

The Manufacturers Life Insurance Co. (Phils.), Inc.
(A Wholly Owned Subsidiary of The Manufacturers Life Insurance Company - Canada)

Parent Company Financial Statements
December 31, 2014 and 2013

and

Independent Auditors' Report



Certified True Copy

Paul Anthony P. Mandal
Corporate Secretary
Date: May 7, 2015

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INDEPENDENT AUDITORS' REPORT

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

Report on the Parent Company Financial Statements

We have audited the accompanying parent company financial statements of The Manufacturers Life Insurance Co. (Phils.), Inc. (a wholly owned subsidiary of The Manufacturers Life Insurance Company - Canada), which comprise the parent company statements of financial position as at December 31, 2014 and 2013, and the parent company statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Parent Company Financial Statements

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

Auditors' Responsibility

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

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

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

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Paul Anthony P. Mandal
Corporate Secretary
Date: May 7, 2015



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, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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

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

SYCIP GORRES VELAYO & CO.

Lucy L. Chan

Lucy L. Chan
Partner
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SEC Accreditation No. 0114-AR-3 (Group A),
February 4, 2013, valid until February 3, 2016
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February 27, 2015, valid until February 26, 2018
PTR No. 4751267, January 5, 2015, Makati City

March 31, 2015

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Paul Anthony P. Mandal
Corporate Secretary
Date: May 7, 2015



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

	December 31	
	2014	2013
ASSETS		
Cash and Cash Equivalents (Notes 4 and 25)	₱1,769,402,700	₱1,739,432,464
Insurance Receivables (Notes 25 and 26)	140,881,137	147,637,928
Financial Assets		
Available-for-sale financial assets (Notes 5 and 25)	43,577,239,234	38,805,106,006
Financial assets at fair value through profit or loss (Notes 5, 6 and 25)	21,299,740,650	13,086,716,468
Loans and receivables (Notes 3, 5, 25, 26 and 28)	5,098,353,334	4,802,634,374
Derivative assets (Notes 5 and 25)	–	47,634,892
Accrued Income (Notes 7 and 25)	372,579,289	323,769,351
Reinsurance Assets (Notes 13, 25 and 26)	16,568,271	4,018,508
Investments in Subsidiaries - at cost (Note 8)	926,883,873	1,287,149,465
Property and Equipment (Notes 3, 9 and 28)	165,937,275	160,405,130
Intangible Assets (Notes 3, 10 and 28)	59,766,400	67,237,200
Other Assets (Notes 11 and 28)	130,181,879	145,583,802
	₱73,557,534,042	₱60,617,325,588
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 12 and 13)	₱48,496,378,266	₱38,788,702,097
Policyholders' dividends (Note 25)	4,497,459,164	4,647,239,259
Reserve for policyholders' dividends	957,013,701	957,855,201
Insurance payables (Note 25)	92,365,278	56,312,634
Premium deposit fund (Note 25)	52,567,139	52,628,189
Accounts payable and accrued expenses (Notes 14 and 25)	956,976,949	529,284,588
Due to related parties (Notes 25 and 26)	18,024,516	5,407,398
Pension liability (Note 23)	–	13,359,846
Total Liabilities	55,070,785,013	45,050,789,212
Equity		
Capital stock (Notes 16 and 28)	930,000,000	930,000,000
Additional paid-in capital (Note 16)	50,635,817	50,635,817
Retained earnings	8,187,939,902	7,113,964,321
Reserve for fluctuation in value of available-for-sale financial assets (Notes 5 and 28)	9,318,173,310	7,471,936,238
Total Equity	18,486,749,029	15,566,536,376
	₱73,557,534,042	₱60,617,325,588

See accompanying Notes to Parent Company Financial Statements.

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

	Years Ended December 31	
	2014	2013
REVENUE		
Gross premiums earned on insurance contracts	₱13,452,918,881	₱15,087,968,542
Reinsurers' share of gross premiums earned on insurance contracts	(95,336,937)	(86,115,667)
Net insurance premiums earned (Note 17)	13,357,581,944	15,001,852,875
Investment income (Note 18)	2,515,426,319	2,492,559,142
Gain on sale of available-for-sale financial assets (Note 5)	146,078,204	2,010,597,073
Foreign currency exchange gains	9,457,376	103,050,063
Swap income (Note 5)	7,863,316	11,410,731
Fees and commission income	2,100,431	1,475,926
Other income (Note 19)	1,798,414,357	1,089,975,725
Total revenue	17,836,921,947	20,710,921,535
BENEFITS, CLAIMS AND OPERATING EXPENSES		
Gross benefits and claims incurred on insurance contracts	2,321,035,233	1,610,132,171
Reinsurers' share of benefits and claims incurred on insurance contracts	(3,351,325)	3,056,795
Gross change in legal policy reserves	9,307,847,823	12,850,235,801
Reinsurers' share of gross change in legal policy reserves	(15,472)	14,763
Net insurance benefits and claims (Note 20)	11,625,516,259	14,463,439,530
General and administrative expenses (Note 21)	1,759,638,782	1,513,325,066
Commissions and other direct expenses (Note 22)	1,534,291,372	1,302,409,282
Dividends and dividend interest to policyholders	873,103,431	829,741,842
Insurance taxes	264,394,412	106,238,677
Loss on sale of non-controlling interest in a subsidiary (Note 8)	200,330,592	-
Fair value loss on derivatives (Note 5)	14,879,892	33,379,338
Underwriting expense	8,277,082	7,256,321
Fair value loss on financial assets at fair value through profit or loss (Note 5)	7,189,998	933,087
Interest on premium deposit fund	831,776	918,716
Total benefits, claims and operating expenses	16,288,453,596	18,257,641,859
INCOME BEFORE INCOME TAX	1,548,468,351	2,453,279,676
PROVISION FOR INCOME TAX (Note 24)	474,492,770	413,777,244
NET INCOME	₱1,073,975,581	₱2,039,502,432

See accompanying Notes to Parent Company Financial Statements.

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

	Years Ended December 31	
	2014	2013
NET INCOME	₱1,073,975,581	₱2,039,502,432
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)	1,846,237,072	(312,650,947)
TOTAL COMPREHENSIVE INCOME	₱2,920,212,653	₱1,726,851,485

See accompanying Notes to Parent Company Financial Statements.

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Date: May 7, 2015



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

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 16)	Additional Paid-in Capital (Note 16)	Retained Earnings	Reserve for Fluctuation in Value of Available-for-sale Financial Assets (Note 5)	Total
As at January 1, 2014	P930,000,000	P50,635,817	P7,113,964,321	P7,471,936,238	P15,566,536,376
Net income	-	-	1,073,975,581	-	1,073,975,581
Other comprehensive income (loss)	-	-	-	1,846,237,072	1,846,237,072
Total comprehensive income (loss)	-	-	1,073,975,581	1,846,237,072	2,920,212,653
As at December 31, 2014	P930,000,000	P50,635,817	P8,187,939,902	P9,318,173,310	P18,486,749,029
As at January 1, 2013	P930,000,000	P50,635,817	P5,074,461,889	P7,784,587,185	P13,839,684,891
Net income	-	-	2,039,502,432	-	2,039,502,432
Other comprehensive income (loss)	-	-	-	(312,650,947)	(312,650,947)
Total comprehensive income (loss)	-	-	2,039,502,432	(312,650,947)	1,726,851,485
As at December 31, 2013	P930,000,000	P50,635,817	P7,113,964,321	P7,471,936,238	P15,566,536,376

See accompanying Notes to Parent Company Financial Statements.

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

	Years Ended December 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱1,548,468,351	₱2,453,279,676
Adjustments for:		
Change in legal policy reserves (Note 20)	9,307,832,351	12,850,235,801
Loss on sale of non-controlling interest in a subsidiary (Note 8)	200,330,592	–
Depreciation and amortization (Notes 9, 10 and 21)	92,969,489	103,360,166
Fair value loss on derivatives (Note 5)	14,879,892	33,379,338
Fair value loss on financial assets at fair value through profit or loss (Note 5)	7,189,998	933,087
Loss on disposal of property and equipment (Note 9)	303,455	2,194,417
Decrease in reserve for policyholders' dividends	(841,500)	(182,051,296)
Swap income (Note 5)	(7,863,316)	(11,410,731)
Unrealized foreign currency exchange losses (gains) - net	(53,347,923)	(103,050,063)
Gain on sale of available-for-sale financial assets (Notes 5)	(146,078,204)	(2,010,597,073)
Investment income (Note 18)	(2,515,426,319)	(2,492,559,142)
Operating income before changes in operating assets and liabilities	8,448,416,866	10,643,714,180
Decrease (increase) in:		
Insurance receivables	6,756,791	(23,007,376)
Loans and receivables	(135,783,960)	232,394,586
Reinsurance assets	(12,549,763)	(225,175,340)
Financial assets at fair value through profit or loss	(7,880,563,428)	(8,953,109,718)
Other assets	15,401,923	(20,932,048)
Increase (decrease) in:		
Accounts payable and accrued expenses	427,692,361	55,507,591
Policy and contract claims (Note 12)	51,097,069	78,340,781
Insurance payables	36,052,644	18,218,622
Pension liability	(13,359,846)	13,359,846
Due to related parties	12,617,118	(4,393,779)
Policyholders' dividends	(149,780,095)	163,091,449
Premium deposit fund	(61,050)	(9,347,897)
Cash generated from operations	805,936,630	1,968,660,897
Income taxes paid	(474,492,770)	(413,777,244)
Net cash provided by operating activities	331,443,860	1,554,883,653

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	Years Ended December 31	
	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	₱2,518,460,225	₱2,542,191,574
Proceeds from sale and/or maturities of:		
Available-for-sale financial assets (Note 5)	856,225,657	6,681,948,124
Derivatives	32,755,000	-
Property and equipment (Note 9)	1,573,500	-
Acquisitions of:		
Property and equipment (Note 9)	(92,907,789)	(86,922,679)
Available-for-sale financial assets (Note 5)	(3,675,175,289)	(9,773,833,321)
Withdrawal of seed money in insurance investment in segregated fund (Note 5)	-	140,519,083
Capital infusion to MFPI (Note 8)	-	(100,000,000)
Additional investment in insurance investment fund (Note 5)	(4,000,000)	(25,400,000)
Dividends received	31,623,742	32,180,871
Net cash used in investing activities	(331,444,954)	(589,316,348)
EFFECT OF FOREIGN CURRENCY RATE CHANGES IN CASH AND CASH EQUIVALENTS		
	29,971,330	22,222,824
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	29,970,236	987,790,129
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
	1,739,432,464	751,642,335
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)		
	₱1,769,402,700	₱1,739,432,464

See accompanying Notes to Parent Company Financial Statements.

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Corporate Secretary
Date: May 7, 2015



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

1. Corporate Information

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

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

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

- a. The 5,000,000 common Class A shares held by the Philippine Branch in exchange for 500,000 Manulife Philippine's common Class B shares with aggregate par value of ₱500.0 million;
- b. Financial assets of the Philippine Branch consisting of government securities with fair value of ₱430.64 million, including accrued interest of ₱3.08 million, in exchange for 430,000 Manulife Philippines's common Class B shares with aggregate par value of ₱430.0 million.

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

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

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

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

As of March 31, 2015, Manulife Philippines has not yet issued stock certificates in favor of MCHN pending the receipt of Certificate Authorizing Registration which will be issued by the Bureau of Internal Revenue (BIR). Under Philippine laws, MLIC still holds 100% of Manulife Philippines issued and outstanding stocks.

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

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

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

The accompanying parent company financial statements were approved and authorized for issue by the BOD on March 31, 2015.

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.

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

- (a) The Parent Company is a wholly-owned subsidiary of The Manufacturers Life Insurance Company of Canada and its owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the Parent Company not presenting consolidated financial statements;
- (b) The Parent Company's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
- (c) The Parent Company did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
- (d) The ultimate parent of the Parent Company produces consolidated financial statements that are available for public use that comply with International Financial Reporting Standards (IFRS).

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

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

Statement of Compliance

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

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, 2014. 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 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements (Amendments)*
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. The amendments must be applied retrospectively, subject to certain transition relief.

These amendments have no impact to the parent company financial statements.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)*
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively.

These amendments have no impact on the parent company financial statements.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Parent Company as it has not novated its derivatives during the current or prior periods.

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

The application of these amendments has no material impact on the disclosure in the parent company financial statements.

- 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. Retrospective application is required for IFRIC 21.

This interpretation has no impact on the Parent Company as it has applied the recognition principles under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, consistent with the requirements of IFRIC 21 in prior years.

- Annual Improvements to PFRSs (2010-2012 cycle)
In the 2010 – 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no impact on the Parent Company.
- Annual Improvements to PFRSs (2011-2013 cycle)
In the 2011 – 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards—First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity’s first PFRS financial statements. This amendment has no impact on the Parent Company as it is not a first time PFRS adopter.

Standards Issued but not yet Effective

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

- PFRS 9, *Financial Instruments – Classification and Measurement* (2010 version)
PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows



and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 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.

- *Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

The following new standards and amendments were already adopted by FRSC but are still for approval by the Philippine Board of Accountancy (BOA).

Effective January 1, 2015

- *PAS 19, Employee Benefits – Defined Benefit Plans: Employee Contributions (Amendments)*
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015.

Annual Improvements to PFRSs (2010-2012 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to PFRSs and are effective for annual periods beginning on or after January 1, 2015. 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.

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Corporate Secretary
Date: May 7, 2015



- *PFRS 2, Share-based Payment - Definition of Vesting Condition*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
 - A performance condition must contain a service condition
 - A performance target must be met while the counterparty is rendering service
 - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
 - A performance condition may be a market or non-market condition
 - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

- *PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Parent Company shall consider this amendment for future business combinations.

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

- *PAS 16, Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

- *PAS 24, Related Party Disclosures - Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs (2011-2013 cycle)

The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to PFRSs and are effective for annual periods beginning on or after January 1, 2015. 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.

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- *PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
 - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
 - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.
- *PFRS 13, Fair Value Measurement - Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (or PFRS 9, as applicable).
- *PAS 40, Investment Property*
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Effective January 1, 2016

- *PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact to the parent company financial statements.
- *PAS 16, Property, Plant and Equipment, and PAS 41, Agriculture – Bearer Plants (Amendments)*
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact to the parent company financial statements.
- *PAS 27, Separate Financial Statements – Equity Method in Separate Financial Statements (Amendments)*
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial



statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact to the parent company financial statements.

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

- PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (Amendments)*

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

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

- PFRS 14, *Regulatory Deferral Accounts*

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

Annual Improvements to PFRSs (2012-2014 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to PFRSs and are effective for annual periods beginning on or after January 1, 2016. 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.



- *PFRS 5, Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- *PFRS 7, Financial Instruments: Disclosures – Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.
- *PFRS 7 - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.
- *PAS 19, Employee Benefits – regional market issue regarding discount rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- *PAS 34, Interim Financial Reporting – disclosure of information ‘elsewhere in the interim financial report’*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

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



of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

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

- *PFRS 9, Financial Instruments (2014 or final version)*

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

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

The following new standard issued by the IASB has not yet been adopted by the FRSC :

- **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

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



IC Circular Letter (ICL) No. 2014-42-A

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

1. A life insurance company must value the policy reserves of its life business at the end of each calendar year as required by the IC, in accordance with this set of Valuation Standards for Life Insurance Policy Reserves.
2. The methods and valuation assumptions must:
 - a. be appropriate to the type of business and its risk profile;
 - b. include appropriate margins for adverse deviations in respect of the risks that arise under the insurance policy;
 - c. be in accordance with the internationally accepted actuarial standards; and
 - d. consider the generally accepted actuarial principles concerning financial reporting framework promulgated by the Actuarial Society of the Philippines (ASP).
3. Unless the context otherwise requires, the following terms shall be taken to mean:
 - a. "variable contract" is as defined in Section 238 (b) of the Amended Insurance Code (RA 10607)
 - b. "traditional policy" is a policy other than variable contract, which includes life, health or accident, annuity contracts and supplementary benefits or riders
 - c. "company" is a life insurance company supervised by the IC.

Valuation Methodology

1. An actuary duly accredited by the IC shall be responsible in determining the level of policy reserves based on his professional valuation of the company's life insurance liabilities using a basis no less stringent than that prescribed in the following paragraphs.
2. Subject to paragraphs 3 to 5 below, the reserves for traditional life insurance policies must be valued, where appropriate, using gross premium valuation. This is calculated as the sum of the present value of future benefits and expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate risk-free discount rate. For this purpose, the expected future cash flows shall be determined using best estimate assumptions with due regard to significant recent experience and appropriate margin for adverse deviation from the expected experience.
3. For any traditional life insurance policy where the guaranteed cash value as at valuation date is greater than zero, the reserve calculated based on paragraph 2 must be floored at the guaranteed cash value.
4. For any traditional life insurance policy where the guaranteed cash value as at valuation date is zero, and the corresponding reserve calculated based on paragraph 2 is negative, the company must appropriate from the unassigned surplus an amount equal to the aggregate of the negative reserves calculated on a per policy basis.
5. For any traditional life insurance policy with a term of one year or less, the reserve shall be calculated using the unearned premium method.

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Corporate Secretary
Date: May 7, 2015



6. A company shall value the reserves for variable life insurance contracts as the sum of the:
 - a. market value of the underlying assets backing the separate accounts relating to the policy, excluding any seed capital; and
 - b. unearned cost of insurance or unearned risk charge.
7. A more conservative basis of valuation may be adopted by the Actuary resulting in higher policy reserves compared to the standards set out above, if, in his professional judgment, it is appropriate to do so.
8. Where the reserve of a life insurance policy cannot be appropriately valued using this set of valuation standards, the valuation shall be done using the basis approved by the IC.

Valuation Assumptions

1. Discount rates
 - a. The risk-free discount rate shall be used for all cash flows to determine the liability of a traditional life insurance policy.
 - b. The yield curve used as basis for the risk-free discount rate shall be obtained from the following sources:
 - i. for Philippine Peso policies : PDST-R2 rates
 - ii. for US Dollar policies: International Yield Curve (IYC) from Bloomberg
 - c. The risk-free discount rate shall be the equivalent zero-coupon spot yield of the above yield curve with matching duration. Duration is the term to maturity of each future cash flow.
 - d. If the duration of the cashflow is more than that of the longest available bond, then the discount rate shall be based on the longest bond yield rate.
 - e. Where yields at certain durations are not available, these yields shall be appropriately interpolated from available information.
 - f. The IC will provide the yield curve and risk-free discount rate annually, and may change the sources of the yield curve when appropriate.

2. Non-guaranteed Benefits

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

3. Expenses

- a. The expense assumptions shall be based on the company's experience derived from its latest expense study. Otherwise, basis and justification of the assumptions used must be provided.
- b. Suitable non-negative expense inflation rate shall be used. All projected expected expenses shall be recognized in the valuation process.

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4. Mortality and Morbidity

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

5. Lapse and/or Persistency

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

Margin for Adverse Deviation (MfAD)

1. Fixed margins for adverse deviations (MfAD) will be used subject to a minimum of:
 - a. Interest: +1-10% of discount rate
 - b. Expense: 10% of best estimate expenses
 - c. Other assumptions including but not limited to mortality, morbidity, lapse and conversion: +1-10% of best estimate assumptions
2. For mortality and lapse assumptions, the sign (positive or negative) of MfAD should be tested per group of products at the time of valuation. MfAD will have the same sign for all durations per group of products. The product grouping shall be whole life, endowment and term.
3. For interest assumption, the sign (positive or negative) of MfAD should be tested on aggregate basis.
4. The MfAD on expenses will be on expense components that are exposed to uncertainty. The commissions payable to agents/distributors and taxes may not be subject to MfAD.
5. The provision for adverse deviation or the additional reserves due to the MfAD for each component (i.e., expense, mortality/morbidity, lapse, interest) must be non-negative.
6. Any change in the level of MfAD used must be justified.

The above ICL will become effective December 31, 2015. The Parent Company is currently assessing the impact of the standard.

Reclassification of Accounts

The Company previously classifies certain income from sale of unit-linked policies such as premium load, cost of insurance, processing fee, etc. as part of gross premiums. In 2014, the Company classified these to form part of 'Other income' as management believes that this presentation more faithfully reflects the nature of the income. In addition, in prior years, the Parent Company presents allocated costs to subsidiaries for management, accounting and other administrative services as reimbursements which are deducted against the relevant expense accounts. In 2014, these allocated costs were presented as part of service fee income as management believes that this presentation reflects the arrangement with the subsidiaries. In addition, in 2014, the Parent Company's liability on the assumed insurance policies from MCBLAC has been reflected as part of the gross change in legal policy reserves. Receivables from MCBLAC have been reflected under loans and receivables instead of reinsurance assets.

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Other liabilities have likewise been reflected under accounts payable and accrued expenses account. Prior year financial statements have been restated to be consistent with the current year presentation.

The impact of the reclassification of the accounts in 2013 statement of financial position and statement of income follows:

<u>Increase (decrease):</u>	
Loans and receivables	₱280,986,431
Accrued income	64,794,909
Reinsurance assets	(345,781,340)
Accounts payable and accrued expenses	183,297,700
Other liabilities	(183,297,700)
Gross premiums earned on insurance contracts	(570,548,013)
Other income:	
Premium load	394,649,730
Cost of insurance	98,942,125
Processing fee	53,411,870
Service fee income	25,704,834
Others	23,544,288
Management fee income	(1,224,040)
General and administrative expense	
Employee salaries	12,984,598
Miscellaneous	2,280,892
Marketing support	2,139,570
Supplies	2,024,543
Other employee benefits	1,678,547
Communications	1,234,470
Entertainment, amusement and recreation	1,167,920
Repairs and maintenance	355,943
Transportation and travel	206,831
Agency-related expenses	156,470
Utilities	126,211
Advertising expense	124,799

The above reclassifications have no impact on the 2013 net income, and on the total assets, total liabilities and equity as of December 31, 2013. Accordingly, the Parent Company did not present a statement of financial position as at the beginning of the earliest period.

Product Classification

Insurance contracts are defined as those contracts under which the Parent Company (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder.

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



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

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

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

Cash and Cash Equivalents

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

Insurance Receivables

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

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

Financial Instruments

Date of recognition

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



Initial recognition

Financial instruments are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments classified as FVPL. The Parent Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets, 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.

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.

As of December 31, 2014 and 2013, the Parent Company has no financial liabilities classified as FVPL.

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Corporate Secretary
Date: May 7, 2015



Loans and receivables

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

As of December 31, 2014 and 2013, the Parent Company's loans and receivables represent cash and cash equivalents, insurance receivables, accrued income, policy loans, mortgage loans, corporate loans, reinsurance assets, receivable from agents, due from related parties, accounts receivable, security deposits, due from officers and employees and other receivables.

AFS financial assets

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

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

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

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.

Classification of Financial Instruments Between Debt and Equity

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

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

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

Offsetting Financial Instruments

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

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Paul Anthony P. Mandal
Corporate Secretary
Date: May 7, 2015



Impairment of Financial Assets

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

Financial assets carried at amortized cost

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

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

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

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

AFS Financial assets carried at fair value

In the case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the parent company statement of income) is removed from other comprehensive income and recognized in the parent company statement of income. Impairment losses on equity



instruments are not reversed through the parent company statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

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

AFS financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

Derecognition of Financial Assets and Liabilities

Financial asset

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

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

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

Financial liability

A financial liability is derecognized when the obligation under the liability expired, is discharged or cancelled. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the



recognition of a new liability, and the difference in the respective carrying amounts is recognized in the parent company statement of income.

Policy Loans

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

Reinsurance Assets

The Parent Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

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

Investments in Subsidiaries

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

The investment in subsidiary is carried in the statement of financial position at cost less any impairment in value. The Parent Company recognizes income from the investment only to the extent that the Parent Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as recovery of investment and are recognized as a reduction of the cost of the investment.

Whenever there's a change in the ownership interest of a subsidiary due to sale, any difference between the carrying amount of the subsidiary and the proceeds from disposal is recognized in profit or loss.

Property and Equipment

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

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



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

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

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

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

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

Intangible Assets

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

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

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

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

Prepayments

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

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Corporate Secretary
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Creditable withholding tax

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

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

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

Pension Asset

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

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

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

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

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

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

Impairment of Nonfinancial Assets

The carrying values of non-financial assets (i.e., property and equipment, intangible assets and investments in subsidiaries) are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units



are written down to their recoverable amounts. The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the parent company statement of income.

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

Insurance Contract Liabilities

Life Insurance contract liabilities

Life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The provision for life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing at the inception of the contract. Assumptions and actuarial valuation methods are also subject to provisions of the Insurance Code (the Code) and guidelines set by the Insurance Commission.

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

Life insurance contracts with fixed and guaranteed terms

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

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

A liability for contractual benefits that are expected to be incurred in the future is recorded under 'change in legal policy reserve' in the parent company statement of income when the premiums are recognized. The liability is determined as the sum of the expected discounted value of the benefit payments 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 investment funds set-up by the Parent Company with consideration received from the policyholders. As allowed by PFRS 4, the Parent Company chose not to unbundle the investment portion of its unit-linked products. Premiums received from the issuance of unit-linked insurance contracts are recognized as premium revenue. Consideration received from policyholders that are transferred to the segregated funds is recognized as part of gross change in legal policy reserves in the parent company statements of income.

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

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

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

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

Claims payable

Claims payable 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.

Discretionary Participation Feature

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

Insurance Payables

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

Capital Stock and Additional Paid-in Capital

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

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

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

Retained earnings

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

Revenue Recognition

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

Insurance premiums

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

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

Benefits and Claims Recognition

Benefits and claims

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

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

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Dividend and dividend interest to policyholders

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

Expense Recognition

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

- on the basis of a direct association between the costs incurred and the earning of specific items of income;

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- 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.

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Income Tax

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

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

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

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

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

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

Provisions

Provisions are recognized when the Parent Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of

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the amount of the obligation. Where the Parent Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the parent company statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingencies

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

Events after the Reporting Period

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

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

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

Judgments

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

Product classification

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

The options and guarantees within the insurance contracts issued by the Parent Company are treated as derivative financial instruments which are clearly and closely related to the host insurance and therefore not bifurcated subsequently. As such, the Parent Company does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

Operating lease - Parent Company as lessee

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

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properties and so the Parent Company accounts for the agreements as operating leases (see Note 27).

Fair values of financial assets and liabilities

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

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

Impairment of financial assets at amortized cost

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

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

Estimates and Assumptions

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

Claims liability arising from insurance contracts

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

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

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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 ₱48.04 billion and ₱38.39 billion as of December 31, 2014 and 2013, 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:

	2014	2013
Investments in subsidiaries (Note 8)	₱926,883,873	₱1,287,149,465
Property and equipment (Note 9)	165,937,275	160,405,130
Intangible assets (Note 10)	59,766,400	67,237,200



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, 2014 and 2013, the carrying value of loans and receivables amounted to ₱5.10 billion and ₱4.80 billion after deducting allowance for impairment losses on loans and receivables amounting to ₱12.44 million and ₱12.06 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, 2014 and 2013, the carrying value of AFS equity investments amounted to ₱1.61 billion and ₱1.42 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, 2014, the carrying values of property and equipment and intangible assets amounted to ₱165.94 million and ₱59.77 million, respectively. As of December 31, 2013, the carrying values of the property and equipment and intangible assets amounted to ₱160.41 million and ₱67.24 million, respectively (see Notes 9 and 10).



Recognition of Pension liability

The cost of defined benefit pension plans and other post employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. As of December 31, 2014 and 2013, net defined benefit liability amounted to nil and ₱13.36 million, respectively (see Note 23).

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

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

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

Recognition of deferred tax assets

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

Contingencies

The Parent Company is currently involved in various proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Parent Company's defense in these matters and is based upon an analysis of potential results. The Parent Company currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 15).

4. Cash and Cash Equivalents

This account consists of:

	2014	2013
Cash on hand:		
Petty cash fund	₱712,714	₱845,934
Cash in banks (Note 25):		
Cash in commercial banks	615,080,832	473,900,161
Short-term deposits in commercial banks	157,413,812	238,832,471
	772,494,644	712,732,632

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	2014	2013
Cash held in insurance investment funds (Notes 6 and 25):		
Cash in banks	₱313,338,916	₱266,252,271
Short-term deposits	682,856,426	759,601,627
	<u>996,195,342</u>	<u>1,025,853,898</u>
	<u>₱1,769,402,700</u>	<u>₱1,739,432,464</u>

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, 2014 and 2013.

5. Financial Assets

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

	2014	2013
AFS financial assets	₱43,577,239,234	₱38,805,106,006
Financial assets designated at FVPL	21,299,740,650	13,086,716,468
Loans and receivables	5,098,353,334	4,802,634,374
Derivative assets	-	47,634,892
	<u>₱69,975,333,218</u>	<u>₱56,742,091,740</u>

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

a) AFS financial assets

	2014	2013
Traded securities - at fair value		
Government debt securities:		
Local currency	₱40,998,991,357	₱36,545,651,531
Foreign currency	968,321,601	835,317,952
Quoted equity securities:		
Club shares	38,592,000	38,042,000
Common shares	1,571,334,276	1,386,094,523
	<u>₱43,577,239,234</u>	<u>₱38,805,106,006</u>

The rollforward analysis of AFS financial assets follows:

	2014	2013
Balance at beginning of year	₱38,805,106,006	₱33,989,042,130
Additions	3,675,175,289	9,773,833,321
Disposals/maturities	(856,225,657)	(6,681,948,124)
Net premium amortization	(44,314,823)	(26,239,786)
Fair value gains recognized in other comprehensive income	1,992,315,276	1,697,946,126
Foreign currency exchange adjustments	5,183,143	52,472,339
Balance at end of year	<u>₱43,577,239,234</u>	<u>₱38,805,106,006</u>

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

	2014	2013
Balance at beginning of year	₱7,471,936,238	₱7,784,587,185
Change in fair value of available-for-sale financial assets	1,992,315,276	1,697,946,126
Realized gains transferred to statements of income	(146,078,204)	(2,010,597,073)
Net change during the year	1,846,237,072	(312,650,947)
Balance at end of year	₱9,318,173,310	₱7,471,936,238

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

		From	To
2014	Peso	5.75%	18.25%
	Dollar	5.00%	10.63%
2013	Peso	5.28%	18.25%
	Dollar	4.88%	10.63%

Government securities, included in AFS financial assets, with aggregate market value of ₱281.00 million and ₱266.06 million and face value of ₱125.00 million as of December 31, 2014 and 2013 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:

	2014	2013 (As restated)
Policy loans	₱3,714,511,673	₱3,685,363,583
Due from related parties (Note 26)	735,094,542	467,371,818
Accounts receivable held in insurance investment funds (Note 6)	105,172,481	293,503,780
Corporate loan	200,000,000	200,000,000
Receivable from agents	72,617,007	52,189,386
Security deposits	69,242,403	60,189,403
Due from officers and employees	39,754,373	38,772,848
Mortgage loans	11,343,965	11,099,093
Other receivables	163,056,579	6,203,069
	5,110,793,023	4,814,692,980
Less allowance for impairment losses	12,439,689	12,058,606
	₱5,098,353,334	₱4,802,634,374

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 2014 and 2013.

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

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

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

Due from officers and employees consist of various loans from officers and employees with varying terms and interest rates. Loans from officers and employees are settled through payroll deductions.

Mortgage loans earn interest ranging from 9% to 10% per annum and with maturity of 1 to 20 years.

Other receivables consist of receivable from SSS and other receivables. This also includes the outstanding non-interest bearing receivable from CBC for the sale of the non-controlling interest in MCBLAC amounting to ₱140 million. The receivable is collectible in sixteen (16) equal quarterly installments of ₱9,995,938 which shall be collected from MCBLAC via offsetting arrangement against the latter's commissions payable to CBC.

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

	2014	2013
At beginning of year	₱12,058,606	₱11,750,195
Provisions (Note 21)	381,083	308,411
At end of year	₱12,439,689	₱12,058,606

c) *Financial assets designated at FVPL*

	2014	2013
Designated at initial recognition:		
Debt securities:		
Foreign currency	₱-	₱366,082,590
Held in insurance investment funds (Note 6):		
Peso - denominated government bonds	7,475,465,853	4,939,718,409
Dollar - denominated	2,276,799,159	1,616,808,149
Equity securities held in insurance investment funds - at market (Note 6)		
Peso - denominated	8,841,307,153	4,425,576,200
Dollar - denominated	2,706,168,485	1,738,531,120
	₱21,299,740,650	₱13,086,716,468



The rollforward analysis of financial assets at FVPL not held in insurance investment funds follows:

	2014	2013
Balance at beginning of year	₱366,082,590	₱339,432,700
Disposals/maturities	(359,000,000)	-
Fair value gains (losses)	(7,189,998)	(933,087)
Foreign currency exchange adjustments	107,408	27,582,977
Balance at end of year	₱-	₱366,082,590

The fair value losses on financial assets at FVPL recorded in the parent company statements of income amounted to ₱7.19 million and ₱0.93 million, in 2014 and 2013, respectively.

d) *Derivative Instruments*

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

The Parent Company had three (3) foreign cross-currency swap agreements, with aggregate notional amount of \$8.00 million and nominal interests of 4.88% which matured in September 2014. It effectively swaps both the principal and interest of these foreign currency-denominated fixed rate bonds into Philippine Peso denominated fixed rate investments with an aggregate notional amount of ₱391.76 million and nominal interest ranging from 7.05% to 7.42%. In 2014 and 2013, the fair value loss recognized in the parent company statements of income amounted to ₱14.88 million and ₱33.38 million, respectively, while swap income recognized in the parent company statements of income amounted to ₱7.86 million and ₱11.41 million, respectively.

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

	2014	2013
At beginning of year	₱47,634,892	₱81,014,230
Fair value changes	(14,879,892)	(33,379,338)
Maturities	(32,755,000)	-
At end of year	₱-	₱47,634,892

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, 2014, the Parent Company has fourteen (16) IIFs namely: Affluence Peso Bond Fund (Peso Fund), Affluence Peso Stable Fund (Stable Fund), Affluence Equity Fund (Equity Fund), Affluence Dollar Bond Fund (Dollar Fund), Peso Secure Fund, Peso Diversified Value Fund, Peso Growth Fund, US Dollar Secure Fund, Peso Balanced Fund, Dynamic Allocation Fund, Peso Target Income Fund, Peso Target Distribution Fund, Asia Pacific Bond Fund, Asean Growth Fund, Peso Cash Fund and Wealth Premier Fund.

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

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

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

The details of the UFs are as follows:

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

	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

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

December 31, 2014										
	Peso Bond Pool	Peso Money Market Pool	Peso Equity Pool	Peso Cash Pool	USD Bond Pool	Asia Bond Pool	Asean Growth Pool	Wealth Premier Pool	Accrued Management Fees	Total
Peso Fund	₱715,581,826	62,249,150	₱-	₱-	₱-	₱-	₱-	₱-	(₱986,812)	₱776,844,164
Stable Fund	425,669,860	114,318,235	162,430,356	-	-	-	-	-	(1,036,599)	701,381,852
Equity Fund	-	-	1,123,537,117	-	-	-	-	-	(1,866,017)	1,121,671,100
Dollar Fund	-	-	-	-	549,052,790	-	-	-	(810,956)	548,241,834
Peso Secure Fund	2,501,888,257	256,402,026	-	-	-	-	-	-	(4,087,129)	2,754,203,154
Peso Diversified Value Fund	1,858,120,432	579,128,291	714,112,158	-	-	-	-	-	(5,340,538)	3,146,020,343
Peso Growth Fund	-	-	5,766,452,488	-	-	-	-	-	(10,595,122)	5,755,857,366
US Dollar Secure Fund	-	-	-	-	563,958,769	-	-	-	(941,253)	563,017,516
Peso Balanced Fund	123,482,741	-	184,132,441	-	-	-	-	-	(510,032)	307,105,150
Dynamic Allocation Fund	722,628,515	-	1,077,711,299	-	-	-	-	-	(3,332,267)	1,797,007,547
Peso Target Income Fund	64,928,758	11,423,264	19,305,613	-	-	-	-	-	(155,022)	95,502,613
Peso Target Distribution Fund	545,143,587	95,920,948	162,080,795	-	-	-	-	-	(1,484,598)	801,660,732
Asia Pacific Bond Fund	-	-	-	-	-	1,182,831,726	-	-	(2,005,930)	1,180,825,796
Asean Growth fund	-	-	-	-	-	-	2,807,435,467	-	(5,294,725)	2,802,140,743
Peso Cash Fund	-	-	-	9,787,707	-	-	-	-	(3,611)	9,784,096
Wealth Premier Fund	-	-	-	-	-	-	-	97,478,214	-	97,478,214
	₱6,957,443,976	₱1,119,441,914	₱9,209,762,267	₱9,787,707	₱1,113,011,559	₱1,182,831,726	₱2,807,435,467	₱97,478,214	(₱38,450,611)	₱22,458,742,220

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
Peso Target Income Fund	-	-	-	-	-	-	-	-	-	-
Peso Target Distribution Fund	-	-	-	-	-	-	-	-	-	-
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

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

	2014		2013	
Government bonds (Note 5)				
Peso-denominated	₱7,475,465,853	33.29%	₱4,939,718,409	35.08%
Dollar-denominated	2,276,799,159	10.14%	1,616,808,149	11.48%
Equity securities - at market (Note 5)				
Peso-denominated	8,841,307,153	39.37%	4,425,576,200	31.43%
Dollar-denominated	2,706,168,485	12.05%	1,738,531,120	12.35%
Short-term deposits (Note 4)	682,856,426	3.04%	759,601,627	5.39%
Cash in banks (Note 4)	313,338,916	1.40%	266,252,271	1.89%
Accounts receivable (Note 5)	105,172,481	0.47%	293,503,785	2.08%
Accrued income (Note 7)	96,084,356	0.43%	64,794,904	0.46%
Accrued management fees	(38,450,609)	-0.17%	(23,724,611)	-0.17%
	₱22,458,742,220	100.00%	₱14,081,061,854	100.00%

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

In 2014, and 2013, the IIFs earned investment income (loss) amounting to ₱1.7 billion and (₱422.70 million) respectively, while redemptions amounted to ₱771.20 million and ₱666.25 million, respectively.

7. Accrued Income

This account consists of interest and dividends income from:

	2014	2013 (As restated)
Debt securities:		
AFS Peso bonds	₱254,021,964	₱228,954,982
AFS Dollar bonds	20,088,703	18,940,985
FVPL Dollar bonds	–	4,761,364
	274,110,667	252,657,331
Held in insurance investments funds (Note 6)	96,084,356	64,794,909
Corporate loan	2,362,751	3,316,110
Swap receivables	–	2,986,594
Cash and cash equivalents	21,515	14,407
	₱372,579,289	₱323,769,351

8. Investments in Subsidiaries - at cost

This account consists of:

	2014	2013
Investments in:		
Manulife Financial Plans, Inc. (MFPI)		
Balance at beginning of year	₱350,000,000	₱250,000,000
Additions	–	100,000,000
Balance at end of year	350,000,000	350,000,000

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	2014	2013
(Forward)		
Manulife China Bank Life Assurance Corporation (MCBLAC)		
Balance at beginning of year	₱937,149,465	₱937,149,465
Disposals	(360,265,592)	-
Balance at end of year	576,883,873	937,149,465
	₱926,883,873	₱1,287,149,465

In September 2014, the Parent Company disposed 35% of its ownership interest in MCBLAC to CBC amounting to ₱360.27 million, by way of selling MCBLAC common shares amounting to ₱152.77 million, equivalent to 1,750,000 common shares of stocks, and 40% of its contributed surplus amounting to ₱207.50 million, resulting to a total loss of ₱200.33 million.

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

9. Property and Equipment

The rollforward analysis of this account follows:

	2014				
	EDP Equipment	Leasehold Improvements	Transportation Equipment	Furniture and Fixtures	Total
Cost					
At beginning of year	₱312,994,496	₱343,717,937	₱60,044,982	₱114,672,259	₱831,429,674
Additions	19,291,403	48,902,515	14,150,000	10,563,869	92,907,789
Disposals	-	-	(9,444,000)	-	(9,444,000)
At end of year	332,285,899	392,620,452	64,750,982	125,236,130	914,893,463
Accumulated Depreciation and Amortization					
At beginning of year	284,447,235	274,707,372	34,097,472	77,772,465	671,024,544
Depreciation and amortization (Note 21)	18,521,198	43,445,129	10,110,329	13,422,033	85,498,689
Disposals	(199,845)	-	(7,367,200)	-	(7,567,045)
At end of year	302,768,588	318,152,501	36,840,601	91,194,498	748,956,188
Net Book Value	₱29,517,311	₱74,467,951	₱27,910,381	₱34,041,632	₱165,937,275

	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)

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	2013				
	EDP Equipment	Leasehold Improvements	Transportation Equipment	Furniture and Fixtures	Total
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

As of December 31, 2014 and 2013, there were no fully depreciated property and equipment that is in use.

10. Intangible Assets

The rollforward analysis of this account follows:

	2014	2013
Cost	₱149,416,000	₱149,416,000
Accumulated amortization		
At beginning of year	82,178,800	74,708,000
Amortization for the year (Note 21)	7,470,800	7,470,800
At end of year	89,649,600	82,178,800
Net book value	₱59,766,400	₱67,237,200

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, 2014 and 2013. The Parent Company did not recognize any impairment loss on intangible assets in 2014 and 2013.

11. Other assets

This account consists of:

	2014	2013
Creditable withholding tax	₱114,883,302	₱135,256,751
Prepayments	12,358,321	7,413,591
Office supplies	2,940,256	2,913,460
	₱130,181,879	₱145,583,802

Prepayments include cash advances of employees and local business tax.

12. Insurance Contract Liabilities

This account consists of:

	2014	2013
Legal policy reserves	₱48,043,893,099	₱38,387,313,999
Policy and contract claims payable	452,485,167	401,388,098
	₱48,496,378,266	₱38,788,702,097

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Details of the legal policy reserves follow:

	2014	2013
Ordinary life insurance	₱25,588,131,569	₱24,324,193,206
Unit-linked (Note 6)	22,398,782,420	14,029,069,125
Group life insurance	55,733,251	33,191,275
Accident and health	1,245,859	860,393
	₱48,043,893,099	₱38,387,313,999

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

	2014			2013		
	Insurance contract liabilities	Reinsurers' share of liabilities	Net	Insurance contract liabilities	Reinsurers' share of liabilities	Net
At beginning of year	₱38,391,905,734	₱4,591,735	₱38,387,313,999	₱26,669,489,074	₱4,576,971	₱26,664,912,103
Tabular net premiums or considerations	7,665,286,392	-	7,665,286,392	8,315,795,976	-	8,315,795,976
Present value of disability claims						
Incurred	7,480,933	-	7,480,933	17,920,074	-	17,920,074
Tabular interest	1,614,385,330	275,504	1,614,109,826	1,499,929,691	274,619	1,499,655,072
Tabular less actuarial reserve released	(4,479,601)	-	(4,479,601)	(7,984,984)	-	(7,984,984)
Other increases	8,367,390,332	-	8,367,390,332	9,008,745,303	-	9,008,745,303
	56,041,969,120	4,867,239	56,037,101,881	45,503,895,134	4,851,590	45,499,043,544
Tabular Cost	5,932,292,873	290,976	5,932,001,897	5,997,492,139	259,855	5,997,232,284
Reserves released by death	66,776,771	-	66,776,771	65,696,712	-	65,696,712
Reserves released by other terminations	1,994,430,115	-	1,994,430,115	1,048,800,549	-	1,048,800,549
	7,993,499,759	290,976	7,993,208,783	7,111,989,400	259,855	7,111,729,545
At end of year	₱48,048,469,361	₱4,576,263	₱48,043,893,098	₱38,391,905,734	₱4,591,735	₱38,387,313,999

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

	2014	2013
At beginning of year	₱401,388,098	₱323,047,317
Additions during the year	686,617,055	686,817,164
Paid during the year	(635,519,986)	(608,476,383)
At end of year	₱452,485,167	₱401,388,098

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

Life Insurance Contracts

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

Terms

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

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



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

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

Key Assumptions

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

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

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

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

Reinsurance - Assumptions and Methods

The Parent Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on surplus-share basis with retention limits varying by product. Amounts receivable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the parent company statements of financial position as reinsurance assets.

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

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

As of December 31, 2014 and 2013, the balance of reinsurance assets amounted to ₱16.6 million and ₱4.0 million, respectively.

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14. Accounts Payable and Accrued Expenses

This account consists of:

	2014	2013 (As restated)
Accounts and other payables	₱312,729,649	₱73,588,691
Accrued expenses (Note 6)	222,582,525	226,972,832
Commissions payable	127,601,524	60,906,620
Taxes payable	85,500,403	38,275,098
Provident fund (Note 23)	47,212,898	31,327,775
Secure account liability	15,837,768	15,330,048
Others	145,512,182	82,883,524
	₱956,976,949	₱529,284,588

Accounts and other payables consist mainly of maturities and surrenders payable. The account also includes payable to suppliers arising from purchases of various office supplies, equipment and other capital expenditures.

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

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

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

Others include subscriptions to be transferred to insurance investment funds. These are non-interest bearing and are payable on demand.

15. Contingencies

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

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

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16. Capital Stock

Capital stock of the Parent Company consists of the following:

	Number of shares		Amount	
	2014	2013	2014	2013
Authorized capital stock - par value ₱1,000	1,000,000	1,000,000	₱1,000,000,000	₱1,000,000,000
Capital stock - par value ₱1,000	930,000	930,000	930,000,000	930,000,000
Additional paid-in capital	-	-	50,635,817	50,635,817
			₱980,635,817	₱980,635,817

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

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

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

17. Net Insurance Premiums Earned

The details of net insurance premiums earned follow:

	2014	2013 (As restated)
Gross premiums earned on insurance contracts (Note 26):		
Unit-linked	₱8,021,910,349	₱10,130,220,360
Ordinary life insurance	5,146,091,484	4,709,679,597
Group life insurance	208,615,439	70,879,326
Accident and health	76,301,609	177,189,259
	13,452,918,881	15,087,968,542
Reinsurers' share of gross premiums earned on insurance contracts:		
Ordinary life insurance	89,560,404	81,727,050
Group life insurance	5,773,953	4,386,012
Accident and health	2,580	2,605
	95,336,937	86,115,667
Net insurance premiums earned	₱13,357,581,944	₱15,001,852,875

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18. Investment Income

This account consists of:

	2014	2013
Interest income on:		
AFS financial assets	₱2,109,518,726	₱2,067,576,222
Loans and receivables	358,334,539	373,579,553
Financial assets at FVPL	12,563,118	16,763,662
Cash and cash equivalents	3,386,194	2,568,504
	2,483,802,577	2,460,487,941
Dividend income	31,623,742	32,071,201
	₱2,515,426,319	₱2,492,559,142

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

19. Other income

This account consists of:

	2014	2013 (As restated)
Premium load	₱760,083,904	₱394,649,730
Management fee income (Note 26)	538,343,870	358,231,547
Cost of insurance	196,113,829	98,942,125
Processing fee	117,553,336	72,009,854
Monthly load	91,442,166	104,734,640
Service fee income (Note 26)	57,627,881	25,704,834
Others	37,249,371	35,702,995
	₱1,798,414,357	₱1,089,975,725

Premium load pertains to an upfront charge deducted from the premium paid, before investing into the appropriate funds chosen by the policyholder.

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

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

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

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.

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

Included in "Others" are the income earned by the Company from the bid-offer spread charged against the unit-linked policies during the purchases of units in the IIFs, and other management charges.



20. Benefits and Claims

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

	2014	2013
Surrenders	₱1,640,191,268	₱964,379,308
Death and hospitalization benefits	360,226,584	426,929,878
Maturities	320,617,381	218,822,985
	₱2,321,035,233	₱1,610,132,171

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

	2014	2013
Ordinary life insurance	₱2,313,549,250	₱1,575,854,468
Group life insurance	5,175,833	20,944,085
Accident and health	2,310,150	13,333,618
	₱2,321,035,233	₱1,610,132,171

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

	2014	2013
Ordinary life insurance	₱3,351,325	(₱6,442,337)
Group life insurance	-	3,385,542
	₱3,351,325	(₱3,056,795)

Gross change in legal policy reserves follows:

	2014	2013 (As restated)
Life insurance contract liabilities:		
Unit-linked	₱8,020,966,546	₱10,128,562,233
Ordinary life insurance	1,263,953,835	2,720,047,661
Group life insurance	22,541,976	1,470,947
Accident and health	385,466	154,960
Total change in life insurance contracts liabilities	₱9,307,847,823	₱12,850,235,801

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21. General and Administrative Expenses

This account consists of:

	2014	2013 (As restated)
Employee salaries	₱519,363,842	₱437,889,867
Agency-related expenses	171,962,765	141,493,439
Administration support	159,386,201	105,447,366
Rent (Note 27)	158,212,540	118,622,946
Utilities	95,221,601	73,741,437
Marketing support	94,627,058	72,339,483
Depreciation and amortization (Notes 9 and 10)	92,969,489	103,360,166
Other employee benefits	73,780,156	48,771,526
Communications	73,174,246	70,600,096
Investment expenses	66,141,828	54,660,940
Supplies	51,125,475	43,189,138
Entertainment, amusement and recreation (EAR)	47,417,562	41,645,375
Bank charges	35,818,501	31,251,608
Repairs and maintenance	17,900,498	19,049,791
Advertising expenses	17,388,451	15,506,089
Transportation and travel	15,002,340	10,650,962
Professional fees	11,029,687	9,941,092
Retirement costs (Note 23)	10,641,701	32,483,593
Provision for impairment losses (Note 5)	381,083	308,411
Miscellaneous	48,093,758	82,371,741
	₱1,759,638,782	₱1,513,325,066

22. Commissions and Other Direct Expenses

This account consists of:

	2014	2013
Bonuses	₱569,084,158	₱449,816,462
Commissions on first year premiums	541,208,505	366,658,123
Commissions on renewal premiums	202,544,135	206,221,495
Single premium commissions	175,774,304	237,400,862
Other direct expenses	45,680,270	42,312,340
	₱1,534,291,372	₱1,302,409,282

23. Retirement Costs and Provident Fund

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

Republic Act (RA) No. 7641, Retirement Pay Law, requires provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employee's retirement benefits of any collective bargaining and other

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agreements shall not be less than what is provided under the law. The law does not require minimum funding of the plan.

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

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

The latest actuarial valuation study of the Company's minimum retirement obligation under RA No. 7641 was made as of December 31, 2014. As of December 31, 2014, the Company's DC obligation is higher than the projected DB obligation. Consequently, there is no DB liability as of the date. In 2014, contributions made by the Parent Company amounted to ₱24,001,547. Retirement expense in 2014 amounted to ₱10,641,701, net of the reversal of pension liability as of December 31, 2013.

As of December 31, 2013, the Company's DC obligation is lower than the projected DB obligation. Consequently, a liability of ₱13,359,846 was reported.

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

Net benefit expense follows:

	2013
Current service cost	₱32,483,593
Net interest cost	-
	<u>₱32,483,593</u>

The amounts recognized in the statements of financial position follow:

	2013
Present value of benefit obligation	₱145,807,132
Fair value of plan assets	(132,447,286)
	<u>₱13,359,846</u>

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

	2013
At January 1	₱126,257,949
Current service cost	32,483,593
Interest cost on benefit obligation	7,575,477
Benefits paid	(22,673,263)
Re-measurements losses	2,163,376
At December 31	<u>₱145,807,132</u>

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Changes in the fair value of the plan assets follow:

	2013
At January 1	₱126,257,949
Interest income included in net interest cost	7,575,477
Re-measurements losses	2,163,376
Actual contributions	19,123,747
Benefits paid	(22,673,263)
At December 31	132,447,286
Actual return on plan assets	₱17,085,524

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

	2013
Discount rate	6.00%
Annual rate of increase in compensation projection	6.00%

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

2013			
Discount rate	Salary increase rate	Change in basis points	Retirement Benefit Obligation
6.50%		+100	₱112,659,962
5.50%		-100	132,181,342
	7.00%	+100	₱143,272,287
	5.00%	-100	104,080,858

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:

	2014	2013
Investments in government debt securities	₱204,379,629	₱131,116,515
Cash	543,570	1,330,771
Total	204,923,199	132,447,286
Trust fee payable	182,259	-
Other payables	17,599,734	-
Total	17,781,993	-
	₱187,141,206	₱132,447,286

The Company's expected contribution to the retirement plan in 2015 amounted to ₱23,359,654.

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

Plan Year	Expected Benefit Payments
Less than 1 year	₱1,050,981
More than 1 to 5 years	16,599,327
More than 5 to 10 years	75,957,274
More than 10 to 15 years	155,611,273
More than 15 to 20 years	304,372,895
More than 20 years	1,060,856,885

As of December 31, 2014 and 2013, the Parent Company also has a liability related to the provident fund for its agents amounting to ₱47.21 million and ₱31.33 million, respectively. The provident fund is administered and managed by a foreign bank under an investment agreement (see Note 14).

24. Income Taxes

The provision for income tax consists of:

	2014	2013
Final taxes on interest income	₱430,489,363	₱411,613,120
MCIT	44,003,407	2,164,124
	₱474,492,770	₱413,777,244

The components of net deferred tax assets as of December 31, 2014 and 2013 are as follows:

	2014	2013
Deferred tax assets on:		
Accrued expenses	₱11,462,210	₱2,344,702
Allowance for impairment losses	–	4,965,613
Rent payable	–	2,676,832
NOLCO	–	7,955,528
Vacation leave accrual	–	4,551,579
Loyalty accruals	–	1,349,320
Provision for estimated liability	–	625,582
	11,462,210	24,469,156
Deferred tax liability on:		
Unrealized foreign exchange gain	11,462,210	9,195,655
Derivative assets	–	14,290,468
Fair value gain on FVPL	–	983,033
	11,462,210	24,469,156
Net deferred tax asset	₱–	₱–

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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.

	2014	2013
NOLCO	₱3,107,352,254	₱4,215,288,515
MCIT	47,861,396	3,857,989
Accrued expenses	41,578,885	-
Rent payable	16,067,560	-
Allowance for impairment losses	12,439,689	-
Unrealized fair value loss	7,189,998	-
Provision for IBNR	1,754,548	-
	₱3,234,244,330	₱4,219,146,504

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
2014	₱296,624,424	₱44,003,407	
2013	1,463,417,543	2,164,124	December 31, 2016
2012	1,347,492,273	1,693,865	December 31, 2015
	₱3,107,534,240	₱47,861,396	

The following are the movements in NOLCO:

	2014	2013
At beginning of year	₱4,241,806,942	₱3,969,222,858
Additions	296,624,424	1,463,417,543
Expirations	(1,430,897,125)	(1,190,833,459)
At end of year	₱3,107,534,241	₱4,241,806,942

The following are the movements in MCIT:

	2014	2013
At beginning of year	₱3,857,989	₱1,693,865
Additions	44,003,407	2,164,124
At end of year	₱47,861,396	₱3,857,989

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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:

	2014	2013
Income before income tax	₱1,548,468,352	₱2,453,279,676
Income tax expense at statutory income tax rate	464,540,506	735,983,903
Additions to (reductions in) income tax expense resulting from:		
Gain on sale of investments exempt from tax	(17,090,615)	(589,937,117)
Interest income - net of final tax	(201,082,186)	(205,834,321)
Investment income exempt from tax	(15,588,863)	(16,248,602)
Intercorporate dividends	(9,487,122)	(9,621,360)
Fair value loss (gains) on financial assets at FVPL exempt from tax	2,156,999	279,926
Amortization of debt securities	13,288,937	7,898,633
Nondeductible interest expense	44,897,045	69,682,467
Nondeductible expense	59,574,244	-
Effect of change in unrecognized deferred tax assets - net	133,283,825	421,573,715
Provision for income tax	₱474,492,770	₱413,777,244

25. Risk Management Policies

Governance Framework

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

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

Insurance Risk

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

Occurrence Risk

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

Severity Risk

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

Development Risk

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



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

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

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

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

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

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

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

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

	2014	2013
Whole life insurance		
Gross	₱86,774,033,090	₱92,499,394,905
Net	74,606,874,827	78,971,312,331
Term policies		
Gross	20,044,005,890	18,092,320,967
Net	15,308,748,899	13,845,288,411
Endowment		
Gross	19,169,525,847	20,060,554,019
Net	20,833,965,450	21,623,318,556

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	2014	2013
Variable unit-linked policies		
Gross	₱52,798,863,153	₱30,263,100,450
Net	66,573,452,282	44,639,498,904
Accident and health		
Gross	1,215,024,120	3,421,177,460
Net	1,215,024,120	3,421,177,460
Group insurance		
Gross	49,294,743,944	36,589,845,199
Net	48,256,625,634	34,237,169,422
Total		
Gross	229,296,196,044	200,926,393,000
Net	226,794,691,212	196,737,765,084

Underwriting Risk

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

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

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

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

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

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

Type	2014		2013	
	Number of Policies	Amount of Insurance	Number of Policies	Amount of Insurance
Whole Life	124,385	₱86,774,033,090	131,110	₱92,499,394,905
Term	10,618	20,044,005,890	9,425	18,092,320,967
Endowment	45,647	19,169,525,847	48,341	20,060,554,019
Variable unit-linked	73,279	52,798,863,153	42,757	30,263,100,450
Accident and health	302	1,215,024,120	3,306	3,421,177,460
Group life	523	49,294,743,944	413	36,589,845,199
	254,754	₱229,296,196,044	235,352	₱200,926,393,000

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, 2014				
	Change in assumptions	Increase (decrease) in gross liabilities	Increase (decrease) in net liabilities	Increase (decrease) in profit before tax	Increase (decrease) in equity*
	(In Thousands)				
Mortality	+10%	₱620,837	₱620,837	(₱620,837)	(₱620,837)
Valuation interest rate	+1%	(1,526,686)	(1,526,686)	1,526,686	1,526,686
*Impact on equity reflects adjustments for tax, when applicable.					
	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.					

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The carrying values of insurance contract liabilities as of December 31, 2014 and 2013 amounted to ₱48.50 billion and ₱38.79 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, 2014		
	Non-Linked	Unit-linked	Total
Financial assets at FVPL			
Debt securities			
Held in IIF			
Peso bonds	₱-	₱7,475,465,853	₱7,475,465,853
Dollar bonds	-	2,276,799,159	2,276,799,159
Equity securities			
Peso denominated	-	8,841,307,153	8,841,307,153
Dollar denominated	-	2,706,168,485	2,706,168,485
AFS financial assets			
Debt securities			
Local currency	40,998,991,357	-	40,998,991,357
Foreign currency	968,321,601	-	968,321,601
Equity securities			
Club shares	38,592,000	-	38,592,000
Common shares	1,571,334,276	-	1,571,334,276
Loans and receivables			
Cash and cash equivalents			
Cash in commercial banks	615,080,832	-	615,080,832
Short-term deposits in commercial banks	157,413,812	-	157,413,812
Cash held in IIF			
Cash in bank	-	313,338,916	313,338,916
Short-term deposits	-	682,856,426	682,856,426
Insurance receivables	140,881,137	-	140,881,137
Policy loans	3,714,511,673	-	3,714,511,673
Corporate loan	200,000,000	-	200,000,000
Accounts receivable held in IIF	-	105,172,481	105,172,481
Receivable from agents - net	60,177,318	-	60,177,318
Security deposits	69,242,403	-	69,242,403
Due from officers and employees	39,754,373	-	39,754,373
Due from related parties	735,094,542	-	735,094,542
Mortgage loans	11,343,965	-	11,343,965
Other receivables	163,056,579	-	163,056,579

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	December 31, 2014		
	Non-Linked	Unit-linked	Total
Accrued income			
Debt securities	₱274,110,667	₱-	₱274,110,667
Held in IIF	-	96,084,356	96,084,356
Corporate loan	2,362,751	-	2,362,751
Cash and cash equivalents	21,515	-	21,515
Total financial assets	₱49,760,290,801	₱22,497,192,829	₱72,257,483,630
	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
Insurance receivables	147,637,928	-	147,637,928
Policy loans	3,685,363,583	-	3,685,363,583
Corporate loan	200,000,000	-	200,000,000
Accounts receivable held in IIF	-	293,503,780	293,503,780
Receivable from agents - net	40,130,780	-	40,130,780
Security deposits	60,189,403	-	60,189,403
Due from officers and employees	38,772,848	-	38,772,848
Due from related parties	467,371,818	-	467,371,818
Mortgage loans	11,099,093	-	11,099,093
Other receivables	6,203,069	-	6,203,069
Accrued income			
Debt securities	252,657,331	-	252,657,331
Held in IIF	-	64,794,909	64,794,909
Corporate loan	3,316,110	-	3,316,110
Swap receivable	2,986,594	-	2,986,594
Cash and cash equivalents	14,407	-	14,407
Total financial assets	₱44,847,299,084	₱14,104,786,465	₱58,952,085,549

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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, 2014					
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					
Held in IIF					
Peso bonds	P-	P7,475,465,853	P-	P-	P7,475,465,853
Dollar bonds	-	2,276,799,159	-	-	2,276,799,159
Equity securities - at market					
Peso denominated	-	-	8,841,307,153	-	8,841,307,153
Dollar denominated	-	-	2,706,168,485	-	2,706,168,485
AFS financial assets					
Debt securities					
Local currency	-	40,998,991,357	-	-	40,998,991,357
Foreign currency	-	968,321,601	-	-	968,321,601
Quoted equity securities					
Club shares	-	-	38,592,000	-	38,592,000
Common shares	-	-	1,571,334,276	-	1,571,334,276
Loans and receivables					
Cash in commercial banks	928,419,748	-	-	-	928,419,748
Short-term deposits	840,270,238	-	-	-	840,270,238
Insurance receivables	-	-	140,881,137	-	140,881,137
Policy loans	-	-	3,714,511,673	-	3,714,511,673
Due from related parties	-	-	735,094,542	-	735,094,542
Due from officers and employees	-	-	39,754,373	-	39,754,373
Receivable from agents	-	-	60,177,318	12,439,689	72,617,007
Security deposits	-	-	69,242,403	-	69,242,403
Mortgage loans	-	-	11,343,965	-	11,343,965
Corporate loan	-	-	200,000,000	-	200,000,000
Accounts receivable held in					
IIF	-	105,172,481	-	-	105,172,481
Other receivables	-	-	163,056,579	-	163,056,579
Accrued income					
Debt securities	-	274,110,667	-	-	274,110,667
Held in IIF	-	96,084,356	-	-	96,084,356
Corporate loans	-	-	2,362,751	-	2,362,751
Cash and cash equivalents	21,515	-	-	-	21,515
Total financial assets	P1,768,711,501	P52,194,945,474	P18,293,826,655	P12,439,689	P72,269,923,319

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					
Held in IIF	P366,082,590	P-	P-	P-	P366,082,590
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

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Corporate Secretary

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December 31, 2013					
Neither Past Due nor Impaired					
	Investment Grade	Non-investment Grade Satisfactory	Not rated	Past due and impaired	Total
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
Insurance receivables	—	—	147,637,928	—	147,637,928
Policy loans	—	—	3,685,363,583	—	3,685,363,583
Due from related parties	—	—	467,371,818	—	467,371,818
Due from officers and employees	—	—	38,772,848	—	38,772,848
Receivable from agents	—	—	40,130,780	12,058,606	52,189,386
Security deposits	—	—	60,189,403	—	60,189,403
Mortgage loans	—	—	11,099,093	—	11,099,093
Corporate loan	—	—	200,000,000	—	200,000,000
Accounts receivable held in IIF	—	293,503,780	—	—	293,503,780
Other receivables	—	—	6,203,069	—	6,203,069
Accrued income					
Debt securities	4,761,364	247,895,967	—	—	252,671,738
Held in IIF	—	64,794,909	—	—	64,794,909
Corporate loans	—	3,316,110	—	—	3,316,110
Swap receivable	2,986,594	—	—	—	2,986,594
Cash and cash equivalents	14,807	—	—	—	14,807
Total financial assets	₱2,160,066,777	₱44,547,006,807	₱12,245,012,365	₱12,058,606	₱58,964,158,962

As of December 31, 2014 and 2013, 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.

b. Investment securities

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

The Parent Company uses Standard and Poor's credit ratings as basis to determine whether a security is investment grade or non-investment grade. In the financial market, securities with credit rating of at least BBB are considered as investment grade securities while securities with credit rating lower than BBB are considered as non-investment grade. Investment grade financial assets are assets which have strong capacity to meet the Parent Company's financial commitments and are unsusceptible to adverse effects of changes in economic conditions. These investments 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.

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

c. Loans and receivables

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

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

d. 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 from related parties, due from officers and employees, receivable from agents, corporate loans, accounts receivable held in IIF, mortgage loans and other receivables for which the Parent Company has not yet established a credit rating system.

As of December 31, 2014 and 2013, bulk of the Parent Company's FVPL and AFS investments pertain to Philippine Government bonds (see Note 5).

The Parent Company did not have other significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2014 and 2013.

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

December 31, 2014

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

December 31, 2013

	<u>Age Analysis of Financial Assets Past-Due but not Impaired</u>					Total
	< 30 days	31 to 90 days	More than 90 days	Past-Due but not Impaired	Past-Due and Impaired	
Loans and receivables						
Receivable from agents	₱3,597,766	₱2,158,927	₱34,374,087	₱40,130,780	₱12,058,606	₱52,189,386

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.

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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, 2014							
	Up to a year	1-3 years	3-5 years	Over 5 years	No Term	Variable Unit-Linked	Total	
Financial assets at FVPL								
Debt securities								
Held in IIF								
Peso bonds	P-	P-	P-	P-	P-	P7,475,465,853	P7,475,465,853	
Dollar bonds	-	-	-	-	-	2,276,799,159	2,276,799,159	
Equity securities - at market								
Peso denominated	-	-	-	-	-	8,841,307,153	8,841,307,153	
Dollar denominated	-	-	-	-	-	2,706,168,485	2,706,168,485	
AFS financial assets								
Debt securities								
Local currency	2,245,935,114	4,491,870,227	6,737,805,341	62,696,345,749	-	-	76,171,956,431	
Foreign currency	53,044,516	106,089,032	159,133,549	1,197,030,078	-	-	1,515,297,175	
Equity securities								
Club shares	-	-	-	-	38,592,000	-	38,592,000	
Common shares	-	-	-	-	1,571,334,276	-	1,571,334,276	
Loans and receivables								
Cash on hand	-	-	-	-	712,714	-	712,714	
Cash in bank	615,080,832	-	-	-	-	313,338,916	928,419,748	
Short term deposits	157,413,812	-	-	-	-	682,856,426	840,270,238	
Insurance receivables	140,881,137	-	-	-	-	-	140,881,137	
Due from officers and employees	10,989,587	27,118,887	1,645,899	-	-	-	39,754,373	
Due from related parties	735,094,542	-	-	-	-	-	735,094,542	
Receivable from agents	17,580,946	33,311,596	9,284,776	-	-	-	60,177,318	
Security deposits	-	8,657,043	22,731,715	37,853,645	-	-	69,242,403	
Mortgage loans	-	-	-	11,343,965	-	-	11,343,965	
Policy loans	3,714,511,673	-	-	-	-	-	3,714,511,673	
Corporate loans	10,988,933	22,007,973	221,977,867	-	-	-	254,974,773	
Accounts receivable held in IIF	-	-	-	-	-	105,172,481	105,172,481	
Other receivables	23,113,454	119,951,250	19,991,875	-	-	-	163,056,579	
Accrued income								
Debt securities	274,110,667	-	-	-	-	-	274,110,667	
Held in IIF	-	-	-	-	-	96,084,356	96,084,356	
Corporate loans	2,362,751	-	-	-	-	-	2,362,751	
Cash and cash equivalents	21,515	-	-	-	-	-	21,515	
Total financial assets	P8,001,129,479	P4,809,006,008	P7,172,571,022	P63,942,573,437	P1,610,638,990	P22,497,192,829	P108,033,111,765	
Other financial liabilities								
Legal policy reserves	976,915,823	738,804,267	647,217,358	23,734,658,398	-	22,398,782,420	48,496,378,266	
Policyholders' dividends	4,497,459,164	-	-	-	-	-	4,497,459,164	
Premium deposit fund	52,567,139	-	-	-	-	-	52,567,139	
Insurance payables	92,365,278	-	-	-	-	-	92,365,278	
Claims payable	452,485,167	-	-	-	-	-	452,485,167	
Accounts payable and accrued expenses*								
Accounts and other payables	312,729,649	-	-	-	-	-	312,729,649	
Accrued expenses	184,131,916	-	-	-	-	38,450,609	222,582,525	
Commissions payable	127,601,524	-	-	-	-	-	127,601,524	
Secure account liability	15,837,768	-	-	-	-	-	15,837,768	
Others	145,512,182	-	-	-	-	-	145,512,182	
Due to related parties	18,024,516	-	-	-	-	-	18,024,516	
Total financial liabilities	6,875,630,126	738,804,267	647,217,358	23,734,658,398	-	22,437,233,029	54,433,543,178	
Net excess liquidity (deficit)	P1,125,499,353	P4,070,201,741	P6,525,353,664	P40,207,915,039	P1,610,638,990	P59,959,800	P53,599,568,587	

*Amount excluding statutory liability.

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December 31, 2013

	Up to a year	1-3 years	3-5 years	Over 5 years	No Term	Variable Unit- Linked	Total
Financial assets at FVPL							
Debt securities							
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	50,417,093	100,834,142	151,251,190	1,170,812,376	-	-	1,473,314,801
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	473,900,161	-	-	-	-	759,601,627	1,233,501,788
Short term deposits	238,832,471	-	-	-	-	266,252,271	505,084,742
Insurance receivables	147,637,928	-	-	-	-	-	147,637,928
Due from officers and employees	22,467,127	16,305,721	-	-	-	-	38,772,848
Due from related parties	467,371,818	-	-	-	-	-	467,371,818
Receivable from agents	3,981,682	25,330,523	5,803,856	5,014,719	-	-	40,130,780
Security deposits	-	8,657,043	22,371,715	29,160,645	-	-	60,189,403
Mortgage loans	-	-	-	11,099,092	-	-	11,099,092
Policy loans	3,685,363,583	-	-	-	-	-	3,685,363,583
Corporate loans	-	-	200,000,000	-	-	-	200,000,000
Accounts receivable held in IIF	-	-	-	-	-	358,298,689	358,298,689
Other receivables	6,203,069	-	-	-	-	-	6,203,069
Accrued income							
Debt securities	252,671,738	-	-	-	-	-	252,671,738
Held in IIF	-	-	-	-	-	64,794,909	64,794,909
Corporate loans	3,316,110	-	-	-	-	-	3,316,110
Swap receivable	2,986,594	-	-	-	-	-	2,986,594
Cash and cash equivalents	14,407	-	-	-	-	-	14,407
Total financial assets	7,859,527,259	4,332,419,421	6,696,958,499	60,867,604,455	1,424,982,458	14,169,581,374	95,351,073,466
Other financial liabilities							
Legal policy reserves	800,858,102	754,089,020	620,487,395	22,182,810,357	-	14,029,069,125	38,387,313,999
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*							
Accounts and other payables	73,588,691	-	-	-	-	-	73,588,691
Accrued expenses	203,248,221	-	-	-	-	23,724,611	226,972,832
Commissions payable	60,906,620	-	-	-	-	-	60,906,620
Secure account liability	15,330,048	-	-	-	-	-	15,330,048
Others	82,883,524	-	-	-	-	-	82,883,524
Due to related parties	5,407,398	-	-	-	-	-	5,407,398
Total financial liabilities	6,399,790,784	754,089,020	620,487,395	22,182,810,357	-	14,052,793,736	44,009,971,292
Net excess liquidity (deficit)	₱1,459,736,475	₱3,578,330,401	₱6,076,471,104	₱38,684,794,098	₱1,424,982,458	₱116,787,638	₱51,341,102,174

*Amount excluding statutory liability.

As of December 31, 2014 and 2013, the debt securities held in IIFs have maturities beyond 5 years.

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

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

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Market Risk

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

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

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

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

- *Currency Risk*

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

The Parent Company invests in dollar bonds to meet its dollar obligations from its dollar insurance products. The following table shows the details of the Parent Company's currency exposure in original currency (US\$) and Philippine Peso equivalent (PHP) as of December 31, 2014 and 2013:

Assets	2014		2013	
	US\$	PHP	US\$	PHP
Cash and cash equivalents	\$5,623,395	₱251,478,218	\$6,746,679	₱299,518,835
Financial assets at FVPL	–	–	8,246,032	366,082,590
AFS financial assets	21,652,988	968,321,601	18,815,586	835,317,952
Loans and receivables	3,752,428	167,808,565	4,128,510	183,285,206
Derivative assets	–	–	1,160,411	47,634,892
	\$31,028,811	₱1,387,608,384	\$31,028,811	₱1,731,839,475
Liabilities				
Insurance contract liabilities	794,470	35,528,681	453,299	20,124,191
Net exposure	\$30,234,341	₱1,352,079,703	\$30,575,512	₱1,711,715,284

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.

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The exchange rate used to restate the Parent Company's dollar-denominated assets and liabilities are ₱44.72 and ₱44.40 to \$1 as of December 31, 2014 and 2013, 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.

2014		
USD	Change in Variable	Impact on Income before Tax
	+4.851%	₱65,594,777
	-4.851%	(65,594,777)
2013		
USD	Change in Variable	Impact on Income before Tax
	+5.297%	₱217,420,830
	-5.297%	(217,420,830)

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.

Fixed Rate Instruments	Interest Rate	December 31, 2014				Total
		>1 - 2 years	>2 - 5 years	Over 5 years	No term	
Financial assets						
AFS financial assets						
Debt securities						
Local currency	5.75% - 18.25%	₱-	₱-	₱40,998,991,357	₱-	40,998,991,357
Foreign currency	5.00% - 10.63%	-	-	968,321,601	-	968,321,601
Loans and receivables						
Policy loans	8.00% - 10.00%	3,714,511,673	-	-	-	3,714,511,673
Short-term deposits	0.48% - 1.00%	840,270,238	-	-	-	840,270,238
Cash in banks	0.25% - 1.50%	928,419,748	-	-	-	928,419,748
Corporate loan	5.42%	-	200,000,000	-	-	200,000,000
Mortgage loan	9.00% - 10.00%	-	-	11,343,965	-	11,343,965
		₱5,483,201,659	₱200,000,000	₱41,978,656,923	₱-	₱47,661,858,582

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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	8.00% - 10.00%	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	9.00% - 10.00%	-	-	11,099,092	-	11,099,092
		₱5,837,667,594	₱200,000,000	₱37,392,068,575	₱-	₱43,429,736,169

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.

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

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

- *Equity price risk*

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

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

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

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

2014		
Market index	Change in yield rate	Impact on other comprehensive Income
PSE index	+13%	₱211,388,101
PSE index	-13%	(211,388,101)
2013		
Market index	Change in yield rate	Impact on other comprehensive Income
PSE index	+9%	₱130,341,623
PSE index	-9%	(130,341,623)

Financial Instruments - Fair Value Measurement

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

	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Financial assets at FVPL				
Debt securities				
Foreign currency	₱-	₱-	₱366,082,590	₱366,082,590
Held in IIF				
Peso bond	7,475,465,853	7,475,465,853	4,939,718,409	4,939,718,409
Dollar bond	2,276,799,159	2,276,799,159	1,616,808,149	1,616,808,149
Equity securities - at market				
Peso denominated	8,841,307,153	8,841,307,153	4,425,576,200	4,425,576,200
Dollar denominated	2,706,168,485	2,706,168,485	1,738,531,120	1,738,531,120
Derivative assets	-	-	47,634,892	47,634,892
AFS financial assets				
Government debt securities				
Local currency	40,998,991,357	40,998,991,357	36,545,651,531	36,545,651,531
Foreign currency	968,321,601	968,321,601	835,317,952	835,317,952
Quoted equity securities				
Club shares	38,592,000	38,592,000	38,042,000	38,042,000
Common shares	1,571,334,276	1,571,334,276	1,386,094,523	1,386,094,523
Loans and receivables				
Cash and cash equivalents				
Cash on hand	712,714	712,714	845,934	845,934
Cash in commercial banks	615,080,832	615,080,832	473,900,161	473,900,161
Short-term deposits in commercial banks	157,413,812	157,413,812	238,832,471	238,832,471
Cash held in IIF	996,195,342	996,195,342	1,025,853,898	1,025,853,898
Insurance receivables	140,881,137	140,881,137	147,637,928	147,637,928
Policy loans	3,714,511,673	3,714,511,673	3,685,363,583	3,685,363,583
Mortgage loans	11,343,965	11,343,965	11,099,093	11,099,093
Due from officers and employees	39,754,373	39,754,373	38,772,848	38,772,848

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	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Receivable from agents	₱60,177,317	₱60,177,317	₱40,130,780	₱40,130,780
Due from related parties	236,925,416	236,925,416	121,590,478	121,590,478
Accounts receivable held in IIF	105,172,481	105,172,481	293,503,785	293,503,785
Corporate loan	200,000,000	200,000,000	200,000,000	200,000,000
Other receivables	163,056,579	163,056,579	6,203,069	6,203,069
Accrued income				
Debt securities	274,110,667	274,110,667	252,657,331	252,657,331
Held in IIF	96,084,356	96,084,356	64,794,904	64,794,904
Corporate loan	2,362,751	2,362,751	3,316,110	3,316,110
Swap receivables	-	-	2,986,594	2,986,594
Cash and cash equivalents	21,515	21,515	14,407	14,407
Total financial assets	₱71,690,784,814	₱71,690,784,814	₱58,546,960,740	₱58,546,960,740
Financial liabilities				
Policyholders' dividends	₱4,497,459,164	₱4,497,459,164	₱4,647,239,259	₱4,647,239,259
Premium deposit fund	52,567,139	52,567,139	52,628,189	52,628,189
Insurance payables	92,365,278	92,365,278	56,312,634	56,312,634
Accounts payable and accrued expenses				
Accounts and other payables	312,729,649	312,729,649	73,588,691	56,840,474
Accrued expenses	222,582,525	222,582,525	203,248,221	203,248,221
Commissions payable	127,601,524	127,601,524	60,906,620	60,906,620
Provident fund	47,212,898	47,212,898	31,327,775	31,327,775
Secure account liability	15,837,768	15,837,768	15,330,048	15,330,048
Others	145,512,182	145,512,182	82,883,524	82,883,524
Due to related parties	18,024,516	18,024,516	5,407,398	5,407,398
Total financial liabilities	₱5,531,892,643	₱5,531,892,643	₱5,228,872,359	₱5,212,124,142

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

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

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

The carrying amount of mortgage loans and due from officers and employees approximate fair value as these receivables bear interest at 4% to 9%.

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

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

	December 31, 2014		
	Level 1	Level 2	Level 3
AFS financial assets			
Government debt securities			
Local currency	₱13,364,182,428	₱27,634,808,929	₱-
Foreign currency	-	968,321,601	-
Quoted equity securities			
Club shares	38,390,000	202,000	-
Financial Assets designated at FVPL			
Debt securities			
Held in IIFS			
Peso bonds	5,401,333,483	2,074,132,370	-
Dollar bonds	241,130,703	2,035,668,456	-
Equity securities - at market			
Peso denominated	8,841,307,153	-	-
Dollar denominated	2,706,168,485	-	-
Total	₱30,592,512,252	₱32,713,133,356	₱-

	December 31, 2013		
	Level 1	Level 2	Level 3
AFS financial assets			
Government debt securities			
Local currency	₱10,035,653,744	₱26,509,997,787	₱-
Foreign currency	-	835,317,952	-
Quoted equity securities			
Club shares	37,840,000	202,000	-
Financial Assets designated at FVPL			
Debt securities			
Foreign currency	-	366,082,590	-
Held in segregated funds			
Peso bonds	3,405,765,854	1,533,952,555	-
Dollar bonds	245,412,398	1,371,395,751	-
Equity securities - at market			
Peso denominated	4,425,576,200	-	-
Dollar denominated	1,738,531,120	-	-
Derivative Assets	-	47,634,892	-
Total	₱19,888,779,316	₱30,664,583,527	₱-

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.

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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, 2014, which is considered as a market observable input. The notes are fully funded and fully collateralized, thereby eliminating both counterparty and the Company's own non-performance risk.

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

There were no changes in the valuation technique used by the Parent Company. In 2014 and 2013, there have been no transfers between level 1 and level 2 fair value movements, and no transfers into and out of level 3 fair value measurement.

26. Related Party Transactions

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

Outstanding balances at year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party payables or receivables. The Company has not recognized any impairment losses on amounts due from related parties for the years ended December 31, 2014 and 2013. This assessment is undertaken at each financial year through a review of the financial position of the related party and the market in which the related party operates.

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Significant transactions with related parties include the following:

December 31, 2014

	Entities	Financial Statement Account	Nature	Terms and Conditions	Transactions during the year	Outstanding Balance	
Ultimate Parent	Manulife Financial Corporation	Due from Related Parties	Actual time charges and/or cost of its officers and employees for the marketing support and branding awareness campaign.	Unsecured	₱235,378,018	₱14,881,634	
		Due to Related Parties	Cost for the data management services provided by the ultimate parent.	Unsecured	7,181,184	8,337,842	
Subsidiaries	Manulife Financial Plans, Inc.	Insurance Receivables	Actual premium payment for life coverage embedded in pre-need plans.	Unsecured	29,674,533	4,133,331	
		Due from Related Parties	Borrowed funds by the subsidiary, non-interest bearing, net of collections and deposits.	Unsecured	60,600,227	150,600,227	
			Allocated costs to the subsidiary for management, accounting and other administrative services rendered plus 5% mark up and various fund transfer throughout the year.	Unsecured	27,825,859	3,168,666	
	Manulife Chinabank Life Assurance Corporation	Due from Related Parties	99% of inforce business assumed by the Parent Company and 1% retained by the subsidiary.	Unsecured	606,333,162	498,169,127	
			Reserve for legal policy reserves		Unsecured	–	2,265,277,539
				Assumed unit-linked management fee from subsidiary.	Unsecured	265,334,280	34,402,150
			Allocated costs to the subsidiary for management, accounting and other administrative services rendered plus 5% mark-up.	Unsecured	33,378,266	33,378,266	
Under Common Control	FCM Investments	Due from Related Parties	Non-interest bearing cash advances.	Unsecured	6,678,355	–	
	Manulife International Limited	Due to Related Parties	Payment of reinsurance payable which consist of premium, recoverable and administrative charges.	Unsecured	2,289,408	2,903,847	
	Manulife Data Services, Inc.	Due from Related Parties	Non-interest bearing cash advances.	Unsecured	66,490	494,477	
		Due to Related Parties	Cost for the data management services provided by the affiliate.	Unsecured	5,558,414	5,539,094	
	Manulife Technical & Support Malaysia	Due to Related Parties	Actual time charges and/or cost of its officers and employees for technical support charges.	Unsecured	6,323,463	1,243,734	

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December 31, 2013

	Entities	Financial Statement Account	Nature	Terms and Conditions	Transactions during the year	Outstanding Balance
Ultimate Parent	Manulife Financial Corporation	Due from Related Parties	Actual time charges and/or cost of its officers and employees for the marketing support and branding awareness campaign.	Unsecured	₱5,535,546	₱3,876,915
		Due to Related Parties	Cost for the data management services provided by the ultimate parent.	Unsecured	3,242,905	4,446,779
Subsidiaries	Manulife Financial Plans, Inc.	Insurance Receivables	Actual premium payment for life coverage embedded in pre-need plans.	Unsecured	35,589,411	4,462,965
		Due from Related Parties	Borrowed funds by the subsidiary, non-interest bearing, net of collections and deposits.	Unsecured	90,000,000	86,537,208
			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	25,704,834	3,186,643
	Manulife Chinabank Life Assurance Corporation	Due from Related Parties	99% of inforce business assumed by the Parent Company and 1% retained by the subsidiary	Unsecured	238,808,797	345,781,340
			Assumed unit-linked management fee from subsidiary	Unsecured	200,473,712	20,886,367
		Reserve for legal policy reserves		Unsecured	–	1,670,801,780
Under Common Control	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 Parties	Non-interest bearing cash advances.	Unsecured	3,124,712	–
	Manulife Data Services, Inc.	Due from Related Parties	Non-interest bearing cash advances.	Unsecured	71,870	427,987
		Due to Related Parties	Cost for the data management services provided by the affiliate.	Unsecured	9,022	118,338
	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

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Remuneration of Key Management Personnel

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

	2014	2013
Salaries and other short-term employee benefits	₱185,000,424	₱154,982,644
Post-employment and other long-term benefits	6,871,837	4,938,230
Others	1,136,285	498,806
	₱193,008,546	₱160,419,680

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, 2014 and 2013 follow:

	2014	2013
Within one year	₱139,908,317	₱131,565,902
After one year but not more than five years	316,411,166	392,298,090
	₱456,319,483	₱523,863,992

In 2014 and 2013, rent expense recognized in the parent company statements of income amounted to ₱158.21 million and ₱118.62 million, respectively (see Note 21).

28. Regulatory Requirements

Capital Management Framework

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

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

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

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Regulatory Framework

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

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

The operations of the Parent Company are subject to the regulatory requirements of the Insurance Commission. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g. fixed capitalization requirements, margin of solvency (MOS) and RBC requirements to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise (see Note 28).

Fixed Capitalization Requirements

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

On October 29, 2008, the IC issued the CL No. 26-2008, which recalls that in view of the compliance of insurance companies with the requirement of IMC No. 10-2006, the scheduled increases due December 31, 2009 have been deferred for a year. Hence, the IMC reiterates that by December 31, 2008, insurance companies should comply with the increase previously scheduled for December 31, 2007.

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

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

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

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

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

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

As of December 31, 2014, the required minimum statutory net worth for the Parent Company is ₱250 million. The Parent Company has complied with the minimum networth requirement.

Risk-Based Capital

The Amended Code provides that the Commissioner may require the adoption of the risk-based capital approach and other internationally accepted forms of capital framework. Together with the insurance industry, the IC is currently in the process of adopting a new RBC approach that would be more tailored to the Philippine insurance industry. Pending the adoption of the new RBC approach, the provisions of the Code on margin of solvency and IMC No. 6-2006 shall still be used for purposes of the December 31, 2014 and 2013 financial reporting.

RBC Requirements

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

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

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

	2014 (Estimated)	2013 (Actual)
Networth	8,984,820,197	7,816,754,265
RBC requirement	2,752,485,444	2,581,443,121
RBC ratio	326%	303%

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:

	2014	2013
Loans and receivables	₱415,518,928	₱235,936,265
Property and equipment	136,771,010	131,857,871
Intangible asset	59,766,400	67,237,200
Other assets	13,599,081	10,934,476
	₱625,655,419	₱445,965,812

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, 2014 and 2013 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:

	2014 (Estimated)	2013 (Actual)
Total admitted assets	₱63,944,231,234	₱52,891,804,541
Total liabilities	54,959,411,038	45,075,050,276
Net worth	8,984,820,196	7,816,754,265
Less:		
Capital stock/Seed Money	930,000,000	930,000,000
Accumulated share in earnings (losses) of subsidiaries under equity method	158,130,409	2,544,191,421
Total equity available for MOS	7,896,689,787	4,342,562,844
Required MOS	233,261,516	273,223,347
	₱7,663,428,271	₱4,069,339,497

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Unimpaired Capital Requirement

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

Dividend Declaration

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

Consolidated Compliance Framework

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

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

29. Current and Non-current Classification

As of December 31 2014 and 2013, the Company’s classification of its accounts is as follows:

	2014			2013		
	Current	Non-current	Total	Current	Non-current	Total
Assets						
Cash and Cash Equivalents	₱1,769,402,700	₱-	₱1,769,402,700	₱1,739,432,464	₱-	₱1,739,432,464
Insurance Receivables	140,881,137	-	140,881,137	147,637,928	-	147,637,928
Financial Assets						
Available-for-sale financial assets	-	43,577,239,234	43,577,239,234	-	38,805,106,006	38,805,106,006
Financial assets at fair value through profit or loss	21,299,740,650	-	21,299,740,650	13,086,716,468	-	13,086,716,468
Loans and receivables	4,606,462,683	491,890,651	5,098,353,334	4,478,891,060	323,743,314	4,802,634,374
Derivative assets	-	-	-	47,634,892	-	47,634,892

(Forward)

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Corporate Secretary
Date: May 7, 2015



	2014			2013		
	Current	Non-current	Total	Current	Non-current	Total
Accrued Income	₱372,579,289	₱-	₱372,579,289	₱323,769,351	₱-	₱323,769,351
Reinsurance Assets	16,568,271	-	16,568,271	4,018,508	-	4,018,508
Investments in Subsidiaries - at cost	-	926,883,873	926,883,873	-	1,287,149,465	1,287,149,465
Property and Equipment	-	165,937,275	165,937,275	-	160,405,130	160,405,130
Intangible Assets	-	59,766,400	59,766,400	-	67,237,200	67,237,200
Other Assets	130,181,879	-	130,181,879	145,583,802	-	145,583,802
Total Assets	28,335,816,609	₱45,221,717,433	₱73,557,534,042	₱19,973,684,473	₱40,643,641,115	60,617,325,588
Liabilities						
Insurance contract liabilities	23,828,183,410	24,668,194,856	48,496,378,266	15,231,315,325	23,557,386,772	38,788,702,097
Policyholders' dividends	4,497,459,164	-	4,497,459,164	4,647,239,259	-	4,647,239,259
Reserve for policyholders' dividends	957,013,701	-	957,013,701	957,855,201	-	957,855,201
Insurance payables	92,365,278	-	92,365,278	56,312,634	-	56,312,634
Premium deposit fund	52,567,139	-	52,567,139	52,628,189	-	52,628,189
Accounts payable and accrued expenses	956,976,949	-	956,976,949	529,284,588	-	529,284,588
Due to related parties	18,024,516	-	18,024,516	5,407,398	-	5,407,398
Pension liability	-	-	-	-	13,359,846	13,359,846
Total Liabilities	30,402,590,157	24,668,194,856	55,070,785,013	21,480,042,594	23,570,746,618	45,050,789,212

30. Notes to Parent Company Statement of Cash Flows

The noncash investing transaction of the Parent Company pertains to the receivable on the sale of non-controlling interest in MCBLAC to CBC amounting to ₱139,943,124 (see Note 8). MCBALC remained as receivable as December 31, 2014.

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