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

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

Parent Company Financial Statements
December 31, 2015 and 2014

and

Independent Auditors' Report

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# INDEPENDENT AUDITORS' REPORT

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

## Report on the Parent Company Financial Statements

We have audited the accompanying parent company financial statements of The Manufacturers Life Insurance Co. (Phils.), Inc. (a wholly owned subsidiary of The Manufacturers Life Insurance Company - Canada), which comprise the parent company statements of financial position as at December 31, 2015 and 2014, and the parent company statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Parent Company Financial Statements*

Management is responsible for the preparation and fair presentation of these parent company financial statements in accordance with Philippine Financial Reporting Standards, 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.

*Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the parent company financial statements present fairly, in all material respects, the financial position of The Manufacturers Life Insurance Co. (Phils.), Inc. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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

The supplementary information required under Revenue Regulations 15-2010 for purposes of filing with the Bureau of Internal Revenue is presented by the management of The Manufacturers' Life Insurance Co. (Phils.), Inc. in a separate schedule. Revenue Regulations 15-2010 requires the information to be presented in the notes to financial statements. Such information is not a required part of the basic financial statements. The information is also not required by Securities Regulation Code Rule 68, As Amended (2011). Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

SYCIP GORRES VELAYO & CO.

Lucy L. Chan

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Partner
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January 7, 2016, valid until January 6, 2019
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February 27, 2015, valid until February 26, 2018
PTR No. 5321621, January 4, 2016, Makati City

April 5, 2016

## THE MANUFACTURERS LIFE INSURANCE CO. (PHILS.), INC.

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

# PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2015** | 2014 |
| ASSETS | | |
| **Cash and Cash Equivalents** (Notes 4 and 25) | **₱2,092,701,481** | ₱1,769,402,700 |
| **Insurance Receivables** (Notes 25) | **159,921,315** | 140,881,137 |
| **Financial Assets** | | |
| Available-for-sale financial assets (Notes 5 and 25) | **42,725,958,654** | 43,577,239,234 |
| Financial assets at fair value through profit or loss (Notes 5, 6 and 25) | **25,013,901,685** | 21,299,740,650 |
| Loans and receivables (Notes 3, 5, 25, and 26) | **5,606,680,079** | 5,098,353,334 |
| **Accrued Income** (Notes 7 and 25) | **466,207,148** | 372,579,289 |
| **Reinsurance Assets** (Notes 13, 25 and 26) | **20,915,111** | 16,568,271 |
| **Investments in Subsidiaries** (Note 8) | **991,298,983** | 926,883,873 |
| **Property and Equipment** (Notes 3 and 9) | **232,882,360** | 165,937,275 |
| **Intangible Assets** (Notes 3 and 10) | **52,295,600** | 59,766,400 |
| **Other Assets** (Notes 11) | **153,249,622** | 130,181,879 |
| | **₱77,516,012,038** | ₱73,557,534,042 |
| LIABILITIES AND EQUITY | | |
| **Liabilities** | | |
| Insurance contract liabilities (Notes 12 and 13) | **₱54,892,132,819** | ₱48,496,538,266 |
| Policyholders' dividends (Note 25) | **4,536,232,712** | 4,497,459,164 |
| Reserve for policyholders' dividends | **984,513,180** | 957,013,701 |
| Insurance payables (Note 25) | **161,935,434** | 92,205,278 |
| Premium deposit fund (Note 25) | **44,070,614** | 52,567,139 |
| Accounts payable and accrued expenses (Notes 14 and 25) | **1,178,066,109** | 956,976,949 |
| Due to related parties (Notes 25 and 26) | **35,657,391** | 18,024,516 |
| Pension liability (Note 23) | **50,357,420** | – |
| Total Liabilities | **61,882,965,679** | 55,070,785,013 |
| **Equity** | | |
| Capital stock (Notes 16 and 28) | **930,000,000** | 930,000,000 |
| Additional paid-in capital (Note 16) | **50,635,817** | 50,635,817 |
| Retained earnings | **12,083,171,968** | 8,187,939,902 |
| Remeasurement loss on pension plan (Note 23) | **(44,087,381)** | – |
| Reserve for fluctuation in value of available-for-sale financial assets (Notes 5 and 28) | **2,613,325,955** | 9,318,173,310 |
| Total Equity | **15,633,046,359** | 18,486,749,029 |
| | **₱77,516,012,038** | ₱73,557,534,042 |

*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

| | Years Ended December 31 | |
|---|---|---|
| | **2015** | 2014 (As restated - Note 2) |
| **REVENUE** | | |
| Gross premiums earned on insurance contracts | **₱14,021,030,358** | ₱14,231,641,960 |
| Reinsurers' share of gross premiums earned on insurance contracts | **(111,293,488)** | (95,336,937) |
| Net insurance premiums earned (Note 17) | **13,909,736,870** | 14,136,305,023 |
| Investment income (Note 18) | **2,581,316,493** | 2,515,426,319 |
| Gain on sale of available-for-sale financial assets (Note 5) | **3,919,082,257** | 146,078,204 |
| Foreign currency exchange gains | **68,450,166** | 9,457,376 |
| Fees and commission income | **2,662,855** | 2,100,431 |
| Swap income (Note 5) | **–** | 7,863,316 |
| Other income (Note 19) | **1,299,085,355** | 1,019,691,278 |
| Total revenue | **21,780,333,996** | 17,836,921,947 |
| **BENEFITS, CLAIMS AND OPERATING EXPENSES** | | |
| Gross benefits and claims incurred on insurance contracts | **2,156,995,015** | 2,321,035,233 |
| Reinsurers' share of benefits and claims incurred on insurance contracts | **2,788,051** | (3,351,325) |
| Gross change in legal policy reserves | **9,372,479,872** | 9,307,847,823 |
| Reinsurers' share of gross change in legal policy reserves | **(399,379)** | (15,472) |
| Net insurance benefits and claims (Note 20) | **11,531,863,559** | 11,625,516,259 |
| General and administrative expenses (Note 21) | **2,056,600,958** | 1,759,638,782 |
| Commissions and other direct expenses (Note 22) | **2,034,151,245** | 1,534,291,372 |
| Dividends and dividend interest to policyholders | **908,206,461** | 873,103,431 |
| Impairment loss on investment in subsidiary (Note 8) | **735,584,890** | – |
| Insurance and other taxes | **133,101,961** | 264,394,412 |
| Loss on sale of non-controlling interest in a subsidiary (Note 8) | **–** | 200,330,592 |
| Fair value loss on derivatives (Note 5) | **–** | 14,879,892 |
| Underwriting expense | **9,392,168** | 8,277,082 |
| Fair value losses on financial assets at FVPL (Note 5) | **3,488,186** | 7,189,998 |
| Interest on premium deposit fund | **733,726** | 831,776 |
| Total benefits, claims and operating expenses | **17,413,123,154** | 16,288,453,596 |
| **INCOME BEFORE INCOME TAX** | **4,367,210,842** | 1,548,468,351 |
| **PROVISION FOR INCOME TAX** (Note 24) | **471,978,776** | 474,492,770 |
| **NET INCOME** | **₱3,895,232,066** | ₱1,073,975,581 |

*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

| | Years Ended December 31 | |
|---|---|---|
| | **2015** | 2014 |
| **NET INCOME** | **₱3,895,232,066** | ₱1,073,975,581 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| **Item that will be reclassified to profit or loss in subsequent periods:** | | |
| Net change in fair value of available-for-sale financial assets (Note 5) | **(6,704,847,355)** | 1,846,237,072 |
| **Item that will not be reclassified to profit or loss in subsequent periods:** | | |
| Remeasurement loss on pension plan (Note 23) | **(44,087,381)** | – |
| | **(6,748,934,736)** | 1,846,237,072 |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **(₱2,853,702,670)** | ₱2,920,212,653 |

*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 CHANGES IN EQUITY

| | Capital Stock (Note 16) | Additional Paid-in Capital (Note 16) | Retained Earnings | Remeasurement Loss on Pension Plan (Note 23) | Reserve for Fluctuation in Value of Available-for-sale Financial Assets (Note 5) | Total |
|---|---|---|---|---|---|---|
| **As at January 1, 2015** | **₱930,000,000** | **₱50,635,817** | **₱8,187,939,902** | **₱–** | **₱9,318,173,310** | **₱18,486,749,029** |
| **Net income** | **–** | **–** | **3,895,232,066** | **–** | **–** | **3,895,232,066** |
| **Other comprehensive loss** | **–** | **–** | **–** | **(44,087,381)** | **(6,704,847,355)** | **(6,748,934,736)** |
| **Total comprehensive income (loss)** | **–** | **–** | **3,895,232,066** | **(44,087,381)** | **(6,704,847,355)** | **(2,853,702,670)** |
| **As at December 31, 2015** | **₱930,000,000** | **₱50,635,817** | **₱12,083,171,968** | **(₱44,087,381)** | **₱2,613,325,955** | **₱15,633,046,359** |
| As at January 1, 2014 | ₱930,000,000 | ₱50,635,817 | ₱7,113,964,321 | ₱– | ₱7,471,936,238 | ₱15,566,536,376 |
| Net income | – | – | 1,073,975,581 | – | – | 1,073,975,581 |
| Other comprehensive income | – | – | – | – | 1,846,237,072 | 1,846,237,072 |
| Total comprehensive income | – | – | 1,073,975,581 | – | 1,846,237,072 | 2,920,212,653 |
| As at December 31, 2014 | ₱930,000,000 | ₱50,635,817 | ₱8,187,939,902 | ₱– | ₱9,318,173,310 | ₱18,486,749,029 |

*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

| | Years Ended December 31 | |
|---|---|---|
| | **2015** | 2014 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **₱4,367,210,842** | ₱1,548,468,351 |
| Adjustments for: | | |
| Change in legal policy reserves – non-unit-linked (Note 20) | **2,084,386,674** | 1,286,865,805 |
| Impairment loss on investment in subsidiary (Note 8) | **735,584,890** | – |
| Loss on sale of non-controlling interest in a subsidiary (Note 8) | **–** | 200,330,592 |
| Depreciation and amortization (Notes 9, 10 and 21) | **101,409,164** | 92,969,489 |
| Decrease (increase) in reserve for policyholders' dividends | **27,499,479** | (841,500) |
| Fair value loss on derivatives (Note 5) | **–** | 14,879,892 |
| Fair value loss on financial assets at fair value through profit or loss (Note 5) | **3,488,186** | 7,189,998 |
| Loss (gain) on disposal of property and equipment (Note 9) | **(1,103,075)** | 303,455 |
| Swap income (Note 5) | **–** | (7,863,316) |
| Unrealized foreign currency exchange gains net | **(49,390,415)** | (53,347,923) |
| Gain on sale of available-for-sale financial assets (Notes 5) | **(3,919,082,257)** | (146,078,204) |
| Interest income (Note 18) | **(2,553,834,908)** | (2,475,939,262) |
| Dividend income (Note 18) | **(27,481,585)** | (31,623,741) |
| Operating income before changes in operating assets and liabilities | **768,686,995** | 435,313,636 |
| Decrease (increase) in: | | |
| Insurance receivables | **(19,040,178)** | 6,756,791 |
| Loans and receivables | **(244,683,842)** | 155,195,390 |
| Reinsurance assets | **(4,346,840)** | (12,549,763) |
| Financial assets at fair value through profit or loss | **(3,731,059,559)** | (8,198,020,730) |
| Other assets | **(23,067,743)** | 15,401,923 |
| Increase (decrease) in: | | |
| Insurance contract liabilities – unit-linked | **4,155,083,383** | 8,369,713,295 |
| Accounts payable and accrued expenses | **221,089,160** | 427,692,361 |
| Policy and contract claims (Note 12) | **156,124,496** | 51,097,069 |
| Insurance payables | **69,730,156** | 36,052,644 |
| Pension liability | **6,270,039** | (13,359,846) |
| Due to related parties | **17,632,875** | 12,617,118 |
| Policyholders' dividends | **38,773,548** | (149,780,095) |
| Premium deposit fund | **(8,496,525)** | (61,050) |
| Cash generated from operations | **1,402,695,965** | 1,136,068,743 |
| Income taxes paid | **(471,978,776)** | (474,492,770) |
| Net cash provided by operating activities | **930,717,189** | 661,575,973 |

(Forward)

| | Years Ended December 31 | |
|---|---|---|
| | **2015** | 2014 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest received | **₱2,212,246,342** | ₱2,167,382,879 |
| Proceeds from sale and/or maturities of: | | |
| Available-for-sale financial assets (Notes 5 and 30) | **1,297,000,664** | 856,225,657 |
| Investment in subsidiaries | **39,983,750** | 19,991,875 |
| Derivatives | **–** | 32,755,000 |
| Property and equipment (Note 9) | **1,103,075** | 1,573,500 |
| Acquisitions of: | | |
| Property and equipment (Note 9) | **(160,883,449)** | (92,907,789) |
| Available-for-sale financial assets (Notes 5 and 30) | **(3,244,634,070)** | (3,675,175,289) |
| Capital infusion to MFPI (Note 8) | **(800,000,000)** | – |
| Additional investment in insurance investment fund | **–** | (4,000,000) |
| Withdrawal of seed money | **14,174,014** | – |
| Dividends received | **26,798,614** | 32,577,099 |
| Net cash used in investing activities | **(614,211,060)** | (661,577,068) |
| **EFFECT OF FOREIGN CURRENCY RATE CHANGES IN CASH AND CASH EQUIVALENTS** | **6,792,652** | 29,971,331 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **323,298,781** | 29,970,236 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **1,769,402,700** | 1,739,432,464 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 4) | **₱2,092,701,481** | ₱1,769,402,700 |

*See accompanying Notes to Parent Company Financial Statements.*

# PARENT COMPANY NOTES TO FINANCIAL STATEMENTS

## 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 ₱430.0 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.

As of April 5, 2016, 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.

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.

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 5, 2016.

## 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.

<u>Statement of Compliance</u>
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 (PFRS). PFRS 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).

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

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

- Amendments to Philippine Accounting Standard (PAS) 19, *Defined Benefit Plans: Employee Contributions*
  PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. This amendment has no impact to the Parent Company.

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

- PFRS 2, *Share-based Payment – Definition of Vesting Condition*
  This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
  - A performance condition must contain a service condition
  - A performance target must be met while the counterparty is rendering service

- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
  The amendment is applied prospectively and clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and* Measurement. This amendment has no impact to the Parent Company.

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments are applied retrospectively and clarify that:
  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

- PAS 16, *Property, Plant and Equipment,* and PAS 38*, Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*
  The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. This amendment has no impact to the Parent Company.

- PAS 24, *Related Party Disclosures – Key Management Personnel*
  The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The application of these amendments has no material impact on the disclosure in the Parent Company financial statements.

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

- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
  The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

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

- PFRS 13, *Fair Value Measurement – Portfolio Exception*
  The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39. The Parent Company does not apply the portfolio exception in PFRS 13.

- PAS 40, *Investment Property*
  The description of ancillary services in PAS 40 differentiates between the investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. This amendment has no impact to the Company.

*Standards issued but not yet effective*

Enumerated below are standards issued but not yet effective up to the date of issuance of the parent company financial statements. The Parent Company will adopt the relevant standards when these become effective. The Parent Company does not expect the adoption of these new and amended PFRS to have significant impact on the parent company financial statements.

*Deferred*

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision for services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The Securities and Exchange Commission and Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the parent company.

*Effective January 1, 2016*

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

method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are effective for annual periods beginning on or after January 1, 2016.

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

- Amendments to PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements*
  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the parent company's financial statements.

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

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

- Amendments to PAS 1, *Presentation of Financial Statements – Disclosure Initiative*
  The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:
  - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
  - That specific line items in the statement of income and OCI and the statement of financial position may be disaggregated
  - That entities have flexibility as to the order in which they present the notes to financial statements
  - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item and classified between those items that will or will not be subsequently reclassified to profit or loss.

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

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

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

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

<u>Annual Improvements PFRSs (2012-2014 cycle)</u>
These improvements are effective for annual periods beginning on or after January 1, 2016. They include:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
  The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5.

  The amendment also clarifies that changing the disposal method does not change the date of classification.

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

- PFRS 7 – *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, *Employee Benefits – regional market issue regarding the discount rate*
  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, *Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'*
  The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

*Effective January 1, 2018*

- PFRS 9, *Financial Instruments*
  In July 2014, the IASB issued the final version of PFRS 9, *Financial Instruments*. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015.

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

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

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

  Early adoption is permitted. The Parent Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

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

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

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

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

<u>IC Circular Letter (ICL) No. 2014-42-A</u>
On October 30, 2014, the IC issued ICL No. 2014-42-A, *Valuation Standards for Life Insurance Policy Reserves*. The following are the more significant provisions of this Circular:

1. A life insurance company must value the policy reserves of its life business at the end of each calendar year as required by the IC, in accordance with this set of Valuation Standards for Life Insurance Policy Reserves.

2. The methods and valuation assumptions must:
   a. be appropriate to the type of business and its risk profile;

b. include appropriate margins for adverse deviations in respect of the risks that arise under the insurance policy;
c. be in accordance with the internationally accepted actuarial standards; and
d. consider the generally accepted actuarial principles concerning financial reporting framework promulgated by the Actuarial Society of the Philippines (ASP).

3. Unless the context othenrvise requires, the following terms shall be taken to mean:
   a. “variable contract" is as defined in Section 238 (b) of the Amended Insurance Code (RA 10607)
   b. "traditional policy" is a policy other than variable contract, which includes life, health or accident, annuity contracts and supplementary benefits or riders
   c. "company" is a life insurance company supervised by the IC.

*Valuation Methodology*

1. An actuary duly accredited by the IC shall be responsible in determining the level of policy reserves based on his professional valuation of the company's life insurance liabilities using a basis no less stringent than that prescribed in the following paragraphs.

2. Subject to paragraphs 3 to 5 below, the reserves for traditional life insurance policies must be valued, where appropriate, using gross premium valuation. This is calculated as the sum of the present value of future benefits and expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate risk-free discount rate. For this purpose, the expected future cash flows shall be determined using best estimate assumptions with due regard to significant recent experience and appropriate margin for adverse deviation from the expected experience.

3. For any traditional life insurance policy where the guaranteed cash value as at valuation date is greater than zero, the reserve calculated based on paragraph 2 must be floored at the guaranteed cash value.

4. For any traditional life insurance policy where the guaranteed cash value as at valuation date is zero, and the corresponding reserve calculated based on paragraph 2 is negative, the company must appropriate from the unassigned surplus an amount equal to the aggregate of the negative reserves calculated on a per policy basis.

5. For any traditional life insurance policy with a term of one year or less, the reserve shall be calculated using the unearned premium method.

6. A company shall value the reserves for variable life insurance contracts as the sum of the:

   a. market value of the underlying assets backing the separate accounts relating to the policy, excluding any seed capital; and
   b. unearned cost of insurance or unearned risk charge.

7. A more conservative basis of valuation may be adopted by the Actuary resulting in higher policy reserves compared to the standards set out above, if, in his professional judgment, it is appropriate to do so.

8. Where the reserve of a life insurance policy cannot be appropriately valued using this set of valuation standards, the valuation shalt be done using the basis approved by the IC.

*Valuation Assumptions*

1. Discount rates

   a. The risk-free discount rate shall be used for all cash flows to determine the liability of a traditional life insurance policy.

   b. The yield curve used as basis for the risk-free discount rate shall be obtained from the following sources:
      i. for Philippine Peso policies : PDST-R2 rates
      ii. for US Dollar policies: International Yield Curve (IYC) from Bloomberg

   c. The risk-free discount rate shall be the equivalent zero-coupon spot yield of the above yield curve with matching duration. Duration is the term to maturity of each future cash flow.

   d. If the duration of the cashflow is more than that of the longest available bond, then the discount rate shall be based on the longest bond yield rate.

   e. Where yields at certain durations are not available, these yields shall be appropriately interpolated from available information.

   f. The IC will provide the yield curve and risk-free discount rate annually, and may change the sources of the yield curve when appropriate.

2. Non-guaranteed Benefits

   The level of non-guaranteed benefits under traditional life insurance policies to be valued, including policy dividends, shall be determined with due regard to the company's duty to treat its policyholders fairly and meet policyholders' reasonable expectations.

3. Expenses

   a. The expense assumptions shall be based on the company's experience derived from its latest expense study. Otherwise, basis and justification of the assumptions used must be provided.

   b. Suitable non-negative expense inflation rate shall be used. All projected expected expenses shall be recognized in the valuation process.

4. Mortality and Morbidity

   The mortality and morbidity assumptions shall be based on rates of mortality and morbidity that are appropriate to the nature of the risks covered based on the company's actual experience. If actual experience is not available or if the company's actual experience is inappropriate to be used, the basis and justification for the assumptions used must be provided.

5. Lapse and/or Persistency

   The lapse and/or persistency rates reflective of the company's actual experience shall be taken as the best estimate lapse and/or persistency assumption, with due regard to changing company practices and market conditions. If lapse and/or persistency experience is not yet available, the basis and justification for the assumption used must be provided.

*Margin for Adverse Deviation (MfAD)*

1. Fixed margins for adverse deviations (MfAD) will be used subject to a minimum of:
   a. Interest: +l-10% of discount rate
   b. Expense: 10% of best estimate expenses
   c. Other assumptions including but not limited to mortality, morbidity, lapse and conversion: +1-10% of best estimate assumptions

2. For mortality and lapse assumptions, the sign (positive or negative) of MfAD should be tested per group of products at the time of valuation. MfAD will have the same sign for all durations per group of products. The product grouping shall be whole life, endowment and term.

3. For interest assumption, the sign (positive or negative) of MfAD should be tested on aggregate basis.

4. The MfAD on expenses will be on expense components that are exposed to uncertainty. The commissions payable to agents/distributors and taxes may not be subject to MfAD.

5. The provision for adverse deviation or the additional reserves due to the MfAD for each component (i.e., expense, mortality/morbidity, lapse, interest) must be non-negative.

6. Any change in the level of MfAD used must be justified.

The above ICL will become effective on June 30, 2016 with a transition cut-off date as at January 1, 2016. The Parent Company is currently assessing the impact of the standard.

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

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

| Increase (decrease): | |
|---|---|
| Gross premiums earned on insurance contracts | ₱778,723,079 |
| Other income: | |
| Premium load | (760,083,904) |
| Bid offer spread | (18,639,175) |

The above reclassifications have no impact on the 2014 net income, and on the total assets, total liabilities and equity as of December 31, 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 insurance investment funds set up by the Parent Company underlying the unit-linked insurance contracts are designated as at FVPL in accordance with the investment strategy and valuation provisions of the unit-linked policy contracts. Likewise, this is consistent with the valuation basis of the reserve for variable units held by policyholders.

The Parent Company's peso and dollar-denominated debt securities and equity securities under the Insurance Investments Funds (IIFs) 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.

As of December 31, 2015 and 2014, 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, 2015 and 2014, 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.

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 contact 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.

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

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

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

*Liability adequacy 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.

## 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).

*Operating lease - Parent Company as lessee*

The Parent Company has entered into lease agreements related to various properties for its head office premises and agency offices. Based on an evaluation of the terms and conditions of the lease agreements, there will be no transfer of ownership of assets to the Parent Company at the end of the lease term. The lessors retain all significant risks and reward of ownership of these properties and so the Parent Company accounts for the agreements as operating leases (see Note 27).

*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.

*Impairment of financial assets at amortized cost*

The Parent Company reviews its loans and receivables at each reporting date to assess whether an allowance for impairment losses should be recorded in the parent company statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to age of balances, financial status of counterparties, payment behavior, legal opinion on recoverability in case of legal disputes and known market factors. The Parent Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a regular basis. In addition to specific allowance against individually significant loans and receivables, the Parent Company also makes a collective impairment allowance against exposures, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is generally based on the age and status of the accounts.

Estimates and Assumptions

The key 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 ₱54.28 billion and ₱48.04 billion as of December 31, 2015 and 2014, 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:

| | **2015** | 2014 |
|---|---|---|
| Investments in subsidiaries (Note 8) | **₱991,298,983** | ₱926,883,873 |
| Property and equipment (Note 9) | **232,882,360** | 165,937,275 |
| Intangible assets (Note 10) | **52,295,600** | 59,766,400 |

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, 2015 and 2014, the carrying value of loans and receivables amounted to ₱5.61 billion and ₱5.10 billion after deducting allowance for impairment losses on loans and receivables amounting to ₱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, 2015 and 2014, the carrying value of AFS equity investments amounted to ₱1.61 billion (see Note 5).

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

As of December 31, 2015, the carrying values of property and equipment and intangible assets amounted to ₱232.88 million and ₱52.30 million, respectively. As of December 31, 2014, the carrying values of the property and equipment and intangible assets amounted to ₱165.94 million and ₱59.77 million, respectively (see Notes 9 and 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, 2015 and 2014, net defined benefit liability amounted ₱50.36 million and nil, 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).

## 4. Cash and Cash Equivalents

This account consists of:

| | **2015** | 2014 |
|---|---|---|
| Cash on hand: | | |
| Petty cash fund | **₱883,716** | ₱712,714 |
| Cash in commercial banks (Note 25) | **488,944,313** | 615,080,832 |
| Short-term deposits in commercial banks (Note 25) | **151,085,813** | 157,413,812 |
| | **640,913,842** | 773,207,358 |
| Cash held in insurance investment funds (Notes 6 and 25): | | |
| Cash in banks | **384,769,842** | 313,338,916 |
| Short-term deposits | **1,067,017,797** | 682,856,426 |
| | **1,451,787,639** | 996,195,342 |
| | **₱2,092,701,481** | ₱1,769,402,700 |

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. There is no cash restriction in the Parent Company's cash balances as of December 31, 2015 and 2014.

## 5. Financial Assets

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

| | **2015** | 2014 |
|---|---|---|
| AFS financial assets | **₱42,725,958,654** | ₱43,577,239,234 |
| Financial assets designated at FVPL | **25,013,901,685** | 21,299,740,650 |
| Loans and receivables | **5,606,680,079** | 5,098,353,334 |
| | **₱73,346,540,418** | ₱69,975,333,218 |

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

a) *AFS financial assets*

| | **2015** | 2014 |
|---|---|---|
| Traded securities - at fair value | | |
| Government debt securities: | | |
| Local currency | **₱40,035,705,148** | ₱40,998,991,357 |
| Foreign currency | **1,082,528,180** | 968,321,601 |
| Quoted equity securities: | | |
| Club shares | **41,362,000** | 38,592,000 |
| Common shares | **1,566,363,326** | 1,571,334,276 |
| | **₱42,725,958,654** | ₱43,577,239,234 |

The rollforward analysis of AFS financial assets follows:

| | **2015** | 2014 |
|---|---|---|
| Balance at beginning of year | **₱43,577,239,234** | ₱38,805,106,006 |
| Additions | **16,453,588,189** | 3,675,175,289 |
| Disposals/maturities | **(14,505,954,783)** | (856,225,657) |
| Net premium amortization | **(54,982,976)** | (44,314,823) |
| Fair value gains recognized in other comprehensive income | **(2,785,765,098)** | 1,992,315,276 |
| Foreign currency exchange adjustments | **41,834,088** | 5,183,143 |
| Balance at end of year | **₱42,725,958,654** | ₱43,577,239,234 |

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

| | **2015** | 2014 |
|---|---|---|
| Balance at beginning of year | **₱9,318,173,310** | ₱7,471,936,238 |
| Change in fair value of available-for-sale financial assets | **(2,785,765,098)** | 1,992,315,276 |
| Realized gains transferred to statements of income | **(3,919,082,257)** | (146,078,204) |
| Net change during the year | **(6,704,847,355)** | 1,846,237,072 |
| Balance at end of year | **₱2,613,325,955** | ₱9,318,173,310 |

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 |
|---|---|---|---|
| **2015** | **Peso** | **3.63%** | **18.25%** |
| | **Dollar** | **3.95%** | **10.63%** |
| 2014 | Peso | 5.75% | 18.25% |
| | Dollar | 5.00% | 10.63% |

Government securities, included in AFS financial assets, with face value of ₱125.00 million and aggregate market value of ₱191.80 million and ₱281.00 million and as of December 31, 2015 and 2014, 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:

| | 2015 | 2014 |
|---|---|---|
| Policy loans | **₱3,880,948,386** | ₱3,714,511,673 |
| Due from related parties (Note 26) | **1,063,697,495** | 735,094,542 |
| Corporate loan | **200,000,000** | 200,000,000 |
| Receivable from agents | **126,999,457** | 72,617,007 |
| Security deposits | **87,579,036** | 69,242,403 |
| Accounts receivable held in insurance investment funds (Note 6) | **42,968,298** | 105,172,481 |
| Due from officers and employees | **35,392,302** | 39,754,373 |
| Mortgage loans | **8,760,112** | 11,343,965 |
| Other receivables | **172,774,682** | 163,056,579 |
| | **5,619,119,768** | 5,110,793,023 |
| Less allowance for impairment losses | **12,439,689** | 12,439,689 |
| | **₱5,606,680,079** | ₱5,098,353,334 |

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 2015 and 2014.

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. Loans from officers and employees are settled through payroll deductions.

Mortgage loans earn interest ranging from 9% 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 ₱99.96 million. 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:

| | **2015** | 2014 |
|---|---|---|
| At beginning of year | **₱12,439,689** | ₱12,058,606 |
| Provisions (Note 21) | – | 381,083 |
| At end of year | **₱12,439,689** | ₱12,439,689 |

*c) Financial assets designated at FVPL*

| | **2015** | 2014 |
|---|---|---|
| Designated at initial recognition: | | |
| Debt securities held in insurance investment funds (Note 6) | | |
| Peso - denominated government bonds | **₱8,806,312,166** | ₱7,475,465,853 |
| Dollar - denominated | **2,306,440,245** | 2,276,799,159 |
| Equity securities held in insurance investment funds - at market (Note 6) | | |
| Peso - denominated | **11,309,916,352** | 8,841,307,153 |
| Dollar - denominated | **2,591,232,922** | 2,706,168,485 |
| | **₱25,013,901,685** | ₱21,299,740,650 |

The fair value losses on financial assets at FVPL recorded in the parent company statements of income amounted to ₱7.19 million.

*d) Derivative Instruments*

The Parent Company had investments in High Yield Investment Asset (HYRA) with a foreign bank. The investment consists of underlying dollar denominated bonds and cross-currency swaps. The dollar cash flows from the underlying bonds are effectively converted to peso through swaps.

The Parent Company had three (3) foreign cross-currency swap agreements, with aggregate notional amount of $8.00 million and nominal interests of 4.88% which matured in September 2014. It effectively swaps both the principal and interest of these foreign currency-denominated fixed rate bonds into Philippine Peso denominated fixed rate investments with an aggregate notional amount of ₱391.76 million and nominal interest ranging from 7.05% to

7.42%. In 2014, the fair value loss recognized in the parent company statements of income amounted to ₱14.88 million while swap income recognized in the parent company statements of income amounted to ₱7.86 million.

As December 31, 2015 and 2014, the Parent Company's derivative instruments amounted to nil.

## 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, 2015, the Parent Company has sixteen (16) 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 and Wealth Premier 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.

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, 2015 | | | |
|---|---|---|---|---|
| | **Net assets** (Notes 4 and 5) | **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** |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Net assets (Notes 4 and 5) | Due to unit-linked holders (Note 12) | Seed capital | Total |
| Peso Fund | ₱776,844,164 | ₱774,212,811 | ₱2,631,353 | ₱776,844,164 |
| Stable Fund | 701,381,852 | 698,678,176 | 2,703,676 | 701,381,852 |
| Equity Fund | 1,121,671,100 | 1,119,276,051 | 2,395,049 | 1,121,671,100 |
| Dollar Fund | 548,241,834 | 545,434,886 | 2,806,948 | 548,241,834 |
| Peso Secure Fund | 2,754,203,154 | 2,751,054,670 | 3,148,484 | 2,754,203,154 |
| Peso Diversified Value Fund | 3,146,020,343 | 3,142,412,464 | 3,607,879 | 3,146,020,343 |
| Peso Growth Fund | 5,755,857,366 | 5,749,322,220 | 6,535,146 | 5,755,857,366 |
| US Dollar Secure Fund | 563,017,516 | 556,345,697 | 6,671,819 | 563,017,516 |
| Peso Balanced Fund | 307,105,150 | 304,967,826 | 2,137,324 | 307,105,150 |
| Dynamic Allocation Fund | 1,797,007,547 | 1,794,879,717 | 2,127,830 | 1,797,007,547 |
| Peso Target Income Fund | 95,502,613 | 93,483,521 | 2,019,092 | 95,502,613 |
| Peso Target Distribution Fund | 801,660,732 | 799,645,862 | 2,014,870 | 801,660,732 |
| Asia Pacific Bond Fund | 1,180,825,796 | 1,178,977,978 | 1,847,818 | 1,180,825,796 |
| Asean Growth Fund | 2,802,140,743 | 2,800,143,892 | 1,996,851 | 2,802,140,743 |
| Peso Cash Fund | 9,784,096 | 8,783,765 | 1,000,331 | 9,784,096 |
| Wealth Premier Fund | 97,478,214 | 81,162,884 | 16,315,330 | 97,478,214 |
| | ₱22,458,742,220 | ₱22,398,782,420 | ₱59,959,800 | ₱22,458,742,220 |

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

| | 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** | **Total** |
| **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** |

| | December 31, 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | Total |
| Peso Fund | ₱715,581,826 | 62,249,150 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱– | (₱986,812) | ₱776,844,164 |
| Stable Fund | 425,669,860 | 114,318,235 | 162,430,356 | – | – | – | – | – | (1,036,599) | 701,381,852 |
| Equity Fund | – | – | 1,123,537,117 | – | – | – | – | – | (1,866,017) | 1,121,671,100 |
| Dollar Fund | – | – | – | – | 549,052,790 | – | – | – | (810,956) | 548,241,834 |
| Peso Secure Fund | 2,501,888,257 | 256,402,026 | – | – | – | – | – | – | (4,087,129) | 2,754,203,154 |
| Peso Diversified Value Fund | 1,858,120,432 | 579,128,291 | 714,112,158 | – | – | – | – | – | (5,340,538) | 3,146,020,343 |
| Peso Growth Fund | – | – | 5,766,452,488 | – | – | – | – | – | (10,595,122) | 5,755,857,366 |
| US Dollar Secure Fund | – | – | – | – | 563,958,769 | – | – | – | (941,253) | 563,017,516 |
| Peso Balanced Fund | 123,482,741 | – | 184,132,441 | – | – | – | – | – | (510,032) | 307,105,150 |
| Dynamic Allocation Fund | 722,628,515 | – | 1,077,711,299 | – | – | – | – | – | (3,332,267) | 1,797,007,547 |
| Peso Target Income Fund | 64,928,758 | 11,423,264 | 19,305,613 | – | – | – | – | – | (155,022) | 95,502,613 |
| Peso Target Distribution Fund | 545,143,587 | 95,920,948 | 162,080,795 | – | – | – | – | – | (1,484,598) | 801,660,732 |
| Asia Pacific Bond Fund | – | – | – | – | – | 1,182,831,724 | – | – | (2,005,928) | 1,180,825,796 |
| Asean Growth fund | – | – | – | – | – | – | 2,807,435,467 | – | (5,294,725) | 2,802,140,743 |
| Peso Cash Fund | – | – | – | 9,787,707 | – | – | – | – | (3,611) | 9,784,096 |
| Wealth Premier Fund | – | – | – | – | – | – | – | 97,478,214 | – | 97,478,214 |
| | ₱6,957,443,976 | ₱1,119,441,914 | ₱9,209,762,267 | ₱9,787,707 | ₱1,113,011,559 | ₱1,182,831,724 | ₱2,807,435,467 | ₱97,478,214 | (₱38,450,609) | ₱22,458,742,220 |

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

| | **2015** | | 2014 | |
|---|---|---|---|---|
| Government bonds (Note 5) | | | | |
| Peso-denominated | **8,806,312,166** | **33.11%** | ₱7,475,465,853 | 33.29% |
| Dollar-denominated | **2,306,440,245** | **8.67%** | 2,276,799,159 | 10.14% |
| Equity securities - at market (Note 5) | | | | |
| Peso-denominated | **11,309,916,352** | **42.52%** | 8,841,307,153 | 39.37% |
| Dollar-denominated | **2,591,232,922** | **9.74%** | 2,706,168,485 | 12.05% |
| Short-term deposits (Note 4) | **1,067,017,797** | **4.01%** | 682,856,426 | 3.04% |
| Cash in banks (Note 4) | **384,769,842** | **1.45%** | 313,338,916 | 1.40% |
| Accounts receivable (Note 5) | **42,968,298** | **0.68%** | 105,172,481 | 0.47% |
| Accrued income (Note 7) | **136,635,731** | – | 96,084,356 | 0.43% |
| Accrued management fees | **(47,082,240)** | **-0.18%** | (38,450,609) | -0.17% |
| | **₱26,598,211,113** | **100.00%** | ₱22,458,742,220 | 100.00% |

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

In 2015 and 2014, the IIFs earned investment income (loss) amounting to ₱1.4 billion and ₱1.7 billion, respectively, while redemptions amounted to ₱1.6 billion and ₱771.20 million, respectively.

## 7. Accrued Income

This account consists of interest and dividends income from:

| | **2015** | 2014 |
|---|---|---|
| Debt securities: | | |
| AFS Peso bonds | **304,602,048** | ₱254,021,964 |
| AFS Dollar bonds | **21,913,304** | 20,088,703 |
| | **326,515,352** | 274,110,667 |
| Held in insurance investments funds (Note 6) | **136,635,731** | 96,084,356 |
| Corporate loan | **2,023,168** | 2,023,168 |
| Equity securities | **1,022,554** | 339,583 |
| Cash and cash equivalents | **10,343** | 21,515 |
| | **₱466,207,148** | ₱372,579,289 |

## 8. Investments in Subsidiaries

This account consists of:

| | **2015** | 2014 |
|---|---|---|
| Investments in: | | |
| Manulife Financial Plans, Inc. (MFPI) | | |
| Balance at beginning of year | **₱350,000,000** | ₱350,000,000 |
| Additions | **800,000,000** | – |
| Total cost | **1,150,000,000** | 350,000,000 |
| Provision for impairment loss | **(735,584,890)** | – |
| Balance at end of year | **414,415,110** | 350,000,000 |

(Forward)

| | **2015** | 2014 |
|---|---|---|
| Manulife China Bank Life Assurance Corporation (MCBLAC) | | |
| Balance at beginning of year | **₱576,883,873** | ₱937,149,465 |
| Disposals | **–** | (360,265,592) |
| Balance at end of year | **576,883,873** | 576,883,873 |
| | **₱991,298,983** | ₱926,883,873 |

In September 2014, the Parent Company disposed 35% of its ownership interest in MCBLAC to CBC amounting to ₱360.27 million, 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, resulting to a total loss of ₱200.33 million.

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, 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:

| | **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** | **₱125,236,130** | **₱914,893,463** |
| 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** | **137,982,887** | **1,068,374,550** |

(Forward)

| | 2015 | | | | |
|---|---|---|---|---|---|
| | **EDP Equipment** | **Leasehold Improvements** | **Transportation Equipment** | **Furniture and Fixtures** | **Total** |
| **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** | **15,289,133** | **93,938,361** |
| Disposals | | **–** | **(7,402,359)** | **–** | **(7,402,359)** |
| At end of year | **321,615,803** | **366,684,338** | **40,708,418** | **106,483,631** | **835,492,189** |
| **Net Book Value** | **₱31,864,275** | **₱132,274,774** | **₱37,244,055** | **₱31,499,256** | **₱232,882,360** |

| | 2014 | | | | |
|---|---|---|---|---|---|
| | EDP Equipment | Leasehold Improvements | Transportation Equipment | Furniture and Fixtures | Total |
| Cost | | | | | |
| At beginning of year | ₱312,994,496 | ₱343,717,937 | ₱60,044,982 | ₱114,672,259 | ₱831,429,674 |
| Additions | 19,291,403 | 48,902,515 | 14,150,000 | 10,563,871 | 92,907,789 |
| Disposals | – | – | (9,444,000) | – | (9,444,000) |
| At end of year | 332,285,899 | 392,620,452 | 64,750,982 | 125,236,130 | 914,893,463 |
| Accumulated Depreciation and Amortization | | | | | |
| At beginning of year | 284,447,235 | 274,707,372 | 34,097,472 | 77,772,465 | 671,024,544 |
| Depreciation and amortization (Note 21) | 18,521,198 | 43,445,129 | 10,110,329 | 13,422,033 | 85,498,689 |
| Disposals | (199,845) | – | (7,367,200) | – | (7,567,045) |
| At end of year | 302,768,588 | 318,152,501 | 36,840,601 | 91,194,498 | 748,956,188 |
| Net Book Value | ₱29,517,311 | ₱74,467,951 | ₱27,910,381 | ₱34,041,632 | ₱165,937,275 |

As of December 31, 2015 and 2014, there were no fully depreciated property and equipment that is in use.

## 10. Intangible Assets

The rollforward analysis of this account follows:

| | **2015** | 2014 |
|---|---|---|
| **Cost** | **₱149,416,000** | ₱149,416,000 |
| **Accumulated amortization** | | |
| At beginning of year | **89,649,600** | 82,178,800 |
| Amortization for the year (Note 21) | **7,470,800** | 7,470,800 |
| At end of year | **97,120,400** | 89,649,600 |
| **Net book value** | **₱52,295,600** | ₱59,766,400 |

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, 2015 and 2014. The expected future profits as of December 31, 2015 amounted to ₱1.14 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 2015 and 2014.

## 11. **Other assets**

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| Creditable withholding tax | **₱120,289,600** | ₱114,883,302 |
| Prepayments | **27,997,465** | 12,358,321 |
| Office supplies | **4,962,557** | 2,940,256 |
| | **₱153,249,622** | ₱130,181,879 |

Prepayments include cash advances of employees and local business tax.

## 12. **Insurance Contract Liabilities**

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| Legal policy reserves | **₱54,283,363,156** | ₱48,043,893,099 |
| Policy and contract claims payable | **608,769,663** | 452,645,167 |
| | **₱54,892,132,819** | ₱48,496,538,266 |

Details of the legal policy reserves follow:

| | 2015 | 2014 |
|---|---|---|
| Ordinary life insurance | **₱27,547,386,167** | ₱25,588,131,569 |
| Unit-linked (Note 6) | **26,553,865,803** | 22,398,782,420 |
| Group life insurance | **91,808,148** | 55,733,251 |
| Accident and health | **90,303,038** | 1,245,859 |
| | **₱54,283,363,156** | ₱48,043,893,099 |

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

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **Insurance contract liabilities** | **Reinsurers' share of liabilities** | **Net** | Insurance contract liabilities | Reinsurers' share of liabilities | Net |
| **At beginning of year** | **₱48,048,469,361** | **₱4,576,263** | **₱48,043,893,098** | ₱38,391,905,734 | ₱4,591,735 | ₱38,387,313,999 |
| Tabular net premiums or considerations | **7,158,516,222** | **–** | **7,158,516,222** | 7,665,286,392 | – | 7,665,286,392 |
| Present value of disability claims Incurred | **7,438,870** | **–** | **7,438,870** | 7,480,933 | – | 7,480,933 |
| Tabular interest | **1,702,231,232** | **274,576** | **1,701,956,656** | 1,614,385,330 | 275,504 | 1,614,109,826 |
| Tabular less actuarial reserve released | **–** | **–** | **–** | (4,479,601) | – | (4,479,601) |
| Other increases | **4,208,949,590** | **–** | **4,208,949,590** | 8,367,390,333 | – | 8,367,390,333 |
| | **61,125,605,275** | **4,850,839** | **61,120,754,436** | 56,041,969,121 | 4,867,239 | 56,037,101,882 |
| Tabular Cost | **5,473,110,001** | **673,955** | **5,472,436,046** | 5,932,292,873 | 290,976 | 5,932,001,897 |
| Reserves released by death | **103,570,872** | **–** | **103,570,872** | 66,776,771 | – | 66,776,771 |
| Reserves released by other terminations | **1,261,384,362** | **–** | **1,261,384,362** | 1,994,430,115 | – | 1,994,430,115 |
| | **6,838,065,235** | **673,955** | **6,837,391,280** | 7,993,499,759 | 290,976 | 7,993,208,783 |
| **At end of year** | **₱54,287,540,040** | **₱4,176,884** | **₱54,283,363,156** | ₱48,048,469,362 | ₱4,576,263 | ₱48,043,893,099 |

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

| | 2015 | 2014 |
|---|---|---|
| At beginning of year | **₱452,645,167** | ₱401,388,098 |
| Additions during the year (Note 20) | **2,156,995,015** | 2,321,035,233 |
| Paid during the year | **(2,000,870,519)** | (2,269,778,164) |
| At end of year | **₱608,769,663** | ₱452,645,167 |

## 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 Commissions.

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

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

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

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

Reinsurance - Assumptions and Methods
The 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.

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, 2015 and 2014, the balance of reinsurance assets amounted to ₱20.92 million and ₱16.57 million, respectively.

## 14. Accounts Payable and Accrued Expenses

This account consists of:

| | **2015** | 2014 |
|---|---|---|
| Accrued expenses (Note 6) | **₱391,288,922** | ₱222,582,525 |
| Accounts and other payables | **342,581,023** | 312,729,649 |
| Commissions payable | **130,673,303** | 127,601,524 |
| Taxes payable | **85,280,840** | 85,500,403 |
| Provident fund (Note 23) | **57,481,155** | 47,212,898 |
| Secure account liability | **16,307,699** | 15,837,768 |
| Others | **154,453,167** | 145,512,182 |
| | **₱1,178,066,109** | ₱956,976,949 |

Accrued expenses include agency-related expenses accrual, utilities and bonus payable. These are normally settled within one year.

Accounts and other payables consist mainly of advanced or excess premium collections and policy related disbursements. The account also includes payable to suppliers arising from purchases of various office supplies, equipment and other capital expenditures.

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.

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.

## 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.

## 16. Capital Stock

Capital stock of the Parent Company consists of the following:

| | Number of shares | | Amount | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Authorized capital stock - par value ₱1,000 | **1,000,000** | 1,000,000 | **₱1,000,000,000** | ₱1,000,000,000 |
| Capital stock - par value ₱1,000 | **930,000** | 930,000 | **930,000,000** | 930,000,000 |
| Additional paid-in capital | **–** | – | **50,635,817** | 50,635,817 |
| | | | **₱980,635,817** | ₱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:

| | **2015** | 2014 |
|---|---|---|
| Gross premiums earned on insurance contracts (Note 26): | | |
| Unit-linked | **₱8,489,503,050** | ₱8,800,633,429 |
| Ordinary life insurance | **5,140,072,570** | 5,146,091,483 |
| Group life insurance | **329,843,319** | 208,615,439 |
| Accident and health | **61,611,419** | 76,301,609 |
| | **14,021,030,358** | 14,231,641,960 |
| Reinsurers' share of gross premiums earned on insurance contracts (Note 26): | | |
| Ordinary life insurance | **98,284,348** | 89,560,404 |
| Group life insurance | **13,006,560** | 5,773,953 |
| Accident and health | **2,580** | 2,580 |
| | **111,293,488** | 95,336,937 |
| Net insurance premiums earned | **₱13,909,736,870** | ₱14,136,305,023 |

## 18. **Investment Income**

This account consists of:

| | **2015** | 2014 |
|---|---|---|
| Interest income on: | | |
| AFS financial assets | **₱2,181,134,801** | ₱2,109,518,726 |
| Loans and receivables | **369,946,387** | 358,334,539 |
| Cash and cash equivalents | **2,753,720** | 3,386,194 |
| Financial assets at FVPL | **–** | 12,563,118 |
| | **2,553,834,908** | 2,483,802,577 |
| Dividend income | **27,481,585** | 31,623,742 |
| | **₱2,581,316,493** | ₱2,515,426,319 |

Interest income pertains to the interest earned on long-term bonds, underlying bond funds of FVPL financial assets, policy loans, and time deposits.

## 19. **Other Income**

This account consists of:

| | **2015** | 2014 |
|---|---|---|
| Management fee income (Note 26) | **₱679,761,692** | ₱538,343,870 |
| Cost of insurance | **291,895,363** | 196,113,829 |
| Processing fee | **153,870,107** | 117,553,336 |
| Service fee income (Note 26) | **112,199,439** | 57,627,881 |
| Monthly load | **42,537,443** | 91,442,166 |
| Others | **18,821,311** | 18,610,196 |
| | **₱1,299,085,355** | ₱1,019,691,278 |

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.

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:

| | 2015 | 2014 |
|---|---|---|
| Surrenders | **₱1,254,634,843** | ₱1,640,191,268 |
| Death and hospitalization benefits | **497,453,790** | 360,226,584 |
| Maturities | **404,906,382** | 320,617,381 |
| | **₱2,156,995,015** | ₱2,321,035,233 |

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

| | 2015 | 2014 |
|---|---|---|
| Ordinary life insurance | **₱2,063,187,888** | ₱2,313,549,250 |
| Group life insurance | **90,187,380** | 5,175,833 |
| Accident and health | **3,619,747** | 2,310,150 |
| | **₱2,156,995,015** | ₱2,321,035,233 |

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

| | 2015 | 2014 |
|---|---|---|
| Ordinary life insurance | **(₱2,788,051)** | ₱3,351,325 |

Gross change in legal policy reserves follows:

| | 2015 | 2014 |
|---|---|---|
| Life insurance contract liabilities: | | |
| Unit-linked | **₱7,287,693,819** | ₱8,020,966,546 |
| Ordinary life insurance | **1,959,653,977** | 1,263,953,835 |
| Group life insurance | **36,074,897** | 22,541,976 |
| Accident and health | **89,057,179** | 385,466 |
| Total change in life insurance contracts liabilities | **₱9,372,479,872** | ₱9,307,847,823 |

## 21. General and Administrative Expenses

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| Employee salaries | **₱559,855,401** | ₱519,363,842 |
| Agency-related expenses | **225,548,010** | 171,962,765 |
| Administration support | **170,827,024** | 159,386,201 |
| Rent (Note 27) | **169,544,447** | 158,212,540 |
| Advertising expenses | **108,412,843** | 17,388,451 |
| Depreciation and amortization (Notes 9 and 10) | **101,409,161** | 92,969,489 |
| Utilities | **100,296,686** | 95,221,601 |
| Marketing support | **85,831,040** | 94,627,058 |
| Communications | **78,847,398** | 73,174,246 |
| Investment expenses | **65,879,028** | 66,141,828 |
| Other employee benefits | **64,852,797** | 73,780,156 |
| Entertainment, amusement and recreation (EAR) | **53,274,549** | 47,417,562 |
| Supplies | **45,161,380** | 51,125,475 |
| Legal settlements | **40,412,589** | – |
| Bank charges | **35,252,403** | 35,818,501 |
| Repairs and maintenance | **26,087,512** | 17,900,498 |
| Retirement costs (Note 23) | **24,087,576** | 22,827,367 |
| Professional fees | **15,378,933** | 11,029,687 |
| Transportation and travel | **10,463,960** | 15,002,340 |
| Provision for impairment losses (Note 5) | **–** | 381,083 |
| Miscellaneous | **75,178,221** | 35,908,092 |
| | **₱2,056,600,958** | ₱1,759,638,782 |

## 22. Commissions and Other Direct Expenses

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| Bonuses | **₱880,729,563** | ₱569,084,158 |
| Commissions on first year premiums | **709,804,453** | 541,208,505 |
| Commissions on renewal premiums | **241,431,505** | 202,544,135 |
| Single premium commissions | **144,710,507** | 175,774,304 |
| Other direct expenses | **57,475,217** | 45,680,270 |
| | **₱2,034,151,245** | ₱1,534,291,372 |

## 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, 2015. As of December 31, 2015, the Parent Company's DB obligation is higher than the projected DC obligation resulting to a net pension liability amounting to ₱50.36 million. As of December 31, 2014, the Parent Company's DB obligation is equal to the DC obligation. Consequently, no net pension asset/liability was recognized.

In 2015 and 2014, contributions made by the Parent Company amounted to ₱17.82 million and ₱24.00 million, respectively, while retirement expense amounted to ₱24.09 million and ₱22.83 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:

| | **2015** | 2014 |
|---|---|---|
| Current service cost | **₱24,087,576** | ₱22,745,822 |
| Net interest cost | **–** | 81,545 |
| | **₱24,087,576** | ₱22,827,367 |

Remeasurement effects to be recognized in other comprehensive income follow:

| | **2015** | 2014 |
|---|---|---|
| Actuarial loss | **(₱38,734,204)** | (₱9,757,823) |
| Gain (losses) on return on plan assets | **(5,353,177)** | 11,943,340 |
| | **(₱44,087,381)** | ₱2,185,517 |

The amounts recognized in the statements of financial position follow:

| | **2015** | 2014 |
|---|---|---|
| Present value of benefit obligation | **₱201,669,629** | ₱141,704,010 |
| Fair value of plan assets | **(151,312,209)** | (141,704,010) |
| | **₱50,357,420** | ₱– |

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

| | 2015 | 2014 |
|---|---|---|
| At January 1 | **₱141,704,010** | ₱145,807,132 |
| Current service cost | **24,087,576** | 22,745,822 |
| Interest cost on benefit obligation | **6,617,577** | 8,426,024 |
| Benefits paid | **(9,473,738)** | (10,746,813) |
| Remeasurements losses | **38,734,204** | 9,757,823 |
| Transferred obligation | **–** | (34,285,978) |
| At December 31 | **₱201,669,629** | ₱141,704,010 |

Changes in the fair value of the plan assets follow:

| | 2015 | 2014 |
|---|---|---|
| At January 1 | **₱141,704,010** | ₱132,447,286 |
| Interest income included in net interest cost | **6,617,577** | 8,344,479 |
| Remeasurements losses | **(5,353,177)** | 11,943,340 |
| Actual contributions | **17,817,537** | 24,001,547 |
| Benefits paid | **(9,473,738)** | (10,746,813) |
| Transferred assets | **–** | (24,285,829) |
| At December 31 | **₱151,312,209** | ₱141,704,010 |
| Actual return on plan assets | **₱1,264,400** | ₱20,287,819 |

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

| | 2015 | 2014 |
|---|---|---|
| Discount rate | **5.10%** | 4.67% |
| Annual rate of increase in compensation projection | **8.00%** | 5.00% |

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

**2015**

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

2014

| Discount rate | Salary increase rate | Change in basis points | Retirement Benefit Obligation |
|---|---|---|---|
| 5.67% | | +100 | ₱155,939,039 |
| 3.67% | | -100 | 177,370,660 |
| | 6.00% | +100 | ₱176,926,063 |
| | 4.00% | -100 | 155,987,688 |

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, 2015 and December 31, 2014 of the fund which approximates its fair value are as follows:

| | **2015** | 2014 |
|---|---|---|
| Investments in government debt securities | **₱219,864,059** | ₱204,379,629 |
| Cash | **1,040,716** | 543,570 |
| Total | **220,904,775** | 204,923,199 |
| Trust fee payable | **94,130** | 182,259 |
| Other payables | **21,233,805** | 17,599,734 |
| Total | **21,327,935** | 17,781,993 |
| | **₱199,576,840** | ₱187,141,206 |

As of December 31, 2015 and 2014, the retirement fund pertaining to the Parent Company amounted to ₱151.31 million and ₱141.70 million, respectively.

The Parent Company's expected contribution to the retirement plan in 2016 amounted to ₱20,526,987.

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

| Plan Year | Expected Benefit Payments |
|---|---|
| Less than 1 year | ₱1,618,981 |
| More than 1 to 5 years | 17,694,962 |
| More than 5 to 10 years | 61,829,428 |
| More than 10 to 15 years | 244,231,895 |
| More than 15 to 20 years | 499,393,841 |
| More than 20 years | 2,253,130,524 |

As of December 31, 2015 and 2014, the Parent Company also has a liability related to the provident fund for its agents amounting to ₱57.48 million and ₱47.21 million, respectively. The provident fund is administered and managed by a foreign bank under an investment agreement (see Note 14).

## 24. **Income Taxes**

The provision for income tax consists of:

| | **2015** | 2014 |
|---|---|---|
| Final taxes on interest income | **₱447,902,617** | ₱430,489,363 |
| MCIT | **24,076,159** | 44,003,407 |
| | **₱471,978,776** | ₱474,492,770 |

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

| | 2015 | 2014 |
|---|---|---|
| Deferred tax assets on: | | |
| Accrued expenses | **₱23,319,340** | ₱11,462,210 |
| | **23,319,340** | 11,462,210 |
| Deferred tax liability on: | | |
| Unrealized foreign exchange gain | **23,319,340** | 11,462,210 |
| | **23,319,340** | 11,462,210 |
| 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.

| | 2015 | 2014 |
|---|---|---|
| NOLCO | **₱2,440,537,894** | ₱3,107,534,241 |
| Allowance for impairment loss on subsidiaries | **735,584,890** | – |
| Accrued expenses | **83,661,785** | 41,578,885 |
| MCIT | **70,243,690** | 47,861,396 |
| Pension liability | **50,357,420** | – |
| Rent payable | **17,685,076** | 16,067,560 |
| Provision for IBNR | **15,090,186** | 1,754,548 |
| Allowance for impairment losses | **12,439,689** | 12,439,689 |

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 |
|---|---|---|---|
| 2015 | ₱680,495,927 | ₱24,076,159 | December 31, 2018 |
| 2014 | 296,624,424 | 44,003,407 | December 31, 2017 |
| 2013 | 1,463,417,543 | 2,164,124 | December 31, 2016 |
| | ₱2,440,537,894 | ₱70,243,690 | |

The following are the movements in NOLCO:

| | 2015 | 2014 |
|---|---|---|
| At beginning of year | **₱3,107,534,241** | ₱4,241,806,942 |
| Additions | **680,495,927** | 296,624,424 |
| Expirations | **(1,347,492,274)** | (1,430,897,125) |
| At end of year | **₱2,440,537,894** | ₱3,107,534,241 |

The following are the movements in MCIT:

| | 2015 | 2014 |
|---|---|---|
| At beginning of year | **₱47,861,396** | ₱3,857,989 |
| Additions | **24,076,159** | 44,003,407 |
| Expirations | **(1,693,865)** | – |
| At end of year | **₱70,243,690** | ₱47,861,396 |

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:

| | 2015 | 2014 |
|---|---|---|
| Income before income tax | **₱4,367,210,842** | ₱1,548,468,351 |
| Income tax expense at statutory income tax rate | **1,310,163,252** | 464,540,506 |
| Additions to (reductions in) income tax expense resulting from: | | |
| Gain on sale of investments exempt from tax | **(1,175,724,677)** | (17,090,615) |
| Interest income - net of final tax | **(207,542,005)** | (201,082,186) |
| Investment income exempt from tax | **(16,186,696)** | (15,588,863) |
| Intercorporate dividends | **(8,244,475)** | (9,487,122) |
| Amortization of intangible assets | **2,241,240** | 2,241,240 |
| Amortization of debt securities | **16,464,762** | 13,288,937 |
| Nondeductible interest expense | **40,828,080** | 44,897,045 |
| Effect of change in unrecognized deferred tax assets – net | **509,967,334** | 192,773,828 |
| Provision for income tax | **₱471,966,815** | ₱474,492,770 |

## 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:

| | **2015** | 2014 |
|---|---|---|
| **Whole life insurance** | | |
| Gross | **₱83,599,560,400** | ₱86,774,033,090 |
| Net | **72,805,486,113** | 74,606,874,827 |
| **Term policies** | | |
| Gross | **20,817,791,258** | 20,044,005,890 |
| Net | **15,631,178,707** | 15,308,748,899 |
| **Endowment** | | |
| Gross | **18,344,434,153** | 19,169,525,847 |
| Net | **20,100,168,104** | 20,833,965,450 |
| **Variable unit-linked policies** | | |
| Gross | **76,937,571,836** | 52,798,863,153 |
| Net | **85,698,211,729** | 66,573,452,282 |
| **Accident and health** | | |
| Gross | **3,687,423,972** | 1,215,024,120 |
| Net | **3,687,423,972** | 1,215,024,120 |
| **Group insurance** | | |
| Gross | **78,819,683,004** | 49,294,743,944 |
| Net | **74,149,259,311** | 48,256,625,634 |
| **Total** | | |
| Gross | **282,206,464,623** | 229,296,196,044 |
| Net | **272,071,727,936** | 226,794,691,212 |

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

| | **2015** | | 2014 | |
|---|---|---|---|---|
| **Type** | **Number of Policies** | **Amount of Insurance** | Number of Policies | Amount of Insurance |
| Whole Life | **120,081** | **₱83,599,560,400** | 124,385 | ₱86,774,033,090 |
| Term | **10,934** | **20,817,791,258** | 10,618 | 20,044,005,890 |
| Endowment | **43,179** | **18,344,434,153** | 45,647 | 19,169,525,847 |
| Variable unit-linked | **109,226** | **76,937,571,836** | 73,279 | 52,798,863,153 |
| Accident and health | **1,522** | **3,687,423,972** | 302 | 1,215,024,120 |
| Group life | **614** | **78,819,683,004** | 523 | 49,294,743,944 |
| | **285,556** | **₱282,206,464,623** | 254,754 | ₱229,296,196,044 |

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, 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.*

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Change in assumptions | Increase (decrease) in gross liabilities | Increase (decrease) in net liabilities | Increase (decrease) in profit before tax | Increase (decrease) in equity* |
| | | | (In Thousands) | | |
| Mortality | **+10%** | **₱620,837** | **₱620,837** | **(₱620,837)** | **(₱620,837)** |
| Valuation interest rate | **+1%** | **(1,526,686)** | **(1,526,686)** | **1,526,686** | **1,526,686** |
| | **-1%** | **1,526,686** | **1,526,686** | **(1,526,686)** | **(1,526,686)** |

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

The carrying values of insurance contract liabilities as of December 31, 2015 and 2014 amounted to ₱54.89 billion and ₱48.50 billion, respectively (see Note 12).

<u>Investment Risk</u>
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.

<u>Financial Risk</u>
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, 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** |

(Forward)

| | December 31, 2015 | | |
|---|---|---|---|
| | **Non-Linked** | **Unit-linked** | **Total** |
| 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 | **172,774,682** | **–** | **172,774,682** |
| Accrued income | | | |
| Debt securities | **326,515,352** | **–** | **326,515,352** |
| Held in IIF | **–** | **136,635,731** | **136,635,731** |
| Corporate loan | **3,045,722** | **–** | **3,045,722** |
| Cash and cash equivalents | **10,343** | **–** | **10,343** |
| **Total financial assets** | **₱49,419,193,293** | **₱26,645,293,353** | **₱76,064,486,646** |

| | December 31, 2014 | | |
|---|---|---|---|
| | Non-Linked | Unit-linked | Total |
| Financial assets at FVPL | | | |
| Debt securities | | | |
| Held in IIF | | | |
| Peso bonds | ₱– | ₱7,475,465,853 | ₱7,475,465,853 |
| Dollar bonds | – | 2,276,799,159 | 2,276,799,159 |
| Equity securities | | | |
| Peso denominated | – | 8,841,307,153 | 8,841,307,153 |
| Dollar denominated | – | 2,706,168,485 | 2,706,168,485 |
| AFS financial assets | | | |
| Debt securities | | | |
| Local currency | 40,998,991,357 | – | 40,998,991,357 |
| Foreign currency | 968,321,601 | – | 968,321,601 |
| Equity securities | | | |
| Club shares | 38,592,000 | – | 38,592,000 |
| Common shares | 1,571,334,276 | – | 1,571,334,276 |
| Loans and receivables | | | |
| Cash and cash equivalents | | | |
| Cash in commercial banks | 615,080,832 | – | 615,080,832 |
| Short-term deposits in commercial banks | 157,413,812 | – | 157,413,812 |
| Cash held in IIF | | | |
| Cash in bank | – | 313,338,916 | 313,338,916 |
| Short-term deposits | – | 682,856,426 | 682,856,426 |
| Insurance receivables | 140,881,137 | – | 140,881,137 |
| Policy loans | 3,714,511,673 | – | 3,714,511,673 |
| Corporate loan | 200,000,000 | – | 200,000,000 |
| Accounts receivable held in IIF | – | 105,172,481 | 105,172,481 |
| Receivable from agents - net | 60,177,318 | – | 60,177,318 |
| Security deposits | 69,242,403 | – | 69,242,403 |
| Due from officers and employees | 39,754,373 | – | 39,754,373 |

(Forward)

| | December 31, 2014 | | |
|---|---|---|---|
| | Non-Linked | Unit-linked | Total |
| Due from related parties | ₱735,094,542 | ₱– | ₱735,094,542 |
| Mortgage loans | 11,343,965 | – | 11,343,965 |
| Other receivables | 163,056,579 | – | 163,056,579 |
| Accrued income | | | |
| Debt securities | 274,110,667 | – | 274,110,667 |
| Held in IIF | – | 96,084,356 | 96,084,356 |
| Corporate loan | 2,362,751 | – | 2,362,751 |
| Cash and cash equivalents | 21,515 | – | 21,515 |
| Total financial assets | ₱49,760,290,801 | ₱22,497,192,829 | ₱72,257,483,630 |

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, 2015 | | | | |
|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | | | | |
| | Investment Grade | Non-investment Grade Satisfactory | Not rated | Past due or impaired | Total |
| **Financial assets** | | | | | |
| **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** |
| **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** |
| Quoted equity securities | | | | | |
| Club shares | – | – | **41,362,000** | – | **41,362,000** |
| Common shares | – | – | **1,566,363,326** | – | **1,566,363,326** |
| **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 | – | – | **172,774,682** | – | **172,774,682** |
| Accrued income | | | | | |
| Debt securities | – | **326,515,352** | – | – | **326,515,352** |
| Held in IIF | – | **136,635,731** | – | – | **136,635,731** |
| Corporate loans | – | – | **3,045,722** | – | **3,045,722** |
| Cash and cash equivalents | **10,343** | – | – | – | **10,343** |
| **Total financial assets** | **₱54,565,782,145** | **₱623,072,398** | **₱20,761,072,335** | **₱126,999,457** | **₱76,076,926,335** |

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | | | | |
| | Investment Grade | Non-investment Grade Satisfactory | Not rated | Past due or impaired | Total |
| Financial assets | | | | | |
| Financial assets at FVPL | | | | | |
| Debt securities | | | | | |
| Held in IIF | | | | | |
| Peso bonds | ₱7,475,465,853 | ₱– | ₱– | ₱– | ₱7,475,465,853 |
| Dollar bonds | 2,276,799,159 | – | – | – | 2,276,799,159 |
| Equity securities - at market | | | | | |
| Peso denominated | – | – | 8,841,307,153 | – | 8,841,307,153 |
| Dollar denominated | – | – | 2,706,168,485 | – | 2,706,168,485 |
| AFS financial assets | | | | | |
| Debt securities | | | | | |
| Local currency | 40,998,991,357 | – | – | – | 40,998,991,357 |
| Foreign currency | 968,321,601 | – | – | – | 968,321,601 |
| Quoted equity securities | | | | | |
| Club shares | – | – | 38,592,000 | – | 38,592,000 |
| Common shares | – | – | 1,571,334,276 | – | 1,571,334,276 |
| Loans and receivables | | | | | |
| Cash in commercial banks | 928,419,748 | – | – | – | 928,419,748 |
| Short-term deposits | 840,270,238 | – | – | – | 840,270,238 |
| Insurance receivables | – | 140,881,137 | – | – | 140,881,137 |
| Policy loans | – | – | 3,714,511,673 | – | 3,714,511,673 |
| Due from related parties | – | – | 735,094,542 | – | 735,094,542 |
| Due from officers and employees | – | – | 39,754,373 | – | 39,754,373 |
| Receivable from agents | – | – | – | 72,617,007 | 72,617,007 |
| Security deposits | – | – | 69,242,403 | – | 69,242,403 |
| Mortgage loans | – | – | 11,343,965 | – | 11,343,965 |
| Corporate loan | 200,000,000 | – | – | | 200,000,000 |
| Accounts receivable held in IIF | 105,172,481 | – | – | – | 105,172,481 |
| Other receivables | – | – | 163,056,579 | – | 163,056,579 |
| Accrued income | | – | | | |
| Debt securities | – | 274,110,667 | – | – | 274,110,667 |
| Held in IIF | | 96,084,356 | – | – | 96,084,356 |
| Corporate loans | – | – | 2,362,751 | – | 2,362,751 |
| Cash and cash equivalents | 21,515 | – | – | – | 21,515 |
| Total financial assets | ₱53,793,461,952 | ₱511,076,160 | ₱17,892,768,200 | ₱72,617,007 | ₱72,269,923,319 |

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, 2015 and 2014, 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, 2014 and 2015.

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

**December 31, 2015**

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

December 31, 2014

| | Age Analysis of Financial Assets Past-Due but not Impaired | | | | | |
|---|---|---|---|---|---|---|
| | < 30 days | 31 to 90 days | More than 90 days | Total Past-Due but not Impaired | Past-Due and Impaired | Total |
| Loans and receivables | | | | | | |
| Receivables from agents | ₱9,578,595 | ₱2,925,008 | ₱47,673,715 | ₱60,177,318 | ₱12,439,689 | ₱72,617,007 |

*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, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Up to a year | 1-3 years | 3-5 years | Over 5 years | No Term | Variable 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 - at market | | | | | | | |
| 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 | **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** |
| **Loans and receivables** | | | | | | | |
| 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** | **21,947,760** | **210,988,933** | – | – | – | **243,985,840** |
| Accounts receivable held in IIF | – | – | – | – | – | **42,968,298** | **42,968,298** |
| Other receivables | **112,799,054** | **59,975,627** | – | – | – | | **172,774,681** |
| Accrued income | | | | | | | |
| Debt securities | **326,515,352** | – | – | – | – | – | **326,515,352** |
| Held in IIF | – | – | – | – | – | **136,635,731** | **136,635,731** |
| Corporate loans | **3,045,722** | – | – | – | – | – | **3,045,722** |
| Cash and cash equivalents | **10,343** | – | – | – | – | – | **10,343** |
| Total financial assets | **8,532,393,546** | **4,635,278,344** | **7,130,451,266** | **71,333,561,117** | **1,608,609,042** | **26,645,293,353** | **119,885,586,668** |
| **Other financial liabilities** | | | | | | | |
| 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** |

(Forward)

| | December 31, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Up to a year** | **1-3 years** | **3-5 years** | **Over 5 years** | **No Term** | **Variable Unit-Linked** | **Total** |
| Insurance payables | **₱161,935,434** | **₱–** | **₱–** | **₱–** | **₱–** | **₱–** | **₱161,935,434** |
| Claims payable | **608,769,663** | – | – | – | – | – | **608,769,663** |
| Accounts payable and accrued expenses* | | | | | | | |
| Accounts and other payables | **342,581,023** | – | – | – | – | | **342,581,023** |
| 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 | **154,453,164** | – | – | – | – | – | **154,453,164** |
| Due to related parties | **35,657,391** | – | – | – | – | – | **35,657,391** |
| Total financial liabilities | **7,079,802,448** | **661,177,190** | **716,102,400** | **25,704,784,155** | – | **26,600,948,043** | **60,762,814,236** |
| Net excess liquidity (deficit) | **₱1,452,591,098** | **₱3,974,101,154** | **₱6,414,348,866** | **₱45,628,776,962** | **₱1,608,609,042** | **₱44,345,310** | **₱59,122,772,432** |

**Amount excluding statutory liability.*

| | December 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Up to a year | 1-3 years | 3-5 years | Over 5 years | No Term | Variable Unit-Linked | Total |
| Financial assets at FVPL | | | | | | | |
| Debt securities | | | | | | | |
| Held in IIF | | | | | | | |
| Peso bonds | ₱– | ₱– | ₱– | ₱– | ₱– | ₱7,475,465,853 | ₱7,475,465,853 |
| Dollar bonds | – | – | – | – | – | 2,276,799,159 | 2,276,799,159 |
| Equity securities - at market | | | | | | | |
| Peso denominated | – | – | – | – | – | 8,841,307,153 | 8,841,307,153 |
| Dollar denominated | – | – | – | – | – | 2,706,168,485 | 2,706,168,485 |
| AFS financial assets | | | | | | | |
| Debt securities | | | | | | | |
| Local currency | 2,245,935,114 | 4,491,870,227 | 6737,805,341 | 62,696,345,749 | – | – | 76,171,956,431 |
| Foreign currency | 53,044,516 | 106,089,032 | 159,133,549 | 1,197,030,078 | – | – | 1,515,297,175 |
| Equity securities | | | | | | | |
| Club shares | – | – | – | – | 38,592,000 | – | 38,592,000 |
| Common shares | – | – | – | – | 1,571,334,276 | – | 1,571,334,276 |
| Loans and receivables | | | | | | | |
| Cash on hand | – | – | – | – | 712,714 | – | 712,714 |
| Cash in bank | 615,080,832 | – | – | – | – | 313,338,916 | 928,419,748 |
| Short term deposits | 157,413,812 | – | – | – | – | 682,856,426 | 840,270,238 |
| Insurance receivables | 140,881,137 | – | – | – | – | – | 140,881,137 |
| Due from officers and employees | 10,989,587 | 27,118,887 | 1,645,899 | – | – | – | 39,754,373 |
| Due from related parties | 735,094,542 | – | – | – | – | – | 735,094,542 |
| Receivable from agents | 17,580,946 | 33,311,596 | 9,284,776 | – | – | – | 60,177,318 |
| Security deposits | – | 8,657,043 | 22,731,715 | 37,853,645 | – | – | 69,242,403 |
| Mortgage loans | – | – | – | 11,343,965 | – | – | 11,343,965 |
| Policy loans | 3,714,511,673 | – | – | – | | – | 3,714,511,673 |
| Corporate loans | 10,988,933 | 22,007,973 | 221,977,867 | – | – | – | 254,974,773 |
| Accounts receivable held in IIF | – | – | – | – | – | 105,172,481 | 105,172,481 |
| Other receivables | 23,113,454 | 119,951,250 | 19,991,875 | – | – | | 163,056,579 |
| Accrued income | | | | | | | |
| Debt securities | 274,110,667 | – | – | – | – | – | 274,110,667 |
| Held in IIF | – | – | – | – | – | 96,084,356 | 96,084,356 |
| Corporate loans | 2,362,751 | – | – | – | – | – | 2,362,751 |
| Cash and cash equivalents | 21,515 | – | – | – | – | – | 21,515 |
| Total financial assets | 8,001,129,479 | 4,809,006,008 | 7,172,571,022 | 63,942,573,437 | 1,610,638,990 | 22,497,192,829 | 108,033,111,765 |
| Other financial liabilities | | | | | | | |
| Legal policy reserves | 977,075,823 | 738,804,267 | 647,217,358 | 23,734,658,398 | – | 22,398,782,420 | 48,496,538,266 |
| Policyholders' dividends | 4,497,459,164 | – | – | – | – | – | 4,497,459,164 |
| Premium deposit fund | 52,567,139 | – | – | – | – | – | 52,567,139 |
| Insurance payables | 92,205,278 | – | – | – | – | – | 92,205,278 |
| Claims payable | 452,645,167 | – | – | – | – | – | 452,645,167 |
| Accounts payable and accrued expenses* | | | | | | | |
| Accounts and other payables | 312,729,649 | – | – | – | – | – | 312,729,649 |
| Accrued expenses | 184,131,916 | – | – | – | – | 38,450,609 | 222,582,525 |
| Commissions payable | 127,601,524 | – | – | – | – | – | 127,601,524 |
| Provident Fund | 47,212,898 | | | | | | 47,212,898 |
| Secure account liability | 15,837,768 | – | – | – | – | – | 15,837,768 |
| Others | 145,512,182 | – | – | – | – | – | 145,512,182 |
| Due to related parties | 18,024,516 | – | – | – | – | – | 18,024,516 |
| Total financial liabilities | 6,923,003,024 | 738,804,267 | 647,217,358 | 23,734,658,398 | – | 22,437,233,029 | 54,480,916,076 |
| Net excess liquidity (deficit) | ₱1,078,126,455 | ₱4,070,201,741 | ₱6,525,353,664 | ₱40,207,915,039 | ₱1,610,638,990 | ₱59,959,800 | ₱53,552,195,689 |

**Amount excluding statutory liability.*

As of December 31, 2015 and 2014, 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, 2015 and 2014:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| **Assets** | **US$** | **PHP** | US$ | PHP |
| Cash and cash equivalents | **$9,870,430** | **₱464,502,414** | $5,623,395 | ₱251,478,218 |
| AFS financial assets | **23,003,149** | **1,082,528,180** | 21,652,988 | 968,321,601 |
| Loans and receivables | **3,772,798** | **177,547,892** | 3,752,428 | 167,808,565 |
| | **36,646,377** | **1,724,578,486** | 31,028,811 | 1,387,608,384 |
| **Liabilities** | | | | |
| Insurance contract liabilities | **695,369** | **32,724,054** | 794,470 | 35,528,681 |
| Insurance payable | **574,964** | **27,057,796** | 380,928 | 17,035,118 |
| | **1,270,333** | 59,781,850 | 1,175,398 | 1,175,398 |
| **Net exposure** | **$35,376,044** | **₱1,664,796,636** | $29,853,413 | ₱1,386,432,986 |

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

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

| | **2015** | |
|---|---|---|
| | **Change in Variable** | **Impact on Income before Tax Increase (decrease)** |
| **USD** | **+4.70%** | **₱78,318,814** |
| | **-4.70%** | **(78,318,814)** |

| | 2014 | |
|---|---|---|
| | Change in Variable | Impact on Income before Tax Increase (decrease) |
| USD | +0.84% | ₱11,199,300 |
| | -0.84% | (11,199,300) |

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, 2015 | | | | | |
|---|---|---|---|---|---|---|
| **Fixed Rate Instruments** | **Interest Rate** | **>1 - 2 years** | **>2 - 5 years** | **Over 5 years** | **No term** | **Total** |
| **Financial assets** | | | | | | |
| **AFS financial assets** | | | | | | |
| **Debt securities** | | | | | | |
| **Local currency** | **3.63% - 18.25%** | **₱–** | **₱–** | **₱40,035,705,148** | **₱–** | **₱40,035,705,148** |
| **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** |
| | | **₱4,520,978,512** | **₱200,000,000** | **₱41,126,993,440** | **₱–** | **₱45,847,971,952** |

| | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| Fixed Rate Instruments | Interest Rate | >1 - 2 years | >2 - 5 years | Over 5 years | No term | Total |
| Financial assets | | | | | | |
| AFS financial assets | | | | | | |
| Debt securities | | | | | | |
| Local currency | 5.75% - 18.25% | ₱– | ₱– | ₱40,998,991,357 | ₱– | ₱40,998,991,357 |
| Foreign currency | 5.00% - 10.63% | – | – | 968,321,601 | – | 968,321,601 |
| Loans and receivables | | | | | | |
| Policy loans | 8.00% - 10.00% | 3,714,511,673 | – | – | – | 3,714,511,673 |
| Short-term deposits | 0.48% - 1.00% | 157,413,812 | – | – | – | 157,413,812 |
| Cash in banks | 0.25% - 1.50%. | 615,080,832 | – | – | – | 615,080,832 |
| Corporate loan | 5.42% | – | 200,000,000 | – | – | 200,000,000 |
| Mortgage loan | 9.00% - 10.00% | – | – | 11,343,965 | – | 11,343,965 |
| | | ₱4,487,006,317 | ₱200,000,000 | ₱41,978,656,923 | ₱– | ₱46,665,663,240 |

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 derivative assets, and the Parent Company's other comprehensive income through the impact of AFS financial assets.

| | 2015 | | |
|---|---|---|---|
| Currency | **Change in basis points** | **Impact on income before tax** | **Impact on other comprehensive Income** |
| Philippine Peso | **+100** | **₱–** | **(₱4,959,468,841)** |
| US Dollar | **+100** | **–** | **(115,089,791)** |
| Philippine Peso | **-100** | **–** | **4,959,468,841** |
| US Dollar | **-100** | **–** | **115,089,791** |

| Currency | 2014 Change in basis points | Impact on income before tax | Impact on other comprehensive Income |
|---|---|---|---|
| Philippine Peso | +100 | ₱– | (₱4,834,704,414) |
| US Dollar | +100 | – | (98,666,626) |
| Philippine Peso | -100 | – | 4,834,704,414 |
| US Dollar | -100 | – | 98,666,626 |

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.

| **Market index** | **2015 Change in yield rate** | **Impact on other comprehensive Income** |
|---|---|---|
| PSE index | **+4%** | **₱64,837,538** |
| PSE index | **-4%** | **(64,837,538)** |

| Market index | 2014 Change in yield rate | Impact on other comprehensive Income |
|---|---|---|
| PSE index | +13% | ₱211,388,101 |
| PSE index | -13% | (211,388,101) |

Financial Instruments - Fair Value Measurement

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **Financial assets** | | | | |
| **Financial assets at FVPL** | | | | |
| Debt securities | | | | |
| Held in IIF | | | | |
| Peso bond | **₱8,806,312,166** | **₱8,806,312,166** | ₱7,475,465,853 | ₱7,475,465,853 |
| Dollar bond | **2,306,440,245** | **2,306,440,245** | 2,276,799,159 | 2,276,799,159 |
| Equity securities - at market | | | | |
| Peso denominated | **11,309,916,352** | **11,309,916,352** | 8,841,307,153 | 8,841,307,153 |
| Dollar denominated | **2,591,232,922** | **2,591,232,922** | 2,706,168,485 | 2,706,168,485 |
| **AFS financial assets** | | | | |
| Government debt securities | | | | |
| Local currency | **40,035,705,148** | **40,035,705,148** | 40,998,991,357 | 40,998,991,357 |
| Foreign currency | **1,082,528,180** | **1,082,528,180** | 968,321,601 | 968,321,601 |
| Quoted equity securities | | | | |
| Club shares | **41,362,000** | **41,362,000** | 38,592,000 | 38,592,000 |
| Common shares | **1,566,363,326** | **1,566,363,326** | 1,571,334,276 | 1,571,334,276 |
| **Loans and receivables** | | | | |
| Cash and cash equivalents | | | | |
| Cash on hand | **883,716** | **883,716** | 712,714 | 712,714 |
| Cash in commercial banks | **488,944,313** | **488,944,313** | 615,080,832 | 615,080,832 |
| Short-term deposits in commercial banks | **151,085,813** | **151,085,813** | 157,413,812 | 157,413,812 |
| Cash held in IIF | **1,451,787,639** | **1,451,787,639** | 996,195,342 | 996,195,342 |
| Insurance receivables | **159,921,315** | **159,921,315** | 140,881,137 | 140,881,137 |
| Policy loans | **3,880,948,386** | **3,880,948,386** | 3,714,511,673 | 3,714,511,673 |
| Mortgage loans | **8,760,112** | **7,511,949** | 11,343,965 | 9,618,749 |
| Due from officers and employees | **35,392,302** | **32,850,359** | 39,754,373 | 37,386,210 |
| Receivable from agents | **114,559,768** | **109,601,593** | 60,177,317 | 58,112,495 |
| Security deposits | **87,579,036** | **87,579,036** | 69,242,403 | 69,242,403 |
| Due from related parties | **1,063,697,495** | **1,063,697,495** | 735,094,542 | 735,094,542 |
| Accounts receivable held in IIF | **42,968,298** | **42,968,298** | 105,172,481 | 105,172,481 |
| Corporate loan | **200,000,000** | **243,985,840** | 200,000,000 | 254,974,773 |
| Other receivables | **172,774,682** | **165,056,567** | 163,056,579 | 153,477,143 |
| Accrued income | | | | |
| Debt securities | **326,515,352** | **326,515,352** | 274,110,667 | 274,110,667 |
| Held in IIF | **136,635,731** | **136,635,731** | 96,084,356 | 96,084,356 |
| Corporate loan | **3,045,722** | **3,045,722** | 2,362,751 | 2,362,751 |
| Cash and cash equivalents | **10,343** | **10,343** | 21,515 | 21,515 |
| Total financial assets | **₱76,065,370,362** | **₱76,092,889,806** | ₱72,258,196,343 | ₱72,297,433,479 |
| **Financial liabilities** | | | | |
| Policyholders' dividends | **₱4,536,232,712** | **₱4,536,232,712** | ₱4,497,459,164 | ₱4,497,459,164 |
| Premium deposit fund | **44,070,614** | **44,070,614** | 52,567,139 | 52,567,139 |
| Insurance payables | **161,935,434** | **161,935,434** | 92,205,278 | 92,205,278 |
| Accounts payable and accrued expenses | | | | |
| Accounts and other payables | **342,581,023** | **342,581,023** | 312,729,649 | 312,729,649 |
| Accrued expenses | **391,288,922** | **391,288,922** | 222,582,525 | 222,582,525 |
| Commissions payable | **130,673,303** | **130,673,303** | 127,601,524 | 127,601,524 |
| Provident fund | **57,481,155** | **57,481,155** | 47,212,898 | 47,212,898 |
| Secure account liability | **16,307,699** | **16,307,699** | 15,837,768 | 15,837,768 |
| Others | **154,453,164** | **154,453,164** | 145,512,182 | 145,512,182 |
| Due to related parties | **35,657,391** | **35,657,391** | 18,024,516 | 18,024,516 |
| Total financial liabilities | **₱5,870,681,417** | **₱5,870,681,417** | ₱5,531,732,643 | ₱5,531,732,643 |

Due to the short-term nature of cash and cash equivalents, insurance receivables, policy loans, held in IIFs, 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 the derivative assets are based on the valuation provided by the counterparty bank.

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

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, 2015** | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| **AFS financial assets** | | | |
| Debt securities | | | |
| Local currency | **₱14,553,773,334** | **₱25,481,931,814** | **₱–** |
| Foreign currency | **–** | **1,082,528,180** | **–** |
| Quoted equity securities | | | |
| Common Shares | **1,566,363,326** | **–** | **–** |
| Club shares | **41,362,000** | **202,000** | **–** |
| **Financial Assets designated at FVPL** | | | |
| Debt securities | | | |
| Held in IIFS | | | |
| Peso bonds | **6,765,388,506** | **2,040,923,660** | **–** |
| Dollar bonds | **494,659,228** | **1,811,781,016** | **–** |
| Equity securities - at market | | | |
| Peso denominated | **11,309,916,352** | **–** | **–** |
| Dollar denominated | **2,591,232,922** | **–** | **–** |
| Total | **₱37,322,695,668** | **₱30,417,366,670** | **₱–** |

| | December 31, 2014 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| AFS financial assets | | | |
| Debt securities | | | |
| Local currency | ₱13,364,182,428 | ₱27,634,808,929 | ₱– |
| Foreign currency | – | 968,321,601 | – |
| Quoted equity securities | | | |
| Common Shares | 1,571,334,276 | – | – |
| Club shares | 38,390,000 | 202,000 | – |
| (Forward) | | | |

| | December 31, 2014 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| Financial Assets designated at FVPL | | | |
| Debt securities | | | |
| Held in IIFS | | | |
| Peso bonds | ₱5,401,333,483 | ₱2,074,132,370 | ₱– |
| Dollar bonds | 241,130,703 | 2,035,668,456 | – |
| Equity securities - at market | | | |
| Peso denominated | 8,841,307,153 | – | – |
| Dollar denominated | 2,706,168,485 | – | – |
| Total | ₱32,163,846,528 | ₱32,713,133,356 | ₱– |

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, 2015, which is considered as a market observable input. The notes are fully funded and fully collateralized, thereby eliminating both counterparty and the Company's own non-performance risk.

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 2014 and 2013, 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.

## 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, 2015 and 2014. This assessment is undertaken at each financial year through a review of the financial position of the related party and the market in which the related party operates.

Significant transactions with related parties include the following:

**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 | **₱30,808,700** |
| | | 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** |
| | | Reserve for legal policy reserves | | No term | – | **2,779,410,733** |
| | | | 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** |

(Forward)

| | **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 | **₱7,298,144** |
| | 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** |

<u>December 31, 2014</u>

| | 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 | ₱235,378,018 | ₱14,881,634 |
| | | Due to Related Parties | Cost for the data management services provided by the ultimate parent. | Unsecured, non- interest bearing, due and demandable | 7,181,184 | 8,337,842 |
| Subsidiaries | Manulife Financial Plans, Inc. | Insurance Receivables | Actual premium payment for life coverage embedded in pre-need plans. | Unsecured, non- interest bearing, no impairment | 29,674,533 | 4,133,331 |
| | | Due from Related Parties | Borrowed funds by the subsidiary, non-interest bearing, net of collections and deposits. | Unsecured, non-interest bearing, no impairment | 60,600,227 | 150,600,227 |
| | | | 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 | 27,825,859 | 3,168,666 |
| | 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 | 606,333,162 | 498,169,127 |
| | | Reserve for legal policy reserves | | No term | – | 2,265,277,539 |
| | | | Assumed unit-linked management fee from subsidiary. | Unsecured, non-interest bearing, no impairment | 265,334,280 | 34,402,150 |

(Forward)

| | Entities | Financial Statement Account | Nature | Terms and Conditions | Transactions during the year | Outstanding Balance |
|---|---|---|---|---|---|---|
| | | | Allocated costs to the subsidiary for management, accounting and other administrative services rendered plus 5% mark-up. | Unsecured, non-interest bearing, no impairment | ₱33,378,266 | ₱33,378,266 |
| Under Common Control | FCM Investments | Due from Related Parties | Non-interest bearing cash advances. | Unsecured, non-interest bearing, due and demandable | 6,678,355 | – |
| | 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 | 2,289,408 | 2,903,847 |
| | Manulife Data Services, Inc. | Due from Related Parties | Non-interest bearing cash advances. | Unsecured, non-interest bearing, no impairment | 66,490 | 494,477 |
| | | Due to Related Parties | Cost for the data management services provided by the affiliate. | Unsecured, non-interest bearing, due and demandable | 5,558,414 | 5,539,094 |
| | 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 | 6,323,463 | 1,243,734 |

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:

| | **2015** | 2014 |
|---|---|---|
| Salaries and other short-term employee benefits | **₱246,740,163** | ₱185,000,424 |
| Post-employment and other long-term benefits | **9,953,585** | 6,871,837 |
| Others | **2,115,360** | 1,136,285 |
| | **₱258,809,108** | ₱193,008,546 |

## 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, 2015 and 2014 follow:

| | **2015** | 2014 |
|---|---|---|
| Within one year | **₱148,219,134** | ₱139,908,317 |
| After one year but not more than five years | **259,354,678** | 316,411,166 |
| | **₱407,573,812** | ₱456,319,483 |

In 2015 and 2014, rent expense recognized in the parent company statements of income amounted to ₱169.54 million and ₱158.21 million, respectively (see Note 21).

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*
Department of Finance Order (DO) 27-06 provides for the capitalization requirements for life, nonlife and reinsurance companies on a staggered basis for years ended December 31, 2006 up to 2011. Under this Order, the minimum statutory net worth and minimum paid-up capital requirements vary depending on the level of the foreign ownership in the insurance company. The statutory net worth shall include the company's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the Insurance Commission. The minimum paid-up capital is pegged at 50% of the minimum statutory net worth.

On October 29, 2008, the IC issued the CL No. 26-2008, which recalls that in view of the compliance of insurance companies with the requirement of IMC No. 10-2006, the scheduled increases due December 31, 2009 have been deferred for a year. Hence, the IMC reiterates that by

December 31, 2008, insurance companies should comply with the increase previously scheduled for December 31, 2007.

On June 1, 2012, the Department of Finance issued DO No. 15-2012 which provides for minimum paid up capital requirements of all insurance and professional reinsurance companies to supplement the requirements of DO No. 27-06 after December 31, 2012. Under the said DO, the minimum paid up capital requirements is on a staggered basis for the years December 31, 2012 up to 2020. The DO also allows all existing insurance and professional reinsurance companies a one-time one-year deferral in the compliance to minimum paid up capital requirements provided it has met the RBC hurdle rate based on the schedule set out in the said DO.

On November, 22, 2012, the IC issued an advisory to all insurance and reinsurance companies doing business in the Philippines regarding the implementation of DO No. 27-06. According to the advisory, the minimum paid up capital requirement would be ₱250,000,000 by the end of 2012 as advised by the IC.

On August 5, 2013, the President of the Philippines approved the Republic Act No. 10607 to known as the “New Insurance Code” (Amended Code) which provides the new capitalization requirements of all existing insurance companies based on networth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required networth and the schedule of compliance per Amended Insurance Code:

| Networth | Compliance Date |
|---|---|
| ₱250,000,000 | June 30, 2013 |
| 550,000,000 | December 31, 2016 |
| 900,000,000 | December 31, 2019 |
| 1,300,000,000 | December 31, 2022 |

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

| Minimum Networth | Compliance Date |
|---|---|
| ₱550,000,000 | December 31, 2016 |
| 900,000,000 | December 31, 2019 |
| 1,300,000,000 | December 31, 2022 |

As of December 31, 2015, the required minimum statutory net worth for the Parent Company is ₱250 million. The Parent Company has complied with the minimum networth requirement.

*Risk-Based Capital*
The Amended Code provides that the Commissioner may require the adoption of the risk-based capital approach and other internationally accepted forms of capital framework. Together with the insurance industry, the IC is currently in the process of adopting a new RBC approach that would be more tailored to the Philippine insurance industry. Pending the adoption of the new RBC approach, the provisions of the Code on margin of solvency and IMC No. 6-2006 shall still be used for purposes of the December 31, 2015 and 2014 financial reporting.

*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.

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

| | **2015 (Estimated)** | 2014 (Actual) |
|---|---|---|
| Networth | **12,625,720,326** | 8,984,980,004 |
| RBC requirement | **2,848,532,631** | 2,657,571,543 |
| RBC ratio | **443%** | 338% |

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

*Margin of Solvency*
Under the Code, a life insurance company doing business in the Philippines shall maintain at all times an MOS equal to ₱500,000 or two pesos per thousand of the total amount of its insurance in-force as of the preceding calendar year on all policies, except term insurance, whichever is higher. The MOS shall be the excess of the value of its admitted assets (as defined under the same Code), exclusive of its paid-up capital and security deposits, over the amount of its liabilities, unearned premiums and reinsurance reserves.

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

| | **2015** | 2014 |
|---|---|---|
| Loans and receivables | **₱399,815,799** | ₱390,277,653 |
| Property and equipment | **201,018,083** | 136,419,963 |
| Intangible asset | **52,295,600** | 59,766,400 |
| Other assets | **16,325,832** | 13,599,081 |
| | **₱669,455,314** | ₱600,063,097 |

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

The final amount of the MOS as of December 31, 2015 and 2014 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 MOS as of December 31:

| | **2015 (Estimated)** | 2014 (Actual) |
|---|---|---|
| Total admitted assets | **₱74,413,101,736** | ₱64,066,460,409 |
| Total liabilities | **61,787,077,309** | 55,081,480,405 |
| Net worth | **12,626,024,427** | 8,984,980,004 |
| Less: | | |
| Capital stock/Seed Money | **930,000,000** | 989,891,534 |
| Accumulated share in earnings (losses) of subsidiaries under equity method | **(745,762,262)** | 2,628,084,304 |
| Total equity available for MOS | **12,441,786,689** | 5,367,004,166 |
| Required MOS | **220,181,567** | 328,056,542 |
| | **₱12,221,605,122** | ₱5,038,947,624 |

*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 divided 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.

*Consolidated Compliance Framework*
IMC 10-2006 integrates the compliance standards for the fixed capitalization and RBC framework. Under this IMC, all insurers shall annually comply with the RBC ratio requirements.

Subsequent to year 2006, the fixed capitalization requirements for a given year may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC ratio compliance rate. The IMC provides the annual schedule of progressive rates for the industry RBC ratio compliance rates and the RBC hurdle rates from 2007 to 2011. For the review year 2011 which shall be based on the 2010 synopsis, the Industry RBC ratio compliance rate is 90% and the RBC hurdle rate is 250%. For the review year 2010 which shall be based on the 2009 synopsis, the Industry RBC ratio compliance rate is 90% and the RBC hurdle rate is 200%. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the year under review.

## 29. Current and Non-current Classification

As of December 31 2015 and 2014, the Company's classification of its accounts is as follows:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **Current** | **Non-current** | **Total** | Current | Non-current | Total |
| Cash and Cash Equivalents | **₱2,092,701,481** | **₱–** | **₱2,092,701,481** | ₱1,769,402,700 | ₱– | ₱1,769,402,700 |
| Insurance Receivables | **159,921,315** | **–** | **159,921,315** | 140,881,137 | – | 140,881,137 |
| Financial Assets | | | | | | |
| Available-for-sale financial assets | **–** | **42,725,958,654** | **42,725,958,654** | – | 43,577,239,234 | 43,577,239,234 |
| Financial assets at fair value through profit or loss | **25,013,901,685** | **–** | **25,013,901,685** | 21,299,740,650 | – | 21,299,740,650 |
| Loans and receivables | **5,194,369,955** | **412,310,124** | **5,606,680,079** | 4,606,462,683 | 491,890,651 | 5,098,353,334 |
| Accrued Income | **466,207,148** | **–** | **466,207,148** | 372,579,289 | – | 372,579,289 |
| Reinsurance Assets | **20,915,111** | **–** | **20,915,111** | 16,568,271 | – | 16,568,271 |
| Investments in Subsidiaries | **–** | **991,298,983** | **991,298,983** | – | 926,883,873 | 926,883,873 |
| Property and Equipment | **–** | **232,882,360** | **232,882,360** | – | 165,937,275 | 165,937,275 |
| Intangible Assets | **–** | **52,295,600** | **52,295,600** | – | 59,766,400 | 59,766,400 |
| Other Assets | **32,960,022** | **120,289,600** | **153,249,622** | 15,298,577 | 114,883,302 | 130,181,879 |
| Total Assets | **₱32,992,025,865** | **₱44,523,986,173** | **₱77,516,012,038** | ₱28,220,933,307 | ₱45,336,600,735 | ₱73,557,534,042 |
| **Liabilities** | | | | | | |
| Insurance contract liabilities | **₱27,810,069,074** | **₱27,082,063,745** | **₱54,892,132,819** | ₱23,828,183,410 | ₱24,668,194,856 | ₱48,496,378,266 |
| Policyholders' dividends | **4,536,232,712** | **–** | **4,536,232,712** | 4,497,459,164 | – | 4,497,459,164 |
| Reserve for policyholders' dividends | **984,513,180** | **–** | **984,513,180** | 957,013,701 | – | 957,013,701 |
| Insurance payables | **161,935,434** | **–** | **161,935,434** | 92,205,278 | – | 92,365,278 |
| Premium deposit fund | **44,070,614** | **–** | **44,070,614** | 52,567,139 | – | 52,567,139 |
| Accounts payable and accrued expenses | **1,178,066,109** | **–** | **1,178,066,109** | 956,976,949 | – | 956,976,949 |
| Due to related parties | **35,657,391** | **–** | **35,657,391** | 18,024,516 | – | 18,024,516 |
| Pension liability | **50,357,420** | **–** | **50,357,420** | – | – | – |
| Total Liabilities | **₱34,800,901,934** | **₱27,082,063,745** | **₱61,882,965,679** | ₱30,402,590,157 | ₱24,668,194,856 | ₱55,070,785,013 |

## 30. Notes to Parent Company Statement of Cash Flows

The noncash investing transaction of the Parent Company 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).

In 2014, the noncash investing transaction pertains to the receivable on the sale of non-controlling interest in MCBLAC to CBC amounting to ₱159,935,000. The Parent Company agreed to settle the receivable on the sale of non-controlling interest through payment in sixteen (16) equal quarterly installments of ₱9,995,938 which shall be offset against the commission payable by MCBLAC to CBC. As of December 31, 2015, the carrying amount of the receivable amounted ₱99.96 million (see Note 5).