FWD Life Insurance Corporation

(A Wholly Owned Subsidiary of FWD Group Financial Services Pte. Ltd)

Financial Statements
December 31, 2014 and 2013

and

Independent Auditors' Report

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SEC Registration Number

Company Name

FWD LIFE INSURANCE CORPORATION

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

19/F W FIFTH AVENUE BLDG., 5TH AVENUE, CORNER 32ND STREET, BONIFACIO GLOBAL CITY, TAGUIG CITY

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
FWD.COM.PH	888-8393	

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
6		12/31

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
Lucia Chona S. Ventura	chona-sevilla.ventura.fwd.com	888-8393	

Contact Person's Address

19F W Fifth Ave. Bldg. 5th Ave. cor. 32nd Street, Bonifacio Global City, 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.

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Building a better working world

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
FWD Life Insurance Corporation

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

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

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Notes 28 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of FWD Life Insurance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Bernalette L. Ramos

Bernalette L. Ramos
Partner
CPA Certificate No. 0091096
SEC Accreditation No. 0926-AR-1 (Group A),
April 15, 2013, valid until February 14, 2016
Tax Identification No. 178-486-666
BIR Accreditation No. 08-001998-81-2012,
June 19, 2012, valid until June 18, 2015
PTR No. 4751347 January 6, 2014, Makati City

March 20, 2015

Date 16 APR 2015 SDS
RECEIVED

FWD LIFE INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	Notes	December 31 2014	2013
ASSETS			
Cash and cash equivalents	4	₱475,987,724	₱65,288,089
Short-term investments	5	449,227,626	–
Financial assets:			
Available -for-sale (AFS) financial assets	6,24	253,926,176	–
Financial assets at fair value through profit and loss (FVPL)	6,7,24	224,392,196	–
Loans and receivables	6	4,007,005	
Accrued income	8	4,543,608	–
Property and equipment - net	9	123,297,914	–
Prepaid developmental fees	10,25	17,279,456	–
Assets held to cover unit-linked liabilities	6,7	1,375,099	–
Other assets	11	17,205,170	322,734
TOTAL ASSETS		₱1,571,241,974	₱65,610,823
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities	12	₱42,061	₱–
Insurance payables	13	537,071	–
Accounts payable and accrued expenses	14,24	75,216,746	8,149,196
Taxes payable	15	13,643,633	532,714
Due to related parties	21,24	64,193,440	3,678,819
Unit-linked liabilities	6,7	1,375,099	–
		155,008,050	12,360,729
Equity			
Capital stock	16	1,000,000,000	62,500,000
Additional paid-in capital	16	327,599,568	2,299,568
Contributed surplus	16	475,000,000	–
Deficit		(386,324,193)	(11,549,474)
Unrealized fair value loss on AFS financial assets	6	(41,451)	–
		1,416,233,924	53,250,094
TOTAL LIABILITIES AND EQUITY		₱1,571,241,974	₱65,610,823

See accompanying Notes to Financial Statements.

FWD LIFE INSURANCE CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014 AND FOR THE PERIOD NOVEMBER 19 TO DECEMBER 31, 2013

	Notes	Years Ended December 31 2014	2013*
REVENUE			
Insurance premiums	17	**₱3,457,331**	₱–
Investment income	18	**9,934,296**	–
Fair value gains on financial assets at FVPL	7	**4,388,605**	–
Management fee income	28	**6,324**	–
Foreign currency exchange gains		–	1,782,738
Other revenues		**14,329,225**	1,782,738
Total revenue		**17,786,556**	1,782,738
EXPENSES			
Increase in insurance contract liabilities	12	**42,061**	–
Increase in unit-linked liabilities	6,7	**1,375,099**	–
		1,417,160	–
General and administrative expenses	19	**353,908,687**	13,332,212
Commission expense and agency related expenses		**745,361**	
Foreign currency exchange losses	20	**34,934,495**	–
Total operating expenses		**389,588,543**	13,332,212
LOSS BEFORE INCOME TAX		**373,219,147**	11,549,474
Provision for income tax	22	**1,555,572**	–
NET LOSS		**374,774,719**	11,549,474
OTHER COMPREHENSIVE LOSS			
Item that will be reclassified to profit or loss in subsequent periods:			
Unrealized fair value loss on available-for-sale financial assets	6	**(41,451)**	–
TOTAL COMPREHENSIVE LOSS		**₱374,816,170**	₱11,549,474

**The Company was registered with the Philippine Securities and Exchange Commission on November 19, 2013 and has not yet started commercial operations as of December 31, 2013. See accompanying Notes to Financial Statements.*

FWD LIFE INSURANCE CORPORATION

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014 AND THE PERIOD NOVEMBER 19 TO DECEMBER 31, 2013

	Capital Stock (Note 16)	Additional Paid in Capital (Note 16)	Contributed Surplus (Note 16)	Deficit	Unrealized Fair Value Loss on AFS Financial Assets (Note 6)	Total Equity
At January 1, 2014	**₱62,500,000**	**₱2,299,568**	**₱–**	**(₱11,549,474)**	**₱–**	**₱53,250,094**
Unrealized fair value loss on available-for-sale financial assets	–	–	–	–	**(41,451)**	**(41,451)**
Net loss for the period	–	–	–	**(374,774,719)**	–	**(374,774,719)**
Total comprehensive loss	–	–	–	**(374,774,719)**	**(41,451)**	**(374,816,170)**
Additional contributed surplus during the period	–	–	**475,000,000**	–	–	**475,000,000**
Additional capital subscription for the period	**937,500,000**	**325,300,000**	–	–	–	**1,262,800,000**
At December 31, 2014	**₱1,000,000,000**	**₱327,599,568**	**₱475,000,000**	**(₱386,324,193)**	**(₱41,451)**	**₱1,416,233,924**
At November 19, 2013* - stock subscription	₱–	₱–	₱–	₱–	₱–	₱-
Initial payment of subscribed capital stock	62,500,000	2,299,568	–	–	–	64,799,568
Net loss for the period*	–	–	–	(11,549,474)	–	(11,549,474)
Total comprehensive loss	–	–	–	(11,549,474)	–	(11,549,474)
At December 31, 2013	₱62,500,000	₱2,299,568	₱-	(₱11,549,474)	₱–	₱53,250,094

**The Company was registered with the Philippine Securities and Exchange Commission on November 19, 2013 and has not yet started commercial operations as of December 31, 2013. See accompanying Notes to Financial Statements.*

FWD LIFE INSURANCE CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014 AND
FOR THE PERIOD NOVEMBER 19 TO DECEMBER 31, 2013

		Years Ended December 31	
	Notes	2014	2013*
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		(₱373,219,147)	(₱11,549,474)
Adjustments for:			
Gross change in insurance contract liabilities	12	42,061	–
Unit-linked liabilities	7	1,375,099	–
Depreciation and amortization	9	13,454,775	–
Fair value gains on financial assets at FVPL	7	(4,388,605)	–
Interest income	18	(8,100,605)	–
Operating loss before working capital changes		(370,836,422)	(11,549,474)
Increase in:			
Receivables	6	(4,007,005)	–
Financial assets at FVPL	6,7,24	(221,378,690)	–
Prepaid developmental fees	10	(17,279,456)	–
Other assets	11	(16,882,436)	(322,734)
Accounts payable and accrued expenses	14	67,067,550	8,149,196
Insurance payables	13	537,071	–
Due to related party	21	60,514,621	3,678,819
Taxes payable	15	13,110,919	532,714
Cash provided by (used in) operations		(489,153,848)	488,519
Income taxes paid		(1,555,572)	–
Net cash provided by (used in) operating activities		(490,709,420)	488,519
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Short - term investments	5	(449,227,626)	–
Available-for-sale financial assets	6,24	(254,747,644)	–
Property and equipment	9	(136,752,689)	–
Interest received		4,337,014	–
Net cash used in investing activities		(836,390,945)	–
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Additional stock subscriptions by shareholders	16	937,500,000	64,799,568
Contributed surplus	16	475,000,000	–
Additional paid-in capital	16	325,300,000	–
Net cash generated from financing activities		1,737,800,000	64,799,568
NET INCREASE IN CASH AND CASH EQUIVALENTS		410,699,635	65,288,089
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		65,288,089	–
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	₱475,987,724	₱65,288,089

**The Company was registered with the Philippine Securities and Exchange Commission on November 19, 2013 and has not yet started commercial operations as of December 31, 2013. See accompanying Notes to Financial Statements.*

1. Corporate Information

FWD Life Insurance Corporation (the "Company") was registered with the Securities and Exchange Commission (SEC) on November 19, 2013. The Company is a wholly-owned subsidiary of FWD Group Financial Services Pte. Ltd (the Parent Company) which is a Singapore company in a private investment group.

The Company was organized to primarily engage in and carry on the business of life insurance and to undertake and write insurance upon lives of individuals and every insurance appertaining thereto or connected therewith, including reinsurance; to make contracts for insurance and re-insurance for all risks, hazards, guarantees and contingencies to which life, accident or health insurance is applicable, to indemnify against legal liability, to compute endowments and grant, purchase or dispose annuities; to procure or acquire re-insurance of its risks; to issue policies stipulated to be with or without participation in profits and to purchase for its own benefit or for its obligations any policy of insurance, and perform such other powers related to or incidental to the business of life insurance.

On April 2, 2014, the Company was granted a Certificate of Authority by the Insurance Commission (IC) to operate as a life insurance company. On July 17, 2014, the IC approved the Company's license to sell variable insurance or investment-linked insurance, a life insurance product that is linked to investment funds. The Company started its commercial operations on September 15, 2014.

On September 15, 2014, the Company and Security Bank Corporation (SBC) signed an agreement which appoints SBC to sell exclusively the life insurance products of the Company. The agreement was filed on November 11, 2014 with the Bangko Sentral ng Pilipinas (BSP) and the IC for their respective approvals. On December 22, 2014, SBC received the approval of BSP through its Resolution No. 2073 (see Note 27).

On July 25, 2014, the Board of Directors (BOD) approved the principal office of the Company at 19/F W Fifth Avenue Bldg., 5th Avenue, Corner 32nd Street, Bonifacio Global City, Taguig City. Prior to such date, the temporary office address of the Company is Level 17, 6750 Ayala Avenue, Makati City.

The financial statements of the Company were approved and authorized for issuance by the Board of Directors (BOD) on March 20, 2015.

2. Significant Accounting Policies

<u>Basis of Preparation and Presentation</u>
The financial statements of the Company have been prepared on the historical cost basis, except for available-for-sale (AFS) financial assets and financial assets at fair value through profit or loss (FVPL), which have been measured at fair value. The financial statements are presented in Philippine Peso (₱), which is the Company's presentation and functional currency. All amounts are rounded to the nearest peso unless otherwise indicated.

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with the previous financial year except for adoption of the following amended PFRS and Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) interpretations which became effective on January 1, 2014.

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment did not have an impact to the Company's financial statements since the Company has no investment in subsidiaries.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. The amendments did not have any impact on the Company's financial position or performance since it does not offset its financial instruments.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014. Earlier application is permitted provided PFRS 13 is also applied. The amendments will not have an impact on the Company's financial statements since it has no impaired non-financial assets.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. The amendments did not have an impact on the Company's financial position or performance since it has no derivatives or hedging instruments during the current and prior period.

- Philippine Interpretation IFRIC 21, *Levies*
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. The interpretation will not have an impact on the Company's financial statements as it has applied the recognition principles under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* consistent with the requirements of IFRIC 21 in prior years.

Annual improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standard:

- Amendment to PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*
The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment has no impact on the Company's financial position or performance since the Company's policy is already consistent with the amendment.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standard:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*
The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Company as it is not a first-time adopter of PFRS.

Future Changes in Accounting Policies
The Company will adopt the following new and amended standards and interpretations enumerated below when these become effective.

Effective in 2015

- PAS 19, *Employee Benefits- Defined Benefit Plans: Employee Contributions*
The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the re-measurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. The amendments will not have an impact on the Company's financial statements since the Company has no defined benefit plan.

Annual Improvements to PFRSs (2010 - 2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015.

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Company as it has no share-based payments.

- Amendment to PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment clarifies that contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The amendment will have no impact to the Company but shall consider this amendment for future business combination.

- Amendment to PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments have no impact on the Company's financial position or performance since the Company is not required to disclose operating segments.

- Amendment to PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Company's financial position or performance since the Company does not carry its property and equipment at revalued amount.

- Amendment to PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments

will not have an impact on the Company's financial position or performance since the key management personnel of the Company are employees of the Company.

- Amendment to PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard. The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments will not have an impact on the Company's financial position or performance since it has no intangible assets during the current and prior year. The Company will consider this amendment when it recognizes intangible assets.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment will have no impact on the Company's financial statements since the Company has not entered into any joint arrangements.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*
  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment did not have an impact on the Company's financial position or performance since the Company's accounting policy is already consistent with the improvement.

- PAS 40, *Investment Property*
  The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The Company shall consider this amendment for future acquisition of investment property.

Effective in 2016

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

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

- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)
  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. First-time adopters of PFRS electing to use the equity method in its separate financial statements will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have an impact on the Company's financial statements since the Company has no investments in subsidiaries, joint ventures and associates.

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

not have an impact on the Company's financial statements since the Company has no investments in subsidiaries, joint ventures and associates.

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

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

- PFRS 14, *Regulatory Deferral Accounts*
  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. The amendment will not have an impact on the Company's financial statements since the Company is an existing PFRS preparer and has no activities subject to rate regulation.

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
  The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment will not have an impact on the Company's financial statements since the Company does not have non-current assets held for sale nor any discontinued operations.

- PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
  PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in

order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. The amendment will not have an impact on the Company's financial statement since the Company is not a party to any servicing contracts involving derecognized assets.

- PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report. The amendments will not have any impact on the Company's financial statements since it does not prepare interim condensed interim financial statements.

- PAS 19, *Employee Benefits - regional market issue regarding discount rate*
  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment will not have an impact on the Company's financial statement since the Company does not have defined benefit plan.

- PAS 34, *Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report*
  The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The amendments will not have an impact on the Company's financial statements since the Company is not required to issue interim financial statements.

Effective in 2018

- PFRS 9, *Financial Instruments Classification and Measurement (2010 version)*
  PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the

criteria for using the FVO. The adoption of the first phase of PFRS 9 has an impact in the Company's classification and measurement of its equity and debt financial instruments classified as at FVPL and AFS.

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

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

  The amendments will not have an impact on the Company's financial statements since the Company is not involved in any hedging transactions.

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

  The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by the BOA. The adoption of the first phase of PFRS 9 has an impact in the Company's classification and measurement of its equity and debt financial instruments classified as at FVPL and AFS but will have no impact on the classification and measurement of financial liabilities.

No effective date yet

- IFRS 15, *Revenue from Contracts with Customers*
  IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is

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

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

Investment contracts are those contracts that transfer significant financial risk and insignificant 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, 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.

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

Insurance contracts are classified with and without a 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;
- whose amount or timing is contractually at the discretion of the issuer; and
- that are contractually based on the :
  - performance of a specified pool of contracts or a specified type of contract,
  - realised and or unrealised investment returns on a specified pool of assets held by the issuer or
  - the profit or loss of the Company, fund or other entity that issues the contract

For financial options and guarantees which are not closely related to the host insurance contract, bifurcation is required to measure these embedded financial derivatives separately at FVPL. Bifurcation is not required if the embedded derivative is itself an insurance contract or when the host insurance contract itself is measured as financial assets or liabilities at FVPL. As such, the Company does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

Likewise, the embedded derivative in unit-linked insurance contracts linking the payments on the contract to units of an internal investment fund meets the definition of an insurance contract and is not therefore accounted for separately from the host insurance contract.

Based on the Company guidelines, all products in its portfolio meet the definition of insurance contracts, including unit-linked products, which certain features that make use of funds specifically segregated for the benefit of unit-linked policyholders.

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 coin with original maturities of three (3) months or less from date of placement and that are subject to an insignificant risk of changes in value.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Short-term Investments
These are placements in time deposits and other money market instruments with original maturities of more than three months but less than one year and which are not restricted as to use.

Financial Instruments
Date of recognition
The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. The Company follows the trade accounting where an asset to be received and liability to be paid are recognized on the trade date and derecognition of an asset that is sold and the recognition of a receivable from the buyer is recognized on the trade date.

Initial recognition and measurement
Financial assets
Financial assets within the scope of PAS 39 are classified into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS financial assets and loans and receivables. The Company determines the classification of its financial assets at initial recognition. Financial assets designated upon initial recognition as at FVPL are designated at the date of initial recognition only if the criteria under PAS 39 are satisfied. When financial assets are recognized initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at FVPL.

The Company's financial assets are of the nature of loans and receivables, AFS financial assets and financial assets at FVPL.

Financial liabilities
Financial liabilities within the scope of PAS 39 are classified as financial liabilities at FVPL and other financial liabilities. The Company determines the classification of its financial liabilities at initial recognition. Financial liabilities at FVPL are designated at the date of initial recognition and only if the criteria of PAS 39 are satisfied. All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, include directly attributable transaction costs.

The Company's financial liabilities are of the nature of financial liabilities at FVPL and other financial liabilities.

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

recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:

Financial assets
Financial assets at FVPL
Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Financial assets designated upon initial recognition at FVPL are designated only if the criteria under PAS 39 are satisfied.

Financial assets at FVPL are carried in the statement of financial position at fair value with net changes in fair value recognized in the profit or loss.

The Company evaluates its financial assets at FVPL (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect to reclassify them. The reclassification from financial assets at FVPL to loans and receivables, AFS financial assets or HTM investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at FVPL using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

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

The Company's financial assets at FVPL pertain to the seed capital on its unit-linked investment funds.

AFS financial assets
AFS financial assets are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, AFS financial assets are subsequently measured at fair value, with unrealized gains or losses recognized in other comprehensive income in the "Unrealized fair value loss on AFS financial assets" in equity until the investment is de-recognized, at which time the cumulative gain or loss is recognized in profit or loss, or until the investment is determined to be impaired, where the cumulative loss is reclassified to profit or loss. For AFS financial debt securities, the difference between their cost and par value is amortized using the effective interest rate method. Interest and dividends earned while holding the AFS financial assets are reported as interest income and dividend income, respectively in profit or loss as part of investment income.

The Company evaluates whether the ability and intention to sell its AFS financial assets in the near term are still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets and management's intent to do so in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Company has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the HTM category is permitted only when the Company has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the AFS category, the fair value amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on that asset that has been recognized in other comprehensive income is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in other comprehensive income is reclassified to profit or loss.

The Company's AFS financial assets pertain to investment in bonds and government securities.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization and the loss arising from impairment are included in investment income in profit or loss.

The Company's loans and receivables pertain to employee loans and advances.

<u>Financial liabilities</u>
Financial liabilities at FVPL
Financial liabilities at FVPL includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial liabilities designated upon initial recognition at fair value through profit or loss are so designated only if the criteria of PAS 39 are satisfied. Gains or losses on liabilities held for trading are recognized in profit or loss.

The net fair value gain or loss recognized in profit or loss does not include any interest charged on these financial liabilities.

The Company's financial liabilities at FVPL pertain to its unit-linked liabilities.

Other financial liabilities
Other financial liabilities are stated at amortized cost, with any difference between net proceeds and redemption value recognized in the profit or loss over the period using the effective interest method.

Gains and losses are recognized in profit or loss when the liabilities are de-recognized as well as through the effective interest amortization process.

Fair value measurement
The Company measures its debt and equity instruments classified as AFS financial assets and financial assets at FVPL at the end of each reporting period. Fair value is the price that would be received in the sale of an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

Level 1 - based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly.
Level 3 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

The Company's management determines the policies and procedures for both the recurring fair value measurement and for non-recurring measurement. At each reporting date, the management analyses the movement in the value of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policy. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents with relevant external sources to determine whether the change is reasonable.

De-recognition of financial instruments
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognized when:

- the right to receive cash flows from the asset has expired; or
- the Company has transferred its right to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and

- either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its right to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

Financial liabilities
Financial liabilities and insurance payables are de-recognized when the obligation under the liability is discharged or cancelled, or has expired.

When 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 de-recognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

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

Impairment of financial assets
The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event 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 a debtor or a group of debtors 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 observable data indicating that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through direct write off or through the use of an allowance and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been realized.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other income in profit or loss.

AFS financial assets carried at fair value
For AFS financial assets, the Company assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is removed from other comprehensive income and recognized in the profit or loss.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Company generally considers the number of months the cost of an AFS investment is below its fair value and also the ratio of fair value over cost in determining an impairment provision. In addition, the Company evaluates other factors, such as the share price volatility. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss, is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity instruments classified as AFS are not reversed through profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of investment income. Impairment losses on debt instruments are reversed through profit or loss if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss.

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

Prepayments
Prepayments, including prepaid developmental fees, 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 these are consumed in operations or expire with the passage of time depending on the terms of the related agreements, if covered by a contract.

Property and Equipment
Leasehold and equipment are measured at cost less any subsequent accumulated depreciation, amortization and impairment losses. The cost of an asset consists of its purchase price, restoration cost and costs directly attributable to bringing the asset to its working condition for its intended use.

Subsequent expenditures relating to an item of leasehold and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditures are recognized as expenses in the period in which those are incurred.

Depreciation and amortization are computed on a straight-line method based on their estimated useful lives of the assets as follows:

Motor vehicles	5 years
Leasehold improvements	5 years or lease term whichever is shorter
Electronic data processing equipment	3 - 5 years
Office equipment	3 - 5 years

Leasehold improvements are amortized over the improvement's useful life of five years, or when shorter, the term of the relevant lease.

The useful life and depreciation and amortization methods are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from these assets.

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognized in the profit or loss.

Impairment of Non-financial Assets
Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated formally by the Company. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value, less costs to dispose, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss on an asset is reversed only if there has been a change in the estimate used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation and amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Insurance Contract Liabilities
Life insurance contract liabilities
Life insurance contact liabilities represent the accumulated total liability for policies in force as of the reporting date. Such reserves are established at amounts adequate to meet the estimated future obligations of all life insurance policies in force. It is recognized when the contracts are entered into and the premiums are recognized. The provision for life insurance contracts, other than investment linked contracts, is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing at the inception of the contract. Assumptions and actuarial valuation methods are also subject to provisions of the Insurance Code (the Code) and guidelines set by the IC, subject to the minimum liability adequacy test.

For investment linked contracts, contract liabilities are directly linked to the underlying investment assets, which are portfolios maintained to meet specific investment objectives of policyholders who generally bear the credit and market risks on those investments. The liabilities are carried at fair value determined with reference to the accumulation value (current unit value). The costs of asset management fee inclusive of applicable taxes assessed against customers' account balances are presented in the profit or loss as part of "Other Revenue".

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

Unit-linked insurance contracts
The Company issues unit-linked insurance contracts. In addition to providing life insurance coverage, a unit-linked contract links payments to units of internal investment funds (unit-linked funds) set up by the Company with the consideration received from the policyholders. As allowed by PFRS 4, the Company chose not to unbundle the investment portion of its unit-linked products.

Premiums received from the issuance of unit-linked insurance contracts are recognized as premium revenue. These are separated to fund assets from which the Company withdraws administrative and cost of insurance charges in accordance with the policy provisions of the unit-linked insurance contracts. After deduction of these charges together with applicable surrender fees, the remaining amounts in the fund assets are equal to the surrender value of the unit-linked policies, and could be withdrawn anytime. The assets and liabilities of the unit-linked funds have been segregated and reflected in "Assets held to cover unit-linked liabilities" and "Unit-linked liabilities" in the statement of financial position. Income or loss arising from the unit-linked funds are classified under "Investment income" and is reflected in the profit or loss.

Investments under assets held to cover unit-linked liabilities are valued at market price. Changes in the assets held to cover unit-linked liabilities due to investment earnings or market value fluctuations result to the same corresponding change in the unit-linked liabilities. Such changes in fund value are presented as part of "Investment income" on the Company's profit or loss. As of end of the reporting period, unit-linked liabilities are computed on the basis of the number of units allocated to the policyholders multiplied by the unit price of the underlying funds.

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

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

Additional paid-in capital
When the shares are sold at premium, the difference between the proceeds and the par value is credited to "Additional paid-in capital" account.

Contributed surplus
Contributed surplus represents the contribution of the stockholders of the Company, in addition to the paid-up capital stock, in order to comply with the pre-licensing and capital requirements as provided under the Code.

Deficit
Deficit represent accumulated net income (losses) of the Company less any dividends declared.

<u>Revenue Recognition</u>
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

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

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

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

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

Benefits and Expenses
Expenses, in general, are recognized in the profit or loss in the period these are incurred.

Benefits and claims
Life insurance benefit claims reflect the cost of all claims arising during the year, including claims handling costs. Death claims and surrenders are recorded on the basis of notifications received. Benefits recorded are then accrued as liabilities.

For unpaid benefits, a provision is made for the estimated cost of all claims but not settled at the reporting date, net of reinsurance recoveries, using the information available at the time. Provision is also made for the cost of claims incurred but not reported (IBNR) until after the reporting date based on the Company's experience and historical data. These actual claims are those reported immediately following the reporting date, whether paid or unpaid, but wherein the date of loss occurred on or before the reporting date. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

General and administrative expenses are costs attributable to administrative and other business activities of the Company.

Commission
Commission and agency related expenses are charged against operations when the insurance contracts are entered into and related premiums are recognized. Commissions are paid to agents and financial executives for selling individual and group policies. Rates applied on collected premiums vary depending on the type of product and payment terms of the contract.

Leases
The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:
(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) there is a change in the determination of whether fulfilment is dependent on a specified asset;
(d) there is a substantial change to the asset.

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

Company as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

Foreign Currency-denominated Exchange Transactions and Translations
Transactions in currencies other than Philippine Peso are recorded at the rate of exchange prevailing on the date of the transaction. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rate prevailing at the end of each reporting period. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rate prevailing at the date the fair value was determined. Gains and losses arising on retranslation are included in profit or loss for the year.

Nonmonetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the date of transaction and are not subsequently restated.

Foreign exchange gains or losses are considered as taxable income or deductible expense, respectively, only upon realization.

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carry forward of NOLCO can be utilized.

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

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

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

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

<u>Provisions</u>
A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Where the Company expects a provision to be reimbursed, for example under an insurance contract held, the reimbursement is recognized as a separate asset only when the reimbursement is probable. The Company recognizes a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. Provision are reviewed at each reporting date and adjusted to reflect the current best estimates.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the expected future expenditures required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit or loss.

<u>Contingencies</u>
Contingencies are disclosed if material and if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event, but either a payment is not probable or the amount cannot be reliably estimated.

A contingent liability is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognized in accordance with the general guidance for provisions above; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with the guidance for revenue recognition.

<u>Related Party Transactions</u>
A related party transaction is a transfer of resources, services or obligations between the Company and a related party, regardless of whether a price is charged.

A person or a close member of that person's family is related to the Company if that person:
- has control or joint control over the Company; or
- has significant influence over the Company; or
- is a member of the key management personnel of the reporting entity or of a parent of the Company.

An entity is related to the Company if any of the following conditions apply:

- the entity and the Company are members of the same group which means that each parent, subsidiary and fellow subsidiary is related to the others;
- one entity is an associate or joint venture of the other entity or an associate or joint venture of a member of a group of which the other entity is a member;
- both entities are joint ventures of the same third party.;
- one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
- the entity is controlled or jointly controlled by a person who is a related party as identified above; or
- a person that has control or joint control over the reporting entity has significant influence over the entity or is a member of the key management personnel of the entity or of a parent of the entity.

Employee Benefits

Long-term incentives

Certain employees of the Company are eligible for long-term incentives based on the duration of their service to the Company as defined in their employment contracts. The Company is liable to make such payments in the event that the employee meets the circumstances specified in those employment contracts.

Short-term employee benefits

Short-term employee benefits include items such as salaries and wages, social security contributions and nonmonetary benefits, if expected to be settled wholly within twelve months after the end of the reporting period in which the employees rendered the related services. Short-term employee benefits are recognized as expense as incurred. When an employee has rendered service to the Company during the reporting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid.

Events after the Reporting Date

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

3. Significant Accounting Judgments, Estimates and Assumptions

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

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the financial statements of the Company.

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

Operating lease- the Company as lessee
The Company has entered into lease agreements related to various properties for its head office premises and branch offices. Based on an evaluation of the terms and conditions of the lease agreements, there will be no transfer of ownership of assets to the Company at the end of the lease term. The lessors retain all significant risks and reward of ownership of these properties and so the Company accounts for the agreements as operating leases.

Recognition of income taxes
Significant management judgment on the future tax treatment of certain transactions is required in determining income tax provisions. The Company carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account developments in tax laws. Tax laws evolve over time, and in some cases taxation positions are uncertain because the tax laws are subject to varied interpretation. When this is the case, management seeks to adopt a supportable and prudent tax treatment after consultation with professional tax advisers. However, as judicial and non-judicial interpretations develop, these taxation positions may change in the future.

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

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

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

The carrying values of AFS assets as of December 31, 2014 and 2013 amounted to ₱253.93 million and nil, respectively (see Note 6).

Impairment of nonfinancial assets
The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

There were no impairment indicators identified on the Company's property and equipment as of December 31, 2014 and 2013, respectively. The carrying values of property and equipment are disclosed in Note 9.

Liability adequacy testing
The Company evaluates the adequacy of its insurance contract liabilities at least annually. Significant judgment is exercised in determining the level of aggregation at which liability adequacy testing is performed and in selecting best estimate assumptions. Liability adequacy is assessed on a portfolio of contracts in accordance with the Company's manner of acquiring, servicing and measuring the profitability of its insurance contracts.

The judgments exercised in liability adequacy testing affect amounts recognized in the financial statements such as commission and other acquisition related expenses, insurance contract benefits and liabilities.

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

Fair values of financial assets and liabilities
Fair value determinations for financial assets and liabilities are based generally on listed market prices or broker or dealer price quotations. The use of different pricing models and assumptions could produce materially different estimates of fair value.

In determining the fair values, management evaluates the normal volatility in the share price, the financial health of the investee, and the industry and sector performance, like changes in operational and financial cash flows. Any indication of deterioration in the above factors can have a negative impact on the fair value. The fair values of financial assets and liabilities are shown in Note 24.

Claims liability arising from insurance contracts
The estimation of the ultimate liability arising from claims made under life insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for those claims.

Estimates are made as to the expected number of deaths, illnesses and injuries for each of the years in which the Company is exposed to risk. The Company bases these estimates on standard mortality and morbidity tables as required by the Code. The estimated number of deaths, illnesses and injuries determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in turn is monitored against current and future premiums.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

The carrying value of the insurance contract liabilities amounted to ₱42,061 and nil as of December 31, 2014 and 2013, respectively.

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

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

As of December 31, 2014 and 2013, there are no impairment indicators identified on the Company's loans and receivables. The carrying value of loans and receivables amounted to ₱4.01 million and nil as of December 31, 2014 and 2013, respectively (see Note 6).

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

As of December 31, 2014 and 2013, the carrying values of property and equipment amounted to ₱123.30 million and nil, respectively (see Note 9).

Valuation of deferred tax assets
Deferred tax assets are computed for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The Company did not recognize deferred tax assets in 2014 since management believes that the benefits will not be realized prior to their expiry dates. In 2013, the Company recognized deferred tax asset up to the extent of the deferred tax liability from unrealized foreign exchange gain amounting to ₱0.52 million. See Note 23 for related balances.

Contingencies
The Company contingencies are disclosed if material and if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event, but either a payment is not probable or the amount cannot be reliably estimated.

The Company has no involvement in any lawsuits that may arise from the normal course of carrying out its insurance business.

4. Cash and Cash Equivalents

This account consists of:

	2014	2013
Cash on hand:		
Petty cash fund	**₱180,000**	₱–
Cash in banks:		
Cash in commercial banks	**37,428,464**	65,288,089
Short-term deposits	**438,379,260**	–
	₱475,987,724	₱65,288,089

Cash in banks earns interest at the prevailing bank deposit rates that ranged from 0.50% p.a. to 0.75% p.a. in 2014 and 2013. Short-term deposits are made for varying periods not exceeding three months depending on the immediate cash requirements of the Company, and earned interest at the prevailing short-term deposit rates that ranged from 1.50% p.a. to 2.50% p.a. in 2014. Interest income earned in 2014 amounted to ₱1.83 million and nil in 2013 (see Note 18).

5. Short - Term Investments

Short - term investments consist of time deposits with maturity of more than three months but less than one year from date of placement amounting to ₱449.23 million as of December 31, 2014. The annual interest rate in 2014 ranged from 1.50% p.a. to 2.20% p.a. Interest income earned in 2014 amounted to ₱1.71 million and nil in 2013 (see Note 18).

6. Financial Assets

The Company's financial assets are summarized as follows:

	2014	2013
Available-for-sale (AFS) financial assets	**₱253,926,176**	₱–
Financial assets at fair value through profit or loss (FVPL)	**224,392,196**	–
Assets held to cover unit-linked liabilities	**1,375,099**	–
Loans and receivables	**4,007,005**	–
	₱483,700,476	₱–

AFS financial assets
The carrying amount of AFS financial assets has been determined as follows:

	2014	2013
Face amount	**₱250,000,000**	₱–
Premium	**4,747,644**	–
Acquisition cost	**254,747,644**	–
Amortization of premium	**(780,017)**	–
Unrealized fair value loss on AFS financial assets	**(41,451)**	–
	₱253,926,176	–

Investments in government securities classified as AFS financial assets bear interest ranging from 2.70% p.a. to 3% p.a.in 2014. Interest earned on AFS financial assets in 2014 amounted to ₱5.34 million and nil in 2013 (see Note 18).

As of December 31, 2014, AFS financial assets are deposited with the IC in accordance with the provisions of the Code as security for the benefit of policyholders and creditors of the Company.

Financial assets at FVPL
Financial assets at FVPL represent the seed capital of the Company in its three VUL Funds at initial amount of ₱220 million (see Note 7).

Loans and receivables
This account consists of:

	2014	2013
Employee loans and advances	**₱2,807,741**	₱–
Fund management fee receivable	**909,936**	–
Receivable from VUL funds	**289,328**	–
	₱4,007,005	₱–

Employee loans and advances are non-interest bearing and are settled through payroll deductions. Fund management fee pertains to trust fund fee relating to VUL funds of the Company and is accrued daily and collected from the funds on a monthly basis. Receivable from VUL funds pertains to cost of insurance (COI) and cost of rider (COR) and expanded withholding tax on broker's fee fund management and administration fee.

Fair value hierarchy
The Company classifies its non-linked and unit-linked financial assets at fair value as follows:

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
AFS financial assets	**₱253,926,176**	**₱–**	**₱–**	**₱253,926,176**
Financial assets at FVPL (Note 7)	**224,392,196**	**–**	**–**	**224,392,196**
Assets held to cover unit-linked liabilities (Note 7)	**1,375,099**	**–**	**–**	**1,375,099**
	₱479,693,471	**₱–**	**₱-**	**₱479,693,471**

During the reporting period ended December 31, 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

7. Unit-Linked Funds

The total unit-linked funds of the Company amounting to ₱225.77 million are allocated as follows:

	Balanced Fund	Equity Fund	Fixed Income	Total
Financial assets at FVPL (Note 6)	**₱86,784,478**	**₱50,061,009**	**₱87,546,709**	**₱224,392,196**
Assets held to cover unit-linked liabilities (Note 6)	**314,140**	**960,179**	**100,780**	**1,375,099**
	₱87,098,618	**₱51,021,188**	**₱87,647,489**	**₱225,767,295**

The unit-linked funds' net asset value consists of the following:

	Balanced Fund	Equity Fund	Fixed Income	TOTAL
ASSET				
Cash and cash equivalents	₱11,463,973	₱377,624	₱16,108,215	₱27,949,812
Bond securities	47,187,507	–	71,234,165	118,421,672
Equity securities	28,452,649	50,292,137	–	78,744,786
Accrued income	487,591	12,589	737,008	1,237,188
Other receivables	3,291	636,193	2,303	641,787
TOTAL ASSETS	**₱87,595,011**	**₱51,318,543**	**₱88,081,691**	**₱226,995,245**
LIABILITIES				
Amounts payable on redemption of units	(₱7,311)	(₱7,395)	(₱5,444)	(₱20,150)
Other payables	(489,082)	(289,960)	(428,758)	(1,207,800)
TOTAL LIABILITIES	(496,393)	(297,355)	(434,202)	(1,227,950)
ATTRIBUTABLE TO UNITHOLDERS	**(₱87,098,618)**	**(₱51,021,188)**	**(₱87,647,489)**	**(₱225,767,295)**

The movement of the unit-linked fund's net assets in 2014 as follows:

At January 1	₱–
Funding of seed capital (Note 7)	220,000,000
Total contributions	1,439,877
Total redemptions	(61,187)
Fair value gains on financial assets at FVPL	4,388,605
At December 31	**₱225,767,295**

Investment in debt securities in the unit-linked funds bear interest ranging from 2.40% p.a. to 4.50% p.a. in 2014.

Breakdown of the net income pertaining to unit-linked funds in 2014 are as follows:

Dividend income	₱93,211
Interest income	1,593,476
Unrealized gain on investments	3,429,423
Realized gain on investments	1,076,822
Total income	6,192,932
Management fee	(1,154,135)
Safe custody and bank charges	(11,000)
Other operating expenses	(216,538)
Total expenses	(1,381,673)
Net income before final tax	4,811,259
Provision for final tax	(422,654)
Unit-linked income after final tax	**₱4,388,605**

Management fee expense which ranges from 1.92% p.a. to 2.20% p.a. of net asset value.

8. Accrued Income

This pertains to the interest accrued from time deposit placements amounting to ₱1.92 million and interest accrued from AFS government bonds amounting to ₱2.63 million as of December 31, 2014.

9. **Property and Equipment** - net

The roll forward analysis of this account in 2014 as follows:

	EDP Equipment	Office Equipment	Motor vehicles	Leasehold Improvements	Total
Cost					
At January 1	₱–	₱–	₱–	₱–	₱–
Additions	70,085,392	1,976,029	5,517,588	59,173,680	136,752,689
At December 31	70,085,392	1,976,029	5,517,588	59,173,680	136,752,689
Accumulated depreciation and amortization					
At January 1	–	–	–	–	–
Depreciation	8,233,383	164,733	981,265	4,075,394	13,454,775
At December 31	8,233,383	164,733	981,265	4,075,394	13,454,775
Net Book Value	**₱61,852,009**	**₱1,811,296**	**₱4,536,323**	**₱55,098,286**	**₱123,297,914**

The Company has started acquiring property and equipment only in 2014.

10. **Prepaid Developmental Fees**

This represents developmental fees paid to agency leaders amounting to ₱17.28 million to be used exclusively in building and maintaining an agency organization for the purpose of selling solely the Company's products. This is to be amortized based on the agents' contractual obligation to the Company as indicated in the agreement (see Note 25). As of December 31, 2014, there is no amortization recorded.

11. **Other Assets**

This account consists of:

	2014	2013
Rental deposits	**₱9,212,345**	₱320,000
Prepayments	**7,929,808**	2,734
Sundry deposits	**63,017**	–
	₱17,205,170	₱322,734

Rental deposits include security and reservation deposits. These items were transacted by the Company with W Fifth Building. Prepayments consist mainly of property rental advances. Sundry deposit pertains to the Company's cash or surety bond to a supplier.

12. **Insurance Contract Liabilities**

Liability for contractual benefits that are expected to be incurred in the future is recorded under insurance contract liabilities when the premiums are recognized. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of future net premiums.

For 2014, insurance contract liabilities amounting to ₱42,061 represent unearned cost of insurance charges on unit-linked basic life policies and riders.

Movement during the year on the liability for contractual obligations pertains only to the premiums received. There is no liability released for payments of death, maturities and surrender benefits and claims during the year.

As of December 31, 2014, the Company's liability for contractual benefits pertains only to unit-linked policies. In addition, there is no amount recoverable from reinsurers.

13. Insurance Payables

Insurance payables consist of premiums received for which the policy contract has yet to be issued as of December 31, 2014.

14. Accounts Payable and Accrued Expenses

This account consists of:

	2014	2013
Accrued suppliers' invoices	**₱38,426,246**	₱7,983,487
Accrued employee incentives	**33,920,648**	58,143
Deferred rent payable	**1,496,346**	–
Government contributions payable	**366,980**	107,566
Commissions payable	**226,988**	–
Others	**779,538**	–
	₱75,216,746	₱8,149,196

Accrued suppliers' payables included un-paid invoices for agency-and operating related expenses, utilities and capital expenditures. These are normally settled within one year.

Accrued employee incentives represent estimated amount of short-term incentives (STI) and long-term incentives (LTI). STI is payable within the year while LTI amounting to ₱5.75 million as of December 31, 2014, is payable after three (3) years.

Deferred rental payable pertains to the lease rate differential adjustment to align lease expense with the PAS 17, *Leases*.

Government contributions pertain to payments due to Philhealth, SSS and HDMF payable which is to be remitted within one month.

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

Other payables include deposits paid by the agents for their IC licensing fee and trust fees.

15. **Taxes Payable**

This account consists of:

	2014	2013
Withholding tax on:		
Final	**₱6,445,932**	₱–
Compensation	**5,993,701**	532,714
Expanded	**1,203,241**	–
VAT payable	**759**	–
	₱13,643,633	₱532,714

Taxes payable include final withholding tax on group office fee, compensation, expanded and VAT with varying due dates. These are normally settled within one year.

16. **Equity**

Capital Stock
This account consists of common shares of stock as follows:

	2014	2013
Authorized - 1 Billion shares, ₱1 par value	**₱1,000,000,000**	₱1,000,000,000
Issued and Outstanding - 1 Billion shares in 2014 and ₱62.50 million shares in 2013	**1,000,000,000**	62,500,000
	₱1,000,000,000	₱62,500,000

On March 18, 2014, the Parent Company completed its infusion of the required minimum paid-in capital to comply with the IC requirement. As of said date, the subscribed and paid-up capital of the Company amounted to ₱1 billion, which is the minimum mandated capitalization per Section 194 of the Revised Insurance Code of the Philippines (Republic Act No. 10607).

The Company has only one class of common shares which carry no right to fixed income.

The movements of the Company's common shares are as follows:

	2014	2013
At January 1	**₱62,500,000**	₱–
Additions during the year	**937,500,000**	62,500,000
At December 31	**₱1,000,000,000**	₱62,500,000

Additional Paid In Capital
On March 18, 2014, the peso equivalent of the US Dollar capital contribution of US$ 28 million resulted in capital stock of ₱937.50 million and an additional paid-in capital of ₱325.30 million based on the exchange rate at the date of the capital infusion.

As of December 31, 2013, additional paid-in capital amounting to ₱2.30 million was contributed by the Parent Company as part of the pre-licensing requirement of the IC.

Contributed Surplus
On November 6, 2014, the BOD approved the infusion of additional contributed surplus amounting to ₱475 million which was received on December 19, 2014.

17. Premium Revenue

Premium on unit-linked insurance contracts consist of:

	2014	2013
Premiums - Charge	₱1,885,754	₱–
Premiums - Single Pay	780,100	–
Premiums - Regular Pay	652,631	–
Premiums - COI/COR	81,846	–
Premiums - Top Up	57,000	–
	₱3,457,331	₱–

Life insurance contracts offered by the Company mainly consist of unit-linked products as of December 31, 2014. Also there is no reinsurer's share on gross premiums in 2014. Premium charge is determined by multiplying the premium by the premium charge rate. The premium charge will be deducted from the premium amounts received by the Company prior to purchasing units at unit price of relevant funds.

18. Investment Income

This account consists of:

	2014	2013
Interest income on:		
AFS financial assets (Note 7)	₱5,341,771	₱–
Cash and cash equivalents and short-term investments (Notes 4 and 5)	3,538,851	–
Management fee on seed capital	1,053,674	–
	₱9,934,296	₱–

Interest income pertains to the interest earned on government securities and time deposits.

19. General and Administrative Expenses

This account consists of:

	2014	2013
Salaries, wages and employees benefits	₱148,931,664	₱1,905,960
Information technology (IT) expenses (Note 21)	61,139,692	–
Marketing expenses	40,355,246	45,818
Professional fees	35,536,196	7,938,487
Building rental and related expenses (Note 25)	23,755,232	49,204

(Forward)

	2014	2013
Depreciation and amortization (Note 9)	**₱13,454,775**	₱–
Transportation and travel	**10,831,465**	8,960
Supplies	**7,123,575**	5,990
Taxes, licenses and fees (Note 28)	**4,886,226**	3,272,915
Communication, light and water	**3,671,906**	34,029
Agency training	**2,097,697**	–
Entertainment	**1,003,763**	–
Bank charges	**371,579**	750
Others	**749,671**	70,099
	₱353,908,687	₱13,332,212

20. Foreign Currency Exchange Losses (Gains)

This account consists of the following:

	2014	2013
Foreign currency losses - realized	**₱31,484,434**	₱–
Foreign currency losses (gains) - unrealized	**3,450,061**	(1,782,738)
	₱34,934,495	(₱1,782,738)

21. Due to Related Parties

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

Related party transactions consist of the following:

	2014		2013			
Category	Amount	Outstanding Balances	Amount	Outstanding Balances	Terms	Conditions
Affiliates:						
FWD Group Management Holdings Ltd. (a)	**₱64,180,415**	**₱64,180,415**	₱3,678,819	₱3,678,819	Interest-free, settlement in cash; quarterly	Unsecured
Valdimir Pte. Ltd. (b)	**13,025**	**13,025**	–	–	Interest-free, settlement in cash; quarterly	Unsecured
		₱64,193,440		₱3,678,819		

In the normal course of business, the Company has various transactions with its related companies as follows:

a. The amount due to FWD Group Management Holdings Limited is in respect of expenditure incurred on behalf of the Company and comprised mainly of the costs of purchasing and installing IT systems of the Company.

b. The amount due to Valdimir Pte. Ltd. is in respect of brand licensing agreement for the Company's use of the FWD brand name. This is based in the Company's production for the year.

Outstanding balances are non-interest bearing, unsecured and will be settled in cash on a quarterly basis. No guarantees had been received or given.

Remunerations of Key Management Personnel
The Company's key management personnel include all management committee officers. The summary of compensation of key management personnel is as follows:

	2014	2013
Salaries and other short-term employee benefits	**₱53,431,667**	₱1,808,333
Other long-term benefits	**5,745,021**	–
	₱59,176,688	₱1,808,333

22. Income Taxes

The provision for current tax expense of ₱1.56 million for 2014 represents the final tax on interest income.

Reconciliation between tax expense and the statutory income tax as follows:

	2014	2013
Loss before income tax	**₱373,219,147**	₱11,549,474
Provision for income tax at statutory tax rate	**(111,965,744)**	(3,464,842)
Tax effects of:		
Interest income subjected to final tax	**(641,943)**	–
Non-deductible expenses	**247,788**	–
Change in unrecognized deferred tax assets	**113,915,471**	3,464,842
Effective income tax	**₱1,555,572**	₱–

Under Republic Act No. 8424, the Company is subject to regular corporate income tax (RCIT) of 30% or 2% Minimum Corporate Income Tax (MCIT), whichever is higher. However, companies are not required to file MCIT for the first three (3) years of operations.

Details of the Company's NOLCO that can be claimed as deduction from future taxable profit are as follows:

Year Incurred	**NOLCO**	**Tax Effect**	**Year of Expiry**
2014	₱310,963,801	₱93,289,140	2017
2013	13,332,212	3,999,664	2016
	₱324,296,013	**₱97,288,804**	

23. Deferred Tax Assets

The Company did not recognize deferred tax assets amounting to ₱117.38 million and ₱3.46 million as of December 31, 2014 and 2013, respectively, from the following temporary differences since management believes that the benefits will most likely not be realized prior to their expiry dates.

	2014	2013
NOLCO	**₱324,296,013**	₱11,549,474
Accrued expenses	**57,636,686**	–
Unrealized forex loss	**7,838,666**	–
Deferred rent payable	**1,496,346**	–
	₱391,267,711	₱11,549,474

Deferred tax assets are recognized only to the extent probable that its taxable income will be available against which the deferred tax assets can be used. The Company will reassess the unrecognized deferred tax assets on the above deductible temporary differences and will recognize deferred tax asset to the extent that it has become probable that future taxable income would allow the deferred tax asset to be recovered.

In 2013, the Company recognized deferred tax asset from NOLCO to the extent of the deferred tax liability from unrealized foreign exchange gain amounting to ₱1.78 million with a related tax effect amounting to ₱0.52 million.

24. Capital Management and Management of Insurance and Financial Risk

Governance Framework

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

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

Regulatory Framework

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

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

Capital Management Framework

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is usually higher than the minimum capital requirements set by the regulators and the amount computed under the RBC Requirement Model.

Fixed capitalization requirements

Pursuant to the provision of Section 194 of the New Insurance Code, no new life or non-life insurance business and be licensed in the Philippines unless it has paid-up capital of One Billion Pesos (₱1,000,000,000).

In 2014, the Company fully complied with the externally imposed capital requirements.

RBC requirements

In 2006, the IC issued Memorandum Circular (IMC) No. 6-2006 adopting RBC framework to establish the required amounts of capital to be maintained by the life insurance companies in relation to their investment and insurance risks. The investments and insurance risks of the company are classified under four major categories as asset default risk, insurance pricing risk, interest rate risk and general business risk.

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include the company's paid-up capital, capital in excess of par value, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the IC.

Every life insurance company is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. The trend test has failed, in the event that:

a. The RBC ratio is less than 125% but is not below 100%
b. The RBC ratio has decreased over the past year
c. The difference between RBC ratio and the decrease in the RBC ratio over the past year is less than 100%

As of December 31, 2014, the Company's statutory net worth amounted to ₱1.32 billion. The RBC requirements as computed based on the formula set by IC amounted to ₱42.36 million while the RBC ratio based on the net worth and RBC requirement resulted to 3,110%. The RBC ratio can only be finally determined after the accounts of the Company have been examined by the IC.

Insurance Risk

Nature of Risk

The risk under an insurance contract is the risk that an insured event will occur, including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid that are greater than those originally estimated, and subsequent development of long-term claims.

The variability of risks is improved by diversification of risk of loss. A large diversified portfolio of insurance contracts is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines.

The business of the Company consists of underwriting life insurance contracts. For contracts where death is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. These risks currently do not vary significantly in relation to the location of the risks insured by the Company while undue concentration by amounts could have an impact on the severity of benefit payments.

Terms and conditions
The Company principally writes life insurance where the life of policyholder is insured against death, illness, injury or permanent disability, usually for a pre-determined amount. Life insurance contracts currently offered by the Company are mainly unit-linked products. In the near future, the Company will also offer whole life, term insurance and endowments. Unit-linked products differ from conventional policies in that a pre-determined percentage of each premium is allocated to units in a pooled investment fund and the policyholder benefits directly from the total investment growth and income of the fund. Whole life and term insurance are conventional products where lump sum benefits are payable on death. Endowment products are investments/savings products where lump sum benefits are payable after a fixed period or on death before the period is completed.

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

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

The Company has an objective to control and manage insurance risk, and to maintain a strong capital base to safeguard the Company's ability to continue as a going-concern. The Company manages insurance risk through the following mechanism:

- Actuarial models based on industry past experience and sound actuarial formulations;
- Guidelines are issued for concluding insurance contracts and assuming insurance risks;
- Pro-active compliance of claims handling procedures to investigate and adjust claims, thereby ensuring payment of valid claims.
- Reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security; and
- Eventually, diversification strategy will be implemented to ensure that underwritten risks are well-diversified in terms of type and amount of risk, industry and geography.
- The use and maintenance of sophisticated management information systems that provide up to date, accurate and reliable data on risk exposure at any point in time.

Insurance risk is also affected by the policyholders' rights to terminate the contract, pay reduced premiums, and cease to pay premiums. Thus, the insurance risk is subject to the behaviour and decisions of the policyholders.

<u>Product Design and Pricing Risk</u>
Product design risk refers to potential defects in the development of a particular insurance product. The Company manages product design risk through its product approval process where products are reviewed against pricing, design and operational risk parameters. All new products and product enhancements are reviewed and approved by the Group Office.

Product pricing phase starts which involve reinsurance negotiation, assumption-setting, preparation of product approval report, with review and sign-off by the Group Office of pricing model, key product metrics based on target range set by Group, and risk assessment and mitigation measures consistent with the risk management policy of Group. Approved products are then filed with the IC and BSP (for Bancassurance products).

The Company closely monitors the performance of new products and actively manages the product portfolio to minimize risks in the in-force book and new products.

Underwriting Risk

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

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

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

The Company is cognizant of the need to exercise good judgment in the selection and approval of both domestic and foreign companies participating in its reinsurance programs. While reinsurance arrangements do not relieve the Company from its direct obligations to its insured, an efficient and effective reinsurance program substantially limits the Company's exposure to potentially significant losses.

Where a derivative is a part of an insurance contract (i.e., embedded derivative), it is treated as an insurance contract and valued as part of the host contract. The valuation of these embedded derivatives are based on the expected future market conditions at maturity arising from variation in interest rates, foreign currency rates and price of equities.

Investment Risk

The investment risk represents the exposure to loss resulting from cash flows from invested assets, primarily long-term fixed rate investments, being less than the cash flows required to meet the obligations of the expected policy contract liabilities and the necessary return on investments. Additionally, there exists a future investment risk associated with certain policies currently in force which will have premium receipts in the future. That is, the investment of those future premium receipts may be at a yield below that required to meet future policy liabilities.

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

The Company utilizes dynamic asset allocation strategies consistent with its risk appetite framework to manage investment risk and to ensure sustainable investment returns. As a management tool, the Company uses asset-liability matching to determine the composition of the invested assets and appropriate investment and marketing strategies. As part of these strategies, the Company may determine that it is economically advantageous to be temporarily in an unmatched position due to anticipated interest rate or other economic changes.

Financial Instruments
The following table sets forth the carrying values and fair values of non-linked and unit-linked financial assets recognized:

December 31, 2014

	Non-Linked		Unit Linked	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets:				
Loans and receivables:				
Cash and cash equivalents	**₱475,987,724**	**₱475,987,724**	**₱27,949,812**	**₱27,949,812**
Short-term investments	**449,277,626**	**449,277,626**	**–**	**–**
Receivables	**4,007,005**	**4,007,005**	**641,787**	**641,787**
Accrued income	**4,543,608**	**4,543,608**	**1,237,188**	**1,237,188**
AFS financial assets				
Government securities	**253,926,176**	**253,926,176**	**–**	**–**
Financial assets at FVPL				
Government securities	**–**	**–**	**118,421,672**	**118,421,672**
Equity securities	**–**	**–**	**78,744,786**	**78,744,786**
Total financial assets	**₱1,187,742,139**	**₱1,187,742,139**	**₱226,995,245**	**₱226,995,245**
Financial liabilities:				
Other financial liabilities				
Insurance payables	**₱537,071**	**₱537,071**	**₱–**	**₱–**
Accounts payables and accrued expenses	**75,216,746**	**75,216,746**	**1,207,800**	**1,207,800**
Due to related parties	**64,193,440**	**64,193,440**	**–**	**–**
Amounts payable on redemption	**–**	**–**	**20,150**	**20,150**
Total financial liabilities	**₱139,947,257**	**₱139,947,257**	**₱1,227,950**	**₱1,227,950**

December 31, 2013

	Non-Linked		Unit Linked	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Loans and receivables:				
Cash and cash equivalents	₱65,288,089	₱65,288,089	₱–	₱–
Financial liabilities:				
Other financial liabilities:				
Accounts payables and accrued expenses	₱8,149,196	₱8,149,1966	₱–	₱–
Due to related parties	3,678,819	3,678,819	–	–
Total financial liabilities	₱11,828,015	₱11,828,015	₱–	₱–

Fair values of financial assets and financial liabilities are estimated as follows:

Due to the short-term nature of cash and cash equivalents, short-term investments, receivables, accrued income, insurance payables, accrued payables and accrued expenses, due to related parties, and amounts payable on redemption, their carrying values reasonably approximate their fair values at year end.

The fair value of financial assets at FVPL and AFS financial assets that are actively traded in organized financial markets is determined by reference to quoted market prices (PDST R2/BSP 813 Reference rate for bonds and PSE closing price for equities), at the close of business on the reporting date, or the last trading day as applicable.

Financial Risk

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

The Company has established a risk management function with terms of reference and with responsibility for developing policies on market, credit, liquidity, insurance and operational risk. The investment policies define the Company's limit structure to ensure the appropriate quality and diversification of assets, in accordance with the Code.

Credit Risk

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

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

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

A credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements. The Company selects only domestic and foreign companies with strong financial standing and excellent track records which are allowed to participate in the Company's reinsurance programs. In respect of investment securities, the Company set a maximum credit exposure to corporate issues, in compliance with the Code stating that issuing company of corporate bond shall not have defaulted in the payment of interest on any of its securities. The Company also set maximum exposure for deposit products of accredited banks which will be the equivalent to the maximum allocation for the said instruments.

As of December 31, 2014 and 2013, the Company's maximum exposure to credit risk from its financial assets (loans and receivables, AFS financial assets and financial assets at FVPL) is equal to their carrying amount. In addition, there is no significant concentration of credit risk identified. The gross maximum exposure to credit risk of the Company approximates its net maximum exposure. There were no amounts that are set-off in accordance with the criteria in PAS 32, *Financial Instruments: Presentation*. There were no amounts subject to an enforceable master netting arrangement or similar agreement as of December 31, 2014 and 2013.

As of December 31, 2014 and 2013, the Company has no past due or impaired financial assets. As such, the disclosure requirement of PFRS 7, *Financial Instruments: Disclosure*, regarding the aging of past due accounts are no longer presented.

Credit quality of financial assets

It is the Company's policy to maintain accurate and consistent risk ratings across the financial assets which facilitates focused management of applicable risks. The Company utilizes an internal credit rating system based on its assessment of the quality of the financial assets.

The Company uses conventions which have been adapted to conform to the various ratings as follows:

Standard and Poor's	Moody's	Reported as
AAA	AAA	AAA
AA+ to AA-	Aal to Aa3	AA
A+ to A-	Al to A3	A
BBB+ to BBB-	Baal to Baa3	BBB
BB+ and below	Bal and below	Below investment grade

The tables below show the credit quality of the Company's financial assets as of December 31:

2014

Non-linked

	A	BBB	BB	B	Not Rated	Total
Financial Assets:						
Loans and receivables:						
Cash and cash equivalents	₱2,747,788	₱424,216,213	₱36,704,569	₱–	₱12,319,154	₱475,987,724
Short-term investments	–	166,227,626	283,000,000	–	–	449,227,626
Receivables	–	–	–	–	4,007,005	4,007,005
Accrued income	–	–	–	–	4,543,608	4,543,608
AFS financial assets						
Government securities	–	253,926,176	–	–	–	253,926,176
	₱2,747,788	**₱844,420,015**	**₱319,704,569**	**₱–**	**₱20,869,767**	**₱1,187,692,139**

Unit-linked

	A	BBB	BB	B	Not Rated	Total
Financial Assets:						
Loans and receivables:						
Cash and cash equivalents	₱27,949,812	₱–	₱–	₱–	₱–	₱27,949,812
Receivables	–	–	–	–	641,787	641,787
Accrued income	–	–	–	–	1,237,188	1,237,188
Financial assets as FVPL:						
Government securities	–	118,421,672	–	–	–	118,421,672
Equity securities	–	–	–	–	78,744,786	78,744,786
	₱27,949,812	**₱118,421,672**	**₱–**	**₱–**	**₱80,623,761**	**₱226,995,245**

2013

Non-linked

	A	BBB	BB	B	Not Rated	Total
Financial Assets:						
Loans and receivables:						
Cash and cash equivalents	₱65,288,089	₱–	₱–	₱–	₱–	₱65,288,089

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

The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts and operating expenses. The Company manages liquidity by forecasting cash flow requirements. Investments are made in assets with maturities or interest payments which are matched against expected pay-outs of claims benefits (i.e., amount and duration of assets are matched against amount and duration of liabilities). In addition, significant outflows due to operating expenses (e.g., salaries, bonuses, IT expenditures, etc.) are scheduled based on an agreed budget timeline.

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

The table below summarizes the maturity profile of the Company's financial assets and liabilities based on the remaining period at the end of the reporting period. Most of the Company's financial assets are used to support its insurance contract liabilities which are not shown in the table below. Refer to Note 13 for additional information on the Company's insurance contract liabilities as well as to the Insurance Risks Section.

December 31, 2014

Non-linked

		Maturity Breakdown				
	Up to a year	**1-3 years**	**3-5 years**	**Over 5 years**	**No term**	**Total**
Financial assets:						
Loans and receivables:						
Cash and cash equivalents	**₱475,987,724**	**₱–**	**₱–**	**₱–**	**₱–**	**₱475,987,724**
Short-term investments	**449,227,626**	–	–	–	–	**449,227,626**
Receivables	**4,007,005**	–	–	–	–	**4,007,005**
Accrued income	**4,543,608**	–	–	–	–	**4,543,608**
AFS financial assets						
Government securities	**49,516,404**	**204,409,772**	–	–	–	**253,926,176**
Total financial assets	**₱983,282,367**	**₱204,409,772**	**₱–**	**₱–**	**₱–**	**₱1,187,692,139**
Financial liabilities:						
Other financial liabilities:						
Accounts payable and accrued expenses	**(₱67,975,379)**	**(₱6,642,829)**	**(₱598,538)**	**₱–**	**₱–**	**(₱75,216,746)**
Insurance payable	**(537,071)**	–	–	–	–	**(537,071)**
Due to related parties	**(64,193,440)**	–	–	–	–	**(64,193,440)**
Total financial liabilities	**(₱132,705,890)**	**(₱6,642,829)**	**(₱598,538)**	**₱–**	**₱–**	**(₱139,947,257)**

Unit-linked

	Up to a year	Maturity Breakdown 1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets:						
Loans and receivables:						
Cash and cash equivalents	₱27,949,812	₱–	₱–	₱–	₱–	₱27,949,812
Receivables	641,787	–	–	–	–	641,787
Accrued income	1,237,188	–	–	–	–	1,237,188
Financial assets at FVPL						
Government securities	–	13,130,217	23,382,320	81,909,135	–	118,421,672
Equity securities	–	–	–	–	78,744,786	78,744,786
Total financial assets	₱29,828,787	₱13,130,217	₱23,382,320	₱81,909,135	₱78,744,786	₱226,995,245
Financial liabilities:						
Other financial liabilities:						
Amount payable on redemption	(₱20,150)	₱–	₱–	₱–	₱–	(₱20,150)
Other payables	(1,207,800)	–	–	–	–	(1,207,800)
Total financial liabilities	(₱1,227,950)	₱–	₱–	₱–	₱–	(₱1,227,950)

December 31, 2013

Non-linked

	Up to a year	Maturity Breakdown 1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets:						
Loans and receivables:						
Cash and cash equivalents	₱65,288,089	₱–	₱–	₱–	₱–	₱65,288,089
Financial liabilities:						
Other financial liabilities:						
Accounts payable and accrued expenses	(₱8,149,196)	₱–	₱–	₱–	₱–	(₱8,149,196)
Due to related parties	(3,678,819)	–	–	–	–	(3,678,819)
Total financial liabilities	(₱11,828,015)	₱–	₱–	₱–	₱–	(₱11,828,015)

Market Risk

- *Currency risk*
  Currency risk is the risk that the value of the Company's financial instruments will decrease resulting from changes in the foreign currency exchange rates. The Company's financial assets are predominantly denominated in the same currencies as its insurance and other financial liabilities, which serves to mitigate the foreign currency exchange risks. As of December 31, 2014, the only foreign currency financial asset of the Company is the US dollar bank deposit amounting to USD$603,510 (the exchange rate used is 44.72 to USD$ 1), which is use to settle the expected foreign currency denominated operating expenses. The ₱34.93 million and ₱1.78 million foreign exchange loss and gain in 2014 and 2013, respectively, were generated from the actual conversion of the capital funds received in US dollar which were subsequently converted into Philippine peso as subscription of authorized capital stock of the Company. On December 31, 2013, the Company's exposure to currency risk pertains to dollar denominated cash in bank amounting to US$1,449,990 (the exchange rate used is 44.40 to USD$ 1).

The following table demonstrates the sensitivity to a reasonably possible change in USD$ with all variables held constant of the Company's net loss. There is no impact on the Company's equity other than those already affecting profit or loss:

Increase/Decrease in ₱ to USD$ exchange rate	Effect on Income Before Income Tax Increase (Decrease)	
	2014	2013
+5%	**₱1,349,448**	₱3,218,615
-5%	**(₱1,349,448)**	(₱3,218,615)

The assumed fluctuation rate is based on the average change in the year-end exchange rate between USD$ and Philippine peso for the past three years.

- *Equity price risk*
  Equity price risk is the risk that the fair value of equities will decrease resulting from changes in the levels of equity indices and the value of individual stocks. The Company is exposed to equity price risks arising from equity investments. Equity investments are held for the Company's variable unit linked funds. Exposure is being managed through equity asset class allocation target and range defined in the Investment Policy of the funds and is being monitored on a monthly basis.

  The effect on profit or loss (as a result of a change in fair value of instruments held in the unit-linked assets) due to a reasonably possible change in indices, with all other variables held constant, is as follows:

	Change in Equity Price (%)	Effect on profit or loss Increase (Decrease)
Equity securities	10%	₱7,874,479
	-10%	(₱7,874,479)

  The Company has no equity securities as of December 31, 2013. The Company determined the reasonably possible change in equity pricing percentage changes in the fair value for the past three years.

- *Interest rate risk*
  Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company's investments classified as AFS financial assets and financial assets at FVPL in particular are exposed to such risk. The Company's investment policy manages interest rate risk by aiming to match the maturities of interest-bearing financial assets and interest-bearing financial liabilities. The amount, duration and yield to maturity of assets are matched against the amount and duration of the liabilities.

  The Company's exposure to interest rate risk arises from its investment in government bonds for the VUL funds. Exposure is being managed through asset class allocation and ranges defined in the Investment Policy of the funds. Limit is also imposed on the tenor distribution for the fixed income portfolio.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates for the next financial year, with all other variables held constant, of the Company's total comprehensive income follows:

Change in Interest Rates (%)	Effect on total comprehensive income
10%	₱4,974,963
-10%	(₱4,974,963)

The Group determined the reasonably possible change in interest rate using the percentage changes in floating rates for the past (4) quarters for the year ended December 31, 2014.

25. **Commitments**

Operating Lease Commitments

Company as lessee

The Company entered into commercial leases on certain offices for its head office and branches. These leases have terms ranging between 1 to 5 years with renewal terms included in the contracts. Certain lease contracts also include escalation clauses. Renewals are at the option of the Company. There are no restrictions placed upon the lessee by entering into these leases. Future minimum rental payments under non-cancellable operating leases are as follows:

	2014	2013
Within one year	**₱27,037,444**	₱–
After one year but not more than five years	**123,862,136**	–
	₱150,899,580	₱–

The Company has an existing five (5) year lease term agreement commencing June 1, 2014 to May 31, 2019, renewable at the option of the Company for another (3) year term subject to mutually agreeable terms by parties. The rental charges shall be subject to 6% escalation each year over the five-year term of the lease.

Developmental Fees

The Company entered into Deed of Undertaking (DOU) with the agency leaders to assist with the building and maintaining of the agencies for the purpose of exclusively selling the Company's life insurance products. The remaining developmental fees shall be released monthly based on the first year commissions (FYC) requirement as defined in the DOU. In the event that the FYC requirement is not met in any given month, the pay-out of the monthly developmental fees will be suspended (see Note 10).

Developmental fees commitments are as follows:

	2014	2013
Within one year	**₱17,279,456**	₱–
After one year but not more than five years	**40,318,731**	–
	₱57,598,187	₱–

Distribution Agreement

The Company also has an existing Distribution Agreement with SBC which will be based on the production achievement plan as agreed by both parties (see Notes 1 and 28).

26. Contingencies

The Company has no involvement in any lawsuits that may arise from the normal course of carrying out its insurance business.

27. Events After the Reporting Date

On January 12, 2015, the Distribution Agreement (DA) between the Company and SBC was provisionally approved by IC on January 12, 2015. Provisional approval was due to the pending issuance of IC's Circular on Bancassurance (Rules Implementing Title 9, Chapter IV of the Amended Insurance Code on Bancassurance). IC gave its approval on the condition that the Company shall comply with the said Circular once officially adopted, and that the DA shall again be reviewed and be subject to the approval by the IC. In accordance with the DA, an exclusive access fee was paid by the Company to SBC in January 2015.

On January 13, 2015, the Company received ₱300 million from FWD Group Financial Services Pte. Ltd. as an additional contributed surplus.

On January 20, 2015, the Company issued its first policy sold through the Bancassurance channel.

On March 20, 2015, the BOD approved the infusion of additional contributed surplus of ₱200 million.

28. Supplementary Tax Information Required Under Revenue Regulations (RR) 15-2010

The following supplementary information under RR 15-2010 is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

Output VAT
Details of the Company's output VAT declared are as follows:

Fee income:	
Management fee income on assets held to cover unit-linked liabilities	₱6,324
Output VAT rate	12%
	₱759

Documentary stamp tax
The Company's documentary stamp tax paid or accrued in 2014 follows:

Source	Payment
Life insurance premiums/coverage	₱4,535
Original issuance of stocks	3,750,000
Other documents	114,272
Total	**₱3,868,807**

Other taxes and licenses
This includes all local taxes including licenses and permit fees under the account "Taxes and Licenses" and under "General and Administration" expenses.

Local Taxes	
Mayor's permit	₱267,623
Barangay clearance	750
Community tax certificate	500
National Taxes	
Documentary stamp tax	3,868,807
Insurance commission license	428,750
Percentage taxes	21,070
BIR annual registration	500
Other taxes	298,226
Total	**₱4,886,226**

Withholding taxes
Details of the Company's withholding taxes paid or accrued during the year are as follows:

Final withholding tax	₱6,445,932
Tax on compensation and benefits	5,993,701
Expanded withholding tax	1,203,241
	₱13,642,874