

**The Manufacturers Life Insurance  
Co. (Phils.), Inc.**

*(A Wholly Owned Subsidiary of  
The Manufacturers Life Insurance  
Company - Canada)*

Parent Company Financial Statements  
December 31, 2016 and 2015

and

Independent Auditor's Report



## **INDEPENDENT AUDITOR'S REPORT**

The Board of Directors and Stockholders  
The Manufacturers Life Insurance Co. (Phils.), Inc.

### **Report on the Audit of the Parent Company Financial Statements**

#### **Opinion**

We have audited the parent company financial statements of The Manufacturers Life Insurance Co. (Phils.), Inc. (the Company), which comprise the parent company statements of financial position as at December 31, 2016 and 2015, and the parent company statements of income, parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

#### **Basis for Opinion**

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Responsibilities of Management and Those Charged with Governance for the Parent Company Financial Statements**

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



In preparing the parent company financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Parent Company Financial Statements**

Our objectives are to obtain reasonable assurance about whether the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 presented in a separate schedule to the parent company 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 The Manufacturers Life Insurance Co. (Phils.), Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



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SEC Accreditation No. 0114-AR-4 (Group A),  
January 7, 2016, valid until January 6, 2019  
Tax Identification No. 152-884-511  
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February 27, 2015, valid until February 26, 2018  
PTR No. 5908681, January 3, 2017, Makati City

April 7, 2017



**THE MANUFACTURERS LIFE INSURANCE CO. (PHILS.), INC.**  
**(A Wholly Owned Subsidiary of The Manufacturers Life Insurance Company - Canada)**  
**PARENT COMPANY STATEMENTS OF FINANCIAL POSITION**

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>Cash and Cash Equivalents</b> (Notes 4 and 25)	<b>₱3,272,246,847</b>	<b>₱2,092,701,481</b>
<b>Insurance Receivables</b> (Notes 25)	<b>176,525,273</b>	<b>159,921,315</b>
<b>Financial Assets</b>		
Available-for-sale financial assets (Notes 5 and 25)	<b>44,437,750,576</b>	<b>42,725,958,654</b>
Financial assets at fair value through profit or loss (Notes 5, 6 and 25)	<b>30,997,827,135</b>	<b>25,013,901,685</b>
Loans and receivables (Notes 5, 25, and 26)	<b>6,113,918,466</b>	<b>5,607,611,087</b>
<b>Accrued Income</b> (Notes 7 and 25)	<b>487,161,651</b>	<b>466,207,148</b>
<b>Reinsurance Assets</b> (Notes 13, 25 and 26)	<b>446,532,663</b>	<b>20,915,111</b>
<b>Investments in Subsidiaries</b> (Note 8)	<b>991,298,983</b>	<b>991,298,983</b>
<b>Property and Equipment</b> (Notes 3 and 9)	<b>228,113,670</b>	<b>232,882,360</b>
<b>Intangible Assets</b> (Notes 3 and 10)	<b>44,824,800</b>	<b>52,295,600</b>
<b>Other Assets</b> (Notes 11)	<b>109,884,799</b>	<b>153,249,623</b>
	<b>₱87,306,084,863</b>	<b>₱77,516,943,047</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Insurance contract liabilities (Notes 12 and 13)	<b>₱63,296,413,103</b>	<b>₱55,196,377,303</b>
Policyholders' dividends (Note 25)	<b>4,086,532,316</b>	<b>4,536,232,712</b>
Reserve for policyholders' dividends	<b>589,128,929</b>	<b>984,513,180</b>
Insurance payables (Note 25)	<b>352,068,048</b>	<b>161,935,434</b>
Premium deposit fund (Note 25)	<b>44,518,056</b>	<b>44,070,614</b>
Accounts payable and accrued expenses (Notes 14 and 25)	<b>1,086,361,773</b>	<b>874,752,634</b>
Due to related parties (Notes 25 and 26)	<b>239,790,850</b>	<b>35,657,391</b>
Pension liability (Note 23)	<b>7,378,154</b>	<b>50,357,420</b>
<b>Total Liabilities</b>	<b>69,702,191,229</b>	<b>61,883,896,688</b>
<b>Equity</b>		
Capital stock (Notes 16 and 28)	<b>930,000,000</b>	<b>930,000,000</b>
Additional paid-in capital (Note 16)	<b>50,635,817</b>	<b>50,635,817</b>
Retained earnings	<b>14,110,480,797</b>	<b>12,083,171,968</b>
Remeasurement gain (loss) on pension plan (Note 23)	<b>17,442,964</b>	<b>(44,087,381)</b>
Reserve for fluctuation in value of available-for-sale financial assets (Notes 5 and 28)	<b>2,495,334,056</b>	<b>2,613,325,955</b>
<b>Total Equity</b>	<b>17,603,893,634</b>	<b>15,633,046,359</b>
	<b>₱87,306,084,863</b>	<b>₱77,516,943,047</b>

*See accompanying Notes to Parent Company Financial Statements.*



**THE MANUFACTURERS LIFE INSURANCE CO. (PHILS.), INC.**  
**(A Wholly Owned Subsidiary of The Manufacturers Life Insurance Company - Canada)**  
**PARENT COMPANY STATEMENTS OF INCOME**

	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>REVENUE</b>		
Gross premiums earned on insurance contracts	<b>₱16,858,398,492</b>	<b>₱14,021,030,358</b>
Reinsurers' share of gross premiums earned on insurance contracts	<b>(262,419,524)</b>	<b>(111,293,488)</b>
Net insurance premiums earned (Note 17)	<b>16,595,978,968</b>	<b>13,909,736,870</b>
Investment income (Note 18)	<b>2,568,395,994</b>	<b>2,581,316,493</b>
Gain on sale of available-for-sale financial assets (Note 5)	<b>31,697,487</b>	<b>3,919,082,257</b>
Foreign currency exchange gains	<b>75,001,313</b>	<b>68,450,166</b>
Fees and commission income	<b>3,069,748</b>	<b>2,662,855</b>
Other income (Note 19)	<b>1,932,730,087</b>	<b>1,299,085,355</b>
Total revenue	<b>21,206,873,597</b>	<b>21,780,333,996</b>
<b>BENEFITS, CLAIMS AND OPERATING EXPENSES</b>		
Gross benefits and claims incurred on insurance contracts	<b>3,345,871,655</b>	<b>2,156,995,015</b>
Dividends and dividend interest to policyholders	<b>154,012,342</b>	<b>908,206,461</b>
Reinsurers' share of benefits and claims incurred on insurance contracts	<b>(23,538,051)</b>	<b>2,788,051</b>
Gross change in legal policy reserves	<b>10,020,329,414</b>	<b>9,372,479,872</b>
Reinsurers' share of gross change in legal policy reserves	<b>(19,129)</b>	<b>(399,379)</b>
Net insurance benefits and claims (Note 20)	<b>13,496,656,231</b>	<b>12,440,070,020</b>
General and administrative expenses (Note 21)	<b>2,472,646,908</b>	<b>2,056,600,958</b>
Commissions and other direct expenses (Note 22)	<b>2,507,824,802</b>	<b>2,034,151,245</b>
Insurance and other taxes	<b>195,774,330</b>	<b>133,101,961</b>
Underwriting expense	<b>10,933,008</b>	<b>9,392,168</b>
Fair value losses on financial assets at FVPL (Note 5)	<b>936,431</b>	<b>3,488,186</b>
Interest on premium deposit fund	<b>589,002</b>	<b>733,726</b>
Impairment loss on investment in subsidiary (Note 8)	<b>–</b>	<b>735,584,890</b>
Total benefits, claims and operating expenses	<b>18,685,360,712</b>	<b>17,413,123,154</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>2,521,512,885</b>	<b>4,367,210,842</b>
<b>PROVISION FOR INCOME TAX (Note 24)</b>	<b>494,204,056</b>	<b>471,978,776</b>
<b>NET INCOME</b>	<b>₱2,027,308,829</b>	<b>₱3,895,232,066</b>

*See accompanying Notes to Parent Company Financial Statements.*



**THE MANUFACTURERS LIFE INSURANCE CO. (PHILS.), INC.**  
**(A Wholly Owned Subsidiary of The Manufacturers Life Insurance Company – Canada)**  
**PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>NET INCOME</b>	<b>₱2,027,308,829</b>	<b>₱3,895,232,066</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<b>Item that will be reclassified to profit or loss in subsequent periods:</b>		
Net change in fair value of available-for-sale financial assets (Note 5)	<b>(117,991,899)</b>	<b>(6,704,847,355)</b>
<b>Item that will not be reclassified to profit or loss in subsequent periods:</b>		
Remeasurement gain (loss) on pension plan (Note 23)	<b>61,530,345</b>	<b>(44,087,381)</b>
	<b>(56,461,554)</b>	<b>(6,748,934,736)</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>₱1,970,847,275</b>	<b>(₱2,853,702,670)</b>

*See accompanying Notes to Parent Company Financial Statements.*



**THE MANUFACTURERS LIFE INSURANCE CO. (PHILS.), INC.**  
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**PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY**

	Capital Stock (Note 16)	Additional Paid-in Capital (Note 16)	Retained Earnings	Remeasurement Gain (Loss) on Pension Plan (Note 23)	Reserve for Fluctuation in Value of Available-for-sale Financial Assets (Note 5)	Total
<b>As at January 1, 2016</b>	<b>₱930,000,000</b>	<b>₱50,635,817</b>	<b>₱12,083,171,968</b>	<b>(₱44,087,381)</b>	<b>₱2,613,325,955</b>	<b>₱15,633,046,359</b>
Net income	—	—	2,027,308,829	—	—	2,027,308,829
Other comprehensive income (loss)	—	—	—	61,530,345	(117,991,899)	(56,461,554)
<b>Total comprehensive income (loss)</b>	<b>—</b>	<b>—</b>	<b>2,027,308,829</b>	<b>61,530,345</b>	<b>(117,991,899)</b>	<b>1,970,847,275</b>
<b>As at December 31, 2016</b>	<b>₱930,000,000</b>	<b>₱50,635,817</b>	<b>₱14,110,480,797</b>	<b>₱17,442,964</b>	<b>₱2,495,334,056</b>	<b>₱17,603,893,634</b>
<b>As at January 1, 2015</b>	<b>₱930,000,000</b>	<b>₱50,635,817</b>	<b>₱8,187,939,902</b>	<b>₱—</b>	<b>₱9,318,173,310</b>	<b>₱18,486,749,029</b>
Net income	—	—	3,895,232,066	—	—	3,895,232,066
Other comprehensive loss	—	—	—	(44,087,381)	(6,704,847,355)	(6,748,934,736)
<b>Total comprehensive income (loss)</b>	<b>—</b>	<b>—</b>	<b>3,895,232,066</b>	<b>(44,087,381)</b>	<b>(6,704,847,355)</b>	<b>(2,853,702,670)</b>
<b>As at December 31, 2015</b>	<b>₱930,000,000</b>	<b>₱50,635,817</b>	<b>₱12,083,171,968</b>	<b>(₱44,087,381)</b>	<b>₱2,613,325,955</b>	<b>₱15,633,046,359</b>

*See accompanying Notes to Parent Company Financial Statements.*





**THE MANUFACTURERS LIFE INSURANCE CO. (PHILS.), INC.**  
**(A Wholly Owned Subsidiary of The Manufacturers Life Insurance Company - Canada)**  
**PARENT COMPANY STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱2,521,512,885</b>	<b>₱4,367,210,842</b>
Adjustments for:		
Change in legal policy reserves – non-unit-linked (Note 20)	<b>634,323,171</b>	2,084,386,674
Depreciation and amortization (Notes 9, 10 and 21)	<b>115,905,079</b>	101,409,164
Retirement costs (Note 23)	<b>41,783,580</b>	24,087,576
Change in IBNR provision (Note 12)	<b>22,921,665</b>	13,335,638
Fair value loss on financial assets at fair value through profit or loss (Note 5)	<b>936,431</b>	3,488,186
Interest on premium deposit fund	<b>589,002</b>	733,726
Impairment loss on investment in subsidiary (Note 8)	–	735,584,890
Gain on disposal of property and equipment (Note 9)	<b>(2,548,581)</b>	(1,103,075)
Gain on sale of available-for-sale financial assets (Note 5)	<b>(31,697,487)</b>	(3,919,082,257)
Dividend income (Note 18)	<b>(32,052,772)</b>	(27,481,585)
Unrealized foreign currency exchange gains – net	<b>(65,264,925)</b>	(49,390,415)
Decrease (increase) in reserve for policyholders' dividends	<b>(395,384,251)</b>	27,499,479
Interest income (Note 18)	<b>(2,536,343,222)</b>	(2,553,834,908)
Operating income before changes in operating assets and liabilities	<b>274,680,575</b>	806,843,935
Decrease (increase) in:		
Insurance receivables	<b>(16,603,958)</b>	(19,040,178)
Loans and receivables	<b>(236,765,646)</b>	(244,683,842)
Reinsurance assets	<b>(425,617,552)</b>	(4,346,840)
Financial assets at fair value through profit or loss	<b>(5,976,013,876)</b>	(3,731,059,559)
Other assets	<b>10,373,240</b>	(23,067,743)
Increase (decrease) in:		
Insurance contract liabilities – unit-linked	<b>6,970,911,055</b>	4,155,083,383
Accounts payable and accrued expenses	<b>211,609,139</b>	(83,155,324)
Policy and contract claims, and other insurance contract liabilities (Note 12)	<b>471,879,909</b>	447,033,342
Insurance payables	<b>190,132,614</b>	69,730,156
Due to related parties	<b>204,133,459</b>	17,632,875
Policyholders' dividends	<b>(449,700,396)</b>	38,773,548
Premium deposit fund	<b>447,442</b>	(8,496,525)
Cash generated from operations	<b>1,229,466,005</b>	1,421,247,228
Interest paid	<b>(589,002)</b>	(733,726)
Contribution to retirement fund (Note 23)	<b>(23,232,501)</b>	(17,817,537)
Income taxes paid (including creditable withholding taxes)	<b>(461,212,472)</b>	(471,978,776)
Net cash provided by operating activities	<b>744,432,030</b>	930,717,189

(Forward)



	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	<b>₱2,263,753,626</b>	₱2,212,246,342
Proceeds from sale and/or maturities of:		
Available-for-sale financial assets (Notes 5 and 30)	<b>595,556,680</b>	1,297,000,664
Investment in subsidiaries	<b>39,983,750</b>	39,983,750
Property and equipment (Note 9)	<b>2,881,782</b>	1,103,075
Acquisitions of:		
Property and equipment (Note 9)	<b>(103,998,790)</b>	(160,883,449)
Available-for-sale financial assets (Notes 5 and 30)	<b>(2,396,325,807)</b>	(3,244,634,070)
Capital infusion to MFPI (Note 8)	–	(800,000,000)
Additional investment in insurance investment fund – seed money	<b>(7,845,325)</b>	–
Withdrawal of seed money	–	14,174,014
Dividends received	<b>31,752,973</b>	26,798,614
Net cash provided (used) in investing activities	<b>425,758,889</b>	(614,211,060)
<b>EFFECT OF FOREIGN CURRENCY RATE CHANGES IN CASH AND CASH EQUIVALENTS</b>	<b>9,354,447</b>	6,792,652
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,179,545,366</b>	323,298,781
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>2,092,701,481</b>	1,769,402,700
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>₱3,272,246,847</b>	₱2,092,701,481

*See accompanying Notes to Parent Company Financial Statements.*



**THE MANUFACTURERS LIFE INSURANCE CO. (PHILS.), INC.**  
**(A Wholly Owned Subsidiary of The Manufacturers Life Insurance Company - Canada)**

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**PARENT COMPANY NOTES TO FINANCIAL STATEMENTS**

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**1. Corporate Information**

The Manufacturers Life Insurance Co. (Phils.), Inc. (the Parent Company or Manulife Philippines) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC). Manulife Philippines' products include life insurance, accident and other insurance products that are permitted to be sold by a life insurance company in the Philippines.

Manulife Philippines is a wholly owned subsidiary of the Philippine Branch of The Manufacturers Life Insurance Company of Canada (the Philippine Branch) until February 21, 2012.

In 2011, the Manulife Group of Insurance Companies undertook a global corporate reorganization. Pursuant to this, on September 27, 2011, the Board of Directors (BOD) of Manulife Philippines approved and ratified a resolution increasing its authorized capital stock from ₱1.00 billion, divided into 10.00 million common shares with a par value of ₱100 per share, to ₱2.00 billion, divided into 10.00 million common Class A shares with a par value of ₱100 per share, and 1.00 million common Class B shares with a par value of ₱1,000 per share. On the same date, the BOD and shareholders further approved and ratified the subscription of its principal stockholder, The Manufacturers Life Insurance Company of Canada (MLIC) for the new Common Class B shares with aggregate par value of ₱930.00 million. The Common Class B shares of ₱930.00 million will be issued by Manulife Philippines to MLIC by way of a tax free transfer of the following:

- a. The 5,000,000 common Class A shares held by the Philippine Branch in exchange for 500,000 Manulife Philippine's common Class B shares with aggregate par value of ₱500.0 million;
- b. Financial assets of the Philippine Branch consisting of government securities with fair value of ₱430.64 million, including accrued interest of ₱3.08 million, in exchange for 430,000 Manulife Philippines's common Class B shares with aggregate par value of ₱430.00 million.

On February 16, 2012, the SEC confirmed MLIC's subscription of ₱930.00 million common Class B shares of Manulife Philippines and the redemption of ₱500.00 million common Class A shares of Manulife Philippines.

On February 22, 2012, Manulife Philippines completed the above transaction and became a direct wholly owned subsidiary of MLIC.

On February 24, 2012, the BOD subsequently amended its authorized capital stock on which it provides a decrease from ₱2.00 billion, divided into 10.00 million common Class A shares with a par value of ₱100 per share, and 100 million common Class B shares with a par value of ₱1,000 per share, to 1.00 million common shares with a par value of ₱1,000 per share.

On July 2, 2012, MLIC, pursuant to the same global corporate reorganization, transferred the 930,000 Manulife Philippines common Class B shares to Manulife Century Holdings (Netherlands) B.V. ("MCHN") for additional shares issued by MCHN.



In September 2014, Manulife Philippines disposed 35% of its outstanding capital in Manulife China Bank Life Assurance Corporation (MCBLAC) to China Banking Corporation (CBC) by way of selling MCBLAC common shares amounting to ₱152.77 million, equivalent to 1,750,000 common shares of stocks, and 40% of its contributed surplus amounting to ₱207.50 million, reducing Manulife Philippines' ownership interest in MCBLAC from 95% to 60%. Manulife Philippines still has 100% ownership interest in Manulife Financial Plans, Inc. (MFPI). MCBLAC and MFP are both incorporated in the Philippines.

As of April 7, 2017, Manulife Philippines has not yet issued stock certificates in favor of MCHN pending the receipt of Certificate Authorizing Registration which will be issued by the Bureau of Internal Revenue (BIR). Under Philippine laws, MLIC still holds 100% of Manulife Philippines' issued and outstanding stocks.

The ultimate parent of the Manulife Philippines is Manulife Financial Corporation, a company incorporated in Canada.

The registered office address of the Manulife Philippines is 16th Floor, LKG Tower, 6801 Ayala Avenue, Makati City.

The accompanying parent company financial statements were approved and authorized for issue by the BOD on April 7, 2017.

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

### Basis of Preparation

The accompanying parent company financial statements have been prepared using the historical cost basis, except for financial instruments at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value.

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

The financial statements provide comparative information in respect of the previous period. In addition, the Parent Company presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

The accompanying financial statements are the Parent Company's separate financial statements. The Parent Company did not present consolidated financial statements having met the following criteria set out in PFRS 10, *Consolidated Financial Statements*:

- (a) The Parent Company is a wholly-owned subsidiary of The Manufacturers Life Insurance Company of Canada and its owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the Parent Company not presenting consolidated financial statements;
- (b) The Parent Company's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);



- (c) The Parent Company did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
- (d) The ultimate parent of the Parent Company produces consolidated financial statements that are available for public use that comply with International Financial Reporting Standards (IFRS).

Based on PIC Q&A No. 2006-02, *Clarification of Criteria for Exemption from Presenting Consolidated Financial Statements*, the Parent Company has met criterion (d) above and is exempt from preparing consolidated financial statements given its ultimate parent produces consolidated financial statements which are available for public use that comply with IFRS.

Manulife Financial Corporation, the Parent Company's ultimate parent, is a publicly traded life insurance company and prepares consolidated financial statements in accordance with IFRS. MFC's consolidated financial statements, which include the financial statements of the Parent Company, can be obtained from Manulife Financial Corporation Annual Report, which is available in [www.manulife.com](http://www.manulife.com).

#### Statement of Compliance

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

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Parent Company has adopted the following new accounting pronouncements starting January 1, 2016. Adoption of these pronouncements did not have any significant impact on the Parent Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
  - Amendment to PFRS 5, *Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*



#### Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Parent Company does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Parent Company intends to adopt the following pronouncements when they become effective.

#### *Effective beginning on or after January 1, 2017*

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The amendments do not have any impact on the Parent Company's financial position and results of operation.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

Application of amendments will result in additional disclosures in the 2017 financial statements of the Parent Company.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

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



- *Valuation Standards for Life Insurance Policy Reserves*

Insurance Commission (IC) has released Circular Letter No. 2016-66 on the Valuation Standards for Life Insurance Policy Reserves which provides a change in the basis of valuation of the life insurance policy reserves from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV) which now considers other assumptions such as morbidity, lapse and/or persistency, expenses, non-guaranteed benefits and margin for adverse deviation.

The Parent Company will adopt the new valuation standard on the required effective date and is currently assessing the impact of the change.

*Effective beginning on or after January 1, 2018*

- *Amendments to PFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

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

- *Amendments to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The Parent Company is assessing which approach it will use and the potential impact of the chosen approach in its parent company financial statements.



- PFRS 15, *Revenue from Contracts with Customers*

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Parent Company is currently assessing the impact of adopting this standard.

- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's application of hedge accounting and on the amount of its credit losses.

The Parent Company is currently assessing the impact of adopting this standard.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

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





- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

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

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

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

*Effective beginning on or after January 1, 2019*

- PFRS 16, *Leases*

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

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



Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Parent Company is currently assessing the impact of adopting PFRS 16.

*Deferred effectivity*

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Reclassification of Accounts

The Parent Company previously classifies policy and payment suspense as part of accounts payable. In 2016, the Company classified these to form part of "Insurance Contract Liabilities" as management believes that this presentation more faithfully reflects the nature of the liability. Prior year financial statements have been restated to be consistent with the current year presentation.

The impact of the reclassification of the accounts in 2015 and 2014 statements of financial position follows:

	2015	2014
Increase (decrease):		
Insurance contract liabilities	304,244,484	272,170,517
Accounts and other payables		
Policy suspense	(86,188,374)	(61,286,355)
Payment suspense	(218,056,110)	(210,884,162)

The above reclassifications have no impact on the 2015 and 2014 net income, and on the total assets, total liabilities and equity as of December 31, 2015 and 2014. Accordingly, the Parent Company did not present a statement of financial position as at the beginning of the earliest period presented.

Product Classification

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

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

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

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

#### Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from the date of placement and that are subject to an insignificant risk of change in value.

#### Insurance Receivables

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

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



## Financial Instruments

### *Date of recognition*

The Parent Company recognizes a financial asset or a financial liability in its parent company statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the trade date.

### *Initial recognition*

Financial instruments are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments classified as FVPL. The Parent Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

### Fair Value Measurement

The Parent Company measures financial instruments, such as FVPL and AFS financial assets at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 25.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Parent 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 Parent Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.



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

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

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

#### *Financial instruments at FVPL*

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

Financial assets and financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets and financial liabilities may be designated at FVPL when the following criteria are met:

- (a) The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities recognizing gains or losses on them on a different basis;
- (b) The assets or liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- (c) The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear with little or no analysis that it would not be separately recorded.

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

The Parent Company's financial assets at FVPL consist of debt and equity securities of the insurance investment funds and derivative instruments.

The Parent Company's peso and dollar-denominated debt securities and equity securities under the Insurance Investments Funds (IIFs) underlying the unit-linked insurance contracts are designated at FVPL as these financial instruments are managed and their performance are evaluated on a fair



value basis, in accordance with the Parent Company's 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.

As of December 31, 2016 and 2015, the Parent Company has no financial liabilities classified as FVPL.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, nor designated as AFS or at FVPL. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the parent company statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

As of December 31, 2016 and 2015, the Parent Company's loans and receivables represent cash and cash equivalents, insurance receivables, accrued income, policy loans, mortgage loans, corporate loans, reinsurance assets, receivable from agents, due from related parties, accounts receivable, security deposits, due from officers and employees and other receivables.

#### *AFS financial assets*

AFS financial assets are non-derivative financial assets that are either designated in this category or do not qualify to be classified as loans and receivables, HTM investments or financial assets at FVPL. After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of the restatement on foreign currency-denominated AFS debt securities, is recognized in the parent company statement of income. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in the parent company statement of income as investment income when the right of the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets, including the impact of foreign exchange differences in AFS equity securities, are reported in other comprehensive income. The losses arising from impairment of such investments are recognized as provision for impairment losses in the parent company statement of income. On derecognition or impairment, the cumulative gain or loss previously reported in other comprehensive income is transferred to the parent company statement of income.

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

The Parent Company's AFS financial assets consist of peso and dollar-denominated government debt securities, quoted and unquoted equity securities.

#### *Other financial liabilities*

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the



effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the parent company statement of income. Other financial liabilities include the Parent Company's insurance payables, accounts payable and accrued expenses, premium deposit fund, policyholders' dividends, due to related parties and other liabilities.

#### Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt if it has a contractual obligation to:

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

If the Parent Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

#### Offsetting Financial Instruments

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

#### Impairment of Financial Assets

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

#### *Financial assets carried at amortized cost*

For financial assets carried at amortized cost, the Parent Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Parent Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.



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

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Other income' account.

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

*AFS Financial assets carried at fair value*

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

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Investment income' in the parent company statement of income. If, in a subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the parent company statement of income, the impairment loss is reversed through the parent company statement of income.

*AFS financial assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument 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 discounted at the current market rate of return for a similar financial asset.

Objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not





be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

#### Derecognition of Financial Assets and Liabilities

##### *Financial asset*

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

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

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

##### *Financial liability*

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

#### Policy Loans

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

#### Reinsurance Assets

The Parent Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis. Reinsurance assets also include reinsurer’s share on the Parent Company’s expenses in issuing back-end variable unit-linked (UL) policies which are recorded under other income of the Parent Company.

The Parent Company assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance assets are impaired, the Parent Company reduces the carrying amount of the reinsurance assets to its recoverable amount and recognizes that impairment loss in its statement of income. The Parent Company gathers the objective evidence that the reinsurance asset is impaired using the same process adopted for financial assets held at amortized cost. The impairment loss is calculated following the same method used for these financial assets.



#### Investments in Subsidiaries

Investment in subsidiaries is accounted for using the cost method in the parent company financial statements. A subsidiary is an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent). The Parent Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

The investment in subsidiary is carried in the statement of financial position at cost less any impairment in value. The Parent Company recognizes income from the investment only to the extent that the Parent Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as recovery of investment and are recognized as a reduction of the cost of the investment. Whenever there's a change in the ownership interest of a subsidiary due to sale, any difference between the carrying amount of the subsidiary and the proceeds from disposal is recognized in profit or loss.

#### Property and Equipment

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

The initial cost of property and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are charged to the parent company statement of income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization are computed on a straight-line method over the estimated useful lives (EUL) of the properties as follows:

	Years
Electronic Data Processing (EDP) equipment	3
Leasehold improvements	5
Transportation equipment	5
Furniture and fixtures	5

Leasehold improvements are amortized over the term of the lease or the EUL of the improvements, whichever is shorter.

The assets' useful lives and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the parent company statement of income in the year the item is derecognized.



#### Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. The Parent Company has no intangible assets with indefinite lives.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the parent company statement of income in the expense category consistent with the function of the intangible asset.

The Parent Company's intangible assets pertain to the costs of assumed policies arising from Assumption Reinsurance Agreement. Such intangible assets have an estimated useful life of 20 years.

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

#### Prepayments

Prepaid expenses are carried at cost less amortized portion. These include prepayments for rent, insurance and others.

#### Creditable withholding tax

Creditable withholding pertains to the indirect tax paid by the Company that is withheld by its counterparty for the payment of its expenses and other purchases. These CWTs are initially recorded at cost as an asset under "Other assets" account.

At each end of the tax reporting deadline, these CWTs may either be offset against future tax income payable or be claimed as a refund from the taxation authorities at the option of the Company.

At each end of the reporting period, an assessment for impairment is performed as to the recoverability of these CWTs.

#### Pension Asset

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



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

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

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

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

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

#### Impairment of Nonfinancial Assets

The carrying values of non-financial assets (i.e., property and equipment, intangible assets and investments in subsidiaries) are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the parent company statement of income.

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



### Insurance Contract Liabilities

#### *Life Insurance contract liabilities*

Life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The provision for life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing 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 Insurance Commission.

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

#### *Life insurance contracts with fixed and guaranteed terms*

Premiums are recognized as revenue when they become due from the policyholders which for single premium business is the date from which the policy is effective.

Benefits are recorded as an expense when they are incurred and are accrued as a liability.

A liability for contractual benefits that are expected to be incurred in the future is recorded under 'change in legal policy reserve' in the parent company statement of income when the premiums are recognized. The liability is determined as the sum of the expected discounted value of the benefit payments that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used.

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

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

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. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in the statement of income in later years. Policy and contract claims payable forms part of the liability section of the statement of financial position.

#### *Unit-linked insurance contracts*

The Parent Company issues unit-linked insurance contracts. In addition to providing life insurance coverage, a unit-linked contract links payments to insurance investment funds set-up by the Parent Company with consideration received from the policyholders. As allowed by PFRS 4,



the Parent Company chose not to unbundle the investment portion of its unit-linked products. Premiums received (including premium load and bid-offer spread) from the issuance of unit-linked insurance contracts are recognized as premium revenue. Consideration received from policyholders that are transferred to the segregated funds is recognized as part of gross change in legal policy reserves in the parent company statements of income.

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

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

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

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

*Policy and contract claims payable*

Claims payable includes the sum of the individual amounts that are due and have already been approved for payment but have not actually been paid as of the end of the reporting period. This also includes accrual of reported claims that are not yet approved for payment. This is recognized when due and measured on initial recognition at fair value. Subsequent to initial recognition, this is measured at amortized cost using the effective interest rate method. This also includes provision for incurred but not reported losses.

*Other insurance contract liabilities*

Other insurance contract liabilities include advanced or excess collections and unpaid policy related disbursements.

*Liability adequacy test*

At each reporting date, liability adequacy tests are performed, 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 parent company statement of income initially by establishing a provision for losses arising from the liability adequacy tests.



#### Discretionary Participation Feature

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

#### Insurance Payables

Insurance payables result from the reinsurance agreement entered into by the Parent Company for ceding out its insurance business. The Parent Company initially recognizes the liability at transaction price. After initial measurement, insurance payables are subsequently measured at amortized cost using the effective interest rate method.

#### Capital Stock and Additional Paid-in Capital

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

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

Direct cost incurred related to the equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings.

#### Retained earnings

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

#### Revenue Recognition

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

#### *Insurance premiums*

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

#### *Investment income*

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



Investment income also includes dividends, which are recognized when the Parent Company's right to receive the payment is established.

*Fees and commission income*

Fees and commission income include policy fees and are recognized when services are rendered.

*Other income*

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

Benefits and Claims Recognition

*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. Maturities and annuity payments are recorded when due. Benefits recorded are then accrued as liabilities.

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

*Dividend and dividend interest to policyholders*

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

Expense Recognition

Expenses are recognized in the parent company statement of income when incurred. These are recognized in the parent company statement of income:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the Parent Company statement of financial position as an asset.

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





### Commission Expenses

Commission expenses are charged against operations when incurred.

### Leases

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

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

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for 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 the profit and loss on a straight-line basis over the lease term. Indirect costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognized over the lease term on the same basis as the lease income. Minimum lease payments are recognized on a straight-line basis while the variable rent is recognized as an expense based the terms of the leased contract.

### Foreign Currency-denominated Exchange Transactions and Translations

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

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

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

### Income Tax

#### *Current tax*

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

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

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

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

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

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

#### Provisions

Provisions are recognized when the Parent Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Parent Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the parent company statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.



#### Contingencies

Contingent liabilities are not recognized in the parent company financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the parent company financial statements but are disclosed when an inflow of economic benefits is probable.

#### Events after the Reporting Period

Post year-end events that provide additional information about the Parent Company's position at the reporting date (adjusting events) are reflected in the parent company financial statements. Post year-end events that are non-adjusting events are disclosed in the parent company financial statements when material.

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

The Parent 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 Parent Company's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the parent company financial statements.

#### *Product classification*

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

The options and guarantees within the insurance contracts issued by the Parent Company are treated as derivative financial instruments which are clearly and closely related to the host insurance and therefore not bifurcated subsequently. As such, the Parent 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).

#### *Fair values of financial assets and liabilities*

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

In determining the fair values, management evaluates the normal volatility in the share price, the financial health of the investee, and the industry and sector performance, like changes in operational and financial cash flows. Any indication of deterioration in the above factors can have a negative impact on the fair value. The fair values of financial assets and liabilities are shown in Note 25.



### 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.

#### *Claims liability arising from insurance contracts*

The estimation of the ultimate liability arising from claims made under life insurance contracts is the Parent 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 Parent Company will ultimately pay for those claims.

Estimates are made as to the expected number of deaths for each of the years in which the Parent Company is exposed to risk. The Parent Company bases these estimates on standard mortality and morbidity tables as required by the Code. The estimated number of deaths 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.

In accordance with the provision of the Code, estimates for future deaths, voluntary terminations, investment returns and administration expenses are determined at the inception of the contract and are used to calculate the liability over the term of the contract. At each reporting date, these estimates are reassessed for adequacy and changes will be reflected in the adjustments to the liability. As required by the Code, the interest rates used to discount future liabilities do not exceed 6%.

The carrying value of the legal policy reserves amounted to ₱61.89 billion and ₱54.28 billion as of December 31, 2016 and 2015, respectively (see Note 12).

#### *Impairment of nonfinancial assets*

The Parent Company assesses the impairment of its nonfinancial assets (i.e., property and equipment, intangible assets and investments in subsidiaries) whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

The factors that the Parent Company considers important which could trigger an impairment review include the following:

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

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and the value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.



Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific asset, the recoverable amount represents the fair value less cost to sell.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Parent Company is required to make estimates and assumptions that can materially affect the financial statements.

As of December 31, the carrying values of investments in subsidiaries, property and equipment and intangible assets follow:

	2016	2015
Investments in subsidiaries (Note 8)	<b>₱991,298,983</b>	₱991,298,983
Property and equipment (Note 9)	<b>228,113,670</b>	232,882,360
Intangible assets (Note 10)	<b>44,824,800</b>	52,295,600

In 2015, the Parent Company recognized impairment loss on its investment in Manulife Financial Plans, Inc. (MFPI) amounting to ₱735.58 million.

*Estimation of allowance for impairment losses*

The Parent 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 Parent Company's relationship with the debtors, the debtor's payment behaviour and known market factors. The Parent 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 Parent 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, 2016 and 2015, the carrying value of loans and receivables amounted to ₱6.11 billion and ₱5.61 billion after deducting allowance for impairment losses on loans and receivables amounting to ₱15.53 million and ₱12.44 million (see Note 5).

*Impairment of AFS financial assets*

The Parent 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 Parent Company treats 'significant' generally as 20% or more and 'prolonged' as greater than 12 months for quoted equity investments.

In addition, the Parent 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 Parent Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

As of December 31, 2016 and 2015, the carrying value of AFS equity investments amounted to ₱1.86 billion and ₱1.61 billion, respectively (see Note 5).

*Estimated useful life of intangible assets*

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

As of December 31, 2016 and 2015, the carrying value of intangible assets amounted to ₱44.82 million and ₱52.30 million, respectively (see Note 10).

*Recognition of Pension liability*

The cost of defined benefit pension plans and other post employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. As of December 31, 2016 and 2015, net defined benefit liability amounted ₱7.38 million and ₱50.36 million, respectively (see Note 23).

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

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

Further details about the assumptions used are provided in Note 23.

*Recognition of deferred tax assets*

Deferred tax assets are recognized for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. See Note 24 for related balances.

*Contingencies*

The Parent Company is currently involved in various proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Parent Company's defense in these matters and is based upon an analysis of potential results. The Parent Company currently does not believe that these proceedings will have a



material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 15).

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#### 4. Cash and Cash Equivalents

This account consists of:

	2016	2015
Cash on hand:		
Petty cash fund	<b>₱731,039</b>	₱883,716
Cash in commercial banks (Note 25)	<b>654,155,274</b>	488,944,313
Short-term deposits in commercial banks (Note 25)	<b>180,512,825</b>	151,085,813
	<b>835,399,138</b>	640,913,842
Cash held in insurance investment funds (Notes 6 and 25):		
Cash in banks	<b>1,179,888,895</b>	384,769,842
Short-term deposits	<b>1,256,958,814</b>	1,067,017,797
	<b>2,436,847,709</b>	1,451,787,639
	<b>₱3,272,246,847</b>	<b>₱2,092,701,481</b>

Cash in banks earns interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Parent Company and earn interest at the prevailing short-term deposit rates.

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#### 5. Financial Assets

The Parent Company's financial assets are summarized as follows:

	2016	2015
AFS financial assets	<b>₱44,437,750,576</b>	₱42,725,958,654
Financial assets designated at FVPL	<b>30,997,827,135</b>	25,013,901,685
Loans and receivables	<b>6,113,918,466</b>	5,607,611,087
	<b>₱81,549,496,177</b>	<b>₱73,347,471,426</b>

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

a) *AFS financial assets*

	2016	2015
Government debt securities:		
Local currency	<b>₱41,381,464,678</b>	₱40,035,705,148
Foreign currency	<b>1,194,070,156</b>	1,082,528,180
Quoted equity securities:		
Club shares	<b>44,660,000</b>	41,362,000
Common shares	<b>1,817,555,742</b>	1,566,363,326
	<b>₱44,437,750,576</b>	<b>₱42,725,958,654</b>



The rollforward analysis of AFS financial assets follows:

	2016	2015
Balance at beginning of year	<b>₱42,725,958,654</b>	₱43,577,239,234
Additions	<b>2,396,325,807</b>	16,453,588,189
Disposals/maturities	<b>(595,556,680)</b>	(14,505,954,783)
Net premium amortization	<b>(57,590,591)</b>	(54,982,976)
Fair value losses recognized in other comprehensive income	<b>(86,294,412)</b>	(2,785,765,098)
Foreign currency exchange adjustments	<b>54,907,798</b>	41,834,088
Balance at end of year	<b>₱44,437,750,576</b>	₱42,725,958,654

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

	2016	2015
Balance at beginning of year	<b>₱2,613,325,955</b>	₱9,318,173,310
Change in fair value of available-for-sale financial assets	<b>(86,294,412)</b>	(2,785,765,098)
Realized gains transferred to statements of income	<b>(31,697,487)</b>	(3,919,082,257)
Net change during the year	<b>(117,991,899)</b>	(6,704,847,355)
Balance at end of year	<b>₱2,495,334,056</b>	₱2,613,325,955

In 2015, the Parent Company participated in a bond swap initiated by the Bureau of Treasury. Government debt securities with interest ranging from 5.75% to 9.50% were exchanged for 25-year bonds with interest rate of 4.625%. A gain amounting to ₱3.57 billion was realized and is included in Gain on sale of available-for-sale financial assets in the statement of income.

Details of this transaction are shown below:

Additions	₱13,208,954,119
Disposals at amortized cost	9,640,637,737
Realized gain	₱3,568,316,382

Investments in AFS financial assets mainly represent fixed-rate government treasury bonds and United States (US) dollar denominated treasury notes with annual interest rates ranging as follows:

		From	To
2016	Peso	3.92%	18.25%
	Dollar	3.70%	10.63%
2015	Peso	3.63%	18.25%
	Dollar	3.95%	10.63%

Government securities, included in AFS financial assets, with face value of ₱125.00 million and aggregate market value of ₱227.66 million and ₱191.80 million as of December 31, 2016 and 2015, respectively, are deposited with the Insurance Commission pursuant to the provisions of the Code as security for the benefit of policyholders and creditors of the Parent Company.





b) *Loans and Receivables*

This account consists of:

	2016	2015
Policy loans	<b>₱3,774,295,151</b>	₱3,880,948,386
Due from related parties (Note 26)	<b>1,497,003,229</b>	1,063,697,495
Corporate loan	<b>200,000,000</b>	200,000,000
Receivable from agents	<b>166,277,636</b>	126,999,457
Security deposits	<b>83,375,243</b>	87,579,036
Accounts receivable held in insurance investment funds (Note 6)	<b>58,842,478</b>	42,968,298
Due from officers and employees	<b>250,113,779</b>	35,392,302
Mortgage loans	<b>5,504,713</b>	8,760,112
Other receivables	<b>94,035,220</b>	173,705,690
	<b>6,129,447,449</b>	5,620,050,776
Less allowance for impairment losses	<b>15,528,983</b>	12,439,689
	<b>₱6,113,918,466</b>	₱5,607,611,087

Policy loans pertain to loans issued to policyholders. The loan is secured with the cash surrender value of the policy. Interest rates charged range from 8% to 10% in 2016 and 2015.

Due from related parties pertain to the significant transactions such as reinsurance agreements, cash advances for payment of the operating expenses, cost allocation for accounting and administrative expenses involving various related parties.

On August 12, 2012, the Parent Company entered into a loan agreement totaling to ₱200 million with a local company that bears a fixed interest rate of 5.42%. The corporate loan amounting to ₱200.00 million is collectible within five (5) years from the date of availment. The local company may prepay all (but not part) of the loan, subject to the prepayment penalty interests from 0.188% to 0.375%, on any interest payment date provided, however, that there shall be no prepayment within two years from the drawdown date.

Security deposits are refundable at the end of the lease term.

Due from officers and employees consist of various loans from officers and employees with varying terms and interest rates. This includes amount for investment to the new trust corporation. Loans from officers and employees are settled through payroll deductions.

Mortgage loans earn interest ranging from 5% to 10% per annum and with maturity of 1 to 20 years.

Other receivables consist of receivable from SSS and other receivables. This also includes the outstanding non-interest bearing receivable from CBC for the sale of the non-controlling interest in MCBLAC amounting to ₱59.98 million and ₱99.96 million as of December 31, 2016 and 2015, respectively. The receivable is collectible in sixteen (16) equal quarterly installments of ₱9,995,938 which shall be collected from MCBLAC via offsetting arrangement against the latter's commissions payable to CBC.



The rollforward analysis of the Parent Company's allowance for impairment losses based on the Parent Company's assessment of the individual balances of receivable from agents follows:

	2016	2015
At beginning of year	<b>₱12,439,689</b>	₱12,439,689
Provisions (Note 21)	<b>3,089,294</b>	–
At end of year	<b>₱15,528,983</b>	₱12,439,689

c) *Financial assets designated at FVPL*

	2016	2015
Designated at initial recognition:		
Debt securities held in insurance investment funds (Note 6)		
Peso – denominated government bonds	<b>₱10,776,939,705</b>	₱8,806,312,166
Dollar – denominated	<b>3,741,902,939</b>	2,306,440,245
Equity securities held in insurance investment funds – at market (Note 6)		
Peso – denominated	<b>13,742,507,291</b>	11,309,916,352
Dollar – denominated	<b>2,736,477,200</b>	2,591,232,922
	<b>₱30,997,827,135</b>	₱25,013,901,685

The fair value losses on financial assets at FVPL recorded in the parent company statements of income amounted to ₱0.94 million and ₱3.49 million as of December 31, 2016 and 2015, respectively.

## 6. Insurance Investment Funds (IIF)

The Parent Company issues unit-linked insurance contracts where the payments to policyholders are linked to investment funds set up by the Parent Company. As of December 31, 2016, the Parent Company has twenty (20) IIFs namely: Affluence Peso Bond Fund (Peso Fund), Affluence Peso Stable Fund (Stable Fund), Affluence Equity Fund (Equity Fund), Affluence Dollar Bond Fund (Dollar Fund), Peso Secure Fund, Peso Diversified Value Fund, Peso Growth Fund, US Dollar Secure Fund, Peso Balanced Fund, Dynamic Allocation Fund, Peso Target Income Fund, Peso Target Distribution Fund, Asia Pacific Bond Fund, Asean Growth Fund, Peso Cash Fund, Wealth Premier Fund, Global Target Income Fund, Wealth Optimizer 2026 Fund, Wealth Optimizer 2031 Fund, and Wealth Optimizer 2036 Fund.

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

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



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

The details of the UFs are as follows:

December 31, 2016				
	Net assets (Notes 4, 5, 7 and 14)	Due to unit- linked holders (Note 12)	Seed capital	Total
Peso Fund	₱854,779,872	₱852,184,163	₱2,595,709	₱854,779,872
Stable Fund	769,028,843	766,394,964	2,633,879	769,028,843
Equity Fund	1,418,980,754	1,416,772,115	2,208,639	1,418,980,754
Dollar Fund	581,508,830	578,335,956	3,172,874	581,508,830
Peso Secure Fund	3,573,675,951	3,570,584,497	3,091,454	3,573,675,951
Peso Diversified Value Fund	3,780,799,388	3,777,310,345	3,489,043	3,780,799,388
Peso Growth Fund	9,059,138,933	9,053,142,444	5,996,489	9,059,138,933
US Dollar Secure Fund	1,309,977,480	1,302,473,660	7,503,820	1,309,977,480
Peso Balanced Fund	427,296,015	425,296,487	1,999,528	427,296,015
Dynamic Allocation Fund	3,865,828,832	3,863,848,110	1,980,722	3,865,828,832
Peso Target Income Fund	163,563,901	161,750,910	1,812,991	163,563,901
Peso Target Distribution Fund	1,880,327,382	1,878,527,147	1,800,235	1,880,327,382
Asia Pacific Bond Fund	1,153,739,877	1,151,741,232	1,998,645	1,153,739,877
Asean Growth Fund	2,920,170,773	2,918,136,670	2,034,103	2,920,170,773
Peso Cash Fund	247,481,793	246,478,677	1,003,116	247,481,793
Wealth Premier Fund	36,259,728	34,585,234	1,674,494	36,259,728
Global Target Income Fund	1,235,337,880	1,232,979,990	2,357,890	1,235,337,880
Wealth Optimizer 2026 Fund	230,201,094	228,363,159	1,837,935	230,201,094
Wealth Optimizer 2031 Fund	24,453,554	22,628,346	1,825,208	24,453,554
Wealth Optimizer 2036 Fund	45,067,042	43,242,751	1,824,291	45,067,042
	₱33,577,617,922	₱33,524,776,857	₱52,841,065	₱33,577,617,922

December 31, 2015				
	Net assets (Notes 4, 5, 7 and 14)	Due to unit- linked holders (Note 12)	Seed capital	Total
Peso Fund	₱811,504,513	₱808,924,625	₱2,579,888	₱811,504,513
Stable Fund	743,399,605	740,772,023	2,627,582	743,399,605
Equity Fund	1,374,854,065	1,372,599,517	2,254,548	1,374,854,065
Dollar Fund	584,984,039	581,999,949	2,984,090	584,984,039
Peso Secure Fund	2,910,447,738	2,907,367,893	3,079,845	2,910,447,738
Peso Diversified Value Fund	3,327,071,150	3,323,571,817	3,499,333	3,327,071,150
Peso Growth Fund	7,505,186,138	7,499,049,650	6,136,488	7,505,186,138
US Dollar Secure Fund	805,615,326	798,540,173	7,075,153	805,615,326
Peso Balanced Fund	411,471,362	409,432,522	2,038,840	411,471,362
Dynamic Allocation Fund	2,609,330,554	2,607,305,802	2,024,752	2,609,330,554
Peso Target Income Fund	125,226,826	123,350,483	1,876,343	125,226,826
Peso Target Distribution Fund	1,429,175,341	1,427,307,509	1,867,832	1,429,175,341
Asia Pacific Bond Fund	1,134,503,439	1,132,631,460	1,871,979	1,134,503,439
Asean Growth Fund	2,690,518,583	2,688,733,702	1,784,881	2,690,518,583
Peso Cash Fund	76,453,155	75,451,670	1,001,485	76,453,155
Wealth Premier Fund	58,469,279	56,827,008	1,642,271	58,469,279
	₱26,598,211,113	₱26,553,865,803	₱44,345,310	₱26,598,211,113



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

December 31, 2016												
	Peso Bond Pool	Peso Money Market Pool	Peso Equity Pool	Peso Cash Pool	USD Bond Pool	Asia Bond Pool	Asean Growth Pool	Wealth Premier Pool	Global Target Income Pool	Accrued Management Fees	Total	
Peso Fund	₱784,743,335	₱71,119,259	₱-	₱-	₱-	₱-	₱-	₱-	₱-	(₱1,082,722)	₱854,779,872	
Stable Fund	464,649,848	160,091,567	145,425,622	-	-	-	-	-	-	(1,138,194)	769,028,843	
Equity Fund	-	-	1,421,379,520	-	-	-	-	-	-	(2,398,766)	1,418,980,754	
Dollar Fund	-	-	-	-	582,372,789	-	-	-	-	(863,959)	581,508,830	
Peso Secure Fund	3,232,552,463	346,399,020	-	-	-	-	-	-	-	(5,275,532)	3,573,675,951	
Peso Diversified Value Fund	2,255,107,935	727,463,967	804,575,829	-	-	-	-	-	-	(6,348,343)	3,780,799,388	
Peso Growth Fund	-	-	9,076,048,212	-	-	-	-	-	-	(16,909,279)	9,059,138,933	
US Dollar Secure Fund	-	-	-	-	1,312,175,067	-	-	-	-	(2,197,587)	1,309,977,480	
Peso Balanced Fund	211,315,320	-	216,705,257	-	-	-	-	-	-	(724,562)	427,296,015	
Dynamic Allocation Fund	1,912,184,962	-	1,960,930,032	-	-	-	-	-	-	(7,286,162)	3,865,828,832	
Peso Target Income Fund	101,165,441	29,287,831	33,438,759	-	-	-	-	-	-	(328,130)	163,563,901	
Peso Target Distribution Fund	1,163,767,369	336,695,675	384,060,990	-	-	-	-	-	-	(4,196,652)	1,880,327,382	
Asia Pacific Bond Fund	-	-	-	-	-	1,155,946,873	-	-	-	(2,206,996)	1,153,739,877	
Asean Growth Fund	-	-	-	-	-	-	2,926,284,836	-	-	(6,114,063)	2,920,170,773	
Peso Cash Fund	-	-	-	247,513,311	-	-	-	-	-	(31,518)	247,481,793	
Wealth Premier Fund	-	-	-	-	-	-	-	36,259,728	-	-	36,259,728	
Global Target Income Fund	-	-	-	-	-	-	-	-	1,237,670,561	(2,332,681)	1,235,337,880	
Wealth Optimizer 2026 Fund	50,848,372	1,182,456	178,628,178	-	-	-	-	-	-	(457,912)	230,201,094	
Wealth Optimizer 2031 Fund	2,051,085	26,499	22,425,786	-	-	-	-	-	-	(49,816)	24,453,554	
Wealth Optimizer 2036 Fund	3,036,122	37,845	42,053,225	-	-	-	-	-	-	(60,150)	45,067,042	
	₱10,181,422,252	₱1,672,304,119	₱14,285,671,410	₱247,513,311	₱1,894,547,856	₱1,155,946,873	₱2,926,284,836	₱36,259,728	₱1,237,670,561	(₱60,003,024)	₱33,577,617,922	



December 31, 2015

	Peso Bond Pool	Peso Money Market Pool	Peso Equity Pool	Peso Cash Pool	USD Bond Pool	Asia Bond Pool	Asean Growth Pool	Wealth Premier Pool	Accrued Management Fees	<b>Total</b>
Peso Fund	₱745,677,480	₱66,850,560	₱—	₱—	₱—	₱—	₱—	₱—	(₱1,023,528)	₱811,504,512
Stable Fund	452,956,733	125,764,710	165,771,683	—	—	—	—	—	(1,093,520)	743,399,606
Equity Fund	—	—	1,377,156,180	—	—	—	—	—	(2,302,115)	1,374,854,065
Dollar Fund	—	—	—	—	585,853,812	—	—	—	(869,773)	584,984,039
Peso Secure Fund	2,638,298,105	276,425,381	—	—	—	—	—	—	(4,275,748)	2,910,447,738
Peso Diversified Value Fund	1,975,676,372	629,402,288	727,586,935	—	—	—	—	—	(5,594,445)	3,327,071,150
Peso Growth Fund	—	—	7,519,375,266	—	—	—	—	—	(14,189,128)	7,505,186,138
US Dollar Secure Fund	—	—	—	—	806,973,830	—	—	—	(1,358,504)	805,615,326
Peso Balanced Fund	184,829,518	—	227,326,681	—	—	—	—	—	(684,836)	411,471,363
Dynamic Allocation Fund	1,172,489,420	—	1,441,754,775	—	—	—	—	—	(4,913,641)	2,609,330,554
Peso Target Income Fund	97,099,505	3,916,889	24,461,128	—	—	—	—	—	(250,697)	125,226,825
Peso Target Distribution Fund	1,108,142,901	44,751,094	279,446,404	—	—	—	—	—	(3,165,058)	1,429,175,341
Asia Pacific Bond Fund	—	—	—	—	—	1,136,528,447	—	—	(2,025,008)	1,134,503,439
Asean Growth fund	—	—	—	—	—	—	2,695,834,623	—	(5,316,040)	2,690,518,583
Peso Cash Fund	—	—	—	76,473,354	—	—	—	—	(20,199)	76,453,155
Wealth Premier Fund	—	—	—	—	—	—	—	58,469,279	—	58,469,279
	₱8,375,170,034	₱1,147,110,922	₱11,762,879,052	₱76,473,354	₱1,392,827,642	₱1,136,528,447	₱ 2,695,834,623	₱ 58,469,279	(₱47,082,240)	₱26,598,211,113



The breakdown of net assets in investment in segregated funds follows:

	2016		2015	
Cash in banks (Note 4)	<b>₱1,179,888,895</b>	<b>3.51%</b>	₱384,769,842	1.45%
Short-term deposits (Note 4)	<b>1,256,958,814</b>	<b>3.74%</b>	1,067,017,797	4.01%
Accounts receivable (Note 5)	<b>58,842,478</b>	<b>0.1%</b>	42,968,298	0.17%
Accrued income (Note 7)	<b>144,103,624</b>	<b>0.43%</b>	136,635,731	0.51%
Government bonds (Note 5)				
Peso-denominated	<b>10,776,939,705</b>	<b>32.10%</b>	8,806,312,166	33.11%
Dollar-denominated	<b>3,741,902,939</b>	<b>11.14%</b>	2,306,440,245	8.67%
Equity securities - at market (Note 5)				
Peso-denominated	<b>13,742,507,291</b>	<b>40.93%</b>	11,309,916,352	42.52%
Dollar-denominated	<b>2,736,477,200</b>	<b>8.15%</b>	2,591,232,922	9.74%
Accrued management fees (Note 14)	<b>(60,003,024)</b>	<b>-0.18%</b>	(47,082,240)	-0.18%
	<b>₱33,577,617,922</b>	<b>100.00%</b>	<b>₱26,598,211,113</b>	<b>100.00%</b>

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

In 2016 and 2015, the IIFs incurred investment loss amounting to ₱113.98 million and ₱1.4 billion, respectively, while redemptions amounted to ₱1.9 billion and ₱1.6 billion, respectively.

## 7. Accrued Income

This account consists of interest and dividends income from:

	2016	2015
Debt securities:		
AFS Peso bonds	<b>₱315,664,976</b>	₱304,602,048
AFS Dollar bonds	<b>24,069,208</b>	21,913,304
	<b>339,734,184</b>	326,515,352
Held in insurance investments funds (Note 6)	<b>144,103,624</b>	136,635,731
Corporate loan	<b>1,999,083</b>	2,023,168
Equity securities	<b>1,322,353</b>	1,022,554
Cash and cash equivalents	<b>2,407</b>	10,343
	<b>₱487,161,651</b>	<b>₱466,207,148</b>

## 8. Investments in Subsidiaries

This account consists of:

	2016	2015
Investments in:		
Manulife Financial Plans, Inc. (MFPI)		
Balance at January 1	<b>₱414,415,110</b>	₱350,000,000
Additions	<b>—</b>	800,000,000
Total cost	<b>414,415,110</b>	1,150,000,000
Provision for impairment loss	<b>—</b>	(735,584,890)
Balance at December 31	<b>414,415,110</b>	414,415,110
(Forward)		



	2016	2015
Manulife China Bank Life Assurance Corporation (MCBLAC)		
Balance at January 1 and December 31	<b>₱576,883,873</b>	₱576,883,873
	<b>₱991,298,983</b>	₱991,298,983

As mentioned in Note 2, investments in subsidiaries are reviewed for impairment when circumstances indicate that the carrying amount is impaired. Impairment for investment in MFP was assessed as of December 31, 2016 and 2015 due to circumstances that indicated that the recoverable amount of the asset was less than the carrying amount.

The recoverable amount of investment in MFP has been based on value-in-use calculations using cash flow projections from financial budgets covering the entire life of the entity, which lasts until the maturity of the existing policies as of the reporting date.

*Key assumptions used in value-in-use calculations*

The calculations of value-in-use for the Investment in MFP are most sensitive to the following assumptions:

- Premiums – The forecast assumes that no new policies shall be issued. Premiums will come from the renewal premiums of MFP’s existing business.
- Maturities, surrenders, benefits payout and pre-need reserves – These are management’s best estimate assumptions based on the most recent experience studies.
- Pre-tax discount rate - Discount rate represent the current market assessment of the risks of the subsidiary, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. This is also the benchmark used by management to assess operating performance. The discount rate is derived from its weighted average cost of capital of 12%.

Impairment loss was assessed for MFP amounting to ₱735.58 million in 2015.

## 9. Property and Equipment

The rollforward analysis of this account follows:

	2016				
	EDP Equipment	Leasehold Improvements	Transportation Equipment	Furniture and Fixtures	Total
<b>Cost</b>					
At beginning of year	₱353,480,078	₱498,959,112	₱77,952,473	₱137,982,890	₱1,068,374,553
Additions	13,990,362	54,660,696	25,197,889	10,149,843	103,998,790
Disposals	–	–	(10,477,322)	–	(10,477,322)
At end of year	367,470,440	553,619,808	92,673,040	148,132,733	1,161,896,021
<b>Accumulated Depreciation and Amortization</b>					
At beginning of year	321,615,803	366,684,338	40,708,418	106,483,634	835,492,193
Depreciation and amortization (Note 21)	21,259,677	60,000,625	13,594,750	13,579,227	108,434,279
Disposals	–	–	(10,144,121)	–	(10,144,121)
At end of year	342,875,480	426,684,963	44,159,047	120,062,861	933,782,351
Net Book Value	₱24,594,960	₱126,934,845	₱48,513,993	₱28,069,872	₱228,113,670



	2015				
	EDP Equipment	Leasehold Improvements	Transportation Equipment	Furniture and Fixtures	Total
Cost					
At beginning of year	₱332,285,899	₱392,620,452	₱64,750,982	₱125,236,133	₱914,893,466
Additions	21,194,179	106,338,660	20,603,850	12,746,757	160,883,446
Disposals	–	–	(7,402,359)	–	(7,402,359)
At end of year	353,480,078	498,959,112	77,952,473	137,982,890	1,068,374,553
Accumulated Depreciation and Amortization					
At beginning of year	302,768,588	318,152,501	36,840,601	91,194,498	748,956,188
Depreciation and amortization (Note 21)	18,847,215	48,531,837	11,270,176	15,289,136	93,938,364
Disposals	–	–	(7,402,359)	–	(7,402,359)
At end of year	321,615,803	366,684,338	40,708,418	106,483,634	835,492,193
Net Book Value	₱31,864,275	₱132,274,774	₱37,244,055	₱31,499,256	₱232,882,360

As of December 31, 2016 and 2015, there were no fully depreciated property and equipment that are in use.

## 10. Intangible Assets

The rollforward analysis of this account follows:

	2016	2015
<b>Cost</b>	<b>₱149,416,000</b>	<b>₱149,416,000</b>
<b>Accumulated amortization</b>		
At beginning of year	<b>97,120,400</b>	89,649,600
Amortization for the year (Note 21)	<b>7,470,800</b>	7,470,800
At end of year	<b>104,591,200</b>	97,120,400
<b>Net book value</b>	<b>₱44,824,800</b>	<b>₱52,295,600</b>

The intangible assets resulted from the Assumption Reinsurance Agreement entered into in 2003. For impairment testing, the recoverable amount has been determined based on the value of the expected future profits generated from the assumed policies in force as of December 31, 2016 and 2015. The expected future profits as of December 31, 2016 amounted to ₱1.01 billion determined by the amount of future premium collections from the assumed policies. The Parent Company did not recognize any impairment loss on intangible assets in 2016 and 2015.

## 11. Other assets

This account consists of:

	2016	2015
Creditable withholding tax	<b>₱87,298,016</b>	₱120,289,600
Prepayments	<b>17,132,698</b>	27,997,466
Office supplies	<b>5,454,085</b>	4,962,557
	<b>₱109,884,799</b>	<b>₱153,249,623</b>

Prepayments include local business tax and miscellaneous prepaid expenses.





## 12. Insurance Contract Liabilities

This account consists of:

	2016	2015
Legal policy reserves	<b>₱61,888,597,382</b>	₱54,283,363,156
Policy and contract claims payable	<b>762,733,635</b>	608,769,663
Other insurance contract liabilities	<b>645,082,086</b>	304,244,484
	<b>₱63,296,413,103</b>	₱55,196,377,303

Details of the legal policy reserves follow:

	2016	2015
Unit-linked (Note 6)	<b>₱33,524,776,857</b>	₱26,553,865,803
Ordinary life insurance	<b>27,463,846,783</b>	26,949,841,389
Accident and health	<b>710,289,302</b>	687,847,816
Group life insurance	<b>189,684,440</b>	91,808,148
	<b>₱61,888,597,382</b>	₱54,283,363,156

The movements during the year in legal policy reserves are as follows:

	2016			2015		
	Insurance contract liabilities	Reinsurers' share of liabilities	Net	Insurance contract liabilities	Reinsurers' share of liabilities	Net
At beginning of year	₱54,287,540,040	₱4,176,884	₱54,283,363,156	₱48,048,469,361	₱4,576,263	₱48,043,893,098
Tabular net premiums or considerations	8,702,984,652	—	8,702,984,652	7,158,516,222	—	7,158,516,222
Present value of disability claims						
Incurred	8,680,649	—	8,680,649	7,438,870	—	7,438,870
Tabular interest	1,811,110,021	250,613	1,810,859,408	1,702,231,232	274,576	1,701,956,656
Other increases	6,908,033,152	—	6,908,033,152	4,208,949,590	—	4,208,949,590
	71,718,348,514	4,427,497	71,713,921,017	61,125,605,275	4,850,839	61,120,754,436
Tabular Cost	7,194,468,191	269,742	7,194,198,449	5,473,110,001	673,955	5,472,436,046
Reserves released by death terminations	88,255,274	—	88,255,274	103,570,872	—	103,570,872
	2,542,869,912	—	2,542,869,912	1,261,384,362	—	1,261,384,362
	9,825,593,377	269,742	9,825,323,635	6,838,065,235	673,955	6,837,391,280
At end of year	₱61,892,755,137	₱4,157,755	₱61,888,597,382	₱54,287,540,040	₱4,176,884	₱54,283,363,156

The movements during the year in policy and contract claims payable are as follows:

	2016	2015
At beginning of year	<b>₱608,769,663</b>	₱452,645,167
Additions during the year (Note 20)	<b>3,345,871,655</b>	2,156,995,015
Paid during the year	<b>(3,191,907,683)</b>	(2,000,870,519)
At end of year	<b>₱762,733,635</b>	₱608,769,663

Other insurance contract liabilities consist mainly of advanced or excess premium collections and policy related disbursements.



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### 13. Insurance Contract Liabilities and Reinsurance Assets - Terms, Assumptions and Sensitivities

#### Life Insurance Contracts

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

#### *Terms*

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

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

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

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

#### *Key Assumptions*

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

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

- *Mortality and Morbidity Rates*  
Mortality assumptions are based on standard tables of mortality and morbidity. For life assurance policies, increased mortality and morbidity rates would lead to larger number of claims and claims occurring sooner than anticipated, increasing the expenditure and reducing profits for the shareholders.
- *Discount Rates*  
Discount rates relate to the time value of money. Discount rate assumptions are based on current observed rates in the market adjusted for default risk. The discount rate ranges from 3% to 6%, depending on the assets assumed to back the life insurance provisions.

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



#### Reinsurance - Assumptions and Methods

The Parent Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on surplus-share basis with retention limits varying by product. Amounts receivable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the parent company statements of financial position as reinsurance assets. The Parent Company entered into a reinsurance agreement wherein the reinsurer has a share, in addition to claims and benefits, on the Parent Company's expenses in issuing back-end variable unit linked (VUL) policies in exchange for a certain share of the premiums and premium charges of the Company. Each policy reinsured is grouped into a specific calendar year cohort based on the issue year of the policy. The reinsurance contract is a quota share type of reinsurance where the Company cedes out 70% for 2016 cohorts, 80% for 2017 cohorts, and 90% for all other cohorts.

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

The Parent Company is neither dependent on a single reinsurer nor are the operations of the Parent Company substantially dependent upon any reinsurance contract.

As of December 31, 2016 and 2015, the balance of reinsurance assets amounted to ₱446.53 million and ₱20.92 million, respectively. The reinsurance assets in 2016 include recoverable amount from the reinsurance agreement covering the Parent Company's expenses in issuing back-end VUL policies amounting to ₱346.27 million.

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#### 14. Accounts Payable and Accrued Expenses

This account consists of:

	2016	2015
Accrued expenses (Note 6)	<b>₱561,549,678</b>	₱391,288,922
Commissions payable	<b>117,608,143</b>	130,673,303
Taxes payable	<b>83,217,062</b>	85,280,842
Provident fund (Note 23)	<b>52,002,411</b>	57,481,155
Secure account liability	<b>16,698,066</b>	16,307,699
Accounts and other payables	<b>39,279,951</b>	38,336,539
Others	<b>216,006,462</b>	155,384,174
	<b>₱1,086,361,773</b>	₱874,752,634

Accrued expenses include agency-related expenses accrual, utilities and bonus payable. These are normally settled within one year. These includes accrued management fee held in insurance investment funds.

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

Taxes payable include fringe benefit taxes, premium taxes, value-added taxes, withholding taxes and documentary stamp taxes with varying due dates. These are normally settled within one year.



Accounts and other payables consist mainly of payable to suppliers arising from purchases of various office supplies, equipment and other capital expenditures.

Others include subscriptions to be transferred to insurance investment funds, bond forward transactions payables and provisions. These are non-interest bearing and are payable on demand.

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## 15. Contingencies

The Parent Company is contingently liable with respect to various lawsuits, assessments and other claims, which are being contested by the Parent Company and its legal counsel. The information usually required by PAS 37, is not disclosed on the ground that it may prejudice the outcome of these lawsuits, assessments and claims.

The Parent Company is subject to litigations including claims for punitive damages, in the normal course of its business. The Parent Company does not believe that such litigations, which are common to the insurance industry in general, will have a material effect on its operating results and financial condition.

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## 16. Capital Stock

Capital stock of the Parent Company consists of the following:

	Number of shares		Amount	
	2016	2015	2016	2015
Authorized capital stock - par value ₱1,000	<b>1,000,000</b>	1,000,000	<b>₱1,000,000,000</b>	₱1,000,000,000
Capital stock - par value ₱1,000	<b>930,000</b>	930,000	<b>930,000,000</b>	930,000,000
Additional paid-in capital	—	—	<b>50,635,817</b>	50,635,817
			<b>₱980,635,817</b>	₱980,635,817

As discussed in Note 1, the BOD of the Parent Company approved and ratified in 2011, the increase in authorized capital stock from ₱1.00 billion to ₱2.00 billion, and eventual subscription of MLIC for Manulife Philippine's new Common Class B shares with aggregate par value of ₱930.00 million.

However, on February 24, 2012, the BOD through a majority vote, adopted to decrease its authorized capital stock from ₱2.00 billion to ₱1.00 billion. The SEC approved the decrease in authorized capital stock on April 2, 2013.

In 2011, the Parent Company received an additional capital infusion from MLIC amounting to ₱75.00 million for the year. This was approved by the Insurance Commission on April 12, 2012, and accordingly had been reclassified from deposit for future stock subscription to capital stock.

During 2012, the same had been reacquired as treasury shares and subsequently had been derecognized.



## 17. Net Insurance Premiums Earned

The details of net insurance premiums earned follow:

	2016	2015
Gross premiums earned on insurance contracts (Note 26):		
Unit-linked	<b>₱11,236,825,322</b>	₱8,489,503,050
Ordinary life insurance	<b>4,772,351,196</b>	5,140,072,570
Group life insurance	<b>790,854,857</b>	329,843,319
Accident and health	<b>58,367,117</b>	61,611,419
	<b>16,858,398,492</b>	14,021,030,358
Reinsurers' share of gross premiums earned on insurance contracts (Note 26):		
Unit-linked	<b>129,000,089</b>	—
Ordinary life insurance	<b>106,819,301</b>	98,284,348
Group life insurance	<b>26,597,576</b>	13,006,560
Accident and health	<b>2,558</b>	2,580
	<b>262,419,524</b>	111,293,488
Net insurance premiums earned	<b>₱16,595,978,968</b>	₱13,909,736,870

The Company recognized reinsurance premium ceded amounting to ₱129.00 million representing the reinsurer's share on the recognized premiums of back-end variable unit-linked policies.

## 18. Investment Income

This account consists of:

	2016	2015
Interest income on:		
AFS financial assets	<b>₱2,147,131,112</b>	₱2,181,134,801
Loans and receivables	<b>386,507,671</b>	369,946,387
Cash and cash equivalents	<b>2,704,439</b>	2,753,720
	<b>2,536,343,222</b>	2,553,834,908
Dividend income	<b>32,052,772</b>	27,481,585
	<b>₱2,568,395,994</b>	₱2,581,316,493

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

## 19. Other Income

This account consists of:

	2015	2015
Management fee income (Note 26)	<b>₱765,260,843</b>	₱679,761,692
Cost of insurance	<b>424,093,173</b>	291,895,363
Reinsurance allowance	<b>384,740,000</b>	—
Processing fee	<b>186,009,399</b>	153,870,107

(forward)



	2015	2015
Service fee income (Note 26)	<b>₱115,695,427</b>	₱112,199,439
Monthly load	<b>20,216,310</b>	42,537,443
Others	<b>36,714,935</b>	18,821,311
	<b>₱1,932,730,087</b>	₱1,299,085,355

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

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

Reinsurance allowance are allowances given by Reinsurer to cover upfront charges of back-end unit-linked products ceded.

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

Service fee income pertains to the charges to MFPI and MCBLAC for the administrative and other services provided by the Parent Company.

Monthly load pertains to an upfront charge to policy owners to cover maintenance expenses. This is only available to the regular pay unit linked products.

Included in "Others" are the income earned by the Company from car plan and other management charges.

## 20. Benefits and Claims

Gross benefits and claims incurred on insurance contracts during the year consist of:

	2016	2015
Surrenders	<b>₱2,183,582,276</b>	₱1,254,634,843
Death and hospitalization benefits	<b>661,977,389</b>	497,453,790
Maturities	<b>500,311,990</b>	404,906,382
	<b>₱3,345,871,655</b>	₱2,156,995,015

Gross insurance contracts benefits and claims incurred on insurance contracts are further analyzed as follows:

	2016	2015
Ordinary life insurance	<b>₱3,180,365,970</b>	₱2,063,187,888
Group life insurance	<b>159,267,901</b>	90,187,380
Accident and health	<b>6,237,784</b>	3,619,747
	<b>₱3,345,871,655</b>	₱2,156,995,015

Dividends and dividend interest to policyholders amounted to ₱154.01 million and ₱908.21 million in 2016 and 2015, respectively



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

	2016	2015
Ordinary life insurance	<b>₱23,538,051</b>	(₱2,788,051)
Gross change in legal policy reserves follows:		

	2016	2015
Life insurance contract liabilities:		
Unit-linked	<b>₱9,385,987,112</b>	₱7,287,693,819
Ordinary life insurance	<b>514,024,524</b>	1,959,653,977
Group life insurance	<b>97,876,292</b>	36,074,897
Accident and health	<b>22,441,486</b>	89,057,179
Total change in life insurance contracts liabilities	<b>₱10,020,329,414</b>	₱9,372,479,872

## 21. General and Administrative Expenses

This account consists of:

	2016	2015
Employee salaries	<b>₱672,844,130</b>	₱559,855,401
Agency-related expenses	<b>255,422,729</b>	225,548,010
Administration support	<b>228,316,790</b>	170,827,024
Service Fee	<b>187,193,525</b>	–
Rent (Note 27)	<b>182,137,764</b>	169,544,447
Depreciation and amortization (Notes 9 and 10)	<b>115,905,079</b>	101,409,164
Utilities	<b>104,226,564</b>	100,296,686
Communications	<b>89,579,171</b>	78,847,398
Other employee benefits	<b>71,375,378</b>	64,852,797
Advertising expenses	<b>71,170,984</b>	108,412,843
Investment expenses	<b>65,693,539</b>	65,879,028
Repairs and maintenance	<b>53,129,042</b>	26,087,512
Entertainment, amusement and recreation (EAR)	<b>47,641,932</b>	53,274,549
Supplies	<b>47,116,654</b>	45,161,380
Bank charges	<b>44,634,050</b>	35,252,403
Retirement costs (Note 23)	<b>41,783,580</b>	24,087,576
Marketing support	<b>34,716,991</b>	85,831,040
Legal settlements	<b>29,884,850</b>	40,412,589
Professional fees	<b>21,109,820</b>	15,378,933
Transportation and travel	<b>15,199,555</b>	10,463,960
Provision for impairment losses (Note 5)	<b>3,089,294</b>	–
Miscellaneous	<b>90,475,487</b>	75,178,218
	<b>₱2,472,646,908</b>	₱2,056,600,958



## 22. Commissions and Other Direct Expenses

This account consists of:

	2016	2015
Commissions on first year premiums	<b>₱1,013,321,663</b>	₱709,804,453
Bonuses	<b>953,957,192</b>	880,729,563
Commissions on renewal premiums	<b>253,715,686</b>	241,431,505
(forward)		
Single premium commissions	<b>177,452,200</b>	144,710,507
Other direct expenses	<b>109,378,061</b>	57,475,217
	<b>₱2,507,824,802</b>	₱2,034,151,245

## 23. Retirement Costs and Provident Fund

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

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

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

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

The latest actuarial valuation study of the Parent Company's minimum retirement obligation under RA No. 7641 was made as of December 31, 2016. As of December 31, 2016 and 2015, the Parent Company's DB obligation is higher than the projected DC obligation resulting to a net pension liability amounting to ₱7.38 million and ₱50.36 million, respectively.

In 2016 and 2015, contributions made by the Parent Company amounted to ₱23.23 million and ₱17.82 million, respectively, while retirement expense amounted to ₱41.78 million and ₱24.09 million, respectively.

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





Net benefit expense follows:

	2016	2015
Current service cost	<b>₱39,738,789</b>	₱24,087,576
Net interest cost	<b>2,044,791</b>	–
	<b>₱41,783,580</b>	₱24,087,576

Remeasurement effects to be recognized in other comprehensive income follow:

	2016	2015
Changes in demographic assumptions	<b>(₱55,015,014)</b>	₱–
Experience adjustments	<b>4,632,568</b>	7,301,571
Changes in financial assumptions	<b>(9,535,450)</b>	31,432,633
Actuarial gain (loss) on defined benefit obligation	<b>59,917,896</b>	(38,734,204)
Gain (losses) on return on plan assets	<b>1,612,449</b>	(5,353,177)
	<b>₱61,530,345</b>	(₱44,087,381)

The amounts recognized in the statements of financial position follow:

	2016	2015
Present value of benefit obligation	<b>₱168,351,491</b>	₱201,669,629
Fair value of plan assets	<b>(160,973,337)</b>	(151,312,209)
	<b>₱7,378,154</b>	₱50,357,420

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

	2016	2015
At January 1	<b>₱201,669,629</b>	₱141,704,010
Current service cost	<b>39,738,789</b>	24,087,576
Interest cost on benefit obligation	<b>10,244,158</b>	6,617,577
Benefits paid	<b>(23,383,189)</b>	(9,473,738)
Remeasurements (gains) losses	<b>(59,917,896)</b>	38,734,204
At December 31	<b>₱168,351,491</b>	₱201,669,629

Changes in the fair value of the plan assets follow:

	2016	2015
At January 1	<b>₱151,312,209</b>	₱141,704,010
Interest income included in net interest cost	<b>8,199,367</b>	6,617,577
Remeasurement gains (losses)	<b>1,612,449</b>	(5,353,177)
Actual contributions	<b>23,232,501</b>	17,817,537
Benefits paid	<b>(23,383,189)</b>	(9,473,738)
At December 31	<b>₱160,973,337</b>	₱151,312,209
Actual return on plan assets	<b>₱9,811,816</b>	₱1,264,400



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

	2016	2015
Discount rate	5.30%	5.10%
Annual rate of increase in compensation projection	7.00%	8.00%

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

2016			
Discount rate	Salary increase rate	Change in basis points	Retirement Benefit Obligation
6.30%		+100	₱162,368,578
4.30%		-100	175,962,500
	8.00%	+100	₱176,224,616
	6.00%	-100	162,073,296

  

2015			
Discount rate	Salary increase rate	Change in basis points	Retirement Benefit Obligation
6.10%		+100	₱178,873,843
4.10%		-100	230,436,258
	9.00%	+100	₱230,928,087
	7.00%	-100	178,026,264

The retirement plan is co-owned by the Parent Company and its subsidiary, Manulife China Bank Life Assurance Corporation (MCBLAC), which is in the form of a trust administered by a trustee bank. The carrying values as of December 31, 2016 and December 31, 2015 of the fund which approximates its fair value are as follows:

	2016	2015
Cash	₱42,347	₱1,040,716
Accrued Income Receivable	3,372,974	—
Investments in government debt securities	231,223,275	219,864,059
Total	234,638,596	220,904,775
Trust fee payable	94,625	94,130
Other payables	26,940,522	21,233,805
Total	27,035,147	21,327,935
	₱207,603,449	₱199,576,840

As of December 31, 2016 and 2015, the retirement fund pertaining to the Parent Company amounted to ₱160.97 million and ₱151.31 million, respectively.

The Parent Company's expected contribution to the retirement plan in 2017 amounted to ₱24,854,477.



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

Plan Year	Expected Benefit Payments		Total
	Normal Retirement	Other than Normal Retirement	
Less than 1 year	₱6,395,496	₱9,234,860	₱15,630,356
1 to less than 5 years	10,454,837	46,631,294	57,086,131
5 to less than 10 years	38,734,346	77,351,692	116,086,038
10 to less than 15 years	94,901,362	78,771,693	173,673,055
15 to less than 20 years	150,081,898	61,108,506	211,190,404
20 years and above	264,076,756	48,338,330	312,415,086

As of December 31, 2016 and 2015, the Parent Company also has a liability related to the provident fund for its agents amounting to ₱52.00 million and ₱57.48 million, respectively (see Note 14).

#### 24. Income Taxes

The provision for income tax consists of:

	2016	2015
Final taxes on interest income	₱442,612,081	₱447,902,617
MCIT	51,591,975	24,076,159
	₱494,204,056	₱471,978,776

The components of net deferred tax assets as of December 31, 2016 and 2015 are as follows:

	2016	2015
Deferred tax assets on:		
Accrued expenses	₱45,819,734	₱23,319,340
	45,819,734	23,319,340
Deferred tax liability on:		
Unrealized foreign exchange gain	45,819,734	23,319,340
	45,819,734	23,319,340
Net deferred tax asset	₱-	₱-

The Parent Company did not recognize the deferred tax assets on deductible temporary differences, NOLCO and MCIT since management believes that the benefits will not be realized.

	2016	2015
NOLCO	₱977,120,351	₱2,440,537,894
Allowance for impairment losses	735,584,890	735,584,890
Reserve for policyholders dividends	589,128,929	984,513,180
MCIT	119,671,541	70,243,690
Accrued expenses	96,171,337	83,661,785
Provision for IBNR	38,277,939	15,090,186
Rent payable	15,562,226	17,685,076
Allowance for doubtful accounts	15,528,983	12,439,689
Pension liability	7,378,154	50,357,420

Deferred tax assets are recognized only to the extent that taxable income will be available against



which the deferred tax assets can be used. The Parent Company will reassess the unrecognized deferred tax assets on the above deductible temporary differences and will recognize previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income would allow the deferred tax asset to be recovered.

The unexpired NOLCO and MCIT, which are available for offset against future taxable income and income tax payable, respectively, are as follows:

Year incurred	NOLCO	MCIT	Expiry Date
2016	₱–	₱51,591,975	December 31, 2019
2015	680,495,927	24,076,159	December 31, 2018
2014	296,624,424	44,003,407	December 31, 2017
	<b>₱977,120,351</b>	<b>₱119,671,541</b>	

The following are the movements in NOLCO:

	2016	2015
At beginning of year	<b>₱2,440,537,894</b>	₱3,107,534,241
Additions	–	680,495,927
Application/Expirations	<b>(1,463,417,543)</b>	(1,347,492,274)
At end of year	<b>₱977,120,351</b>	₱2,440,537,894

In 2016, the Company applied NOLCO amounting to ₱212.65 million.

The following are the movements in MCIT:

	2016	2015
At beginning of year	<b>₱70,243,690</b>	₱47,861,396
Additions	<b>51,591,975</b>	24,076,159
Expirations	<b>(2,164,124)</b>	(1,693,865)
At end of year	<b>₱119,671,541</b>	₱70,243,690

The reconciliation of income tax expense computed based on the pre-tax income at the statutory tax rates to the provision for income tax in the parent company statements of income follows:

	2016	2015
Income before income tax	<b>₱2,521,512,885</b>	₱4,367,210,842
Income tax expense at statutory income tax rate	<b>756,453,865</b>	1,310,163,252
Additions to (reductions in) income tax expense resulting from:		
Interest income - net of final tax	<b>(201,518,753)</b>	(207,542,005)
Investment income exempt from tax	<b>(18,043,887)</b>	(16,186,696)
Effect of change in unrecognized deferred tax assets - net	<b>(130,552,431)</b>	483,383,891
Intercompany dividends	<b>(9,615,831)</b>	(8,244,475)
Gain on sale of investments exempt from tax	<b>(9,509,246)</b>	(1,175,724,677)
Unrealized fair value loss at FVPL – net	<b>280,929</b>	1,046,456

(Forward)



	2016	2015
Amortization of intangible assets	<b>₱2,241,240</b>	₱2,241,240
Amortization of debt securities	<b>17,224,055</b>	16,464,762
Investment expenses	<b>19,708,062</b>	19,763,709
Provision for contingencies	<b>26,366,123</b>	5,785,238
Nondeductible interest expense	<b>41,169,930</b>	40,828,081
Provision for income tax	<b>₱494,204,056</b>	₱471,978,776

## 25. Risk Management Policies

### Governance Framework

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

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

### Insurance Risk

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

#### *Occurrence Risk*

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

#### *Severity Risk*

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

#### *Development Risk*

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

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

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

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



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

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

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

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

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

	2016	2015
<b>Whole life insurance</b>		
Gross	₱75,412,654,254	₱83,599,560,400
Net	66,099,072,543	72,805,486,113
<b>Term policies</b>		
Gross	20,817,222,591	20,817,791,258
Net	15,368,220,925	15,631,178,707
<b>Endowment</b>		
Gross	16,967,078,607	18,344,434,153
Net	18,935,727,606	20,100,168,104
<b>Variable unit-linked policies</b>		
Gross	109,489,198,923	76,937,571,836
Net	104,625,821,926	85,698,211,729
<b>Accident and health</b>		
Gross	4,604,165,487	3,687,423,972
Net	4,604,165,487	3,687,423,972
<b>Group insurance</b>		
Gross	170,493,200,973	78,819,683,004
Net	160,215,306,845	74,149,259,311
<b>Total</b>		
Gross	397,783,520,835	282,206,464,623
Net	369,848,315,332	272,071,727,936



### *Underwriting Risk*

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

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

The Parent 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 Parent Company's retention limit on any single life is: (a) ₱3.00 million or \$75,000 in the order of basic individual life, accelerated and standalone dread disease benefit, female benefits which include accelerated major disease benefit, accidental death benefit, accidental death and dismemberment, maccimax benefit; (b) 20% of the amount of the female accelerated dread disease ceded for female cancer benefit and female surgical benefit; or (c) ₱3.00 million or \$75,000 of basic group life and group accidental death and dismemberment.

The Parent 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 Parent Company from its direct obligations to its insured, an efficient and effective reinsurance program substantially limits the Parent Company's exposure to potentially significant losses.

The Company entered into a reinsurance agreement on which the reinsurer has a share on the Company's expenses in issuing back-end variable unit linked (VUL) policies in exchange for a certain share of the premiums of the Company. Each policy reinsured is grouped into a specific calendar year cohort based on the issue year of the policy. The reinsurance contract is a quota share type of reinsurance where the Company cedes out 70% for 2016 cohorts, 80% for 2017 cohorts, and 90% for all other cohorts.

The table below sets out the Parent Company's concentration of insurance risk based on the type of life insurance product:

Type	2016		2015	
	Number of Policies	Amount of Insurance	Number of Policies	Amount of Insurance
Whole Life	110,648	₱75,412,654,254	120,081	₱83,599,560,400
Term	10,440	20,817,222,591	10,934	20,817,791,258
Endowment	39,752	16,967,078,607	43,179	18,344,434,153
Variable unit-linked	150,633	109,489,198,923	109,226	76,937,571,836
Accident and health	2,013	4,604,165,487	1,522	3,687,423,972
Group life	795	170,493,200,973	614	78,819,683,004
	<b>314,281</b>	<b>₱397,783,520,835</b>	<b>285,556</b>	<b>₱282,206,464,623</b>



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

The insurance risk disclosed above is also affected by the contract holders' right to pay reduced or no future premiums, or to terminate the contract completely. As a result, the amount of insurance risk is also subject to contract holder behavior. On the assumption that the contract holder can make decisions rationally, overall insurance risk can be assumed to be aggravated by such behavior.

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.

### Sensitivities

The following analysis is performed for a reasonable possible movement in key assumptions with all other assumptions held constant, on the parent company statements of income and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis. It should also be stressed that these assumptions are non-linear and larger or smaller impacts cannot easily be gleaned from these results. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. Options and guarantees are the main reason for the asymmetry of the sensitivities where the guarantee impacts to different extents under the different scenarios.

December 31, 2016					
	Change in assumptions	Increase (decrease) in gross liabilities	Increase (decrease) in net liabilities	Increase (decrease) in profit before tax	Increase (decrease) in equity*
			(In Thousands)		
Mortality	+10%	₱295,484	₱308,363	(₱308,363)	(₱308,363)
Valuation interest rate	+1%	(6,312,823)	(6,773,783)	6,773,783	6,773,783
	-1%	6,312,823	6,773,783	(6,773,783)	(6,773,783)

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

December 31, 2015					
	Change in assumptions	Increase (decrease) in gross liabilities	Increase (decrease) in net liabilities	Increase (decrease) in profit before tax	Increase (decrease) in equity*
			(In Thousands)		
Mortality	+10%	₱155,307	₱499,443	(₱499,443)	(₱499,443)
Valuation interest rate	+1%	(2,510,008)	(2,530,196)	2,530,196	2,530,196
	-1%	2,510,008	2,530,196	(2,530,196)	(2,530,196)

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

The carrying values of insurance contract liabilities as of December 31, 2016 and 2015 amounted to ₱63.30 billion and ₱55.20 billion, respectively (see Note 12).

### Investment Risk

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





In addition, there exists a future investment risk associated with certain policies currently in force which will have premium receipts in the future. The investment of those future premium receipts may be at a yield below than what is 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 proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality.

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

The Parent Company uses asset-liability matching as a management tool to determine the composition of the invested assets and appropriate investment and marketing strategies. As part of these strategies, the Parent 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 Risk

The Parent Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk.

Market risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements. The risk that the Parent Company primarily faces due to the nature of its investments and liabilities is the interest rate risk.

#### *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 Parent Company manages the level of credit risk it accepts through: a comprehensive group credit risk policy, setting out the assessment and determination of what constitutes credit risk for the Parent Company; setting up of exposure limits by each counterparty or group of counterparties, geographical and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collateral and guarantees; reporting of credit risk exposures and breaches to the monitoring authority; and monitoring compliance with credit risk policy and review of credit risk policy for refinance and changing environment

The Parent Company further restricts its credit risk exposure by entering into master netting arrangements with counterparties with which it transacts significant volumes of transactions. Such arrangements do not generally result in offset of assets and liabilities since transactions are usually settled on a gross basis. However, the credit risk associated with such balances is reduced in the



event of a default, when such balances are settled on a net basis. The situation may substantially change within a short period following the reporting date because the exposure is affected by transactions subject to the arrangement.

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

The table below shows the maximum exposure of the Parent Company to credit risk for the components of the parent company statements of financial position. The maximum exposure is shown net of impairment losses, but before the effect of mitigation through the use of master netting or collateral agreements.

	December 31, 2016		
	Non-Linked	Unit-linked	Total
<b>Financial assets at FVPL</b>			
Debt securities			
Held in IIF			
Peso bonds	₱–	₱10,776,939,705	₱10,776,939,705
Dollar bonds	–	3,741,902,939	3,741,902,939
Equity securities			
Peso denominated	–	13,742,507,291	13,742,507,291
Dollar denominated	–	2,736,477,200	2,736,477,200
<b>AFS financial assets</b>			
Debt securities			
Local currency	41,381,464,678	–	41,381,464,678
Foreign currency	1,194,070,156	–	1,194,070,156
Equity securities			
Club shares	44,660,000	–	44,660,000
Common shares	1,817,555,742	–	1,817,555,742
<b>Loans and receivables</b>			
Cash and cash equivalents			
Cash in commercial banks	654,155,274	–	654,155,274
Short-term deposits in commercial banks	180,512,825	–	180,512,825
Cash held in IIF			
Cash in bank	–	1,179,888,895	1,179,888,895
Short-term deposits	–	1,256,958,814	1,256,958,814
Insurance receivables	176,525,273	–	176,525,273
Policy loans	3,774,295,151	–	3,774,295,151
Corporate loan	200,000,000	–	200,000,000
Accounts receivable held in IIF	–	58,842,478	58,842,478
Receivable from agents - net	150,748,653	–	150,748,653
Security deposits	83,375,243	–	83,375,243
Due from officers and employees	250,113,779	–	250,113,779
Due from related parties	1,497,003,229	–	1,497,003,229
Mortgage loans	5,504,713	–	5,504,713
Other receivables	94,035,220	–	94,035,220
Accrued income			
Debt securities	339,734,184	–	339,734,184
Held in IIF	–	144,103,624	144,103,624
Corporate loan and equity securities	3,321,436	–	3,321,436
Cash and cash equivalents	2,407	–	2,407
<b>Total financial assets</b>	<b>₱51,847,077,963</b>	<b>₱33,637,620,946</b>	<b>₱85,484,698,909</b>



	December 31, 2015		
	Non-Linked	Unit-linked	Total
Financial assets at FVPL			
Debt securities			
Held in IIF			
Peso bonds	₱—	₱8,806,312,166	₱8,806,312,166
Dollar bonds	—	2,306,440,245	2,306,440,245
Equity securities			
Peso denominated	—	11,309,916,352	11,309,916,352
Dollar denominated	—	2,591,232,922	2,591,232,922
AFS financial assets			
Debt securities			
Local currency	40,035,705,148	—	40,035,705,148
Foreign currency	1,082,528,180	—	1,082,528,180
Equity securities			
Club shares	41,362,000	—	41,362,000
Common shares	1,566,363,326	—	1,566,363,326
Loans and receivables			
Cash and cash equivalents			
Cash in commercial banks	488,944,313	—	488,944,313
Short-term deposits in commercial banks	151,085,813	—	151,085,813
Cash held in IIF			
Cash in bank	—	384,769,842	384,769,842
Short-term deposits	—	1,067,017,797	1,067,017,797
Insurance receivables	159,921,315	—	159,921,315
Policy loans	3,880,948,386	—	3,880,948,386
Corporate loan	200,000,000	—	200,000,000
Accounts receivable held in IIF	—	42,968,298	42,968,298
Receivable from agents - net	114,559,768	—	114,559,768
Security deposits	87,579,036	—	87,579,036
Due from officers and employees	35,392,302	—	35,392,302
Due from related parties	1,063,697,495	—	1,063,697,495
Mortgage loans	8,760,112	—	8,760,112
Other receivables	173,705,690	—	173,705,690
Accrued income			
Debt securities	326,515,352	—	326,515,352
Held in IIF	—	136,635,731	136,635,731
Corporate loan and equity securities	3,045,722	—	3,045,722
Cash and cash equivalents	10,343	—	10,343
Total financial assets	₱49,420,124,301	₱26,645,293,353	₱76,065,417,654



The following table provides information regarding the credit risk exposure of the Parent Company by classifying financial assets according to credit ratings of the counterparties:

December 31, 2016					
	Neither Past Due nor Impaired			Past due or impaired	Total
	Investment Grade	Non-investment Grade Satisfactory	Not rated		
<b>Financial assets</b>					
Financial assets at FVPL					
Debt securities					
Held in IIF					
Peso bonds	₱10,776,939,705	₱—	₱—	₱—	₱10,776,939,705
Dollar bonds	3,741,902,939	—	—	—	3,741,902,939
Equity securities - at market					
Peso denominated	—	—	13,742,507,291	—	13,742,507,291
Dollar denominated	—	—	2,736,477,200	—	2,736,477,200
<b>AFS financial assets</b>					
Debt securities					
Local currency	41,381,464,678	—	—	—	41,381,464,678
Foreign currency	1,194,070,156	—	—	—	1,194,070,156
Quoted equity securities					
Club shares	—	—	44,660,000	—	44,660,000
Common shares	—	—	1,817,555,742	—	1,817,555,742
<b>Loans and receivables</b>					
Cash in commercial banks	1,834,044,169	—	—	—	1,834,044,169
Short-term deposits	1,437,471,639	—	—	—	1,437,471,639
Insurance receivables	—	176,525,273	—	—	176,525,273
Policy loans	—	—	3,774,295,151	—	3,774,295,151
Due from related parties	—	—	1,497,003,229	—	1,497,003,229
Due from officers and employees	—	—	250,113,779	—	250,113,779
Receivable from agents	—	—	—	166,277,636	166,277,636
Security deposits	—	—	83,375,243	—	83,375,243
Mortgage loans	—	—	5,504,713	—	5,504,713
Corporate loan	200,000,000	—	—	—	200,000,000
Accounts receivable held in IIF	58,842,478	—	—	—	58,842,478
Other receivables	—	—	94,035,220	—	94,035,220
Accrued income					
Debt securities	—	339,734,184	—	—	339,734,184
Held in IIF	—	144,103,624	—	—	144,103,624
Corporate loans and other securities	—	—	3,321,436	—	3,321,436
Cash and cash equivalents	2,407	—	—	—	2,407
<b>Total financial assets</b>	<b>₱60,624,738,171</b>	<b>₱660,363,081</b>	<b>₱24,048,849,004</b>	<b>₱166,277,636</b>	<b>₱85,500,227,892</b>

December 31, 2015					
	Neither Past Due nor Impaired			Past due or impaired	Total
	Investment Grade	Non-investment Grade Satisfactory	Not rated		
<b>Financial assets</b>					
Financial assets at FVPL					
Debt securities					
Held in IIF					
Peso bonds	₱8,806,312,166	₱—	₱—	₱—	₱8,806,312,166
Dollar bonds	2,306,440,245	—	—	—	2,306,440,245
Equity securities - at market					
Peso denominated	—	—	11,309,916,352	—	11,309,916,352
Dollar denominated	—	—	2,591,232,922	—	2,591,232,922
<b>AFS financial assets</b>					
Debt securities					
Local currency	40,035,705,148	—	—	—	40,035,705,148
Foreign currency	1,082,528,180	—	—	—	1,082,528,180
Quoted equity securities					
Club shares	—	—	41,362,000	—	41,362,000
Common shares	—	—	1,566,363,326	—	1,566,363,326



December 31, 2015					
	Neither Past Due nor Impaired			Past due or impaired	Total
	Investment Grade	Non-investment Grade Satisfactory	Not rated		
Loans and receivables					
Cash in commercial banks	873,714,155	—	—	—	873,714,155
Short-term deposits	1,218,103,610	—	—	—	1,218,103,610
Insurance receivables	—	159,921,315	—	—	159,921,315
Policy loans	—	—	3,880,948,386	—	3,880,948,386
Due from related parties	—	—	1,063,697,495	—	1,063,697,495
Due from officers and employees	—	—	35,392,302	—	35,392,302
Receivable from agents	—	—	—	126,999,457	126,999,457
Security deposits	—	—	87,579,036	—	87,579,036
Mortgage loans	—	—	8,760,112	—	8,760,112
Corporate loan	200,000,000	—	—	—	200,000,000
Accounts receivable held in IIF	42,968,298	—	—	—	42,968,298
Other receivables	—	—	173,705,690	—	173,705,690
Accrued income					
Debt securities	—	326,515,352	—	—	326,515,352
Held in IIF	—	136,635,731	—	—	136,635,731
Corporate loans and other securities	—	—	3,045,722	—	3,045,722
Cash and cash equivalents	10,343	—	—	—	10,343
Total financial assets	₱54,565,782,145	₱623,072,398	₱20,762,003,343	₱126,999,457	₱76,077,857,343

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

*a. Cash and cash equivalents*

Cash and cash equivalents are considered investment grade because these are deposited, placed or invested in foreign and local banks belonging to the top banks in the Philippines in terms of resources and profitability.

*b. Investment securities*

In respect of investment securities, which include AFS debt and equity securities and financial assets at FVPL, the Parent Company secures satisfactory credit quality by setting maximum limits of portfolio securities with a single or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer.

The Parent Company uses Standard and Poor's credit ratings as basis to determine whether a security is investment grade or non-investment grade. In the financial market, securities with credit rating of at least BBB are considered as investment grade securities while securities with credit rating lower than BBB are considered as non-investment grade. Investment grade financial assets are assets which have strong capacity to meet the Parent Company's financial commitments and are unsusceptible to adverse effects of changes in economic conditions. These investments include peso and dollar-denominated government securities. Non-investment grade financial assets are assets that are likely to be impaired in adverse economic conditions. None of the Parent Company's investments were classified under Non-investment grade.

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



*c. Loans and receivables*

The Parent Company sets a maximum amount and limits that may be advanced to or placed with individual corporate counterparties which are set by reference to their long term ratings.

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

Those accounts that are classified as not rated includes quoted equity securities, unquoted debt securities, due from related parties, due from officers and employees, receivable from agents, corporate loans, accounts receivable held in IIF, mortgage loans and other receivables for which the Parent Company has not yet established a credit rating system.

As of December 31, 2016 and 2015, bulk of the Parent Company's FVPL and AFS investments pertain to Philippine Government bonds (see Note 5).

The Parent Company did not have other significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2016 and 2015.

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

**December 31, 2016**

	<u>Age Analysis of Financial Assets Past-Due but not Impaired</u>					<u>Total</u>
	< 30 days	31 to 90 days	More than 90 days	Past-Due but not Impaired	Past-Due and Impaired	
Loans and receivables						
Receivables from agents	₱26,727,969	₱5,647,089	₱118,373,595	₱150,748,653	₱15,528,983	₱166,277,636

**December 31, 2015**

	<u>Age Analysis of Financial Assets Past-Due but not Impaired</u>					<u>Total</u>
	< 30 days	31 to 90 days	More than 90 days	Past-Due but not Impaired	Past-Due and Impaired	
Loans and receivables						
Receivables from agents	₱24,320,949	₱4,068,527	₱86,170,292	₱114,559,768	₱12,439,689	₱126,999,457

*Liquidity Risk*

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

The major liquidity risk confronting the Parent Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts.



The Parent Company manages liquidity through its liquidity risk policy, which determines what constitutes liquidity risk for the Parent Company:

- Specify minimum proportion of funds to meet emergency calls
- Setting up contingency funding plans; specifies the sources of funding and the events that would trigger the plan and concentrates on funding sources
- Reporting of liquidity risk exposures and breaches to the monitoring authority
- Monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

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

The table below analyzes financial assets and financial liabilities of the Parent Company into their relevant maturity groups based on the remaining period at the reporting date to their contractual maturities or expected repayment dates.

	December 31, 2016						Variable Unit-Linked	Total
	Up to a year	1-3 years	3-5 years	Over 5 years	No Term			
<b>Financial assets at FVPL</b>								
Debt securities								
Held in IIF								
Peso bonds	P=	P=	P=	P=	P=	P10,776,939,705	P10,776,939,705	
Dollar bonds	—	—	—	—	—	3,741,902,939	3,741,902,939	
Equity securities - at market								
Peso denominated	—	—	—	—	—	13,742,507,291	13,742,507,291	
Dollar denominated	—	—	—	—	—	2,736,477,200	2,736,477,200	
<b>AFS financial assets</b>								
Debt securities								
Local currency	2,250,472,255	4,500,944,510	6,891,648,014	70,162,950,975	—	—	83,806,015,754	
Foreign currency	63,557,623	127,115,246	190,672,869	1,520,300,808	—	—	1,901,646,546	
Equity securities								
Club shares	—	—	—	—	44,660,000	—	44,660,000	
Common shares	—	—	—	—	1,817,555,742	—	1,817,555,742	
<b>Loans and receivables</b>								
Cash on hand	—	—	—	—	731,039	—	731,039	
Cash in bank	654,155,274	—	—	—	—	1,179,888,895	1,834,044,169	
Short term deposits	180,512,825	—	—	—	—	1,256,958,814	1,437,471,639	
Insurance receivables	176,525,273	—	—	—	—	—	176,525,273	
Due from officers and employees	15,256,348	33,499,198	1,358,233	—	200,000,000	—	250,113,779	
Due from related parties	1,497,003,229	—	—	—	—	—	1,497,003,229	
Receivable from agents	60,062,854	69,448,382	21,237,417	—	—	—	150,748,653	
Security deposits	27,240,188	17,458,676	8,424,990	30,251,389	—	—	83,375,243	
Mortgage loans	—	—	5,504,713	—	—	—	5,504,713	
Policy loans	3,774,295,151	—	—	—	—	—	3,774,295,151	
Corporate loans	232,936,693	—	—	—	—	—	232,936,693	
Accounts receivable held in IIF	—	—	—	—	—	58,842,478	58,842,478	
Other receivables	74,043,345	19,991,875	—	—	—	—	94,035,220	
Accrued income								
Debt securities	339,734,184	—	—	—	—	—	339,734,184	
Held in IIF	—	—	—	—	—	144,103,624	144,103,624	
Corporate loans and equity securities	3,321,436	—	—	—	—	—	3,321,436	
Cash and cash equivalents	2,407	—	—	—	—	—	2,407	
<b>Total financial assets</b>	<b>9,349,119,085</b>	<b>4,768,457,887</b>	<b>7,118,846,236</b>	<b>71,713,503,172</b>	<b>2,062,946,781</b>	<b>33,637,620,946</b>	<b>128,650,494,107</b>	
<b>Other financial liabilities</b>								
Legal policy reserves	753,115,422	619,313,366	725,045,327	26,266,346,410	—	33,524,776,857	61,888,597,382	
(forward)								
Policyholders' dividends	4,086,532,316	—	—	—	—	—	4,086,532,316	
Premium deposit fund	44,518,056	—	—	—	—	—	44,518,056	
Insurance payables	352,068,048	—	—	—	—	—	352,068,048	
Claims payable	762,733,635	—	—	—	—	—	762,733,635	
Other insurance contract liabilities	645,082,086	—	—	—	—	—	645,082,086	
Accounts payable and accrued expenses*								
Accounts and other payables	39,279,951	—	—	—	—	—	39,279,951	
Accrued expenses	501,546,654	—	—	—	—	60,003,024	561,549,678	
Commissions payable	117,608,143	—	—	—	—	—	117,608,143	
Provident Fund	52,002,411	—	—	—	—	—	52,002,411	
Secure account liability	16,698,066	—	—	—	—	—	16,698,066	
Others	216,006,462	—	—	—	—	—	216,006,462	
Due to related parties	239,790,850	—	—	—	—	—	239,790,850	



December 31, 2016							
	Up to a year	1-3 years	3-5 years	Over 5 years	No Term	Variable Unit-Linked	Total
Total financial liabilities	7,826,982,100	619,313,366	725,045,327	26,266,346,410	—	33,584,779,881	69,022,467,084
Net excess liquidity (deficit)	₱1,522,136,985	₱4,149,144,521	₱6,393,800,909	₱45,447,156,762	₱2,062,946,781	₱52,841,065	₱59,628,027,023
*Amount excluding statutory liability.							
December 31, 2015							
	Up to a year	1-3 years	3-5 years	Over 5 years	No Term	Variable Unit-Linked	Total
<b>Financial assets at FVPL</b>							
Debt securities							
Held in IIF							
Peso bonds	₱—	₱—	₱—	₱—	₱—	₱8,806,312,166	₱8,806,312,166
Dollar bonds	—	—	—	—	—	2,306,440,245	2,306,440,245
Equity securities - at market							
Peso denominated	—	—	—	—	—	11,309,916,352	11,309,916,352
Dollar denominated	—	—	—	—	—	2,591,232,922	2,591,232,922
<b>AFS financial assets</b>							
Debt securities							
Local currency	2,182,686,158	4,365,372,317	6,698,058,475	69,908,429,195	—	—	83,154,546,145
Foreign currency	57,733,726	115,467,451	173,201,177	1,393,515,296	—	—	1,739,917,650
Equity securities							
Club shares	—	—	—	—	41,362,000	—	41,362,000
Common shares	—	—	—	—	1,566,363,326	—	1,566,363,326
<b>Loans and receivables</b>							
Cash on hand	—	—	—	—	883,716	—	883,716
Cash in bank	488,944,313	—	—	—	—	384,769,842	873,714,155
Short term deposits	151,085,813	—	—	—	—	1,067,017,797	1,218,103,610
Insurance receivables	159,921,315	—	—	—	—	—	159,921,315
Due from officers and employees	2,374,337	21,480,623	11,537,342	—	—	—	35,392,302
Due from related parties	1,063,697,495	—	—	—	—	—	1,063,697,495
Receivable from agents	47,030,409	42,648,947	24,880,412	—	—	—	114,559,768
Security deposits	44,551,976	8,385,619	11,784,927	22,856,514	—	—	87,579,036
Mortgage loans	—	—	—	8,760,112	—	—	8,760,112
Policy loans	3,880,948,386	—	—	—	—	—	3,880,948,386
Corporate loans	11,049,147	232,936,693	—	—	—	—	243,985,840
Accounts receivable held in IIF	—	—	—	—	—	42,968,298	42,968,298
Other receivables	113,730,063	59,975,627	—	—	—	—	173,705,690
Accrued income							
Debt securities	326,515,352	—	—	—	—	—	326,515,352
Held in IIF	—	—	—	—	—	136,635,731	136,635,731
Corporate loans and equity securities	3,045,722	—	—	—	—	—	3,045,722
Cash and cash equivalents	10,343	—	—	—	—	—	10,343
Total financial assets	8,533,324,555	4,846,267,277	6,919,462,333	71,333,561,117	1,608,609,042	26,645,293,353	119,886,517,677
<b>Other financial liabilities</b>							
Legal policy reserves	647,433,608	661,177,190	716,102,400	25,704,784,155	—	26,553,865,803	54,283,363,156
Policyholders' dividends	4,536,232,712	—	—	—	—	—	4,536,232,712
Premium deposit fund	44,070,614	—	—	—	—	—	44,070,614
Insurance payables	161,935,434	—	—	—	—	—	161,935,434
Claims payable	608,769,663	—	—	—	—	—	608,769,663
Other insurance contract liabilities	304,244,484	—	—	—	—	—	304,244,484
Accounts payable and accrued expenses*							
Accounts and other payables	38,336,539	—	—	—	—	—	38,336,539
Accrued expenses	344,206,682	—	—	—	—	47,082,240	391,288,922
Commissions payable	130,673,303	—	—	—	—	—	130,673,303
Provident Fund	57,481,155	—	—	—	—	—	57,481,155
Secure account liability	16,307,699	—	—	—	—	—	16,307,699
Others	155,384,174	—	—	—	—	—	155,384,174
Due to related parties	35,657,391	—	—	—	—	—	35,657,391
Total financial liabilities	7,080,733,458	661,177,190	716,102,400	25,704,784,155	—	26,600,948,043	60,763,745,246
Net excess liquidity	₱1,452,591,097	₱4,185,090,087	₱6,203,359,933	₱45,628,776,962	₱1,608,609,042	₱44,345,310	₱59,122,772,431
*Amount excluding statutory liability.							

As of December 31, 2016 and 2015, the debt securities held in IIFs have maturities beyond 5 years.

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





AFS debt and equity securities are expected to be held indefinitely and would be realized based on the funding requirement of the Parent Company. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

#### *Market Risk*

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

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

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

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

- *Currency Risk*

The Parent Company holds foreign currency denominated assets and liabilities, thus, fluctuations on the foreign exchange rates can affect the financial and cash flows of the Parent Company. Exposure to currency risk arises mainly when financial assets and liabilities are denominated in a currency other than the Parent Company's functional currency or will be denominated in such a currency in the planned course of business.

The Parent Company invests in dollar bonds to meet its dollar obligations from its dollar insurance products. The following table shows the details of the Parent Company's currency exposure in original currency (US\$) and Philippine Peso equivalent (PHP) as of December 31, 2016 and 2015:

	2016		2015	
	US\$	PHP	US\$	PHP
<b>Assets</b>				
Cash and cash equivalents	\$17,938,718	₱891,913,079	\$9,870,430	₱464,502,414
AFS financial assets	24,015,892	1,194,070,156	23,003,149	1,082,528,180
Loans and receivables	4,554,819	226,465,625	3,772,798	177,547,892
	46,509,429	2,312,448,860	36,646,377	1,724,578,486
<b>Liabilities</b>				
Insurance contract liabilities	815,250	40,534,214	695,369	32,724,054
Insurance payable	773,350	38,450,986	574,964	27,057,796
	1,588,600	78,985,200	1,270,333	59,781,850
<b>Net exposure</b>	<b>\$44,920,829</b>	<b>₱2,233,463,660</b>	<b>\$35,376,044</b>	<b>₱1,664,796,636</b>



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

The exchange rate used to restate the Parent Company's dollar-denominated assets and liabilities are ₱49.72 and ₱47.06 to \$1 as of December 31, 2016 and 2015, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rate, with all variables held constant, of the Parent Company's income before tax.

2016		
	Change in Variable	Impact on Income before Tax Increase (decrease)
USD	+3.87%	₱86,487,017
	-3.87%	(86,487,017)
2015		
	Change in Variable	Impact on Income before Tax Increase (decrease)
USD	+4.70%	₱78,318,814
	-4.70%	(78,318,814)

The sensitivity analysis has been determined assuming that the change in foreign currency exchange rates has occurred at the reporting date and has been applied to the Parent Company's exposure to currency risk for financial instruments in existence at that date, and all other variables, interest rates in particular, remain constant.

The stated changes represent management's assessment of reasonable possible changes in foreign exchange rates over the period until the next annual reporting date. Results of the analysis as presented in the above table represent the effects on the Parent Company's income before tax measured in US dollars using the closing foreign exchange rate at the reporting date.

- *Fair Value Interest Rate Risk*

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Parent Company's fixed-rate investments and receivables in particular are exposed to such risk.

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



The following table shows the information relating to the Parent Company's fixed rate financial instruments presented by maturity profile.

December 31, 2016						
Fixed Rate Instruments	Interest Rate	>1 - 2 years	>2 - 5 years	Over 5 years	No term	Total
<b>Financial assets</b>						
AFS financial assets						
Debt securities						
Local currency	3.92% - 18.25%	P=	P=	P41,381,464,678	P=	P41,381,464,678
Foreign currency	3.70% - 10.63%	-	-	1,194,070,156	-	1,194,070,156
Loans and receivables						
Policy loans	8.00% - 10.00%	3,774,295,151	-	-	-	3,774,295,151
Short-term deposits	0.50% - 1.75%	180,512,825	-	-	-	180,512,825
Cash in banks	0.05% - 1.50%	654,155,274	-	-	-	654,155,274
Corporate loan	5.42%	200,000,000	-	-	-	200,000,000
Mortgage loan	5.00% - 10.00%	-	5,504,713	-	-	5,504,713
		P4,808,963,250	P5,504,713	P42,575,534,834	P=	P47,390,002,797
December 31, 2015						
Fixed Rate Instruments	Interest Rate	>1 - 2 years	>2 - 5 years	Over 5 years	No term	Total
<b>Financial assets</b>						
AFS financial assets						
Debt securities						
Local currency	3.63% - 18.25%	P=	P=	P40,035,705,148	P=	P40,035,705,148
Foreign currency	3.95% - 10.63%	-	-	1,082,528,180	-	1,082,528,180
Loans and receivables						
Policy loans	8.00% - 10.00%	3,880,948,386	-	-	-	3,880,948,386
Short-term deposits	0.55% - 1.70%	151,085,813	-	-	-	151,085,813
Cash in banks	0.25% - 1.50%	488,944,313	-	-	-	488,944,313
Corporate loan	5.42%	-	200,000,000	-	-	200,000,000
Mortgage loan	9.00% - 10.00%	-	-	8,760,112	-	8,760,112
		P4,520,978,512	P200,000,000	P41,126,993,440	P=	P45,847,971,952

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

2016			
Currency	Change in basis points	Impact on income before tax	Impact on other comprehensive Income
Philippine Peso	+100	P=	(P4,990,192,457)
US Dollar	+100	-	(124,399,483)
Philippine Peso	-100	-	4,990,192,457
US Dollar	-100	-	124,399,483
2015			
Currency	Change in basis points	Impact on income before tax	Impact on other comprehensive Income
Philippine Peso	+100	P=	(P4,959,468,841)
US Dollar	+100	-	(115,089,791)
Philippine Peso	-100	-	4,959,468,841
US Dollar	-100	-	115,089,791

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



- *Equity price risk*

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

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

The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan, and limits on investment in each country, sector and market.

The analysis below is performed for reasonably possible movement of the interest rates (due to changes in fair value of AFS financial assets) with all other variables held constant, showing the impact on equity.

2016		
Market index	Change in yield rate	Impact on other comprehensive Income
PSE index	+2.44%	₱68,930,744
PSE index	-2.44%	(68,930,744)
2015		
Market index	Change in yield rate	Impact on other comprehensive Income
PSE index	+4%	₱64,837,538
PSE index	-4%	(64,837,538)

#### Financial Instruments - Fair Value Measurement

The following table sets forth the carrying value and estimated fair values of financial instruments:

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets</b>				
<b>Financial assets at FVPL</b>				
Debt securities				
Held in IIF				
Peso bond	₱10,776,939,705	₱10,776,939,705	₱8,806,312,166	₱8,806,312,166
Dollar bond	3,741,902,939	3,741,902,939	2,306,440,245	2,306,440,245
Equity securities - at market				
Peso denominated	13,742,507,291	13,742,507,291	11,309,916,352	11,309,916,352
Dollar denominated	2,736,477,200	2,736,477,200	2,591,232,922	2,591,232,922
<b>AFS financial assets</b>				
Government debt securities				
Local currency	41,381,464,678	41,381,464,678	40,035,705,148	40,035,705,148
Foreign currency	1,194,070,156	1,194,070,156	1,082,528,180	1,082,528,180
Quoted equity securities				
Club shares	44,660,000	44,660,000	41,362,000	41,362,000
Common shares	1,817,555,742	1,817,555,742	1,566,363,326	1,566,363,326

(Forward)



	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Loans and receivables</b>				
Cash and cash equivalents				
Cash on hand	₱731,039	₱731,039	₱883,716	₱883,716
Cash in commercial banks	654,155,274	654,155,274	488,944,313	488,944,313
Short-term deposits in commercial banks	180,512,825	180,512,825	151,085,813	151,085,813
Cash held in IIF	2,436,847,709	2,436,847,709	1,451,787,639	1,451,787,639
Insurance receivables	176,525,273	176,525,273	159,921,315	159,921,315
Policy loans	3,774,295,151	3,774,295,151	3,880,948,386	3,880,948,386
Mortgage loans	5,504,713	4,958,045	8,760,112	7,511,949
Due from officers and employees	250,113,779	247,849,001	35,392,302	32,850,359
Receivable from agents	150,748,653	148,207,346	114,559,768	109,601,593
Security deposits	83,375,243	83,375,243	87,579,036	87,579,036
Due from related parties	1,497,003,229	1,497,003,229	1,063,697,495	1,063,697,495
Accounts receivable held in IIF	58,842,478	58,842,478	42,968,298	42,968,298
Corporate loan	200,000,000	232,936,693	200,000,000	243,985,840
Other receivables	94,035,220	89,267,123	173,705,690	165,965,896
Accrued income				
Debt securities	339,734,184	339,734,184	326,515,352	326,515,352
Held in IIF	144,103,624	144,103,624	136,635,731	136,635,731
Corporate loan and equity securities	3,321,436	3,321,436	3,045,722	3,045,722
Cash and cash equivalents	2,407	2,407	10,343	10,343
<b>Total financial assets</b>	<b>₱85,485,429,948</b>	<b>₱85,508,245,791</b>	<b>₱76,066,301,370</b>	<b>₱76,093,799,135</b>
<b>Financial liabilities</b>				
Policyholders' dividends	4,086,532,316	4,086,532,316	4,536,232,712	4,536,232,712
Premium deposit fund	44,518,056	44,518,056	44,070,614	44,070,614
Insurance payables	352,068,048	352,068,048	161,935,434	161,935,434
Accounts payable and accrued expenses				
Accounts and other payables	39,279,951	39,279,951	38,336,539	38,336,539
Accrued expenses	561,549,678	561,549,678	391,288,922	391,288,922
Commissions payable	117,608,143	117,608,143	130,673,303	130,673,303
Provident fund	52,002,411	52,002,411	57,481,155	57,481,155
Secure account liability	16,698,066	16,698,066	16,307,699	16,307,699
Others	216,006,462	216,006,462	155,384,174	155,384,174
Due to related parties	239,790,850	239,790,850	35,657,391	35,657,391
<b>Total financial liabilities</b>	<b>₱5,726,053,981</b>	<b>₱5,726,053,981</b>	<b>₱5,567,367,943</b>	<b>₱5,567,367,943</b>

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

The fair values of financial instruments under financial assets at FVPL and AFS financial assets that are actively traded in organized financial markets are determined by reference to quoted prices, at the close of business on the reporting date. The fair value of unquoted AFS equity shares cannot be reliably determined, hence, these are presented at cost, less allowance for impairment losses, if any.

The fair values of mortgage loans, due from officers and employees, receivable from agents, corporate loan and other receivables is based on the discounted value of future cash flows using risk free rates for similar types of instruments ranging from 1.89% to 5.38%.

The carrying amount of policyholders' dividends and premium deposit fund approximate fair values considering that these are due and demandable.



The following table shows the analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
<b>AFS financial assets</b>				
Debt securities				
Local currency	₱41,075,586,968	₱305,877,710	₱–	₱41,381,464,678
Foreign currency	1,194,070,156		–	1,194,070,156
Quoted equity securities				
Common Shares	1,817,555,742	–	–	1,817,555,742
Club shares	–	44,660,000	–	44,660,000
<b>Financial Assets designated at FVPL</b>				
Debt securities				
Held in IIFS				
Peso bonds	8,511,736,667	2,265,203,038	–	10,776,939,705
Dollar bonds	3,709,566,815	32,336,124	–	3,741,902,939
Equity securities - at market				
Peso denominated	13,742,507,291	–	–	13,742,507,291
Dollar denominated	2,736,477,200	–	–	2,736,477,200
Total	₱72,787,500,839	₱2,648,076,872	₱–	₱75,435,577,711

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
AFS financial assets				
Debt securities				
Local currency	₱14,553,773,334	₱25,481,931,814	₱-	₱40,035,705,148
Foreign currency	-	1,082,528,180	-	1,082,528,180
Quoted equity securities				
Common Shares	1,566,363,326	-	-	1,566,363,326
Club shares	-	41,362,000	-	41,362,000
Financial Assets designated at FVPL				
Debt securities				
Held in IIFS				
Peso bonds	₱6,765,388,506	₱2,040,923,660	-	8,806,312,166
Dollar bonds	494,659,229	1,811,781,016	-	2,306,440,245
Equity securities - at market				
Peso denominated	11,309,916,352	-	-	11,309,916,352
Dollar denominated	2,591,232,922	-	-	2,591,232,922
Total	₱37,281,333,669	₱30,458,526,670	₱-	₱67,739,860,339

#### Fair Value Hierarchy

The Parent Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.



Included in the level 1 category are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Fair value for level 2 category was determined using valuation technique based on observable market data. Financial assets and liabilities measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets and liabilities for which pricing is obtained via pricing services, are valued using the counterparty's pricing models whereby the majority of assumptions are market observable.

The fair value of the index-linked notes were determined based on valuation methodologies incorporating the prevailing index closing level as of December 31, 2016, which is considered as a market observable input. The notes are fully funded and fully collateralized, thereby eliminating both counterparty and the Company's own non-performance risk.

Fair value for level 3 category was determined using techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

There were no changes in the valuation technique used by the Parent Company. In 2016 and 2015, there have been no transfers between level 1 and level 2 fair value movements, and no transfers into and out of level 3 fair value measurement.

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## 26. Related Party Transactions

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

Outstanding balances at year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party payables or receivables. The Company has not recognized any impairment losses on amounts due from related parties for the years ended December 31, 2016 and 2015. This assessment is undertaken at each financial year through a review of the financial position of the related party and the market in which the related party operates.



Significant transactions with related parties include the following:

**December 31, 2016**

	Entities	Financial Statement Account	Nature	Terms and Conditions	Transactions during the year	Outstanding Balance
Ultimate Parent	Manulife Financial Corporation	Due from Related Parties	Actual time charges and/or cost of its officers and employees for the marketing support and branding awareness campaign.	Unsecured, non-interest bearing, no impairment	₱–	₱16,507
		Due to Related Parties	Cost for the data management services provided by the ultimate parent.	Unsecured, non-interest bearing, due and demandable	149,113,649	10,773,394
			Regional cost allocation charges (overhead allocation, experience study and HR shared service center) which is not included in PTP charges	Unsecured, non-interest bearing, no impairment, due and demandable	444,949,658	131,961,918
Subsidiaries	Manulife Financial Plans, Inc.	Insurance Receivables	Actual premium payment for life coverage embedded in pre-need plans.	Unsecured, non-interest bearing, no impairment, due and demandable	21,935,086	3,493,026
		Due from Related Parties	Borrowed funds by the subsidiary, non-interest bearing, net of collections and deposits.	Unsecured, non-interest bearing, no impairment, due and demandable	43,015,231	199,262,568
			Allocated costs to the subsidiary for management, accounting and other administrative services rendered plus 5% mark up and various fund transfer throughout the year.	Unsecured, non-interest bearing, no impairment, due and demandable	19,698,839	1,454,690
	Manulife Chinabank Life Assurance Corporation	Due from Related Parties	99% of inforce business assumed by the Parent Company and 1% retained by the subsidiary.	Unsecured, non-interest bearing, no impairment, due and demandable	392,544,427	1,048,379,294
			Assumed unit-linked management fee from subsidiary.	Unsecured, non-interest bearing, no impairment, due and demandable	255,475,184	19,722,652
			Allocated costs to the subsidiary for management, accounting and other administrative services rendered plus 5% mark-up.	Unsecured, non-interest bearing, no impairment, due and demandable	95,996,588	228,167,518
		Reserve for legal policy reserves		No term	–	3,184,345,137
Under Common Control	Manulife International Limited	Due to Related Parties	Payment of reinsurance payable which consist of premium, recoverable and administrative charges.	Unsecured, non-interest bearing, due and demandable	288,890,517	77,475,888
	Manulife Data	Due to	Non-interest bearing cash	Unsecured,	28,757,584	607,749





Entities	Financial Statement Account	Nature	Terms and Conditions	Transactions during the year	Outstanding Balance
Services, Inc.	Related Parties	advances.	non-interest bearing, due and demandable		
		Cost for the data management services provided by the affiliate.	Unsecured, non-interest bearing, due and demandable	₱63,021,320	₱18,941,843
Manulife Technical & Support Malaysia	Due to Related Parties	Actual time charges and/or cost of its officers and employees for technical support charges.	Unsecured, non-interest bearing, due and demandable	541,027	30,058
Manulife Financial Asia Limited	Due to Related Parties	Regional cost allocation charges for services rendered outside the Philippines pursuant to service agreement	Unsecured, non-interest bearing, no impairment, due and demandable	187,193,525	—

December 31, 2015

	Entities	Financial Statement Account	Nature	Terms and Conditions	Transactions during the year	Outstanding Balance
Ultimate Parent	Manulife Financial Corporation	Due from Related Parties	Actual time charges and/or cost of its officers and employees for the marketing support and branding awareness campaign.	Unsecured, non-interest bearing, no impairment	₱407,810,057	₱30,808,701
		Due to Related Parties	Cost for the data management services provided by the ultimate parent.	Unsecured, non- interest bearing, due and demandable	134,993,467	11,466,720
Subsidiaries	Manulife Financial Plans, Inc.	Insurance Receivables	Actual premium payment for life coverage embedded in pre-need plans.	Unsecured, non- interest bearing, no impairment	25,820,562	3,802,610
		Due from Related Parties	Borrowed funds by the subsidiary, non-interest bearing, net of collections and deposits.	Unsecured, non-interest bearing, no impairment	22,632,975	163,771,402
			Allocated costs to the subsidiary for management, accounting and other administrative services rendered plus 5% mark up and various fund transfer throughout the year.	Unsecured, non-interest bearing, no impairment	29,151,308	4,250,488
	Manulife Chinabank Life Assurance Corporation	Due from Related Parties	99% of inforce business assumed by the Parent Company and 1% retained by the subsidiary.	Unsecured, non-interest bearing, no impairment	637,558,085	716,447,117
			Assumed unit-linked management fee from subsidiary.	Unsecured, non-interest bearing, no impairment	274,573,276	21,520,857
			Allocated costs to the subsidiary for management, accounting and other administrative services rendered plus 5% mark-up.	Unsecured, non-interest bearing, no impairment	83,048,132	126,898,930
			Reserve for legal policy reserves	No term	—	2,779,410,733



	Entities	Financial Statement Account	Nature	Terms and Conditions	Transactions during the year	Outstanding Balance
Under Common Control	Manulife International Limited	Due to Related Parties	Payment of reinsurance payable which consist of premium, recoverable and administrative charges.	Unsecured, non-interest bearing, due and demandable	₱230,772,943	₱7,329,591
	Manulife Data Services, Inc.	Due to Related Parties	Non-interest bearing cash advances.	Unsecured, non-interest bearing, due and demandable	7,188,025	2,889,040
			Cost for the data management services provided by the affiliate.	Unsecured, non-interest bearing, due and demandable	46,561,179	13,482,067
	Manulife Technical & Support Malaysia	Due to Related Parties	Actual time charges and/or cost of its officers and employees for technical support charges.	Unsecured, non-interest bearing, due and demandable	1,900,086	489,973

#### Remuneration of Key Management Personnel

The Parent Company's key management personnel include all management committee officers. The summary of compensation of key management personnel follows:

	2016	2015
Salaries and other short-term employee benefits	<b>₱243,019,611</b>	₱246,740,163
Post-employment and other long-term benefits	<b>9,772,952</b>	9,953,585
Others	<b>1,863,774</b>	2,115,360
	<b>₱254,656,337</b>	₱258,809,108

#### 27. Lease Commitments

The Parent Company has various operating lease agreements for branch offices and other facilities. The operating lease agreements are for a period of 1 to 5 years with escalation rates on some of these leases ranging between 5% and 10%. Most leases contain renewal options. Future minimum lease payments under lease commitments existing as of December 31, 2016 and 2015 follow:

	2016	2015
Within one year	<b>₱160,575,171</b>	₱148,219,134
After one year but not more than five years	<b>186,106,153</b>	259,354,678
	<b>₱346,681,324</b>	₱407,573,812

In 2016 and 2015, rent expense recognized in the parent company statements of income amounted to ₱182.14 million and ₱169.54 million, respectively (see Note 21).



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## 28. Regulatory Requirements

### Capital Management Framework

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

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

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

### Regulatory Framework

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

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

The operations of the Parent Company are subject to the regulatory requirements of the Insurance Commission. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g. fixed capitalization requirements, margin of solvency (MOS) and 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 (see Note 28).

### *Fixed Capitalization Requirements*

On August 5, 2014, the President of the Philippines approved Republic Act No. 10607 to be known as the "New Insurance Code" which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June 30, 2015 up to December 31, 2022.



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

<b>Minimum Networth</b>	<b>Compliance Date</b>
₱550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

As of December 31, 2016, the required minimum statutory net worth for the Parent Company is ₱550 million. The Parent Company has complied with the minimum networth requirement.

#### *Solvency Requirement*

Under the revised Insurance Code (RA 10607), a life insurance company doing business in the Philippines shall at all times maintain the minimum paid-up capital, and net worth requirements as prescribed by the Commissioner. Such solvency requirements shall be based on internationally accepted solvency frameworks and accepted only after due consultation with the insurance industry association.

The amounts of estimated non-admitted assets, as defined in the Code, are as follows:

	<b>2016 (Estimated)</b>	<b>2015 (Actual)</b>
Loans and receivables	<b>₱173,240,328</b>	₱275,279,577
Property and equipment	<b>203,518,708</b>	201,018,083
Intangible asset	<b>44,824,799</b>	52,295,600
Other assets	<b>114,048,023</b>	176,324,349
	<b>₱535,631,858</b>	₱704,917,609

The Excess Solvency shall be the excess of the value of its admitted assets (as defined under the same Code), over the amount of its liabilities and the required minimum capital/net worth.

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

The final amount of the networth as of December 31, 2016 and 2015 can be determined only after the accounts of the Parent Company have been examined by the Insurance Commission, specifically as to admitted and non-admitted assets as defined under the Code.

The following table shows the total equity available for Minimum Capital as of December 31

	<b>2016 (Estimated)</b>	<b>2015 (Actual)</b>
Total admitted assets	<b>₱84,452,597,743</b>	₱74,386,734,883
Total liabilities	<b>69,644,954,933</b>	61,879,618,912
Net worth	<b>14,807,642,810</b>	12,507,115,971
Required Minimum Capital / Net Worth	<b>550,000,000</b>	250,000,000
	<b>₱14,257,642,810</b>	₱12,257,115,971



	2016 (Estimated)	2015 (Actual)
Total admitted assets	<b>₱84,452,597,743</b>	₱74,386,734,883
Total liabilities	<b>69,644,954,933</b>	61,879,618,912
Net worth	<b>14,807,642,810</b>	12,507,115,971
Required Minimum Capital / Net Worth	<b>550,000,000</b>	250,000,000
	<b>₱14,257,642,810</b>	₱12,257,115,971

#### *Unimpaired Capital Requirement*

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

#### *Dividend Declaration*

Under Section 201 of the Amended Code, no insurance company shall declare and distribute any dividend on its outstanding stocks unless it has met the minimum paid-up capital and net worth requirements and except from profits attested in a sworn statement to the Commissioner by the president or treasurer of the corporation to be remaining on hand after retaining unimpaired : (a) the entire paid-up capital stock, (b) the solvency requirements, (c) in the case of life insurance corporations, the legal reserve fund, and (d) a sum sufficient to pay all net losses reported, or in the course of settlement, and all liabilities for expenses and taxes. If the Commissioner finds that any such corporation has declared or distributed any such dividend in violation of this section, he may order such corporation to cease and desist from doing business until the amount of such dividend or the portion thereof in excess of the amount allowed under this section has been restored to said corporation.

#### *RBC Requirements*

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

The RBC ratio shall be calculated as Networth divided by the RBC requirement. Net worth shall include the Parent Company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the Insurance Commission.

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:

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



The following table shows how the estimated RBC ratio was determined:

	2016 (Estimated)	2015 (Actual)
Networth	14,807,642,810	12,507,115,971
RBC requirement	3,174,289,440	2,758,533,033
RBC ratio	466%	453%

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

In 2016, IC issued Circular Letter No. 2016-68, Amended Risk-Based Capital (RBC2) Framework, which prescribes that all insurance companies must satisfy the minimum statutory RBC ratio of 100% and not fail the Trend Test as stated under Section 3 of this Circular. The RBC ratio of an insurance company shall be equal to the Total Available Capital (TAC) divided by the RBC requirement.

IC Circular Letter No. 2016-69, Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework, provides that the level of sufficiency for the RBC2 Framework shall be at 95% level in 2017, 97.50% in 2018 and 99.50% in 2019.

This will take effect beginning January 1, 2017.

## 29. Current and Non-current Classification

As of December 31 2016 and 2015, the Parent Company's classification of its accounts is as follows:

	2016			2015		
	Current	Non-current	Total	Current	Non-current	Total
Cash and Cash Equivalents	₱3,272,246,847	₱—	₱3,272,246,847	₱2,092,701,481	₱—	₱2,092,701,481
Insurance Receivables	176,525,273	—	176,525,273	159,921,315	—	159,921,315
Financial Assets						
Available-for-sale financial assets	—	44,437,750,576	44,437,750,576	—	42,725,958,654	42,725,958,654
Financial assets at fair value through profit or loss	30,997,827,135	—	30,997,827,135	25,013,901,685	—	25,013,901,685
Loans and receivables	5,517,702,420	596,216,046	6,113,918,466	5,195,300,963	412,310,124	5,607,611,087
Accrued Income	487,161,651	—	487,161,651	466,207,148	—	466,207,148
Reinsurance Assets	446,532,663	—	446,532,663	20,915,111	—	20,915,111
Investments in Subsidiaries	—	991,298,983	991,298,983	—	991,298,983	991,298,983
Property and Equipment	—	228,113,670	228,113,670	—	232,882,360	232,882,360
Intangible Assets	—	44,824,800	44,824,800	—	52,295,600	52,295,600
Other Assets	22,586,783	87,298,016	109,884,799	32,960,023	120,289,600	153,249,623
Total Assets	₱40,920,582,772	₱46,385,502,091	₱87,306,084,863	₱32,981,907,726	₱44,535,035,321	₱77,516,943,047
<b>Liabilities</b>						
Insurance contract liabilities	₱35,685,708,001	₱27,610,705,102	₱63,296,413,103	₱28,114,313,558	₱27,082,063,745	₱55,196,377,303
Policyholders' dividends	4,086,532,316	—	4,086,532,316	4,536,232,712	—	4,536,232,712
Reserve for policyholders' dividends	589,128,929	—	589,128,929	984,513,180	—	984,513,180
Insurance payables	352,068,048	—	352,068,048	161,935,434	—	161,935,434
Premium deposit fund	44,518,056	—	44,518,056	44,070,614	—	44,070,614
Accounts payable and accrued expenses	1,086,361,773	—	1,086,361,773	874,752,634	—	874,752,634
Due to related parties	239,790,850	—	239,790,850	35,657,391	—	35,657,391
Pension liability	—	7,378,154	7,378,154	—	50,357,420	50,357,420
Total Liabilities	₱42,084,107,973	₱27,618,083,256	₱69,702,191,229	₱34,751,475,523	₱27,132,421,165	₱61,883,896,688



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**30. Note to Parent Company Statement of Cash Flows**

In 2015, the noncash investing transaction pertains to the bond swap participated by the Parent Company during 2015. The securities acquired amounted to ₱13.21 billion which consisted of 25-year bonds with minimum coupon rate 4.625% in exchange of securities with a net book value and fair value of ₱9.64 billion and ₱13.21 billion, respectively (see Note 5).

