# COVER SHEET
## for
## AUDITED FINANCIAL STATEMENTS

**SEC Registration Number**

A S 0 9 6 - 0 5 1 1

**Company Name**

PRU LIFE INSURANCE CORPORATION
OF U.K. (A Wholly-owned
Subsidiary of the Prudential
Corporation Holdings Limited)

**Principal Office ( No./Street/Barangay/City/Town)Province)**

22nd Floor, The Marajo Tower
312 26th Street corner
Fourth Avenue, Fort Bonifacio
Global City, Taguig City 1634

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AAFS | | |

### COMPANY INFORMATION

| Company's Email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| | (02) 884-8484 | |

| No. of Stockholders | Annual Meeting Month/Day | Fiscal Year Month/Day |
|---|---|---|
| | | December 31 |

### CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Dante Marasigan | | | |

**Contact Person's Address**

22/F Marajo Tower 26th St., W & Cor. 4th Ave BGC TAGUIG CITY

**Note:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

# PRU LIFE INSURANCE CORPORATION OF U.K.

**(A Wholly-owned Subsidiary of**
**Prudential Corporation Holdings Limited)**

## FINANCIAL STATEMENTS
**December 31, 2014 and 2013**

KPMG

**R.G. Manabat & Co.**
The KPMG Center, 9/F
6787 Ayala Avenue
Makati City 1226, Metro Manila, Philippines

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E-Mail ph-inquiry@kpmg.com

# REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Pru Life Insurance Corporation of U.K.
22nd Floor, The Marajo Tower
312 26th Street corner Fourth Avenue
Fort Bonifacio Global City
Taguig City 1634

**Report on the Financial Statements**

We have audited the accompanying financial statements of Pru Life Insurance Corporation of U.K. (a wholly-owned subsidiary of Prudential Corporation Holdings Limited), 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 notes, comprising 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 auditors' 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 auditors consider 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.





PRC-BOA Registration No. 0003, valid until December 31, 2016
SEC Accreditation No. 0004-FR-4, Group A, valid until November 10, 2017
IC Accreditation No. F-2014/014-R, valid until August 26, 2017
BSP Accredited, Category A, valid until December 17, 2017

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Pru Life Insurance Corporation of U.K. 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 (RR) No. 15-2010 of the Bureau of Internal Revenue**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information 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 management. 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.

**R.G. MANABAT & CO.**

Dennis I. Ilan

DENNIS I. ILAN
Partner
CPA License No. 089564
IC Accreditation No. SP-2014/023-R, Group A, valid until August 26, 2017
SEC Accreditation No. 1182-A, Group A, valid until April 30, 2015
Tax Identification No. 161-313-405
BIR Accreditation No. 08-001987-28-2014
Issued September 26, 2014; valid until September 25, 2017
PTR No. 4748109MC
Issued January 5, 2015 at Makati City

March 24, 2015
Makati City, Metro Manila

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION I
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# REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

The Board of Directors and Stockholders
Pru Life Insurance Corporation of U.K.
22nd Floor, The Marajo Tower
312 26th Street corner Fourth Avenue
Fort Bonifacio Global City
Taguig City 1634

We have audited the accompanying financial statements of Pru Life Insurance Corporation of U.K. (a wholly-owned subsidiary of Prudential Corporation Holdings Limited) as at and for the year ended December 31, 2014, on which we have rendered our report dated March 24, 2015.

In compliance with Securities Regulation Code Rule 68, As Amended, we are stating that the said Company has one (1) stockholder owning one hundred (100) or more shares.

**R.G. MANABAT & CO.**

DENNIS I. ILAN
Partner
CPA License No. 089564
IC Accreditation No. SP-2014/023-R, Group A, valid until August 26, 2017
SEC Accreditation No. 1182-A, Group A, valid until April 30, 2015
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BUREAU OF INTERNAL REVENUE
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**PRU LIFE INSURANCE CORPORATION**
**(A Wholly-owned Subsidiary of Prudential Corporation Holdings Limited)**
**STATEMENTS OF FINANCIAL POSITION**
(Amounts in Thousands)

| | Note | December 31 2014 | 2013 December 31 (As restated - see Note 29) | 2013 January 1 (As restated - see Note 29) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 7 | **P2,092,794** | P1,783,495 | P1,206,603 |
| Interest receivable | | **124,922** | 136,170 | 148,548 |
| Investments | 8 | **9,115,806** | 8,516,573 | 8,433,617 |
| Premiums due from policyholders | | **86,695** | 31,512 | 44,950 |
| Policy loans receivables - net | 9 | **459,878** | 459,614 | 448,466 |
| Coverage debt receivables - net | 11 | **186,770** | 157,286 | 125,885 |
| Reinsurance assets | | **21,958** | 7,741 | 6,207 |
| Property and equipment - net | 12 | **248,057** | 198,030 | 170,153 |
| Deferred acquisition costs | 13, 29 | **4,224,534** | 3,620,857 | 2,963,844 |
| Other assets - net | 14 | **528,794** | 211,549 | 147,231 |
| **Total General Assets** | | **17,090,208** | 15,122,827 | 13,695,504 |
| **Assets Held to Cover Linked Liabilities** | 10 | **60,597,099** | 47,863,092 | 36,540,032 |
| | | **P77,687,307** | P62,985,919 | P50,235,536 |
| **LIABILITIES AND EQUITY** | | | | |
| **Liabilities** | | | | |
| Legal policy reserves | 15 | **P4,829,650** | P4,749,405 | P4,606,476 |
| Claims payable | 16 | **254,804** | 207,735 | 157,609 |
| Reinsurance payable | 17 | **74,560** | 81,319 | 80,712 |
| Deferred tax liabilities - net | 24, 29 | **533,905** | 497,913 | 499,400 |
| Accounts payable, accrued expenses and other liabilities | 18 | **2,560,267** | 2,178,421 | 1,922,864 |
| **Total General Liabilities** | | **8,253,186** | 7,714,793 | 7,267,061 |
| **Equity** | | | | |
| Capital stock | 27 | **500,000** | 500,000 | 500,000 |
| Additional paid-in capital | 27 | **462,000** | 462,000 | 462,000 |
| Total paid-up capital | | **962,000** | 962,000 | 962,000 |
| Contributed surplus | | **50,386** | 50,386 | 137,386 |
| Fair value reserve | 8 | **(4,605)** | (4,755) | (5,435) |
| Retained earnings | 29 | **7,829,241** | 6,400,403 | 5,334,492 |
| **Total Equity** | | **8,837,022** | 7,408,034 | 6,428,443 |
| **Total General Liabilities and Equity** | | **17,090,208** | 15,122,827 | 13,695,504 |
| **Technical Provisions for Linked Liabilities** | 10 | **60,597,099** | 47,863,092 | 36,540,032 |
| | | **P77,687,307** | P62,985,919 | P50,235,536 |

*See Notes to the Financial Statements.*

**PRU LIFE INSURANCE CORPORATION OF U.K.**
**(A Wholly-owned Subsidiary of Prudential Corporation Holdings Limited)**
**STATEMENTS OF COMPREHENSIVE INCOME**
(Amounts in Thousands)

| | | Years Ended December 31 | |
|---|---|---|---|
| | *Note* | 2014 | 2013 As restated - see Note 29) |
| **NET PREMIUMS** | | | |
| Premiums | *19* | **P16,092,203** | P18,508,198 |
| Premiums ceded to reinsurers | *19* | **(457,898)** | (506,944) |
| | | **15,634,305** | 18,001,254 |
| **OTHER REVENUE** | | | |
| Policy administration fees | *20* | **1,086,083** | 902,086 |
| Investment income - net | *21* | **383,190** | 314,743 |
| Others - net | | **47,086** | 89,422 |
| | | **1,516,359** | 1,306,251 |
| **BENEFITS AND CLAIMS** | | | |
| Costs of premiums of variable insurance | *10* | **7,464,312** | 11,407,234 |
| Gross benefits and claims | *22* | **4,117,395** | 3,584,443 |
| Reinsurer's share of gross benefits and claims | *22* | **(28,699)** | (12,093) |
| Gross change in legal policy reserves | *22* | **80,245** | 142,929 |
| | | **11,633,253** | 15,122,513 |
| **OPERATING EXPENSES** | | | |
| Commissions, bonuses and other agents' expenses | | **2,279,637** | 2,032,182 |
| Salaries, allowances and employees' benefits | *23* | **838,148** | 583,621 |
| Trainings, seminars and contests | | **376,224** | 313,123 |
| Utilities | | **140,692** | 104,386 |
| Rent | *26* | **119,259** | 94,708 |
| Dividends to policyholders | | **103,938** | 99,736 |
| Advertising and marketing | | **102,144** | 86,226 |
| Depreciation and amortization | *12* | **69,142** | 61,759 |
| Communications | | **63,262** | 53,799 |
| Office supplies | | **56,030** | 39,697 |
| Interest expense related to policies | | **45,764** | 47,612 |
| Representation and entertainment | | **37,424** | 26,754 |
| Security and janitorial services | | **34,323** | 23,436 |
| Professional fees | | **25,039** | 21,475 |
| Taxes and licenses | | **23,094** | 10,327 |
| Amortization of software development costs | *14* | **11,907** | 21,126 |
| Others | | **26,863** | 24,499 |
| Insurance taxes, licenses and fees | | **(9,032)** | (4,204) |
| Deferred expenses - net | *13, 29* | **(603,677)** | (657,013) |
| | | **3,740,181** | 2,983,249 |

*Forward*

| | Note | 2014 | 2013 (As restated - see Note 29) |
|---|---|---|---|
| | | **Years Ended December 31** | |
| **INCOME BEFORE INCOME TAX EXPENSE** | | **P1,777,230** | P1,201,743 |
| **INCOME TAX EXPENSE** | *24, 29* | **54,274** | 2,832 |
| **NET INCOME** | | **1,722,956** | 1,198,911 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| **Items that may be reclassified to profit or loss** | | | |
| Net gain on fair value changes of available-for-sale financial assets | *8* | **150** | 680 |
| **TOTAL COMPREHENSIVE INCOME** | | **P1,723,106** | P1,199,591 |

*See Notes to the Financial Statements.*

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# PRU LIFE INSURANCE CORPORATION OF U.K.
## (A Wholly-owned Subsidiary of Prudential Corporation Holdings Limited)
## STATEMENTS OF CHANGES IN EQUITY
## FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Amounts in Thousands)

| | Note | Capital Stock (Note 27) | Additional Paid-in Capital (Note 27) | Contributed Surplus | Retained Earnings (Note 2 and 27) | Fair Value Reserve (Note 8) | Total Equity |
|---|---|---|---|---|---|---|---|
| **Restated balance at January 1, 2014** | | **P500,000** | **P462,000** | **P50,386** | **P6,400,403** | **(P4,755)** | **P7,408,034** |
| **Total comprehensive income** | | | | | | | |
| Net income | | - | - | - | **1,722,956** | - | **1,722,956** |
| Other comprehensive income | | | | | | | |
| Items that may be reclassified to profit or loss | 8 | - | - | - | - | **150** | **150** |
| **Total comprehensive income** | | - | - | - | **1,722,956** | **150** | **1,723,106** |
| **Transaction with owner of the Company** | | | | | | | |
| Dividends | 27 | - | - | - | **(294,118)** | - | **(294,118)** |
| | | - | - | - | **(294,118)** | - | **(294,118)** |
| **Balance at December 31, 2014** | | **P500,000** | **P462,000** | **P50,386** | **P7,829,241** | **(P4,605)** | **P8,837,022** |
| Balance at January 1, 2013, as previously reported | | P500,000 | P462,000 | P137,386 | P4,158,936 | (P5,435) | P5,252,887 |
| Impact of change in accounting policy | 29 | - | - | - | 1,175,556 | - | 1,175,556 |
| Restated balance at January 1, 2013 | | 500,000 | 462,000 | 137,386 | 5,334,492 | (5,435) | 6,428,443 |
| Total comprehensive income (restated) | | | | | | | |
| Net income | | - | - | - | 1,198,911 | - | 1,198,911 |
| Other comprehensive income | | | | | | | |
| Items that may be reclassified to profit or loss | 8 | - | - | - | - | 680 | 680 |
| Total comprehensive income (restated) | | - | - | - | 1,198,911 | 680 | 1,199,591 |
| Transactions with owner of the Company | | | | | | | |
| Return of contributed surplus | 27 | - | - | (87,000) | - | - | (87,000) |
| Dividends | 27 | - | - | - | (133,000) | - | (133,000) |
| Total transactions with owner of the Company | | - | - | (87,000) | (133,000) | - | (220,000) |
| Restated balance at December 31, 2013 | | P500,000 | P462,000 | P50,386 | P6,400,403 | (P4,755) | P7,408,034 |

*See Notes to the Financial Statements.*

**PRU LIFE INSURANCE CORPORATION OF U.K.**
**(A Wholly-owned Subsidiary of Prudential Corporation Holdings Limited)**
**STATEMENTS OF CASH FLOWS**
(Amounts in Thousands)

| | *Note* | **2014** | 2013 (As restated - see Note 29) |
|---|---|---|---|
| | | **Years Ended December 31** | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax expense | | **P1,777,230** | P1,201,743 |
| Adjustments for: | | | |
| Interest income | *21* | **(534,071)** | (550,494) |
| (Gain) loss on disposals of investments | *8, 21* | **(158,064)** | 11,105 |
| Unrealized gain on valuation of investments | *8, 21* | **(10,300)** | (42,561) |
| Provision for impairment losses | *9, 11, 14* | **3,949** | 16,534 |
| Reversal of provision for impairment losses | *9, 11* | **(11,295)** | (2,120) |
| Depreciation and amortization | *12* | **69,142** | 61,759 |
| Amortization of deferred acquisition costs | *13* | **464,504** | 372,252 |
| (Gain) loss on disposals of property and equipment | | **(322)** | 1,881 |
| Interest expense related to policies | | **45,764** | 47,612 |
| Foreign exchange gain | | **(946)** | (1,138) |
| Amortization of software development costs | *14* | **11,907** | 21,126 |
| Operating income before working capital changes | | **1,657,498** | 1,137,699 |
| Decrease (increase) in: | | | |
| Premiums due from policyholders | | **(55,183)** | 13,438 |
| Policy loans receivables | | **4,905** | (13,426) |
| Coverage debt receivables | *11* | **(23,458)** | (43,537) |
| Deferred acquisition costs | *13* | **(1,068,181)** | (1,029,265) |
| Reinsurance asset | | **(14,217)** | (1,534) |
| Other assets | *14* | **(309,107)** | (276,885) |
| Increase in: | | | |
| Legal policy reserves | *15, 22* | **80,245** | 142,929 |
| Claims payable | *16* | **47,069** | 50,126 |
| Reinsurance payable | *17* | **(6,759)** | 607 |
| Accounts payable, accrued expenses and other liabilities | *18* | **379,729** | 452,750 |
| Net cash provided by operations | | **692,541** | 432,902 |
| Interest received | | **545,319** | 562,872 |
| Interest paid | | **(43,647)** | (47,701) |
| Income tax paid | | **(18,282)** | (3,945) |
| Net cash provided by operating activities | | **1,175,931** | 944,128 |

*Forward*

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION I
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| | Note | Years Ended December 31 2014 | 2013 (As restated - see Note 29) |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisitions of investments | *8* | **(P1,393,301)** | (P1,259,620) |
| Proceeds from disposal of investments | *8* | **962,782** | 1,204,093 |
| Acquisitions of property and equipment | *12* | **(119,353)** | (101,334) |
| Proceeds from disposal of property and equipment | *12* | **506** | 9,817 |
| Acquisitions of software costs | *14* | **(23,894)** | (7,722) |
| Net cash used in investing activities | | **(573,260)** | (154,766) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Return of contributed surplus | *27* | **-** | (87,000) |
| Dividends paid | *27* | **(294,118)** | (133,000) |
| Net cash used in financing activities | | **(294,118)** | (220,000) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **308,553** | 569,362 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | *7* | **1,783,495** | 1,206,603 |
| **EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS** | | **746** | 7,530 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | *7* | **P2,092,794** | P1,783,495 |

*See Notes to the Financial Statements.*

(Amounts in Thousands, except as indicated)

## 1. Reporting Entity

Pru Life Insurance Corporation of U.K. (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on January 17, 1996, primarily to engage in the business of life insurance. The Company started commercial operations in September 1996. On September 11, 2002, the Insurance Commission (IC) approved the Company's license to sell variable unit-linked insurance, a life insurance product which is linked to investment funds.

The Company is a wholly-owned subsidiary of Prudential Corporation Holdings Limited ("Prudential"). The Company's ultimate parent company is Prudential plc., an internationally-diversified organization providing life insurance and fund management services worldwide.

The Company has a Certificate of Authority No. 2013/37-R issued by the IC to transact in life insurance business until December 31, 2015.

The Company's registered address is at the 22nd Floor, The Marajo Tower, 312 26th Street corner Fourth Avenue, Fort Bonifacio Global City, Taguig City 1634.

## 2. Basis of Preparation

Statement of Compliance

The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). PFRSs which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations.

The accompanying financial statements as at and for the year ended December 31, 2014 were authorized for issue by the Board of Directors on March 24, 2015.

Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis on each reporting date.

| Items | Measurement bases |
|---|---|
| Financial instruments classified as fair value through profit or loss (FVPL) | Fair value |
| Available-for-sale financial (AFS) assets | Fair value |
| Investments under "Assets held to cover linked liabilities" | Fair value |
| Net retirement liability | Present value of the defined benefit obligation less the fair value of the plan assets |

Functional and Presentation Currency
The financial statements of the Company are presented in Philippine peso, which is the Company's functional currency. All financial information presented in Philippine peso has been rounded off to the nearest thousands (P'000s), except when otherwise indicated.

Use of Estimates and Judgments
The preparation of financial statements in conformity with PFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in Note 4 to the financial statements.

## 3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the change in accounting policy as explained in Note 29 to the financial statements. Likewise, certain comparative amounts in the statements of financial position and statements of comprehensive income have been reclassified as a result of a change in the classification of certain accounts during the current year (see Note 29).

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The Company has adopted the following amendments to standards and new interpretation starting January 1, 2014. The adoption of these amendments to standards did not have any significant impact on the Company's financial statements.

- *Offsetting Financial Assets and Financial Liabilities (Amendments to PAS 32).* These amendments clarify that:

  - An entity currently has a legally enforceable right to set-off if that right is:
    - not contingent on a future event; and
    - enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and

  - Gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that:
    - eliminate or result in insignificant credit and liquidity risk; and
    - process receivables and payables in a single settlement process or cycle.

- Recoverable Amount Disclosures for Non-financial Assets *(Amendments to PAS 36).* These narrow-scope amendments to PAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments clarified that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.

New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2014. However, the Company has not applied the following new or amended standards in preparing these financial statements. The Company is assessing the potential impact on its financial statements resulting from the application of the new standards.

The Company will adopt the following new or revised standards, amendments to standards and interpretations in the respective effective dates:

*Effective July 1, 2014*

- *Annual Improvements to PFRSs: 2010 - 2012 and 2011 - 2013 Cycles* - Amendments were made to a total of nine standards, with changes made to the standards on business combinations and fair value measurement in both cycles. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014. Earlier application is permitted, in which case the related consequential amendments to other PFRSs would also apply. Special transitional requirements have been set for amendments to the following standards: PFRS 2, PAS 16, PAS 38 and PAS 40. Below is the amendment to PFRSs, which may be applicable to the Company:

  - *Measurement of short-term receivables and payables (Amendment to PFRS 13).* The amendment clarifies that, in issuing PFRS 13 and making consequential amendments to PAS 39 and PFRS 9, the intention is not to prevent entities from measuring short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is immaterial.

*Effective January 1, 2016*

- *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to PAS 16 and PAS 38).* The amendments to *PAS 38 Intangible Assets* introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

  The amendments to *PAS 16 Property, Plant and Equipment* explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g. changes in sales volumes and prices.

  The amendments are effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. Early application is permitted.

*Effective January 1, 2018*

- *PFRS 9 Financial Instruments (2014).* PFRS 9 (2014) replaces PAS 39, *Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

  The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018 with early adoption permitted.

<u>Insurance Contracts</u>

*Product Classification*

Insurance contracts are those contracts under which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risks.

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Investment contracts mainly transfer 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 the period, unless all rights and obligations are extinguished or expired. Investment contracts can, however, be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Insurance and investment contracts are further classified as being with and without Discretionary Participation Feature (DPF). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- Likely to be a significant portion of the total contractual benefits;

- The amount or timing of which is contractually at the discretion of the issuer; and

- Contractually based on the following:

    - Performance of a specified pool of contracts or a specified type of contract;
    - Realized or an unrealized investment returns on a specified pool of assets held by the issuer; or
    - The profit or loss of the Company, fund or other entity that issues the contract.

The additional benefits include policy dividends that are declared annually, the amounts of which are computed using actuarial methods and assumptions, and are included under "Dividends to policyholders" account in profit or loss with the corresponding liability recognized under the "Dividends payable to policyholders" account in accounts payable, accrued expenses and other liabilities account in the statements of financial position.

*Conventional Long-term Insurance Contracts*
These contracts ensure events associated with human life (for example, death or survival) over a long duration. Premiums are recognized as revenue when they become payable by the policyholder. Benefits are recognized as an expense when they are incurred or when the policies reach maturity.

A liability for contractual benefits that is expected to be incurred in the future is recognized for policies that are in-force as of each reporting date. The liability is determined as the expected future discounted value of the benefit payments that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefit expenses based on the valuation assumptions used. The liability is based on assumptions as to mortality, reserve method, and interest rate approved by the IC.

*Unit-linked Insurance Contracts*
A unit-linked insurance contract is an insurance contract linking payments to units of an internal investment fund set up by the Company with the consideration received from the policyholders. The investment funds supporting the linked policies are maintained in segregated accounts in conformity with Philippine laws and regulations. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

Revenue from unit-linked insurance contracts consists of premiums received and policy administration.

Management assessed that the insurance contracts have no derivative components.

*Legal Policy Reserves*
Legal policy reserves are determined by the Company's actuary in accordance with the requirements of the Insurance Code and represent the amounts which, together with future premiums and investment income, are required to discharge the obligations of the insurance contracts and to pay expenses related to the administration of those contracts. These reserves are determined using generally accepted actuarial practices and have been approved by the IC at the product approval stage.

*Liability Adequacy Tests*
At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of reinsurance assets. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities are used. Any deficiency is immediately recognized in profit or loss included under "Gross change in legal policy reserves."

*Reinsurance Contracts Held*
Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts above are classified as reinsurance contracts held. Contracts that do not meet those classification requirements are classified as financial assets.

The benefits to which the Company is entitled to under its reinsurance contracts held are recognized as reinsurance assets. These include short-term balances due from reinsurers. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as expense when due.

If there is objective evidence that reinsurance assets are impaired, the Company reduces the carrying amount of the insurance receivable and recognizes the impairment loss in profit or loss.

*Receivables and Payables Related to Insurance Contracts*
Receivables and payables are recognized when due. These include amounts due to and from policyholders and amounts due to agents and brokers. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable and recognizes the impairment loss in profit or loss.

<u>Financial Instruments</u>
*Date of Recognition.* Financial instruments are recognized in the statements 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 of the consideration given (in case of an asset) or received (in case of a liability). Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. The Company classifies its financial assets into the following categories: financial assets at FVPL, AFS financial assets, held-to-maturity (HTM) investment, and loans and receivables. The Company classifies its financial liabilities either as financial liabilities at FVPL or other financial liabilities.

The classification depends on the purpose for which the instruments were acquired or incurred and whether these are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

*Determination of Fair Value.* The fair value for financial instruments traded in active markets at each reporting date is based on their quoted market price or dealer price quotations from the active market, without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent market transaction is used, provided that there has not been a significant change in the economic circumstances since the time of the transaction.

*Financial Assets or Financial Liabilities at FVPL.* This category consists of financial instruments that are held for trading or designated by management on initial recognition. Financial assets and financial liabilities at FVPL are recorded in the statements of financial position at fair value, with changes in fair value recorded in profit or loss.

Financial assets or financial liabilities are allowed to be designated by management on initial recognition in this category when 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 bifurcated.

Held-for-trading securities are not reclassified subsequent to their initial recognition, unless they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met:

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held-for-trading at initial recognition), then it may be reclassified if the Company has the intention and the ability to hold the financial asset in the foreseeable future or until maturity; and

- The financial asset may be reclassified out of the held-for-trading securities category only under "rare circumstances".

As at December 31, 2014 and 2013, the Company does not have any financial asset or financial liabilities designated by management as financial assets at FVPL. However, the Company's held-for-trading investments portfolio amounted to P9.11 billion and P8.51 billion as at December 31, 2014 and 2013, respectively (see Note 8).

As at December 31, 2014 and 2013, the Company's held-for-trading securities include government and corporate debt securities and equity securities.

*HTM Investments.* HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity. Where the Company sells or reclassifies other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified at fair value as AFS financial assets. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any 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, if any, is included as part of interest income in profit or loss.

As at December 31, 2014 and 2013, the Company has no financial assets classified as HTM investments.

*Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not held for trading.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment loss. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization, if any, is included as part of "Investment income - net" in profit or loss.

As at December 31, 2014 and 2013, the Company's cash and cash equivalents, premiums due from policyholders, policy loans receivable, coverage debt receivables, interest receivable and other assets such as receivable from unit linked fund, refundable deposits, advances to employees and agents, and due from affiliates are classified under this category.

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

*AFS Financial Assets.* AFS financial assets are financial assets which are designated as such, or do not qualify to be classified or have not been classified under any other financial asset category. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value. Changes in fair value, other than impairment loss and foreign currency differences on AFS equity securities, are recognized in other comprehensive income as "Fair value reserves" and are presented within equity. The losses arising from the impairment of such securities are recognized in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is transferred to profit or loss. The effective yield component of AFS debt securities is reported in profit or loss.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of unobserved inputs such as in the case of unquoted equity instruments, these financial assets are allowed to be carried at cost less impairment, if any.

As at December 31, 2014 and 2013, the Company's AFS securities amounted to P7.62 million and P7.47 million, respectively, and primarily composed of equity securities (see Note 8).

*Other Financial Liabilities.* Issued financial instruments or their component, which are not classified as at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder or lender, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. The amortization is included as part of "Interest expense related to policies" in profit or loss.

This category includes the Company's claims payable, dividends payable, interest payable, accounts payable, accrued expenses and other liabilities (excluding liabilities to government agencies).

Impairment of Financial Assets
The Company assesses at each reporting date whether a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults.

*Loans and Receivables.* The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed accounts, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective assessment for impairment. For the purpose of a collective evaluation of impairment, loans and receivables are grouped on the basis of credit risk characteristics such as type of borrower, collateral type, credit and payment status and term.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the excess of loan's carrying amount over its net realizable value, based on the present value of the estimated future cash flows from the asset. The present value of the estimated future cash flows is discounted at the loan's original effective interest rate. Time value is generally not considered when the effect of discounting is not material.

The carrying amount of an impaired loan is reduced to its net realizable value through the use of an allowance account and the accrual of interest is discontinued. If, in a subsequent period, the amount of the allowance for impairment loss decreases because of an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed to profit or loss to the extent that the resulting carrying amount of the asset does not exceed its amortized cost had no impairment loss been recognized.

*AFS Financial Assets Carried at Fair Value.* In case of equity securities classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below cost. Where there is objective evidence of impairment, the cumulative loss in equity, measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized, is recorded in profit or loss. Subsequent increase in the fair value of an impaired AFS equity security is recognized in other comprehensive income.

Offsetting of Financial Instruments

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

Income and expenses are presented on a net basis only when permitted under PFRSs, such as in the case of any realized gains or losses arising from the Company's trading activities.

Derecognition of Financial Assets and Liabilities

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

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

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

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

Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

Property and Equipment

Property and equipment are measured at cost less accumulated depreciation, amortization and impairment losses, if any.

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Company. The cost of day-to-day servicing of an asset is recognized as an expense in the period in which they are incurred.

Items of property and equipment are depreciated on a straight-line basis over the estimated useful lives of each component. Leasehold improvements are amortized over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.
Estimated useful lives are as follows:

| | Number of Years |
|---|---|
| Computer equipment | 3 - 5 |
| Furniture, fixture and equipment | 5 |
| Transportation equipment | 5 |
| Condominium unit | 25 |
| Leasehold improvements | 3 - 5 or term of lease, whichever is shorter |

The residual value, useful lives, and depreciation and amortization methods for items of property and equipment are reviewed, and adjusted if appropriate, at each reporting date.

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and the related accumulated depreciation, amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss.

Office improvement in progress relates to the progress billings of unfinished projects. Such projects include renovations, various installations and system upgrades. When a certain project is finished, the account is credited and capitalized to the appropriate asset account. No depreciation is recognized for office improvement in progress account because it is not yet available for use by the Company.

Impairment of Non-financial Assets

At each reporting date, the Company assesses whether there is any indication that its non-financial assets such as property and equipment may be impaired. When an indicator of impairment exists, the Company estimates the recoverable amount of the impaired assets. The recoverable amount is the higher of the fair value less costs of disposal and value in use. Value in use is the present value of future cash flows expected to be derived from an asset while fair value less costs of disposal is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties less cost of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

Where the carrying amount of an asset exceeds its recoverable amount, the impaired asset is written down to its recoverable amount.

An impairment loss is recognized in profit or loss in the period in which it arises.

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

Deferred Acquisition Costs

Direct and indirect costs incurred to sell, underwrite and initiate new insurance contracts are deferred to the extent that these costs are recoverable out of profit margins of future premiums from these new insurance contracts.

Subsequent to initial recognition, deferred acquisition costs are amortized on a straight-line basis over the period over which significant amount of profit margins from future premiums are expected to be recoverable. Changes in the pattern of future economic benefits for the deferred acquisition costs are accounted for by changing the amortization period and are treated as change in accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognized in profit or loss. Deferred acquisition costs are also considered in the liability adequacy test for each reporting period.

Deferred acquisition costs are derecognized when the related contracts are either pre-terminated or have matured before the end of amortization period (see Note 29).

Equity

*Capital Stock*

Capital stock is composed of common shares, determined using the nominal value of shares that have been issued. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

*Additional Paid-in Capital (APIC)*

APIC pertains to the amount that the Company received in excess of the par value of capital stock.

*Contributed Surplus*

Contributed surplus represents additional contribution of shareholders as provided under the amended Insurance Code of the Philippines (Insurance Code).

*Fair Value Reserve*

Fair value reserve pertains to the cumulative amount of gain and loss due to the revaluation of AFS financial assets.

*Retained Earnings*
The amount included in retained earnings includes profit attributable to the equity holders of the Company and reduced by dividends.

Retained earnings may also include effect of changes in accounting policy as may be required by the transitional provision of the standard.

Revenue Recognition
*Premium Income*
Premiums arising from insurance contracts are recognized as income on the effective date of the insurance policies for the first year premiums. For the succeeding premiums, gross earned recurring premiums on life insurance contracts are recognized as revenue when these become due from the policyholders.

*Premiums Ceded to Reinsurers*
Gross reinsurance premiums on traditional and variable contracts are recognized as an expense when the policy becomes effective.

*Investment Income*
Investment income consists of fair value changes of financial assets at FVPL, interest income from all interest-bearing investments, and gain or loss on disposal of investments. Investment income which is net of investment management fees, is presented net of final tax.

Interest income for all interest-bearing financial instruments, including financial assets measured at FVPL, is recognized in profit or loss using the effective interest method.

*Policy Administration Fees*
Policy administration fees are recognized as revenue in profit or loss when these become due from the policyholder. Receivable portion of policy administration fees form part of receivable from unit linked fund under "Other assets" account in the statements of financial position.

Benefits, Claims and Expenses Recognition
*Benefits and Claims*
Claims consist of benefits and claims paid to policyholders, which include, among others, excess gross benefit claims for unit-linked insurance contract, and movement of incurred but not reported (IBNR) claims and movement of legal policy reserves. Death claims, surrenders and withdrawals are recorded on the basis of notifications received. Maturities are recorded when due. Provision for IBNR is made for the cost of claims incurred as of each reporting date but not reported until after the reporting date based on the Company's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in profit or loss of subsequent years.

*Operating Expenses*
Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

Amortization of Software Development Costs
Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Development costs are amortized from the date they are available for use, not to exceed five years.

Retirement Benefits
The Company maintains a defined contribution (DC) plan with minimum defined benefit (DB) guarantee that covers all regular full time employees. Under its retirement plan, the Company pays fixed contributions based on the employees' monthly salaries, however, the retirement plan also provides for its qualified employees a DB minimum guarantee which is equivalent to a certain percentage of the monthly salary payable to an employee with the required credited years of service based on the provisions of the Company's retirement plan.

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

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

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

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

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

Short-term Employee Benefits
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Leases
Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

Taxes
Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at each reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided using the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, and the carryforward tax benefits of the net operating loss carryover (NOLCO) and excess of the minimum corporate income tax (MCIT) over the regular corporate income tax. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted at each reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow all or part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the reporting date.

Foreign Currency Transactions
Transactions in foreign currencies are initially recorded using the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated using the closing exchange rates prevailing at reporting date; income and expenses are translated using the average rate for the year.

Exchange gains or losses arising from foreign exchange transactions are credited to or charged against operations for the year. For income tax reporting purposes, foreign exchange gains or losses are treated as taxable income or deductible expenses, in the period such are realized.

Provisions
A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Contingencies
Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the 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 reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

## 4. Critical Accounting Judgments and Estimates

The Company makes judgment and key estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

*(a) Impairment of Financial Assets*

*Investments at Fair Value*

The Company considers that investments are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share/market price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

*Receivables*

The Company reviews its receivables to assess impairment at least on an annual basis, or as the need arises due to significant movements on certain accounts. Receivables from policyholders and reinsurance that are individually significant are assessed to determine whether objective evidence of impairment exists on an individual basis, while those that are not individually significant are assessed for objective evidence of impairment either on an individual or on collective basis. In determining whether an impairment loss should be recorded in the profit or loss, the Company makes judgment as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio.

Estimates

*(a) Liabilities arising from Claims made under Insurance Contracts*

There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for such claims. Although the ultimate liability arising from life insurance contracts is largely determined by the face amount of each individual policy, the Company also issues accident and health policies and riders where the claim amounts may vary.

Claims estimation by the Company considers many factors such as industry average mortality or morbidity experience, with adjustments to reflect Company's historical experience. These liabilities form part of the Company's IBNR which amounted to P48.13 million and P43.11 million as at December 31, 2014 and 2013, respectively (see Note 16).

*(b) Legal Policy Reserves*

The Company determines its legal policy reserves in accordance with the requirements of the Insurance Code. Estimates are made in two stages. At inception of the contract, the Company determines assumptions in relation to mortality, morbidity, persistency, investment returns and administration expenses. Assumptions are also set in relation to inflation rates, tax, dividend scale and sales commission plus other incentives. Certain profit targets are also set at this stage. These assumptions are used in calculating liabilities during the life of the contracts. A margin for risk and uncertainty is added to these assumptions. In order to minimize risk, the Company ensures that the assumptions used are best estimates, taking into account current experience at each reporting date to determine whether liabilities are adequate in the light of the latest current estimates and taking into consideration the provision of PFRS 4, *Insurance Contracts*.

Legal policy reserves are calculated in accordance with the requirements of the Insurance Code. The liability adequacy test was performed using current best estimates on interest, mortality, lapsation and expenses. The net present value of future cash flows as at December 31, 2014 and 2013 computed under the requirements of PFRS 4, *Insurance Contracts*, amounted to cash inflows of P2.79 billion and P2.78 billion, respectively. Accordingly, the recorded statutory reserves as at December 31, 2014 and 2013 of P4.83 billion and P4.75 billion, respectively (see Note 15), is adequate using best estimate assumptions.

*(c) Estimated Useful Lives of Property and Equipment*

The Company estimates useful lives of property and equipment based on the period over which the assets are expected to be available for use and are updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence. The useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

As at December 31, 2014 and 2013, the carrying amount of property and equipment amounted to P248.06 million and P198.03 million, respectively (see Note 12).

*(d) Amortization Period of Deferred Acquisition Costs*

The amortization period of deferred acquisition costs depends on the period over which the acquisition costs will be recovered through the future profits of the insurance contracts. The recoverability of the deferred acquisition costs are reviewed annually to ensure that the period of amortization is consistent with the profit pattern of the products.

As at December 31, 2014 and 2013, the carrying amount of deferred acquisition costs amounted to P4.22 billion and P3.62 billion, respectively (see Note 13).

*(e) Impairment of Financial Assets*

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the receivables when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

As at December 31, 2014 and 2013, the Company's investments, policy loans receivables and coverage debt receivables amounted to P9.76 billion and P9.13 billion, respectively.

*(f) Retirement and Other Employee Benefits*

The determination of DB obligation relating to minimum guarantee and other employee benefit is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, mortality rates and salary increase rate. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields of Philippine government bonds with terms consistent with the expected employee benefit payout as of the statements of financial position date. As at December 31, 2014 and 2013, the Company's net retirement liability amounted to P31.74 million and nil, respectively (see Note 23).

*(g) Realizability of Deferred Tax Assets*

The Company reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Any deferred tax asset will be re-measured if it might result to derecognition where the expected tax law to be enacted has a possible risk on the realization.

As at December 31, 2014 and 2013, the Company recognized deferred tax assets amounted to P733.46 million and P588.34 million, respectively (see Note 24).

## 5. Management of Capital, Insurance and Financial Risks

The Company's activities expose it to a variety of risks such as capital, financial and insurance risks. The overall objective of risk management is to focus on the unpredictability of financial markets and insurance contingencies to minimize potential adverse effects on the financial position of the Company.

The Company has established a risk management functions with clear cut responsibilities and with the mandate to develop company-wide policies on market, credit, liquidity, insurance and operational risk management. It also supports the effective implementation of risk management policies at the individual business unit and process levels.

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

Regulatory Framework
Regulators are interested in protecting the rights of the policyholders and maintain close monitoring to ensure that the Company is satisfactorily managing its affairs for their benefit. At the same time, regulators are also interested in ensuring that the Company maintains appropriate liquidity and solvency positions to meet maturing liabilities arising from claims and acceptable level of risks.

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

Capital Management
The Company's capital includes capital stock, additional paid-in capital, contributed surplus, fair value reserves and retained earnings.

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is always higher than the minimum capital requirement set by the IC and the amount computed under the Risk-based Capital (RBC) model.

The Company manages capital through a process that determines future projected capital requirements through the development of long-term financial plans and projections that consider the impact on surplus of new businesses, profitability of in-force business and other major corporate initiatives that will affect capitalization levels.

There were no changes made to its capital base, objectives, policies and processes from previous year.

*Fixed Capitalization Requirements*
Under Section 194 of the Insurance Code, insurance company doing business in the Philippines shall have a net worth of P250 million by June 30, 2013. Furthermore, said company must have an additional P300 million in net worth by December 31, 2016; an additional P350 million in net worth by December 31, 2019; and an additional P400 million in net worth by December 31, 2022.

As at December 31, 2014 and 2013, the Company has complied with the minimum capital requirements.

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

The RBC ratio shall be calculated as networth divided by the RBC requirement. Networth shall consist of the total paid-up capital, contributed surplus, retained earnings and revaluation of assets as may be approved by the Commissioner of IC.

The following table shows the RBC ratio of the Company as at December 31, 2014 and 2013.

| | 2014 | 2013 |
|---|---|---|
| Networth | **P3,215,911** | P2,444,790 |
| RBC requirement | **624,732** | 465,586 |
| RBC ratio | **515%** | 525% |

The final amount of the RBC ratio can be determined only after the accounts of the Company have been examined by IC specifically as to admitted and non-admitted assets as defined under the same code. As at December 31, 2014 and 2013, the Company has complied with the minimum RBC ratio.

The estimated non-admitted assets as defined in the Insurance Code are included in the statements of financial position. These assets, which are subject to final determination by the IC, are as follows:

| | 2014 | 2013 |
|---|---|---|
| Deferred acquisition cost | **P4,224,534** | P1,767,157 |
| Unrealized fair value gains - net | **1,306,120** | 1,295,899 |
| Property and equipment - net | **203,760** | 126,803 |
| Investments | **35,563** | 40,689 |
| Other assets | **908,495** | 145,771 |
| | **P6,678,472** | P3,376,319 |

Insurance Risk

The Company issues contracts that transfer insurance risk. This section summarizes the risks and the way the Company manages them.

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The main risks that the Company is exposed to are as follows:

- *Mortality Risk* - risk of loss due to policyholder death experience being different from expected.
- *Morbidity Risk* - risk of loss due to policyholder health and disability experience being different from expected.
- *Investment Return Risk* - risk of loss from actual return being different from expected.
- *Expense Risk* - risk of loss from expense experience being different from expected.
- *Lapse Risk* - risk of loss due to policyholder experiences (lapses and surrenders) being different from expected.

The Company manages these risks through its underwriting strategy and reinsurance agreements. The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of the type of risk and level of insured benefits. This is largely achieved through the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. The retention limit of the Company varies per product type.

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

*Concentration of Insurance Risk*

The table below sets out the concentration of life insurance contract by type of contract (in thousands):

| | **2014** | 2013 |
|---|---|---|
| Whole and term life | **P3,381,337** | P3,280,342 |
| Endowment | **1,138,017** | 1,192,736 |
| Personal accident | **10,992** | 9,665 |
| Group and accident & health | **28,523** | 24,816 |
| Riders and others products | **270,781** | 241,846 |
| | **P4,829,650** | P4,749,405 |

*Classification by Attained Age (Based on 2014 Data of Inforce Policies)*

The table below presents the concentration of risk by attained age as at December 31, 2014 and 2013. For individual insurance, exposure is concentrated on age brackets 40-44 to 55-59 and those below 20. For group insurance, exposure is concentrated on age bracket 35-39 to 55-59.

| | **2014** | | | |
|---|---|---|---|---|
| | **Individual** | | | |
| | **Gross of Reinsurance** | | **Net Reinsurance** | |
| Attained Age | **Exposure '000** | **Concentration (%)** | **Exposure '000** | **Concentration (%)** |
| <20 | **P586,503** | **12.22%** | **P586,503** | **12.22%** |
| 20 - 24 | **118,922** | **2.48%** | **118,922** | **2.48%** |
| 25 - 29 | **154,554** | **3.22%** | **154,554** | **3.22%** |
| 30 - 34 | **198,935** | **4.14%** | **198,935** | **4.14%** |
| 35 - 39 | **410,358** | **8.55%** | **410,358** | **8.55%** |
| 40 - 44 | **604,304** | **12.59%** | **604,304** | **12.59%** |
| 45 - 49 | **645,603** | **13.45%** | **645,603** | **13.45%** |
| 50 - 54 | **736,424** | **15.34%** | **736,424** | **15.34%** |
| 55 - 59 | **583,938** | **12.16%** | **583,938** | **12.16%** |
| 60 - 64 | **391,001** | **8.14%** | **391,001** | **8.14%** |
| 65 - 69 | **227,860** | **4.75%** | **227,860** | **4.75%** |
| 70 - 74 | **94,085** | **1.96%** | **94,085** | **1.96%** |
| 75 - 79 | **26,918** | **0.56%** | **26,918** | **0.56%** |
| 80 + | **21,390** | **0.45%** | **21,390** | **0.45%** |
| Total | **P4,800,795** | **100.00%** | **P4,800,795** | **100.00%** |

| | 2014 | | | |
|---|---|---|---|---|
| | Group | | | |
| | Gross of Reinsurance | | Net Reinsurance | |
| Attained Age | Exposure '000 | Concentration (%) | Exposure '000 | Concentration (%) |
| 20 - 24 | **P42** | **0.15%** | **P42** | **0.16%** |
| 25 - 29 | **704** | **2.44%** | **692** | **2.71%** |
| 30 - 34 | **1,579** | **5.47%** | **1,532** | **6.01%** |
| 35 - 39 | **9,240** | **32.02%** | **6,081** | **23.85%** |
| 40 - 44 | **3,132** | **10.85%** | **3,059** | **12.00%** |
| 45 - 49 | **3,738** | **12.95%** | **3,680** | **14.43%** |
| 50 - 54 | **4,806** | **16.66%** | **4,801** | **18.83%** |
| 55 - 59 | **3,333** | **11.55%** | **3,326** | **13.05%** |
| 60 + | **2,281** | **7.91%** | **2,281** | **8.95%** |
| Total | **P28,855** | **100.00%** | **P25,494** | **100.00%** |

| | 2013 | | | |
|---|---|---|---|---|
| | Individual | | | |
| | Gross of Reinsurance | | Net Reinsurance | |
| Attained Age | Exposure '000 | Concentration (%) | Exposure '000 | Concentration (%) |
| <20 | P617,867 | 13.08% | P617,867 | 13.08% |
| 20 - 24 | 117,474 | 2.49% | 117,474 | 2.49% |
| 25 - 29 | 160,240 | 3.39% | 160,240 | 3.39% |
| 30 - 34 | 218,748 | 4.63% | 218,748 | 4.63% |
| 35 - 39 | 446,005 | 9.44% | 446,005 | 9.44% |
| 40 - 44 | 605,895 | 12.83% | 605,895 | 12.83% |
| 45 - 49 | 660,256 | 13.98% | 660,256 | 13.98% |
| 50 - 54 | 706,746 | 14.96% | 706,746 | 14.96% |
| 55 - 59 | 528,522 | 11.19% | 528,522 | 11.19% |
| 60 - 64 | 342,249 | 7.25% | 342,249 | 7.25% |
| 65 - 69 | 191,332 | 4.05% | 191,332 | 4.05% |
| 70 - 74 | 82,607 | 1.75% | 82,607 | 1.75% |
| 75 - 79 | 25,542 | 0.54% | 25,542 | 0.54% |
| 80 + | 19,767 | 0.42% | 19,767 | 0.42% |
| Total | P4,723,250 | 100.00% | P4,723,250 | 100.00% |

| | 2013 | | | |
|---|---|---|---|---|
| | Group | | | |
| | Gross of Reinsurance | | Net Reinsurance | |
| Attained Age | Exposure '000 | Concentration (%) | Exposure '000 | Concentration (%) |
| 20 - 24 | P71 | 0.27% | P64 | 0.26% |
| 25 - 29 | 771 | 2.95% | 666 | 2.76% |
| 30 - 34 | 1,766 | 6.75% | 1,510 | 6.28% |
| 35 - 39 | 3,796 | 14.51% | 3,439 | 14.10% |
| 40 - 44 | 3,532 | 13.50% | 3,143 | 12.94% |
| 45 - 49 | 4,192 | 16.03% | 3,918 | 15.94% |
| 50 - 54 | 5,710 | 21.83% | 5,625 | 22.62% |
| 55 - 59 | 3,745 | 14.32% | 3,674 | 14.79% |
| 60 + | 2,572 | 9.84% | 2,571 | 10.31% |
| Total | P26,155 | 100.00% | P24,610 | 100.00% |

*Key Assumptions*
The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

(a) *Mortality and Morbidity Assumptions.* Mortality refers to the rate at which death occurs for a defined group of people while morbidity refers to the rate of accident or sickness, and recovery there from, for a defined group of people. For the purpose of liability valuation, rates are based on standard tables, as required by the Insurance Code.

(b) *Valuation Interest Rates* refer to the rates used in determining the value of life insurance liabilities. The value of life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expense directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows.

*Sensitivities*
The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on the Company's income before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear.

| | | **2014** | | 2013 | |
|---|---|---|---|---|---|
| | ***Changes in Assumptions/ Variables*** | **Impact on Income Before Income Tax** | **Impact on Equity** | Impact on Income Before Income Tax | Impact on Equity |
| | | | *(Amounts in Millions)* | | |
| Mortality and morbidity | *+5%* | **P80.04** | **P80.04** | P79.10 | P79.10 |
| | *-5%* | **(77.71)** | **(77.71)** | (76.78) | (76.78) |
| Valuation interest rate | *+ 100 basis points* | **514.30** | **514.30** | 509.02 | 509.02 |
| | *- 100 basis points* | **(659.43)** | **(659.43)** | (652.56) | (652.56) |

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

Investment Risk
The investment risk represents the exposure to loss resulting from cash flows from invested assets primarily for long-term fixed rate investments, being less than the cash flows to meet the obligations of the expected policy and contract liabilities and the necessary return on investments. Additionally, there exist a future investment risk associated with certain policies currently in-force which will have premium receipts in the future.

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

The Company adopts the Prudential's investment strategy to invest primarily in high quality securities while maintaining diversifications to avoid significant exposure to issuer and industry.

The Company invests in equity and debt instruments as dictated by the Company's investment management strategy. Asset allocation is determined by the Company's Fund Manager who manages the distribution of assets to achieve the investment objectives. Divergence from target asset allocations and the composition of the Company's portfolio is monitored by the Investment Committee.

For unit-linked contracts, the Company does not retain the price, currency, credit, or interest rate risk for these contracts as contractual arrangements are such that the linked fund policyholders bear the risks and rewards of the fund's investment performance.

There has been no change to the Company's exposure to investment risk or the manner in which it manages and measures the risk since prior financial year.

Financial Risk

The Company has significant exposure to the following financial risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

There has been no change to the Company's exposure to financial risks (i.e. credit risk, liquidity risk and market risks) or the manner in which it manages and measures the risks since prior financial year.

*(a) Credit Risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause another party to incur a financial loss. The Company is exposed to credit risk primarily through its cash and cash equivalents, investments and loans granted to policyholders. The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date.

The Company's concentration of credit risk arises from its investments in government securities since the said investments amounted to P8.60 billion (2013: P7.98 billion) and 10.97% (12.55%) of its total assets as at December 31, 2014.

The table below provides information regarding the credit risk exposure of the Company as of December 31, 2014 and 2013 by classifying assets according to the Company's credit grading of counterparties.

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | | | | | |
| | Investment High-grade | Non-investment Grade - Satisfactory | Total Financial Assets Neither Past Due nor Impaired | Past Due but not Impaired | Past Due and Impaired | Total |
| Cash and cash equivalents | P2,092,794 | P - | P2,092,794 | P - | P - | P2,092,794 |
| Interest receivable | 124,922 | - | 124,922 | - | - | 124,922 |
| Coverage debt receivable | - | 186,770 | 186,770 | - | 92,486 | 279,256 |
| Investments in debt securities | 9,077,902 | - | 9,077,902 | - | - | 9,077,902 |
| Premiums due from policyholders | - | 86,695 | 86,695 | - | - | 86,695 |
| Policy loans receivable | - | 459,878 | 459,878 | - | 7,991 | 467,869 |
| Reinsurance assets | - | 21,958 | 21,958 | - | - | 21,958 |
| Other assets (excluding withholding tax receivables and prepaid expenses) | - | 356,828 | 356,828 | - | 3,849 | 360,677 |
| | P11,295,618 | P1,112,129 | P12,407,747 | P - | P104,326 | P12,512,073 |

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | | | | | |
| | Investment High-grade | Non-investment Grade - Satisfactory | Total Financial Assets Neither Past Due nor Impaired | Past Due but not Impaired | Past Due and Impaired | Total |
| Cash and cash equivalents | P1,783,495 | P - | P1,783,495 | P - | P - | P1,783,495 |
| Interest receivable | 136,170 | - | 136,170 | - | - | 136,170 |
| Coverage debt receivable | - | 157,286 | 157,286 | - | 98,512 | 255,798 |
| Investments in debt securities | 8,478,669 | - | 8,478,669 | - | - | 8,478,669 |
| Premiums due from policyholders | - | 31,512 | 31,512 | - | - | 31,512 |
| Policy loans receivable | - | 459,614 | 459,614 | - | 13,160 | 472,774 |
| Reinsurance assets | - | 7,741 | 7,741 | - | - | 7,741 |
| Other assets (excluding withholding tax receivables and prepaid expenses) | - | 110,222 | 110,222 | - | - | 110,222 |
| | P10,398,334 | P766,375 | P11,164,709 | P - | P111,672 | P11,276,381 |

The Company has no past due but not impaired financial assets as at December 31, 2014 and 2013.

The Company uses a credit grading system based on the borrowers and counterparties overall credit worthiness, as described below:

*Investment High Grade* - This pertains to accounts with a very low probability of default as demonstrated by the borrower's strong financial position and reputation. The borrower has the ability to raise substantial amounts of funds through credit facilities with financial institutions. The borrower has a strong debt service record and a moderate use of leverage.

*Non-investment Grade - Satisfactory* - This pertains to current accounts with no history of default or which may have defaulted in the past, but the conditions and circumstances directly affecting the borrower's ability to pay has abated already. The borrower is expected to be able to adjust to the cyclical downturns in its operations. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues. The use of leverage may be above industry or credit standards but remains stable.

*Past Due and Impaired* - This pertains to the allowance for impairment losses that the Company recognizes due to the uncertainty of the collectability of the Company's receivables.

In compliance with the Insurance Code, the Company extends loans to its policyholders only up to the cash surrender value of their policy, pursuant to the provisions of the policy contract.

Credit risk arising from transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used. The Company monitors the credit ratings of the brokers used to further mitigate this risk.

A substantial portion of the Company's total investments, including cash in bank, are held by Standard Chartered Bank, a reputable financial institution with high credit rating, under a custodianship agreement.

*(b) Liquidity Risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

To effectively manage liquidity risk, the Company ensures that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unnecessary costs or risking damage to the Company's reputation. Further, the Company's policy is to maintain sufficient liquidity to meet normal operating requirements.

The tables below summarize the maturity profile of the financial liabilities of the Company based on remaining contractual obligations or on the estimated timing of net cash flows as at December 31, 2014 and 2013:

| | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Less than 1 Year | 1 - 2 Years | 2 - 3 Years | 3 - 4 Years | 4 - 5 Years | More than 5 Years | Total |
| Technical provision for linked liabilities | P60,597,099 | P - | P - | P - | P - | P - | P60,597,099 |
| Claims payable | 254,804 | - | - | - | - | - | 254,804 |
| Reinsurance payable | 74,560 | - | - | - | - | - | 74,560 |
| Accounts payable, accrued expenses and other liabilities* | 2,466,372 | - | - | - | - | - | 2,466,372 |
| | P63,392,835 | P - | P - | P - | P - | P - | P63,392,835 |

**Excluding liabilities to government agencies.*

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Less than 1 Year | 1 - 2 Years | 2 - 3 Years | 3 - 4 Years | 4 - 5 Years | More than 5 Years | Total |
| Technical provision for linked liabilities | P47,863,092 | P - | P - | P - | P - | P - | P47,863,092 |
| Claims payable | 207,735 | - | - | - | - | - | 207,735 |
| Reinsurance payable | 81,319 | - | - | - | - | - | 81,319 |
| Accounts payable, accrued expenses and other liabilities* | 2,117,778 | - | - | - | - | - | 2,117,778 |
| | P50,269,924 | P - | P - | P - | P - | P - | P50,269,924 |

**Excluding liabilities to government agencies.*

*(c) Market Risk*

Market risk embodies the potential for both gains and losses and includes currency risk, interest rate risk and equity price risk.

The Company's market risk is managed on a daily basis by the Fund Manager in accordance with policies and procedures in place. The Company's overall market positions are monitored, at least, on a quarterly basis by the Investment Committee of the Company.

Details of the nature of the Company investment portfolio at the reporting date are disclosed in Note 8 to the financial statements.

*Currency Risk*

Currency risk is the risk that changes in foreign exchange rates will affect the fair values or cash flow of a recognized financial instrument. The Company may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Company is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Company's assets or liabilities denominated in currencies other than in Philippine peso.

The Company's main exposure to fluctuations in foreign currency exchange rates arise through the following assets denominated in U.S. dollar:

| | 2014 | 2013 |
|---|---|---|
| Short-term time deposits | **\$3,554** | \$2,241 |
| Investments | **953** | 444 |
| | **4,507** | 2,685 |
| Foreign exchange rate to the Philippine peso used* | **44.62** | 44.41 |
| | **P201,102** | P119,241 |

**Exchange rate used is based on BSP foreign exchange rate as at December 29, 2014 and December 27, 2013.*

A 4% (2013: 7%) strengthening of Philippine peso against the United States dollar as at December 31, 2014, with all variables remain constant, would have affected the measurement of financial instruments denominated in United States dollar and increased profit before tax and equity by P8.04 million (2013: P8.35 million). A 4% (2013: 7%) weakening of the U.S. dollar in relation to the Philippine peso, with all other variables held constant, would have an equal but opposite effect on the Company's profit before tax and equity.

In 2014 and 2013, the Company determined the reasonably possible change in foreign currency exchange rates based on the historical fluctuation of the assets denominated in U.S. dollar.

*Interest Rate Risk*
There are two types of interest rate risk:

- *Fair Value Interest Rate Risk* - the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and

- *Cash Flow Interest Rate Risk* - the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Significant portion of the Company's investments is composed mainly of interest-bearing debt instruments carried at fair value. As a result, the Company is subject to exposure to fair value interest rate risk.

The Company does not carry debt instrument with variable interest rate and, thus, is not exposed to cash flow interest rate risk.

Fair value interest rate risk is mitigated by the Company's Fund Manager by constructing a portfolio of debenture instruments with diversified maturities. Any excess cash and cash equivalents of the Company are invested in short-term time deposits with original terms of three months or less.

The analysis below details the impact of changes in market interest rate (stated in basis points or bps) to the fair value of the Company's investment in fixed-rate debt instruments. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

| Currency | Changes in Variables | 2014 +50 bps | 2014 -50 bps | 2013 +50 bps | 2013 -50 bps |
|---|---|---|---|---|---|
| Philippine peso | | **(P348,056)** | **P372,836** | (P313,423) | P292,432 |
| U.S. dollar | | **(1,391)** | **1,523** | (436) | 452 |
| Fair value sensitivity | | **(P349,447)** | **P374,359** | (P313,859) | P292,884 |

In 2014 and 2013, the Company determined the reasonably possible change in interest rate based on the historical percentage changes in weighted average yield rates of outstanding investments of the Company.

*Equity Price Risk*
Equity price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

The Company's equity price risk exposure relates to investments designated as AFS financial assets with carrying balances of P7.62 million and P7.47 million as at December 31, 2014 and 2013, respectively. The value of these equity securities will fluctuate with changes in market conditions.

A 7% (2013: 5%) increase in stock prices would have increased profit before income tax and equity by P0.53 million (2013: P0.37 million) as at December 31, 2014, with all variables remaining constant. An equal change in the opposite direction would have decreased income before income tax and equity by an equal but opposite amount.

In 2014 and 2013, the Company determined the reasonably possible change in Philippine Stock Exchange (PSE) Index based on the historical fluctuation of equity securities the Company holds as of the reporting date.

## 6. Fair Value Measurements and Disclosures

The fair value of the following financial assets and financial liabilities approximate their carrying amounts at the end of each accounting period due to their short term nature:

- Cash and cash equivalents;
- Interest receivables;
- Coverage debt receivables;
- Premiums due from policyholders;
- Policy loan receivable;
- Reinsurance assets;
- Claims payable;
- Reinsurance payable; and
- Accounts payable and accrued expenses except for withholding tax and premium tax payable.

The recurring fair values of financial assets at FVPL, assets held to cover linked liabilities, technical provisions for linked liabilities and AFS financial assets are determined by reference to quoted market prices, at the close of business on the reporting date.

*Fair Value Hierarchy*
The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial Assets** | | | | |
| Financial assets at FVPL | **P9,108,182** | **P -** | **P -** | **P9,108,182** |
| AFS investments | **7,624** | **-** | **-** | **7,624** |
| Assets held to cover linked liabilities | **60,215,190** | **-** | **-** | **60,215,190** |
| **Financial Liabilities** | | | | |
| Technical provisions for linked liabilities | **(60,597,099)** | **-** | **-** | **(60,597,099)** |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial Assets | | | | |
| Financial assets at FVPL | P8,509,099 | P - | P - | P8,509,099 |
| AFS investments | 7,474 | - | - | 7,474 |
| Assets held to cover linked liabilities | 47,384,648 | - | - | 47,384,648 |
| Financial Liabilities | | | | |
| Technical provisions for linked liabilities | (47,863,092) | - | - | (47,863,092) |

There has been no transfer between levels in 2014 and 2013.

## 7. Cash and Cash Equivalents

| | **2014** | 2013 |
|---|---|---|
| Cash on hand and in banks | **P715,553** | P785,515 |
| Short-term placements | **1,377,241** | 997,980 |
| | **P2,092,794** | P1,783,495 |

Short-term placements are time deposits with various financial institutions with maturities ranging from three to fourteen days and interest from 0.01% to 0.55% and 0.01% to 0.06% per annum in 2014 and 2013, respectively.

Interest income recognized in profit or loss which is presented under "Investment income" amounted to P6.06 million and P13.09 million in 2014 and 2013, respectively.

## 8. Investments

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

| | For the Year December 31, 2014 | | |
|---|---|---|---|
| | **Available-for-Sale Securities** | **At Fair Value through Profit or Loss** | **Total Investments** |
| Cost at January 1, 2014 | **P12,229** | **P7,213,200** | **P7,225,429** |
| Unrealized (losses) gains at January 1, 2014 | **(4,755)** | **1,295,899** | **1,291,144** |
| Fair value at January 1, 2014 | **7,474** | **8,509,099** | **8,516,573** |
| Fair value gain recognized in: | | | |
| Profit or loss | **-** | **13,211** | **13,211** |
| Other comprehensive income | **150** | **-** | **150** |
| Purchases | **-** | **1,393,301** | **1,393,301** |
| Proceeds from disposal of financial assets | **-** | **(965,493)** | **(965,493)** |
| Gain on disposal of financial assets | **-** | **158,064** | **158,064** |
| Fair value at December 31, 2014 | **P7,624** | **P9,108,182** | **P9,115,806** |
| Cost at December 31, 2014 | **P12,229** | **P7,799,072** | **P7,811,301** |
| Unrealized (losses) gains at December 31, 2014 | **(P4,605)** | **P1,309,110** | **P1,304,505** |

| | For the Year December 31, 2013 | | |
|---|---|---|---|
| | Available-for-Sale Securities | At Fair Value through Profit or Loss | Total Investments |
| Cost at January 1, 2013 | P12,229 | P7,168,778 | P7,181,007 |
| Unrealized (losses) gains at January 1, 2013 | (5,435) | 1,258,045 | 1,252,610 |
| Fair value at January 1, 2013 | 6,794 | 8,426,823 | 8,433,617 |
| Fair value gain recognized in: | | | |
| Profit or loss | - | 37,854 | 37,854 |
| Other comprehensive income | 680 | - | 680 |
| Purchases | - | 1,259,620 | 1,259,620 |
| Proceeds from disposal of financial assets | - | (1,204,093) | (1,204,093) |
| Loss on disposal of financial assets | - | (11,105) | (11,105) |
| Fair value at December 31, 2013 | P7,474 | P8,509,099 | P8,516,573 |
| Cost at December 31, 2013 | P12,229 | P7,213,200 | P7,225,429 |
| Unrealized (losses) gains at December 31, 2013 | (P4,755) | P1,295,899 | P1,291,144 |

The Company's AFS financial assets consist primarily of equity securities. Investments at FVPL are composed primarily of government debt securities consisting of fixed treasury notes issued by the Philippine government. Interest rates range from 2.13% to 15.00% in 2014 and from 3.25% to 13.75% in 2013 (see Note 21 for the details of income from investments).

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

| | **2014** | 2013 |
|---|---|---|
| Balance at beginning of year | **(P4,755)** | (P5,435) |
| Fair value gain | **150** | 680 |
| Balance at end of year | **(P4,605)** | (P4,755) |

## 9. Policy Loans Receivables - net

| | **2014** | 2013 |
|---|---|---|
| Policy loans receivables | **P467,869** | P472,774 |
| Allowance for impairment losses | **(7,991)** | (13,160) |
| | **P459,878** | P459,614 |

Policy loans receivables account pertains to the outstanding balances of loans granted to policyholders, fully secured by the cash surrender value of the underlying insurance policy at the time of issuance. These may be in the form of a cash loan applied by the policyholder or automatic policy loan to cover premiums due on the policy.

The Company provides an allowance for policy loans and the related capitalized interest periodically to reflect the estimated realizable value of the receivables as of each reporting date.

Provision for impairment losses on policy loans receivables amounting to P0.10 million and P4.40 million in 2014 and 2013, respectively, were recognized in profit of loss as part of "Others".

The rollforward analyses of the allowance for impairment losses in policy loans receivables are as follows:

| | **2014** | 2013 |
|---|---|---|
| Balance at beginning of year | **P13,160** | P10,881 |
| Allowance for impairment losses | **100** | 4,399 |
| Reversals taken up to profit or loss | **(5,269)** | (2,120) |
| Balance at end of year | **P7,991** | P13,160 |

## 10. Assets Held to Cover Linked Liabilities

The IC approved on September 11, 2002 the Company's license to sell variable unit-linked insurance policies, a life insurance product that is linked to investment funds (see Note 1). The premium of this product is divided into two parts: the insurance portion and the investment portion. The investment portion is invested in a separately identifiable fund that is valued regularly and is divided into units which represent the unit-linked policyholder's share in the fund. The value of the fund divided by the number of units is called the unit price. An amount equal to the "Assets held to cover linked liabilities" (representing the managed funds) is shown under the "Technical provisions for linked liabilities" account in the statements of financial position, a representation that the funds belong to the unit-linked policyholders.

Linked Funds are lines of business in which the Company issues a contract where the benefit amount is directly linked to the fair value of the investments held in the particular segregated fund. Although the underlying assets are registered in the name of the Company and the linked fund contract holder has no direct access to the specific assets, the contractual arrangements are such that the linked fund policyholders bear the risks and rewards of the fund's investment performance. The Company derives fee income from linked funds, which is included in "Policy administration fees" in profit or loss.

Separate financial statements are provided for the linked funds. Linked fund assets are carried at recurring fair value. Fair values are determined using the valuation method discussed in Note 6.

Assets held to cover linked liabilities are composed of:

| | **2014** | 2013 |
|---|---|---|
| Cash and cash equivalents | **P1,900,006** | P2,650,264 |
| Interest receivables | **369,164** | 364,030 |
| Receivable from life fund | **214,977** | 229,877 |
| Investments in treasury notes and other funds | **87,697,904** | 66,984,096 |
| Other assets | **112,597** | 167,245 |
| Liability to other funds | **(29,382,720)** | (22,249,712) |
| Accrued expense | **(40,820)** | (21,127) |
| Trade payable | **(274,009)** | (261,581) |
| Net assets | **P60,597,099** | P47,863,092 |

Investments in treasury notes and other funds are composed of:

| | **2014** | 2013 |
|---|---|---|
| Investments in treasury notes | **P32,614,044** | P28,036,384 |
| Investments in shares of stocks | **25,909,129** | 16,720,248 |
| Investment in other funds: | | |
| Investment in bond fund | **17,888,051** | 14,870,435 |
| Investment in equity fund | **11,286,680** | 7,357,029 |
| Total investments | **P87,697,904** | P66,984,096 |

Total premiums and costs from the unit-linked product as at December 31 are as follow:

| | *Note* | **2014** | 2013 |
|---|---|---|---|
| Link premiums | *19* | **P15,122,482** | P17,536,836 |
| Costs of premiums of variable insurance | | **(7,464,312)** | (11,407,234) |
| Net link premiums | | **P7,658,170** | P6,129,602 |

## 11. Coverage Debt Receivables - net

| | **2014** | 2013 |
|---|---|---|
| Coverage debt receivables | **P279,256** | P255,798 |
| Allowance for impairment losses | **(92,486)** | (98,512) |
| | **P186,770** | P157,286 |

Coverage debt receivables pertain to policy administration fees covering mortality risk, taxes and administrative fees charged to the investment account of unit-linked policyholders.

These receivables normally arise from policy administration fees due from new unit-linked policyholders who have not accumulated enough investments to cover these fees.

The Company provides an allowance for uncollectible coverage debt charges for lapsed and terminated policies.

Provision for impairment losses on coverage debt receivables amounting to P92.49 million and P12.14 million in 2014 and 2013, respectively, were recognized in profit or loss as part of "Cost of premiums of variable insurance" account.

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

| | **2014** | 2013 |
|---|---|---|
| Balance at beginning of year | **P98,512** | P86,377 |
| Allowance for impairment losses | **-** | 12,135 |
| Reversals taken up to profit or loss | **(6,026)** | - |
| Balance at end of year | **P92,486** | P98,512 |

## 12. Property and Equipment

The movements in this account are as follows:

| | For the Year December 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Computer Equipment | Furniture, Fixture and Equipment | Transportation Equipment | Condominium Unit | Office Improvement in Progress | Leasehold Improvements | Total |
| **Gross carrying amount** | | | | | | | |
| Beginning balance | P97,694 | P72,382 | P56,635 | P10,027 | P35,941 | P214,094 | P486,773 |
| Additions | 13,107 | 22,866 | 16,042 | - | 19,750 | 47,588 | 119,353 |
| Disposals | (6,710) | (802) | (1,337) | - | - | (2,645) | (11,494) |
| Reclassifications | - | - | - | - | (43,216) | 43,216 | - |
| **Ending balance** | 104,091 | 94,446 | 71,340 | 10,027 | 12,475 | 302,253 | 594,632 |
| **Accumulated depreciation and amortization** | | | | | | | |
| Beginning balance | 67,686 | 58,387 | 25,395 | 4,755 | - | 132,520 | 288,743 |
| Depreciation and amortization | 16,154 | 8,208 | 10,287 | 410 | - | 34,083 | 69,142 |
| Disposals | (6,710) | (720) | (1,337) | - | - | (2,543) | (11,310) |
| **Ending balance** | 77,130 | 65,875 | 34,345 | 5,165 | - | 164,060 | 346,575 |
| **Carrying amount** | | | | | | | |
| Beginning balance | P30,008 | P13,995 | P31,240 | P5,272 | P35,941 | P81,574 | P198,030 |
| **Carrying amount** | | | | | | | |
| **Ending balance** | P26,961 | P28,571 | P36,995 | P4,862 | P12,475 | P138,193 | P248,057 |

For the Year December 31, 2013

| | Computer Equipment | Furniture, Fixture and Equipment | Transportation Equipment | Condominium Unit | Office Improvement in Progress | Leasehold Improvements | Total |
|---|---|---|---|---|---|---|---|
| Gross carrying amount | | | | | | | |
| Beginning balance | P86,410 | P71,631 | P48,784 | P10,027 | P20,854 | P185,216 | P422,922 |
| Additions | 16,031 | 5,693 | 16,973 | - | 56,348 | 6,289 | 101,334 |
| Disposals | (4,747) | (4,942) | (9,122) | - | - | (18,672) | (37,483) |
| Reclassifications | - | - | - | - | (41,261) | 41,261 | - |
| Ending balance | 97,694 | 72,382 | 56,635 | 10,027 | 35,941 | 214,094 | 486,773 |
| Accumulated depreciation and amortization | | | | | | | |
| Beginning balance | 56,598 | 54,363 | 22,845 | 4,336 | - | 114,627 | 252,769 |
| Depreciation and amortization | 15,836 | 7,721 | 10,098 | 419 | - | 27,685 | 61,759 |
| Disposals | (4,748) | (3,697) | (7,548) | - | - | (9,792) | (25,785) |
| Ending balance | 67,686 | 58,387 | 25,395 | 4,755 | - | 132,520 | 288,743 |
| Carrying amount Beginning balance | P29,812 | P17,268 | P25,939 | P5,691 | P20,854 | P70,589 | P170,153 |
| Carrying amount Ending balance | P30,008 | P13,995 | P31,240 | P5,272 | P35,941 | P81,574 | P198,030 |

## 13. Deferred Acquisition Costs

| | Note | 2014 | 2013 |
|---|---|---|---|
| Beginning balance | 2 | **P3,620,857** | P2,963,844 |
| Movements during the year: | | | |
| Deferred expenses | | **1,068,181** | 1,029,265 |
| Amortization of deferred acquisition costs | | **(464,504)** | (372,252) |
| | 2 | **603,677** | 657,013 |
| Ending balance | | **P4,224,534** | P3,620,857 |

## 14. Other Assets

| | Note | 2014 | 2013 |
|---|---|---|---|
| Receivable from unit linked fund | | **P308,178** | P45,028 |
| Deposits | | **64,709** | 37,089 |
| Prepayments | | **63,469** | 24,953 |
| Advances to employees and agents | | **44,265** | 49,277 |
| Software development costs - net | 28 | **36,685** | 24,698 |
| Due from affiliates | 25 | **1,696** | 15,493 |
| Others | | **13,641** | 15,011 |
| | | **532,643** | 211,549 |
| Allowance for impairment losses | | **3,849** | - |
| | | **P528,794** | P211,549 |

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

Deposits consist of security lease deposits that are refundable at the end of the lease term.

Prepayments consist mainly of prepaid rents.

Advances to employees and agents are collected thru payroll deductions or thru expense liquidation.

The rollforward analyses for allowance for impairment losses on advances to employees and agents are as follows:

| | 2014 | 2013 |
|---|---|---|
| Balance at beginning of year | **P -** | P - |
| Allowance for impairment losses | **3,849** | - |
| Balance at end of year | **P3,849** | P - |

Software development costs consist of amounts capitalized for the development and launching of the software for the Company's two new products - the Unit-linked Regular Premium and the Unit-linked Single Premium. It also includes costs for the development of the agents' compensation system and major enhancements of policy administration system used by the Company. These assets are amortized on a straight-line basis over five (5) years.

The movements of software development costs in 2014 and 2013 are as follows:

| | *Note* | 2014 | 2013 |
|---|---|---|---|
| **Gross carrying amount** | | | |
| Beginning balance | | **P238,814** | P231,218 |
| Acquisitions | | **23,894** | 7,722 |
| Write-off | | **-** | (126) |
| **Ending balance** | | **262,708** | 238,814 |
| **Accumulated amortization** | | | |
| Beginning balance | | **214,116** | 193,116 |
| Amortization | *28* | **11,907** | 21,126 |
| Write-off | | **-** | (126) |
| **Ending balance** | | **226,023** | 214,116 |
| **Net carrying amount** | | | |
| Beginning balance | | **P24,698** | P38,102 |
| **Ending balance** | | **P36,685** | P24,698 |

## 15. Legal Policy Reserves

Reconciliations of the carrying amount of the liability at the beginning and end of the year are shown below:

| | 2014 | 2013 |
|---|---|---|
| Beginning balance | **P4,749,405** | P4,606,476 |
| Net premiums written | **208,084** | 323,899 |
| Liabilities released for payments on death, surrenders and other terminations | **(346,757)** | (352,372) |
| Accretion of interest | **262,310** | 264,065 |
| Other movements | **(43,392)** | (92,663) |
| Ending balance | **P4,829,650** | P4,749,405 |

On October 30, 2014, the Insurance Commission released Circular Letter No. 2014-42-A, *Valuation standards for life insurance policy reserves*, requiring all life insurance companies to calculate the reserves for traditional life insurance policies using the gross premium valuation.

The Company is assessing the potential impact on its financial statements resulting from the application of the new valuation standards for life insurance policy reserves.

## 16. Claims Payable

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

| | 2014 | 2013 |
|---|---|---|
| Beginning balance: | | |
| Notified payable | **P164,628** | P135,694 |
| Incurred but not reported | **43,107** | 21,915 |
| | **207,735** | 157,609 |
| Cash paid for claims settled in the year | **(418,757)** | (414,300) |
| Increase in liabilities | **465,826** | 464,426 |
| Ending balance | **P254,804** | P207,735 |
| Notified claims payable | **P206,679** | P164,628 |
| Incurred but not reported | **48,125** | 43,107 |
| | **P254,804** | P207,735 |

## 17. Reinsurance Payable

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

| | *Note* | 2014 | 2013 |
|---|---|---|---|
| Beginning balance | | **P81,319** | P80,712 |
| Premium ceded to reinsurers | *19* | **457,898** | 506,944 |
| Paid during the year | | **(464,657)** | (506,337) |
| Ending balance | | **P74,560** | P81,319 |

## 18. Accounts Payable, Accrued Expenses and Other Liabilities

The account consist of the following:

| | *Note* | 2014 | 2013 |
|---|---|---|---|
| Dividends payable to policyholders | | **P1,025,616** | P990,078 |
| Accrued expenses | | **491,499** | 389,082 |
| Agent's commission payable | | **238,715** | 162,199 |
| Due to unit-linked funds | | **214,918** | 226,532 |
| Provident fund payable | | **132,439** | 114,554 |
| Due to related parties | *25* | **109,415** | 64,205 |
| Premium suspense account | | **94,300** | 65,625 |
| Withholding tax payable | | **80,488** | 51,194 |
| Premium deposit fund | | **54,363** | 54,130 |
| Retirement liability | *23* | **31,741** | - |
| Premium tax payable | | **13,408** | 9,449 |
| Other liabilities | | **73,365** | 51,373 |
| | | **P2,560,267** | P2,178,421 |

Dividends payable to policyholders pertains to supplementary discretionary returns through participation in the surplus of the Company arising from participating business.

Accrued expenses primarily consist of performance and incentive bonuses payable.

Agent's commission payable pertains to unpaid commissions.

Due to unit-linked fund pertains to the investment portion of premiums received from the policyholders that are yet to be invested in the separately identifiable funds.

Provident fund payable represents to the retirement fund for agents.

"Due to related parties" account includes payable to Eastspring Investments (Singapore) Limited, Inc. (Eastspring), formerly Prudential Asset Management Singapore; Prudential Holdings Limited (PHL); Prudential Services Asia (PSA); and Prudential Assurance Malaysia Berhad (PAMB) (see Note 25).

## 19. Net Premiums

Gross premiums on insurance contracts:

| | *Note* | **2014** | 2013 |
|---|---|---|---|
| Unit-linked insurance | *10* | **P15,122,482** | P17,536,836 |
| Group life insurance | | **686,861** | 658,368 |
| Ordinary life insurance | | **260,723** | 292,304 |
| Accident and health | | **22,137** | 20,690 |
| | | **P16,092,203** | P18,508,198 |

Reinsurer's share of gross premiums on insurance contracts:

| | *Note* | **2014** | 2013 |
|---|---|---|---|
| Unit-linked insurance | | **P40,114** | P41,897 |
| Group life insurance | | **400,147** | 444,311 |
| Ordinary life insurance | | **16,919** | 20,104 |
| Accident and health | | **718** | 632 |
| | *17* | **P457,898** | P506,944 |

Net premiums on insurance contracts:

| | **2014** | 2013 |
|---|---|---|
| Unit-linked insurance | **P15,082,368** | P17,494,939 |
| Group life insurance | **286,714** | 214,057 |
| Ordinary life insurance | **243,804** | 272,200 |
| Accident and health | **21,419** | 20,058 |
| | **P15,634,305** | P18,001,254 |

## 20. Policy Administration Fees

Policy administration fees are charged against the daily net asset value of the investment account of the policyholders based on the following rates per annum as specified in the policy document:

| | 2014 | 2013 |
|---|---|---|
| Managed Fund | **1.79%** | 1.79% |
| Bond Fund (Peso) | **1.53%** | 1.53% |
| Bond Fund (Dollar) | **1.53%** | 1.53% |
| Growth Fund | **2.25%** | 2.25% |
| Equity Fund | **2.25%** | 2.25% |
| Secured Return Fund I* | **-** | 1.00% |
| Secured Return Fund II* | **-** | 1.00% |
| Proactive Fund | **2.25%** | 2.25% |
| Money Market Fund | **0.50%** | 1.28% |
| Asian Local Bond Fund | **1.80%** | 1.80% |
| Asia Pacific Equity Fund | **2.05%** | 2.05% |
| Global Emerging Fund** | **2.05%** | - |
| Cash Flow Fund*** | **1.95%** | - |

** The fund ceased its operation in February 2013.*
***The fund started its operation in April 2014.*
****The fund started its operation in November 2014.*

Policy administration fees amounted to P1.09 billion and P0.90 billion in 2014 and 2013, respectively.

## 21. Investment Income

| | *Note* | 2014 | 2013 |
|---|---|---|---|
| Interest income | | **P534,071** | P550,494 |
| Gain (loss) on disposal of investments | *8* | **158,064** | (11,105) |
| Unrealized gain on valuation of financial assets at FVPL | *8* | **10,500** | 37,854 |
| Final withholding tax | | **(134,171)** | (106,929) |
| Investment management expense | *25* | **(185,274)** | (155,571) |
| | | **P383,190** | P314,743 |

## 22. Benefits and Claims

Gross benefits and claims on insurance contracts:

**2014**

| | Gross Benefits and Claims | Reinsurers' Share of Gross Benefits and Claims | Net |
|---|---|---|---|
| Unit-linked insurance | **P3,786,310** | **P16,638** | **P3,769,672** |
| Ordinary life insurance | **235,779** | **172** | **235,607** |
| Group life insurance | **64,319** | **11,889** | **52,430** |
| Accident and health | **30,987** | **-** | **30,987** |
| | **P4,117,395** | **P28,699** | **P4,088,696** |

2013

| | Gross Benefits and Claims | Reinsurers' Share of Gross Benefits and Claims | Net |
|---|---|---|---|
| Unit-linked insurance | P3,192,059 | P10,364 | P3,181,695 |
| Ordinary life insurance | 353,213 | 494 | 352,719 |
| Group life insurance | 24,923 | 1,235 | 23,688 |
| Accident and health | 14,248 | - | 14,248 |
| | P3,584,443 | P12,093 | P3,572,350 |

Gross change on increase in legal policy reserves:

| | **2014** | 2013 |
|---|---|---|
| Unit-linked insurance | **P22,915** | P48,103 |
| Ordinary life insurance | **54,982** | 92,046 |
| Group life insurance | **3,756** | 6,097 |
| Accident and health | **(1,408)** | (3,317) |
| | **P80,245** | P142,929 |

## 23. Retirement Plan

As discussed in Note 3, the Company maintains a DC plan with minimum DB guarantee and is accounted for as a DB plan. As at December 31, 2014, the DB liability is greater than the DC liability.

The following table shows reconciliation from the opening balances to the closing balances for net defined benefit liability (asset) and its components.

| | Defined Benefit Obligation | Fair Value of Plan Assets | Net Defined Benefit Liability (Asset) |
|---|---|---|---|
| Balance at January 1, 2014 | P - | P - | P - |
| **Included in profit or loss** | | | |
| Current service cost | 279,527 | - | 279,527 |
| Past service credit | - | - | - |
| Interest cost (income) | - | - | - |
| | 279,527 | - | 279,527 |
| **Included in OCI** | | | |
| Remeasurements loss (gain): | | | |
| Actuarial loss (gain) arising from: | | | |
| Demographic assumptions | - | - | - |
| Financial assumptions | - | - | - |
| Experience adjustment | - | - | - |
| Return on plan assets excluding interest income | - | - | - |
| Change in the effect of asset ceiling (Movement in asset ceiling - interest expense on effect of asset ceiling) | - | - | - |
| Effect of movements in exchange rates | - | - | - |
| | - | - | - |
| **Others** | | | |
| Contributions paid by the employer | - | 247,785 | (247,785) |
| Benefits paid | - | - | - |
| | - | 247,785 | (247,785) |
| **Balance at December 31, 2014** | P279,527 | P247,785 | P31,742 |

The retirement expense under "Salaries, allowances and employees' benefits" account in profit or loss amounted to P69.72 million and P37.27 million in 2014 and 2013, respectively.

The Company's plan assets consist of the following:

| | **2014** | 2013 |
|---|---|---|
| Cash and cash equivalents | **P23,197** | P23,200 |
| Government securities | **91,254** | 94,351 |
| Deposit instruments | **33,625** | 35,009 |
| Unit investments trust funds | **25,710** | 20,964 |
| Investment in mutual funds | **37,629** | 14,897 |
| Corporate bonds | **48,435** | 13,114 |
| Trust fee payable | **(305)** | (242) |
| Other payables | **(11,760)** | (10,657) |
| | **P247,785** | P190,636 |

The expected contribution to the defined benefit retirement plan in 2015 is P43.93 million.

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

| | **2014** | 2013 |
|---|---|---|
| Discount rate | **4.50%** | 5.00% |
| Future salary growth | **7.00%** | 7.00% |

The weighted-average duration of the defined benefit obligation is 23 years and 14 years as at December 31, 2014 and 2013, respectively.

Maturity analysis of the benefit payments:

| | **2014** | | | | |
|---|---|---|---|---|---|
| | **Carrying Amount** | **Contractual Cash Flows** | **Within 1 Year** | **Within 1-5 Years** | **More than 5 Years** |
| Retirement liability | **P279,527** | **P218,786** | **P25,209** | **P60,487** | **P133,090** |
| | **P279,527** | **P218,786** | **P25,209** | **P60,487** | **P133,090** |

<u>Sensitivity Analysis</u>

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

| | Defined Benefit Obligation | |
|---|---|---|
| | Increase | Decrease |
| Discount rate (1% movement) | (P18,251) | P34,550 |
| Future salary growth (1% movement) | 33,255 | (18,080) |

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

These defined benefit plans expose the Company to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk.

The asset allocation of the plan is set and reviewed from time to time by the Plan Trustees taking into account the membership profile, the liquidity requirements of the plan and risk appetite of the Plan sponsor. This also considers the expected benefit cashflows to be matched with asset durations.

## 24. Income Taxes

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

| | 2014 | 2013 |
|---|---|---|
| Current tax expense | **P4,966** | P5,655 |
| Deferred tax expense (benefit) | **49,308** | (2,823) |
| | **P54,274** | P2,832 |

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

| | 2014 | 2013 |
|---|---|---|
| Income before income tax | **P1,777,230** | P1,201,743 |
| Income tax using the domestic corporation tax rate | **P533,169** | P360,523 |
| Additions to (reduction in) income tax resulting from: | | |
| Non-deductible expenses | **13,729** | 14,284 |
| Other income subjected to final tax | **(126,278)** | (97,460) |
| Non-taxable loss from sale of investments | **(81,560)** | (38,943) |
| Interest income subjected to final tax | **(395,140)** | (372,068) |
| Non taxable gain on valuation of investments | **(3,764)** | (14,219) |
| Effect of unrecognized deferred tax assets | **109,152** | 145,060 |
| Expired MCIT | **4,966** | 5,655 |
| | **P54,274** | P2,832 |

Deferred tax assets with respect to the Company's NOLCO has not been fully recognized because it is not probable that future taxable profit will be available against which the Company can utilize the benefits from. Unrecognized NOLCO amounted to P861.64 million and P497.80 million as at December 31, 2014 and 2013, respectively.

Below is the movement of the deferred tax assets and deferred tax liabilities recognized as at December 31, 2014 and 2013.

| | **2014** | | |
|---|---|---|---|
| | **Beginning Balance** | **Amount (Charged) Credited to Profit or Loss** | **Ending Balance** |
| NOLCO | **P364,222** | **P61,756** | **P425,978** |
| Accrued expenses | **116,287** | **40,373** | **156,660** |
| Commission | **48,659** | **22,955** | **71,614** |
| Provident fund | **33,053** | **5,207** | **38,260** |
| IBNR | **12,932** | **1,505** | **14,437** |
| Deferred acquisition cost | **(1,086,257)** | **(181,104)** | **(1,267,361)** |
| **Deferred tax liabilities - net (excluding MCIT)** | **(P511,104)** | **(P49,308)** | **(P560,412)** |

| | 2013 | | |
|---|---|---|---|
| | Beginning Balance | Amount (Charged) Credited to Profit or Loss | Ending Balance |
| NOLCO | P204,885 | P159,337 | P364,222 |
| Accrued expenses | 93,282 | 23,005 | 116,287 |
| Commission | 44,128 | 4,531 | 48,659 |
| Provident fund | 26,357 | 6,696 | 33,053 |
| IBNR | 6,574 | 6,358 | 12,932 |
| Deferred acquisition cost | (889,153) | (197,104) | (1,086,257) |
| Deferred tax liabilities - net (excluding MCIT) | (P513,927) | P2,823 | (P511,104) |

Deferred tax assets recognized with respect of the items above because it is probable that future taxable profit will be available against which the Company can utilize the benefits from.

Deferred tax liabilities with respect to the Company's deferred acquisition cost amounted to P1.27 billion and P1.09 billion as at December 31, 2014 and 2013, respectively.

The Company recognized deferred tax assets pertaining to MCIT amounting to P26.31 million and P470.38 million in 2014 and 2013, respectively.

The details of the Company's MCIT available for offsetting against future current tax liabilities are as follows:

| Year Incurred | Amount | Write-off/ Application | Remaining Balance | Date of Expiration |
|---|---|---|---|---|
| 2011 | P4,966 | P4,966 | P - | December 31, 2014 |
| 2012 | 4,280 | - | 4,280 | December 31, 2015 |
| 2013 | 3,945 | - | 3,945 | December 31, 2016 |
| 2014 | 18,282 | - | 18,282 | December 31, 2017 |
| | P31,473 | P4,966 | P26,507 | |

The carry-forward benefits of NOLCO which are available for offsetting against future taxable income are as follows:

| Year Incurred | Amount | Write-off/ Application | Remaining Balance | Date of Expiration |
|---|---|---|---|---|
| 2011 | P488,754 | P488,754 | P - | December 31, 2014 |
| 2012 | 697,215 | - | 697,215 | December 31, 2015 |
| 2013 | 1,014,655 | - | 1,014,655 | December 31, 2016 |
| 2014 | 569,695 | - | 569,695 | December 31, 2017 |
| | P2,770,319 | P488,754 | P2,281,565 | |

## 25. Related Party Transactions

Parties are considered related if one party has control, joint control, or significant influence over the other party in making financial and operating decisions. The key management personnel of the Company are also considered to be related parties.

The Company's key management personnel are composed of the senior management and directors.

| Category/Transaction | Year | Note | Amount of the Transaction | Due to Related Parties | Due from Affiliates | Terms | Conditions |
|---|---|---|---|---|---|---|---|
| **Eastspring (under common control)** | | | | | | | |
| ▪ Investment management | **2014** | *a* | **P185,274** | **P48,231** | **P -** | **30 days; non-interest bearing** | **Unsecured; no impairment** |
| | 2013 | | 155,571 | 38,861 | - | 30 days; non-interest bearing | Unsecured; no impairment |
| **PSA (under common control)** | | | | | | | |
| ▪ IT service costs | **2014** | *b* | **59,117** | **13,418** | **-** | **30 days; non-interest bearing** | **Unsecured; no impairment** |
| | 2013 | | 35,382 | 12,330 | - | 30 days; non-interest bearing | Unsecured; no impairment |
| **PHL (under common control)** | | | | | | | |
| ▪ Allocation of expenses | **2014** | *c* | **157,184** | **47,752** | **-** | **30 days; non-interest bearing** | **Unsecured; no impairment** |
| | 2013 | | 47,710 | 13,014 | - | 30 days; non-interest bearing | Unsecured; no impairment |
| **PAMB (under common control)** | | | | | | | |
| ▪ Allocation of expenses | **2014** | *d* | **15** | **14** | **-** | **30 days; non-interest bearing** | **Unsecured; no impairment** |
| | 2013 | | - | - | - | 30 days; non-interest bearing | Unsecured; no impairment |
| **Prudential Vietnam Assurance - Private Limited (under common control)** | | | | | | | |
| ▪ Allocation of expenses | **2014** | *e* | **46** | **-** | **46** | | |
| | 2013 | | - | - | - | | |
| **Prudence Foundation Limited (under common control)** | | | | | | | |
| ▪ Allocation of expenses | **2014** | *f* | **36,504** | **-** | **1,650** | | |
| | 2013 | | 16,172 | - | 15,493 | | |
| TOTAL | 2014 | | **P438,140** | **P109,415** | **P1,696** | | |
| TOTAL | 2013 | | P254,835 | P64,205 | P15,493 | | |

Outstanding receivables from and payables to related parties are included under "Other assets" and "Accounts payable, accrued expenses and other liabilities" accounts, respectively.

*a.* In the normal course of business, the Company has an investment management services agreement with Eastspring, whereby the latter shall act as investment advisor to the Company on the management of both the Company's investments and the investment funds (see Note 10) in consideration for a quarterly service fee as may be mutually agreed upon on an annual basis.

*b.* In 2010, the Company entered into a Service Level Agreement with PSA to provide infrastructure services aligned to agreed service hours and delivery performance targets. The services involve system availability and operation, service desk, network availability, back up and recovery, change management, disaster recovery plans and system capacity and resource monitoring.

*c.* These pertain to advances made by PHL on behalf of the Company for the expenses covering software maintenance, training for regional agency leaders and agents conference. These are netted against the advances made by the Company on behalf of PHL for the settlement of certain administration costs.

*d.* These pertain to advances made by PAMB for the travel expenses incurred by the Company.

*e.* Transactions with Private Limited (PVA) pertain to the advances made by the Company for the settlement of travel expenses incurred by PVA.

*f.* Transactions with Prudence Foundation Limited (PFL) pertain to various advances made by the Company on behalf of PFL for activities related to corporate social responsibilities in the Philippines.

The entities mentioned above are wholly-owned subsidiaries and under common control of Prudential.

Compensation of Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including director, whether executive or otherwise, of that entity.

The key management personnel compensation is as follows:

| | **2014** | 2013 |
|---|---|---|
| Short-term employee benefits | **P174,721** | P120,793 |
| Post employment benefits | **7,921** | 6,740 |
| | **P182,642** | P127,533 |

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

## 26. Leases

The Company leases its head office and branches. On July 22, 2010, the Company entered into a lease contract with Mar-Nol Realty Corporation for office space at The Marajo Tower for a period of five years commencing on October 15, 2010 subject to a 5% annual escalation clause.

Leases for branches are for a period of three to five years. None of the leases includes contingent rentals and restrictions.

Lease related transactions are as follow:

| | 2014 | 2013 |
|---|---|---|
| Rent expense | **P119,259** | P94,708 |
| Security deposit | **58,151** | 26,997 |
| Prepaid rent | **48,938** | 14,529 |

Future minimum lease payments are payable as follow:

| | 2014 | 2013 |
|---|---|---|
| Less than one year | **P195,507** | P92,786 |
| Between one and five years | **574,447** | 233,760 |
| | **P769,954** | P326,546 |

The Company has entered into a new lease agreement on November 6, 2014 that will commence on September 15, 2015.

## 27. Equity

The details of this account are as follow:

| | 2014 | 2013 |
|---|---|---|
| **Authorized** | | |
| Par value per share | **P100** | P100 |
| Number of shares | **5,000,000** | 5,000,000 |
| **Issued and Outstanding** | | |
| Number of shares | **5,000,000** | 5,000,000 |
| Capital stock | **500,000** | 500,000 |
| Additional paid-in capital | **462,000** | 462,000 |
| Total paid-up capital | **P962,000** | P962,000 |

On August 28, 2014, the Board of Directors of the Company declared cash dividends amounting to P294.12 million on P58.82 per share. This was approved by the IC on September 10, 2014.

On October 10, 2013, the Board of Directors of the Company approved the return of "Contributed Surplus" to its Stockholders in the amount of P87.00 million and declared cash dividends amounting to P133.00 million at P26.60 cash dividends per share. On November 26, 2013, the IC approved the remittance and return of "Contributed Surplus" and declaration of cash dividend.

As at December 31, 2014, the Company's retained earnings of P7.83 billion is in excess of its paid-up capital of P962.00 million. The Company's plan to use the excess retained earnings is dependent on the impact of the following to the Company:

a. IC's directive to calculate the reserves for traditional life insurance policies using the gross premium valuation (see Note 15); and

b. Amendments currently being implemented by IC with respect to the risk based capital requirement.

## 28. Contingent Liabilities

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

## 29. Change in Accounting Policy and Reclassification of Accounts

Change in Accounting Policy

In the prior financial year, the Company charged acquisition costs incurred to sell, underwrite and initiate new insurance contracts for its limited and regular pay insurance products as expense when incurred. As a result, the Company recognized negative profit margins on the initial year of these insurance contracts.

On January 1, 2014, the Company changed its accounting policy in recognizing acquisition costs to properly match the expenses incurred against the revenue recognized from the contracts. As a result of the change, acquisition costs incurred to sell, underwrite and initiate new insurance contracts are deferred to the extent that these costs are recoverable out of profit margins of future premiums from these insurance contracts.

This change in accounting policy was applied retrospectively. The following table summarizes the adjustments made to the statements of financial position and statements of comprehensive income on the implementation of the new accounting policy.

Reclassification of Accounts

In 2014, the Company reclassified some accounts in the statements of financial position and statements of comprehensive income in order to better reflect the nature of the accounts. Accordingly, the Company also reclassified the comparative figures in 2013.

A summary of the impact of the change in accounting policy and reclassifications to the statements of financial position as at January 1, 2013 are as follow:

| | As Previously Reported | Change in Accounting Policy | Reclassifications | As Restated |
|---|---|---|---|---|
| **Statements of Financial Position** | | | | |
| Property and equipment - net | P185,277 | P - | (P15,124) | P170,153 |
| Deferred acquisition costs | 1,274,361 | 1,689,483 | - | 2,963,844 |
| Other assets - net | 146,634 | - | 597 | 147,231 |
| Deferred tax liabilities | - | (513,927) | 14,527 | (499,400) |
| Retained earnings | (4,158,936) | (1,175,556) | - | (5,334,492) |

The impact of the change in accounting policy and reclassifications as at and for the year ended December 31, 2013 is as follows:

| | As Previously Reported | Change in Accounting Policy | Reclassifications | As Restated |
|---|---|---|---|---|
| **Statements of Financial Position** | | | | |
| Property and equipment - net | P209,176 | P - | (P11,146) | P198,030 |
| Deferred acquisition costs | 1,767,157 | 1,853,700 | - | 3,620,857 |
| Other assets - net | 213,594 | - | (2,045) | 211,549 |
| Deferred tax liabilities | - | (511,104) | 13,191 | (497,913) |
| Retained earnings | (5,057,807) | (1,342,596) | - | (6,400,403) |
| **Statements of Comprehensive Income** | | | | |
| Depreciation and amortization | 67,105 | - | (5,346) | 61,759 |
| Amortization of software development costs | 15,780 | - | 5,346 | 21,126 |
| Deferred expenses - net | (492,796) | (164,217) | - | (657,013) |
| Income tax expense | 5,655 | (2,823) | - | 2,832 |
| **Overall Impact On Total Comprehensive Income** | (P404,256) | (P167,040) | P - | (P571,296) |

The impact of the change in accounting policy as at and for the year ended December 31, 2014 is as follows:

| | |
|---|---|
| **Statements of Financial Position** | |
| Deferred acquisition costs | P419,298 |
| Deferred tax liabilities | (31,027) |
| **Statements of Comprehensive Income** | |
| Deferred expenses - net | (419,298) |
| Income tax expense | (31,027) |
| **Overall impact on total comprehensive income** | P450,325 |

a. Computer equipment net of accumulated depreciation amounting to P11.15 million and P15.12 million in 2013 and 2012, respectively, that were previously taken up under "Property and equipment" have been reclassified to software development costs - net under "Other assets".

b. Deferred tax assets amounting to P13.19 million and P14.53 million in 2013 and 2012, respectively, which was originally taken up under "Other assets" have been offset against "Deferred tax liabilities".

c. Amortization of computer software amounting to P5.35 million which was originally taken up under "Depreciation and amortization" has been reclassified to "Amortization of software development costs" in 2013.

## 30. Supplementary Information Required by the Bureau of Internal Revenue (BIR)

In addition to the disclosures mandated under PFRSs, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRSs.

The following is the tax information required for the taxable year ended December 31, 2014:

**Based on RR No. 15-2010**

**A. Documentary Stamp Tax**

| | |
|---|---|
| On others | **P374,995** |

**B. Withholding Taxes**

| | |
|---|---|
| Tax on compensation and benefits | **P159,113,952** |
| Creditable withholding taxes | **301,754,844** |
| Final withholding taxes | **181,726,055** |
| | **P642,594,851** |

**C. All Other Taxes (Local and National)**

| | |
|---|---|
| Real estate taxes | **P109,954** |
| License and permit fees | **17,001,740** |
| Fringe benefits tax | **5,047,547** |
| Premiums tax | **51,431,718** |
| | **P73,590,959** |

KPMG

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## REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders
Pru Life Insurance Corporation of U.K.
22nd Floor, The Marajo Tower
312 26th Street corner Fourth Avenue
Fort Bonifacio Global City
Taguig City 1634

We have audited the accompanying financial statements of Pru Life Insurance Corporation of U.K. (a wholly-owned subsidiary of Prudential Corporation Holdings Limited) as at and for the year ended December 31, 2014, on which we have rendered our report dated March 24, 2015.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Company taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the management.

- Reconciliation of Retained Earnings Available for Dividend Declaration
- Schedule of Philippine Financial Reporting Standards

These supplementary information are presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and are not a required part of the basic financial statements. Such information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

Dennis I. Ilan

DENNIS I. ILAN
Partner
CPA License No. 089564
IC Accreditation No. SP-2014/023-R, Group A, valid until August 26, 2017
SEC Accreditation No. 1182-A, Group A, valid until April 30, 2015
Tax Identification No. 161-313-405
BIR Accreditation No. 08-001987-28-2014
Issued September 26, 2014; valid until September 25, 2017
PTR No. 4748109MC
Issued January 5, 2015 at Makati City

March 24, 2015
Makati City, Metro Manila



PRC-BOA Registration No. 0003, valid until December 31, 2016
SEC Accreditation No. 0004-FR-4, Group A, valid until November 10, 2017
IC Accreditation No. F-2014/014-R, valid until August 26, 2017
BSP Accredited, Category A, valid until December 17, 2017

ANNEX 68-C

# RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

As of December 31, 2014

PRU LIFE INSURANCE CORPORATION OF U.K.

22/F Marajo Tower, 312 26th Street West corner Fourth Avenue, Bonifacio Global City, Taguig City

| | | |
|---|---|---|
| Unappropriated Retained Earnings, Beginning (2013) | | 6,400,403,000 |
| Adjustments (2013) | | |
| Unrealized foreign exchange gain -2013 | (25,990,116) | |
| Fair value adjustment ( M2M gains ) -2013 | (10,664,798) | |
| Dividend declarations during the period | (133,000,000) | (169,654,915) |
| Unappropriated Retained Earnings, as adjusted to available for dividend distribution beginning | | 6,230,748,085 |
| **Add: Net income actually earned/realized during the period** | | 1,722,956,106 |
| Net income during the period closed to Retained Earnings | | 7,953,704,191 |
| Less: Non-actual/unrealized income net of tax | | |
| Equity in net income if associate/joint venture | | |
| Unrealized foreign exchange gain - net ( except those attributable to Cash and Cash Equivalents ) Unrealized actual gain | | 291,697 |
| Fair value adjustment ( M2M gains ) | | (10,793,632) |
| Fair value adjustment of Investment Property Resulting to gain | | |
| Adjustment due to deviation from PFRS /GAAP-gain | | |
| Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS | | - |
| Sub-total | | (10,501,935) |
| Add: Non Actual losses | | |
| Depreciation on revaluation increment ( after tax ) | | |
| Adjustment due to deviation from PFRS/GAAP - loss | | - |
| Loss on fair value adjustment of investment property ( after tax ) | | |
| Sub-total | | - |
| **Net income actually earned during the period** | | 7,943,202,256 |
| Add ( Less ) : | | |
| Dividend declartions during the period | | (294,117,647) |
| Appropriations of Retained Earnings during the period | | |
| Reversals of appropriations | | |
| Effects of prior period adjusments | | |
| Treasury shares | | |
| Loss on fair value adjustment of investment property ( after tax ) | | |
| TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND | | **7,649,084,609** |

Notes:

**(1) Figures shall be based on functional currency financial statements of the parent company;**

**(2) If there are material adjustments in prior years to retained earnings, the said adjustments should be reflected in the sheet**

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
**SECURITIES AND EXCHANGE COMMISSION**
SEC Building, EDSA, Greenhills, Mandaluyong City

# FINANCIAL REPORTING BULLETINS

The Commission adopts in its rules financial reporting and auditing standards that are based on international standards and best practices. To ensure consistency in the implementation of the rules and to attain fair presentation and transparency of financial statements, corporations and their accountants/auditors are mandated to faithfully observe the requirements as provided in the SRC Rule 68, as amended, related Circulars and other pronouncements of the Commission.

The bulletins are issued by the Office of the General Accountant to assist corporations and their accountants/auditors in complying with their financial reporting obligations, and to ensure consistency of implementation. These bulletins may include (i) clarifications on issues pertaining to the implementation of SRC Rule 68, as revised; (ii) responses to frequently-asked questions during the submission of financial statements; (iii) views regarding accounting-related disclosure practices; and (iv) such other information that is useful to attain consistency in the implementation of the financial reporting rules and regulations of the Commission. Excluded from coverage are matters not of general application or those issues specific to a particular company.

| Bulletin No. | Date | Subject Matter | Clarification/Details |
|---|---|---|---|
| 16 | 24 January 2013 | **List of Effective Standards and Interpretations (as of December 31, 2012)** | Under paragraph 4(J) of SRC Rule 68, as amended, large and/or publicly-accountable entities are required to submit with their audited financial statements a schedule, in table format, showing in the first column a list of all the effective standards and interpretations under the PFRS as of year-end, and an indication opposite each in the second column on whether it is "Adopted", "Not adopted" or "Not applicable".<br><br>To comply with the said requirement, the following list must be accomplished, audited by the company's external auditor and submitted with annual financial statements: |

PRU LIFE U.K.

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Pru Life Insurance Corporation of U.K. (the Company), is responsible for the preparation and fair presentation of the financial statements as at and for the years ended December 31, 2014 and 2013, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

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

**HENRY JOSEPH M. HERRERA**
Chairman of the Board

**ANTONIO G. DE ROSAS**
President & CEO

**LEE C. LONGA**
EVP & CFO

Signed this 8 th day of APRIL 2015

*Note: The SMR of companies covered under Part II of the SRC Rule 68, As Amended should be SIGNED UNDER OATH.*