Manulife China Bank Life Assurance Corporation

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

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, 2017 and 2016, 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, 2017 and 2016, 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.

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

The supplementary information required under Revenue Regulations 15-2010 for purposes of filing with the Bureau of Internal Revenue is presented by the management of Manulife China Bank Life Assurance Corporation in a separate schedule. Revenue Regulations 15-2010 require the information to be presented in the notes to financial statements. Such information is not a required part of the basic financial statements. The information is also not required by Securities Regulation Code Rule 68. Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

SYCIP GORRES VELAYO & CO.

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PTR No. 6621239, January 9, 2018, Makati City

April 11, 2018

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31		January 1
	2017	2016 (As restated - Note 2)	2016 (As restated - Note 2)
ASSETS			
Cash and Cash Equivalents (Notes 4, 6 and 21)	**₱1,282,822,265**	₱2,353,531,862	₱1,159,372,967
Insurance Receivables (Note 21)	**18,457,147**	18,948,108	29,003,750
Reinsurance Assets (Notes 2, 10, 11 and 21)	**4,273,222,760**	4,082,226,543	3,592,722,406
Financial Assets (Notes 5 and 21)			
Financial assets at fair value through profit or loss	**29,617,814,478**	21,718,766,007	18,058,059,585
Available-for-sale financial assets	**1,585,538,896**	1,747,877,168	1,698,262,447
Loans and receivables (Note 23)	**381,128,780**	252,467,591	132,706,120
Accrued Income (Notes 7 and 21)	**137,250,402**	126,995,474	127,652,598
Property and Equipment (Notes 8 and 23)	**21,653,324**	22,449,048	20,204,266
Other Assets (Notes 9 and 23)	**29,578,348**	30,021,942	15,002,549
	₱37,347,466,400	₱30,353,283,743	₱24,832,986,688
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities (Notes 10 and 21)	**₱34,647,557,447**	₱27,602,031,880	₱22,615,829,016
Insurance payable (Notes 11, 14 and 21)	**862,705,143**	1,048,379,295	716,447,117
Policyholders' dividends (Note 21)	**152,273,529**	118,314,720	87,499,562
Accounts payable and accrued expenses (Notes 12 and 21)	**622,413,796**	476,335,637	197,626,000
Due to related parties (Notes 14 and 21)	**351,304,229**	249,497,384	149,804,400
Pension liability (Note 19)	**3,999,758**	–	–
Income tax payable	**3,466,226**	557,958	233,833
Total Liabilities	**36,643,720,128**	29,495,116,874	23,767,439,928
Equity			
Capital stock (Note 13)	**500,000,000**	500,000,000	500,000,000
Contributed surplus (Note 13)	**525,000,000**	525,000,000	525,000,000
Remeasurement loss on legal policy reserves	**(14,290,907)**	(31,045,107)	(24,832,561)
Remeasurement loss on pension plan	**(11,453,937)**	–	–
Reserve for fluctuation in value of available-for-sale financial assets (Note 5)	**(237,345,378)**	(67,537,589)	(53,896,954)
Appropriated surplus - Negative reserves	**50,985,290**	59,486,746	63,603,923
Retained earnings (Deficit)	**(109,148,796)**	(127,737,181)	55,672,352
	703,746,272	858,166,869	1,065,546,760
	₱37,347,466,400	₱30,353,283,743	₱24,832,986,688

See accompanying Notes to Financial Statements.

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31	
	2017	2016 (As restated - Note 2)
REVENUES		
Gross premiums earned on insurance contracts	**₱8,411,039,102**	₱7,645,093,135
Reinsurers' share of gross premiums earned on insurance contracts	**(199,909,191)**	(370,697,431)
Insurance premiums earned (Note 15)	**8,211,129,911**	7,274,395,704
Investment income (Note 16)	**102,628,509**	92,571,202
Gain on sale of available-for-sale financial assets (Note 5)	**3,224,986**	2,124,724
Foreign currency exchange gain - net	**572,351**	–
Other income (Note 16)	**661,702,568**	298,897,149
Total revenues	**8,979,258,325**	7,667,988,779
BENEFITS AND OPERATING EXPENSES		
Gross benefits and claims incurred on insurance contracts	**106,415,770**	57,335,342
Reinsurers' share of benefits and claims incurred on insurance contracts	**(39,612,430)**	(20,266,283)
Change in insurance contract liabilities	**7,740,484,079**	6,717,827,335
Dividends and interest on policyholders' dividends	**46,181,774**	39,658,688
Benefits and claims (Note 17)	**7,853,469,193**	6,794,555,082
Commission expense	**406,632,510**	435,122,250
General and administrative expenses (Note 18)	**660,363,630**	575,122,612
Insurance taxes	**17,264,156**	21,032,497
Unrealized foreign exchange loss	**–**	4,531,524
Total benefits and operating expenses	**8,937,729,489**	7,830,363,965
INCOME (LOSS) BEFORE INCOME TAX	**41,528,836**	(162,375,186)
PROVISION FOR INCOME TAX (Note 20)	**31,441,907**	25,151,524
NET INCOME (LOSS)	**₱10,086,929**	(₱187,526,710)

See accompanying Notes to Financial Statements.

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016 (As restated - Note 2)
NET INCOME (LOSS)	**₱10,086,929**	(₱187,526,710)
OTHER COMPREHENSIVE LOSS		
Items that will be reclassified to profit or loss in subsequent periods:		
Remeasurement gain (loss) on legal policy reserves	**16,754,200**	(6,212,546)
Net change in fair value of available-for-sale financial assets (Note 5)	**(169,807,789)**	(13,640,635)
Items that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement loss on pension plan (Note 19)	**(11,453,937)**	–
	(164,507,526)	(19,853,181)
TOTAL COMPREHENSIVE LOSS	**(₱154,420,597)**	(₱207,379,891)

See accompanying Notes to Financial Statements.

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Notes 13 and 23)	**Contributed Surplus** (Note 13)	**Remeasurement Gain (Loss) on Legal Policy Reserves** (Note 2)	**Remeasurement Loss on Pension Plan** (Note 19)	**Reserve for Fluctuation in Value of Available-for-sale Financial Assets** (Note 5)	**Appropriated Surplus – Negative Reserves** (Note 2)	**Retained Earnings (Deficit)**	**Total**
Balances at January 1, 2017, as previously reported	**₱500,000,000**	**₱525,000,000**	**₱–**	**₱–**	**(₱67,537,589)**	**₱–**	**(₱267,686,304)**	**₱689,776,107**
Effect of change in accounting policy (Note 2)	**–**	**–**	**(31,045,107)**	**–**	**–**	**59,486,746**	**139,949,123**	**168,390,762**
Balances at January 1, 2017, as restated	**500,000,000**	**525,000,000**	**(31,045,107)**	**–**	**(67,537,589)**	**59,486,746**	**(127,737,181)**	**858,166,869**
Net income	**–**	**–**		**–**	**–**	**–**	**10,086,929**	**10,086,929**
Other comprehensive income (loss)	**–**	**–**	**16,754,200**	**(11,453,937)**	**(169,807,789)**	**–**	**–**	**(164,507,526)**
Total comprehensive loss	**–**	**–**	**16,754,200**	**(11,453,937)**	**(169,807,789)**	**(8,501,456)**	**10,086,929**	**(154,420,597)**
Reversal of appropriation of negative policy reserves	**–**	**–**	**–**	**–**	**–**	**(8,501,456)**	**8,501,456**	**–**
Balances at December 31, 2017	**₱500,000,000**	**₱525,000,000**	**(₱14,290,907)**	**(₱11,453,937)**	**(₱237,345,378)**	**₱50,985,290**	**(₱109,148,796)**	**₱703,746,272**
Balances at January 1, 2016, as previously reported	₱500,000,000	₱525,000,000	₱–	₱–	(₱53,896,954)	₱–	(₱45,334,228)	₱925,768,818
Effect of change in accounting policy (Note 2)			(24,832,561)	–	–	63,603,923	101,006,580	139,777,942
Balances at January 1, 2016, as restated	500,000,000	525,000,000	(24,832,561)	–	(53,896,954)	63,603,923	55,672,352	1,065,546,760
Net loss	–	–	–	–	–	–	(187,526,710)	(187,526,710)
Other comprehensive loss	–	–	(6,212,546)	–	(13,640,635)	–	–	(19,853,181)
Total comprehensive loss	–	–	(6,212,546)	–	(13,640,635)	–	(187,526,710)	(207,379,891)
Reversal of appropriation of negative policy reserves	–	–	–	–		(4,117,177)	4,117,177	–
Balances at December 31, 2016	₱500,000,000	₱525,000,000	(₱31,045,107)	₱–	(₱67,537,589)	₱59,486,746	(₱127,737,181)	₱858,166,869

See accompanying Notes to Financial Statements.

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016 (As restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**₱41,528,836**	(₱162,375,186)
Adjustments for:		
Change in insurance contract liabilities (Note 17)	**141,035,128**	415,905,418
Depreciation and amortization (Notes 8 and 18)	**10,587,273**	8,551,058
Retirement costs (Note 19)	**7,312,537**	–
Change in IBNR provision (Note 10)	**4,628,041**	1,583,382
Net gain on disposal of property and equipment (Note 8)	**–**	(300,000)
Unrealized foreign currency exchange losses (gains) - net	**(572,351)**	4,531,524
Gains on sale of available-for-sale financial assets (Note 5)	**(3,224,986)**	(2,124,724)
Fair value (gains) loss on financial assets at fair value through profit or loss (Note 16)	**(5,768,658)**	1,200,948
Interest income (Note 16)	**(96,859,851)**	(93,772,150)
Operating income before changes in working capital	**98,665,969**	173,200,270
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets at fair value through profit or loss (Note 5)	**(7,893,279,813)**	(3,666,438,894)
Insurance receivables	**490,961**	10,055,642
Reinsurance assets	**(190,996,217)**	(404,934,404)
Loans and receivables	**(128,661,189)**	(119,761,471)
Other assets	**(9,367,623)**	(15,019,393)
Increase (decrease) in:		
Insurance contract liabilities (Note 10)	**6,884,697,614**	4,480,302,042
Policy and contract claims and other insurance contract liabilities (Note 10)	**31,918,984**	26,819,959
Insurance payables	**(185,674,152)**	331,932,178
Policyholders' dividends	**33,958,809**	30,815,158
Accounts payable and accrued expenses	**146,078,159**	249,519,421
Due to related parties	**101,806,845**	99,692,984
Net cash generated by (used in) operations	**(1,110,361,653)**	1,196,183,492
Contribution to retirement fund (Note 19)	**(4,955,499)**	–
Income taxes paid	**(28,533,639)**	(24,827,400)
Net cash generated by (used in) operating activities	**(1,143,850,791)**	1,171,356,092
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**94,346,473**	101,960,111
Proceeds from sale/maturities of:		
Available-for-sale financial assets (Note 5)	**69,729,309**	19,484,734
Property and equipment (Note 8)	**–**	450,000
Acquisitions of:		
Available-for-sale financial assets (Notes 5)	**(81,715,390)**	(88,146,203)
Property and equipment (Note 8)	**(9,791,549)**	(10,945,840)
Net cash generated by investing activities	**72,568,843**	22,802,802

(Forward)

	Years Ended December 31	
	2017	2016 (As restated - Note 2)
EFFECT OF FOREIGN CURRENCY RATE CHANGES IN CASH AND CASH EQUIVALENTS	**₱572,351**	₱–
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,070,709,597)**	1,194,158,895
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,353,531,862**	1,159,372,967
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱1,282,822,265**	₱2,353,531,862

See accompanying Notes to Financial Statements.

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 11, 2018.

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 which are prepared for submission to the SEC and the Bureau of Internal Revenue (BIR) have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations based on equivalent 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, 2017. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- 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.

The amendments do not have any impact since the Company does not have non-cash financing activities.

- 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.

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

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 financial statements. The Company intends to adopt the following pronouncements when they become effective.

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 opts for the temporary exemption from applying PFRS 9.

  - 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 to 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.

<u>IC Circular Letter (ICL) No. 2016-66</u>

On December 28, 2016, the Insurance Commission (IC) released Circular Letter No. 2016-66 on the Valuation Standards for Life Insurance Policy Reserves which mandated the change in the basis of valuation of the life insurance policy reserves from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV) effective January 1, 2017. The methods and assumptions shall be in accordance with the internationally accepted actuarial principles concerning financial reporting framework promulgated by Actuarial Society of the Philippines (ASP) and shall consider other assumptions such as morbidity, lapse and persistency, expenses, non-guaranteed benefits and margin for adverse deviation.

This change is considered a change in accounting policy which requires an entity to adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied. The cumulative prior year impact of the changes, as well as any change in the assumptions under GPV is recognized in retained earnings, except for the increase or decrease of the reserves brought about by changes in discount rates which is recognized under remeasurement gain and loss on legal policy reserves in other comprehensive income (OCI).

In addition, other insurance contract liabilities amounting to ₱26.63 million and ₱18.73 million as of December 31, 2016 and January 1, 2016, respectively, have been reclassified to accounts payable and accrued expenses.

The effects of adoption of the above circular on the Company's financial statements are as follows:

	As previously reported	Restatements Increase (Decrease)	As restated
Increase (decrease) in:			
Statement of financial position of December 31, 2016			
Reinsurance Assets	3,184,345,137	897,881,406	4,082,226,543
Insurance contract liabilities	26,870,181,551	731,850,329	27,602,031,880
Reserve for policyholders' dividends	2,359,685	(2,359,685)	–
Retained earnings	(267,686,304)	139,949,123	(127,737,181)
Appropriated surplus - Negative reserves	–	59,486,746	59,486,746
Remeasurement on legal policy reserves	–	(31,045,107)	(31,045,107)
Statement of financial position of January 1, 2016			
Reinsurance Assets	2,779,410,733	813,311,673	3,592,722,406
Insurance contract liabilities	21,940,186,571	675,642,445	22,615,829,016
Reserve for policyholders' dividends	2,108,714	(2,108,714)	–
Retained earnings	(45,334,228)	101,006,580	55,672,352
Appropriated surplus - Negative reserves	–	63,603,923	63,603,923
Remeasurement on legal policy reserves	–	(24,832,561)	(24,832,561)
Statement of income for the year ended December 31, 2016			
Change in legal policy reserves	6,752,401,730	(34,574,395)	6,717,827,335
Dividends and dividend interest to policyholders	39,909,659	(250,971)	39,658,688
Net loss	(222,352,076)	34,825,366	(187,526,710)
Statement of comprehensive income for the year ended December 31, 2016			
Other comprehensive income (loss):			
Remeasurement loss on legal policy reserves	–	(6,212,546)	(6,212,546)

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.

In Modified Coinsurance (Quota Share) treaties, the Company records as Reinsurance Premiums the reinsurer's proportionate share in benefits reinsured for the covered policies. Reinsurance allowances due from the Reinsurers, on the other hand, are recorded as "other income" in accordance with the Company's global reinsurance policy (see Note 16).

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 debt and equity securities of the insurance investment funds.

The insurance investment funds set up by the Company underlying the unit-linked insurance contracts are designated as at FVPL in accordance with the investment strategy and valuation provisions of the unit-linked policy contracts. Likewise, this is consistent with the valuation basis of the reserve for variable units held by policyholders.

The Company's peso and dollar-denominated debt securities and equity securities under insurance investment funds 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.

As of December 31, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, 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.

<u>Derecognition of Financial Instruments</u>
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/Liability
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 contact liabilities are recognized when the contracts are entered into and the premiums are recognized. The provision for life insurance contracts is calculated on the basis of a stringent prospective actuarial valuation method where the assumptions used depend on the Company's current experience. Assumptions and actuarial valuation methods are also subject to provisions of the Insurance Code (the Code) and guidelines set by the Insurance Commission.

Subsequently, new estimates are developed at each reporting date to determine whether the liabilities reflect the current experience. The initial assumptions can be retained if the Company deems the current assumptions to still be reflective of their experience. Improvements and significant deteriorations in estimates have an impact on the value of the liabilities.

Movements in legal policy reserves attributable to changes in discount rate are recorded under "remeasurement gain (loss) on legal policy reserves" in other comprehensive income and the changes in policies and assumptions are recorded under "change in insurance contract liabilities" in the statement of income.

Life insurance contracts with fixed and guaranteed terms
Premiums are recognized as revenue when they become due from the policyholders which for single premium business, is the date on which the policy becomes effective. Benefits are recorded as an expense when they are incurred and are accrued as a liability.

An increase in liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognized. The liability is determined as the sum of the present value of future benefits and expenses, less the present value of the future gross premiums arising from the policy contract discounted at the appropriate risk-free discount rate. The expected future cash flows is determined using the best estimate assumptions with due regard to significant recent experience and appropriate margin for adverse deviation from the expected experience.

The liability is based on actuarial assumptions such as mortality and morbidity, maintenance expenses, and lapse and/or persistency rates that are established at the time the contract is issued. A margin for adverse deviation (MfAD) is also 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) as of the reporting date based on the Company's experience. 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 insurance contract 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 parent company statements of income.

The Company withdraws the cost of insurance and administrative charges from the consideration received from the policyholders 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 company 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 unpaid policy related disbursements.

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.

Appropriated surplus - Negative reserves
For any traditional life insurance policy, where the calculation based on GPV results in a negative reserve, the Company appropriates from retained earnings an amount equal to the negative reserves calculated on a per policy basis as required by IC CL No. 2016-66.

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 and other income - net
Investment income is recognized in the 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 method.

Investment income also includes income from change in the net asset value (NAV) of units in the segregated fund that the Company owns. This resulted from the movement of fair market values in the segregated fund compared to the last valuation date.

Other income includes management fee from investment funds, cost of insurance, processing fee and miscellaneous income. Management fees, cost of insurance, processing fee and miscellaneous 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.

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 of 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.

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).

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 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 collectability 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.

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, 2017 and 2016, the carrying value of loans and receivables amounted to ₱381.13 million and ₱252.47 million, respectively (see Note 5). As of December 31, 2017, insurance receivables, reinsurance assets, and accrued income amounted to ₱18.46 million, ₱4.27 billion and ₱137.25 million, respectively. As of December 31, 2016, insurance receivables, reinsurance assets, and accrued income amounted to ₱18.95 million, ₱4.08 billion, and ₱127.00 million, respectively.

Estimated useful lives of property and equipment

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

As of December 31, 2017 and 2016, the carrying value of property and equipment amounted to ₱21.65 million and ₱22.45 million, respectively (Note 8).

Fair values of financial assets
Fair value determinations for financial assets are based generally on listed market prices or broker or dealer price quotations.

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 are shown in Note 21.

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 as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. As of December 31, 2017, net defined benefit liability amounted to ₱3.99 million (see Note 19).

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:

	2017	2016
Cash on hand (Note 21)		
Petty cash fund	**₱95,753**	₱95,753
Cash in commercial banks (Note 21)	**489,408,091**	357,587,445
Short-term deposits in commercial banks (Note 21)	**77,722,014**	285,686,413
	567,225,858	643,369,611
Cash held in insurance investment funds (Notes 6 and 21):		
Cash in banks	**715,596,407**	771,741,177
Short-term deposits	–	938,421,074
	715,596,407	1,710,162,251
	₱1,282,822,265	₱2,353,531,862

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 1.25% to 3.50% and from 1.25% to 3.50% in 2017 and 2016, respectively.

5. Financial Assets

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

	2017	2016
Financial assets at FVPL (Note 6)	**₱29,617,814,478**	₱21,718,766,007
AFS financial assets	**1,585,538,896**	1,747,877,168
Loans and receivables	**381,128,780**	252,467,591
	₱31,584,482,154	₱23,719,110,766

a) Financial Assets at FVPL

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

	2017	2016
Debt securities:		
Peso-denominated government securities	**₱10,569,776,865**	₱9,789,756,181
Dollar-denominated	**5,039,811,741**	1,281,918,568
Listed equity securities		
Peso-denominated	**12,813,166,734**	7,985,340,830
Dollar-denominated	**1,195,059,138**	2,661,750,429
	₱29,617,814,478	₱21,718,766,008

The fair value income and losses on financial assets at FVPL recorded in the statements of income amounted to ₱5.77 million and ₱1.20 million in 2017 and 2016, respectively.

b) AFS Financial Assets

AFS financial assets represent mainly fixed-rated government bonds with interest rates ranging from 4.625% to 9.5% in 2017 and 2016, respectively. Interest earned amounted to ₱85.29 million and ₱85.19 million in 2017 and 2016, respectively (see Note 16).

The roll-forward analysis of AFS financial assets follows:

	2017	2016
Balance at beginning of year	**₱1,747,877,168**	₱1,698,262,447
Additions	**81,715,390**	88,146,203
Disposals/maturities	**(66,504,323)**	(17,360,010)
Net premium amortization	**(7,741,550)**	(7,530,837)
Fair value losses recognized in other comprehensive income	**(169,807,789)**	(13,640,635)
Balance at end of year	**₱1,585,538,896**	₱1,747,877,168

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

	2017	2016
Balance at beginning of year	**(₱67,537,589)**	(₱53,896,954)
Changes in fair value of available-for-sale financial assets	**(166,582,803)**	(11,515,911)
Realized gains transferred to statements of income	**(3,224,986)**	(2,124,724)
Net change during the year	**(169,807,789)**	(13,640,635)
Balance at end of year	**(₱237,345,378)**	(₱67,537,589)

Government securities classified as AFS financial assets with aggregate carrying value of ₱163.51 million and ₱178.25 million and face amount of ₱125 million as of December 31, 2017 and 2016, 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:

	2017	2016
Accounts receivable held in IIF (Note 6)	**₱165,284,571**	₱110,490,974
Policy loans	**113,787,789**	92,022,484
Accrued Management Fee Income	**90,393,365**	39,456,325
Due from related parties (Note 14)	**1,306,386**	1,306,386
Security fund contribution	**141,244**	141,244
Other receivables	**10,215,425**	9,050,178
	₱381,128,780	₱252,467,591

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 7.5% to 8% per annum in 2017 and 2016.

Accounts receivable held in IIF consists of peso receivables amounting to ₱165.28 million and ₱110.49 million as of December 31, 2017 and 2016, respectively.

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 miscellaneous receivables from employees during the year.

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, 2017, the Company has 21 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, Wealth Optimizer 2036 Fund and Power House Fund.

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, Power House 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, 2017

	Assets (Notes 4 and 5)	Due to unit-linked holders (Note 10)	Seed Capital	Total
Peso Dynamic Allocation Fund	**₱4,318,890,866**	**₱4,316,667,707**	**₱2,223,159**	**₱4,318,890,866**
Summit Peso Bond Fund	**117,159,677**	**113,551,974**	**3,607,703**	**117,159,677**
Summit Peso Stable Fund	**71,530,902**	**67,841,178**	**3,689,724**	**71,530,902**
Summit Peso Equity Fund	**222,275,072**	**217,292,101**	**4,982,971**	**222,275,072**
Peso Balanced Fund	**93,416,286**	**91,171,239**	**2,245,047**	**93,416,286**
Summit Dollar Bond Fund	**122,906,722**	**119,701,441**	**3,205,281**	**122,906,722**
Peso Secure Fund	**2,415,983,881**	**2,412,907,195**	**3,076,686**	**2,415,983,881**
Peso Diversified Value Fund	**2,073,335,933**	**2,069,709,152**	**3,626,781**	**2,073,335,933**
Peso Growth Fund	**5,875,908,566**	**5,868,637,021**	**7,271,545**	**5,875,908,566**
US Dollar Secure Fund	**687,919,743**	**680,199,059**	**7,720,684**	**687,919,743**
Peso Target Income Fund	**202,300,522**	**200,463,374**	**1,837,148**	**202,300,522**

(Forward)

	Assets (Notes 4 and 5)	**Due to unit-linked holders (Note 10)**	**Seed Capital**	**Total**
Peso Target Distribution Fund	**₱6,407,696,566**	**₱6,405,873,962**	**₱ 1,822,604**	**₱6,407,696,566**
Power House Fund	**1,974,334,825**	**1,971,985,996**	**2,348,829**	**1,974,334,825**
Wealth Optimizer 2026 Fund	**143,192,790**	**141,142,973**	**2,049,817**	**143,192,790**
Wealth Optimizer 2031 Fund	**16,351,037**	**14,252,211**	**2,098,826**	**16,351,037**
Wealth Optimizer 2036 Fund	**11,018,858**	**8,917,839**	**2,101,019**	**11,018,858**
Asia Pacific Bond Fund	**200,004,973**	**197,860,871**	**2,144,102**	**200,004,973**
Asean Growth Fund	**1,208,029,177**	**1,205,476,745**	**2,552,432**	**1,208,029,177**
Peso Cash Fund	**98,914,176**	**97,905,113**	**1,009,063**	**98,914,176**
Wealth Premier Fund	**32,998,309**	**31,298,677**	**1,699,632**	**32,998,309**
Global Target Income Fund	**4,271,523,034**	**4,269,055,011**	**2,468,023**	**4,271,523,034**
	₱30,565,691,915	**₱30,501,910,839**	**₱63,781,076**	**₱30,565,691,915**

December 31, 2016

	Assets (Notes 4 and 5)	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
	₱23,608,167,116	₱23,552,224,815	₱55,942,301	₱23,608,167,116

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

December 31, 2017

	Peso Bond Pool	Peso Money Market Pool	Peso Equity Pool	USD Bond Pool	Asia Bond Pool	Asean Growth Pool	Peso Cash Pool	Power House Pool	Wealth Premier Pool	Global Target Income Pool	Accrued Management Fees	Total
Peso Dynamic Allocation Fund	₱1,637,994,651	–	₱2,689,069,780	–	–	–	–	–	–	–	(8,173,565)	4,318,890,866
Summit Peso Bond Fund	117,312,784	–	–	–	–	–	–	–	–	–	(153,107)	117,159,677
Summit Peso Stable Fund	40,874,428	14,413,837	16,349,749	–	–	–	–	–	–	–	(107,111)	71,530,902
Summit Peso Equity Fund		–	222,648,489	–	–	–	–	–	–	–	(373,417)	222,275,072
Peso Balanced Fund	35,304,119	–	58,270,292	–	–	–	–	–	–	–	(158,125)	93,416,286
Peso Target Income Fund	86,904,250	68,631,163	47,106,839	–	–	–	–	–	–	–	(341,730)	202,300,522
Peso Target Distribution Fund	2,753,139,200	2,174,091,941	1,492,704,815	–	–	–	–	–	–	–	(12,239,390)	6,407,696,566
Power House Fund	–	–	–	–	–	–	–	1,977,432,455	–	–	(3,097,630)	1,974,334,825
Summit Dollar Bond Fund	–	–	–	123,090,931	–	–	–	–	–	–	(184,209)	122,906,722
Peso Secure Fund	2,419,614,584	–	–	–	–	–	–	–	–	–	(3,630,703)	2,415,983,881
Peso Diversified Value Fund	1,185,725,766	417,646,144	473,698,615	–	–	–	–	–	–	–	(3,734,592)	2,073,335,933
Peso Growth Fund	–		5,886,824,657	–	–	–	–	–	–	–	(10,916,091)	5,875,908,566
Wealth Optimizer 2026 Fund	33,313,392	861,778	109,287,706	–	–	–	–	–	–	–	(270,086)	143,192,790
Wealth Optimizer 2031 Fund	1,265,464	15,229	15,101,323	–	–	–	–	–	–	–	(30,979)	16,351,037
Wealth Optimizer 2036 Fund	726,838	8,321	10,304,351	–	–	–	–	–	–	–	(20,652)	11,018,858
US Dollar Secure Fund	–	–	–	689,114,250	–	–	–	–	–	–	(1,194,507)	687,919,743
Asia Pacific Bond Fund	–	–	–	–	200,343,988	–	–	–	–	–	(339,015)	200,004,973
Asean Growth Fund	–	–	–	–	–	1,210,310,128		–	–	–	(2,280,951)	1,208,029,177
Peso Cash Fund	–	–	–	–	–	–	98,924,171	–	–	–	(9,995)	98,914,176
Wealth Premier Fund	–	–	–	–	–	–	–		32,998,310	–	–	32,998,309
Global Target Income Fund	–	–	–	–	–	–	–		–	4,279,325,204	(7,802,170)	4,271,523,034
	₱8,312,172,476	₱2,675,668,413	₱11,021,366,616	₱812,205,181	₱200,343,988	₱1,210,310,128	₱98,924,171	₱1,977,432,455	₱32,998,309	₱4,279,325,204	(₱55,058,025)	₱30,565,691,915

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
	₱9,153,021,147	₱1,665,919,793	₱8,308,008,994	₱944,746,587	₱462,907,663	₱1,197,937,519	₱30,325,913	₱65,546,232	₱1,823,159,091	(₱43,405,823)	₱23,608,167,116

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

	2017	2016
Cash in banks (Note 4)	**₱715,596,407**	₱771,741,177
Short-term deposits (Note 4)	–	938,421,074
Debt securities (Note 5)		
Peso-denominated government securities	**10,569,776,865**	9,789,756,180
Dollar-denominated	**5,039,811,741**	1,281,918,568
Listed equity securities (Note 5)		
Peso-denominated	**12,813,166,734**	7,985,340,830
Dollar-denominated	**1,195,059,138**	2,661,750,429
Accounts receivable held in IIF (Note 6)	**165,284,571**	110,490,974
Accrued income (Note 7)	**122,054,485**	112,153,707
Accrued management fees (Note 12)	**(55,058,026)**	(43,405,823)
	₱30,565,691,915	₱23,608,167,116

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 2017, investment income of the IIFs amounted to ₱5.34 billion while in 2016, the IIFs incurred an investment loss which amounted to ₱814.77. Redemptions amounted to ₱2.39 billion and ₱4.76 billion in 2017 and 2016, respectively.

7. Accrued Income

This account consists of accrued interest and dividend income from:

	2017	2016
Held in IIF (Note 6)	**₱122,054,485**	₱112,153,707
Fixed-rate treasury notes	**15,188,783**	14,834,641
Policy fee receivable	**2,862**	2,858
Other receivables	**4,272**	4,268
	₱137,250,402	₱126,995,474

8. Property and Equipment

The roll-forward analysis of this account follows:

December 31, 2017

	EDP Equipment	**Leasehold Improvements**	**Furniture and Fixtures**	**Transportation Equipment**	**Total**
Cost					
Balances at beginning of year	**₱101,728,077**	**₱2,002,350**	**₱ 315,799**	**₱39,573,450**	**₱143,619,676**
Additions	**1,319,549**	**–**	**–**	**8,472,000**	**9,791,549**
Balances at end of year	**103,047,626**	**2,002,350**	**315,799**	**48,045,450**	**153,411,225**
Accumulated depreciation and amortization					
Balances at beginning of year	**94,885,273**	**1,462,720**	**58,386**	**24,764,250**	**121,170,629**
Depreciation and amortization (Note 18)	**4,201,800**	**173,829**	**55,160**	**6,156,483**	**10,587,273**
Balances at end of year	**99,087,073**	**1,636,550**	**113,546**	**30,920,733**	**131,757,902**
Net book value	**₱3,960,553**	**₱365,800**	**₱202,253**	**₱17,124,717**	**₱21,653,324**

December 31, 2016

	EDP Equipment	Leasehold Improvements	Furniture and Fixtures	Transportation Equipment	Total
Cost					
Balances at beginning of year	₱96,551,037	₱2,002,350	₱39,599	₱35,080,450	₱133,673,836
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	315,799	39,573,450	143,619,676
Accumulated depreciation and amortization					
Balances at beginning of year	91,023,764	1,280,391	39,999	21,125,417	113,469,571
Depreciation and amortization (Note 18)	3,861,508	182,329	18,387	4,488,833	8,551,058
Disposals	–	–	–	(850,000)	(850,000)
Balances at end of year	94,885,272	1,462,720	58,386	24,764,250	121,170,629
Net book value	₱6,842,805	₱539,630	₱257,413	₱14,809,200	₱22,449,048

9. Other Assets

This account consists of:

	2017	2016
Prepayments	**₱23,799,709**	₱24,410,136
Refundable deposits - net of allowance for impairment losses of ₱699,070 in 2016	**5,778,639**	5,611,806
	₱29,578,348	₱30,021,942

Prepayments include creditable withholding tax and other prepayments.

10. **Insurance Contract Liabilities**

This account consists of:

	2017	December 31, 2016 (As restated)	January 1, 2016 (As restated)
Legal policy reserves	**₱34,544,586,916**	₱27,535,608,375	₱22,548,618,636
Policy and contract claims payable	**23,803,019**	32,168,616	32,087,250
IBNR	**8,940,192**	4,312,150	2,728,768
Other insurance contract liabilities	**70,227,320**	29,942,739	32,394,362
	₱34,647,557,447	₱27,602,031,880	₱22,615,829,016

Legal policy reserves may be analyzed as follows:

		2017	
	Legal Policy Reserves	**Reinsurers' Share of Liabilities**	**Net of reinsurance**
Ordinary life	**₱3,991,299,621**	**₱3,845,345,901**	**₱145,953,720**
Group life	**28,151,422**	**–**	**28,151,422**
Accident and health	**20,530,227**	**4,477,580**	**16,052,647**
Variable life	**30,504,605,646**	**311,203**	**30,504,294,444**
Total	**₱34,544,586,916**	**₱3,850,134,684**	**₱30,694,452,232**

		December 31, 2016	(As restated)
	Legal Policy Reserves	Reinsurers' Share of Liabilities	Net of reinsurance
Ordinary life	₱3,953,937,958	₱3,911,439,688	₱42,498,270
Group life	21,917,487	–	21,917,487
Accident and health	5,376,633	3,433,371	1,943,262
Variable life	23,554,376,297	250,038	23,554,126,259
Total	₱27,535,608,375	₱3,915,123,097	₱23,620,485,279

		January 1, 2016	(As restated)
	Legal Policy Reserves	Reinsurers' Share of Liabilities	Net of reinsurance
Ordinary life	₱3,480,032,727	₱3,477,032,125	₱3,000,602
Accident and health	(6,895,871)	2,010,002	(8,905,873)
Variable life	19,075,481,780	1,802,938	19,073,678,842
Total	₱22,548,618,636	₱3,480,845,065	₱19,067,773,571

	2017	December 31, 2016 (As restated)	January 1, 2016 (As restated)
Gross			
Insurance contracts with discretionary participation features	**₱3,919,299,615**	₱3,955,800,902	₱3,482,397,251
Insurance contracts without discretionary participation features	**30,625,287,301**	23,579,807,473	19,066,221,385
	34,544,586,916	27,535,608,375	22,548,618,636
Recoverable from reinsurers			
Insurance contracts with discretionary participation features	**3,815,183,814**	3,897,456,834	3,476,214,844
Insurance contracts without discretionary participation features	**34,950,870**	17,666,262	4,630,221
	3,850,134,684	3,915,123,097	3,480,845,065
Net			
Insurance contracts with discretionary participation features	**104,115,801**	58,344,068	6,182,407
Insurance contracts without discretionary participation features	**30,590,336,431**	23,562,141,211	19,061,591,164
	₱30,694,452,232	₱23,620,485,279	₱19,067,773,571

The movements in legal policy reserves are as follows:

		2017	
	Legal Policy Reserves	**Reinsurers' Share of Liabilities**	**Net of reinsurance**
At January 1	**₱27,535,608,375**	**₱3,915,123,096**	**₱23,620,485,279**
Due to change in discount rates	**(201,512,699)**	**(184,758,499)**	**(16,754,200)**
Due to change in policies and assumptions	**7,210,491,240**	**119,770,087**	**7,090,721,153**
At December 31	**₱34,544,586,916**	**₱3,850,134,684**	**₱30,694,452,232**

		December 31, 2016	(As restated)
	Legal Policy Reserves	Reinsurers' Share of Liabilities	Net of reinsurance
At January 1	₱22,548,618,636	₱3,480,845,065	₱19,067,773,571
Due to change in discount rates	110,949,629	104,737,083	6,212,546
Due to change in policies and assumptions	4,876,040,110	329,540,948	4,546,499,162
At December 31	₱27,535,608,375	₱3,915,123,096	₱23,620,485,279

The movements in the legal policy reserves due to change in discount rates are recorded under "Remeasurements on gain (loss) policy reserves". The rollforward analyses of this account follow:

	2017	December 31, 2016 (As restated)
At January 1	**₱31,045,107**	₱24,832,561
Arising during the year	**(16,754,200)**	6,212,546
At December 31	**₱14,290,907**	₱31,045,107

The movements during the year in policy and contract claims payable, IBNR and other insurance contract liabilities are as follows:

	2017	December 31, 2016 (As restated)
At beginning of year	**₱66,423,505**	₱67,210,380
Additions during the year (Note 17)	**106,415,770**	57,335,342
Paid during the year	**(69,868,744)**	(58,122,217)
At end of year	**₱102,970,531**	₱66,423,505

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

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.

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 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*
  The mortality and morbidity assumptions are based on rates of mortality and morbidity that are appropriate to the nature of the risks covered based on the Parent Company's actual experience.

- *Discount rates*
  Discount rates relate to the time value of money. The risk-free discount rate shall be the equivalent zero-coupon spot yield of the above yield curve with matching duration for durations less than or equal to 20 years. The valuation interest rate assumptions are consistent with risk free rates as provided by IC ranging from 3.06% - 3.64% in 2017 and 2.47% - 3.64% in 2016.

  The assumptions are reviewed and revised at each reporting date. A decrease in discount rate would result in remeasurement loss on life insurance reserves.

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

- *Expenses*
  The expense assumptions are based on the Parent Company's experience derived from its latest expense study.

- *Lapses and/or persistency rates*
  Lapse and/or persistency rates reflective of the Parent Company's actual experience are taken as the best estimate lapse and/or persistency assumption, with regard to changing Parent Company practices and market conditions.

  The estimation of liabilities include margin for adverse deviations (MfADs) of +/-10% of the best estimate assumptions as prescribed by IC Circular 2016-66.

<u>Reinsurance - Assumptions and Methods</u>
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, 2017 and 2016, the Company’s insurance payable to Manulife Philippines amounted to ₱852.59 million and ₱1.05 billion, respectively.

As of December 31, 2017 and 2016, the Company’s reinsurance assets related to this agreement amounted to ₱4.14 billion and ₱4.08 billion. The balance as of December 31, 2017 and 2016 comprised of reinsurers’ share of insurance contract liabilities of ₱3.85 billion and ₱3.91 billion, respectively and receivable related to death claims ceded by the Company to Manulife Philippines of ₱159.76 million and ₱167.10 million, respectively.

Reinsurance Agreement with ModCo
The Company has entered into Quota Share Reinsurance Agreement with Munich RE (the reinsurer) in September 2017, effective July 1, 2017, whereby the Company will cede to the reinsurer proportionate share of premiums reinsured as stipulated in the agreement.

The proportionate share of the reinsurers in the benefits reinsured are recorded by the Company as Reinsurance Premiums. Reinsurance Allowance due from the Reinsurer are recorded by the Company as Other Income.

As of December 31, 2017, the Company’s insurance payable to ModCo amounted to ₱10.12 million.

As of December 31, 2017, the Company’s reinsurance assets related to this agreement amounted to ₱131.66 million.

12. Accounts Payable and Accrued Expenses

This account consists of:

	2017	2016 (As restated)
Accrued expenses including accrued salaries and other liabilities	**₱147,647,248**	₱177,061,320
Advance premiums and other policy-related liabilities	**431,058,832**	258,268,599
Commissions payable (Note 14)	**31,232,456**	27,758,741
Taxes payable	**12,475,260**	13,246,977
	₱622,413,796	₱476,335,637

Accrued expenses pertain to accrued cost of agency conferences, management fees related to IIFs amounting to ₱55.06 million and ₱43.41 million, in 2017 and 2016, respectively (Note 6) and various liabilities to suppliers. This also include liabilities for Philhealth, Social Security System (SSS) contribution and salary loan, Home Development Mutual Fund (HDMF) contribution and loan, and other miscellaneous liabilities.

Advance premiums and other policy-related liabilities include premiums received from plan holders awaiting the issuance or reinstatement of policies.

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

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.

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, 2017 and 2016. 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:

As of December 31, 2017

	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**	**₱262,148,008**	**₱852,585,293**
		Reinsurance Assets	**Reinsurance assets**	**No term**	**957,215,373**	**4,141,560,510**
		Due to Related Parties	**Management fee related to unit-linked investment ceded out to Parent Company**	**Unsecured, non-interest bearing, due and demandable**	**231,753,192**	**83,145,566**
		Due to Related Parties	**Cost allocation for services rendered**	**Unsecured, non-interest bearing, due and demandable**	**216,925,058**	**254,631,646**

(Forward)

As of December 31, 2017

	Entities	**Financial Statement Account**	**Nature**	**Terms and Conditions**	**Transactions during the year**	**Outstanding Balance**
Ultimate Parent Company	**Manulife Financial Corporation**	**Due to Related Parties**	**Accrued Portia Charge**	**Unsecured, non-interest bearing, due and demandable**	**43,135**	**424,351**
		Other Receivables	**Reimbursement of expenses**	**Unsecured, non-interest bearing, no impairment**	**₱–**	**₱1,306,386**
Under Common Control	**Manulife Business Processing Services**	**Due to Related Parties**	**Accrued Portia Charge**	**Unsecured, non-interest bearing, due and demandable**	**18**	**846,605**
	Manulife Regional Office	**Due to Related Parties**	**Reimbursement of expenses**	**Unsecured, non-interest bearing, due and demandable**	**–**	**379,384**
	Manulife Asset Management and Trust Corporation	**Due to Related Parties**	**Trust fees**	**Per investment Management Fee Agreement**	**11,550,950**	**11,550,950**
		Due to Related Parties	**Payable pertaining to withholding tax**	**Non-interest bearing**	**325,727**	**325,727**
Bancassurance	**China Banking Corporation**	**Commission Payable**	**Sales commissions**	**Unsecured, non-interest bearing, due and demandable**	**406,632,510**	**31,232,456**

As of December 31, 2016 (As restated)

	Entities	Financial Statement Account	Nature	Terms and Conditions	Transactions during the year	Outstanding Balance
Parent Company	Manulife Philippines	Insurance Payable	99% of inforce business ceded to the Parent Company and 1% retained by company	Unsecured, non-interest bearing, due and demandable	₱370,697,431	₱1,048,379,295
		Reinsurance Assets	Reinsurance assets	No term	404,934,404	4,082,226,543
		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	19,722,677
		Due to Related Parties	Cost allocation for services rendered	Unsecured, non-interest bearing, due and demandable	107,756,453	228,167,518
Ultimate Parent Company	Manulife Financial Corporation	Due to Related Parties	Accrued Portia Charge	Unsecured, non-interest bearing, due and demandable	276,564	381,216
		Other Receivables	Reimbursement of expenses	Unsecured, non-interest bearing, no impairment	–	1,306,386
Under Common Control	Manulife Business Processing Services	Due to Related Parties	Accrued Portia Charge	Unsecured, non-interest bearing, due and demandable	250,506	846,589
	Manulife Regional Office	Due to Related Parties	Reimbursement of expenses	Unsecured, non-interest bearing, due and demandable	–	379,384
Bancassurance	China Banking Corporation	Commission Payable	Sales Commission	Unsecured, non-interest bearing, due and demandable	408,198,713	27,758,741

15. Insurance Premiums Earned

The details of insurance premiums earned are as follows:

	2017	2016
Gross premiums earned on insurance contracts:		
Unit-linked	**₱7,956,796,488**	₱6,997,297,310
Ordinary life insurance	**352,105,391**	608,669,133
Accident and health	**29,056,497**	–
Group life insurance	**73,080,726**	39,126,692
	8,411,039,102	7,645,093,135
Reinsurers' share of gross premiums earned on insurance contracts (Note 14):		
Ordinary life insurance	**197,474,040**	394,257,952
Unit-linked	**2,435,151**	(23,560,521)
	199,909,191	370,697,431
	₱8,211,129,911	₱7,274,395,704

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 and Other Income - Net

Investment income consists of:

	2017	2016
Interest income on:		
AFS financial assets (Note 5)	**₱85,286,165**	₱85,186,291
Loans and receivables	**3,280,042**	2,003,177
Cash and cash equivalents	**8,293,644**	6,582,682
	96,859,851	93,772,150
Fair value gain (loss) from insurance investment fund classified as FVPL (Note 5)	**5,768,658**	(1,200,948)
	₱102,628,509	₱92,571,202

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

Other income consists of:

	2017	2016
Management fee income	**₱282,460,007**	₱160,261,458
Cost of insurance	**148,116,518**	81,615,221
Reinsurance allowance	**131,662,250**	–
Processing fee	**30,712,828**	21,044,091
Miscellaneous revenue	**68,750,965**	35,976,378
	₱661,702,568	₱298,897,148

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.

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

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

Miscellaneous revenue consists of the income gained from employee loans and car plan, policy fees of unit-linked products and overdue premiums.

17. Benefits and Claims

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

	2017	2016
Death and hospitalization benefits	**₱79,450,141**	₱53,345,232
Surrenders	**25,856,684**	3,575,560
Maturities	**1,108,945**	414,550
	₱106,415,770	₱57,335,342

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

	2017	2016
Ordinary life insurance	**₱36,964,707**	₱17,405,896
Group life insurance	**45,982,422**	16,603,993
Accident and health	**4,142,048**	–
Unit-Linked	**19,326,593**	23,325,453
	₱106,415,770	₱57,335,342

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

	2017	2016
Unit- linked	**(₱32,283,262)**	(₱9,824,250)
Ordinary life insurance	**(7,329,168)**	(10,442,033)
	(₱39,612,430)	(₱20,266,283)

Gross change in legal policy reserves during the year consist of:

	2017	December 31, 2016 (As restated)
Unit-linked	**₱7,599,992,273**	₱6,650,220,210
Ordinary life insurance	**54,115,863**	467,692,685
Group life insurance	**6,233,935**	21,917,487
Accident and health	**15,153,594**	12,272,504
	₱7,675,495,665	₱7,152,102,886

The reinsurers' share of gross change in legal policy reserves in 2017 and 2016 amounted to (₱64.99) million and ₱434.28 million, respectively.

18. **General and Administrative Expenses**

This account consists of:

	2017	2016
Salaries, wages and employee benefits (Note 19)	**₱301,606,889**	₱304,582,341
Administrative charges (Note 14)	**155,765,162**	107,756,453
Advertising	**115,614,835**	77,066,021
Telephone and communications	**17,124,702**	16,297,919
Travel	**16,929,215**	22,127,631
Depreciation and amortization (Note 8)	**10,587,273**	8,551,058
Rent and utilities (Note 22)	**8,920,331**	10,248,346
Outside services	**6,350,043**	6,462,282
Equipment and supplies	**4,934,796**	5,554,093
Taxes and licenses	**4,548,329**	3,815,549
Professional and other fees	**1,990,676**	3,516,806
Repairs and maintenance	**1,616,368**	1,682,951
Others	**14,375,011**	7,461,161
	₱660,363,630	₱575,122,611

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.

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, 2017. As of December 31, 2017, the Company's DB obligation is higher than the projected DC obligation. Consequently, net pension liability was recognized. As of December 31, 2016, the Company's DB obligation is lower than the projected DC obligation.

Net pension liability recognized as of December 31, 2017 follows:

Present value of benefit obligation[1]	₱26,232,325
Fair value of plan assets[2]	(22,232,567)
Net pension liability recognized	₱3,999,758

1. *Determined on an employee by employee basis as the present value of the greater of the DB obligation at retirement for the minimum guarantee or the projected benefits at retirement attributable to the Company contributions to the DC plan, prorated by accrued service over total service.*
2. *Determined on an employee by employee basis as the present value of the projected benefits at retirement attributable to the Company contributions to the DC plan, then prorated by accrued service over total service.*

Retirement expense recognized as part of "Salaries, wages and employee benefits" follows:

	2017	2016
DB current service cost	**₱7,837,437**	₱–
Net interest income	**(524,900)**	–
DC contribution expense	–	4,293,946
	₱7,312,537	₱4,293,946

Remeasurement loss on pension plan recognized in 2017 in other comprehensive income follows:

Actuarial loss on DB obligation	₱4,775,170
Loss on return on plan assets	6,678,767
	₱11,453,937

Changes in the DB obligation follow:

	2017	2016
At January 1	**₱14,615,856**	₱20,557,406
Current service cost	**7,837,437**	7,192,530
Interest cost	**757,364**	1,040,205
Benefits paid	**(1,753,502)**	(1,018,122)
Remeasurement loss (gain)	**4,775,170**	(13,156,163)
At December 31	**₱26,232,325**	₱14,615,856

Changes in the fair value of the plan assets follow:

	2017	2016
At January 1	**₱24,427,073**	₱25,763,365
Interest income included in net interest cost	**1,282,264**	1,387,541
Loss on return on plan assets	**(6,678,767)**	(5,999,657)
Actual contributions	**4,955,499**	4,293,946
Benefits paid	**(1,753,502)**	(1,018,122)
At December 31	**₱22,232,567**	₱24,427,073
Actual return on plan assets	**(₱5,396,503)**	(₱4,612,116)

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, 2017 and 2016 of the fund which approximates its fair value is as follows:

	2017	2016
Investments in government debt securities	**₱251,759,758**	₱231,223,275
Accrued income receivable	**3,594,440**	3,372,974
Cash	**3,951**	42,347
Total	**255,358,149**	234,638,596
Trust fee payable	**–**	94,625
Other payables	**28,177,168**	26,940,522
Total	**28,177,168**	27,035,147
	₱227,180,981	₱207,603,449

The retirement fund pertaining to the Company amounted to ₱22.23 million and ₱24.43 million as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the principal actuarial assumptions used in determining the pension liability for the Company's retirement plan are shown below:

	2017	2016
Discount rate	**5.70%**	5.35%
Salary increase rate	**7.00%**	7.00%
Mortality rate	**2017 PICM**	1994 GAM
Disability rate	**1952 Disability Study, Period 2, Benefit 5**	1952 Disability Study, Period 2, Benefit 5
Turnover rate	**A scale ranging from 31% at age 18 decreasing to 0% at age 60**	A scale ranging from 31% at age 18 decreasing to 0% at age 60

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2017, assuming all other assumptions were held constant:

	Change in variables	Increase (decrease)
Discount rate	**+1.00%**	₱25,390,029)
	-1.00%	27,242,235
Salary increase rate	**+1.00%**	27,165,791
	-1.00%	25,444,111

The Company's expected contribution to the retirement plan in 2018 amounted to ₱7,875,454.

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

Less than 1 year	₱2,475,718
1 to less than 5 years	17,961,958
5 to less than 10 years	28,348,321
10 to less than 15 years	27,987,388
15 to less than 20 years	41,345,778
20 years and above	78,525,942

20. Income Taxes

The provision for income tax consists of:

	2017	2016
Final taxes on interest income	**₱18,869,827**	₱18,918,140
MCIT	**12,572,080**	6,233,384
	₱31,441,907	₱25,151,524

The components of net deferred tax assets as of December 31, 2017 and 2016 are as follows:

	2017	2016
Deferred tax assets on:		
NOLCO	**₱3,302,425**	₱3,130,720
Deferred tax liability on:		
Unrealized foreign exchange gain	**3,302,425**	3,130,720
Net deferred tax assets	**₱–**	₱–

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

	2017	2016
NOLCO	**₱524,571,065**	₱840,665,534
Accrued expenses	**30,200,292**	124,818,648
MCIT	**21,534,649**	10,251,748
Legal policy reserves	**14,290,907**	31,045,107
Provision for IBNR	**8,940,192**	4,312,150

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

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

Year incurred	MCIT	NOLCO	Expiry Dates
2017	₱12,572,080	₱3,907,914	December 31, 2020
2016	6,233,384	190,351,097	December 31, 2019
2015	2,729,185	341,320,137	December 31, 2018
	₱21,534,649	₱535,579,148	

The following are the movements in NOLCO and MCIT:

	2017	2016
NOLCO		
Balance at beginning of year	**₱840,665,534**	₱658,932,167
Additions	**3,907,914**	190,351,097
Expired/applied	**(308,994,300)**	(8,617,730)
Balance at end of year	**₱535,579,148**	₱840,665,534

	2017	2016
MCIT		
Balance at beginning of year	**₱10,251,748**	₱10,489,956
Additions	**12,572,080**	6,233,384
Expired/applied	**(1,289,179)**	(6,471,592)
Balance at end of year	**₱21,534,649**	₱10,251,748

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

	2017	2016 (As restated - Note 2)
Loss before income tax	**₱41,528,836**	(₱162,375,185)
Income tax expense at statutory income tax rate	**12,458,651**	(48,712,556)
Additions to (reductions in) income tax expense resulting from:		
Interest income - net of final tax	**(16,226,439)**	(9,335,149)
Fair value loss (gain) on financial assets at FVPL exempt from tax	**(1,730,597)**	360,284
Exempt gain on sale of long term investment in bonds	**(967,496)**	(637,417)
Nondeductible expense	**13,099,608**	3,366,417
Change in temporary differences without recognized deferred tax assets and others	**24,808,180**	80,109,945
	₱31,441,907	₱25,151,524

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:

	2017	2016
Whole Life Insurance		
Gross	**₱1,697,483,782**	₱1,385,654,403
Net	**857,595,527**	571,474,677
Endowment		
Gross	**3,740,255,942**	3,546,503,874
Net	**413,051,744**	384,399,135
Term Policies		
Gross	**1,713,054,393**	2,145,599,796
Net	**1,480,631,307**	1,632,833,459

(Forward)

	2017	2016
Unit-linked Policies		
Gross	**₱50,673,557,398**	₱39,065,031,043
Net	**37,452,096,647**	23,146,393,178
Accident and Health		
Gross	**499,186,187**	428,425,192
Net	**434,075,486**	358,970,992
Group Insurance		
Gross	**18,549,038,332**	14,639,798,154
Net	**18,549,038,332**	14,639,798,154
Total		
Gross	**76,872,576,034**	61,211,012,462
Net	**59,186,489,043**	40,733,869,595

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, 2017			
	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%**	**₱15,871**	**₱5,757**	**(₱5,757)**	**(₱5,757)**
Valuation interest rate	**-1%**	**574,702**	**87,967**	**–**	**(87,967)**
	+1%	**(574,702)**	**(87,967)**	**–**	**87,967**

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

		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)
	+1%	(534,505)	(73,545)	–	73,545

**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 - Fair Value Measurement

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

	2017		2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets at FVPL				
Debt securities				
Peso-denominated government securities	**₱10,569,776,865**	**₱10,569,776,865**	₱9,789,756,181	₱9,789,756,181
Dollar-denominated	**5,039,811,741**	**5,039,811,741**	1,281,918,568	1,281,918,568
Listed equity securities				
Peso-denominated	**12,813,166,734**	**12,813,166,734**	7,985,340,830	7,985,340,830
Dollar-denominated	**1,195,059,138**	**1,195,059,138**	2,661,750,429	2,661,750,429
AFS financial assets				
Peso-denominated government securities	**1,585,538,896**	**1,585,538,896**	1,747,877,168	1,747,877,168
Loans and receivables				
Cash and cash equivalents				
Cash on hand	**95,753**	**95,753**	95,753	95,753
Cash in commercial banks	**489,408,091**	**489,408,091**	357,587,445	357,587,445
Short term deposits in commercial banks	**77,722,014**	**77,722,014**	285,686,413	285,686,413
Cash held in IIF	**715,596,407**	**715,596,407**	1,710,162,251	1,710,162,251
Accounts receivable held in IIF	**165,284,571**	**165,284,571**	110,490,974	110,490,974
Insurance receivable	**18,457,147**	**18,457,147**	18,948,108	18,948,108
Reinsurance assets	**4,273,222,760**	**4,273,222,760**	4,082,226,543	4,082,226,543
Policy loans	**113,787,789**	**113,787,789**	92,022,484	92,022,484
Security fund contributions	**141,244**	**141,244**	141,244	141,244
Due from related parties	**1,306,386**	**1,306,386**	1,306,386	1,306,386
Accrued management fee income	**90,393,365**	**90,393,365**	39,456,325	39,456,325
Other receivables	**10,215,425**	**10,215,425**	9,050,177	9,050,177
Accrued income				
Held in IIF	**122,054,485**	**122,054,485**	112,153,707	112,153,707
Fixed-rate treasury notes	**15,188,783**	**15,188,783**	14,834,641	14,834,641
Other receivables	**7,134**	**7,134**	7,126	7,126
Total financial assets	**₱37,296,234,728**	**₱37,296,234,728**	₱30,300,812,753	₱30,300,812,753
Financial Liabilities				
Other financial liabilities				
Insurance payable	**₱862,705,143**	**₱862,705,143**	₱1,048,379,295	₱1,048,379,295
Policyholders' dividends	**152,273,529**	**152,273,529**	118,314,720	118,314,720
Accounts payable and accrued expenses*	**609,938,536**	**609,938,536**	463,088,660	463,088,660
Due to related parties	**351,304,229**	**351,304,229**	249,497,384	249,497,384
Policy and contract claims	**23,803,019**	**23,803,019**	32,168,616	32,168,616
Other insurance contract liabilities	**70,227,320**	**70,227,320**	29,942,739	29,942,739
Total financial liabilities	**₱2,070,251,776**	**₱2,070,251,776**	₱1,941,391,414	₱1,941,391,414

**excluding statutory liabilities amounting to ₱12.48 million and ₱13.25 million in 2017 and 2016, respectively.*

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

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

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

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

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

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

The following table shows the analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at December 31, 2017 and 2016:

	December 31, 2017		
	Level 1	**Level 2**	**Level 3**
Available-for-sale financial assets			
Government debt securities			
Local currency	**₱475,375,138**	**₱1,110,163,758**	**₱–**
Financial Assets designated at FVPL			
Debt securities held in segregated funds			
Peso - denominated	**8,463,921,449**	**2,105,855,416**	–
Dollar - denominated	**5,039,811,741**	–	–
Equity securities held in segregated funds			
Peso denominated	**12,813,166,734**	–	–
Dollar denominated	**1,195,059,138**	–	–
Total	**₱27,987,334,200**	**₱3,216,019,174**	**₱–**

	December 31, 2016		
	Level 1	Level 2	Level 3
Available-for-sale financial assets			
Government debt securities			
Local currency	₱1,569,628,418	₱178,248,750	₱–
Financial Assets designated at FVPL			
Debt securities held in segregated funds			
Peso bonds	7,652,637,412	2,137,118,768	–
Dollar bonds	1,281,918,568	–	–
Equity securities held in segregated funds			
Peso denominated	7,985,340,830	–	–
Dollar denominated	2,661,750,429	–	–
Total	₱21,151,275,657	₱2,315,367,518	₱–

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, 2017 and 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 2017 and 2016, 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.

<u>Financial Risk</u>
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.

	As of December 31, 2017		
	Non-Linked	**Unit-linked**	**Total**
Financial assets at FVPL			
Debt securities			
Peso-denominated	**₱–**	**₱10,569,776,865**	**₱10,569,776,865**
Dollar-denominated	**–**	**5,039,811,741**	**5,039,811,741**
Listed equity securities			
Peso-denominated	**–**	**12,813,166,734**	**12,813,166,734**
Dollar-denominated	**–**	**1,195,059,138**	**1,195,059,138**
AFS financial assets			
Government debt securities			
Local currency	**1,585,538,896**	**–**	**1,585,538,896**
Loans and receivables			
Cash and cash equivalents			
Cash on hand	**95,753**	**–**	**95,753**
Cash in commercial banks	**489,408,091**	**–**	**489,408,091**
Short term deposits in commercial banks	**77,722,014**	**–**	**77,722,014**
Cash held in IIF	**–**	**715,596,407**	**715,596,407**
Accounts receivable held in IIF	**–**	**165,284,571**	**165,284,571**
Insurance receivable	**18,457,147**	**–**	**18,457,147**
Reinsurance assets	**4,273,222,760**	**–**	**4,273,222,760**
Policy loans	**113,787,789**	**–**	**113,787,789**
Accrued management fee income	**90,393,365**	**–**	**90,393,365**
Security fund contribution	**141,244**	**–**	**141,244**
Due from related parties	**1,306,386**	**–**	**1,306,386**
Other receivables	**10,215,425**	**–**	**10,215,425**
Accrued income			
Held in IIF	**–**	**122,054,485**	**122,054,485**
Fixed-rate treasury notes	**15,188,783**	**–**	**15,188,783**
Other receivables	**7,134**	**–**	**7,134**
	₱6,675,484,787	**₱30,620,749,941**	**₱37,296,234,728**

	As of December 31, 2016		
	Non-Linked	Unit-linked	Total
Financial assets at FVPL			
Debt securities			
Peso-denominated	₱–	₱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
AFS financial assets			
Government debt securities			
Local currency	1,747,877,168	–	1,747,877,168

(Forward)

	As of December 31, 2016		
	Non-Linked	Unit-linked	Total
Loans and receivables			
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	4,082,226,543	–	4,082,226,543
Policy loans	92,022,484	–	92,022,484
Accrued management fee income	39,456,325		39,456,325
Security fund contribution	141,244	–	141,244
Due from related parties	1,306,386	–	1,306,386
Other receivables	9,050,177	–	9,050,177
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
	₱6,649,239,817	₱23,651,572,939	₱30,300,812,756

The following tables provide information regarding the credit risk exposure of the Company as of December 31, 2017 and 2016 by classifying financial assets according to credit ratings of the counterparties:

	As of December 31, 2017			
	Neither past due nor impaired			
	Investment Grade	**Non-investment Grade Satisfactory**	**Not Rated**	**Total**
Financial assets at FVPL				
Debt securities				
Peso-denominated	**₱10,569,776,865**	**₱–**	**₱–**	**₱10,569,776,865**
Dollar-denominated	**5,039,811,741**	**–**	**–**	**5,039,811,741**
Listed equity securities				
Peso-denominated	**–**	**–**	**12,813,166,734**	**12,813,166,734**
Dollar-denominated	**–**	**–**	**1,195,059,138**	**1,195,059,138**
AFS financial assets				
Government debt securities				
Local currency	**1,585,538,896**	**–**	**–**	**1,585,538,896**
Loans and receivables				
Cash and cash equivalents				
Cash in commercial banks	**489,408,091**			**489,408,091**
Short term deposits in commercial banks	**77,722,014**	**–**	**–**	**77,722,014**
Cash held in IIF	**715,596,407**	**–**	**–**	**715,596,407**
Accounts receivable held in IIF	**165,284,571**	**–**	**–**	**165,284,571**
Insurance receivable	**–**	**18,457,147**	**–**	**18,457,147**
Reinsurance assets	**–**	**–**	**4,273,222,760**	**4,273,222,760**
Policy loans	**–**	**–**	**113,787,789**	**113,787,789**
Accrued management fee income	**–**		**90,393,365**	**90,393,365**

(Forward)

	As of December 31, 2017			
	Neither past due nor impaired			
	Investment Grade	**Non-investment Grade Satisfactory**	**Not Rated**	**Total**
Security fund contribution	**₱–**	**₱–**	**₱141,244**	**₱141,244**
Due from related parties	**–**	**–**	**1,306,386**	**1,306,386**
Other receivables	**–**	**–**	**10,215,425**	**10,215,425**
Accrued income				
Held in IIF	**–**	**122,054,485**	**–**	**122,054,485**
Fixed-rate treasury notes	**–**	**15,188,783**	**–**	**15,188,783**
Other receivables	**–**	**7,134**	**–**	**7,134**
	₱18,643,234,338	**₱155,707,549**	**₱18,495,986,453**	**₱37,294,928,340**

	As of December 31, 2016			
	Neither past due nor impaired			
	Investment Grade	Non-investment Grade Satisfactory	Not Rated	Total
Financial assets at FVPL				
Debt securities				
Peso-denominated	₱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
AFS financial assets				
Government debt securities				
Local currency	1,747,877,168	–	–	1,747,877,168
Loans and receivables				
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	–	–	4,082,226,543	4,082,226,543
Policy loans			92,022,484	92,022,484
Accrued management fee income	–	–	39,456,325	39,456,325
Security fund contribution	–	–	141,244	141,244
Due from related parties	–	–	1,306,386	1,306,386
Other receivables	–	–	9,050,177	9,050,177
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
	₱15,283,574,752	₱145,943,582	₱14,871,294,418	₱30,300,812,752

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. Non-investment grade financial assets, on the other hand, are assets that are likely to be impaired in adverse economic conditions. However, no default or impairment is expected on these securities as these are issued by the Philippine Government.

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, 2017 and 2016, 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, 2017 and 2016.

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, 2017					
	Up to a year	1 to 5 years	Over 5 years	No term	Variable Unit-Linked	Total
Financial assets at FVPL	**₱–**	**₱–**	**₱–**	**₱–**	**₱29,617,814,478**	**₱29,617,814,478**
AFS financial assets	**96,840,838**	**189,564,177**	**3,020,314,278**	**–**	**–**	**3,306,719,293**
Loans and receivables						
Cash and cash equivalents						
Cash on hand	**95,753**	–	–	–	–	**95,753**
Cash in commercial banks	**489,408,091**	–	–	–	–	**489,408,091**
Short term deposits in commercial banks	**77,722,014**	–	–	–	–	**77,722,014**
Cash held in IIF	-	–	–	–	**715,596,407**	**715,596,407**
Accounts receivable held in IIF	–	–	–	–	**165,284,571**	**165,284,571**
Insurance receivables	**18,457,147**	–	–	–	–	**18,457,147**
Reinsurance assets	**4,273,222,760**	–	–	–	–	**4,273,222,760**
Security fund contribution	–	–	–	**141,244**	–	**141,244**
Accrued Management Fee Income	**90,393,365**	–	–	–	–	**90,393,365**
Policy loans	**113,787,789**	–	–	–	–	**113,787,789**
Due from related parties	**1,306,386**	–	–	–	–	**1,306,386**
Other receivables	**10,215,425**	–	–	–	–	**10,215,425**
Accrued income						
Held in IIF	–	–	–	–	**122,054,485**	**122,054,485**
Fixed-rate treasury notes	**15,188,783**	–	–	–	–	**15,188,783**
Other receivables	**7,134**	–	–	–	–	**7,134**
Total financial assets	**5,186,645,485**	**189,564,177**	**3,020,314,278**	**141,244**	**30,620,749,941**	**39,017,415,125**
Legal policy reserves	**30,280,354**	**5,028,210**	**4,007,367,513**	–	**30,501,910,839**	**34,544,586,916**
Insurance payable	**862,705,143**	–	–	–	–	**862,705,143**
Policyholders' dividends	**152,273,529**	–	–	–	–	**152,273,529**
Accounts payable and accrued expenses	**622,413,796**	–	–	–	–	**622,413,796**
Due to related parties	**351,304,229**	–	–	–	–	**351,304,229**
Policy and contract claims	**32,743,211**	–	–	–	–	**32,743,211**
Other insurance contract liabilities	**70,227,320**	–	–	–	–	**70,227,320**
Total financial liabilities	**2,121,947,582**	**5,028,210**	**4,007,367,513**	**–**	**30,501,910,839**	**36,636,254,144**
Net excess liquidity	**₱3,064,697,903**	**₱184,535,967**	**(₱987,053,235)**	**₱141,244**	**₱118,839,102**	**₱2,381,160,981**

	As of December 31, 2016 (As restated)					
	Up to a year	1 to 5 years	Over 5 years	No term	Variable Unit-Linked	Total
Financial assets at FVPL	₱–	₱–	₱–	₱–	₱21,718,766,007	₱21,718,766,007
AFS financial assets	94,531,338	472,656,692	2,987,212,359	–	–	3,554,400,389
Loans and receivables						
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	4,082,226,543	–	–	–	–	4,082,226,543
Security fund contribution	–	–	–	141,244	–	141,244
Accrued Management Fee Income	39,456,325					39,456,325
Policy loans	92,022,484	–	–	–	–	92,022,484
Due from related parties	1,306,386	–	–	–	–	1,306,386
Other receivables	9,050,177	–	–	–	–	9,050,177
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
Total financial assets	4,995,752,739	472,656,692	2,987,212,359	141,244	23,651,572,939	32,107,335,973
Legal policy reserves	1,192,286,022	13,344,933	2,777,752,606	–	23,552,224,814	27,535,608,375
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	476,335,637	–	–	–	–	476,335,637
Due to related parties	249,497,383	–	–	–	–	249,497,383
Policy and contract claims	36,480,766	–	–	–	–	36,480,766
Other insurance contract liabilities	29,942,739				–	29,942,739
Total financial liabilities	3,153,596,247	13,344,933	2,777,752,606	–	23,552,224,814	29,496,918,600
Net excess liquidity	₱1,842,156,492	₱459,311,759	₱209,459,753	₱141,244	₱99,348,125	₱2,610,417,373

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, 2017 and 2016 that are exposed to fair value interest rate risk presented by maturity profile (see Note 5):

	As of December 31, 2017					
		Maturity				
	Interest rate	**Within a year**	**1 to 2 years**	**3 to 4 years**	**More than 5 years**	**Total**
AFS financial assets						
Peso denominated Government debt securities	**4.625% - 9.5%**	**₱–**	**₱–**	**₱–**	**₱1,585,538,896**	**₱1,585,538,896**

	As of December 31, 2016					
		Maturity				
	Interest rate	Within a year	1 to 2 years	3 to 4 years	More than 5 years	Total
AFS financial assets						
Peso denominated Government debt securities	4.625% - 9.5%	₱–	₱–	₱–	₱1,747,877,168	₱1,747,877,168

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.

	2017		2016	
Currency	**Change in Basis points**	**Impact on equity Increase (Decrease)**	Change in Basis points	Impact on equity Increase (Decrease)
Philippine Peso	**+100**	**(₱179,592,166)**	+100	(₱213,014,383)
	-100	**179,592,166**	-100	213,014,383

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, 2017 and 2016:

	2017		2016	
Assets	**USD**	**PHP**	USD	PHP
Cash and cash equivalents	**$1,407,616**	**₱70,282,267**	$2,378,568	₱66,242,416
Loans and receivables	**92,091**	**4,598,104**	117,229	4,333,803
	1,499,707	**74,880,371**	2,495,797	70,576,219
Policy and contract claims	**38,569**	**1,925,750**	39,733	1,815,048
Net exposures	**$1,461,138**	**₱72,954,621**	$2,456,064	₱68,761,171

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 ₱49.93 to $1 and ₱49.72 to $1 as of December 31, 2017 and 2016, 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).

	2017	
	Change in Variable	**Increase (Decrease) on Income before Tax**
USD	**+3.54%**	**₱2,582,594**
	-3.54%	**(2,582,594)**

	2016	
	Change in Variable	Increase (Decrease) on Income before Tax
USD	+3.87%	₱4,728,712
	-3.87%	(4,728,712)

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 the 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, 2017 and 2016 are as follows:

	2017	2016
Within one (1) year	**₱ 3,848,572**	₱4,948,165
After one (1) year but not more than five (5) years	**1,740,000**	5,306,990
	₱5,588,572	₱10,255,155

Rent expense incurred by the Company in 2017 and 2016 amounted to ₱7.01 million and ₱5.94 million, respectively.

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

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

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

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

As of December 31, 2017, the required minimum statutory net worth for the Company is ₱550 million. The Company has complied with the minimum paid-up capital 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:

	2017	2016
Loans and receivables	**₱10,687,189**	₱8,624,520
Property and equipment – net	**17,692,770**	15,606,243
Other assets	**24,433,339**	26,574,766
	₱52,813,298	₱50,805,529

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, 2017 and 2016 can be determined only after the accounts of the Parent Company have been examined by the Insurance Commission, specifically as to admitted and non-admitted assets as defined under the Code.

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

	2017 (Estimated)	2016 (Actual)
Total admitted assets	**₱33,268,200,054**	₱26,380,930,711
Total liabilities	**32,624,143,492**	25,686,262,379
Total net worth	**644,056,562**	694,668,332
Required Minimum Capital / Net Worth	**550,000,000**	550,000,000
	₱94,056,562	₱144,668,332

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

Risk-Based Capital
The Amended Code provides that the Commissioner may require the adoption of the risk-based capital approach and other internationally accepted forms of capital framework. For purposes of the December 31, 2016 financial reporting, pending the adoption of the new RBC approach, the provisions of the Code on IMC No. 6-2006 shall still be used.

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

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

The following table shows how the RBC ratio was determined as of December 31, 2016:

Networth	835,040,539
RBC requirement	382,518,838
RBC ratio	218%

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

In 2016, IC issued Circular Letter No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework*, 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.

The following table shows how the RBC ratio was determined as of December 31, 2017:

Total Available Capital	675,734,234
RBC requirement	373,161,936
RBC ratio	181%

RBC2 Ratio is computed by dividing Available Capital with Required Capital. RBC Available Capital is computed by deducting non-admitted assets from PFRS Equity, plus sum of Excess capital from subsidiaries and 50% of PV dividends less IT equipment and Investment in subsidiaries. While Required Capital requirement of an insurance company is the capital that is required to be held appropriately to the risks an insurance company is exposed to. The minimum RBC ratio is set at 100%. All insurance companies are required to maintain the minimum RBC ratio and not fail the Trend Test as required by Circular 2016-68.

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

24. Current and Non-Current classification

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

	2017			2016 (As restated)		
	Current	**Non-current**	**Total**	Current	Non-current	Total
Assets						
Cash and cash equivalents	**₱ 1,282,822,265**	**₱–**	**₱1,282,822,265**	₱2,353,531,862	₱–	₱2,353,531,862
Insurance receivables	**18,457,147**	**–**	**18,457,147**	18,948,108	–	18,948,108
Reinsurance assets	**4,273,222,760**	**–**	**4,273,222,760**	4,082,226,543	–	4,082,226,543
Financial assets						
Financial assets at fair value through profit or loss	**29,617,814,478**	**–**	**29,617,814,478**	21,718,766,007	–	21,718,766,007
Available-for-sale financial assets	**2,003,958**	**1,583,534,938**	**1,585,538,896**	–	1,747,877,168	1,747,877,168
Loans and receivables	**380,987,536**	**141,244**	**381,128,780**	252,326,347	141,244	252,467,591
Accrued income	**137,250,402**	**–**	**137,250,402**	126,995,474	–	126,995,474
Property and equipment	**–**	**21,653,324**	**21,653,324**	–	22,449,048	22,449,048
Other assets	**24,861,030**	**4,717,318**	**29,578,348**	23,269,530	6,752,412	30,021,942
	35,737,419,576	**1,610,046,824**	**37,347,466,400**	28,576,063,871	1,777,219,872	30,353,283,743
Liabilities						
Insurance contract liabilities	**30,635,161,724**	**4,012,395,723**	**34,647,557,447**	24,810,934,341	2,791,097,539	27,602,031,880
Insurance payable	**862,705,143**	**–**	**862,705,143**	1,048,379,295	–	1,048,379,295
Policyholders' dividends	**152,273,529**	**–**	**152,273,529**	118,314,720	–	118,314,720
Accounts payable and accrued expenses	**622,413,796**	**–**	**622,413,796**	476,335,637	–	476,335,637
Pension liability	**–**	**3,999,758**	**3,999,758**	–	–	–
Due to related parties	**351,304,229**	**–**	**351,304,229**	249,497,384	–	249,497,384
Income tax payable	**3,466,226**	**–**	**3,466,226**	557,958	–	557,958
	₱32,627,324,647	**₱4,016,395,481**	**₱36,643,720,128**	₱26,704,019,335	₱2,791,097,539	₱29,495,116,874