Manulife

INDEPENDENT AUDITORS' REPORT WITH NOTES TO FINANCIAL STATEMENTS

2013 ANNUAL REPORT

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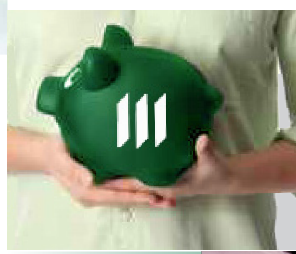

PROTECTION

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Independent Auditors' Report

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

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, 2013 and 2012, 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 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, 2013 and 2012, 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.

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April 11, 2012, valid until April 10, 2015
PTR No. 4225159, January 2, 2014, Makati City

April 10, 2014

Parent Company Statements of Financial Position

	December 31	
	2013	2012
ASSETS		
Cash and Cash Equivalents (Notes 4 and 25)	**₱1,739,432,464**	₱751,642,335
Insurance Receivables (Note 25)	**147,637,928**	124,630,552
Financial Assets		
Available-for-sale financial assets (Notes 5 and 25)	**38,805,106,006**	33,989,042,130
Financial assets at fair value through profit or loss (Notes 5, 6 and 25)	**13,086,716,468**	5,349,137,927
Loans and receivables (Notes 5, 25, 26 and 29)	**4,521,647,943**	4,754,042,529
Derivative assets (Notes 5 and 25)	**47,634,892**	81,014,230
Accrued Income (Notes 7 and 25)	**258,974,442**	303,137,228
Reinsurance Assets (Notes 13 and 25)	**349,799,848**	124,624,508
Investments in Subsidiaries - at cost (Note 8)	**1,287,149,465**	1,187,149,465
Property and Equipment (Notes 9 and 29)	**160,405,130**	171,566,234
Intangible Assets (Notes 10 and 29)	**67,237,200**	74,708,000
Other Assets (Notes 11 and 29)	**145,583,802**	124,651,754
	₱60,617,325,588	₱47,035,346,892
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 12 and 13)	**₱38,788,702,097**	₱26,987,959,422
Policyholders' dividends (Note 25)	**4,647,239,259**	4,484,147,810
Reserve for policyholders' dividends	**957,855,201**	1,139,906,497
Insurance payables (Note 25)	**56,312,634**	38,094,012
Premium deposit fund (Note 25)	**52,628,189**	61,976,086
Accounts payable and accrued expenses (Notes 14 and 25)	**345,986,888**	314,589,129
Due to related parties (Notes 25 and 26)	**5,407,398**	9,801,177
Pension liability (Note 23)	**13,359,846**	–
Other liabilities (Note 25)	**183,297,700**	159,187,868
Total Liabilities	**45,050,789,212**	33,195,662,001
Equity		
Capital stock (Notes 16 and 29)	**930,000,000**	930,000,000
Additional paid-in capital (Note 16)	**50,635,817**	50,635,817
Retained earnings	**7,113,964,321**	5,074,461,889
Reserve for fluctuation in value of available-for-sale financial assets (Notes 5 and 29)	**7,471,936,238**	7,784,587,185
Total Equity	**15,566,536,376**	13,839,684,891
	₱60,617,325,588	₱47,035,346,892

See accompanying Notes to Parent Company Financial Statements.

Parent Company Statements of Income

	Years Ended December 31	
	2013	2012
REVENUE		
Gross premiums earned on insurance contracts	**₱15,658,516,555**	₱7,836,725,430
Reinsurers' share of gross premiums earned on insurance contracts	**(86,115,667)**	(90,431,643)
Net insurance premiums earned (Note 17)	**15,572,400,888**	7,746,293,787
Investment income (Note 18)	**2,492,559,142**	2,441,957,463
Gain on sale of available-for-sale financial assets (Notes 5)	**2,010,597,073**	517,614,641
Foreign currency exchange gains	**103,050,063**	–
Swap income (Note 5)	**11,410,731**	11,814,868
Fees and commission income	**1,475,926**	1,507,947
Fair value gains on financial assets at fair value through profit or loss (Note 5)	**–**	15,434,028
Fair value gain on derivatives (Note 5)	**–**	31,079,534
Other income (Note 19)	**494,946,918**	223,678,963
Total revenue	**20,686,440,741**	10,989,381,231
BENEFITS, CLAIMS AND OPERATING EXPENSES		
Gross benefits and claims incurred on insurance contracts	**1,610,132,171**	1,413,315,279
Reinsurers' share of benefits and claims incurred on insurance contracts	**3,056,795**	(105,821,756)
Gross change in legal policy reserves	**12,291,722,494**	4,511,989,019
Reinsurers' share of gross change in legal policy reserves	**558,528,070**	498,672,938
Net insurance benefits and claims (Note 20)	**14,463,439,530**	6,318,155,480
General and administrative expenses (Note 21)	**1,488,844,272**	1,319,758,979
Commissions and other direct expenses (Note 22)	**1,302,409,282**	1,021,811,232
Dividends and dividend interest to policyholders	**829,741,842**	1,209,493,631
Insurance taxes	**106,238,677**	107,014,901
Fair value loss on derivatives (Note 5)	**33,379,338**	–
Underwriting expense	**7,256,321**	7,765,890
Fair value loss on financial assets at fair value through profit or loss (Note 5)	**933,087**	–
Interest on premium deposit fund	**918,716**	966,257
Foreign currency exchange losses	**–**	73,718,105
Total benefits, claims and operating expenses	**18,233,161,065**	10,058,684,475
INCOME BEFORE INCOME TAX	**2,453,279,676**	930,696,756
PROVISION FOR INCOME TAX (Note 24)	**413,777,244**	401,216,807
NET INCOME	**₱2,039,502,432**	₱529,479,949

See accompanying Notes to Parent Company Financial Statements.

Parent Company Statements of Comprehensive Income

	Years Ended December 31	
	2013	2012
NET INCOME	**₱2,039,502,432**	₱529,479,949
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)	**(312,650,947)**	1,405,243,128
TOTAL COMPREHENSIVE INCOME	**₱1,726,851,485**	₱1,934,723,077

See accompanying Notes to Parent Company Financial Statements.

Parent Company Statements of Changes in Equity

	Capital Stock (Note 16)	**Deposit for Future Stock Subscriptions** (Note 16)	**Additional Paid-in Capital** (Note 16)	**Retained Earnings**	**Reserve for Fluctuation in Value of Available-for-sale Financial Assets** (Note 5)	**Total**
As at January 1, 2013	**₱930,000,000**	**₱–**	**₱50,635,817**	**₱5,074,461,889**	**₱7,784,587,185**	**₱13,839,684,891**
Net income	–	–	–	**2,039,502,432**		**2,039,502,432**
Other comprehensive income (loss)	–	–	–	–	**(312,650,947)**	**(312,650,947)**
Total comprehensive income	–	–	–	**2,039,502,432**	**(312,650,947)**	**1,726,851,485**
As at December 31, 2013	**₱930,000,000**	**₱–**	**₱50,635,817**	**₱7,113,964,321**	**₱7,471,936,238**	**₱15,566,536,376**
As at January 1, 2012	₱425,000,000	₱75,000,000	₱50,000,000	₱4,544,981,940	₱6,379,344,057	₱11,474,325,997
Net income	–	–	–	529,479,949	–	529,479,949
Other comprehensive income	–	–	–	–	1,405,243,128	1,405,243,128
Total comprehensive income	–	–	–	529,479,949	1,405,243,128	1,934,723,077
Reclassification of deposits for future stock subscription to capital stock (Note 16)	75,000,000	(75,000,000)	–	–	–	–
Redemption of Common Stock - Class A (Note 1)	(500,000,000)	–	635,817	–	–	(499,364,183)
Issuance of Common Stock - Class B (Note 1)	930,000,000	–	–	–	–	930,000,000
As at December 31, 2012	₱930,000,000	₱–	₱50,635,817	₱5,074,461,889	₱7,784,587,185	₱13,839,684,891

See accompanying Notes to Parent Company Financial Statements.

Parent Company Statements of Cash Flows

	Years Ended December 31	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱2,453,279,676**	₱930,696,756
Adjustments for:		
Change in legal policy reserves (Note 13)	**11,722,401,894**	4,924,461,685
Depreciation and amortization (Notes 9, 10 and 21)	**103,360,166**	103,260,879
Fair value loss (gains) on derivatives (Note 5)	**33,379,338**	(31,079,534)
Loss on disposal of property and equipment (Note 9)	**2,194,417**	671,400
Fair value loss (gains) on financial assets at fair value through profit or loss - net (Note 5)	**933,087**	(15,434,028)
Swap income (Note 5)	**(11,410,731)**	(11,814,868)
Unrealized foreign currency exchange losses (gains) - net	**(103,050,063)**	73,718,105
Increase (decrease) in reserve for policyholders' dividends	**(182,051,296)**	97,301,693
Gain on sale of available-for-sale financial assets - net (Notes 5)	**(2,010,597,073)**	(517,614,641)
Investment income (Note 18)	**(2,492,559,142)**	(2,441,957,463)
Operating income before changes in operating assets and liabilities	**9,515,880,273**	3,112,209,984
Decrease (increase) in:		
Loans and receivables	**232,394,586**	(343,073088)
Insurance receivables	**(23,007,376)**	(19,877,866)
Reinsurance assets	**(225,175,340)**	(25,143,767)
Financial assets at fair value through profit or loss (Note 5)	**(7,825,275,811)**	(2,606,608,237)
Other assets	**(20,932,048)**	(23,545,845)
Increase (decrease) in:		
Policyholders' dividends	**163,091,449**	410,890,539
Policy and contract claims (Note 12)	**78,340,781**	37,987,053
Accounts payable and accrued expenses	**31,397,759**	80,803,889
Insurance payables	**18,218,622**	(6,061,147)
Pension liability	**13,359,846**	–
Due to related parties	**(4,393,779)**	(20,247,785)
Premium deposit fund	**(9,347,897)**	(6,388,393)
Other liabilities	**24,109,832**	72,102,771
Cash generated from operations	**1,968,660,897**	663,048,108
Income taxes paid	**(413,777,244)**	(401,216,807)
Net cash provided by operating activities	**1,554,883,653**	261,831,301

(Forward)

	Years Ended December 31	
	2013	2012
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**₱2,542,191,574**	₱2,838,863,811
Proceeds from sale and/or maturities of available-for-sale financial assets (Note 5)	**6,681,948,124**	2,550,572,456
Acquisitions of:		
Property and equipment (Note 9)	**(86,922,679)**	(99,453,930)
Available-for-sale financial assets (Note 5)	**(9,773,833,321)**	(5,348,507,034)
Withdrawal of seed money in investment in segregated fund (Note 5)	**140,519,083**	216,331,275
Capital infusion to MFPI (Note 8)	**(100,000,000)**	–
Additional investment in segregated fund (Note 5)	**(25,400,000)**	(123,150,000)
Dividends received	**32,180,871**	22,631,352
Net cash used in investing activities	**(589,316,348)**	57,287,930
EFFECT OF FOREIGN CURRENCY RATE CHANGES IN CASH AND CASH EQUIVALENTS	**22,222,824**	(8,159,897)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**987,790,129**	310,959,334
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**751,642,335**	440,683,001
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱1,739,432,464**	₱751,642,335

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 has 100% ownership interest in Manulife Financial Plans, Inc. (MFPI) and has 95% ownership interest in Manulife China Bank Life Assurance Corporation (MCBLAC).

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 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 10, 2014, 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 the MP issued and outstanding stocks.

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

The registered office address of the MP 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 10, 2014.

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), available-for-sale (AFS) financial assets and derivative instruments 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. No additional statement of financial position as at January 1, 2012 is presented in these financial statements since the impact of the retrospective application of Philippine Accounting Standard (PAS) 19, *Employee Benefits* (Revised) and the PIC Q&A No. 2013-03 PAS 19 - *Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law*, is deemed not material.

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 - 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.

Statement of Compliance

The parent company financial statements of The Manufacturers Life Insurance Co. (Phils.), Inc. which are prepared for submission to the SEC and the BIR have been presented in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations by the Financial Reporting Standards Council.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PAS and PFRS mandatory for financial years beginning on or after January 1, 2013. Unless indicated otherwise, these new, revised and amended standards, interpretations and improvements to PFRS did not have any impact on the accounting policies, financial position or performance of the Parent Company.

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)

  These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  c) The net amounts presented in the statement of financial position;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

  The amendment did not have any impact on the Parent Company's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*
  PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. Based on its re-assessment using the provisions of PFRS 10, the Parent Company concludes that it controls MFPI and MCBLAC and will continue to consolidate these entities. Accordingly, the adoption of PFRS 10 has no significant impact to the Parent Company's financial position and performance.

- PFRS 11, *Joint Arrangements*
  PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removed the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The amendment did not have any impact on the Parent Company's financial position or performance.

- PFRS 12, *Disclosure of Interests in Other Entities*
  PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). The amendment did not have any impact on the Parent Company's financial position or performance.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

  As a result of the guidance in PFRS 13, the Company re-assessed its policies for measuring fair values, in particular, its fair value measurement of financial assets carried at fair value. The Parent Company has assessed that the application of PFRS 13 has not materially affected the fair value measurements of the Parent Company. Additional disclosures required are included in Note 25.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
  The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and did not have any impact on the Parent Company's financial position or performance.

- PAS 19, *Employee Benefits* (Revised PAS19)
  On January 1, 2013, the Company adopted the Revised PAS 19. For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

  Upon adoption of the Revised PAS 19, the Parent Company will recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

  The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

  The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

  Changes to the accounting for the defined benefit plans, definition of short-term employee benefits and timing of recognition for termination benefits do not have significant impact to the Parent Company's financial position and financial performance.

- PIC Q&A No. 2013-03 PAS 19 – *Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law*

  On January 1, 2013, the Parent Company adopted the PIC Q&A No. 2013-03 PAS 19, which provides guidance on accounting for defined contribution plans subject to the requirements of RA 7641. The Q&A is effective for annual financial statements beginning on or after January 1, 2013 and requires retrospective application.

  The Q&A provides that the benefits mandated under RA 7641 are considered as a minimum benefit guarantee for qualified private sector employees in the Philippines. Hence, for an entity that provides a defined contribution (DC) plan as its only post-employment benefit plan, its obligation for post-employment benefits is not limited to the amount it agrees to contribute to the fund. Therefore, the entity's retirement plan shall be accounted for as a defined benefit (DB) plan. The obligation should be measured as follows: (a) recognize the DC liability, and (b) if there is an excess of the projected DB obligation over the projected DC obligation, apply the projected unit credit method on such excess to determine the additional liability. Likewise, the relevant disclosure requirements of revised PAS 19 for a defined benefit plan should be complied with.

  The Parent Company engaged an independent actuary to compute for its retirement obligation in accordance with the PIC Q&A. Based on such report, management assessed that the impact of the retrospective application of the PIC Q&A is not material. Therefore, the 2012 financial statements have not been restated and no additional statement of financial position as of January 1, 2012 is presented. Additional retirement expense of ₱13.4 million has been taken up in the 2013 statement of income representing the excess of the minimum DB obligation over the contribution. The relevant disclosure requirements of PAS 19 for a defined benefit plan have been included in Note 23.

PAS 27, *Separate Financial Statements* (as revised in 2011)
As a consequence of the issuance of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 did not have a significant impact on the separate financial statements of the Parent Company.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
  As a consequence of the issuance of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. This interpretation is not relevant to the Company.

- PFRS 1, *First-time Adoption of International Financial Reporting Standards - Government Loans* (Amendments)
  The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Parent Company.

Annual Improvements to PFRS (2009-2011 cycle)
The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The adoption of the following amendments resulted in changes to accounting policies but did not have impact on the financial position or performance of the Parent Company.

- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
  These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required.

- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
  The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment does not have impact on the Parent Company's financial position or performance.

- PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
  The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment does not have impact on the Parent Company's financial position or performance.

Other amendments resulting from the Improvements to PFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Parent Company.
- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*

<u>Standards Issued but not yet Effective</u>
Enumerated below are standards issued but not yet effective up to the date of issuance of the Parent Company's 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.

Effective January 1, 2014

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
  These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

- Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
  These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

Effective July 1, 2014

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
  The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.

Annual Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to PFRSs. The Parent Company will adopt these Annual Improvements when these become effective. The Parent Company does not expect the adoption of these Annual Improvements to have significant impact on the parent company financial statements.

Effective July 1, 2014

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment does not apply to the Parent Company as it has no share-based payments.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9, *Financial Instruments* (or PAS 39, if PFRS 9 is not yet adopted).

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. The amendments affect disclosures only and have no impact on the Parent Company's financial position or performance.

- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*
  The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

- PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the Parent Company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

  The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to PFRSs. The Parent Company will adopt these Annual Improvements when these become effective. The Parent Company does not expect the adoption of these Annual Improvements to have significant impact on the parent company financial statements.

Effective July 1, 2014

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

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*
  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

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

Effectivity not yet determined

- PFRS 9, *Financial Instruments*
  PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at FVPL. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at FVPL. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless

presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Parent Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

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

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Company will not adopt the standard before the completion of the limited amendments and the second phase of the project.

In compliance with SEC Memorandum Circular No. 3, Series of 2012, the Parent Company has conducted a study of the impact of an early adoption of PFRS 9. After careful considerations of the results of the impact evaluation, the Parent Company has decided not to early adopt PFRS 9 for its 2013 annual financial statements.

Interpretation with Deferred Effectivity

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

<u>Product Classification</u>
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 internal investment funds meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents 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. The Parent Company follows the trade accounting where an asset to be received and liability to be paid are recognized on the trade date and derecognition of an asset that is sold and the recognition of a receivable from the buyer is recognized on the trade date.

Initial recognition
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, loans and receivables and derivatives. 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 and derivatives 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.

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 peso and dollar-denominated debt securities, debt and equity securities of the insurance investment funds and derivative instruments.

The insurance investment funds set 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 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.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less allowance for impairment losses. 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, 2013 and 2012, 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, subscription receivable, 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 not 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 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.

Derivative financial instruments
Derivative financial instruments (including bifurcated embedded derivatives) are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Where derivatives are designated as effective hedging instruments, provisions of hedge accounting apply. The Parent Company accounts for its derivative financial instruments as non-hedge transactions. Any gain or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the parent company statement of income and are included in 'Fair value gain or loss on derivatives' account.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

The Parent Company assesses whether embedded derivatives are required to be separated from the host contracts when the Parent Company first becomes party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modify contractual cash flows.

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.

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 Parent Company 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.

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.

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 and the future administration expenses 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 of internal investment funds (segregated 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 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.

Changes in the fund assets due to investment earnings or market value fluctuations result to the same corresponding change in the insurance contract liabilities. Such changes in the fund value have no effect on the Parent Company's statement of income.

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 consists of unpaid claims which are payable to policyholders.

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. The Parent Company determines contractual cash flows as the carrying amount that would be required if the relevant insurance liabilities were within the scope of PAS 37. 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.

Reserve for Policyholders' Dividends
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 are recognized in the reserve for dividends to policyholders in the liabilities section in the parent company statement of financial position.

Pension Liability
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.

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 Company.

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 and management fee from internal investment funds, and miscellaneous income. Service and management fees 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.

<u>Provisions</u>

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.

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 fund) 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 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 ₱38.39 billion and ₱26.66 billion as of December 31, 2013 and 2012, 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:

	2013	2012
Investments in subsidiaries (Note 8)	**₱1,287,149,465**	₱1,187,149,465
Property and equipment (Note 9)	**160,405,130**	171,566,234
Intangible assets (Note 10)	**67,237,200**	74,708,000

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, 2013 and 2012, the carrying value of loans and receivables amounted to ₱4.52 billion and ₱4.75 billion after deducting allowance for impairment losses on loans and receivables amounting to ₱12.06 million and ₱11.75 million, respectively (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, 2013 and 2012, the carrying value of AFS equity investments amounted to ₱1.42 billion and ₱1.20 billion, respectively (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, 2013, the carrying values of property and equipment and intangible assets amounted to ₱160.41 million and ₱67.24 million, respectively. As of December 31, 2012, the carrying values of the property and equipment and intangible assets amounted to ₱171.57 million and ₱74.71 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, mortality rates and future pension increases. 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. The net benefit liability as at December 31, 2013 is ₱13.36 million. Further details are provided in Note 23.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

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:

	2013	2012
Cash on hand:		
Petty cash fund	**₱845,934**	₱744,671
Cash in banks (Note 25):		
Cash in commercial banks	**473,900,161**	385,147,003
Short-term deposits in commercial banks	**238,832,471**	242,757,131
	712,732,632	627,904,134
Cash held in insurance investment funds (Notes 6 and 25):		
Cash in banks	**266,252,271**	68,993,530
Short-term deposits	**759,601,627**	54,000,000
	1,025,853,898	122,993,530
	₱1,739,432,464	₱751,642,335

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, 2013 and 2012.

. **Financial Assets**

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

	2013	2012
AFS financial assets (Note 25)	**₱38,805,106,006**	₱33,989,042,130
Financial assets designated at FVPL (Note 25)	**13,086,716,468**	5,349,137,927
Loans and receivables (Note 25)	**4,521,647,943**	4,754,042,529
Derivative assets (Note 25)	**47,634,892**	81,014,230
	₱56,461,105,309	₱44,173,236,816

The carrying values of financial assets (excluding loans and receivables and derivative assets) have been determined as follows:

	2013	
	Financial Assets At FVPL	**AFS Financial Assets**
Balances at beginning of year	**₱5,349,137,927**	**₱33,989,042,130**
Additions	**25,400,000**	**9,773,833,321**
Disposals/maturities	**(140,519,083)**	**(6,681,948,124)**
Fair value gains (loss)	**(933,087)**	**1,697,946,126**
Contribution to insurance investment funds - net	**7,825,275,811**	**–**
Foreign currency exchange adjustments	**28,354,900**	**52,472,339**
Net discount (premium) amortization	**–**	**(26,239,786)**
Balances at end of year	**₱13,086,716,468**	**₱38,805,106,006**

	2012	
	Financial Assets At FVPL	AFS Financial Assets
Balances at beginning of year	₱2,842,621,237	₱29,324,668,975
Additions	123,150,000	5,348,507,034
Disposals/maturities	(216,331,275)	(2,550,572,456)
Fair value gains	15,434,028	1,922,857,769
Contribution to insurance investment funds - net	2,606,608,237	–
Foreign currency exchange adjustments	(22,344,300)	(43,213,908)
Net discount (premium) amortization	–	(13,205,284)
Balances at end of year	₱5,349,137,927	₱33,989,042,130

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

a) *AFS financial assets*

	2013	2012
Traded securities - at fair value		
Government debt securities:		
Local currency	**₱36,545,651,531**	₱31,904,464,227
Foreign currency	**835,317,952**	882,867,561
Quoted equity securities:		
Club shares	**38,042,000**	42,912,000
Common shares	**1,386,094,523**	1,158,798,342
	₱38,805,106,006	₱33,989,042,130

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

	2013	2012
Balance at beginning of year	**₱7,784,587,185**	₱6,379,344,057
Change in fair value of available-for-sale financial assets	**1,697,946,126**	1,922,857,769
Realized gains transferred to statements of income	**(2,010,597,073)**	(517,614,641)
Net change during the year	**(312,650,947)**	1,405,243,128
Balance at end of year	**₱7,471,936,238**	₱7,784,587,185

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

		From	**To**
2013	**Peso**	**5.28%**	**18.25%**
	Dollar	**4.88%**	**10.63%**
2012	Peso	5.88%	18.25%
	Dollar	2.00%	10.63%

Government securities, included in AFS financial assets, with aggregate market value of ₱266.06 million and ₱256.86 million and face value of ₱125.00 million as of December 31, 2013 and 2012 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:

	2013	2012
Policy loans	**₱3,685,363,583**	₱3,494,511,202
Subscription receivable (Note 6)	**358,298,689**	72,457,245
Corporate loan	**200,000,000**	1,000,000,000
Due from related parties (Note 26)	**121,590,478**	27,580,889
Security deposits	**60,189,403**	64,607,940
Receivable from agents	**52,189,386**	50,797,087

	2013	2012
Due from officers and employees	**38,772,848**	33,800,066
Mortgage loans	**11,099,093**	12,441,887
Other receivables	**6,203,069**	9,596,408
	4,533,706,549	4,765,792,724
Less allowance for impairment losses	**12,058,606**	11,750,195
	₱4,521,647,943	₱4,754,042,529

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 2013 and 2012.

In 2013 and 2012, the Parent Company entered into a loan agreement totaling to ₱200 million and ₱1.00 billion, respectively, with a local company. The corporate loan bears fixed interest rates in the following draw down dates:

	Interest rates	Amount
April 28, 2011	5.8308%	₱300,000,000
June 16, 2011	6.0088%	500,000,000
August 31, 2012	5.4192%	200,000,000
		₱1,000,000,000

The corporate loan amounting to ₱200.00 million and ₱1.00 billion is collectible within five (5) years and within seven (7) years, respectively, 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. In 2013, the borrower paid in whole the principal balance of the loans amounting to ₱300.00 million and ₱500.00 million.

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

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.

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:

	2013	2012
At beginning of year	**₱11,750,195**	₱10,940,681
Provisions (Note 21)	**308,411**	809,514
At end of year	**₱12,058,606**	₱11,750,195

c) Financial assets designated at FVPL

	2013	2012
Designated at initial recognition:		
Debt securities:		
Foreign currency	**₱366,082,590**	₱350,967,977
Held in insurance investment funds (Note 6):		
Peso - denominated government bonds	**4,939,718,409**	2,036,464,471
Dollar - denominated	**1,616,808,149**	1,409,692,240
Equity securities held in insurance investment funds - at market (Note 6)		
Peso - denominated	**4,425,576,200**	1,397,873,337
Dollar - denominated	**1,738,531,120**	154,139,902
	₱13,086,716,468	₱5,349,137,927

In 2013, the Company purchased US$3.9 million notes linked to the performance of a total return proprietary index, payable in 2023 based on the higher of (a) return using 80% of the highest index closing level during the holding period, or (b) return using index closing level on maturity date. As of December 31, 2013, the value of the notes classified as financial assets at FVTPL amount to ₱302.0 million (see Note 6).

d) *Derivative Instruments*

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

As of December 31, 2013 and 2012, the Parent Company has three (3) outstanding foreign cross-currency swap agreements, with aggregate notional amount of $8.00 million and nominal interests of 4.88% under which 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 2013 and 2012, the fair value gains/loss recognized in the parent company statements of income amounted to ₱33.38 million loss and ₱31.08 million gain, respectively, while swap income recognized in the parent company statements of income amounted to ₱11.41 million and ₱11.81 million, respectively.

The rollforward analysis of the Parent Company's derivative assets follows:

	2013	2012
At beginning of year	**₱81,014,230**	₱49,934,696
Fair value changes	**(33,379,338)**	31,079,534
At end of year	**₱47,634,892**	₱81,014,230

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, 2013, the Parent Company has fourteen (14) 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, 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 details of the UFs are as follows:

	December 31, 2013			
	Net assets (Notes 4 and 5)	**Due to unit-linked holders** (Note 12)	**Seed capital**	**Total**
Peso Fund	**₱651,111,465**	**₱648,528,349**	**₱2,583,116**	**₱651,111,465**
Stable Fund	**578,087,374**	**575,532,217**	**2,555,157**	**578,087,374**
Equity Fund	**712,275,336**	**710,338,647**	**1,936,689**	**712,275,336**
Dollar Fund	**497,295,856**	**494,719,364**	**2,576,492**	**497,295,856**
Peso Secure Fund	**2,192,733,554**	**2,189,634,142**	**3,099,412**	**2,192,733,554**
Peso Diversified Value Fund	**2,429,207,243**	**2,425,784,955**	**3,422,288**	**2,429,207,243**
Peso Growth Fund	**2,994,238,365**	**2,988,940,793**	**5,297,572**	**2,994,238,365**
US Dollar Secure Fund	**311,845,516**	**305,706,065**	**6,139,451**	**311,845,516**
Peso Balanced Fund	**127,412,790**	**125,505,233**	**1,907,556**	**127,412,790**
Dynamic Allocation Fund	**758,702,702**	**756,798,504**	**1,904,198**	**758,702,702**
Asia Pacific Bond Fund	**908,541,192**	**906,745,674**	**1,795,518**	**908,541,192**
Asean Growth Fund	**1,814,484,809**	**1,812,734,343**	**1,750,466**	**1,814,484,809**
Peso Cash Fund	**6,607,266**	**5,607,565**	**999,701**	**6,607,266**
Wealth Premier Fund	**98,518,386**	**82,493,274**	**16,025,112**	**98,518,386**
	₱14,081,061,854	**₱14,029,069,125**	**₱51,992,728**	**₱14,081,061,854**

	December 31, 2012			
	Net assets (Notes 4 and 5)	Due to unit-linked holders (Note 12)	Seed capital	Total
Peso Fund	₱447,682,915	₱445,408,345	₱2,274,570	₱447,682,915
Stable Fund	398,589,646	396,258,161	2,331,485	398,589,646
Equity Fund	372,840,337	370,947,022	1,893,315	372,840,337
Dollar Fund	490,295,137	487,651,379	2,643,758	490,295,137
Peso Secure Fund	751,158,748	748,420,200	2,738,548	751,158,748
Peso Diversified Value Fund	742,546,777	739,415,279	3,131,498	742,546,777
Peso Growth Fund	828,089,939	822,897,958	5,191,981	828,089,939
US Dollar Secure Fund	296,335,978	290,020,215	6,315,763	296,335,978
Peso Balanced Fund	–	–	–	–
Dynamic Allocation Fund	–	–	–	–
Asia Bond Fund	692,374,919	690,601,383	1,773,536	692,374,919
Asean Growth Fund	165,368,911	36,735,619	128,633,292	165,368,911
Peso Cash Fund	–	–	–	–
	₱5,185,283,307	₱5,028,355,561	₱156,927,746	₱5,185,283,307

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

	December 31, 2013									
	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	**₱600,411,442**	**₱51,525,132**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**(₱825,109)**	**₱651,111,465**
Stable fund	**365,495,531**	**97,886,532**	**115,555,824**	**–**	**–**	**–**	**–**	**–**	**(850,513)**	**578,087,374**
Equity fund	**–**	**–**	**713,482,191**	**–**	**–**	**–**	**–**	**–**	**(1,206,855)**	**712,275,336**
Dollar fund	**–**	**–**	**–**	**–**	**498,034,140**	**–**	**–**	**–**	**(738,284)**	**497,295,856**
Peso Secure Fund	**1,989,458,680**	**206,474,309**		**–**	**–**	**–**	**–**	**–**	**(3,199,435)**	**2,192,733,554**
Peso Diversified Value Fund	**1,485,661,827**	**470,158,865**	**477,478,447**	**–**	**–**	**–**	**–**	**–**	**(4,091,896)**	**2,429,207,243**
Peso Growth Fund	**–**	**–**	**2,999,936,802**	**–**	**–**	**–**	**–**	**–**	**(5,698,437)**	**2,994,238,365**
US Dollar Secure Fund	**–**	**–**	**–**	**–**	**312,372,820**	**–**	**–**	**–**	**(527,304)**	**311,845,516**
Peso Balanced Fund	**65,293,992**	**–**	**62,321,960**	**–**	**–**	**–**	**–**	**–**	**(203,162)**	**127,412,790**
Dynamic Allocation Fund	**389,772,373**	**–**	**370,285,659**	**–**	**–**	**–**	**–**	**–**	**(1,355,330)**	**758,702,702**
Asia Pacific Bond Fund	**–**	**–**	**–**	**–**	**–**	**910,088,704**	**–**	**–**	**(1,547,512)**	**908,541,192**
Asean Growth fund	**–**	**–**	**–**	**–**	**–**	**–**	**1,817,963,899**	**–**	**(3,479,090)**	**1,814,484,809**
Peso Cash Fund	**–**	**–**	**–**	**6,608,950**	**–**	**–**	**–**	**–**	**(1,684)**	**6,607,266**
Wealth Premier Fund	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**98,518,386**	**–**	**98,518,386**
	₱4,896,093,845	**₱826,044,838**	**₱4,739,060,883**	**₱6,608,950**	**₱810,406,960**	**₱910,088,704**	**₱1,817,963,899**	**₱98,518,386**	**(₱23,724,611)**	**₱14,081,061,854**

	December 31, 2013									
	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	₱411,514,983	₱36,736,899	₱–	₱–	₱–	₱–	₱–	₱–	(₱568,967)	₱447,682,915
Stable fund	244,270,586	68,338,677	86,568,001	–	–	–	–	–	(587,618)	398,589,646
Equity fund	–	–	373,453,028	–	–	–	–	–	(612,691)	372,840,337
Dollar fund	–	–	–	–	491,021,578	–	–	–	(726,441)	490,295,137
Peso Secure Fund	683,414,403	68,909,228	–	–	–	–	–	–	(1,164,883)	751,158,748
Peso Diversified Value Fund	439,290,069	134,310,448	170,189,890	–	–	–	–	–	(1,243,630)	742,546,777
Peso Growth Fund	–	–	829,597,706	–	–	–	–	–	(1,507,767)	828,089,939
US Dollar Secure Fund	–	–	–	–	296,834,597	–	–	–	(498,619)	296,335,978
Peso Balanced Fund	–	–	–	–	–	–	–	–	–	–
Dynamic Allocation Fund	–	–	–	–	–	–	–	–	–	–
Asia Pacific Bond Fund	–	–	–	–	–	693,521,632	–	–	(1,146,713)	692,374,919
Asean Growth fund	–	–	–	–	–	–	165,649,000	–	(280,089)	165,368,911
Peso Cash Fund	–	–	–	–	–	–	–	–	–	–
Wealth Premier Fund	–	–	–	–	–	–	–	–	–	–
	₱1,778,490,041	₱308,295,252	₱1,459,808,625	₱–	₱787,856,175	₱693,521,632	₱165,649,000	₱–	(₱8,337,418)	₱5,185,283,307

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

	2013		2012	
Government bonds (Note 5)				
Peso-denominated	**₱4,939,718,409**	**35.08%**	₱2,036,464,471	39.27%
Dollar-denominated	**1,616,808,149**	**11.48%**	1,409,692,240	27.19%
Equity securities - at market (Note 5)				
Peso-denominated	**4,425,576,200**	**31.43%**	1,397,873,337	26.96%
Dollar-denominated	**1,738,531,120**	**12.35%**	154,139,902	2.97%
Short-term deposits (Note 4)	**759,601,627**	**5.39%**	54,000,000	1.04%
Cash in banks (Note 4)	**266,252,271**	**1.89%**	68,993,530	1.33%
Accrued management fees	**(23,724,611)**	**-0.17%**	(8,337,418)	-0.16%
Subscription receivable (Note 5)	**358,298,689**	**2.54%**	72,457,245	1.40%
	₱14,081,061,854	**100.00%**	₱5,185,283,307	100.00%

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

On March 8, 2013, the Parent Company launched Manulife Wealth Premier Fund in which investors are guaranteed that the unit price of the Fund will not fall below 80% of the highest-ever Fund unit price (the "High Watermark Price"). The Fund invests mainly in structured notes ("Notes") whose value is linked to the performance of various indices. The Note is issued by Allegro Investment Corporation S.A. ("Allegro") and is a delta-one note linked to the Citi Octave USD Index that is published on Bloomberg with the Bloomberg ticker: CIISOCUT Index.

Subscription receivable is presented as a component of loans and receivables (see Note 5).

7. Accrued Income

This account consists of interest and dividends income from:

	2013	2012
Debt securities:		
AFS Peso bonds	**₱228,969,389**	₱271,296,393
AFS Dollar bonds	**18,940,985**	17,092,654
FVPL Dollar bonds	**4,761,364**	4,402,613
	252,671,738	292,791,660
Corporate loan	**3,316,110**	6,890,553
Swap receivables	**2,986,594**	3,345,345
Dividend receivable on common stock	–	109,670
	₱258,974,442	₱303,137,228

Investments in Subsidiaries - at cost

This account consists of:

	2013	2012
Investments in:		
Manulife Financial Plans, Inc. (MFPI)	**₱250,000,000**	₱250,000,000
Additions	**100,000,000**	–
Total	**350,000,000**	250,000,000
Manulife China Bank Life Assurance Corporation (MCBLAC)	**937,149,465**	937,149,465
	₱1,287,149,465	₱1,187,149,465

On April 12, 2013, the Insurance Commission approved the Company's capital infusion to MFPI amounting to ₱100 million.

Property and Equipment

The rollforward analysis of this account follows:

	2013				
	EDP Equipment	**Leasehold Improvements**	**Transportation Equipment**	**Furniture and Fixtures**	**Total**
Cost					
At beginning of year	**₱294,403,470**	**₱299,910,210**	**₱55,816,609**	**₱100,876,333**	**₱751,006,622**
Additions	**18,591,026**	**43,807,727**	**10,728,000**	**13,795,926**	**86,922,679**
Disposals	–	–	**(6,499,627)**	–	**(6,499,627)**
At end of year	**312,994,496**	**343,717,937**	**60,044,982**	**114,672,259**	**831,429,674**
Accumulated Depreciation and Amortization					
At beginning of year	**267,248,449**	**215,852,652**	**29,546,802**	**66,792,485**	**579,440,388**
Depreciation and amortization (Note 21)	**17,198,786**	**58,854,720**	**8,855,880**	**10,979,980**	**95,889,366**
Disposals	–	–	**(4,305,210)**	–	**(4,305,210)**
At end of year	**284,447,235**	**274,707,372**	**34,097,472**	**77,772,465**	**671,024,544**
Net Book Value	**₱28,547,261**	**₱69,010,565**	**₱25,947,510**	**₱36,899,794**	**₱160,405,130**

	2012				
	EDP Equipment	Leasehold Improvements	Transportation Equipment	Furniture and Fixtures	Total
Cost					
At beginning of year	₱274,120,290	₱243,303,787	₱45,356,049	₱89,891,566	₱652,671,692
Additions	20,283,180	56,606,423	11,579,560	10,984,767	99,453,930
Disposals	–	–	(1,119,000)	–	(1,119,000)
At end of year	294,403,470	299,910,210	55,816,609	100,876,333	751,006,622
Accumulated Depreciation and Amortization					
At beginning of year	250,244,665	153,757,396	22,061,539	58,034,309	484,097,909
Depreciation and amortization (Note 21)	17,003,784	62,095,256	7,932,863	8,758,176	95,790,079
Disposals	–	–	(447,600)	–	(447,600)
At end of year	267,248,449	215,852,652	29,546,802	66,792,485	579,440,388
Net Book Value	₱27,155,021	₱84,057,558	₱26,269,807	₱34,083,848	₱171,566,234

As of December 31, 2013 and 2012, there were no fully depreciated property and equipment.

10. **Intangible Assets**

The rollforward analysis of this account follows:

	2013	2012
Cost	**₱149,416,000**	₱149,416,000
Accumulated amortization		
At beginning of year	**74,708,000**	67,237,200
Amortization for the year (Note 21)	**7,470,800**	7,470,800
At end of year	**82,178,800**	74,708,000
Net book value	**₱67,237,200**	₱74,708,000

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, 2013 and 2012.

The Parent Company did not recognize any impairment on intangible assets in 2013 and 2012.

11. **Other assets**

This account consists of:

	2013	2012
Creditable withholding tax	**₱135,256,751**	₱114,724,444
Prepayments	**7,413,591**	7,427,655
Office supplies	**2,913,460**	2,499,655
	₱145,583,802	₱124,651,754

Creditable withholding tax amounting to ₱2.67 million has been used to pay for the Company's income tax in 2013.

Prepayments include cash advances of employees and local business tax.

12. **Insurance Contract Liabilities**

This account consists of:

	2013	2012
Legal policy reserve	**₱38,387,313,999**	₱26,664,912,105
Policy and contract claims payable	**401,388,098**	323,047,317
	₱38,788,702,097	₱26,987,959,422

Details of the legal policy reserves follow:

	2013	2012
Ordinary life insurance	**₱24,324,193,206**	₱21,604,130,783
Unit-linked (Note 6)	**14,029,069,125**	5,028,355,561
Group life insurance	**33,191,275**	31,720,329
Accident and health	**860,393**	705,432
	₱38,387,313,999	₱26,664,912,105

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

	2013			2012		
	Insurance contract liabilities	**Reinsurers' share of liabilities**	**Net**	Insurance contract liabilities	Reinsurers' share of liabilities	Net
At beginning of year	**₱25,597,982,877**	**(₱1,066,929,228)**	**₱26,664,912,105**	₱21,172,194,130	(₱568,256,290)	₱21,740,450,420
Tabular net premiums or considerations	**8,401,911,644**	**86,115,667**	**8,315,795,977**	4,124,675,800	90,431,643	4,034,244,157
Present value of disability claims Incurred	**17,920,074**	**–**	**17,920,074**	8,424,241	–	8,424,241
Tabular interest	**1,438,222,790**	**(61,432,284)**	**1,499,655,074**	1,192,102,831	(31,382,428)	1,223,485,259
Tabular less actuarial reserve released	**(7,984,984)**	**–**	**(7,984,984)**	(16,841,372)	–	(16,841,372)
Other increases	**9,008,745,301**	**–**	**9,008,745,301**	2,648,443,969	–	2,648,443,969
	44,456,797,702	**(1,042,245,845)**	**45,499,043,547**	29,128,999,599	(509,207,075)	29,638,206,674
Tabular Cost	**6,580,443,738**	**583,211,451**	**5,997,232,287**	2,051,958,113	557,722,153	1,494,235,960
Reserves released by death	**65,696,712**	**–**	**65,696,712**	13,138,932	–	13,138,932
Reserves released by other terminations	**1,048,800,549**	**–**	**1,048,800,549**	1,465,919,677	–	1,465,919,677
	7,694,940,999	**583,211,451**	**7,111,729,548**	3,531,016,722	557,722,153	2,973,294,569
At end of year	**₱36,761,856,703**	**(₱1,625,457,296)**	**₱38,387,313,999**	₱25,597,982,877	(₱1,066,929,228)	₱26,664,912,105

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

	2013	2012
At beginning of year	**₱323,047,317**	₱285,060,264
Additions during the year	**686,817,164**	529,831,240
Paid during the year	**(608,476,383)**	(491,844,187)
At end of year	**₱401,388,098**	₱323,047,317

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

<u>Life Insurance Contracts</u>
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, 2013 and 2012, the balance of reinsurance assets amounted to ₱349.80 million and ₱124.62 million, respectively.

14. **Accounts Payable and Accrued Expenses**

This account consists of:

	2013	2012
Accrued expenses (Note 6)	**₱203,248,221**	₱179,318,586
Accounts and other payables	**56,840,474**	57,883,538
Taxes payable	**38,275,098**	35,765,714
Provident fund (Note 23)	**31,327,775**	25,829,498
Secure account liability	**15,330,048**	14,826,520
Others	**965,272**	965,273
	₱345,986,888	₱314,589,129

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

Accounts and other payables consist of rent payable and suspense accounts. Accounts and other payables are noninterest-bearing and are normally settled within one year.

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.

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	
	2013	2012	**2013**	2012
Authorized capital stock A - par value ₱100	**10,000,000**	10,000,000	**₱1,000,000,000**	₱1,000,000,000
Authorized capital stock B - par value ₱1000	**1,000,000**	1,000,000	**1,000,000,000**	1,000,000,000
			₱2,000,000,000	₱2,000,000,000

	Number of shares		Amount	
	2013	2012	**2013**	2012
Capital stock A - par value ₱100	**–**	–	**₱–**	₱–
Capital stock B - par value ₱1000	**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. This transaction resulted to the following impact in the Parent Company's financial statements:

a. Increase in capital stock - B by ₱500.00 million in exchange for the 5,000,000 common Class A shares accounted for as treasury shares with par value of ₱500.00 million. Upon redemption of the treasury shares, the capital stock - A with par value of ₱500.00 million had been derecognized.
b. Increase in capital stock - B by ₱430.00 million in exchange for the Philippine Branch financial assets with fair value of ₱430.64 million. The difference between the fair value and par value amounting to ₱0.64 million is credited to additional paid-in capital.

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 as discussed above.

17. Net Insurance Premiums Earned

The details of net insurance premiums earned follow:

	2013	2012
Gross premiums earned on insurance contracts:		
Unit-linked	**₱10,130,220,360**	₱2,735,501,593
Ordinary life insurance	**5,280,227,610**	4,909,819,308
Accident and health	**177,189,259**	116,035,485
Group life insurance	**70,879,326**	75,369,044
	15,658,516,555	7,836,725,430
Reinsurers' share of gross premiums earned on insurance contracts:		
Ordinary life insurance	**81,727,050**	85,269,746
Group life insurance	**4,386,012**	5,159,169
Accident and health	**2,605**	2,728
	86,115,667	90,431,643
Net insurance premiums earned	**₱15,572,400,888**	₱7,746,293,787

18. Investment Income

This account consists of:

	2013	2012
Interest income on:		
AFS financial assets	**₱2,067,576,222**	₱2,027,672,302
Loans and receivables	**373,579,553**	371,371,584
Financial assets at FVPL	**16,763,662**	16,359,525
Cash and cash equivalents	**2,568,504**	3,813,030
	2,460,487,941	2,419,216,441
Dividend income	**32,071,201**	22,741,022
	₱2,492,559,142	₱2,441,957,463

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

19. Other income

This account consists of:

	2013	2012
Management fee income	**₱359,455,587**	₱131,214,058
Monthly load	**104,734,640**	75,276,073
Processing fee	**18,597,984**	10,228,110
Others	**12,158,707**	6,960,722
	₱494,946,918	₱223,678,963

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

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.

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

Included in “Others” are the employees share on car plan program and other management and policy fees.

20. Benefits and Claims

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

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

	2013	2012
Ordinary life insurance	**₱1,575,854,468**	₱1,377,538,304
Group life insurance	**20,944,085**	33,699,029
Accident and health	**13,333,618**	2,077,946
	₱1,610,132,171	₱1,413,315,279

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

	2013	2012
Ordinary life insurance	**(₱6,442,337)**	₱100,449,029
Group life insurance	**3,385,542**	5,438,626
Accident and health	**–**	(65,899)
	(₱3,056,795)	₱105,821,756

Gross change in legal policy reserves follows:

	2013	2012
Life insurance contract liabilities:		
Unit-linked	**₱10,128,562,233**	₱2,734,650,316
Ordinary life insurance	**2,161,534,354**	1,765,748,699
Group life insurance	**1,470,947**	11,509,963
Accident and health	**154,960**	80,041
Total change in life insurance contracts liabilities	**₱12,291,722,494**	₱4,511,989,019

The reinsurers' share of gross change in legal policy reserves in 2013 and 2012 amounted to ₱558.53 million and ₱498.67 million, respectively. Bulk of these amounts refers to legal policy reserves on assumed ordinary life insurance business by the Parent Company from MCBLAC, a subsidiary.

21. General and Administrative Expenses

This account consists of:

	2013	2012
Employee salaries	**₱424,905,268**	₱359,750,437
Agency-related expenses	**141,336,969**	135,839,493
Rent (Note 27)	**118,622,946**	111,959,961
Administration support	**105,447,366**	93,140,606
Depreciation and amortization (Notes 9 and 10)	**103,360,166**	103,260,879
Utilities	**73,615,226**	61,658,220
Marketing support	**70,199,913**	61,551,146
Communications	**69,365,627**	49,275,140
Investment expenses	**54,660,940**	47,865,670
Other employee benefits	**47,118,229**	35,317,942
Supplies	**41,164,595**	28,952,163

(Forward)

	2013	2012
Entertainment, amusement and recreation (EAR)	**₱40,477,454**	₱26,913,662
Retirement costs (Note 23)	**32,483,593**	18,415,199
Bank charges	**31,251,608**	26,609,207
Repairs and maintenance	**18,693,848**	20,711,261
Advertising expenses	**15,381,290**	20,974,694
Transportation and travel	**10,444,131**	4,090,320
Professional fees	**9,941,092**	14,058,876
Provision for impairment losses (Note 5)	**308,411**	809,514
Miscellaneous	**80,065,600**	98,604,589
	₱1,488,844,272	₱1,319,758,979

22. Commissions and Other Direct Expenses

This account consists of:

	2013	2012
Bonuses	**₱449,816,462**	₱352,560,658
Commissions on first year premiums	**366,658,123**	379,165,571
Single premium commissions	**237,400,862**	62,860,323
Commissions on renewal premiums	**206,221,495**	172,010,357
Other direct expenses	**42,312,340**	55,214,323
	₱1,302,409,282	₱1,021,811,232

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.

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:

The amounts recognized in the statements of financial position follow:

	2013	2012
Present value of benefit obligation	**₱145,807,132**	₱126,257,949
Fair value of plan assets	**(132,447,286)**	(126,257,949)
Net pension liability	**₱13,359,846**	₱–

Changes in the net pension liability follow:

	2013	2012
At January 1	**₱–**	₱–
Net benefit expense (income)	**32,483,593**	18,415,199
Re-measurement gains (losses)	**–**	–
Actual contributions	**(19,123,747)**	(18,415,199)
At December 31	**₱13,359,846**	₱–

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

	2013	2012
At January 1	**₱126,257,949**	₱110,226,082
Current service cost	**32,483,593**	18,415,199
Interest cost on benefit obligation	**7,575,477**	6,613,565
Benefits paid	**(22,673,263)**	(8,177,157)
Re-measurements losses (gains)	**2,163,376**	(819,740)
At December 31	**₱145,807,132**	₱126,257,949

Changes in the fair value of the plan assets follow:

	2013	2012
At January 1	**₱126,257,949**	₱110,226,082
Interest income included in net interest cost	**7,575,477**	6,613,565
Re-measurements losses (gains)	**2,163,376**	(819,740)
Actual contributions	**19,123,747**	18,415,199
Benefits paid	**(22,673,263)**	(8,177,157)
At December 31	**₱132,447,286**	₱126,257,949
Actual return on plan assets	**₱17,085,524**	₱13,541,143

The principal assumptions used in determining pension liability for the Parent Company are as follows:

	2013	2012
Discount rate	**6%**	6%
Annual rate of increase in compensation projection	**6%**	6%

As of December 31, 2013 and 2012, the Parent Company also has a liability related to the provident fund for its agents amounting to ₱31.33 million and ₱25.83 million, respectively. The provident fund is administered and managed by a foreign bank under an investment agreement (see Note 14).

The Parent Company's retirement plan is in the form of a trust administered by a trustee bank. The carrying value of the fund which approximates its fair value are as follows:

	2013	2012
Investments	**₱131,116,515**	₱125,529,488
Cash	**1,330,726**	728,417
Foreign currency	**45**	44
	₱132,447,286	₱126,257,949

The asset and investment of the fund consists mainly of cash and cash equivalents and government debt instruments.

24. Income Taxes

The provision for income tax consists of:

	2013	2012
Final taxes on interest income	**₱411,613,120**	₱399,522,942
MCIT	**2,164,124**	1,693,865
	₱413,777,244	₱401,216,807

The components of net deferred tax assets as of December 31, 2013 are as follows:

Deferred tax assets on:	
NOLCO	₱26,518,427
Allowance for impairment losses	16,552,042
Vacation leave accrual	15,171,929
Rent payable	8,922,772
Accrued expenses	7,815,675
Loyalty accruals	4,497,734
Provision for estimated liability	2,085,272
Unrealized foreign exchange loss	–
	81,563,851
Deferred tax liability on:	
Derivative assets	47,634,892
Unrealized foreign exchange gain	30,652,182
Fair value gain on FVPL	3,276,777
	81,563,851
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.

	2013	2012
NOLCO	**₱4,215,288,515**	₱3,969,222,858
MCIT	**3,857,989**	1,693,865
Net unrealized foreign currency exchange loss	–	39,018,543
Allowance for impairment losses	–	16,243,631
Vacation leave accrual	–	15,171,929
Rent payable	–	10,588,488
Loyalty accruals	–	4,497,734
Provision for estimated liability	–	2,085,272
Accrued expenses	–	2,173,216
	₱4,219,146,504	₱4,060,695,536

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
2013	₱1,463,417,543	₱2,164,124	December 31, 2016
2012	1,347,492,273	1,693,865	December 31, 2015
2011	1,430,897,125	–	December 31, 2014
	₱4,241,806,941	₱3,857,989	

The following are the movements in NOLCO:

	2013	2012
At beginning of year	**₱3,969,222,858**	₱3,210,778,528
Additions	**1,463,417,543**	1,347,492,274
Expirations	**(1,190,833,459)**	(589,047,944)
At end of year	**₱4,241,806,942**	₱3,969,222,858

The following are the movements in MCIT:

	2013	2012
At beginning of year	**₱1,693,865**	₱477,681
Additions	**2,164,124**	1,693,865
Expirations	–	(477,681)
At end of year	**₱3,857,989**	₱1,693,865

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:

	2013	2012
Income before income tax	**₱2,453,279,676**	₱930,696,756
Income tax expense at statutory income tax rate	**735,983,903**	279,209,027
Additions to (reductions in) income tax expense resulting from:		
Gain on sale of investments exempt from tax	**(589,937,117)**	(155,283,596)
Interest income - net of final tax	**(205,834,321)**	(199,826,333)
Investment income exempt from tax	**(16,248,602)**	(13,420,286)
Intercorporate dividends	**(9,621,360)**	(6,167,777)
Fair value loss (gains) on financial assets at FVPL exempt from tax	**279,926**	(4,630,208)
Amortization of debt securities	**7,898,633**	3,938,117
Nondeductible interest expense	**69,682,467**	73,464,498
Effect of change in unrecognized deferred tax assets - net	**421,573,715**	409,230,990
Others	–	14,702,375
Provision for income tax	**₱413,777,244**	₱401,216,807

25. **Risk and Capital 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.

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 29).

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:

	2013	2012
Whole life insurance		
Gross	**₱92,499,394,905**	₱92,538,533,513
Net	**78,971,312,331**	76,276,448,025
Term policies		
Gross	**18,092,320,967**	15,772,700,499
Net	**13,845,288,411**	11,017,968,793
Endowment		
Gross	**20,060,554,019**	20,295,481,311
Net	**21,623,318,556**	21,032,451,523
Variable unit-linked policies		
Gross	**30,263,100,450**	12,251,401,247
Net	**44,639,498,904**	18,100,479,282
Accident and health		
Gross	**3,421,177,460**	1,748,000,000
Net	**3,421,177,460**	1,748,000,000
Group insurance		
Gross	**36,589,845,199**	30,769,937,815
Net	**34,237,169,422**	28,528,811,052
Total		
Gross	**200,926,393,000**	173,376,054,385
Net	**196,737,765,084**	156,704,158,675

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) ₱2.00 million or $50,000 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) ₱2.00 million or $50,000 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:

	2013		2012	
Type	**Number of Policies**	**Amount of Insurance**	Number of Policies	Amount of Insurance
Whole Life	**131,110**	**₱92,499,394,905**	132,906	₱92,538,533,513
Term	**9,425**	**18,092,320,967**	7,939	15,772,700,499
Endowment	**48,341**	**20,060,554,019**	50,449	20,295,481,311
Variable unit-linked	**42,757**	**30,263,100,450**	21,164	12,251,401,247
Accident and health	**3,306**	**3,421,177,460**	1,117	1,748,000,000
Group life	**413**	**36,589,845,199**	457	30,769,937,815
	235,352	**₱200,926,393,000**	214,032	₱173,376,054,385

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, 2013				
	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%**	**445,131**	**458,740**	**(458,740)**	**(458,740)**
Valuation interest rate	**+1%**	**(1,669,349)**	**(1,865,002)**	**1,865,002**	**1,865,002**

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

	December 31, 2012				
	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%	₱327,898	₱327,441	(₱327,441)	(₱327,441)
Valuation interest rate	+1%	(1,294,979)	(1,294,979)	1,294,979	1,294,979

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

The carrying values of insurance contract liabilities as of December 31, 2013 and 2012 amounted to ₱38.79 billion and ₱26.99 billion, respectively (see Note 12).

Investment Risk

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

In addition, there exists a future investment risk associated with certain policies currently in force which will have premium receipts in the future. The investment of those future premium receipts may be at a yield below than what is required to meet future policy liabilities.

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

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

The Parent Company uses asset-liability matching as a management tool to determine the composition of the invested assets and appropriate investment and marketing strategies. As part of these strategies, the Parent Company may determine that it is economically advantageous to be temporarily in an unmatched position due to anticipated interest rate or other economic changes.

Financial Risk

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

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

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

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

The Parent Company further restricts its credit risk exposure by entering into master netting arrangements with counterparties with which it transacts significant volumes of transactions. Such arrangements do not generally result in offset of assets and liabilities since transactions are usually settled on a gross basis. However, the credit risk associated with such balances is reduced in the event of a default, when such balances are settled on a net basis. The situation may substantially change within a short period following the reporting date because the exposure is affected by transactions subject to the arrangement.

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

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

	December 31, 2013		
	Non-Linked	Unit-linked	Total
Financial assets at FVPL			
Debt securities			
Foreign currency	₱366,082,590	₱–	₱366,082,590
Held in IIF			
Peso bonds	–	4,939,718,409	4,939,718,409
Dollar bonds	–	1,616,808,149	1,616,808,149
Equity securities			
Peso denominated	–	4,425,576,200	4,425,576,200
Dollar denominated	–	1,738,531,120	1,738,531,120
Derivative assets	47,634,892	–	47,634,892
AFS financial assets			
Debt securities			
Local currency	36,545,651,531	–	36,545,651,531
Foreign currency	835,317,952	–	835,317,952
Equity securities			
Club shares	38,042,000	–	38,042,000
Common shares	1,386,094,523	–	1,386,094,523
Loans and receivables			
Cash and cash equivalents			
Cash in commercial banks	473,900,161	–	473,900,161
Short-term deposits in commercial banks	238,832,471	–	238,832,471
Cash held in IIF			
Cash in bank	–	266,252,271	266,252,271
Short-term deposits	–	759,601,627	759,601,627
Policy loan	3,685,363,583	–	3,685,363,583
Corporate loan	200,000,000	–	200,000,000
Subscription receivable	–	358,298,689	358,298,689
Receivable from agents-net	40,130,780	–	40,130,780
Due from officers and employees	38,772,848	–	38,772,848
Due from related parties	121,590,478	–	121,590,478
Mortgage loans	11,099,093	–	11,099,093
Other receivables	6,203,069	–	6,203,069
Accrued income			
Debt securities	252,671,738	–	252,671,738
Corporate loan	3,316,110	–	3,316,110
Swap receivable	2,986,594	–	2,986,594
Total financial assets	₱44,293,690,413	₱14,104,786,465	₱58,398,476,878

	December 31, 2012		
	Non-Linked	Unit-linked	Total
Financial assets at FVPL			
Debt securities			
Foreign currency	₱350,967,977	₱–	₱350,967,977
Held in IIF			
Peso bonds	–	2,036,464,471	2,036,464,471
Dollar bonds	–	1,409,692,240	1,409,692,240
Equity securities			
Peso denominated	–	1,397,873,337	1,397,873,337
Dollar denominated	–	154,139,902	154,139,902
Derivative assets	81,014,230	–	81,014,230
AFS financial assets			
Debt securities			
Local currency	31,904,464,227	–	31,904,464,227
Foreign currency	882,867,561	–	882,867,561
Equity securities			
Club shares	42,912,000	–	42,912,000
Common shares	1,158,798,342	–	1,158,798,342
Loans and receivables			
Cash and cash equivalents			
Cash in commercial banks	385,147,003	–	385,147,003
Short-term deposits in commercial banks	242,757,131	–	242,757,131
Cash held in IIF			
Cash in bank	–	68,993,530	68,993,530
Short-term deposits	–	54,000,000	54,000,000
Policy loan	3,494,511,202	–	3,494,511,202
Corporate loan	1,000,000,000	–	1,000,000,000
Subscription receivable	–	72,457,245	72,457,245
Receivable from agents-net	39,046,892	–	39,046,892
Due from officers and employees	33,800,066	–	33,800,066
Due from related parties	27,580,889	–	27,580,889
Mortgage loans	12,441,887	–	12,441,887
Other receivables	9,596,408	–	9,596,408
Accrued income			
Debt securities	292,791,660	–	292,791,660
Corporate loan	6,890,553	–	6,890,553
Swap receivable	3,345,345	–	3,345,345
Dividend receivable on common stock	109,670	–	109,670
Total financial assets	₱39,969,043,043	₱5,193,620,725	₱45,162,663,768

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, 2013				
	Neither Past Due nor Impaired				
	Investment Grade	Non-investment Grade Satisfactory	Not rated	Past due and impaired	Total
Financial assets					
Financial assets at FVPL					
Debt securities					
Foreign currency	₱366,082,590	₱–	₱–	₱–	₱366,082,590
Held in segregated funds					
Peso bonds	–	4,939,718,409	–	–	4,939,718,409
Dollar bonds	–	1,616,808,149	–	–	1,616,808,149
Equity securities - at market					
Peso denominated	–	–	4,425,576,200	–	4,425,576,200
Dollar denominated	–	–	1,738,531,120	–	1,738,531,120
Derivative assets	47,634,892	–	–	–	47,634,892
AFS financial assets					
Debt securities					
Local currency	–	36,545,651,531	–	–	36,545,651,531
Foreign currency	–	835,317,952	–	–	835,317,952
Quoted equity securities					
Club shares	–	–	38,042,000	–	38,042,000
Common shares	–	–	1,386,094,523	–	1,386,094,523
Loans and receivables					
Cash in commercial banks	740,152,432	–	–	–	740,152,432
Short-term deposits	998,434,098	–	–	–	998,434,098
Due from related parties	–	–	121,590,478	–	121,590,478
Due from officers and employees	–	–	38,772,848	–	38,772,848
Receivable from agents	–	–	40,130,780	12,058,606	52,189,386
Mortgage loans	–	–	11,099,093	–	11,099,093
Corporate loan	–	200,000,000	–	–	200,000,000
Subscription receivable	–	358,298,689	–	–	358,298,689
Other receivables	–	–	6,203,069	–	6,203,069
Accrued income					
Debt securities	19,892,268	232,779,470	–	–	252,671,738
Corporate loans	–	3,316,110	–	–	3,316,110
Swap receivable	2,986,594	–	–	–	2,986,594
Total financial assets	₱2,175,182,874	₱44,731,890,310	₱7,806,040,111	₱12,058,606	₱54,725,171,901

	December 31, 2012				
	Neither Past Due nor Impaired				
	Investment Grade	Non-investment Grade Satisfactory	Not rated	Past due and impaired	Total
Financial assets					
Financial assets at FVPL					
Debt securities					
Foreign currency	₱350,967,977	₱–	₱–	₱–	₱350,967,977
Held in segregated funds					
Peso bonds	–	2,036,464,471	–	–	2,036,464,471
Dollar bonds	–	1,409,692,240	–	–	1,409,692,240
Equity securities - at market					
Peso denominated	–	–	1,397,873,337	–	1,397,873,337
Dollar denominated	–	–	154,139,902	–	154,139,902
Derivative assets	81,014,230	–	–	–	81,014,230
AFS financial assets					
Debt securities					
Local currency	–	31,904,464,227	–	–	31,904,464,227
Foreign currency	–	882,867,561	–	–	882,867,561
Quoted equity securities					
Club shares	–	–	42,912,000	–	42,912,000
Common shares	–	–	1,158,798,342		1,158,798,342
Loans and receivables					
Cash in commercial banks	454,140,533	–	–	–	454,140,533
Short-term deposits	296,757,131	–	–	–	296,757,131
Due from related parties	–	–	27,580,889	–	27,580,889
Due from officers and employees	–	–	33,800,066	–	33,800,066
Receivable from agents	–	–	39,046,892	11,750,195	50,797,087
Mortgage loans	–	–	12,441,887	–	12,441,887
Corporate loan	–	1,000,000,000	–	–	1,000,000,000
Subscription receivable	–	72,457,245	–	–	72,457,245
Other receivables	–	–	9,596,408		9,596,408
Accrued income					
Debt securities	19,782,598	273,009,062	–	–	292,791,660
Corporate loans	–	6,890,553	–	–	6,890,553
Swap receivable	3,345,345	–	–	–	3,345,345
Dividend receivable on common stock	–	–	109,670	–	109,670
Total financial assets	₱1,206,007,814	₱37,585,845,359	₱2,876,299,393	₱11,750,195	₱41,679,902,761

As of December 31, 2013 and 2012, the Parent Company has no financial assets that were past due but not impaired.

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.

c. *Investment securities*
In respect of investment securities, which include AFS debt and equity securities, financial assets at FVPL and HTM financial assets, 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 pertain to dollar-denominated debt securities. Non-investment grade financial assets are assets that are likely to be impaired in adverse economic conditions. These investments pertain to peso and dollar denominated debt securities, however, no default or impairment is expected on securities as these are issued by the Philippine Government.

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

d. *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.

e. *Derivative Assets*
The Parent Company obtains satisfactory credit rating of A+ using Standard and Poor's for the derivative assets "Republic of Korea".

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

As of December 31, 2013 and 2012, bulk of the Parent Company's FVPL and AFS investments pertain to Philippine and Foreign 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, 2013 and 2012.

The financial assets of the Parent Company are neither past due nor impaired except for receivable from agents of which ₱12.06 million and ₱11.75 million are classified as impaired as of December 31, 2013 and 2012, respectively (See Note 5).

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, 2013					
	Up to a year	1-3 years	3-5 years	Over 5 years	No Term	Total
Financial assets at FVPL						
Debt securities						
Foreign currency	**₱366,082,590**	**₱–**	**₱–**	**₱–**	**₱–**	**₱366,082,590**
Held in segregated funds						
Peso bonds	–	–	–	–	**4,939,718,409**	**4,939,718,409**
Dollar bonds	–	–	–	–	**1,616,808,149**	**1,616,808,149**
Equity securities - at market						
Peso denominated	–	–	–	–	**4,425,576,200**	**4,425,576,200**
Dollar denominated	–	–	–	–	**1,738,531,120**	**1,738,531,120**
Derivative assets	**47,634,892**	–	–	–	–	**47,634,892**
AFS financial assets						
Debt securities						
Local currency	**2,090,645,996**	**4,181,291,992**	**6,317,531,738**	**59,651,517,623**	–	**72,240,987,349**
Foreign currency	**1,135,648**	**2,271,295**	**3,406,942**	**26,372,618**	–	**33,186,503**
Equity securities						
Club shares	–	–	–	–	**38,042,000**	**38,042,000**
Common shares	–	–	–	–	**1,386,094,523**	**1,386,094,523**
Loans and receivables						
Cash on hand					**845,935**	**845,935**
Cash in bank	**740,152,431**	–	–	–	–	**740,152,431**
Short term deposits	**998,434,098**	–	–	–	–	**998,434,098**
Due from officers and employees	**22,467,127**	**16,305,721**	–	–	–	**38,772,848**
Due from related parties	**121,590,478**					**121,590,478**
Receivable from agents	**16,040,288**	**25,330,523**	**5,803,856**	**5,014,719**	–	**52,189,386**
Mortgage loans	–	–	–	**11,099,092**	–	**11,099,092**
Policy loans	**3,685,363,583**	–	–	–		**3,685,363,583**
Corporate loans	**10,838,000**	**21,676,000**	**232,514,000**	–	–	**265,028,000**
Subscription receivable	**358,298,689**	–	–	–	–	**358,298,689**
Other receivables	**6,203,069**	–	–	–	–	**6,203,069**
Accrued income						
Debt securities	**252,671,738**	–	–	–	–	**252,671,738**
Corporate loans	**3,316,110**	–	–	–	–	**3,316,110**
Swap receivable	**2,986,594**	–	–	–	–	**2,986,594**
Total financial assets	**8,723,861,331**	**4,246,875,531**	**6,559,256,536**	**59,694,004,052**	**14,145,616,336**	**93,369,613,786**

(Forward)

	December 31, 2013					
	Up to a year	**1-3 years**	**3-5 years**	**Over 5 years**	**No Term**	**Total**
Other financial liabilities						
Policyholders' dividends	**₱4,647,239,259**	**₱–**	**₱–**	**₱–**	**₱–**	**₱4,647,239,259**
Premium deposit fund	**52,628,189**	**–**	**–**	**–**	**–**	**52,628,189**
Insurance payables	**56,312,634**	**–**	**–**	**–**	**–**	**56,312,634**
Claims payable	**401,388,098**	**–**	**–**	**–**	**–**	**401,388,098**
Accounts payable and accrued expenses*						
Accrued expenses	**203,248,221**	**–**	**–**	**–**	**–**	**203,248,221**
Accounts and other payables	**56,840,474**	**–**	**–**	**–**	**–**	**56,840,474**
Secure account liability	**15,330,048**	**–**	**–**	**–**	**–**	**15,330,048**
Due to related parties	**5,407,398**	**–**	**–**	**–**	**–**	**5,407,398**
Other liabilities	**183,297,700**	**–**	**–**	**–**	**–**	**183,297,700**
Total financial liabilities	**5,621,692,021**	**–**	**–**	**–**	**–**	**5,621,692,021**
Net excess liquidity (deficit)	**₱3,102,169,310**	**₱4,246,875,531**	**₱6,559,256,536**	**₱59,694,004,052**	**₱14,145,616,336**	**₱87,747,921,765**

**Amount excluding statutory liability.*

	December 31, 2012					
	Up to a year	1-3 years	3-5 years	Over 5 years	No Term	Total
Financial assets at FVPL						
Debt securities						
Foreign currency	₱16,009,500	₱344,409,500	₱–	₱–	₱–	₱360,419,000
Held in segregated funds						
Peso bonds	–	–	–	–	2,036,464,471	2,036,464,471
Dollar bonds	–	–	–	–	1,409,692,240	1,409,692,240
Equity securities - at market						
Peso denominated	–	–	–	–	1,397,873,337	1,397,873,337
Dollar denominated	–	–	–	–	154,139,902	154,139,902
Derivative assets	–	81,014,230	–	–	–	81,014,230
AFS financial assets						
Debt securities						
Local currency	2,012,810,543	4,025,621,086	6,022,297,753	54,189,502,271	–	66,250,231,653
Foreign currency	45,793,225	91,586,450	137,379,675	1,103,543,661	–	1,378,303,011
Equity securities						
Club shares	–	–	–	–	42,912,000	42,912,000
Common shares	–	–	–	–	1,158,798,342	1,158,798,342
Loans and receivables						
Cash on hand	–	–	–	–	744,671	744,671
Cash in bank	454,140,533	–	–	–	–	454,140,533
Short term deposits	296,757,131	–	–	–	–	296,757,131
Due from officers and employees	–	–	–	33,800,066	–	33,800,066
Due from related parties	27,580,889	–	–	–	–	27,580,889
Receivable from agents	14,414,174	22,955,575	8,412,619	5,014,719	–	50,797,087
Mortgage loans	–	–	–	12,441,887	–	12,441,887
Policy loans	–	–	–	–	3,494,511,202	3,494,511,202
Corporate loans	58,380,000	116,760,000	869,220,000	210,840,000	–	1,255,200,000
Subscription receivable	72,457,245	–	–	–	–	72,457,245
Other receivables	9,596,408	–	–	–	–	9,596,408
Accrued income						
Debt securities	292,791,660	–	–	–	–	292,791,660
Corporate loans	6,890,553	–	–	–	–	6,890,553
Swap receivable	3,345,345	–	–	–	–	3,345,345
Dividend receivable on common stock	109,670	–	–	–	–	109,670
Total financial assets	3,311,076,876	4,682,346,841	7,037,310,047	55,555,142,604	9,695,136,165	80,281,012,533

(Forward)

	December 31, 2012					
	Up to a year	1-3 years	3-5 years	Over 5 years	No Term	Total
Other financial liabilities						
Policyholders' dividends	₱4,484,147,810	₱–	₱–	₱–	₱–	₱4,484,147,810
Insurance payables	38,094,012	–	–	–	–	38,094,012
Claims payable	323,047,317	–	–	–	–	323,047,317
Secure account liability	14,826,520	–	–	–	–	14,826,520
Premium deposit fund	61,976,086	–	–	–	–	61,976,086
Accounts payable and accrued expenses*						
Accrued expenses	179,318,586	–	–	–	–	179,318,586
Accounts and other payables	57,883,538	–	–	–	–	57,883,538
Due to related parties	9,801,177	–	–	–	–	9,801,177
Other liabilities	159,187,868	–	–	–	–	159,187,868
Total financial liabilities	5,328,282,914	–	–	–	–	5,328,282,914
Net excess liquidity (deficit)	(₱2,017,206,038)	₱4,682,346,841	₱7,037,310,047	₱55,555,142,604	₱9,695,136,165	₱74,952,729,619

**Amount excluding statutory liability.*

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.

- *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, 2013 and 2012:

	2013		2012	
Assets	**US$**	**PHP**	US$	PHP
Cash and cash equivalents	**$6,677,988**	**₱274,131,427**	$3,216,441	₱132,034,883
Financial assets at FVPL	**81,703,738**	**3,353,938,460**	46,645,557	1,914,800,119
AFS financial assets	**18,815,586**	**772,379,816**	21,506,459	882,840,128
Loans and receivables	**4,128,510**	**169,475,340**	2,956,740	121,374,174
Derivative assets	**1,160,411**	**47,634,892**	1,973,550	81,014,230
	$112,486,233	**4,617,559,935**	76,298,747	3,132,063,534
Liabilities				
Insurance contract liabilities	**20,029,804**	**822,223,470**	20,029,804	822,223,470
Net exposure	**$92,456,429**	**₱3,795,336,465**	$56,268,943	₱2,309,840,064

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 ₱44.40 and ₱41.05 to $1 as of December 31, 2013 and 2012, 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 (due to changes in the fair value of monetary assets and liabilities).

	2013	
	Change in Variable	**Impact on Income before Tax**
USD	**+5.297%**	**₱56,715,377**
	-5.297%	**(56,715,377)**

	2012	
	Change in Variable	Impact on Income before Tax
USD	+5.346%	₱52,605,563
	-5.346%	(52,605,563)

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, 2013					
Fixed Rate Instruments	**Interest Rate**	**>1 - 2 years**	**>2 - 5 years**	**Over 5 years**	**No term**	**Total**
Financial assets						
Financial assets at FVPL						
Foreign currency debt securities	**4.88%**	**₱366,082,590**	**₱–**	**₱–**	**₱–**	**₱366,082,590**
Derivative assets	**4.88%**	**47,634,892**	**–**	**–**	**–**	**47,634,892**
AFS financial assets						
Debt securities						
Local currency	**5.28% - 18.25%**	**–**	**–**	**36,545,651,531**	**–**	**36,545,651,531**
Foreign currency	**4.88% - 10.63%**	**–**	**–**	**835,317,952**	**–**	**835,317,952**
Loans and receivables						
Policy loan		**3,685,363,583**	**–**	**–**	**–**	**3,685,363,583**
Short-term deposits	**0.48% - 1.00%**	**998,434,098**	**–**	**–**	**–**	**998,434,098**
Cash in bank	**0.25% - 1.50%.**	**740,152,431**	**–**	**–**	**–**	**740,152,431**
Corporate loan	**5.42%**	**–**	**200,000,000**	**–**	**–**	**200,000,000**
Mortgage loan		**–**	**–**	**11,099,092**	**–**	**11,099,092**
		₱5,837,667,594	**₱200,000,000**	**₱37,392,068,575**	**₱–**	**₱43,429,736,169**

	December 31, 2012					
Fixed Rate Instruments	Interest Rate	>1 - 2 years	>2 - 5 years	Over 5 years	No term	Total
Financial assets						
Financial assets at FVPL						
Foreign currency debt securities	4.88%	₱350,967,977	₱–	₱–	₱–	₱350,967,977
Derivative assets	4.88%	81,014,230	–	–	–	81,014,230
AFS financial assets						
Debt securities						
Local currency	5.88% - 18.25%	–	–	31,904,464,227	–	31,904,464,227
Foreign currency	2% - 10.625%	–	–	882,867,561	–	882,867,561
Loans and receivables						
Policy loan	8.00% - 10.00%	3,494,511,202	–	–	–	3,494,511,202
Corporate loan	5.42% - 6.01%	–	–	1,000,000,000	–	1,000,000,000
Cash in bank	0.25% - 1.50%	454,140,533	–	–	–	454,140,533
Short-term deposits	0.48% - 1.00%	296,757,131	–	–	–	296,757,131
Cash on hand		–	–	–	744,671	744,671
Mortgage loan		–	–	12,441,887	–	12,441,887
		₱4,677,391,073	₱–	₱33,799,773,675	₱744,671	₱38,477,909,419

  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.

	2013		
Currency	**Change in basis points**	**Impact on income before tax**	**Impact on other comprehensive Income**
Philippine Peso	**+100**	**₱–**	**(₱4,304,498,835)**
US Dollar	**+100**	**(2,643,129)**	**(84,040,733)**
Philippine Peso	**-100**	**–**	**4,304,498,835**
US Dollar	**-100**	**2,643,129**	**84,040,733**

	2012		
Currency	Change in basis points	Impact on income before tax	Impact on other comprehensive Income
Philippine Peso	+100	₱–	(₱3,546,024,539)
US Dollar	+100	(5,822,000)	(95,453,557)
Philippine Peso	-100	–	3,546,024,539
US Dollar	-100	5,822,000	95,453,557

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.

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 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.

Financial Instruments - Fair Value Measurement

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

	2013		2012	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets				
Financial assets at FVPL				
Debt securities				
Foreign currency	**₱366,082,590**	**₱366,082,590**	₱350,967,977	₱350,967,977
Held in segregated funds				
Peso bond	**4,939,718,409**	**4,939,718,409**	2,036,464,471	2,036,464,471
Dollar bond	**1,616,808,149**	**1,616,808,149**	1,409,692,240	1,409,692,240
Equity securities - at market				
Peso denominated	**4,425,576,200**	**4,425,576,200**	1,397,873,337	1,397,873,337
Dollar denominated	**1,738,531,120**	**1,738,531,120**	154,139,902	154,139,902
Derivative assets	**47,634,892**	**47,634,892**	81,014,230	81,014,230
AFS financial assets				
Government debt securities				
Local currency	**36,545,651,531**	**36,545,651,531**	31,904,464,227	31,904,464,227
Foreign currency	**835,317,952**	**835,317,952**	882,867,561	882,867,561
Quoted equity securities				
Club shares	**38,042,000**	**38,042,000**	42,912,000	42,912,000
Common shares	**1,386,094,523**	**1,386,094,523**	1,158,798,342	1,158,798,342

(Forward)

	2013		2012	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Loans and receivables				
Cash and cash equivalents				
Cash on hand	**₱845,934**	**₱845,934**	₱744,671	₱744,671
Cash in commercial banks	**473,900,161**	**473,900,161**	385,147,003	385,147,003
Short-term deposits in commercial banks	**238,832,471**	**238,832,471**	242,757,131	242,757,131
Cash held in segregated funds	**1,025,853,898**	**1,025,853,898**	122,993,530	122,993,530
Insurance receivables	**147,637,928**	**147,637,928**	124,630,552	124,630,552
Policy loans	**3,685,363,583**	**3,685,363,583**	3,494,511,202	3,494,511,202
Mortgage loans	**11,099,093**	**11,099,093**	12,441,887	12,441,887
Due from officers and employees	**38,772,848**	**38,772,848**	33,800,066	33,800,066
Receivable from agents	**52,189,386**	**52,189,386**	39,046,892	39,046,892
Due from related parties	**121,590,478**	**121,590,478**	27,580,889	27,580,889
Subscription receivable	**358,298,689**	**358,298,689**	72,457,245	72,457,245
Corporate loan	**200,000,000**	**200,000,000**	1,000,000,000	1,000,000,000
Other receivables	**6,203,069**	**6,203,069**	9,596,408	9,596,408
Accrued income				
Debt securities	**252,671,738**	**252,671,738**	292,791,660	292,791,660
Corporate loan	**3,316,110**	**3,316,110**	6,890,553	6,890,553
Swap receivables	**2,986,594**	**2,986,594**	3,345,345	3,345,345
Dividend receivable on common stock	**–**	**–**	109,670	109,670
Reinsurance assets	**349,799,848**	**349,799,848**	124,624,508	124,624,508
Total financial assets	**₱58,908,819,194**	**₱58,908,819,194**	₱45,412,663,499	₱45,412,663,499
Policyholders' dividends	**₱4,647,239,259**	**₱4,647,239,259**	₱4,484,147,810	₱4,484,147,810
Premium deposit fund	**52,628,189**	**52,628,189**	61,976,086	61,976,086
Insurance payables	**56,312,634**	**56,312,634**	38,094,012	38,094,012
Accounts payable and accrued expenses				
Accounts and other payables	**56,840,474**	**56,840,474**	57,883,538	57,883,538
Accrued expenses	**203,248,221**	**203,248,221**	179,318,586	179,318,586
Provident fund	**31,327,775**	**31,327,775**	25,829,498	25,829,498
Secure account liability	**15,330,048**	**15,330,048**	14,826,520	14,826,520
Due to related parties	**5,407,398**	**5,407,398**	9,801,177	9,801,177
Other liabilities	**183,297,700**	**183,297,700**	159,187,868	159,187,868
Total financial liabilities	**₱5,251,631,698**	**₱5,251,631,698**	₱5,031,065,095	₱5,031,065,095

Due to the short-term nature of cash and cash equivalents, insurance receivables, subscription receivables, due from related parties, other receivables, accrued income, reinsurance assets, insurance payables, due to related parties, accounts payable and accrued expenses and other liabilities, 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 bid 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 carrying value of policy loans represents the unpaid balance plus accrued interest. The policy loans bear interest at prevailing market rates.

The carrying value of the corporate loan is based on the face value of the agreement.

The fair values of the derivative assets are based on the valuation provided by the counterparty bank.

The carrying amount of mortgage loans and due from officers and employees approximate fair value as these receivables bear interest at prevailing market rate.

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, 2013		
	Level 1	**Level 2**	**Level 3**
AFS financial assets			
Government debt securities			
Local currency	**₱36,545,651,531**	**₱–**	**₱–**
Foreign currency	**835,317,952**	**–**	**–**
Quoted equity securities			
Club shares	**38,042,000**	**–**	**–**
Financial Assets designated at FVPL			
Debt securities			
Foreign currency	**366,082,590**	**–**	**–**
Held in segregated funds			
Peso bonds	**4,939,718,409**	**–**	**–**
Dollar bonds	**1,522,623,754**	**94,184,395**	**–**
Equity securities - at market			
Peso denominated	**4,425,576,200**	**–**	**–**
Dollar denominated	**1,738,531,120**	**–**	**–**
Derivative Assets	**–**	**47,634,892**	**–**
Total	**₱50,411,543,556**	**₱141,819,287**	**₱–**

	December 31, 2012		
	Level 1	Level 2	Level 3
AFS financial assets			
Government debt securities			
Local currency	₱31,904,464,227	₱–	₱–
Foreign currency	882,867,561	–	–
Quoted equity securities			
Club shares	42,912,000	–	–
Financial Assets designated at FVPL			
Debt securities			
Foreign currency	350,967,977	–	–
Held in segregated funds			
Peso bonds	2,036,464,471	–	–
Dollar bonds	1,409,692,240	–	–
Equity securities - at market			
Peso denominated	1,397,873,337	–	–
Dollar denominated	154,139,902	–	–
Derivative Assets	–	81,014,230	–
Total	₱38,179,381,715	₱81,014,230	₱–

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, 2013, 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 2013 and 2012, 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.

6. 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.

Significant transactions with related parties include the following:

December 31, 2013

	Entities	Financial Statement Account	Nature	Terms and Conditions	Transactions during the year	Outstanding Balance
Ultimate Parent	Manulife Financial Corporation	Due to Related Parties	Actual time charges and/or cost of its officers and employees for the marketing support and data management services provided	Unsecured	₱8,778,451	**₱569,864**
Subsidiaries	Manulife Financial Plans, Inc.	Due from Related Parties	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	115,704,835	**89,723,853**
	Manulife Chinabank Life Assurance Corporation	Reinsurance Assets	99% of inforce business assumed by the Parent Company and 1% be retained by the subsidiary	Unsecured	238,808,797	**345,781,340**
		Due from Related Parties	Assumed unit-linked management fee from subsidiary	Unsecured	200,473,712	**20,886,367**
Affiliates	FCM Investments	Due from Related Parties	Non-interest bearing cash advances.	Unsecured	6,675,505	**6,675,355**
	Manulife International Limited	Due to Related Parties	Payment of reinsurance payable which consist of premium, recoverable and administrative charges.	Unsecured	4,255,874	**614,439**
	The Manufacturers Life Insurance Company (Phil Branch)	Due from Related P arties	Non-interest bearing cash advances.	Unsecured	3,124,712	–
	Manulife Data Services, Inc.	Due from Related Parties	Non-interest bearing cash advances.	Unsecured	80,892	**309,649**
	Manulife Technical & Support Malaysia	Due to Related Parties	Actual time charges and/or cost of its officers and employees for technical support charges.	Unsecured	227,841	**227,841**

December 31, 2012

	Entities	Financial Statement Account	Nature	Terms and Conditions	Transactions during the year	Outstanding Balance
Ultimate Parent	Manulife Financial Corporation	Due to Related Parties	Actual time charges and/or cost of its officers and employees for the marketing support and data management services provided.	Unsecured	₱110,048,596	₱1,138
Subsidiaries	Manulife Financial Plans, Inc.	Insurance Receivables	Actual Premium payment for life coverage embedded in pre-need plans	Unsecured	34,633,927	4,845,161
		Due from Related Parties	Allocated Costs to the subsidiary for management, accounting and other administrative services rendered plus 5% mark up.	Unsecured	50,282,258	11,475,412
	Manulife Chinabank Life Assurance Corporation	Reinsurance Assets	99% of inforce business assumed by the Parent Company and 1% be retained by the subsidiary	Unsecured	366,234,379	103,656,615
		Due from Related Parties	Assumed unit-linked management fee from subsidiary	Unsecured	58,109,356	8,672,348
	FCM Investments	Due to Related Parties	Non-interest bearing cash advances.	Unsecured	149	149
Affiliates	Manulife International Limited	Due from Related Parties	Payment of reinsurance payable which consist of premium, recoverable and administrative charges.	Unsecured	–	3,808,560
	The Manufacturers Life Insurance Company (Phil Branch)	Due from Related Parties	Non-interest bearing cash advances.	Unsecured	3,124,712	3,124,712
	Manulife Data Services, Inc.	Due from Related Parties	Non-interest bearing cash advances.	Unsecured	499,857	499,857
	John Hancock USA and Manufacturers Life Insurance Co.	Due to Related Parties	Payment of data management charges billed to the company	Unsecured	47,865,670	9,623,617
	Manulife Technical & Support Malaysia	Due to Related Parties	Actual time charges and/or cost of its officers and employees for technical support.	Unsecured	176,273	176,273

Remunerations 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:

	2013	2012
Salaries and other short-term employee benefits	**₱154,982,644**	₱117,789,623
Post-employment and other long-term benefits	**4,938,230**	4,097,276
Others	**498,806**	534,926
	₱160,419,680	₱122,421,825

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, 2013 and 2012 follow:

	2013	2012
Within one year	**₱131,565,902**	₱107,493,011
After one year but not more than five years	**392,298,090**	306,089,598
	₱523,863,992	₱413,582,609

In 2013 and 2012, rent expense recognized in the parent company statements of income amounted to ₱118.62 million and ₱111.96 million, respectively (see Note 21).

28. **Note to Statements of Cash Flows**

In 2012, the SEC confirmed MLIC's subscription of ₱930 million common class B shares of Manulife Philippines and the redemption of ₱500 million common class A shares of MP.

29. **Regulatory Requirements**

Fixed Capitalization Requirements
Department of Finance Order (DO) No. 27-06 provides for the capitalization requirements for life, nonlife and reinsurance companies on a staggered basis for the years ended December 31, 2006 up to 2011. Depending on the level of the foreign ownership in the insurance company, the minimum statutory net worth and minimum paid-up capital requirements vary. The statutory net worth shall include the company's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the IC. The minimum paid-up capital is pegged at 50% of the minimum statutory net worth.

On October 29, 2008, the IC issued the Circular Letter 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, 2008 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.

The table below shows the amount of minimum paid-up capital and the schedule of compliance per DO No. 15-2012.

Paid-up capital	Compliance Date
₱250,000,000	On or before December 31, 2012 *(Pursuant to DO 27-06 and IMC No. 10-2006)*
400,000,000	On or before December 31, 2014
600,000,000	On or before December 31, 2016
800,000,000	On or before December 31, 2018
1,000,000,000	On or before December 31, 2020

On November 22, 2012, the IC issued an advisory to all insurance and reinsurance companies doing business in the Philippines regarding the implementation of DO No. 27-06. According to the advisory, the minimum paid-up capital for December 31, 2012 must at least be equal to the amount previously scheduled for December 31, 2011 per DO 27-06.

On December 11, 2012, DO No. 15-2012 was issued with a temporary restraining order. Accordingly, the minimum paid up capital requirement would be ₱250,000,000 by the end of 2012 as advised by the IC.

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

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

As of December 31, 2013 and 2012, the required minimum statutory net worth and minimum paid-up capital for the Parent Company is ₱250.00 million. The Parent Company has complied with the minimum paid-up capital requirement.

Unimpaired capital requirement
Insurance Memorandum Circular (IMC) 22-2008 provided 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 statement 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.

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:

	2013	2012
Loans and receivables	**₱235,936,265**	₱211,491,286
Property and equipment	**131,857,871**	144,411,214
Intangible asset	**67,237,200**	74,708,000
Other assets	**10,934,476**	12,640,566
	₱445,965,812	₱443,251,066

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, 2013 and 2012 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:

	2013 (Estimated)	2012 (Estimated)
Total admitted assets	**₱52,894,171,946**	₱38,791,465,968
Total liabilities	**45,075,050,277**	33,205,181,552
Net worth	**7,819,121,669**	5,586,284,416
Less:		
Capital stock	**930,000,000**	930,000,000
Accumulated share in earnings (losses) of subsidiaries under equity method	**65,578,543**	1,901,418,636
Total equity available for MOS	**6,823,543,126**	2,754,865,780
Required MOS	**233,383,607**	243,895,845
MOS	**₱6,590,159,519**	₱2,510,969,935

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 Net worth 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:

	2013 (Estimated)	2012 (Actual)
Net worth	**7,819,121,699**	5,586,284,416
RBC requirement	**2,596,737,297**	2,132,831,829
RBC ratio	**301%**	262%

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.

Standard for Suspension of PUC Requirement
DO 15-2012 states that after 2012, compliance with the prescribed PUC requirement may be deferred for existing insurance and professional reinsurance companies that meet the Risk-Based Capital (RBC) Hurdle Rate of 150%.

In case the qualified insurance and professional reinsurance company (one that achieved the RBC Hurdle Rate) chooses to exercise its right of deferment by giving a written notice to the Insurance Commission, compliance with the required PUC for the year following the Review Year will be postponed for two (2) years until the next Compliance Date. However, such right may only be exercised once, after which the qualified company shall comply with the required PUC previously deferred and the ensuing PUC requirements whether or not it meets the RBC Hurdle Rate, until it reaches ₱1.00 billion and ₱2.00 billion , whichever is applicable. Furthermore, as a company's obligation to comply with each succeeding PUC requirement shall also be moved by two years, respectively.

Hence, all existing insurance and professional reinsurance companies should have reached the PUC requirements of ₱1.00 billion and ₱2.00 billion by 2022, at the latest.

Manulife

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