

**Manulife China Bank Life Assurance  
Corporation**

Financial Statements  
December 31, 2016 and 2015

and

Independent Auditor's Report



## **INDEPENDENT AUDITOR'S REPORT**

The Board of Directors and Stockholders  
Manulife China Bank Life Assurance Corporation

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

#### **Opinion**

We have audited the financial statements of Manulife China Bank Life Assurance Corporation (the Company), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

#### **Basis for Opinion**

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

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

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

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

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



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

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

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

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

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



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

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

SYCIP GORRES VELAYO & CO.

*Lucy L. Chan*

Lucy L. Chan

Partner

CPA Certificate No. 88118

SEC Accreditation No. 0114-AR-4 (Group A),  
January 7, 2016, valid until January 6, 2019

Tax Identification No. 152-884-511

BIR Accreditation No. 08-001998-46-2015,  
February 27, 2015, valid until February 26, 2018

PTR No. 5908681, January 3, 2017, Makati City

April 7, 2017



**MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>Cash and Cash Equivalents</b> (Notes 4, 6 and 21)	<b>¥2,353,531,862</b>	¥1,159,372,967
<b>Insurance Receivables</b> (Notes 3 and 21)	<b>18,948,108</b>	29,003,750
<b>Reinsurance Assets</b> (Notes 3, 10, 11 and 14)	<b>3,184,345,137</b>	2,779,410,733
<b>Financial Assets</b>		
Financial assets at fair value through profit or loss (Notes 5, 6 and 21)	<b>21,718,766,007</b>	18,058,059,585
Available-for-sale financial assets (Notes 5 and 21)	<b>1,747,877,168</b>	1,698,262,447
Loans and receivables (Notes 5, 21 and 23)	<b>252,467,591</b>	132,706,120
<b>Accrued Income</b> (Notes 3, 7 and 21)	<b>126,995,474</b>	127,652,598
<b>Property and Equipment</b> (Notes 3, 8 and 23)	<b>22,449,048</b>	20,204,266
<b>Other Assets</b> (Notes 9 and 23)	<b>30,021,942</b>	15,002,549
	<b>¥29,455,402,337</b>	¥24,019,675,015
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Insurance contract liabilities (Notes 3, 10 and 21)	<b>¥26,893,811,248</b>	¥21,958,914,609
Insurance payables (Notes 11, 14 and 21)	<b>1,048,379,295</b>	716,447,117
Policyholders' dividends (Note 21)	<b>118,314,720</b>	87,499,562
Reserve for policyholders' dividends	<b>2,359,685</b>	2,108,714
Accounts payable and accrued expenses (Notes 12 and 21)	<b>452,705,940</b>	178,897,962
Due to related parties (Notes 14 and 21)	<b>249,497,384</b>	149,804,400
Income tax payable	<b>557,958</b>	233,833
	<b>28,765,626,230</b>	23,093,906,197
<b>Equity</b>		
Capital stock (Note 13)	<b>500,000,000</b>	500,000,000
Contributed surplus (Note 13)	<b>525,000,000</b>	525,000,000
Reserve for fluctuation in value of available-for-sale financial assets (Note 5)	<b>(67,537,589)</b>	(53,896,954)
Deficit	<b>(267,686,304)</b>	(45,334,228)
	<b>689,776,107</b>	925,768,818
	<b>¥29,455,402,337</b>	¥24,019,675,015

*See accompanying Notes to Financial Statements.*



**MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION**  
**STATEMENTS OF INCOME**

	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>REVENUES</b>		
Gross premiums earned on insurance contracts	<b>¥7,645,093,135</b>	¥5,542,686,849
Reinsurers' share of gross premiums earned on insurance contracts	<b>(370,697,431)</b>	(611,625,328)
Insurance premiums earned (Note 15)	<b>7,274,395,704</b>	4,931,061,521
Investment income (Note 16)	<b>92,571,202</b>	87,187,436
Gain on sale of available-for-sale financial assets (Note 5)	<b>2,124,724</b>	197,276,294
Foreign currency exchange gains - net	<b>–</b>	14,967,255
Other income (Note 16)	<b>298,897,149</b>	144,337,050
<b>Total revenues</b>	<b>7,667,988,779</b>	<b>5,374,829,556</b>
<b>BENEFITS AND OPERATING EXPENSES</b>		
Change in insurance contract liabilities	<b>6,752,401,730</b>	4,508,538,710
Gross benefits and claims incurred on insurance contracts	<b>57,335,342</b>	79,002,881
Reinsurers' share of benefits and claims incurred on insurance contracts	<b>(20,266,283)</b>	(24,388,233)
Dividends and interest on policyholders' dividends	<b>39,909,659</b>	40,873,185
Benefits and claims (Note 17)	<b>6,829,380,448</b>	4,604,026,543
Commission expense (Note 14)	<b>435,122,250</b>	343,854,260
General and administrative expenses (Note 18)	<b>575,122,611</b>	486,896,481
Insurance taxes	<b>21,032,497</b>	28,572,668
Foreign currency exchange losses - net	<b>4,531,524</b>	–
<b>Total benefits and operating expenses</b>	<b>7,865,189,330</b>	<b>5,463,349,952</b>
<b>LOSS BEFORE INCOME TAX</b>	<b>(197,200,551)</b>	<b>(88,520,396)</b>
<b>PROVISION FOR INCOME TAX (Note 20)</b>	<b>25,151,525</b>	<b>21,333,556</b>
<b>NET LOSS</b>	<b>(¥222,352,076)</b>	<b>(¥109,853,952)</b>

*See accompanying Notes to Financial Statements.*



**MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION**  
**STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>NET LOSS</b>	<b>(¥222,352,076)</b>	<b>(¥109,853,952)</b>
<b>OTHER COMPREHENSIVE LOSS</b>		
<b>Items that will be reclassified to profit or loss in subsequent periods:</b>		
Net change in fair value of available-for-sale financial assets (Note 5)	<b>(13,640,635)</b>	<b>(308,493,009)</b>
	<b>(13,640,635)</b>	<b>(308,493,009)</b>
<b>TOTAL COMPREHENSIVE LOSS</b>	<b>(¥235,992,711)</b>	<b>(¥418,346,961)</b>

*See accompanying Notes to Financial Statements.*



**MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION**

**STATEMENTS OF CHANGES IN EQUITY**

	<b>Capital Stock</b> (Notes 13 and 23)	<b>Contributed Surplus</b> (Note 13)	<b>Reserve for Fluctuation in Value of Available-for- sale Financial Assets</b> (Note 5)	<b>Deficit</b>	<b>Total</b>
<b>Balances at January 1, 2016</b>	<b>₱500,000,000</b>	<b>₱525,000,000</b>	<b>(₱53,896,954)</b>	<b>(₱45,334,228)</b>	<b>₱925,768,818</b>
Net loss	–	–	–	(222,352,076)	(222,352,076)
Other comprehensive loss	–	–	(13,640,635)	–	(13,640,635)
<b>Total comprehensive loss</b>	<b>–</b>	<b>–</b>	<b>(13,640,635)</b>	<b>(222,352,076)</b>	<b>(235,992,711)</b>
<b>Balances at December 31, 2016</b>	<b>₱500,000,000</b>	<b>₱525,000,000</b>	<b>(₱67,537,589)</b>	<b>(₱267,686,304)</b>	<b>₱689,776,107</b>
Balances at January 1, 2015	₱500,000,000	₱525,000,000	₱254,596,055	₱64,519,724	₱1,344,115,779
Net loss	–	–	–	(109,853,952)	(109,853,952)
Other comprehensive loss	–	–	(308,493,009)	–	(308,493,009)
<b>Total comprehensive loss</b>	<b>–</b>	<b>–</b>	<b>(308,493,009)</b>	<b>(109,853,952)</b>	<b>(418,346,961)</b>
<b>Balances at December 31, 2015</b>	<b>₱500,000,000</b>	<b>₱525,000,000</b>	<b>(₱53,896,954)</b>	<b>(₱45,334,228)</b>	<b>₱925,768,818</b>

*See accompanying Notes to Financial Statements.*





**MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION**  
**STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before income tax	<b>(¥197,200,551)</b>	<b>(¥88,520,396)</b>
Adjustments for:		
Change in insurance contract liabilities – non-unit-linked (Note 17)	<b>450,479,813</b>	555,265,228
Depreciation and amortization (Notes 8 and 18)	<b>8,551,058</b>	8,926,710
Foreign currency exchange losses (gains) - net	<b>4,531,524</b>	(14,967,255)
Change in IBNR provision (Note 10)	<b>1,583,382</b>	2,691,584
Fair value loss on financial assets at fair value through profit or loss (Note 16)	<b>1,200,948</b>	4,364,700
Increase in reserve for policyholders' dividends	<b>250,971</b>	1,748,786
Net gain on disposal of property and equipment (Note 8)	<b>(300,000)</b>	–
Gains on sale of available-for-sale financial assets (Note 5)	<b>(2,124,724)</b>	(197,276,294)
Interest income (Note 16)	<b>(93,772,150)</b>	(91,552,136)
Operating income before changes in working capital	<b>173,200,271</b>	180,680,927
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets at fair value through profit or loss (Note 5)	<b>(3,666,438,894)</b>	(1,705,866,238)
Insurance receivables	<b>10,055,642</b>	3,034,394
Reinsurance assets	<b>(404,934,404)</b>	(514,133,194)
Loans and receivables	<b>(119,761,471)</b>	89,793,353
Other assets	<b>(15,019,393)</b>	(4,698,537)
Increase in:		
Insurance contract liabilities – unit-linked (Note 10)	<b>4,480,302,042</b>	1,717,937,841
Policy and contract claims	<b>81,366</b>	27,345,302
Other insurance contract liabilities (Note 10)	<b>2,450,036</b>	21,048,916
Insurance payables	<b>331,932,178</b>	218,277,990
Policyholders' dividends	<b>30,815,158</b>	30,030,512
Accounts payable and accrued expenses	<b>273,807,978</b>	8,569,970
Due to related parties	<b>99,692,984</b>	80,918,294
Net cash generated by operations	<b>1,196,183,493</b>	152,939,530
Income taxes paid	<b>(24,827,400)</b>	(21,099,723)
Net cash generated by operating activities	<b>1,171,356,093</b>	131,839,807
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	<b>101,960,111</b>	58,583,810
Proceeds from sale/maturities of:		
Available-for-sale financial assets (Note 5)	<b>19,484,734</b>	294,525,102
Property and equipment (Note 8)	<b>450,000</b>	–
Acquisitions of:		
Available-for-sale financial assets (Notes 5)	<b>(88,146,203)</b>	(409,098,634)
Property and equipment (Note 8)	<b>(10,945,840)</b>	(13,536,417)
Withdrawal of seed money	–	18,781,654
Net cash generated by (used in) investing activities	<b>22,802,802</b>	(50,744,485)

(Forward)



	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>₱1,194,158,895</b>	<b>₱81,095,322</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>1,159,372,967</b>	<b>1,078,277,645</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>₱2,353,531,862</b>	<b>₱1,159,372,967</b>

*See accompanying Notes to Financial Statements.*



# MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION

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## NOTES TO FINANCIAL STATEMENTS

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### 1. Corporate Information

Manulife China Bank Life Assurance Corporation (formerly The Pramerica Life Insurance Company, Inc.) (the Company) was incorporated and registered with the Securities and Exchange Commission (SEC) in 1998 to carry on the business of life insurance. The Company received its Certificate of Authority from the Insurance Commission of the Philippines (IC) in the same year.

On May 12, 2006, The Manufacturers Life Insurance Company of Canada (Manulife Canada), a corporation established and existing under the laws of Canada, acquired the entire shareholdings of the Company, a wholly-owned subsidiary of Prudential International Insurance Holdings, Ltd. (PII), a company based in New Jersey, USA. PII is in turn a wholly-owned subsidiary of Prudential Financial, Inc. (PFI), a company based in Newark, New Jersey, USA. As a result of this transaction, the Company became a wholly owned subsidiary of Manulife Canada and its ultimate parent became Manulife Financial Corporation (MFC).

On January 5, 2007, a Bancassurance Alliance Agreement (the Agreement) was made and entered by and between Manulife Canada and China Banking Corporation (the Bank), a corporation duly organized under Philippine laws and registered with the SEC. The parties have agreed to enter into a 15-year exclusive bancassurance alliance to distribute life insurance products to the Bank's customers, and the Bank has undertaken not to distribute, market or endorse the products of any other life insurance company during the term of the 15-year exclusive bancassurance alliance.

On March 5, 2007, in the special meeting of the Company's Board of Directors (BOD), majority of the members of BOD approved the change in name of the Company from The Pramerica Life Insurance Company, Inc. to Manulife China Bank Life Assurance Corporation. The SEC approved the Company's application for the change in name on March 23, 2007.

On August 8, 2007, the Bank acquired 5% of the Company's capital stock, equivalent to 125,000 common shares.

On December 3, 2008, The Manufacturers Life Insurance Co. (Phils.), Inc. (Manulife Philippines), a subsidiary of MFC, purchased the 95% of the Company's capital stock from Manulife Canada.

On September 12, 2014, based on the Share Purchase Agreement and the Deed of Absolute Sale of Shares of Stock and Transfer of Contributed Surplus entered into between the Manulife Philippines and the Bank, Manulife Philippines has sold 1,750,000 Common Shares representing thirty five percent (35%) of the total issued shares in the capital stock of the company and contributed surplus to the Bank. The Bank after the sale now has forty (40%) stake in the Company. The Bank and Manulife Philippines have contemporaneously entered into the Bancassurance Agreement and the Addendum to Administrative Services Agreement.

The Bancassurance Agreement is an amendment of Bancassurance Alliance Agreement in 2007 which set out the initial terms of cooperation between the Bank and the Company in connection with their promotion and sale of life insurance products for an initial term of 15 years. The term of the new agreement shall be for ten (10) years commencing from July 1, 2014 during which time Manulife Philippines shall, in exchange for an increased equity stake in the Company and other valuable consideration given to the Bank by the Company, have exclusive access to the Distribution Network and Bank Customers for the duration of the new term.



Manulife Philippines administers the Company's operations as provided by the Administrative Services Agreement. The Addendum to Administrative Services Agreement prescribes the amendment of the basis of the services fees charged by Manulife Philippines to the Company.

The registered office address of the Company is 24th Floor, LKG Tower, 6801 Ayala Avenue, Makati City.

The accompanying financial statements were approved and authorized for issue by the BOD on April 07, 2017.

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

### Basis of Preparation

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

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

### Statement of Compliance

The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations based on equivalent interpretation from International Financial Reporting Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC).

### Changes in Accounting Policies and Disclosures

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

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



- Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

#### Future Changes in Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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



- *Valuation Standards for Life Insurance Policy Reserves*

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

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

*Effective beginning on or after January 1, 2018*

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

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

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

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

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

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

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

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



- PFRS 15, *Revenue from Contracts with Customers*

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

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

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

- PFRS 9, *Financial Instruments*

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

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

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

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

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

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



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

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

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

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

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

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

*Effective beginning on or after January 1, 2019*

- PFRS 16, *Leases*

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

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

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





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

*Deferred effectivity*

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

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

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

Reclassification of Accounts

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

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

Increase (decrease):	2015	2014
Insurance contract liabilities	₱51,122,400	₱30,073,484
Accounts and other payables		
Policy suspense	(32,394,362)	(16,469,980)
Payment suspense	(18,728,038)	(13,603,504)

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

Product Classification

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

As a general guideline, the Company defines significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. 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 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 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 months or less from dates 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 statement of income.

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

#### Reinsurance

The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

The reinsurance assets also consist of reinsurance companies' share in the insurance contract liabilities.



Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year.

Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the statement of income.

Ceded reinsurance arrangements do not relieve the Company from its obligations policyholders. Premiums and claims are presented on a gross basis for ceded reinsurance.

### Financial Instruments

#### *Date of Recognition*

Financial instruments are recognized in the statement of financial position when the Company 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 marketplace are recognized on the trade date.

#### *Initial Recognition of Financial Instruments*

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 instrument measured at Fair Value through Profit or Loss. Financial assets are classified as: (1) financial assets at FVPL; (2) loans and receivables; (3) AFS financial assets. Financial liabilities are classified as: (1) financial liabilities at FVPL; or (2) other financial liabilities. 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.

#### *Day 1 Difference*

Where the transaction price in a non-active market is different from the fair value based on observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is recognized in the Company's statement of income only when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

### Fair Value Measurement

The 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 21.

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 Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

- Level 1 - 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 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 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 and other income - net" account.

The Company's financial assets at FVPL consist of peso and dollar-denominated government debt securities and equity securities of the insurance investment funds.

The Company's peso and dollar-denominated debt securities and equity securities under the Insurance Investment Funds (IIFs) underlying the unit-linked insurance contracts are designated at FVPL as these financial instruments are managed and their performance are evaluated on a fair value basis, in accordance with the Company's investment strategy and valuation provisions of the unit-linked policy contracts. Likewise, this is consistent with the valuation basis of the reserve for variable units held by policyholders.

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

#### *AFS Financial Assets*

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. After initial recognition, AFS financial assets are re-measured at fair value with gains and losses being recognized as a separate component of other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in the statement of income.

As of December 31, 2016 and 2015, the Company's AFS financial assets represent investments in fixed-rate government treasury notes.

#### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method less allowance for impairment losses. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

As of December 31, 2016 and 2015, the Company's loans and receivables represent mainly cash and cash equivalents, insurance receivables, accrued income, accounts receivable, security fund contributions, policy loans, due from related parties and other receivables.

#### *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 statement of income.

As of December 31, 2016 and 2015, other financial liabilities include the Company's insurance payables, policyholders' dividends, due to related parties, accounts payable and accrued expenses.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the 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 company statement of financial position.

#### 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 Company.

If the 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.

#### Impairment of Financial Assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that 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 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 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 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 the “Provision for impairment and credit losses” 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 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 statement of income) is removed from other comprehensive income and recognized in the statement of income. Impairment losses on equity instruments are not reversed through the 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. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of investment income in the 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 statement of income, the impairment loss is reversed through the statement of income.

#### Derecognition of Financial Instruments

##### *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 have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without a material delay to a third party under a pass through arrangement; or
- the 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.

When the 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 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 Company could be required to repay.

##### *Financial Liability*

A financial liability is derecognized when the obligation under the liabilities expires, is discharged or cancelled. Where an existing financial liability is replaced by another from the same lender or



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 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.

Property and Equipment

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

Depreciation and amortization is calculated using the straight-line method over the estimated useful lives (EUL) of the property and equipment. Leasehold improvements are amortized over the EUL of the improvement or the term of the lease, whichever is shorter. The EUL of the individual significant components of property and equipment are as follows:

	Years
Electronic Data Processing (EDP) equipment	3
Leasehold improvements	Shorter of lease term or 5 years
Furniture and fixtures	5
Transportation equipment	5

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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of income in the year the item is derecognized.

The useful life and depreciation and amortization methods are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits for each item of property and equipment.

Pension Asset

The Company maintains a defined contribution (DC) plan that covers all regular full-time employees. Under its DC plan, the Company pays fixed contributions based on the employees' monthly salaries. The 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 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 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 Company recognizes gains or losses on the settlement of a DB plan when the settlement occurs.

#### Impairment of Nonfinancial Assets

The carrying values of the Company's nonfinancial assets (e.g., property and equipment) are reviewed for impairment when events or changes in circumstances indicate 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 (CGU) are written down to their recoverable amounts. The recoverable amount of the asset is the greater of 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 pre-tax 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 CGU to which the asset belongs. Impairment losses are recognized in the statement of income.

A previously recognized impairment loss is reversed by a credit to current operations to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

#### Insurance Contract Liabilities

##### *Life insurance contract liabilities*

The provision for life insurance contracts or legal policy reserves 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 the provisions of the Insurance Code (the Code) and guidelines set by the Insurance Commission.

For life insurance contracts with fixed and guaranteed terms, estimates are made in two stages. At the inception of the contracts, the 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.

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.

The liability is determined as the sum of the expected discounted value of the benefit payments that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used.

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

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

Provision is also made for the cost of claims incurred but not reported (IBNR) until after the reporting date based on the Company's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in the statement of income in later years. Policy and contract claims payable forms part of the liability section of the statement of financial position.

#### *Unit-linked insurance contracts*

The 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 Company with consideration received from the policyholders. As allowed by PFRS 4, the Company chose not to unbundle the investment portion of its unit-linked products. Premiums received (including premium load and bid-offer spread) from the issuance of unit-linked insurance contracts are recognized as premium revenue. Consideration received from policyholders that are transferred to the segregated funds is recognized as part of gross change in legal policy reserves in the statements of income.

The 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 Company's results of operations and are therefore not separately presented in the statements of income. Management fee income earned by the Company for managing the insurance investment funds and the monthly load and cost of insurance charges are included in other income.



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

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

*Policy and Contract Claims payable*

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

*Other insurance contract liabilities*

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

*Liability adequacy tests*

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future cash flows, claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the statement of income by establishing a provision for losses arising from 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 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 Company and left to accumulate and earn interest are recognized in the policyholders' dividends account 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 are recognized when due and measured on initial recognition at fair value of the premium due. Subsequent to initial recognition, these are measured at amortized cost using the effective interest rate method.

Equity

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



Contributed surplus represents the original contributions of the stockholders of the Company, in addition to the paid-up-capital stock, in order to comply with the pre-licensing requirements as provided under the insurance code.

Direct cost incurred related to the equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to equity.

#### Retained earnings

Retained earnings (deficit) represent accumulated net income (losses) of the Company, net of dividends declared.

#### Revenue Recognition

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

#### *Insurance premiums*

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

#### *Investment income*

Interest income is recognized in the 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 Company's right to receive the payment is established.

#### *Other income*

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

#### Benefits and Claims Recognition

##### *Benefits and claims*

Life insurance business 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 Company's experience and historical data.

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.

Changes in legal policy reserves are recognized in the statement of income.

*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 is recognized in the 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 statement of income when incurred. These are recognized in the statement of income:

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

*General and administrative expenses*

General and administrative expenses are costs attributable to administrative and other business activities of the Company and are recognized in the statement of income as incurred.

*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 scenario: 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 Transactions and Translations

Transactions in foreign currencies are initially recorded in the functional currency rate 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 and nonmonetary assets and liabilities are taken to the 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 nonmonetary assets and liabilities that are measured at fair value are translated using the exchange rate when the fair value was determined.

#### Income Tax

##### *Current tax*

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

##### *Deferred tax*

Deferred tax is provided on all 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 income 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 tax relate to the same taxable entity and the same taxation authority.

#### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the 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 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 Company's financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefit is probable.

#### Events after Reporting Period

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

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

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

#### Judgments

In the process of applying the Company's accounting policies, management has made the following judgments apart from those involving estimations and assumptions, which has the most significant effect on the amounts recognized in the financial statements.

#### *Product classification*

The Company has determined that the traditional and unit-linked insurance policies (that link the payments on the contract to units of insurance investment 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 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 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).

#### Estimates and Assumptions

The key estimates and 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 insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. Claims estimation considers many factors including industry average mortality or morbidity experience, with adjustments depending on the Company's own experience. See Note 10 for related balances.

#### *Estimation of allowance for impairment losses*

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

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

As of December 31, 2016 and 2015, the carrying value of loans and receivables amounted to ₱252.47 million and ₱132.71 million, respectively (see Note 5). As of December 31, 2016, insurance receivables, reinsurance assets, and accrued income amounted to ₱18.95 million, ₱3.18 billion and ₱127.00 million, respectively. As of December 31, 2015, insurance receivables, reinsurance assets, and accrued income amounted to ₱29.00 million, ₱2.78 billion, and ₱127.65 million, respectively.

#### *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 21.





*Impairment of financial assets at amortized cost*

The Company reviews its loans and receivables at each reporting date to assess whether an allowance for impairment losses should be recorded in the 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 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 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.

*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 20 for related balances.

*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.

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 19.

*Contingencies*

The 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 internal and outside counsel handling the Company's defense in these matters and is based upon an analysis of potential results. The 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. The information usually required by PAS 37, *Provisions, Contingent*



*Liabilities and Contingent Assets*, is not disclosed as it may prejudice the outcome of these on-going claims and assessments.

#### 4. Cash and Cash Equivalents

This account consists of:

	2016	2015
Cash on hand (Note 21)		
Petty cash fund	<b>₱95,753</b>	₱95,753
Cash in commercial banks (Note 21)	<b>357,587,445</b>	119,032,173
Short-term deposits in commercial banks (Note 21)	<b>285,686,413</b>	78,580,224
	<b>643,369,611</b>	197,708,150
Cash held in insurance investment funds (Notes 6 and 21):		
Cash in banks	<b>771,741,177</b>	183,783,131
Short-term deposits	<b>938,421,074</b>	777,881,686
	<b>1,710,162,251</b>	961,664,817
	<b>₱2,353,531,862</b>	₱1,159,372,967

Cash in banks earns interest at the corresponding bank deposit rate. Short-term deposits are made for varying periods of between one (1) day and one month depending on the immediate cash requirements of the Company, and earn interest at the corresponding short-term deposit rate. The range of interest rates is from 0.10% to 3.50% and from 1.25% to 3.50% in 2016 and 2015, respectively.

#### 5. Financial Assets

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

	2016	2015
Financial assets designated at FVPL (Note 6)	<b>₱21,718,766,007</b>	₱18,058,059,585
AFS financial assets	<b>1,747,877,168</b>	1,698,262,447
Loans and receivables	<b>252,467,591</b>	132,706,120
	<b>₱23,719,110,766</b>	₱19,889,028,152

##### a) *Financial assets designated at FVPL*

The breakdown of assets in insurance investment funds designated as financial assets at FVPL is as follows (see Note 6):

	2016	2015
Debt securities:		
Peso-denominated government securities	<b>₱9,789,756,180</b>	₱8,190,717,863
Dollar-denominated	<b>1,281,918,568</b>	1,491,593,855
Listed equity securities		
Peso-denominated	<b>7,985,340,830</b>	₱7,212,197,720
Dollar-denominated	<b>2,661,750,429</b>	1,163,550,147
	<b>₱21,718,766,007</b>	₱18,058,059,585



b) *AFS Financial Assets*

AFS financial assets represent mainly fixed-rate treasury notes with interest rates ranging from 4.625% to 9.5% and 3.25% to 8.125% in 2016 and 2015, respectively. Interest earned amounted to ₱85.19 million and ₱85.54 million in 2016 and 2015, respectively (see Note 16).

The roll-forward analysis of AFS financial assets follows:

	2016	2015
Balance at beginning of year	₱1,698,262,447	₱1,701,434,109
Additions	88,146,203	1,108,430,548
Disposals/maturities	(19,484,734)	(993,857,016)
Net premium amortization	(7,530,837)	(6,528,479)
Fair value loss recognized in other comprehensive income	(11,515,911)	(111,216,715)
<b>Balance at end of year</b>	<b>₱1,747,877,168</b>	<b>₱1,698,262,447</b>

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

	2016	2015
Balance at beginning of year	(₱53,896,954)	₱254,596,055
Changes in fair value of available-for-sale financial assets	(11,515,911)	(111,216,715)
Realized gains transferred to statements of income	(2,124,724)	(197,276,294)
<b>Net change during the year</b>	<b>(13,640,635)</b>	<b>(308,493,009)</b>
<b>Balance at end of year</b>	<b>(₱67,537,589)</b>	<b>(₱53,896,954)</b>

In 2015, the Company participated in a bond swap initiated by the Bureau of Treasury. Government debt securities with interest ranging from 5.75% to 8.125% were exchanged for 10-year and 25-year bonds with interest rates ranging from 3.625% to 4.625%. A gain amounting to ₱116.63 million was realized and is included in Gain on sale of available-for-sale financial assets in the statement of income.

Details of this transaction are shown below:

	2015
Additions	₱699,331,914
Disposals at amortized cost	582,702,815
<b>Realized gain</b>	<b>₱116,629,099</b>

Government securities classified as AFS financial assets with aggregate carrying value of ₱178.25 million and ₱185.48 million and face amount of ₱125 million as of December 31, 2016 and 2015, respectively, are deposited to the Insurance Commission pursuant to the provisions of the Insurance Code as security for the benefit of policyholders and creditors of the Company.



c) *Loans and Receivables*

This account consists of:

	2016	2015
Accounts receivable held in IIF (Note 6)	<b>₱110,490,974</b>	₱20,978,622
Policy loans	<b>92,022,484</b>	69,382,577
Due from related parties (Note 14)	<b>1,306,383</b>	1,306,383
Security fund contribution	<b>141,244</b>	141,244
Other receivables	<b>48,506,506</b>	40,897,294
	<b>₱252,467,591</b>	₱132,706,120

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

The security fund which is held by the Insurance Commission, in compliance with Sections 365 and 367 of the Code, as amended under Presidential Decree 1640, is to be used for payment of valid claims against insolvent insurance companies.

Other receivables include accrued management fee income from unit-linked transactions and miscellaneous receivables from employees during the year.

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**6. Insurance Investment Funds (IIF)**

The Company issues unit-linked insurance contracts where the payments to policyholders are linked to insurance investment fund set up by the Company. As of December 31, 2016, the Company has 20 IIFs namely: Peso Dynamic Allocation Fund, Summit Peso Bond Fund, Summit Peso Stable Fund, Summit Peso Equity Fund, Peso Balanced Fund, Summit Dollar Bond Fund, Peso Secure Fund, Peso Diversified Value Fund, Peso Growth Fund, Peso Target Income Fund, Peso Target Distribution Fund, US Dollar Secure Fund, Asia Pacific Bond Fund, Asean Growth Fund, Peso Cash Fund, Wealth Premier Fund, Global Target Income Fund, Wealth Optimizer 2026 Fund, Wealth Optimizer 2031 Fund and Wealth Optimizer 2036 Fund. These funds are included as part of FVPL financial assets of the Company (see Note 5).

The debt and equity securities of these funds are included in the financial assets at FVPL of the 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 (UF). The UFs consist of Peso Bond Pool, Peso Money Market Pool, Peso Equity Pool, US Dollar Bond Pool, Asia Bond Pool, Asean Growth Pool, Peso Cash Pool, Wealth Premier Pool and Global Target Income Pool.

The 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 Administration 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 IIFs are as follows:

December 31, 2016				
	Assets (Notes 4, 5, 7 and 12)	Due to unit- linked holders (Note 10)	Seed Capital	Total
Peso Dynamic Allocation Fund	₱3,784,274,797	₱3,782,294,887	₱1,979,910	₱3,784,274,797
Summit Peso Bond Fund	152,053,748	148,432,732	3,621,016	152,053,748
Summit Peso Stable Fund	79,924,199	76,390,457	3,533,742	79,924,199
Summit Peso Equity Fund	206,085,983	202,087,760	3,998,223	206,085,983
Peso Balanced Fund	98,911,497	96,916,819	1,994,678	98,911,497
Summit Dollar Bond Fund	138,377,131	135,289,110	3,088,021	138,377,131
Peso Secure Fund	2,761,125,700	2,758,029,869	3,095,831	2,761,125,700
Peso Diversified Value Fund	2,285,011,777	2,281,530,913	3,480,864	2,285,011,777
Peso Growth Fund	4,598,035,569	4,592,186,792	5,848,777	4,598,035,569
US Dollar Secure Fund	804,789,162	797,333,203	7,455,959	804,789,162
Peso Target Income Fund	155,894,050	154,093,695	1,800,355	155,894,050
Peso Target Distribution Fund	4,900,110,910	4,898,320,364	1,790,546	4,900,110,910
Wealth Optimizer 2026 Fund	56,832,720	55,098,123	1,734,597	56,832,720
Wealth Optimizer 2031 Fund	8,625,471	6,903,607	1,721,864	8,625,471
Wealth Optimizer 2036 Fund	4,457,936	2,738,207	1,719,729	4,457,936
Asia Pacific Bond Fund	462,109,895	460,128,508	1,981,387	462,109,895
Asean Growth Fund	1,195,649,365	1,193,604,316	2,045,049	1,195,649,365
Peso Cash Fund	30,322,088	29,314,790	1,007,298	30,322,088
Wealth Premier Fund	65,546,232	63,875,924	1,670,308	65,546,232
Global Target Income Fund	1,820,028,886	1,817,654,739	2,374,147	1,820,028,886
	<b>₱23,608,167,116</b>	<b>₱23,552,224,815</b>	<b>₱55,942,301</b>	<b>₱23,608,167,116</b>

December 31, 2015				
	Assets (Notes 4, 5, 7 and 12)	Due to unit- linked holders (Note 10)	Seed Capital	Total
Peso Dynamic Allocation Fund	₱3,449,480,804	₱3,447,463,047	₱2,017,757	₱3,449,480,804
Summit Peso Bond Fund	164,850,999	161,253,848	3,597,151	164,850,999
Summit Peso Stable Fund	86,112,885	82,596,325	3,516,560	86,112,885
Summit Peso Equity Fund	208,847,799	204,765,173	4,082,626	208,847,799
Peso Balanced Fund	104,458,579	102,430,900	2,027,679	104,458,579
Summit Dollar Bond Fund	150,883,784	147,989,194	2,894,590	150,883,784
Peso Secure Fund	2,819,290,955	2,816,203,661	3,087,294	2,819,290,955
Peso Diversified Value Fund	2,202,420,222	2,198,938,594	3,481,628	2,202,420,222
Peso Growth Fund	4,174,706,733	4,168,719,491	5,987,242	4,174,706,733
US Dollar Secure Fund	765,060,274	758,053,790	7,006,484	765,060,274
Peso Target Income Fund	118,146,883	116,282,701	1,864,182	118,146,883
Peso Target Distribution Fund	2,918,746,095	2,916,887,717	1,858,378	2,918,746,095
Asia Pacific Bond Fund	507,369,894	505,505,619	1,864,275	507,369,894
Asean Growth Fund	1,196,844,188	1,195,049,722	1,794,466	1,196,844,188
Peso Cash Fund	30,498,316	29,492,452	1,005,864	30,498,316
Wealth Premier Fund	221,923,726	220,290,539	1,633,187	221,923,726
	<b>₱19,119,642,136</b>	<b>₱19,071,922,773</b>	<b>₱47,719,363</b>	<b>₱19,119,642,136</b>



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

December 31, 2016

	Peso Bond Pool	Peso Money Market Pool	Peso Equity Pool	USD Bond Pool	Asia Bond Pool	Asean Growth Pool	Peso Cash Pool	Wealth Premier Pool	Global Target Income Pool	Accrued Management Fees	Total
Peso Dynamic Allocation Fund	₱1,871,520,834	₱-	₱1,919,930,835	₱-	₱-	₱-	₱-	₱-	₱-	(₱7,176,872)	₱3,784,274,797
Summit Peso Bond Fund	136,541,252	15,706,487	-	-	-	-	-	-	-	(193,991)	152,053,748
Summit Peso Stable Fund	48,291,915	16,663,028	15,088,055	-	-	-	-	-	-	(118,799)	79,924,199
Summit Peso Equity Fund	-	-	206,434,941	-	-	-	-	-	-	(348,958)	206,085,983
Peso Balanced Fund	48,906,914	-	50,172,492	-	-	-	-	-	-	(167,909)	98,911,497
Peso Target Income Fund	96,475,651	28,006,632	31,730,413	-	-	-	-	-	-	(318,646)	155,894,050
Peso Target Distribution Fund	3,034,065,297	886,924,626	989,694,658	-	-	-	-	-	-	(10,573,671)	4,900,110,910
Summit Dollar Bond Fund	-	-	-	138,584,317	-	-	-	-	-	(207,186)	138,377,131
Peso Secure Fund	2,522,855,014	242,347,126	-	-	-	-	-	-	-	(4,076,440)	2,761,125,700
Peso Diversified Value Fund	1,380,888,921	475,971,753	432,005,670	-	-	-	-	-	-	(3,854,567)	2,285,011,777
Peso Growth Fund	-	-	4,606,666,702	-	-	-	-	-	-	(8,631,133)	4,598,035,569
Wealth Optimizer 2026 Fund	12,450,870	286,964	44,212,629	-	-	-	-	-	-	(117,743)	56,832,720
Wealth Optimizer 2031 Fund	719,907	9,270	7,914,171	-	-	-	-	-	-	(17,877)	8,625,471
Wealth Optimizer 2036 Fund	304,572	3,907	4,158,428	-	-	-	-	-	-	(8,971)	4,457,936
US Dollar Secure Fund	-	-	-	806,162,270	-	-	-	-	-	(1,373,108)	804,789,162
Asia Pacific Bond Fund	-	-	-	-	462,907,663	-	-	-	-	(797,768)	462,109,895
Asean Growth Fund	-	-	-	-	-	1,197,937,519	-	-	-	(2,288,154)	1,195,649,365
Peso Cash Fund	-	-	-	-	-	-	30,325,913	-	-	(3,825)	30,322,088
Wealth Premier Fund	-	-	-	-	-	-	-	65,546,232	-	-	65,546,232
Global Target Income Fund	-	-	-	-	-	-	-	-	1,823,159,091	(3,130,205)	1,820,028,886
	<b>₱9,153,021,147</b>	<b>₱1,665,919,793</b>	<b>₱8,308,008,994</b>	<b>₱944,746,587</b>	<b>₱462,907,663</b>	<b>₱1,197,937,519</b>	<b>₱30,325,913</b>	<b>₱65,546,232</b>	<b>₱1,823,159,091</b>	<b>(₱4,405,823)</b>	<b>₱23,608,167,116</b>

December 31, 2015

	Peso Bond Pool	Peso Money Market Pool	Peso Equity Pool	USD Bond Pool	Asia Bond Pool	Asean Growth Pool	Peso Cash Pool	Wealth Premier Pool	Accrued Management Fees	Total
Peso Dynamic Allocation Fund	₱1,549,964,200	₱-	₱1,906,060,964	₱-	₱-	₱-	₱-	₱-	(₱6,544,360)	₱3,449,480,804
Summit Peso Bond Fund	155,085,404	9,973,921	-	-	-	-	-	-	(208,326)	164,850,999
Summit Peso Stable Fund	51,868,806	11,693,154	22,677,627	-	-	-	-	-	(126,702)	86,112,885
Summit Peso Equity Fund	-	-	209,199,147	-	-	-	-	-	(351,348)	208,847,799
Peso Balanced Fund	46,941,786	-	57,692,911	-	-	-	-	-	(176,118)	104,458,579
Peso Target Income Fund	91,610,746	3,697,792	23,076,181	-	-	-	-	-	(237,836)	118,146,883
Peso Target Distribution Fund	2,263,620,071	91,404,652	570,197,133	-	-	-	-	-	(6,475,761)	2,918,746,095
Summit Dollar Bond Fund	-	-	-	151,108,986	-	-	-	-	(225,202)	150,883,784
Peso Secure Fund	2,575,713,203	247,738,617	-	-	-	-	-	-	(4,160,865)	2,819,290,955
Peso Diversified Value Fund	1,305,309,262	383,563,852	517,262,822	-	-	-	-	-	(3,715,714)	2,202,420,222
Peso Growth Fund	-	-	4,182,615,473	-	-	-	-	-	(7,908,740)	4,174,706,733
US Dollar Secure Fund	-	-	-	766,357,462	-	-	-	-	(1,297,188)	765,060,274
Asia Pacific Bond Fund	-	-	-	-	508,235,668	-	-	-	(865,774)	507,369,894
Asean Growth Fund	-	-	-	-	-	1,199,113,536	-	-	(2,269,348)	1,196,844,188
Peso Cash Fund	-	-	-	-	-	-	30,504,350	-	(6,034)	30,498,316
Wealth Premier Fund	-	-	-	-	-	-	-	221,923,726	-	221,923,726
	<b>₱8,040,113,478</b>	<b>₱748,071,988</b>	<b>₱7,488,782,258</b>	<b>₱917,466,448</b>	<b>₱508,235,668</b>	<b>₱1,199,113,536</b>	<b>₱30,504,350</b>	<b>₱221,923,726</b>	<b>(₱34,569,316)</b>	<b>₱19,119,642,136</b>



The underlying funds included in the above pool of assets are composed of the following assets and liabilities:

	2016	2015
Cash in banks (Note 4)	₱771,741,177	₱183,783,131
Short-term deposits (Note 4)	938,421,074	777,881,686
Debt securities (Note 5)		
Peso-denominated government securities	9,789,756,180	8,190,717,863
Dollar-denominated	1,281,918,568	1,491,593,855
Listed equity securities (Note 5)		
Peso-denominated	7,985,340,830	7,212,197,720
Dollar-denominated	2,661,750,429	1,163,550,147
Accounts receivable held in IIF (Note 5)	110,490,974	20,978,622
Accrued income (Note 7)	112,153,707	113,508,428
Accrued management fees (Note 12)	(43,405,823)	(34,569,316)
	<b>₱23,608,167,116</b>	<b>₱19,119,642,136</b>

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

Accrued management fee is the cost charged for the handling of the underlying funds and is netted against the gross amount of the IIFs to obtain the amount of the assets.

In 2016, investment income of the IIFs amounted to ₱814.77 million while in 2015, the IIFs incurred investment loss which amounted to ₱566.27 million. Redemptions amounted to ₱4.76 billion and ₱1.73 billion, in 2016 and 2015, respectively.

## 7. Accrued Income

This account consists of accrued interest and dividend income from:

	2016	2015
Held in IIF (Note 6)		
Accrued interest income	₱105,218,397	₱113,391,568
Accrued dividend income	6,935,310	116,860
	<b>112,153,707</b>	<b>113,508,428</b>
Fixed-rate treasury notes	14,834,641	14,137,144
Policy fee receivable	2,858	2,814
Other accrued income	4,268	4,212
	<b>₱126,995,474</b>	<b>₱127,652,598</b>

Accrued interest from fixed-rate treasury notes pertains to the interest income earned by the Company from AFS peso bonds.



## 8. Property and Equipment

The roll-forward analysis of this account follows:

### December 31, 2016

	EDP Equipment	Leasehold Improvements	Furniture and Fixtures	Transportation Equipment	Total
<b>Cost</b>					
Balances at beginning of year	₱96,551,037	₱2,002,350	₱64,599	₱35,080,450	₱133,698,436
Additions	5,177,040	—	275,800	5,493,000	10,945,840
Disposals	—	—	—	(1,000,000)	(1,000,000)
Balances at end of year	101,728,077	2,002,350	340,399	39,573,450	143,644,276
<b>Accumulated depreciation and amortization</b>					
Balances at beginning of year	91,023,764	1,280,390	64,599	21,125,417	113,494,170
Depreciation and amortization (Note 18)	3,861,508	182,330	18,387	4,488,833	8,551,058
Disposals	—	—	—	(850,000)	(850,000)
Balances at end of year	94,885,272	1,462,720	82,986	24,764,250	121,195,228
<b>Net book value</b>	<b>₱6,842,805</b>	<b>₱539,630</b>	<b>₱257,413</b>	<b>₱14,809,200</b>	<b>₱22,449,048</b>

### December 31, 2015

	EDP Equipment	Leasehold Improvements	Furniture and Fixtures	Transportation Equipment	Total
<b>Cost</b>					
Balances at beginning of year	₱92,139,767	₱1,192,703	₱64,599	₱26,764,950	₱120,162,019
Additions	4,411,270	809,647	—	8,315,500	13,536,417
Balances at end of year	96,551,037	2,002,350	64,599	35,080,450	133,698,436
<b>Accumulated depreciation and amortization</b>					
Balances at beginning of year	88,279,527	968,815	39,999	15,279,119	104,567,460
Depreciation and amortization (Note 18)	2,744,237	311,575	24,600	5,846,298	8,926,710
Balances at end of year	91,023,764	1,280,390	64,599	21,125,417	113,494,170
<b>Net book value</b>	<b>₱5,527,273</b>	<b>₱721,960</b>	<b>₱—</b>	<b>₱13,955,033</b>	<b>₱20,204,266</b>

## 9. Other Assets

This account consists of:

	2016	2015
Prepayments	₱24,410,136	₱8,245,381
Refundable deposits - net of allowance for impairment losses of ₱699,070 and ₱701,583 in 2016 and 2015, respectively	5,611,806	6,757,168
	<b>₱30,021,942</b>	<b>₱15,002,549</b>

Prepayments include local business tax and miscellaneous prepaid expenses.





## 10. Insurance Contract Liabilities

This account consists of:

	2016	2015
Legal policy reserves	P26,803,758,046	P21,872,976,191
Policy and contract claims	36,480,766	34,816,018
Other insurance contract liabilities	53,572,436	51,122,400
	<b>P26,893,811,248</b>	<b>P21,958,914,609</b>

Details of the legal policy reserves are as follows:

	2016	2015
Unit-linked (Note 6)	P23,552,224,815	P19,071,922,773
Ordinary life insurance	3,216,470,920	2,784,450,931
Group life insurance	21,917,487	16,450,766
Accident and health	13,144,824	151,721
	<b>P26,803,758,046</b>	<b>P21,872,976,191</b>

The movements in legal policy reserves are as follows:

### December 31, 2016

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net of reinsurance
Gross legal policy reserves at beginning of year	P21,872,976,191	P2,667,535,873	P19,205,440,318
Tabular net premiums or considerations	4,571,263,982	4,444,897,199	126,366,783
Tabular interest	289,807,863	281,449,046	8,358,817
Other increases – unit-linked	4,480,302,042	–	4,480,302,042
Total	31,214,350,078	7,393,882,118	23,820,467,960
Less: Tabular cost	4,369,589,661	4,343,468,338	26,121,323
Reserves released by death	3,083,677	3,047,969	35,708
Reserves released by other terminations	37,918,694	30,124,120	7,794,574
<b>Legal policy reserves as at end of year</b>	<b>P26,803,758,046</b>	<b>P3,017,241,691</b>	<b>P23,786,516,355</b>

### December 31, 2015

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net of reinsurance
Gross legal policy reserves at beginning of year	P19,599,773,122	P2,199,552,248	P17,400,220,874
Tabular net premiums or considerations	3,340,050,398	3,218,471,211	121,579,187
Tabular interest	231,817,973	225,415,690	6,402,283
Other increases – unit-linked	1,717,937,841	–	1,717,937,841
Total	24,889,579,334	5,643,439,149	19,246,140,185
Less: Tabular cost	2,983,060,932	2,942,642,945	40,417,987
Reserves released by other terminations	33,542,211	33,257,331	284,880
<b>Legal policy reserves as at end of year</b>	<b>P21,872,976,191</b>	<b>P2,667,538,873</b>	<b>P19,205,437,318</b>



The movements in policy and contract claims are as follows:

	2016	2015
At beginning of year	₱34,816,018	₱4,779,131
Additions during the year	57,335,342	79,002,881
Paid during the year	(55,670,594)	(48,965,994)
At end of year	₱36,480,766	₱34,816,018

Other insurance contract liabilities consists of advance premiums received from planholders awaiting the issuance or reinstatement of policies and policy related disbursements.

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## 11. 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 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 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 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 company statements of financial position as reinsurance assets.

Even though the 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.

#### *Reinsurance Agreement with Manulife Philippines*

On January 1, 2008, the Company entered into a reinsurance agreement with Manulife Philippines. The reinsurance premiums to be paid by the Company to Manulife Philippines will be net of distribution loading, commission, premium taxes, documentary stamp taxes, value added taxes (VAT), local government and withholding taxes.

On June 30, 2014, the reinsurance agreement with Manulife Philippines was terminated. The reinsurance agreement continues to be valid for all policies covered by such agreement.

As of December 31, 2016 and 2015, the Company's insurance payable to Manulife Philippines amounted to ₱1.05 billion and ₱716.45 million, respectively.

As of December 31, 2016 and 2015, the Company's reinsurance assets related to this agreement amounted to ₱3.18 billion and ₱2.78 billion. The balance as of December 31, 2016 and 2015 comprised of reinsurers' share of insurance contract liabilities of ₱3.02 billion and ₱2.67 billion, respectively, and receivable related to death claims ceded by the Company to Manulife Philippines of ₱167.10 million and ₱111.87 million, respectively.



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## 12. Accounts Payable and Accrued Expenses

This account consists of:

	2016	2015
Other policy-related liabilities	<b>₱234,638,902</b>	₱4,522,048
Accrued expenses including accrued salaries	<b>154,064,976</b>	114,977,140
Commissions payable (Note 14)	<b>27,758,741</b>	9,262,325
Taxes payable	<b>13,246,977</b>	23,687,482
Accounts payable	<b>4,869,751</b>	12,342,777
Other liabilities	<b>18,126,593</b>	14,106,190
	<b>₱452,705,940</b>	₱178,897,962

Other policy-related liabilities include premiums received from planholders awaiting the issuance or reinstatement of policies.

Accrued expenses pertain to accrued cost of agency conferences, management fees related to IIFs amounting to ₱43.41 million and ₱34.57 million, in 2016 and 2015, respectively (Note 6) and various liabilities to suppliers.

Taxes payable consists of withholding taxes related to the cost allocation from Manulife Philippines, fringe benefit and premium taxes.

Other liabilities consist of Philhealth, Social Security System (SSS) contribution and salary loan, Home Development Mutual Fund (HDMF) contribution and loan, and other miscellaneous liabilities.

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## 13. Capital Stock

The Company's capital stock amounting to ₱500.00 million (consisting of 5 million shares) are all issued and outstanding with a par value of ₱100 per share. The Company has ₱1.00 billion authorized capital stock equivalent to 10 million shares with a par value of ₱100 per share.

In October 2011, the Company received additional capital infusion from Manulife Philippines amounting to ₱121.25 million to comply with the regulatory requirements of Insurance Commission on required capital. In November 2011, the Company received additional capital infusion from China Bank amounting to ₱3.75 million. From this additional capital infusion, the Company recognized ₱50.00 million as "Contributed Surplus" and ₱75.00 million as "Deposit for future stock subscription."

On April 12, 2012, the ₱75.00 million deposits for future stock subscription has been approved by the IC and subsequently transferred to Capital Stock.

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## 14. Related Party Transactions

The 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.



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

The Company has the following volume of transactions and net outstanding balances due to related parties:

**December 31, 2016**

<b>Entities</b>	<b>Financial Statement Account</b>	<b>Nature</b>	<b>Terms and Conditions</b>	<b>Transactions during the year</b>	<b>Outstanding Balance</b>
<b>Parent Company</b> Manulife Philippines	Insurance Payable	99% of in-force business ceded to the Parent Company and 1% retained by company	Unsecured, non-interest bearing, due and demandable	₱370,697,431	<b>₱1,048,379,295</b>
	Reinsurance Assets	Reinsurance assets	Due and demandable	404,934,404	<b>3,184,345,137</b>
	Due to Related Parties	Management fee related to unit-linked investment ceded out to Parent Company	Unsecured, non-interest bearing, due and demandable	255,475,184	<b>19,722,677</b>
	Due to Related Parties	Cost allocation for services rendered	Unsecured, non-interest bearing, due and demandable	107,756,453	<b>228,167,518</b>
<b>Ultimate Parent Company</b> Manulife Financial Corporation	Due to Related Parties	Accrued Portia Charge	Unsecured, non-interest bearing, due and demandable	276,564	<b>381,216</b>
	Due from Related Parties	Reimbursement of expenses	Unsecured, non-interest bearing, no impairment, due and demandable	–	<b>1,306,383</b>
<b>Under Common Control</b> Manulife Business Processing Services Manulife Regional Office	Due to Related Parties	Accrued Portia Charge	Unsecured, non-interest bearing, due and demandable	250,506	<b>846,589</b>
	Due to Related Parties	Reimbursement of expenses	Unsecured, non-interest bearing, due and demandable	–	<b>379,384</b>
<b>Bancassurance</b> China Banking Corporation	Commission Payable	Sales commissions	Unsecured, non-interest bearing, due and demandable	408,198,713	<b>27,758,741</b>



December 31, 2015

	Entities	Financial Statement Account	Nature	Terms and Conditions	Transactions during the year	Outstanding Balance
Parent Company	Manulife Philippines	Insurance Payable	99% of in-force business ceded to the Parent Company and 1% retained by company	Unsecured, non-interest bearing, due and demandable	₱611,625,328	₱716,447,117
		Reinsurance Assets	Reinsurance assets	No term	514,133,194	2,779,410,733
		Due to Related Parties	Management fee related to unit-linked investment ceded out to Parent Company	Unsecured, non-interest bearing, due and demandable	273,549,898	37,476,286
		Due to Related Parties	Cost allocation for services rendered	Unsecured, non-interest bearing, due and demandable	91,911,561	110,694,869
Ultimate Parent Company	Manulife Financial Corporation	Due to Related Parties	Accrued Portia Charge	Unsecured, non-interest bearing, due and demandable	185,340	657,780
		Due from Related Parties	Reimbursement of expenses	Unsecured, non-interest bearing, no impairment	–	1,306,383
Under Common Control	Manulife Business Processing Services	Due to Related Parties	Accrued Portia Charge	Unsecured, non-interest bearing, due and demandable	346,715	596,081
	Manulife Regional Office	Due to Related Parties	Reimbursement of expenses	Unsecured, non-interest bearing, due and demandable	4,500	379,384
Bancassurance	China Banking Corporation	Commission Payable	Sales commissions	Unsecured, non-interest bearing, due and demandable	343,540,589	9,262,325

**15. Insurance Premiums Earned**

The details of insurance premiums earned are as follows:

	2016	2015
<b>Gross premiums earned on insurance contracts:</b>		
Unit-linked	<b>₱6,997,297,310</b>	₱4,662,028,661
Ordinary life insurance	<b>608,669,133</b>	844,161,375
Group life Insurance	<b>39,126,692</b>	36,496,813
	<b>7,645,093,135</b>	5,542,686,849
<b>Reinsurers' share of gross premiums earned on insurance contracts (Note 14):</b>		
Ordinary life insurance	<b>394,257,952</b>	660,872,750
Unit-linked	<b>(23,560,521)</b>	(49,247,422)
	<b>370,697,431</b>	611,625,328
	<b>₱7,274,395,704</b>	₱4,931,061,521

Pursuant to the reinsurance agreement between the Company and Manulife Philippines, the amount of reinsurer's share of gross premiums earned on insurance contracts include the amount ceded to Manulife Philippines, reduced by taxes and commissions paid by the Company.



With the Bancassurance Agreement entered into by Manulife Philippines and the Bank in 2014, the reinsurance agreement between the Company and Manulife Philippines ceased except for those policies with inception dates prior to July 1, 2014.

## 16. Investment Income and Other Income

Investment income consists of:

	2016	2015
Interest income on:		
AFS financial assets (Note 5)	<b>₱85,186,291</b>	₱85,539,671
Loans and receivables	<b>2,003,177</b>	4,928,107
Cash and cash equivalents	<b>6,582,682</b>	1,084,358
	<b>93,772,150</b>	91,552,136
Fair value losses from insurance investment fund classified as FVPL	<b>(1,200,948)</b>	(4,364,700)
	<b>₱92,571,202</b>	₱87,187,436

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

Other income consists of:

	2016	2015
Management fee income	<b>₱160,261,458</b>	₱87,473,699
Cost of insurance	<b>81,615,221</b>	35,498,640
Processing fee	<b>21,044,091</b>	12,243,739
Miscellaneous revenue	<b>35,976,379</b>	9,120,972
	<b>₱298,897,149</b>	₱144,337,050

Management fee income refers to the income from management and administration of assets by the 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

Miscellaneous revenue consists of the income gained from employee loans and car plan, monthly load and overdue premiums.

## 17. Benefits and Claims

Gross insurance contract benefits and claims incurred on insurance contracts consist of:

	2016	2015
Ordinary life insurance	<b>₱17,405,896</b>	₱63,520,632
Group life insurance	<b>16,603,993</b>	10,484,904
Unit-linked	<b>23,325,453</b>	4,997,345
	<b>₱57,335,342</b>	₱79,002,881



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

	2016	2015
Unit- Linked	(₱9,824,250)	(₱24,380,808)
Ordinary life insurance	(10,442,033)	(7,425)
	<b>(₱20,266,283)</b>	<b>(₱24,388,233)</b>

Change in insurance contract liabilities during the year consist of:

	2016	2015
Unit-linked	₱6,651,627,734	₱4,421,260,107
Ordinary life insurance	82,314,172	70,676,116
Group life insurance	5,466,721	16,450,766
Accident and Health	12,993,103	151,721
	<b>₱6,752,401,730</b>	<b>₱4,508,538,710</b>

The reinsurers' share of gross change in legal policy reserves in 2016 and 2015 amounted to ₱349.70 million and ₱467.98 million, respectively.

## 18. General and Administrative Expenses

This account consists of:

	2016	2015
Salaries, wages and employee benefits (Note 19)	₱304,582,341	₱257,494,932
Administrative charges (Note 14)	107,756,453	91,911,561
Advertising	77,066,021	54,415,159
Travel	22,127,631	18,360,141
Telephone and communications	16,297,919	14,676,150
Rent and utilities (Note 22)	10,248,346	9,191,653
Depreciation and amortization (Note 8)	8,551,058	8,926,710
Outside services	6,462,282	6,695,923
Equipment and supplies	5,554,093	3,375,939
Taxes and licenses	3,815,549	7,380,270
Professional and other fees	3,516,806	4,090,051
Repairs and maintenance	1,682,951	2,133,787
Others	7,461,161	8,244,205
	<b>₱575,122,611</b>	<b>₱486,896,481</b>

### *Administrative charges*

The Company and Manulife Philippines entered into an Administrative Services Agreement on October 1, 2007. On September 29, 2014, the parties entered into a share purchase agreement including the addendum to the Administrative Services Agreement between the Company and Manulife Philippines. The parties have agreed that the addendum to the agreement shall apply only to life insurance policies issued by Company on or after July 1, 2014. This agreement requires the Company to pay Manulife Philippines for the services rendered equal to:

- the Actual cost incurred by Manulife Philippines in rendering the services plus 5% mark-up on life insurance policies issued after the effective date of the addendum; and
- the Net Costs incurred by Manulife Philippines in rendering the services plus 5% mark-up on life insurance policies issued prior to effective date.





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## 19. Retirement Cost

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

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

The 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, 2016. As of December 31, 2016 and 2015, the Company's DB obligation is lower than the DC obligation. Consequently, no pension asset or liability was recognized.

In 2016, contributions made by the Company amounted to ₱2.38 million.

Changes in the fair value of the plan assets follow:

	2016	2015
At January 1	<b>₱25,763,365</b>	₱24,285,829
Income earned on fund	<b>(4,612,116)</b>	208,128
Actual contributions	<b>4,293,946</b>	3,103,891
Benefits paid	<b>(1,018,122)</b>	(1,834,483)
At December 31	<b>₱24,427,073</b>	₱25,763,365
Actual return on plan assets	<b>(₱4,612,116)</b>	₱208,128



The retirement plan is co-owned by the Company and Manulife Philippines, which is in the form of a trust administered by a trustee bank. The carrying value as of December 31, 2016 of the fund which approximates its fair value is as follows:

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

The retirement fund pertaining to the Company amounted to ₱24.43 million and ₱25.76 million as of December 31, 2016 and 2015, respectively.

The Company's expected contribution to the retirement plan in 2017 amounted to ₱4,594,522.

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

Plan Year	Expected Benefit Payments		Total
	Normal Retirement	Other than Normal Retirement	
Less than 1 year	₱—	₱919,031	₱919,031
1 to less than 5 years	332,201	5,808,269	6,140,470
5 to less than 10 years	2,977,659	9,715,366	12,693,025
10 to less than 15 years	5,006,977	10,076,855	15,083,832
15 to less than 20 years	11,680,183	9,687,937	21,368,120
20 years and above	33,825,209	7,847,695	41,672,904

## 20. Income Taxes

The provision for income tax consists of:

	2016	2015
Final taxes on interest income	₱18,918,141	₱18,604,371
MCIT	6,233,384	2,729,185
	<b>₱25,151,525</b>	<b>₱21,333,556</b>

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

	2016	2015
Deferred tax assets on:		
Accrued expenses	₱3,130,720	₱4,490,177
	<b>3,130,720</b>	4,490,177
Deferred tax liability on:		
Unrealized foreign exchange gain	3,130,720	4,490,177
	<b>3,130,720</b>	4,490,177
Net deferred tax asset	₱—	₱—



The reconciliation of tax expense computed based on the pretax income at the statutory tax rate to the provision for income tax follows:

	2016	2015
Loss before income tax	<b>(₱197,200,551)</b>	(₱88,520,396)
Income tax expense at statutory income tax rate	<b>(59,160,165)</b>	(26,556,119)
Additions to (reductions in) income tax expense resulting from:		
Exempt gain on sale of long term investment in bonds	<b>(637,417)</b>	(59,182,888)
Interest income - net of final tax	<b>(9,335,149)</b>	(7,382,838)
Fair value loss (gains) on financial assets at FVPL exempt from tax	<b>360,284</b>	1,309,410
Nondeductible expense	<b>3,366,417</b>	1,958,552
Change in temporary differences without recognized deferred tax assets and others	<b>90,557,555</b>	111,187,439
	<b>₱25,151,525</b>	₱21,333,556

The Company is subjected to MCIT in 2016 and 2015. The unexpired NOLCO and MCIT, which are available for offset against future taxable income and income tax payable, respectively, are as follows:

Year incurred	MCIT	NOLCO	Expiry Dates
2016	₱6,233,384	₱190,351,097	December 31, 2019
2015	2,729,185	341,320,137	December 31, 2018
2014	1,289,179	308,994,300	December 31, 2017
	<b>₱10,251,748</b>	<b>₱840,665,534</b>	

NOLCO amounting to ₱8,617,730 and MCIT amounting to ₱6,471,592 pertaining to 2013 expired in 2016.

The Company did not recognize deferred tax assets from the following deductible temporary differences, NOLCO, and MCIT since management believes that the benefits will not be realized prior to their expiry dates.

	2016	2015
NOLCO	<b>₱840,665,534</b>	₱658,932,167
MCIT	<b>10,251,748</b>	10,489,956
Accrued expenses	<b>124,818,648</b>	40,455,053
Provision for IBNR	<b>6,029,514</b>	4,446,132
Reserve for policyholders' dividends	<b>2,359,685</b>	2,108,714



The following are the movements in NOLCO and MCIT:

	2016	2015
<b>NOLCO</b>		
Balance at beginning of year	<b>₱658,932,167</b>	₱366,851,545
Addition	<b>190,351,097</b>	341,320,137
Expired/applied	<b>(8,617,730)</b>	(49,239,515)
<b>Balance at end of year</b>	<b>₱840,665,534</b>	<b>₱658,932,167</b>
<b>MCIT</b>		
Balance at beginning of year	<b>₱10,489,956</b>	₱12,623,947
Addition	<b>6,233,384</b>	2,729,185
Expired	<b>(6,471,592)</b>	(4,863,176)
<b>Balance at end of year</b>	<b>₱10,251,748</b>	<b>₱10,489,956</b>

## 21. Risk Management Policies

### Governance Framework

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

The policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, 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 Company faces under such insurance contracts is that the actual claims and benefit payments or the timing thereof differs from expectations. 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 is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The business of the 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 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 Company has an objective to control and minimize insurance risk, and to reduce volatility of operating profits. The 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 Company's exposure to large claims by placing risk with reinsurers providing high security.
- 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 Company's concentration of insurance risk, before and after reinsurance, in relation to the type of insurance contract is as follows:

	2016	2015
<b>Whole Life Insurance</b>		
Gross	<b>₱1,385,654,403</b>	₱1,290,951,547
Net	<b>571,474,677</b>	439,926,215
<b>Endowment</b>		
Gross	<b>3,546,503,874</b>	3,478,837,189
Net	<b>384,399,135</b>	295,765,800
<b>Term Policies</b>		
Gross	<b>2,145,599,796</b>	1,558,199,622
Net	<b>1,632,833,459</b>	1,164,068,278
<b>Unit-linked Policies</b>		
Gross	<b>39,065,031,043</b>	29,607,955,068
Net	<b>23,146,393,178</b>	12,161,124,378
<b>Accident and Health</b>		
Gross	<b>428,425,192</b>	314,988,547
Net	<b>358,970,992</b>	235,955,329
<b>Group Insurance</b>		
Gross	<b>14,639,798,154</b>	11,109,111,074
Net	<b>14,639,798,154</b>	11,109,111,074
<b>Total</b>		
Gross	<b>61,211,012,462</b>	47,360,043,047
Net	<b>40,733,869,595</b>	25,405,951,074



### 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 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.

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

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.

### Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax 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 noted that movements in these assumptions are non-linear and the degree of impacts cannot easily be gleaned from these results.

December 31, 2016					
Change in assumptions	Increase (decrease) in gross liabilities	Increase (decrease) in net liabilities	Increase (decrease) in profit before tax	Increase (decrease) in equity*	
					(In Thousands)
Mortality	+10%	₱18,780	₱5,901	(₱5,901)	(₱5,901)
Valuation interest rate	-1%	534,505	73,545	(73,545)	(73,545)
	+1%	(534,505)	(73,545)	73,545	73,545

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

December 31, 2015					
Change in assumptions	Increase (decrease) in gross liabilities	Increase (decrease) in net liabilities	Increase (decrease) in profit before tax	Increase (decrease) in equity*	
					(In Thousands)
Mortality	+10%	₱24,718	₱4,531	(₱4,531)	(₱4,531)
Valuation interest rate	-1%	363,530	19,394	(19,394)	(19,394)
	+1%	(363,530)	(19,394)	19,394	19,394

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



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. That is, the investment of those future premium receipts may be at yield below that required to meet future policy liabilities.

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

The 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 Company also adopts a strategy to produce cash flows required to meet maturing insurance liabilities. The 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 Company may also enter into derivative transactions as end users.

The 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 Company may determine that it is economically advantageous to be temporarily in an unmatched position due to anticipated interest rate or other economic changes.

Financial Instruments

The following table sets forth the carrying value and estimated fair value of financial instruments recognized as at December 31, 2016 and 2015:

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets at FVPL</b>				
Debt securities				
Peso-denominated government securities	₱9,789,756,180	₱9,789,756,180	₱8,190,717,863	₱8,190,717,863
Dollar-denominated	1,281,918,568	1,281,918,568	1,491,593,855	1,491,593,855
Listed equity securities				
Peso-denominated	7,985,340,830	7,985,340,830	7,212,197,720	7,212,197,720
Dollar-denominated	2,661,750,429	2,661,750,429	1,163,550,147	1,163,550,147
<b>AFS financial assets</b>				
Peso-denominated government securities	1,747,877,168	1,747,877,168	1,698,262,447	1,698,262,447
<b>Loans and receivables</b>				
Cash and cash equivalents				
Cash on hand	95,753	95,753	95,753	95,753
Cash in commercial banks	357,587,445	357,587,445	119,032,173	119,032,173
Short term deposits in commercial banks	285,686,413	285,686,413	78,580,224	78,580,224
Cash held in IIF	1,710,162,251	1,710,162,251	961,664,817	961,664,817
Accounts receivable held in IIF	110,490,974	110,490,974	20,978,622	20,978,622
Insurance receivable	18,948,108	18,948,108	29,003,750	29,003,750
Reinsurance assets	3,184,345,137	3,184,345,137	2,779,410,733	2,779,410,733
Policy loans	92,022,484	92,022,484	69,382,577	69,382,577

(Forward)



	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Security fund contributions	₱141,244	₱141,244	₱141,244	₱141,244
Due from related parties	1,306,383	1,306,383	1,306,383	1,306,383
Other receivables	48,506,506	48,506,506	40,897,294	40,897,294
Accrued income				
Held in IIF	112,153,707	112,153,707	113,508,428	113,508,428
Fixed-rate treasury notes	14,834,641	14,834,641	14,137,144	14,137,144
Other receivables	7,126	7,126	7,026	7,026
<b>Total financial assets</b>	<b>₱29,402,931,347</b>	<b>₱29,402,931,347</b>	<b>₱23,984,468,200</b>	<b>₱23,984,468,200</b>
<b>Financial Liabilities</b>				
Other financial liabilities				
Insurance payable	₱1,048,379,295	₱1,048,379,295	₱716,447,117	₱716,447,117
Policyholders' dividends	118,314,720	118,314,720	87,499,562	87,499,562
Accounts payable and accrued expenses*	439,458,963	439,458,963	155,210,480	155,210,480
Due to related parties	249,497,384	249,497,384	149,804,400	149,804,400
Policy and contract claims	36,480,766	36,480,766	34,816,018	34,816,018
Other insurance contract liabilities	53,572,436	53,572,436	51,122,400	51,122,400
<b>Total financial liabilities</b>	<b>₱1,945,703,564</b>	<b>₱1,945,703,564</b>	<b>₱1,194,899,977</b>	<b>₱1,194,899,977</b>

\*excluding statutory liabilities amounting to ₱13.25 million and ₱23.69 million in 2016 and 2015, respectively.

Due to the short-term nature of cash and cash equivalents, insurance receivables, reinsurance assets, policy loans, accounts receivable held in IIFs, due from related parties, other receivables, accrued income, insurance payables, policyholders' dividends, due to related parties, policy and contract claims, other insurance contract liabilities, 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 following table shows the analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	December 31, 2016			Total
	Level 1	Level 2	Level 3	
<b>Available-for-sale financial assets</b>				
<b>Debt securities</b>				
Local currency	₱1,569,628,418	₱178,248,750	₱-	₱1,747,877,168
<b>Financial Assets designated at FVPL</b>				
Debt securities held in segregated funds				
Peso - denominated	7,652,637,412	2,137,118,768	-	9,789,756,180
Dollar - denominated	1,281,918,568	-	-	1,281,918,568
Equity securities held in segregated funds				
Peso denominated	7,985,340,830	-	-	7,985,340,830
Dollar denominated	2,661,750,429	-	-	2,661,750,429
<b>Total</b>	<b>₱21,151,275,657</b>	<b>₱2,315,367,518</b>	<b>₱-</b>	<b>₱23,466,643,175</b>





	December 31, 2015			Total
	Level 1	Level 2	Level 3	
Available-for-sale financial assets				
Debt securities				
Local currency	₱725,647,197	₱972,615,250	₱-	₱1,698,262,447
Financial Assets designated at FVPL				
Debt securities held in segregated funds				
Peso - denominated	6,473,182,274	1,717,535,589		8,190,717,863
Dollar - denominated	247,228,897	1,244,364,958	-	1,491,593,855
Equity securities held in segregated funds				
Peso denominated	7,212,197,720	-		7,212,197,720
Dollar denominated	1,163,550,147	-		1,163,550,147
<b>Total</b>	<b>₱15,821,806,235</b>	<b>₱3,934,515,797</b>	<b>₱-</b>	<b>₱19,756,322,032</b>

### Fair Value Hierarchy

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

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

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

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

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

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

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

### Financial Risk

The Company is exposed to financial risk through its financial assets, financial liabilities, insurance 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. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

*Credit Risk*

Credit risk is the risk that one party to a financial instrument will cause a loss to the other party by failing to discharge an obligation.

The 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 Company issues unit linked investment policies where the 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 Company has no material credit risk on unit linked financial assets. Loans to policyholders are granted against the surrender value of policies.

The tables below show the maximum exposure to credit risk for the components of the statements of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements.

**December 31, 2016**

	Non-Linked	Unit-linked	Total
<b>Financial assets at FVPL</b>			
Debt securities			
Peso-denominated government securities	₱–	₱9,789,756,180	₱9,789,756,180
Dollar-denominated	–	1,281,918,568	1,281,918,568
Listed equity securities			
Peso-denominated	–	7,985,340,830	7,985,340,830
Dollar-denominated	–	2,661,750,429	2,661,750,429
<b>AFS financial assets</b>			
Government debt securities			
Local currency	1,747,877,168	–	1,747,877,168
<b>Loans and receivables</b>			
Cash and cash equivalents			
Cash on hand	95,753	–	95,753
Cash in commercial banks	357,587,445	–	357,587,445
Short term deposits in commercial banks	285,686,413	–	285,686,413
Cash held in IIF	–	1,710,162,251	1,710,162,251
Accounts receivable held in IIF	–	110,490,974	110,490,974
Insurance receivable	18,948,108	–	18,948,108
Reinsurance assets	3,184,345,137	–	3,184,345,137
Policy loans	92,022,484	–	92,022,484
Security fund contribution	141,244	–	141,244
Due from related parties	1,306,383	–	1,306,383
Other receivables	48,506,506	–	48,506,506

(Forward)



	Non-Linked	Unit-linked	Total
Accrued income			
Held in IIF	₱-	₱112,153,707	₱112,153,707
Fixed-rate treasury notes	14,834,641	-	14,834,641
Other receivables	7,126	-	7,126
	<b>₱5,751,358,408</b>	<b>₱23,651,572,939</b>	<b>₱29,402,931,347</b>

December 31, 2015

	Non-Linked	Unit-linked	Total
Financial assets at FVPL			
Debt securities			
Peso-denominated government securities	₱-	₱8,190,717,863	₱8,190,717,863
Dollar-denominated	-	1,491,593,855	1,491,593,855
Listed equity securities			
Peso-denominated	-	7,212,197,720	7,212,197,720
Dollar-denominated	-	1,163,550,147	1,163,550,147
AFS financial assets			
Government debt securities			
Local currency	1,698,262,447	-	1,698,262,447
Loans and receivables			
Cash and cash equivalents			
Cash on hand	95,753	-	95,753
Cash in commercial banks	119,032,173	-	119,032,173
Short term deposits in commercial banks	78,580,224	-	78,580,224
Cash held in IIF	-	961,664,817	961,664,817
Accounts receivable held in IIF	-	20,978,622	20,978,622
Insurance receivable	29,003,750	-	29,003,750
Reinsurance assets	2,779,410,733	-	2,779,410,733
Policy loans	69,382,577	-	69,382,577
Security fund contribution	141,244	-	141,244
Due from related parties	1,306,383	-	1,306,383
Other receivables	40,897,294	-	40,897,294
Accrued income			
Held in IIF	-	113,508,428	113,508,428
Fixed-rate treasury notes	14,137,144	-	14,137,144
Other receivables	7,026	-	7,026
	<b>₱4,830,256,748</b>	<b>₱19,154,211,452</b>	<b>₱23,984,468,200</b>



The following tables provide information regarding the credit risk exposure of the Company as of December 31, 2016 and 2015 by classifying financial assets according to credit ratings of the counterparties:

**December 31, 2016**

	Neither past due nor impaired			Total
	Investment Grade	Non-investment Grade Satisfactory	Not Rated	
<b>Financial assets at FVPL</b>				
Debt securities				
Peso-denominated government securities	₱9,789,756,180	₱-	₱-	₱9,789,756,180
Dollar-denominated	1,281,918,568	-	-	1,281,918,568
Listed equity securities				
Peso-denominated	-	-	7,985,340,830	7,985,340,830
Dollar-denominated	-	-	2,661,750,429	2,661,750,429
<b>AFS financial assets</b>				
Government debt securities				
Local currency	1,747,877,168	-	-	1,747,877,168
<b>Loans and receivables</b>				
Cash and cash equivalents				
Cash on hand	95,753	-	-	95,753
Cash in commercial banks	357,587,445	-	-	357,587,445
Short term deposits in commercial banks	285,686,413	-	-	285,686,413
Cash held in IIF	1,710,162,251	-	-	1,710,162,251
Accounts receivable held in IIF	110,490,974	-	-	110,490,974
Insurance receivable	-	18,948,108	-	18,948,108
Reinsurance assets	-	-	3,184,345,137	3,184,345,137
Policy loans	-	-	92,022,484	92,022,484
Security fund contribution	-	-	141,244	141,244
Due from related parties	-	-	1,306,383	1,306,383
Other receivables	-	-	48,506,506	48,506,506
Accrued income				
Held in IIF	-	112,153,707	-	112,153,707
Fixed-rate treasury notes	-	14,834,641	-	14,834,641
Other receivables	-	7,126	-	7,126
	<b>₱15,283,574,752</b>	<b>₱145,943,582</b>	<b>₱13,973,413,013</b>	<b>₱29,402,931,347</b>

December 31, 2015

	Neither past due nor impaired			Total
	Investment Grade	Non-investment Grade Satisfactory	Not Rated	
<b>Financial assets at FVPL</b>				
Debt securities				
Peso-denominated government securities	₱8,190,717,863	₱-	₱-	₱8,190,717,863
Dollar-denominated	1,491,593,855	-	-	1,491,593,855

(Forward)



	Neither past due nor impaired			Total
	Investment Grade	Non-investment Grade Satisfactory	Not Rated	
Listed equity securities				
Peso-denominated	₱–	₱–	₱7,212,197,720	₱7,212,197,720
Dollar-denominated	–	–	1,163,550,147	1,163,550,147
AFS financial assets				
Government debt securities				
Local currency	1,698,262,447	–	–	1,698,262,447
Loans and receivables				
Cash and cash equivalents				
Cash on hand	95,753	–	–	95,753
Cash in commercial banks	119,032,173	–	–	119,032,173
Short term deposits in commercial banks	78,580,224	–	–	78,580,224
Cash held in IIF	961,664,817	–	–	961,664,817
Accounts receivable held in IIF	20,978,622	–	–	20,978,622
Insurance receivable	–	29,003,750	–	29,003,750
Reinsurance assets	–	–	2,779,410,733	2,779,410,733
Policy loans	–	–	69,382,577	69,382,577
Security fund contribution	–	–	141,244	141,244
Due from related parties	–	–	1,306,383	1,306,383
Other receivables	–	–	40,897,294	40,897,294
Accrued income				
Held in IIF	–	113,508,428	–	113,508,428
Fixed-rate treasury notes	–	14,137,144	–	14,137,144
Other receivables	–	7,026	–	7,026
	₱12,560,925,754	₱156,656,348	₱11,266,886,098	₱23,984,468,200

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

a) *Cash and Cash Equivalents*

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 and are therefore classified as investment grade.

b) *Investment Securities*

In respect of investment securities pertaining to financial assets at FVPL and AFS financial assets, the 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 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 Company's financial commitments and are unsusceptible to adverse effects of changes in economic conditions. These investments include government securities.

Non-investment grade financial assets, on the other hand, are assets that are likely to be impaired in adverse economic conditions.



All of the Company's securities are lodged in the Registry of Scriptless Securities to mitigate misplacement of physical inventory of assets.

c) *Loans and Receivables*

The 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. Investment grade loans and receivables are assets which have strong capacity to meet the Company's financial commitments and are unsusceptible to adverse effects of changes in economic conditions. Non-investment grade loans and receivables, on the other hand, are assets that are likely to be impaired in adverse economic conditions.

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.

As of December 31, 2016 and 2015, bulk of the Company's FVPL and AFS investments pertains to Philippine government securities. The Company did not have other significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2016 and 2015.

*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 inability to generate cash inflows as anticipated. The major liquidity risk confronting the Company is the daily operating cash requirements.

The Company manages liquidity through its liquidity risk policy, which determines what constitutes liquidity risk for the 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 Company uses all its outstanding financial assets to manage liquidity risks.



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

As of December 31, 2016						
	Up to a year	1 to 5 years	Over 5 years	No term	Variable Unit-Linked	Total
	₱-	₱-	₱-	₱-	₱	₱
<b>Financial assets at FVPL</b>					₱ 21,718,766,007	₱ 21,718,766,007
<b>AFS financial assets</b>	94,531,338	472,656,692	2,987,212,359	-	-	3,554,400,389
<b>Loans and receivables</b>						
Cash and cash equivalents						
Cash on hand	95,753	-	-	-	-	95,753
Cash in commercial banks	357,587,445	-	-	-	-	357,587,445
Short term deposits in commercial banks	285,686,413	-	-	-	-	285,686,413
Cash held in IIF	-	-	-	-	1,710,162,251	1,710,162,251
Accounts receivable held in IIF	-	-	-	-	110,490,974	110,490,974
Insurance receivables	18,948,108	-	-	-	-	18,948,108
Reinsurance assets	3,184,345,137	-	-	-	-	3,184,345,137
Security fund contribution	-	-	-	141,244	-	141,244
Policy loans	92,022,484	-	-	-	-	92,022,484
Due from related parties	1,306,383	-	-	-	-	1,306,383
Other receivables	48,506,506	-	-	-	-	48,506,506
Accrued income						
Held in IIF	-	-	-	-	112,153,707	112,153,707
Fixed-rate treasury notes	14,834,641	-	-	-	-	14,834,641
Other receivables	7,126	-	-	-	-	7,126
<b>Total financial assets</b>	<b>4,097,871,334</b>	<b>472,656,692</b>	<b>2,987,212,359</b>	<b>141,244</b>	<b>23,651,572,939</b>	<b>31,209,454,568</b>
Legal policy reserves	30,641,895	718,584	3,220,172,752	-	23,552,224,815	26,803,758,046
Reserves for policyholders' dividends	2,359,685	-	-	-	-	2,359,685
Insurance payable	1,048,379,295	-	-	-	-	1,048,379,295
Policyholders' dividends	118,314,720	-	-	-	-	118,314,720
Accounts payable and accrued expenses*	439,458,963	-	-	-	-	439,458,963
Due to related parties	249,497,384	-	-	-	-	249,497,384
Policy and contract claims	36,480,766	-	-	-	-	36,480,766
Other insurance contract liabilities	53,572,436	-	-	-	-	53,572,436
<b>Total financial liabilities</b>	<b>1,978,705,144</b>	<b>718,584</b>	<b>3,220,172,752</b>	<b>-</b>	<b>23,552,224,815</b>	<b>28,751,821,295</b>
<b>Net excess liquidity</b>	<b>₱2,119,166,190</b>	<b>₱471,938,108</b>	<b>(₱232,960,393)</b>	<b>₱141,244</b>	<b>₱99,348,124</b>	<b>₱2,457,633,273</b>

\*excluding statutory liabilities amounting to ₱13.25 million in 2016.

As of December 31, 2015						
	Up to a year	1 to 5 years	Over 5 years	No term	Variable Unit-Linked	Total
	₱-	₱-	₱-	₱-	₱	₱
<b>Financial assets at FVPL</b>					₱18,058,059,585	₱18,058,059,585
<b>AFS financial assets</b>	91,268,799	456,343,995	2,963,280,091	-	-	3,510,892,885
<b>Loans and receivables</b>						
Cash and cash equivalents						
Cash on hand	95,753	-	-	-	-	95,753
Cash in commercial banks	119,032,173	-	-	-	-	119,032,173
Short term deposits in commercial banks	78,580,224	-	-	-	-	78,580,224
Cash held in IIF	-	-	-	-	961,664,817	961,664,817
Accounts receivable held in IIF	-	-	-	-	20,978,622	20,978,622
Insurance receivables	29,003,750	-	-	-	-	29,003,750
Reinsurance assets	2,779,410,733	-	-	-	-	2,779,410,733
Security fund contribution	-	-	-	141,244	-	141,244
Policy loans	69,382,577	-	-	-	-	69,382,577
Due from related parties	1,306,383	-	-	-	-	1,306,383
Other receivables	40,897,294	-	-	-	-	40,897,294

(Forward)



As of December 31, 2015

	Up to a year	1 to 5 years	Over 5 years	No term	Variable Unit-Linked	Total
Accrued income						
Held in IIF	₱-	₱-	₱-	₱-	₱113,508,428	₱113,508,428
Fixed-rate treasury notes	14,137,144	-	-	-	-	14,137,144
Other receivables	7,026	-	-	-	-	7,026
<b>Total financial assets</b>	<b>3,223,121,856</b>	<b>456,343,995</b>	<b>2,963,280,091</b>	<b>141,244</b>	<b>19,154,211,452</b>	<b>25,797,098,638</b>
Legal policy reserves	9,955,879	13,344,933	2,777,752,606	-	19,071,922,773	21,872,976,191
Reserves for policyholders'						
dividends	2,108,714	-	-	-	-	2,108,714
Insurance payable	716,447,117	-	-	-	-	716,447,117
Policyholders' dividends	87,499,562	-	-	-	-	87,499,562
Accounts payable and accrued expenses*	155,210,480	-	-	-	-	155,210,480
Due to related parties	149,804,400	-	-	-	-	149,804,400
Policy and contract claims	34,816,018	-	-	-	-	34,816,018
Other insurance contract liabilities	51,122,400	-	-	-	-	51,122,400
<b>Total financial liabilities</b>	<b>1,206,964,570</b>	<b>13,344,933</b>	<b>2,777,752,606</b>	<b>-</b>	<b>19,071,922,773</b>	<b>23,069,984,882</b>
<b>Net excess liquidity</b>	<b>₱2,016,157,286</b>	<b>₱442,999,062</b>	<b>₱185,527,485</b>	<b>₱141,244</b>	<b>₱82,288,679</b>	<b>₱2,727,113,756</b>

\*excluding statutory liabilities amounting to ₱23.69 million in 2015.

### 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 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 Company structures the levels of market risk it accepts through a group market risk policy that determines what constitutes market risk for the 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 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 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 Company to the risk of decline in the value of underlying investments as a result of change in interest rates.

The Company issues unit linked investment policies where the 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 Company has no material market risk on unit linked financial assets.

### 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 Company's fixed rate investments in particular are exposed to such risk.





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

The following tables show information relating to the Company's financial instruments as of December 31, 2016 and 2015 that are exposed to fair value interest rate risk presented by maturity profile (see Note 5):

**December 31, 2016**

	Interest rate	Maturity				Total
		Within a year	1 to 2 years	3 to 4 years	More than 5 years	
<b>AFS financial assets</b>						
Government debt securities						
Peso denominated	4.625% - 9.5%	₱-	₱-	₱-	₱1,747,877,168	₱1,747,877,168

**December 31, 2015**

	Interest rate	Maturity				Total
		Within a year	1 to 2 years	3 to 4 years	More than 5 years	
<b>AFS financial assets</b>						
Government debt securities						
Peso denominated	3.25% - 8.125%	₱-	₱-	₱-	₱1,698,262,447	₱1,698,262,447

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

Currency	2016		2015	
	Change in Basis points	Impact on equity Increase (Decrease)	Change in Basis points	Impact on equity Increase (Decrease)
Philippine Peso	+100	(₱213,014,383)	+100	(₱213,034,143)
	-100	213,014,383	-100	213,034,143

The Company determined the reasonably possible change in fair value interest rate risk by using the trend analyses of the Company's monthly sustainable portfolio yields for the past three years.

*Currency Risk*

Currency risk is the potential decline in the value of the financial instruments due to exchange rate fluctuations. Exposure to currency risk arises mainly when receivables and payables are denominated in a currency other than the Company's functional currency or will be denominated in such a currency in the planned course of business.

The following table shows the details of the Company's currency exposure in original currency (US\$) and Philippine Peso equivalent (PHP) as of December 31, 2016 and 2015:

Assets	2016		2015	
	US\$	PHP	US\$	PHP
Cash and cash equivalents	\$2,378,568	₱118,262,380	\$1,407,616	₱66,242,416
Loans and receivables	117,229	5,828,604	92,091	4,333,803
	2,495,797	124,090,984	1,499,707	70,576,219
Policy and contract claims	39,733	1,975,544	38,569	1,815,048
<b>Net exposures</b>	<b>\$2,456,064</b>	<b>₱122,115,440</b>	<b>\$1,461,138</b>	<b>₱68,761,171</b>



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

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

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rate, with all variables held constant, of the Company's income before tax (due to changes in the fair value of monetary assets and liabilities).

	2015	
	Change in Variable	Increase (Decrease) on Income before Tax
USD	+3.87%	₱4,728,712
	-3.87%	(4,728,712)
	2015	
	Change in Variable	Increase (Decrease) on Income before Tax
USD	+4.70%	₱3,234,805
	-4.70%	(3,234,805)

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 Company has no price risk exposure at year-end related to underlying equity financial assets of insurance investment funds. While the values of these equity financial assets will fluctuate as a result of changes in market prices, such fluctuation will not affect either the Company's income before tax or other comprehensive income.

## 22. Lease Commitments

The Company has various operating lease agreements for its offices. These lease agreements are renewable and have escalation clauses ranging from 5% to 10%.

Future minimum lease payments under lease commitments existing as of December 31, 2016 and 2015 are as follows:

	2016	2015
Within one (1) year	₱4,948,165	₱4,712,538
After one (1) year but not more than five (5) years	5,306,990	10,050,737
	<b>₱10,255,155</b>	<b>₱14,763,275</b>



Rent expense incurred by the Company in 2016 and 2015 amounted to ₱5.94 million and ₱6.03 million, respectively (see Note 18).

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## 23. Regulatory Requirements and Capital Management Policies

### Capital Management Framework

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

The 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 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 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 income account of each business unit, are reported to the Company's risk management function. The risk management function then considers the aggregate impact of the overall capital requirement revealed by the stress testing to assess how much capital is needed to mitigate the risk of insolvency to a selected remote level.

### Regulatory Framework

A substantial portion of the 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 monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, regulators are also interested in ensuring that the Company maintains appropriate solvency position to meet unforeseen liabilities arising from claims and that the risks are at acceptable levels.

The operations of the 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, fixed capitalization requirements, 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.

### *Fixed Capitalization Requirements*

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

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



The minimum networth shall be unimpaired at all times and shall increase to the amounts as follows

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

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

*Solvency Requirement*

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

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

	<b>2016 (Estimated)</b>	<b>2015 (Actual)</b>
Loans and receivables	<b>₱8,624,520</b>	₱19,673,476
Property and equipment – net	<b>15,606,243</b>	14,676,992
Other assets	<b>26,574,766</b>	9,810,954
	<b>₱50,805,529</b>	₱44,161,422

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

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

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

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

	<b>2016 (Estimated)</b>	<b>2015 (Actual)</b>
Total admitted assets	<b>₱26,393,488,008</b>	₱21,345,303,877
Total liabilities	<b>25,696,220,498</b>	20,420,381,910
Net worth	<b>697,267,510</b>	924,921,967
Required Minimum Capital / Net Worth	<b>550,000,000</b>	250,000,000
	<b>₱147,267,510</b>	₱674,921,967

*Unimpaired Capital Requirement*

On 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 Company has complied with the unimpaired capital requirement.

*Dividend Declaration*

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

*RBC Requirements*

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

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

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

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

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

	<b>2016 (Estimated)</b>	2015 (Actual)
Networth	<b>₱697,267,509</b>	₱924,921,967
RBC requirement	<b>69,568,652</b>	64,992,553
RBC ratio	<b>1002%</b>	1423%

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

In 2016, IC issued Circular Letter No. 2016-68, Amended Risk-Based Capital (RBC2) Framework, which prescribes that all insurance companies must satisfy the minimum statutory



RBC ratio of 100% and not fail the Trend Test as stated under Section 3 of this Circular. The RBC ratio of an insurance company shall be equal to the Total Available Capital (TAC) divided by the RBC requirement.

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

This will take effect beginning January 1, 2017.

## 24. Current and Non-Current classification

The Company's classification of its account is as follows:

	2016			2015		
	Current	Non-current	Total	Current	Non-current	Total
<b>Assets</b>						
Cash and cash equivalents	₱2,353,531,862	₱-	₱2,353,531,862	₱1,159,372,967	₱-	₱1,159,372,967
Insurance receivables	18,948,108	-	18,948,108	29,003,750	-	29,003,750
Reinsurance assets	3,184,345,137	-	3,184,345,137	2,779,410,733	-	2,779,410,733
Financial assets						
Financial assets at fair value through profit or loss	21,718,766,007	-	21,718,766,007	18,058,059,585	-	18,058,059,585
Available-for-sale financial assets	-	1,747,877,168	1,747,877,168	-	1,698,262,447	1,698,262,447
Loans and receivables	252,326,347	141,244	252,467,591	132,564,876	141,244	132,706,120
Accrued income	126,995,474	-	126,995,474	127,652,598	-	127,652,598
Property and equipment	-	22,449,048	22,449,048	-	20,204,266	20,204,266
Other assets	23,269,530	6,752,412	30,021,942	9,908,346	5,094,203	15,002,549
	<b>27,678,182,465</b>	<b>1,777,219,872</b>	<b>29,455,402,337</b>	<b>22,295,972,855</b>	<b>1,723,702,160</b>	<b>24,019,675,015</b>
<b>Liabilities</b>						
Insurance contract liabilities	23,672,919,912	3,220,891,336	26,893,811,248	19,167,817,070	2,791,097,539	21,958,914,609
Insurance payable	1,048,379,295	-	1,048,379,295	716,447,117	-	716,447,117
Policyholders' dividends	118,314,720	-	118,314,720	87,499,562	-	87,499,562
Reserve for policyholders' dividends	2,359,685	-	2,359,685	2,108,714	-	2,108,714
Accounts payable and accrued expenses	452,705,940	-	452,705,940	178,897,962	-	178,897,962
Due to related parties	249,497,384	-	249,497,384	149,804,400	-	149,804,400
Income tax payable	557,958	-	557,958	233,833	-	233,833
	<b>₱25,544,734,894</b>	<b>₱3,220,891,336</b>	<b>₱28,765,626,230</b>	<b>₱20,302,808,658</b>	<b>₱2,791,097,539</b>	<b>₱23,093,906,197</b>

