirements on MOS, minimum paid-up capital and minimum net worth. The Company is also complying with the statutory regulations on RBC to measure the adequacy of its statutory surplus in relation to the risks inherent in its business. The RBC method involves developing a risk-adjusted target level of statutory surplus by applying certain factors to various asset, premium and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. The target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations.

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.



The Company's policy to address the situations where the capital level maintained is lower than required is to oblige the shareholders to add more capital. The Company currently holds surplus capital as a buffer for possible deviation in future profitability.

To ensure compliance with these externally imposed capital requirements, it is the Company's policy to monitor the MOS, paid-up capital, net worth and RBC requirements on a quarterly basis as part of the Company's internal financial reporting process.

Based on its calculations, 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.

MOS

Under the Code, a life insurance company doing business in the Philippines shall maintain at all times a MOS equal to ₱500,000 or ₱2 per thousand of the total amount of its insurance in force for traditional policies and ₱2 per thousand of net amount at risk for unit-linked products 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 paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserves. As of December 31, 2014 and 2013, the Company's MOS based on its calculations amounted to ₱2,110,804,266 and ₱1,984,021,207, respectively. The final amount of the MOS can be determined only after the accounts of the Company have been examined by the IC specifically as to admitted and non-admitted assets as defined under the same Code.

The estimated amounts of non-admitted assets as defined under the Code, and are still subject to examination by the IC, which are included in the accompanying statements of financial position, follow:

	2014	2013
Loans and receivables	₱164,648,282	₱61,737,479
Property and equipment - net	103,344,540	132,124,164
Other assets	122,977,987	197,490,664
	₱390,970,809	₱391,352,307

If an insurance company failed to meet the minimum required MOS, the IC 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 IC.

Fixed capitalization requirements

Department of Finance (DOF) Order 27-06 provides for the capitalization requirements for life, nonlife and reinsurance companies. Under this order, the minimum statutory net worth and minimum paid-up capital requirements vary depending on the level of the foreign ownership in the insurance company. 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 Circular Letter No. 26-2008, which recalls that in view of the compliance of insurance companies with the requirement of Insurance Memorandum Circular (IMC) No. 10-2006, the scheduled increases due December 31, 2007 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.

In compliance with IMC 10-2006, the required minimum statutory net worth and minimum paid-up capital for the Company, as mandated by DOF Order 27-06, being a 45% foreign owned insurance company is ₱700 million and ₱350 million as of December 31, 2011.

On June 1, 2012, the DOF issued DOF Order 15-2012 which imposes a higher minimum paid-up capital to further supplement DOF Order 27-06. An existing or licensed life insurance company must have a minimum paid-up capital of ₱250 million as of December 31, 2012.

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 (<i>Pursuant to DO 27-06 and IMC No. 10-2006</i>)
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 15, 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

As of December 31, 2014 and 2013, the Company has complied with the minimum paid-up capital requirements.



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 to 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 IC.

The following table shows how the RBC ratio was determined by the Company based on its calculations:

	2014	2013
Net worth	₱2,810,602,924	₱2,551,276,249
RBC requirement	819,654,205	701,330,220
RBC Ratio	343%	364%

The final RBC ratio can be determined only after the accounts of the Company have been examined by the IC specifically as to admitted and non-admitted assets as defined under the Code.

Consolidated compliance framework

IMC 10-2006 integrated the compliance standards for the fixed capitalization and RBC framework. The fixed capitalization requirement for a given period 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 2011. For the review year 2011, which shall be based on the 2010 synopsis, the Industry RBC Ratio Compliance Rate is 90% and the RBC Hurdle Rate is 250%.

On June 1, 2012, the DOF issued DOF Order 15-2012 which provides that after 2012, compliance with prescribed minimum paid-up capital requirement may be deferred for existing insurers that meet the RBC hurdle rate of 150%.

Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the period under review.

Unimpaired capital requirement

IMC 22-2008 provided that for the purpose of determining compliance with the law, rules and regulations requiring that the paid-up capital should remain intact and unimpaired at all times, the statement 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.

Insurance Risk

The risk under an insurance contract is the risk that an insured event will occur, including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims,



actual benefits paid that are greater than those originally estimated, and subsequent development of long-term claims.

Terms and conditions

The Company principally writes life insurance where the life of policyholder is insured against death, illness, injury or permanent disability, usually for a pre-determined amount. 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. Endowment products are investments/savings products where lump sum benefits are payable after a fixed period or on death before the period is completed. Unit-linked products differ from conventional policies in that a guaranteed percentage of each premium is allocated to units in a pooled investment fund and the policyholder benefits directly from the total investment growth and income of the fund.

The risks associated with the life and accident and health products are underwriting risk and investment risk.

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 from the policyholder's death experience being different than expected.
- Morbidity risk - risk of loss arising from the 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 variability of risks is improved by diversification of 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 change in any subset of the portfolio.

The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines.

The business of the Company consists of underwriting 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 whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

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

- The use and maintenance of sophisticated management information systems that provide up to date, accurate and reliable data on risk exposure at any point in time.
- The use of actuarial models based on past experience and statistical techniques to aid in pricing decisions and monitoring claims pattern.
- Issuance of guidelines for concluding insurance contracts and assuming insurance risks.



- Pro-active compliance of claims handling procedures to investigate and adjust claims, thereby preventing settlement of dubious or fraudulent claims.
- The use of reinsurance to limit the Company's exposure to large claims by placing risk with re-insurers providing high security.
- Diversification to achieve 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.

The mix of insurance assets is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the expected pattern of claim payments with the maturity dates of assets.

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

Using the amounts in the legal policy reserves (see Note 13), the Company's concentration of insurance risk before and after reinsurance in relation to the type of insurance contract follows:

	2014	2013
Whole Life		
Gross	₱3,555,391,838	₱3,134,164,850
Net	3,554,103,210	3,133,353,299
Endowment		
Gross	1,357,939,801	1,103,444,368
Net	1,357,906,494	1,103,440,129
Cost of insurance		
Gross	111,239,716	91,349,206
Net	109,569,710	90,850,990
Term insurance		
Gross	147,211,965	131,484,734
Net	146,868,287	131,247,892
Group insurance		
Gross	140,527,271	123,656,183
Net	123,662,469	111,534,298
Rider		
Gross	878,619,635	884,773,097
Net	873,681,700	881,540,134
Total		
Gross	6,190,930,226	5,468,872,438
Net	6,165,791,870	5,451,966,742

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. Additionally, 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 a yield below than 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 required to reinvest the proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality.

The Company utilizes dynamic asset allocation strategies consistent with its risk appetite framework to manage investment risk and to ensure sustainable investment returns. As a management tool, the Company uses asset-liability matching 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.

Fair Value of Financial Instruments

The following table sets forth the carrying values and estimated fair values of non-linked financial instruments recognized:

December 31, 2014

	Carrying Value	Fair Value
Financial assets:		
Loans and receivables		
Cash and cash equivalents	₱3,767,723,738	₱3,767,723,738
Insurance receivables - net		
Premiums due and uncollected	67,593,938	67,593,938
Due from reinsurers	118,588,652	118,588,652
Accrued income	93,595,041	93,595,041
Loans and receivables - net		
Intercompany receivables	141,777,651	141,777,651
Due from officers and employees	24,873,600	24,873,600
Due from agents	17,463,814	17,463,814
Policy loans	380,349,600	380,349,600
Other receivables	7,364,265	7,364,265
Financial assets designated as at FVPL		
Government debt securities		
Local currency	477,799,596	477,799,596
Listed equity securities	605,871,884	605,871,884
Investment in unit-linked funds	51,464,094	51,464,094
AFS financial assets		
Government debt securities		
Local currency	5,766,378,920	5,766,378,920
Corporate debt securities		
Local currency	475,712,140	475,712,140
Listed equity securities	235,920,433	235,920,433
Golf club shares	14,079,100	14,079,100
Total financial assets	₱12,246,556,466	₱12,246,556,466
	Carrying Value	Fair Value
Financial liabilities:		
Other financial liabilities		
Premium deposit fund	₱107,261,237	₱107,261,237
Insurance payables	142,236,945	142,236,945
Life insurance deposits	148,752,604	148,752,604
Trade and other liabilities*	745,522,872	745,522,872
Total financial liabilities	₱1,143,773,658	₱1,143,773,658

* Excluding taxes payable



December 31, 2013

	Carrying Value	Fair Value
Financial assets:		
Loans and receivables		
Cash and cash equivalents	₱3,021,049,942	₱3,021,049,942
Short-term investments	154,413,194	154,413,194
Insurance receivables - net		
Premiums due and uncollected	86,151,225	86,151,225
Due from reinsurers	72,165,510	72,165,510
Accrued income	90,906,633	90,906,633
Loans and receivables - net		
Intercompany receivables	164,878,330	164,878,330
Due from officers and employees	24,627,930	21,176,990
Due from agents	13,006,347	13,006,347
Policy loans	345,794,154	345,794,154
Other receivables	13,093,527	13,093,527
Financial assets designated as at FVPL		
Government debt securities		
Local currency	498,663,704	498,663,704
Listed equity securities	495,082,291	495,082,291
Investment in unit-linked funds	44,073,566	44,073,566
AFS financial assets		
Government debt securities		
Local currency	5,858,530,186	5,858,530,186
Corporate debt securities		
Local currency	245,760,862	245,760,862
Listed equity securities	188,233,663	188,233,663
Golf club shares	12,179,100	12,179,100
Total financial assets	₱11,326,944,602	₱11,325,159,224
Financial liabilities:		
Other financial liabilities		
Premium deposit fund	₱128,838,523	₱128,838,523
Insurance payables	86,710,699	86,710,699
Life insurance deposits	117,984,136	117,984,136
Trade and other liabilities*	849,582,537	849,582,537
Total financial liabilities	₱1,183,115,895	₱1,183,115,895

* Excluding taxes payable

Due to the short-term nature of cash and cash equivalents, insurance receivables, accrued income, short-term loans and receivables, premium deposit fund, insurance payables, life insurance deposits and trade and other liabilities, their carrying values reasonably approximate their fair values at year end.

The fair value of financial assets at FVPL and AFS financial assets that are actively traded in organized financial markets is determined by reference to quoted market bid prices, at the close of business on the reporting date, or the last trading day as applicable.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost.



The fair values of long-term loans and receivables are based on the discounted value of future cash flows using applicable rates for similar types of instruments ranging from 0.04% to 2.84% in 2013.

The following table sets forth the carrying values and estimated fair values of unit-linked financial instruments recognized:

December 31, 2014

	Carrying Value	Fair Value
Financial assets:		
Loans and receivables		
Cash and cash equivalents	₱2,273,161,365	₱2,273,161,365
Interest receivable	327,724,471	327,724,471
Dividend receivable	7,324,215	7,324,215
Accounts receivable	70,728,906	70,728,906
Financial assets designated at FVPL		
Government debt securities		
Local currency	11,979,212,695	11,979,212,695
Foreign currency	10,586,792,008	10,586,792,008
Listed equity securities	30,085,061,054	30,085,061,054
Structured notes	472,568,532	472,568,532
Total financial assets	₱55,802,573,246	₱55,802,573,246
Financial liabilities:		
Other financial liabilities		
Accounts payable	₱372,342,329	₱372,342,329
Asset management fees payable	75,637,849	75,637,849
Service fees payable	59,682,363	59,682,363
Administration and custody fees payable	18,483,841	18,483,841
Total financial liabilities	₱526,146,382	₱526,146,382

December 31, 2013

	Carrying Value	Fair Value
Financial assets:		
Loans and receivables		
Cash and cash equivalents	₱5,759,839,173	₱5,759,839,173
Interest receivable	370,162,461	370,162,461
Dividend receivable	8,944,329	8,944,329
Accounts receivable	23,750,742	23,750,742
Financial assets designated at FVPL		
Government debt securities		
Local currency	13,186,527,970	13,186,527,970
Foreign currency	10,499,465,322	10,499,465,322
Listed equity securities	13,104,448,016	13,104,448,016
Structured notes	463,803,678	463,803,678
Derivative asset	29,650,165	29,650,165
Total financial assets	₱43,446,591,856	₱43,446,591,856

(Forward)



	Carrying Value	Fair Value
Financial liabilities:		
Other financial liabilities		
Accounts payable	₱260,435,890	₱260,435,890
Asset management fees payable	78,431,016	78,431,016
Service fees payable	43,080,991	43,080,991
Administration and custody fees payable	21,046,234	21,046,234
Total financial liabilities	₱402,994,131	₱402,994,131

Due to the short-term nature of cash and cash equivalents, interest receivable, dividend receivable, accounts receivable and other financial liabilities, their carrying values reasonably approximate their fair values at year end.

The fair value of financial assets designated as at FVPL that are actively traded in organized financial markets is determined by reference to quoted market bid prices, at the close of business on the reporting date, or the last trading day as applicable.

The currency forward derivative asset is valued using net present value method using forward curves to estimate the future cash flows from the floating leg of the forward and converted to a single currency using the current foreign exchange spot rate.

Fair value hierarchy

The Company classifies its non-linked financial assets at fair value as follows:

December 31, 2014

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Financial assets at FVPL				
Government debt securities				
Local currency	₱—	₱477,799,596	₱—	₱477,799,596
Listed equity securities	605,871,884	—	—	605,871,884
Investment in unit-linked funds	51,464,094	—	—	51,464,094
AFS financial assets				
Government debt securities				
Local currency	1,069,426,742	4,696,960,178	—	5,766,378,920
Private debt securities				
Local currency	475,712,140	—	—	475,712,140
Listed equity securities	235,920,433	—	—	235,920,433
Golf club shares	14,079,100	—	—	14,079,100
	2,452,474,393	5,174,759,774	—	7,627,226,167
Assets for which fair values are disclosed:				
Loans and receivables				
Due from officers and employees	—	24,873,600	—	24,873,600
	₱2,452,474,393	₱5,199,633,374	₱—	₱7,652,099,767



December 31, 2013

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Financial assets at FVPL				
Government debt securities				
Local currency	₱—	₱498,663,704	₱—	₱498,663,704
Listed equity securities	539,155,857	—	—	539,155,857
Investment in unit-linked funds	44,073,567	—	—	44,073,567
AFS financial assets				
Government debt securities				
Local currency	561,430,497	5,297,099,689	—	5,858,530,186
Private debt securities				
Local currency	245,760,862	—	—	245,760,862
Listed equity securities	188,233,663	—	—	188,233,663
Golf club shares	12,179,100	—	—	12,179,100
	1,590,833,546	5,795,763,393	—	7,386,596,939
Assets for which fair values are disclosed:				
Loans and receivables				
Due from officers and employees	—	22,962,368	—	22,962,368
	₱1,590,833,546	₱5,818,725,761	₱—	₱7,409,559,307

The Company classifies its unit-linked financial assets at fair value as follows:

December 31, 2014

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Financial assets at FVPL				
Government debt securities				
Local currency	₱5,650,294,180	₱6,328,918,515	₱—	₱11,979,212,695
Foreign currency	10,586,792,008	—	—	10,586,792,008
Listed equity securities	30,085,061,054	—	—	30,085,061,054
Structured notes	—	—	472,568,532	472,568,532
	₱46,322,147,242	₱6,328,918,515	₱472,568,532	₱53,123,634,289

December 31, 2013

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Financial assets at FVPL				
Government debt securities				
Local currency	₱1,130,082,361	₱12,056,445,609	₱—	₱13,186,527,970
Foreign currency	10,499,465,322	—	—	10,499,465,322
Listed equity securities	13,104,448,016	—	—	13,104,448,016
Structured notes	—	—	463,803,678	463,803,678
Derivative asset	—	29,650,165	—	29,650,165
	₱24,733,995,699	₱12,086,095,774	₱463,803,678	₱37,283,895,151

The Company uses the following hierarchy for determining and disclosing the fair value of financial assets 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.



In 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

The assumptions used to determine the fair value of structured notes as of December 31, 2014 and 2013 and the description of significant unobservable inputs to valuation are discussed below.

The fair values of the structured products can be decomposed into the fair values of the bonds and option components which were determined using present value technique and option pricing model, respectively.

Discount rate used to value the bond component is the combination of the risk free rate and credit spread. Risk free rate is determined by their corresponding number of years swap rate while the credit spread is defined by the counterparty bank's credit default swap rate.

A custom index composed of Philippine and China equities that are equally weighted are used to approximate the value of the option.

Valuation of options embedded in the structured notes that are unobservable is 20% of the total investment which considers the actual funding levels of the issuer banks. Value of options is adjusted using the following techniques:

- Bid/offer adjustments
- Input uncertainty adjustments
- Model uncertainty adjustments
- Own-credit valuation adjustment for debts (OCA) and for derivatives (debit valuation adjustment - DVA)

The future payout of the structured notes is dependent on how the underlying index performed at certain points in the past. Monte Carlo simulation is used to simulate the price evolution of the underlying factors over the life of the trade. From a large number of simulations, the probability of payout at the end of each year can be obtained. The option price is then the expected payout of the trade based on the computed probabilities.

The description of significant observable inputs to valuation follows:

	Valuation technique	Significant observable inputs	Range (weighted average)	Sensitivity of the input to fair value
Structured notes - ING Bank N.V.	Fixed Income Leg: Discounted Cash Flow	PHP Swap Rates	±1% absolute	A ±1.00% absolute increase (decrease) in swap rate would result in decrease (increase) in fair value by US\$112,303 for the 5yr note and US\$113,265 for the 7yr note.
	Asian Option: Bloomberg Option Valuation	Underlying Index – ING Phil-China Index (Bloomberg Ticker: INGPCHCE Index)	±1% relative	A ±1.00% relative increase (decrease) in underlying index would result in increase (decrease) in fair value by US\$22,045 for the 5yr note and US\$17,036 for the 7yr note.



	Valuation technique	Significant observable inputs	Range (weighted average)	Sensitivity of the input to fair value
Structured notes - BNP Paribas	Fixed Income Leg: Discounted Cash Flow	USD Swap Rates	±1% absolute	A ±1.00% absolute increase (decrease) in swap rate would result in decrease (increase) in fair value by US\$95,623 for the 5yr note and US\$90,170 for the 7yr note.
	Asian Option: Bloomberg Option Valuation	Underlying Index – Phil-China Index (Bloomberg Ticker: ENHAPHCE Index)	±1% relative	A ±1.00% relative increase (decrease) in underlying index would result in increase (decrease) in fair value by US\$27,994 for the 5yr note and by US\$19,113 for the 7yr note.

The description of significant unobservable inputs to valuation follows:

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of the input to fair value
Structured notes - ING Bank N.V.	Fixed Income Leg: Discounted Cash Flow	Funding cost (credit spread)	±1% absolute	A ±1.00% absolute increase (decrease) in funding cost would result in decrease (increase) in fair value by US\$112,303 for the 5yr note and US\$113,265 for the 7yr note.
	Asian Option: Bloomberg Option Valuation	Volatility	±1% absolute	A ±1.00% absolute increase (decrease) in volatility would result in increase (decrease) in fair value by US\$4,045 for the 5yr note and US\$4,762 for the 7yr note.
Structured notes - BNP Paribas	Fixed Income Leg: Discounted Cash Flow	Funding cost (credit spread)	±1% absolute	A ±1.00% absolute increase (decrease) in funding cost would result in decrease (increase) in fair value by US\$95,623 for the 5yr note and US\$90,170 for the 7yr note.
	Asian Option: Bloomberg Option Valuation	Volatility	±1% absolute	A ±1.00% absolute increase (decrease) in volatility would result in increase (decrease) in fair value by US\$8,677 for the 5yr note and US\$9,306 for the 7yr note.

The following table shows the reconciliation of the beginning balance and ending balances of



Level 3 unit-linked financial assets at FVPL which are recorded at fair value as of December 31, 2014 and 2013:

	Peso-denominated structured notes	US dollar-denominated structured notes
Purchases	₱229,000,000	US\$6,430,000
Fair value loss	(27,984,500)	(513,213)
At December 31, 2013	201,015,500	5,916,787
Fair value gain (loss)	(456,650)	179,761
At December 31, 2014	₱200,558,850	US\$6,096,548

The table below summarizes the valuation techniques and the inputs used in the valuation of both unit-linked and non-linked financial assets categorized under Level 2.

	Valuation Technique	Significant Observable Input	Range
Loans and receivables			
Due from officers and employees	Discounted cash flow	Discount rate	0.04% to 2.84%
Government debt securities	Discounted cash flow	Discount rate (PDSI-R2)	2.35% to 4.98%
Derivative asset	Net present value	Forward rate	₱51.62 per US\$1
		Spot rate	₱48.07 per US\$1

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 fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages the level of credit risk it accepts through a comprehensive credit risk policy which focuses on minimizing credit risk exposures. The credit risk policies are set as follows:

- Concentration limit - The Company sets maximum exposure to an individual issuer and to a particular sector.
- Counterparty ratings - The Company reviews and recommends financial institutions that will complement over-all investment objectives and service requirements.

Reporting of credit risk exposures, monitoring compliance with credit risk policy and review of credit risk policy is done on a regular basis.

Loans to policyholders granted against the surrender value of policies carry substantially no credit risk. A credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements. The Company selects only domestic and foreign companies with strong financial standing and excellent track records which are allowed to participate in the Company's reinsurance programs. In respect of investment securities, the Company secures satisfactory credit quality by setting maximum limits of portfolio securities with a single issuer or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer or group of issuers. The Company sets the



maximum amounts and limits that may be advanced to/placed with individual corporate counterparties which are set by reference to their long term ratings.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position:

Non-linked

	2014	2013
Cash and cash equivalents*	₱3,767,049,062	₱3,020,518,367
Short-term investments	–	154,413,194
Insurance receivables - net		
Premiums due and uncollected	67,593,938	86,151,225
Due from reinsurers	118,588,652	72,165,510
Financial assets at FVPL		
Government debt securities		
Local currency	477,799,596	498,663,704
Listed equity securities	605,871,884	495,082,291
Investment in unit-linked funds	51,464,094	44,073,566
AFS financial assets		
Government debt securities		
Local currency	5,766,378,920	5,858,530,186
Private debt securities		
Local currency	475,712,140	245,760,862
Listed equity securities	235,920,433	188,233,663
Golf club shares	14,079,100	12,179,100
Loans and receivables - net		
Intercompany receivables	141,777,651	164,878,330
Due from officers and employees	26,747,454	24,627,930
Due from agents	20,727,574	16,270,107
Policy loan	380,349,600	345,794,154
Other receivables	8,802,822	14,532,083
Accrued income	93,595,041	90,906,633
	₱12,252,457,961	₱11,332,780,905

* Excluding petty cash fund

Unit-linked

	2014	2013
Cash and cash equivalents	₱2,273,161,365	₱5,759,839,173
Financial assets at FVPL		
Government debt securities		
Local currency	11,979,212,695	13,186,527,970
Foreign currency	10,586,792,008	10,499,465,322
Listed equity securities	30,085,061,054	13,104,448,016
Structured notes	472,568,532	463,803,678
Derivative asset		29,650,165
Interest receivable	327,724,471	370,162,461
Dividend receivable	7,324,215	8,944,329
Accounts receivable	70,728,906	23,750,742
	₱55,802,573,246	₱43,446,591,856



The Company's investment policy mandates it to invest only in investment grade bonds. The peso funds are invested in cash and money market instruments, fixed income investments (fixed rate bond issuances of the Philippine government with a minimum credit rating of AA), corporate bonds and equities of Philippine corporations included in the Philippine Stock Exchange (PSE) Index.

The dollar funds are invested in dollar-denominated cash and money market instruments, fixed income investments, particular issuances of the Philippine government with a minimum credit rating of AAA, and corporate bonds.

The table below provides information regarding the credit risk exposure of the Company by classifying non-linked assets according to the Company's credit ratings of counterparties:

December 31, 2014

	Neither Past-Due nor Impaired		Past Due or Impaired	Total
	Investment Grade	Non-investment Grade: Satisfactory		
Cash and cash equivalents*	₱3,767,049,062	₱—	₱—	₱3,767,049,062
Insurance receivables				
Premiums due and uncollected	—	67,593,938	—	67,593,938
Due from reinsurers	—	33,186,082	85,402,570	118,588,652
Financial assets at FVPL				
Government debt securities				
Local currency	477,799,596	—	—	477,799,596
Listed equity securities	605,871,884	—	—	605,871,884
Investment in unit-linked funds	51,464,094	—	—	51,464,094
AFS financial assets				
Government debt securities				
Local currency	5,766,378,920	—	—	5,766,378,920
Private debt securities				
Local currency	475,712,140	—	—	475,712,140
Listed equity securities	235,920,433	—	—	235,920,433
Golf club shares	14,079,100	—	—	14,079,100
Loans and receivables				
Intercompany receivables	—	141,777,651	—	141,777,651
Due from officers and employees	—	24,873,600	1,873,854	26,747,454
Due from agents	—	17,463,814	3,263,760	20,727,574
Policy loans	—	380,349,600	—	380,349,600
Other receivables	—	7,364,265	1,438,557	8,802,822
Accrued income	93,595,041	—	—	93,595,041
	₱11,487,870,270	₱672,608,950	₱91,978,741	₱12,252,457,961

* Excluding petty cash fund

December 31, 2013

	Neither Past-Due nor Impaired		Past Due or Impaired	Total
	Investment Grade	Non-investment Grade: Satisfactory		
Cash and cash equivalents*	₱3,020,518,367	₱—	₱—	₱3,020,518,367
Short-term investments	154,413,194	—	—	154,413,194
Insurance receivables				
Premiums due and uncollected	—	86,151,225	—	86,151,225
Due from reinsurers	—	10,117,845	62,047,665	72,165,510
Financial assets at FVPL				
Government debt securities				
Local currency	498,663,704	—	—	498,663,704
Listed equity securities	495,082,291	—	—	495,082,291
Investment in unit-linked funds	44,073,566	—	—	44,073,566

(Forward)



	Neither Past-Due nor Impaired		Past Due or Impaired	Total
	Investment Grade	Non-investment Grade: Satisfactory		
AFS financial assets				
Government debt securities				
Local currency	₱5,858,530,186	₱—	₱—	₱5,858,530,186
Private debt securities				
Local currency	245,760,862	—	—	245,760,862
Listed equity securities	188,233,663	—	—	188,233,663
Golf club shares	12,179,100	—	—	12,179,100
Loans and receivables				
Intercompany receivables	—	164,878,330	—	164,878,330
Due from officers and employees	—	22,962,368	1,665,562	24,627,930
Due from agents	—	13,006,347	3,263,760	16,270,107
Policy loans	—	345,794,154	—	345,794,154
Other receivables	—	13,093,527	1,438,556	14,532,083
Accrued income	90,906,633	—	—	90,906,633
	₱10,608,361,566	₱656,003,796	₱68,415,543	₱11,332,780,906

* Excluding petty cash fund

The table below provides information regarding the credit risk exposure of the Company by classifying unit-linked assets according to the Company's credit ratings of counterparties:

December 31, 2014

	Neither Past Due nor Impaired		Past Due or Impaired	Total
	Investment Grade	Non-investment Grade: Satisfactory		
Cash and cash equivalents	₱2,273,161,365	₱—	₱—	₱2,273,161,365
Financial assets at FVPL				
Government debt securities				
Local currency	11,979,212,695	—	—	11,979,212,695
Foreign currency	10,586,792,008	—	—	10,586,792,008
Listed equity securities	30,085,061,054	—	—	30,085,061,054
Structured notes	472,568,532	—	—	472,568,532
Derivative asset	—	—	—	—
Interest receivable	327,724,471	—	—	327,724,471
Dividend receivable	7,324,215	—	—	7,324,215
Accounts receivable	70,728,906	—	—	70,728,906
	₱55,802,573,246	₱—	₱—	₱55,802,573,246

December 31, 2013

	Neither Past Due nor Impaired		Past Due or Impaired	Total
	Investment Grade	Non-investment Grade: Satisfactory		
Cash and cash equivalents	₱5,759,839,173	₱—	₱—	₱5,759,839,173
Financial assets at FVPL				
Government debt securities				
Local currency	13,186,527,970	—	—	13,186,527,970
Foreign currency	10,499,465,322	—	—	10,499,465,322
Listed equity securities	13,104,448,016	—	—	13,104,448,016
Structured notes	463,803,678	—	—	463,803,678
Derivative asset	29,650,165	—	—	29,650,165
Interest receivable	370,162,461	—	—	370,162,461
Dividend receivable	8,944,329	—	—	8,944,329
Accounts receivable	23,750,742	—	—	23,750,742
	₱43,446,591,856	₱—	₱—	₱43,446,591,856



The Company uses a credit rating concept based on the borrowers' and counterparties' overall creditworthiness, as follows:

- Investment grade - Rating given to counterparties who possess strong to very strong capacity to meet their obligations.
- Non-investment grade - Rating given to counterparties who possess above average capacity to meet their obligations.

The table below shows the analysis of age of financial assets that are past-due but are not impaired:

December 31, 2014

Age Analysis of Financial Assets Past-Due but not Impaired						
	< 30 days	31 to 90 days	More than 90 days	Total Past-Due but not Impaired	Past-Due and Impaired	Total
Insurance receivables						
Due from reinsurers	P=	P=	P85,402,570	P85,402,570	P=	P85,402,570
Loans and receivables						
Due from officers and employees	-	-	-	-	1,873,854	1,873,854
Due from agents	-	-	-	-	3,263,760	3,263,760
Other receivables	-	-	-	-	1,438,557	1,438,557
	P=	P=	P85,402,570	P85,402,570	P6,576,171	P91,978,741

December 31, 2013

Age Analysis of Financial Assets Past-Due but not Impaired						
	< 30 days	31 to 90 days	More than 90 days	Total Past-Due but not Impaired	Past-Due and Impaired	Total
Insurance receivables						
Due from reinsurers	P=	P=	P62,047,665	P62,047,665	P=	P62,047,665
Loans and receivables						
Due from officers and employees	-	-	-	-	1,665,562	1,665,562
Due from agents	-	-	-	-	3,263,760	3,263,760
Other receivables	-	-	-	-	1,438,556	1,438,556
	P=	P=	P62,047,665	P62,047,665	P6,367,878	P68,415,543

The Company conducts a periodic review of allowance for impairment losses based on the corresponding age of past due accounts, payment behavior, credit capacity and length of relationship with the counterparty.

The Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2014 and 2013.

Liquidity risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or a counterparty failing on repayment of a contractual obligation; or the insurance liabilities falling due for payment earlier than expected; or the inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts and operating expenses. The Company manages liquidity by forecasting cash flow requirements. Investments are made in assets with



maturities or interest payments which are matched against expected payouts of claims benefits (i.e., amount and duration of assets are matched against amount and duration of liabilities). In addition, significant outflows due to operating expenses (e.g., salaries, bonuses, IT expenditures, etc.) are scheduled based on an agreed budget timeline.

It is unusual for a company primarily transacting insurance business to predict the requirements of funding with absolute certainty as theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are thus based on management's best estimate based on statistical techniques and past experience.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments except for the legal policy reserves of the life insurance contracts (included in the insurance contract liabilities account) which shows the maturity analysis based on the estimated timing of the net cash outflows using the recognized insurance liability amounts. The table also analyses the maturity profile of the Company's financial assets in order to provide a complete view of the Company's contractual commitments. For the unit-linked contracts, the Company is ready to dispose its investments in securities to meet surrenders of unit-linked liabilities.

Non-linked

December 31, 2014

	On demand	Up to a year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets:							
Loans and receivables							
Cash and cash equivalents	₱189,641,108	₱3,578,082,630	₱-	₱-	₱-	₱-	₱3,767,723,738
Short-term investments	-	-	-	-	-	-	-
Insurance receivables							
Premiums due and uncollected	-	67,593,938	-	-	-	-	67,593,938
Due from reinsurers	-	118,588,652	-	-	-	-	118,588,652
Loans and receivables							
Intercompany receivables	-	141,777,651	-	-	-	-	141,777,651
Due from officers and employees	-	21,463,863	5,283,591	-	-	-	26,747,454
Due from agents	-	20,727,574	-	-	-	-	20,727,574
Policy loans	-	380,349,600	-	-	-	-	380,349,600
Other receivables	-	8,802,822	-	-	-	-	8,802,822
Accrued income	-	93,595,041	-	-	-	-	93,595,041
Financial assets at FVPL							
Government debt securities							
Local currency	-	-	291,488,808	-	186,310,788	-	477,799,596
Listed equity securities	-	-	-	-	-	605,871,884	605,871,884
Investment in unit-linked fund	-	-	-	-	-	51,464,094	51,464,094
AFS financial assets							
Government debt securities							
Local currency	-	268,774,643	679,104,240	1,248,310,837	3,570,189,200	-	5,766,378,920
Private debt securities							
Local currency	-	-	-	148,474,204	327,237,936	-	475,712,140
Listed equity securities	-	-	-	-	-	235,920,433	235,920,433
Golf club shares	-	-	-	-	-	14,079,100	14,079,100
Total financial assets	₱189,641,108	₱4,699,756,414	₱975,876,639	₱1,396,785,041	₱4,083,737,924	₱907,335,511	₱12,253,132,637
Financial liabilities:							
Other financial liabilities							
Insurance contract liabilities	₱209,335,843	₱1,520,636,094	₱1,107,830,169	₱849,458,773	₱3,453,754,549	₱-	₱7,141,015,428
Premium deposit fund	107,261,237	-	-	-	-	-	107,261,237
Insurance payables	-	142,236,945	-	-	-	-	142,236,945
Life insurance deposits	-	148,752,604	-	-	-	-	148,752,604
Trade and other liabilities*	-	745,522,872	-	-	-	-	745,522,872
Total financial liabilities	₱316,597,080	₱2,557,148,515	₱1,107,830,169	₱849,458,773	₱3,453,754,549	₱-	₱8,284,789,086
Liquidity gap							₱3,968,343,551

* Excluding taxes payable



December 31, 2013

	On demand	Up to a year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets:							
Loans and receivables							
Cash and cash equivalents	₱293,896,483	₱2,727,153,459	₱—	₱—	₱—	₱—	₱3,021,049,942
Short-term investments	—	154,413,194	—	—	—	—	154,413,194
Insurance receivables							
Premiums due and uncollected	—	86,151,225	—	—	—	—	86,151,225
Due from reinsurers	—	72,165,510	—	—	—	—	72,165,510
Loans and receivables							
Due from officers and employees	—	20,775,987	3,851,943	—	—	—	24,627,930
Due from agents	—	16,270,107	—	—	—	—	16,270,107
Policy loans	—	345,794,154	—	—	—	—	345,794,154
Intercompany receivables	—	164,878,330	—	—	—	—	164,878,330
Other receivables	—	14,532,083	—	—	—	—	14,532,083
Accrued income	—	90,906,633	—	—	—	—	90,906,633
Financial assets at FVPL							
Government debt securities							
Local currency	—	—	—	306,526,150	192,137,554	—	498,663,704
Listed equity securities	—	—	—	—	—	495,082,291	495,082,291
Investment in unit-linked fund	—	—	—	—	—	44,073,566	44,073,566
AFS financial assets							
Government debt securities							
Local currency	—	—	380,210,472	700,751,934	4,777,567,780	—	5,858,530,186
Private debt securities							
Local currency	—	245,760,862	—	—	—	—	245,760,862
Listed equity securities	—	—	—	—	—	188,233,663	188,233,663
Golf club shares	—	—	—	—	—	12,179,100	12,179,100
Total financial assets	₱293,896,483	₱3,938,801,544	₱384,062,415	₱1,007,278,084	₱4,969,705,334	₱739,568,620	₱11,333,312,480
Financial liabilities:							
Other financial liabilities							
Insurance contract liabilities	₱171,454,799	₱1,894,476,475	₱1,064,566,992	₱956,922,756	₱2,176,642,082	₱—	₱6,264,063,104
Premium deposit fund	128,838,523	—	—	—	—	—	128,838,523
Insurance payables	—	86,710,699	—	—	—	—	86,710,699
Life insurance deposits	—	117,984,136	—	—	—	—	117,984,136
Trade and other liabilities	—	849,582,537	—	—	—	—	849,582,537
Total financial liabilities	₱300,293,322	₱2,948,753,847	₱1,064,566,992	₱956,922,756	₱2,176,642,082	₱—	₱7,447,178,999
Liquidity gap							₱3,886,133,481

* Excluding taxes payable

Unit-linked

December 31, 2014

	On demand	Up to a year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets:							
Loans and receivables							
Cash and cash equivalents	₱393,890,346	₱1,879,271,019	₱—	₱—	₱—	₱—	₱2,273,161,365
Accrued income							
Interest receivable	—	327,724,471	—	—	—	—	327,724,471
Dividend receivable	—	7,324,215	—	—	—	—	7,324,215
Accounts receivable	—	70,728,906	—	—	—	—	70,728,906
Financial assets at FVPL							
Government debt securities							
Local currency	—	491,463,547	3,035,176,439	2,470,311,861	5,982,260,848	—	11,979,212,695
Foreign currency	—	—	33,472,242	1,830,164,139	8,723,155,627	—	10,586,792,008
Listed equity securities	—	—	—	—	—	30,085,061,054	30,085,061,054
Structured notes	—	—	—	—	472,568,532	—	472,568,532
Derivative asset	—	—	—	—	—	—	—
Total financial assets	₱393,890,346	₱2,776,512,158	₱3,068,648,681	₱4,300,476,000	₱15,177,985,007	₱30,085,061,054	₱55,802,573,246
Financial liabilities:							
Other financial liabilities							
Accounts payable	₱—	₱372,342,329	₱—	₱—	₱—	₱—	₱372,342,329
Asset management fees payable	—	75,637,849	—	—	—	—	75,637,849
Administration and custody fees payable	—	18,483,841	—	—	—	—	18,483,841
Service fees payable	—	59,682,363	—	—	—	—	59,682,363
Unit-linked liabilities	—	7,817,769,813	14,736,771,059	9,827,858,089	23,096,199,616	—	55,478,598,577
Total financial liabilities	₱—	₱8,343,916,195	₱14,736,771,059	₱9,827,858,089	₱23,096,199,616	₱—	₱56,004,744,959
Liquidity gap							(₱202,171,713)



December 31, 2013

	On demand	Up to a year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets:							
Loans and receivables							
Cash and cash equivalents	₱131,817,748	₱5,628,021,425	₱—	₱—	₱—	₱—	₱5,759,839,173
Accrued income							
Interest receivable	—	370,162,461	—	—	—	—	370,162,461
Dividend receivable	—	8,944,329	—	—	—	—	8,944,329
Accounts receivable	—	23,750,742	—	—	—	—	23,750,742
Financial assets at FVPL							
Government debt securities							
Local currency	—	—	1,182,292,766	5,110,395,267	6,893,839,937	—	13,186,527,970
Foreign currency	—	—	79,445,489	322,143,761	10,097,876,072	—	10,499,465,322
Listed equity securities	—	—	—	—	—	13,104,448,016	13,104,448,016
Structured notes	—	—	—	—	463,803,678	—	463,803,678
Derivative asset	—	29,650,165	—	—	—	—	29,650,165
Total financial assets	₱131,817,748	₱6,060,529,122	₱1,261,738,255	₱5,432,539,028	₱17,455,519,687	₱13,104,448,016	₱43,446,591,856
Financial liabilities:							
Other financial liabilities							
Accounts payable	₱—	₱260,438,681	₱—	₱—	₱—	₱—	₱260,438,681
Asset management fees payable	—	78,431,016	—	—	—	—	78,431,016
Administration and custody fees payable	—	21,046,234	—	—	—	—	21,046,234
Service fees payable	—	43,080,991	—	—	—	—	43,080,991
Unit-linked liabilities	—	6,266,260,252	9,896,145,097	8,163,540,767	18,953,189,482	—	43,279,135,598
Total financial liabilities	₱—	₱6,669,257,174	₱9,896,145,097	₱8,163,540,767	₱18,953,189,482	₱—	₱43,682,132,520
Liquidity gap							(₱235,540,664)

The Company's investment policy is long term in nature. It is subject to annual review for update on asset-liability management, alignment with the Company's latest business plan and other developments during the year. The investment policy is reviewed, approved and endorsed by the Local Management Investment Committee (LMIC), Regional Investment Asset Liability Committee (RIALC), AXA S.A. Board Investment Committee and Philippine AXA Life Board Investment Committee (BIC).

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign exchange rate (currency risk), market interest rate (fair value interest rate risk) and market price (equity price risk).

The following policies and procedures are in place to mitigate the Company's exposure to market risk:

- Set out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Establish asset allocation and portfolio limit structure to ensure that assets back specific policyholders liabilities and those assets are held to deliver income and gains for policyholders in line with expectations of the policyholders.
- Stipulate diversification benchmarks by type of instrument, as the Company is exposed to guaranteed bonuses, cash and annuity options when interest rates fall.

The Company uses derivative financial instruments, particularly bond swaps relating to AXA Philippine Armor Fund. This is entered into for the period beginning July 2009 until January 2014. The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision.



It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

Currency risk

The Company's principal transactions are carried out in Philippine Peso and its foreign exchange risk arises primarily with respect to United States (US) Dollars (US\$), where some of its products are denominated. The Company's financial assets are primarily denominated in the same currencies as its insurance contracts, which mitigate the foreign exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than in which the insurance contracts are expected to be settled.

The following table shows the details of the Company's foreign currency denominated monetary assets and liabilities and their Philippine Peso equivalents.

December 31, 2014

	US\$	PHP
Assets		
Cash and cash equivalents	US\$11,335,430	₱505,752,858
Assets held to cover unit-linked liabilities	354,940,401	15,836,375,890
	366,275,831	16,342,128,748
Liabilities		
Unit-linked liabilities	354,940,401	15,836,375,890
Legal policy reserves	339,037	15,126,835
	355,279,438	15,851,502,725
	US\$10,996,393	₱490,626,023

December 31, 2013

	US\$	PHP
Assets		
Cash and cash equivalents	US\$6,520,316	₱289,593,308
Assets held to cover unit-linked liabilities	302,566,756	13,438,199,897
	309,087,072	13,727,793,205
Liabilities		
Unit-linked liabilities	302,566,756	13,438,199,897
Legal policy reserves	321,650	14,285,747
	302,888,406	13,452,485,644
	US\$6,198,666	₱275,307,561

The analysis below is performed for reasonably possible movements in US\$ with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of currency sensitive monetary assets and liabilities). The exchange rate used to present the US Dollar denominated assets and liabilities to Peso denominations are the 2013 and 2012 closing rates. There is no impact on the Company's equity other than those already affecting the profit.

December 31, 2014

	Change in variable	Impact on profit before tax
US\$	+4.48%	₱21,996,450
US\$	-4.48%	(21,996,450)



December 31, 2013

	Change in variable	Impact on profit before tax
US\$	+3.94%	₱10,847,666
US\$	-3.94%	(10,847,666)

In 2014 and 2013, the Company used the average of changes in year-end closing rate for the past three years in determining the reasonably possible change in foreign exchange rates.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company's fixed rate investments classified as AFS financial assets and financial assets at FVPL in particular are exposed to such risk.

The Company's investment policy manages interest rate risk by matching the maturities of interest-bearing financial assets and interest-bearing financial liabilities. The amount, duration and yield to maturity of assets are matched against the amount and duration of the liabilities.

The following table shows the information relating to the Company's non-linked fixed interest-bearing financial instruments presented by maturity profile.

December 31, 2014

	Range of interest rate	On demand	Up to a year	1-3 years	3-5 years	Over 5 years
Financial assets:						
Loans and receivables						
Cash and cash equivalents	0.25% - 1.50%	₱188,966,432	₱3,578,082,630	₱-	₱-	₱-
Loans and receivables						
Due from officers and employees	6.00% - 12.00%	-	21,463,863	5,283,591		
Due from agents	6.00% - 12.00%	-	20,727,574	-	-	-
Policy loans	8.00% - 10.00%	-	380,349,600	-	-	-
Financial assets at FVPL						
Government debt securities						
Local currency	7.75% - 11.25%	-	-	291,488,808	-	186,310,788
AFS financial assets						
Government debt securities						
Local currency	3.88% - 18.25%	-	268,782,643	679,104,240	1,248,310,837	3,570,189,200
Private debt securities						
Local currency	4.88% - 6.88%	-	-	-	148,474,204	327,237,937
Total financial assets		₱188,966,432	₱4,269,406,310	₱975,876,639	₱1,396,785,041	₱4,083,737,925
Financial liabilities:						
Other financial liabilities						
Premium deposit fund	5%	₱107,261,237	₱-	₱-	₱-	₱-
Total financial liabilities		₱107,261,237	₱-	₱-	₱-	₱-



December 31, 2013

	Range of interest rate	On demand	Up to a year	1-3 years	3-5 years	Over 5 years
Financial assets:						
Loans and receivables						
Cash and cash equivalents	0.25% - 1.50%	₱293,896,483	₱2,727,153,459	₱—	₱—	₱—
Short-term investment	0.63% - 1.50%	—	154,413,194	—	—	—
Loans and receivables						
Due from officers and employees	6.00% - 12.00%	—	20,775,987	3,851,943	—	—
Due from agents	6.00% - 12.00%	—	16,270,107	—	—	—
Policy loans	8.00% - 10.00%	—	345,794,155	—	—	—
Financial assets at FVPL						
Government debt securities						
Local currency	7.75% - 11.25%	—	—	—	306,526,150	192,137,554
AFS financial assets						
Government debt securities						
Local currency	3.88% - 18.25%	—	—	380,210,472	700,751,934	4,777,567,780
Private debt securities						
Local currency	4.88% - 6.88%	—	245,760,862	—	—	245,760,862
Total financial assets		₱293,896,483	₱3,510,167,764	₱384,062,415	₱1,007,278,084	₱5,215,466,196
Financial liabilities:						
Other financial liabilities						
Premium deposit fund	5.00%	₱128,838,523	₱—	₱—	₱—	₱—
Total financial liabilities		₱128,838,523	₱—	₱—	₱—	₱—

The following table shows the information relating to the Company's unit-linked fixed interest-bearing financial instruments presented by maturity profile.

December 31, 2014

	Range of interest rate	On demand	Up to a year	1-3 years	3-5 years	Over 5 years
Financial assets:						
Loans and receivables						
Cash and cash equivalents	0.25% - 2.00%	₱393,890,346	₱1,879,271,019	₱—	₱—	₱—
Financial assets at FVPL						
Government debt securities						
Local currency	2.13% - 12.38%	—	491,463,547	3,035,176,439	2,470,311,861	5,982,260,848
Foreign currency	4.20% - 10.63%	—	—	33,472,242	1,830,164,139	8,723,155,627
Structured notes	1.90% - 2.00%	—	—	—	—	472,568,532
Total financial assets		₱393,890,346	₱2,370,734,566	₱3,068,648,681	₱4,300,476,000	₱15,177,985,007

December 31, 2013

	Range of interest rate	On demand	Up to a year	1-3 years	3-5 years	Over 5 years
Financial assets:						
Loans and receivables						
Cash and cash equivalents	0.25% - 2.00%	₱131,817,748	₱5,628,021,425	₱—	₱—	₱—
Financial assets at FVPL						
Government debt securities						
Local currency	2.13% - 9.13%	—	—	1,182,292,766	5,110,395,267	6,893,839,937
Foreign currency	4.00% - 10.63%	—	—	79,445,489	322,143,761	10,097,876,072
Structured notes	1.90% - 2.00%	—	—	—	—	463,803,678
Total financial assets		₱131,817,748	₱5,628,021,425	₱1,261,738,255	₱5,432,539,028	₱17,455,519,687

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of fixed rate financial assets at FVPL) and equity (due to changes in fair value of fixed rate AFS financial assets). The impact on the Company's equity already excludes the impact on transactions affecting the profit or loss in the statement of comprehensive income.



December 31, 2014

	Change in Variable	Impact on Profit before tax	Impact on equity
Peso	+0.10%	(₱1,762,066)	(₱39,467,394)
Peso	-0.10%	1,776,675	39,858,249

December 31, 2013

	Change in variable	Impact on Profit before tax	Impact on equity
Peso	+0.05%	(₱1,082,591)	(₱20,825,859)
Peso	-0.05%	1,087,156	20,933,954

In 2014 and 2013, the Company determined the reasonably possible change in interest rates using the percentage changes in weighted average yield rates of outstanding securities for the past three years.

Equity price risk

The Company's equity price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, equity securities classified as financial assets at FVPL and AFS financial assets.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; limits on investment in each sector and market. Investments in derivatives are also subject to such requirements.

The Company has certain direct strategic minority investments in publicly traded companies. These investments are classified as AFS financial assets. The Company also invests in equity shares through its unit-linked funds. Investments held by these unit-linked funds were designated as financial assets at FVPL.

As of December 31, 2014 and December 31, 2013, the fair values of equity investments classified as financial assets at FVPL amounted to ₱605,871,884 and ₱495,082,291, respectively (see Note 7). As of December 31, 2014 and December 31, 2013, the fair values of equity investments classified as AFS financial assets amounted to ₱235,920,433 and ₱188,233,663, respectively (see Note 7).

The analysis below is performed for reasonably possible movements in the PSE index with all other variables held constant. The impact on profit before tax (due to changes in fair value of equity securities classified as financial assets at FVPL) and equity (due to changes in fair value of equity securities classified as AFS financial assets) is arrived at using the change in variable and the specific adjusted beta of each share of stock the Company holds at the reporting date. Adjusted beta is the forecasted measure of the volatility of a security or a portfolio in comparison to the market as a whole. The impact on the Company's equity already excludes the impact on transactions affecting profit or loss.



December 31, 2014

Market Index	Change in variable	Impact on profit before tax	Impact on equity
PSE index	+8%	₱47,166,857	₱18,366,301
PSE index	-8%	(47,166,857)	(18,366,301)

December 31, 2013

Market Index	Change in variable	Impact on profit before tax	Impact on equity
PSE index	+9%	₱92,634,006	₱34,023,197
PSE index	-9%	(92,634,006)	(34,023,197)

In 2014 and 2013, the change in variable was derived from the percentage changes of the composite PSE index for the past three years.

25. Related Party Transactions

Transactions between related parties are based on terms similar to those offered to nonrelated parties. Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Related party transactions consist mainly of the following:

- a. The Company maintains savings and current accounts and short-term deposits with Metropolitan Bank and Trust Company (MBTC), the parent of FMIC, details of which follow:

	2014	2013
Savings and current accounts	₱111,220,094	₱214,139,659
Cash equivalents	1,273,072,468	1,163,256,320
	₱1,384,292,562	₱1,377,395,979

Cash equivalents are to mature within 90 days. Interest rates on savings accounts and short-term deposits range from 0.10% to 2.50% and 0.10% to 2.75% in 2014 and 2013, respectively.

Interest income from these savings accounts and short-term deposits included in "Investment income" amounted to ₱8,525,874 and ₱4,933,751 in 2014 and 2013, respectively.

- b. The Company maintains savings account and short-term deposits with Philippine Savings Bank (PS Bank), a subsidiary of MBTC, details of which are as follow:

	2014	2013
Savings and current accounts	₱2,260,399	₱3,092,802
Cash equivalents	268,321,011	450,717,846
	₱270,581,410	₱453,810,648



Cash equivalents are to mature within 90 days. Interest rates on savings account and short-term deposits range from 0.25% to 1.75% and 0.25% to 3.75% in 2014 and 2013, respectively.

Interest income from these savings account and short-term deposits included in “Investment income” amounted to ₱5,877,205 and ₱20,059,025 in 2014 and 2013, respectively.

- c. The Company is entitled to an asset management fee equivalent to 1.30% to 2.10% per annum based on the net asset value of the unit-linked funds.

The Company’s “Asset management fees” from unit-linked funds amounted to ₱785,466,460 and ₱615,107,036 in 2014 and 2013, respectively (see Notes 18 and 19). Asset management fees receivable included in “Intercompany receivables” under “Loans and receivables” amounted to ₱130,382,466 and ₱78,431,016 as of December 31, 2014 and 2013, respectively (see Notes 7 and 12).

- d. The Company maintains a SLA with MBTC - Trust Banking Group for the management of the Company’s separate variable funds for its variable life insurance contracts. Under the SLA, MBTC shall manage the unit-linked funds faithfully in accordance with the terms and conditions of the SLA. As compensation for services rendered, MBTC shall be entitled to a service fee ranging from 0.10% to 0.30% per annum based on the net asset value of the unit-linked funds.

Service fees charged against the funds and included under “Income on assets held to cover unit-linked liabilities” amounted to ₱122,876,678 and ₱99,495,514 in 2014 and 2013, respectively (see Note 20). Service fees payable included under “Assets held to cover unit-linked liabilities” amounted to ₱59,682,363 and ₱43,080,991 as of December 31, 2014 and 2013, respectively (see Note 12).

- e. The Company, through AXA Philippine Armor Fund, entered into a derivative transaction with Metropolitan Bank and Trust Company (MBTC), an affiliate. The derivative asset pertains to a bond swap classified under financial assets at FVPL. The Company exchanged ₱223,572,719 to buy US dollars amounting to US\$4,650,982 at US\$1 to ₱48.07 spot rate. Under this agreement, the Company used the US dollars to purchase US\$4,130,000 par value Republic of the Philippines (ROP) bonds maturing on January 14, 2014. At each coupon date, the Company uses the coupon payment to buy additional ROP bond. At maturity date, the aggregate face value of the ROP bonds plus the last coupon payment, both in US dollars, will be exchanged for Philippine peso using the pre-agreed forward rate of ₱51.62. The market value of the bonds and the unrealized gain on the currency forward derivative asset amounted to ₱49,456,160 and ₱29,650,165 as of December 31, 2013. The notional amount as of December 31, 2013 amounted to US\$1,114,000.

On January 14, 2014, AXA Philippine Armor Fund matured with total proceeds of ₱81,164,225. The aggregate face value of the ROP bonds plus the last coupon payment amounted to US\$1,572,341 at maturity date. Dollar exchange rate at maturity date amounted to ₱45 to US\$1. Realized gain on the currency forward derivative amounted to ₱10,408,880.

- f. The Company entered into a bancassurance agreement with MBTC in relation to the sale of policy insurance contracts to the clients of MBTC and through the Company’s financial executives. In 2014, the Company entered into same bancassurance agreement with PS Bank. The Company pays referral fees recognized as “Commission expense” in the profit or loss. Referral fees for banks and banks staff referrals are determined at various rates based on the collected premiums.



Referral fees recognized as “Commission expense” amounted to ₱276,431,493 and ₱290,993,690 in 2014 and 2013, respectively. The outstanding balance included in “Commissions payable” under “Trade and other liabilities” amounted to ₱27,762,697 and ₱27,376,240 as of December 31, 2014 and 2013, respectively (see Note 16).

- g. MBTC is the trustee bank of the Company’s retirement plan. The Company’s plan assets amounted to ₱85,968,607 and ₱79,113,332 as of December 31, 2014 and 2013, respectively (see Note 22). Trustee fees charged by MBTC amounted to ₱195,516 and ₱209,310 in 2014 and 2013, respectively.

The distribution of the plan assets follows:

	2014	2013
Cash and cash equivalents	₱13,290,286	₱6,084,545
Debt securities	55,092,658	61,811,788
Equity securities	16,991,970	5,319,028
Receivables	1,317,050	5,951,135
	86,691,964	79,166,496
Less liability	21,437	53,164
	₱86,670,527	₱79,113,332

All equity and debt securities held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market. Receivables consist of interest and dividend receivables.

Liability pertains to trust fee payables.

The plan assets have diverse investments and do not have any concentration risk.

As of December 31, 2014 and 2013, the plan assets of the retirement plan do not have any debt or equity securities of a related party.

- h. The Company has entered into several lease agreements with its related parties for the use of office spaces. The Company leases commercial office spaces in the GT Tower International from MBTC and Philippine AXA Life Centre from Philippine Savings Bank for the use of Company’s head office in 2014 and 2013, respectively. In 2014 and 2013, rent expense included in “Operating and Administrative Expenses” pertaining to this leases amounted to ₱53,259,891 and ₱52,623,804, respectively. There is no rent payable as of December 31, 2014 and 2013.

The Company also leases commercial offices spaces with MBTC for its Cebu and Davao offices. In 2014 and 2013, rent expense included in “Operating and Administrative Expenses” pertaining to this lease amounted to ₱6,749,069 and ₱9,309,273, respectively. There is no rent payable as of December 31, 2014 and 2013.

In 2014 and 2013, “Rental income” from MBTC Skyland included in “Investment income” amounted to ₱3,408,698 and ₱1,011,351, respectively. There is no rent receivable as of December 31, 2014 and 2013.



- i. Other transactions with related parties pertain to reimbursement of expenses. The Company's outstanding receivables on account of these transactions, included in "Intercompany receivables" under "Loans and receivables" follow:

	2014	2013
AXA S.A.	₱2,601,387	₱2,601,387
AXA New York	482,169	—
AXA Paris	277,869	—
AXA Hongkong	118,291	118,291
AXA Malaysia	84,701	84,701
Federal Land	—	4,911,306
	₱3,564,417	₱7,715,685

These receivables are non-interest bearing and due within one year.

As of December 31, 2014 and 2013 receivables from unit-linked funds included under "Intercompany receivables" amounted to ₱5,292,873 and ₱78,731,629, respectively. These receivables pertain to redemptions from unit-linked funds payable to policyholders.

- j. The Company has transactions with affiliates (companies belonging to Metrobank Group) in relation to group policies which are based on terms similar to those offered to nonrelated parties. These pertain to credit life and yearly renewable term policies. Details of the balances with affiliates are as follows:

Premiums earned

	2014	2013
Philippine Savings Bank	₱180,284,496	₱151,059,905
MBTC	166,832,836	143,338,263
Toyota Motor Philippines Corporation	5,502,125	5,251,556
FMIC	1,012,667	971,685
Orix Metro Leasing and Finance Corporation	649,090	597,819
Charter Ping An Insurance Corporation	405,375	391,980
Federal Land	217,412	196,281
	₱354,904,001	₱301,807,489

Premiums due and uncollected

	2014	2013
Philippine Savings Bank	₱26,650,860	₱18,295,810
MBTC	13,964,564	11,188,548
Toyota Motor Philippines Corporation	18,620	—
	₱40,634,044	₱29,484,358

Claims incurred

	2014	2013
Philippine Savings Bank	₱51,381,923	₱57,355,037
MBTC	32,148,149	36,780,390
Toyota Motor Philippines Corporation	766,667	1,200,000
	₱84,296,739	₱95,335,427



Claims payable

	2014	2013
Philippine Savings Bank	₱2,000,803	₱2,081,416
MBTC	519,980	567,641
	₱2,520,783	₱2,649,057

Outstanding gross experience refunds

	2014	2013
MBTC	₱52,957,008	₱44,496,084
Philippine Savings Bank	11,126,145	12,255,555
Toyota Motor Philippines Corporation	3,575,436	3,190,228
Charter Ping An Insurance Corporation	12,221	730,761
	₱67,670,810	₱60,672,628

In 2014 and 2013, the related experience refunds charged to statement of comprehensive income amounted to ₱10,472,606 and ₱6,167,208, respectively.

- k. AXA S.A. allocated certain expenses to the Company that pertain to shared service costs as a result of providing services on management planning, support and maintenance services, procurement regional projects and information technology service delivery charges. Shared service costs included in “Operating and administrative expenses” amounted to ₱160,319,268 and ₱86,361,066 in 2014 and 2013, respectively (see Note 21). The outstanding balance included in “Accrued expenses” under “Trade and other liabilities” amounted to ₱72,009,608 and ₱198,830,322 as of December 31, 2014 and 2013, respectively (see Note 16).
- l. The Company entered into a Deposit Collection Agreement with MBTC for bill payments from the Company’s clients who are depositors of MBTC through delivery channels, online bills payments and auto-debit arrangements. MBTC shall debit the Company’s client accounts for the total amount of fees due at the end of every reference months, enable customers to perform online banking transactions and accept bill payments through extensive banking system and the use of various delivery channels such as over-the-counter payments, Metrobank ET, Metrophone, Mobile and Metrobankdirect banking facilities.
- m. The Company entered into a memorandum of agreement with Metrobank Card Corporation to issue corporate guaranteed credit cards to certain authorized employees. The Company shall bear complete liability for all the obligations, liabilities and charges incurred by the authorized employees arising from the use of credit cards.
- n. Compensation of key management personnel

Key management personnel of the Company include all management committee officers.

Salaries and other short-term employee benefits of key management personnel amounted to ₱95,992,436 and ₱88,779,934 in 2014 and 2013, respectively.

In 2014 and 2013, director fees paid to the Company’s BOD included in “Management and directors’ fees” amounted to ₱6,285,000 and ₱4,658,523, respectively.



o. Due from officers and employees

Amounts due from officers and employees include secured interest-bearing loans pertaining to car plan and salary loans, and other unsecured noninterest-bearing loans and advances granted to the Company's officers and employees. Interest rates on interest bearing loans range from 6% to 12% in 2014 and 2013.



The summary of balances arising from related party transactions for the relevant financial year follows:

	2014		2013			
	Amount/volume	Outstanding Balance	Amount/volume	Outstanding Balance	Terms	Conditions
Entities with joint control over the Company						
MBTC						
Savings, current and time deposits accounts	₱—	₱1,384,292,562	₱—	₱1,377,395,979	90 days, 0.10 % to 2.75%	Unsecured, no impairment
Interest income	8,525,874	—	4,933,751	—	90 days, 0.10 % to 2.75%	Unsecured, no impairment
Service fees	122,876,678	59,682,363	99,495,514	43,080,991	0.10% to 0.30% of NAV	Unsecured, no impairment
Commission expense	274,860,184	27,762,697	290,993,690	27,376,240	Interest-free, settlement in cash	Unsecured, no impairment
Pension liability	—	86,670,527	—	79,113,332	Interest-free, settlement in cash	Unsecured, no impairment
Trust fees	195,516	—	209,310	—	Interest-free, settlement in cash	Unsecured, no impairment
Rent expense	60,008,960	—	61,933,077	—	Interest-free, settlement in cash	Unsecured, no impairment
Rent income	3,408,698	—	1,011,351	—	Interest-free, settlement in cash	Unsecured, no impairment
Premium income	166,832,836	13,964,564	118,979,355	11,188,548	Interest-free, settlement in cash	Unsecured, no impairment
Claims	32,148,149	519,980	36,780,390	567,641	Interest-free, settlement in cash	Unsecured, no impairment
Gross experience refund	—	52,957,008	—	44,496,084	Interest-free, settlement in cash	Unsecured, no impairment
FMIC						
Premium income	1,012,667	—	971,685	—	Interest-free, settlement in cash	Unsecured, no impairment
AXA S.A.						
Shared service costs	160,319,268	72,009,608	86,361,066	198,830,322	Interest-free, settlement in cash	Unsecured, no impairment
Various expenses	—	2,601,387	2,601,387	2,601,387	Interest-free, settlement in cash	Unsecured, no impairment
Unit-linked funds						
Asset management fees	785,466,460	130,382,466	615,107,036	78,431,016	1.30% to 2.10% of NAV	Unsecured, no impairment
Derivative asset	—	—	29,650,165	49,456,160	₱51.62 pre-agreed forward rate	Unsecured, no impairment
Redemptions	—	5,292,873	—	78,731,629	Interest-free, settlement in cash	Unsecured, no impairment

(Forward)



	2014		2013			
	Amount/volume	Outstanding Balance	Amount/volume	Outstanding Balance	Terms	Conditions
Other related parties						
Philippine Savings Bank						
Savings, current and time deposits accounts	P—	P270,581,410	P—	P453,810,648	90 days, 0.25 % to 3.75%	Unsecured, no impairment
Interest income	5,877,205	—	20,059,025	—	90 days, 0.25 % to 3.75%	Unsecured, no impairment
Premium income	180,284,496	26,650,860	151,059,905	18,295,810	Interest-free, settlement in cash	Unsecured, no impairment
Claims	51,381,923	2,000,803	57,355,037	2,081,416	Interest-free, settlement in cash	Unsecured, no impairment
Gross experience refund	—	11,126,145	—	12,255,555	Interest-free, settlement in cash	Unsecured, no impairment
Federal Land						
Settlement of receivable	—	—	—	4,911,306	Interest-free, settlement in cash	Unsecured, no impairment
Premium income	217,412	—	196,281	—	Interest-free, settlement in cash	Unsecured, no impairment
Charter Ping An Insurance Corporation						
Premium income	405,375	—	391,980	—	Interest-free, settlement in cash	Unsecured, no impairment
Gross experience refund	—	12,221	—	730,761		
Orix Metro Leasing and Finance Corporation						
Premium income	649,090	—	597,819	—	Interest-free, settlement in cash	Unsecured, no impairment
Toyota Motor Philippines Corporation						
Premium income	5,502,125	18,620	5,251,556	—	Interest-free, settlement in cash	Unsecured, no impairment
Claims	766,667	—	1,200,000	—	Interest-free, settlement in cash	Unsecured, no impairment
Gross experience refund	—	3,575,436	—	3,190,228	Interest-free, settlement in cash	Unsecured, no impairment
AXA Malaysia						
Various expenses	—	84,701	84,701	84,701	Interest-free, settlement in cash	Unsecured, no impairment
AXA HK						
Various expenses	—	118,291	118,291	118,291	Interest-free, settlement in cash	Unsecured, no impairment
AXA Paris						
Various expenses	277,869	277,869	—	—	Interest-free, settlement in cash	Unsecured, no impairment
AXA New York						
Various expenses	482,169	482,169	—	—	Interest-free, settlement in cash	Unsecured, no impairment
Key management personnel						
Compensation and benefits	95,992,436	—	88,779,934	—	—	—
Directors' fees	6,285,000	—	4,658,523	—	—	—
					6% to 12%	
Due from officers and employees	—	26,747,453	—	24,627,930	interest bearing, settlement in cash or salary deduction	Secured, with impairment



Except for the car loans of the officers and employees, receivable from/payable to related parties are not secured. No guarantees were given by the Company nor received. Allowance for impairment losses on due from officers and employees amounted to ₱1,873,855 and ₱1,665,563 as of December 31, 2014 and 2013, respectively. No expense was recognized in 2014 and 2013 in respect of bad or doubtful debts due from related parties.

26. Commitments

Operating Lease Commitments

Company as lessee

The Company entered into commercial leases on certain offices for its branches. These leases have an average life of between 1 to 5 years with renewal terms included in the contracts. Certain lease contracts also include escalation clauses. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rental payments under noncancellable operating leases follow:

	2014	2013
Within one year	₱84,275,368	₱84,385,857
After one year but not more than five years	127,546,174	199,597,878
	₱211,821,542	₱283,983,735

Company as lessor

The Company has entered into property leases on its investment properties, consisting of the Company's surplus office spaces. These noncancellable leases have remaining lease terms of below 5 years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

Future minimum rentals receivable under noncancellable operating leases follow:

	2014	2013
Within one year	₱776,403	₱954,351
After one year but not more than five years	815,223	—
	₱1,591,626	₱954,351

27. Contingencies

The Company is a defendant in several lawsuits arising from the normal course of carrying out its insurance business. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position.

28. Notes to Cash Flow Statements

In 2013, the Company's non cash financing activity pertains to the declaration of stock dividends amounting to ₱340,604,700 (see Note 17).



29. Events After the Reporting Date

On February 16, 2015, the Company sold the raw land located at Taytay, Rizal with total proceeds amounting to ₱15,216,220. Recognized gain on sale amounted to ₱7,056,415.

30. Supplementary Tax Information under Revenue Regulations No. 15 - 2010

In compliance with the requirements set forth by RR 15-2010 hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

Value Added Tax (VAT)

The Company is exempt from VAT being engaged in the business of life insurance under Section 4.109-1 (B)(e)(6) of Revenue Regulation No. 16-05 or otherwise known as the Consolidated VAT Regulations of 2005. However, it is subject to percentage tax under Section 123 of the Tax Code, as amended. Hence, it paid the amount of ₱56,749,934 in 2014 as percentage tax based on the amount reflected in the premiums on insurance contracts of ₱2,837,496,679.

Revenue Memorandum Circular (RMC) No. 30-08, as amended by RMC 59-08, provides that management fees, rental income, or income earned by the life insurance company from services which can be pursued independently of the insurance business activity are not subject to 5% (now 2%) premium tax but the same are treated as income for services that are subject to the imposition of VAT pursuant to Section 108 of the Tax Code, as amended.

In compliance with the said RMC, the Company paid VAT amounting to ₱95,686,678. Details are as follows:

	Tax base	VAT
Asset management charge	₱796,019,459	₱95,522,335
Disposal of motor vehicle	642,094	77,051
Rental income	727,431	87,292
Balance at end of the year	₱797,388,984	₱95,686,678

Documentary Stamp Tax (DST)

The DST paid/accrued on the following transactions are:

Transaction	Tax base	DST
Life insurance policies		
Sum insured	₱64,959,789,751	₱2,522,520
Premium collection	70,260,165	351,916
Individual certificate of group insurance		731,040
Balance at end of the year	₱65,030,049,916	₱3,605,476



Other Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the 'Operating and administrative expenses' sections in the Company's 2014 Statement of Comprehensive Income. Details consist of the following:

Local

Mayor's permit	₱9,527,726
Real estate taxes	440,267
Community tax	26,070
PTR	900
	<u>9,994,963</u>

National

Fringe benefit tax	4,004,418
Regulatory body fees	347,382
BIR annual registration	18,500
	<u>4,370,300</u>
	<u>₱14,365,263</u>

Withholding Taxes

The amount of withholding taxes paid and accrued for the year 2014 amounted to:

Tax on compensation and benefits	₱194,724,482
Creditable withholding taxes	141,731,391
Final withholding taxes	<u>56,722,361</u>
	<u>₱393,178,234</u>

Tax Contingencies

The Company paid the tax deficiencies in 2014 covering for taxable year 2009. Details follow

	Basic tax	Surcharge/ Penalty	Interest	Total
Income tax	₱717,733	₱20,000	₱615,481	₱1,353,214
Percentage tax	2,006,953	25,000	1,814,505	3,846,458
VAT	5,035,500	50,000	4,538,848	9,624,348
Expanded withholding tax	4,542,686	25,000	4,119,532	8,687,218
Withholding tax on compensation	3,647,004	25,000	3,307,283	6,979,287
Fringe benefit tax	228,372	16,000	207,724	452,096
Final withholding tax	110,448	16,000	100,462	226,910
Documentary stamp tax	3,184,317	25,000	2,982,347	6,191,664
	<u>₱19,473,013</u>	<u>₱202,000</u>	<u>₱17,686,182</u>	<u>₱37,361,195</u>

The Company has no Final Assessment Notice and/or Formal Letter of Demand from BIR alleged deficiency income tax, VAT and withholding tax. In addition, the Company has no pending tax case outside the administration of the BIR.

