Philippine AXA Life Insurance Corporation

Parent Company Financial Statements
December 31, 2016 and 2015

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
Philippine AXA Life Insurance Corporation

Report on the Audit of the Parent Company Financial Statements

Opinion

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

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

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company 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 parent company 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 Parent Company Financial Statements

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

In preparing the parent company 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 Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company 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 parent company 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 parent company 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 parent company 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 parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 28 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine AXA Life Insurance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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PTR No. 5908748, January 3, 2017, Makati City

February 21, 2017

PHILIPPINE AXA LIFE INSURANCE CORPORATION
PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Cash and cash equivalents (Notes 4, 24 and 25)	**₱2,684,797,291**	₱2,039,628,575
Insurance receivables (Notes 5, 24 and 25)	**115,345,762**	111,573,286
Financial assets (Notes 6, 24 and 25)		
Financial assets at fair value through profit or loss	**867,847,993**	3,378,712,907
Available-for-sale financial assets	**8,292,055,256**	8,061,843,745
Loans and receivables – net	**715,615,504**	672,405,081
Accrued income (Notes 7, 24 and 25)	**140,348,089**	110,957,681
Investment in subsidiary (Note 8)	**3,901,960,000**	–
Property and equipment - net (Note 10)	**189,536,597**	199,345,210
Intangible assets - net (Note 11)	**10,525,790**	681,990
Deferred tax assets - net (Note 23)	**139,961,593**	84,347,773
Other assets	**94,925,049**	69,100,089
	17,152,918,924	14,728,596,337
Assets held to cover unit-linked liabilities (Notes 12 and 25)	**73,221,877,194**	65,318,344,897
	₱90,374,796,118	₱80,046,941,234
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 13, 14, 24 and 25)	**₱8,874,006,843**	₱8,022,217,572
Premium deposit fund (Note 24)	**83,992,411**	93,544,364
Life insurance deposits (Note 24)	**196,803,526**	220,133,090
Insurance payables (Notes 15 and 24)	**145,261,608**	135,430,301
Trade and other liabilities (Notes 16, 24, 25 and 26)	**1,160,605,168**	950,652,354
Pension liability - net (Note 22)	**139,703,041**	89,188,060
Income tax payable (Note 23)	**118,056,415**	105,067,344
	10,718,429,012	9,616,233,085
Unit-linked liabilities (Note 12)	**73,221,877,194**	65,318,344,897
	83,940,306,206	74,934,577,982
Equity		
Capital stock (Note 17)	**1,000,000,000**	1,000,000,000
Contributed surplus	**50,000,000**	50,000,000
Contingency surplus	**9,343,183**	9,343,183
Revaluation reserves on available-for-sale financial assets (Note 18)	**296,745,898**	611,545,530
Actuarial losses on defined benefit plan (Note 22)	**(74,452,143)**	(45,821,290)
Retained earnings (Note 17)	**5,153,016,352**	3,487,459,207
Treasury stock (Note 17)	**(163,378)**	(163,378)
	6,434,489,912	5,112,363,252
	₱90,374,796,118	₱80,046,941,234

See accompanying Notes to Parent Company Financial Statements.

PHILIPPINE AXA LIFE INSURANCE CORPORATION
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
REVENUE		
Gross premiums on insurance contracts issued	**₱21,624,920,993**	₱22,923,255,221
Premiums ceded to reinsurers	**(109,058,820)**	(102,364,610)
Net insurance premiums (Notes 19 and 25)	**21,515,862,173**	22,820,890,611
Subscriptions allocated to investment in unit-linked funds	**(15,345,301,475)**	(17,334,016,010)
	6,170,560,698	5,486,874,601
Asset management fees (Note 25)	**1,248,123,841**	1,045,442,595
Investment income (Notes 9, 19 and 25)	**660,293,184**	598,387,413
Foreign exchange gains - net	**11,111,773**	38,825,160
Other income	**6,561,406**	2,407,398
	8,096,650,902	7,171,937,167
BENEFITS, CLAIMS AND OPERATING EXPENSES		
Gross benefits and claims	**8,559,905,378**	8,019,383,555
Reinsurers' share of gross benefits and claims (Note 19)	**(15,917,300)**	(7,802,926)
Policyholders' dividends and interest (Notes 13 and 19)	**79,383,837**	63,791,781
Decrease in unit-linked liabilities due to surrenders	**(7,529,719,912)**	(7,154,144,507)
Net benefits and claims incurred (Notes 19 and 25)	**1,093,652,003**	921,227,903
Increase in legal policy reserves (Note 13)	**658,665,617**	657,468,586
Increase (decrease) in reserves for policyholders' dividends (Note 13)	**(395,178)**	9,512,556
Net insurance benefits and claims	**1,751,922,442**	1,588,209,045
Loss on assets held to cover unit-linked liabilities (Notes 20 and 25)	**837,396,320**	1,332,532,194
Decrease in unit-linked liabilities due to loss on assets held to cover unit-linked liabilities	**(837,396,320)**	(1,332,532,194)
Operating and administrative expenses (Notes 21 and 25)	**2,621,608,935**	2,299,566,392
Commission expense (Note 25)	**1,279,776,745**	1,237,571,200
Premium and documentary stamp taxes	**73,755,495**	69,865,715
Agency development expenses	**68,588,353**	63,908,317
Interest on premium deposit fund	**1,717,488**	2,139,128
Medical and inspection fees	**2,612,267**	2,920,872
Interest on defined benefit obligation (Note 22)	**3,670,135**	992,641
	5,803,651,860	5,265,173,310
INCOME BEFORE INCOME TAX	**2,292,999,042**	1,906,763,857
PROVISION FOR INCOME TAX (Note 23)	**627,441,897**	523,124,827
NET INCOME	**1,665,557,145**	1,383,639,030
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will not be reclassified into profit or loss:		
Remeasurement loss on defined benefit plan (Note 22)	**(40,901,218)**	(64,943,055)
Income tax effect	**12,270,365**	19,482,916
	(28,630,853)	(45,460,139)
Item that will be reclassified into profit or loss:		
Net change in fair value of available-for-sale financial assets (Note 18)	**(314,799,632)**	(312,276,969)
	(343,430,485)	(357,737,108)
TOTAL COMPREHENSIVE INCOME	**₱1,322,126,660**	₱1,025,901,922

See accompanying Notes to Parent Company Financial Statements.

PHILIPPINE AXA LIFE INSURANCE CORPORATION

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 17)	**Contributed Surplus**	**Contingency Surplus**	**Revaluation Reserves on Available-for-sale Financial Assets** (Note 18)	**Actuarial Gains (Losses) on Defined Benefit Plan** (Note 22)	**Retained Earnings** (Note 17)	**Treasury Stock** (Note 17)	**Total**
As of January 1, 2016	**₱1,000,000,000**	**₱50,000,000**	**₱9,343,183**	**₱611,545,530**	**(₱45,821,290)**	**₱3,487,459,207**	**(₱163,378)**	**₱5,112,363,252**
Net income	–	–	–		–	**1,665,557,145**	–	**1,665,557,145**
Other comprehensive loss	–	–	–	**(314,799,632)**	**(28,630,853)**	–	–	**(343,430,485)**
Total comprehensive income (loss)	–	–	–	**(314,799,632)**	**(28,630,853)**	**1,665,557,145**	–	**1,322,126,660**
As of December 31, 2016	**₱1,000,000,000**	**₱50,000,000**	**₱9,343,183**	**₱296,745,898**	**(₱74,452,143)**	**₱5,153,016,352**	**(₱163,378)**	**₱6,434,489,912**
As of January 1, 2015	₱1,000,000,000	₱50,000,000	₱9,343,183	₱923,822,499	(₱361,151)	₱2,103,820,177	(₱163,378)	₱4,086,461,330
Net income	–	–	–	–	–	1,383,639,030	–	1,383,639,030
Other comprehensive income (loss)	–	–	–	(312,276,969)	(45,460,139)	–	–	(357,737,108)
Total comprehensive income (loss)	–	–	–	(312,276,969)	(45,460,139)	1,383,639,030	–	1,025,901,922
As of December 31, 2015	₱1,000,000,000	₱50,000,000	₱9,343,183	₱611,545,530	(₱45,821,290)	₱3,487,459,207	(₱163,378)	₱5,112,363,252

See accompanying Notes to Parent Company Financial Statements.

PHILIPPINE AXA LIFE INSURANCE CORPORATION
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱2,292,999,042**	₱1,906,763,857
Adjustments for:		
Depreciation and amortization (Notes 9, 10, 11 and 21)	**102,904,147**	95,009,519
Fair value losses on financial assets at fair value through profit or loss (Note 6)	**13,450,151**	46,373,600
Provision for impairment on loans and receivables (Note 6)	**1,119,087**	2,463,081
Unrealized foreign exchange gains	**(11,111,773)**	(16,936,754)
Dividend income (Note 19)	**(16,105,257)**	(17,010,740)
Gain on sale of available-for-sale financial assets (Notes 18 and 19)	**(157,632,695)**	(176,724,738)
Interest income (Note 19)	**(498,884,268)**	(443,192,717)
Gain on sale of investment property (Notes 9 and 19)	**–**	(7,056,415)
Operating income before changes in working capital	**1,726,738,434**	1,389,688,693
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Insurance receivables	**(3,772,476)**	74,609,304
Other assets	**(25,824,960)**	4,626,609
Loans and receivables	**(44,329,510)**	(103,039,232)
Increase (decrease) in:		
Insurance contract liabilities	**851,789,271**	881,202,144
Trade and other liabilities	**209,952,814**	107,464,068
Insurance payables	**9,831,307**	(6,806,644)
Pension liability - net	**9,613,763**	2,524,194
Premium deposit fund	**(9,551,953)**	(13,716,873)
Life insurance deposits	**(23,329,564)**	71,380,486
Net cash generated from operations	**2,701,117,126**	2,407,932,749
Proceeds from disposal/maturities of:		
Available-for-sale financial assets (Note 6)	**1,994,936,293**	903,204,895
Financial assets at fair value through profit or loss (Note 6)	**4,841,222,296**	1,758,289,320
Acquisitions of:		
Available-for-sale financial assets (Note 6)	**(2,431,139,432)**	(2,683,341,689)
Financial assets at fair value through profit or loss (Note 6)	**(2,343,807,533)**	(4,048,240,253)
Interest received	**519,956,178**	500,562,453
Dividends received	**14,467,630**	17,109,775
Income taxes paid	**(657,796,281)**	(535,699,460)
Net cash provided by (used in) operating activities	**4,638,956,277**	(1,680,182,210)

(Forward)

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of:		
Investment property (Note 9)	**₱–**	₱15,216,220
Acquisitions of:		
Investment in subsidiary (Note 8)	**(2,101,960,000)**	–
Property and equipment (Note 10)	**(92,446,084)**	(80,065,928)
Intangible assets (Note 11)	**(10,493,250)**	–
Fund infusion to investment in subsidiary (Note 8)	**(1,800,000,000)**	–
Net cash used in investing activities	**(4,004,899,334)**	(64,849,708)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**634,056,943**	(1,745,031,918)
EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	**11,111,773**	16,936,755
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,039,628,575**	3,767,723,738
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱2,684,797,291**	₱2,039,628,575

See accompanying Notes to Parent Company Financial Statements.

1. Corporate Information

Philippine AXA Life Insurance Corporation (the Parent Company) was incorporated in the Philippines on November 30, 1962 to engage in selling personal and group insurance, including life insurance, accident and other insurance products that are permitted to be sold by a life insurance company in the Philippines. On May 22, 2003, the Insurance Commission (IC) approved the Parent Company's license to sell variable or unit-linked insurance, a life insurance product which is linked to investment funds. On December 19, 2011, the Securities and Exchange Commission (SEC) approved the Parent Company's application for extension of its corporate life.

The Parent Company is 45% owned by the AXA Group of Companies through AXA Asia., a company based in France, 28% owned by First Metro Investment Corporation (FMIC), a domestic corporation, 25% owned by GT Capital Holdings, Inc. (GT Capital), a domestic corporation, and 2% owned by individual stockholders.

The accompanying parent company financial statements were authorized for issue by the Board of Directors (BOD) through the Board Risk Management, Audit and Compliance Committee (BRMACC) on February 21, 2017.

2. Summary of Significant Accounting Policies

Basis of Preparation
The Parent Company's separate financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets and financial assets at fair value through profit or loss (FVPL), which have been measured at fair value. The parent company financial statements are presented in Philippine Peso (₱), which is the Parent Company's functional currency and recorded to the nearest peso.

The Parent Company also issues and submits to SEC consolidated financial statements for the same period as the parent company financial statements presented in compliance with Philippine Financial Reporting Standards (PFRS). The consolidated financial statements may be obtained at 34th Floor GT Tower International, 6813 Ayala Avenue corner H.V. Dela Costa Street, Makati City, Philippines.

Statement of Compliance
The parent company financial statements have been prepared in compliance with PFRS.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments and improvements to PFRS, which became effective on or after January 1, 2016. The adoption of the amendments and improvements to PFRS did not have an impact on the parent company financial statements.

- Amendments to PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*

- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
  - Amendment to PFRS 5, *Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

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

Effective beginning on or after January 1, 2017

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

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

  The amendments do not have any impact on the Parent Company's financial position and results of operations. The Parent Company will include the required disclosures in its 2017 parent company financial statements.

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

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

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

- 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 Parent Company will adopt the amendment on the required effective date.

- *Valuation Standards for Life Insurance Policy Reserves*

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

  The Parent Company will adopt the new valuation standard on the required effective date.

Effective beginning on or after January 1, 2018

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

- 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 Parent Company is assessing which approach it will use and the potential impact of the chosen approach in its parent company financial statements.

- PFRS 15, *Revenue from Contracts with Customers*

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

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

The Parent Company is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effective date.

- 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 Parent Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Parent Company's financial liabilities. However, the adoption will not have an effect on the Parent Company's application of hedge accounting and on the amount of its credit losses since the Parent Company has no hedging transactions. The Parent 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)

- 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.

  The Parent Company will adopt the amendment on the required effective date.

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

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 Parent 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*

Foreign Currency Translation

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated using the functional currency rate of exchange ruling at the reporting date. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. All foreign exchange differences are taken to profit or loss, except where it relates to equity securities where gains or losses are recognized directly in other comprehensive income, the gain or loss is then recognized net of the exchange component in other comprehensive income.

Product Classification

Insurance contracts are defined as those contracts under which the Parent Company (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Parent Company defines significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index, or other variable. Investment contracts mainly transfer significant financial risk but can also transfer insignificant insurance risk.

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

Insurance and investment contracts are further classified as being with or without discretionary participation features (DPF).

DPF is a contractual right to receive, as a supplement to guaranteed contracts, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on the performance of a specified pool of contracts or a specified type of contract, realized and or unrealized investment returns on a specified pool of assets held by the issuer, or the profit or loss of the Parent Company, fund or other entity that issues the contract.

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

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents (including those under "Assets held to cover unit-linked liabilities") 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 changes in value and are free of any encumbrances.

Insurance Receivables

Insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration received. Subsequent to initial recognition, insurance receivables are measured at amortized cost, using effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss. Insurance receivables are derecognized following the derecognition criteria of financial assets.

Financial Instruments

Date of recognition

Financial instruments are recognized in the statement of financial position when the Parent 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

Financial instruments are recognized initially at fair value. Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Parent Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets and loans and receivables. The Parent Company classifies its financial liabilities into financial liabilities at FVPL and 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.

Determination of fair value
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which observable current market prices exist, option pricing models, and other relevant valuation models. Any difference noted between the fair value and the transaction price is recognized in profit or loss, unless it qualifies for recognition as some type of asset or liability.

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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Parent Company.

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

The Parent Company's investment committee determines the policies and procedures for fair value measurement.

External valuers are involved for valuation of significant assets, such as investment properties. Involvement of external valuers is decided upon annually by the investment committee after discussion with and approval by the Parent Company's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The investment committee decides, after discussions with the Parent Company's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the investment committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Parent Company's accounting policies. For this analysis, the investment committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The investment committee, in conjunction with the Parent Company's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Fair value hierarchy
The Parent Company uses the following hierarchy for determining and disclosing the fair value of financial assets 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.

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

Financial instruments at FVPL
This category consists of financial assets or financial liabilities that are held-for-trading or designated by management as at FVPL on initial recognition.

Financial assets or financial liabilities are classified as held-for-trading if they are entered into for the purpose of short-term profit taking.

Financial assets or financial liabilities classified in this category are designated by management as at FVPL on initial recognition when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and 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 or investment strategy, or
- 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.

The investments (debt and equity securities) of the unit-linked funds set up by the Parent Company underlying the unit-linked insurance contracts (included under "Assets held to cover unit-linked liabilities") are designated as at FVPL since these are managed and their performance are evaluated on a fair value basis, in accordance with the investment strategy. Also, the Parent Company designates the assets of the life insurance business that are managed under the Parent Company's Risk Management Statement on a fair value basis, and are reported to the Board on this basis. These assets have been valued on a fair value basis with movements taken through the profit or loss.

Financial assets at FVPL are recorded in the parent company statement of financial position at fair value, with changes in the fair value recorded in profit or loss, included under the "Fair value gains or losses from financial assets at FVPL" account.

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

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held-for-trading, nor designated as AFS or at FVPL. This accounting policy relates to the statement of financial position captions: (a) Insurance receivables, (b) Loans and receivables (including those under "Assets held to cover unit-linked liabilities"), and (c) Accrued income (including those under "Assets held to cover unit-linked liabilities").

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included under "Investment income" account in profit or loss. The losses arising from impairment of such loans and receivables are recognized as "Provision for impairment losses" under the "Operating and administrative expenses" caption in profit or loss.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include government securities, equity investments, and other debt instruments.

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in profit or loss.

Interest earned on holding AFS financial assets is reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in profit or loss when the right to receive payment has been established. Interests and dividends are recognized under "Investment income" account in profit or loss. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported in equity as "Revaluation reserve for AFS financial assets." The losses arising from impairment of such financial assets are recognized as "Provision for impairment losses" under the "Operating and administrative expenses" caption in profit or loss. When a security is disposed of, the cumulative gain or loss previously recognized as other comprehensive income is reported as "Gain or loss on sale of AFS financial assets" in profit or loss.

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

Other financial liabilities
Issued financial liabilities or their components, which are not designated as financial liabilities at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Parent Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. This includes investment contracts which mainly transfer financial risk and has no or insignificant insurance risk.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate 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. Interest expense are charged to profit or loss as incurred.
Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

This accounting policy relates to the parent company statement of financial position captions: (a) Premium deposit fund, (b) Life insurance deposits, (c) Insurance payables, (d) Trade and other liabilities and (e) Dividends payable that meet the above definition (other than liabilities covered by other accounting standards, such as pension liability and income tax payable). This accounting policy relates also to the payables included under the “Assets held to cover unit-linked liabilities” account.

<u>Classification of Financial Instruments Between Debt and Equity</u>
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 unfavourable to the Parent Company.

If the Parent Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual agreement. Interests, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income.

Distributions to holders of financial instrument classified as equity are charged directly to liabilities and equity, net of any related income tax benefits.

<u>Offsetting</u>
Financial assets and financial liabilities are offset and the net amount is reported in the 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.

<u>Impairment of Financial Assets</u>
The Parent Company assesses at each reporting date whether 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.

Loans and receivables
For loans and receivables carried at amortized cost, the Parent Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Parent Company determines that no objective evidence of impairment exists for an 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. 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 assets' carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Parent Company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in profit or loss. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. 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.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as type of borrower, collateral type, past-due status and term.

AFS financial assets carried at fair value
For equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of an investment below its cost or where other objective evidence of impairment exists. 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 profit or loss) is removed from

equity and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "Investment income" account in profit or loss. If, in a subsequent period, 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 profit or loss, the impairment loss is reversed through profit or loss.

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

<u>Derecognition of Financial Assets and Liabilities</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 Parent Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Parent Company has transferred its right 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 Parent Company has transferred its right to receive cash flows from an asset or has entered into a 'pass-through' arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Parent Company's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Parent Company could be required to repay.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when objective evidence exists that the Parent Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Parent Company will receive from the reinsurer can be measured reliably. The impairment loss is charged to profit or loss.

Ceded reinsurance arrangements do not relieve the Parent Company from its obligations to policyholders.

Premiums are presented on gross basis for ceded reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual right are extinguished, has expired, or when the contract is transferred to another party.

Investment Properties
Property held for long-term rental yields or for capital appreciation, or for both, is classified as investment property. These properties are initially measured at cost, which includes transaction cost, but excludes day-to-day servicing cost. Subsequently, at each end of the reporting period, such properties are carried at cost less accumulated depreciation and impairment in value.

Depreciation of investment property is computed using the straight-line method over its useful life, regardless of utilization. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties. The estimated useful life of the investment properties is 20 years.

Transfers are made to and from investment property when, and only when, there is a change in use, evidenced by ending of owner occupation, commencement of an operating lease to another party. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Parent Company accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use.

Investment property is derecognized when it has been disposed of or when permanently withdrawn from use and no future benefit is expected from its disposal.

Any gain or loss on the retirement or disposal of investment properties is recognized in profit or loss in the year of derecognition.

Property and Equipment
Property and equipment, including owner occupied properties, are carried at cost less accumulated depreciation and amortization and accumulated impairment in value. Such cost includes initial transaction costs, but excludes day-to-day servicing cost. Replacement or major inspection cost is capitalized if it is probable that future economic benefits associated with the item will flow to the Parent Company and the cost of the item can be reliably measured.

Depreciation and amortization is computed using the straight-line method over the estimated useful life of the assets. Leasehold improvements are amortized over the estimated useful life of the improvements or the term of the related lease, whichever is shorter. The estimated useful lives of the different categories of property and equipment follow:

	Years
Building	20
Leasehold improvements	5
Transportation equipment	5
Computer equipment	3
Furniture and equipment	3

The assets' residual values, useful lives and depreciation and amortization method are reviewed at each reporting date and adjusted if appropriate to ensure that the period, residual value and the method of depreciation and amortization are consistent with the expected pattern of consumption of future economic benefits embodied in the asset.

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in profit or loss in the year the asset is derecognized. This is not applicable to items that still have useful lives but are currently classified as idle. Depreciation continues for those items until fully depreciated or disposed.

Intangible Assets

Intangible assets are carried at cost less accumulated amortization and impairment in value, if any. Intangible assets, consisting mainly of software (not an integral part of its related hardware), are capitalized at cost. These costs are amortized on a straight-line basis over their estimated useful lives ranging from 3 to 5 years. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

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

Investment in Subsidiary

Investment in subsidiary is accounted for under the cost method less accumulated impairment losses, if any.

A subsidiary is an entity over which the Parent Company has control. Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Parent Company recognizes revenue from the investment in profit or loss only to the extent that the Parent Company receives distributions from retained earnings of the investee arising after the date of acquisition. Dividends received from the investee in excess of accumulated net income from the acquisition date are regarded as a recovery of investment and are recognized as a reduction in the cost of investment.

Impairment of Nonfinancial Assets

At each reporting date, the Parent Company assesses whether there is any indication that nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Parent Company makes a formal estimate of recoverable amount.

Recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed for the cash generating unit to which the asset belongs.

Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount. 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 assessments of the time value of money and the risks specific to the asset (or cash generating unit).

An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

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

<u>Insurance Contract Liabilities</u>
Legal policy reserves
Life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each life operation. Assumptions and actuarial valuation methods are also subject to provisions of the Insurance Code (the Code) and guidelines set by IC.

Insurance contracts with fixed and guaranteed terms
The liability is determined as the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used. The liability is based on mortality, morbidity and investment income assumptions that are established at the time the contract is issued.

The Parent Company has different assumptions for different products. However, liabilities for contractual benefits are computed to comply with statutory requirements, which require discount rates to be not more than 6% compound interest and mortality and morbidity rates to be in accordance with the standard table of mortality and morbidity. Reserves are computed per thousand of sum insured and depend on the issue age and policy duration. The net change in legal policy reserves during the year is taken to profit or loss.

Claims and benefits payable
Claims and benefits payable consist of unpaid claims and benefits which are payable to policyholders.

Policyholders' dividends
DPF is a contractual right that gives policyholders the right to receive supplementary discretionary returns through participation in the surplus arising from participating business. These returns are subject to the discretion of the Parent Company and are within the constraints of the terms and conditions of the contract. Dividends earned by the policyholders in prior policy years and left to accumulate and earn interest are presented under insurance contracts liabilities as Policyholders' Dividends.

Reserves for discretionary benefits, such as dividends, are currently set at the minimum allowed by regulation, which is the earned portion of dividends for the next policy year. These are presented under Reserves for policyholders' dividends.

Liability adequacy test
Liability adequacy tests are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

<u>Unit-linked Insurance Contracts</u>
The Parent Company issues unit-linked insurance contracts. In addition to providing life insurance coverage, a unit-linked contract links payments to units of internal investment funds (unit-linked funds) set up by the Parent Company with the consideration received from the policyholders. As allowed by PFRS 4, the Parent Company chose not to unbundle the investment portion of its unit-linked products.

Premiums received from the issuance of unit-linked insurance contracts are recognized as premiums revenue. Consideration received from the policyholders that are transferred to the unit-linked funds is recognized as "Subscriptions allocated to investment in unit-linked funds" in the statement of comprehensive income. These are separated to fund assets from which the Parent Company withdraws administrative and cost of insurance charges in accordance with the policy provisions of the unit-linked insurance contracts. After deduction of these charges together with applicable surrender fees, the remaining amounts in the fund assets are equal to the surrender value of the unit-linked policies, and are withdrawable anytime. The assets and liabilities of the unit-linked funds have been segregated and reflected in "Assets held to cover unit-linked liabilities" in the Parent Company's statement of financial position. Income or loss arising from the unit linked funds are classified under "Income on assets held to cover unit-linked liabilities" in the statement of comprehensive income. Withdrawals or surrenders of unit-linked funds are presented as "Decrease in unit-linked liabilities due to surrenders" in the statement of comprehensive income.

Investments under assets held to cover unit-linked liabilities are valued at market price. Changes in the assets held to cover unit-linked liabilities due to investment earnings or market value fluctuations result to the same corresponding change in the unit-linked liabilities. Such changes in fund value have no effect on the Parent Company's statement of comprehensive income. As of end of the reporting period, unit-linked liabilities are computed on the basis of the number of units allocated to the policyholders multiplied by the unit price of the underlying funds.
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 assets value per unit (NAVPU). The NAVPU is the market value of the fund divided by its total number of outstanding units.

Pension Benefit Obligation

Pension cost is actuarially determined using the projected unit credit method. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes service cost, net interest cost and remeasurement cost.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

The net pension liability or asset recognized by the Parent Company in respect of its defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The present value of the defined benefit obligation, as computed by an independent actuary, is determined using a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Parent Company nor can they be paid directly to the Parent Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Parent Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Equity

Capital stock
Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value.

Deposits for future stock subscriptions
Deposits for future stock subscriptions represents the additional capital invested by the stockholders that will be credited to capital stock upon approval by the SEC of the Parent Company's application for increase in authorized capital stock.

Contributed surplus
Contributed surplus represents the original contribution of the stockholders of the Parent Company, in addition to the paid-up capital stock, in order to comply with the pre-licensing requirements as provided under the Insurance Code.

Contingency surplus
Contingency surplus represents contributions of the stockholders to cover any unexpected deficiency in the Margin of Solvency (MOS) as required under the Insurance Code and can be withdrawn upon the approval of the IC.

Retained earnings
Retained earnings represent accumulated net income of the Parent Company less dividends declared.

Treasury stock
Own equity instruments which are acquired (treasury stocks) are deducted from equity and accounted for at cost. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. Voting rights related to treasury stocks are nullified for the Parent Company and no dividends are allocated to them.

Revenue Recognition

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

Premium income
Gross recurring premiums from life insurance contracts are recognized as revenue when payable by the policyholder. 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.

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS financial assets, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The change in carrying amount is recorded as interest income.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

For interest-bearing financial assets at FVPL, loans and receivables, cash and cash equivalents and short-term investments, interest income is recognized as it accrues.

Dividend income
Dividend income is recognized when the shareholders' right to receive the payment is established.

Rental income
Rental income from investment properties is recognized on a straight-line basis over the lease term.

Asset management fees
Unit-linked funds are charged for fund management and administration. These fees are recognized as revenue in the period in which the related services are rendered.

Other income
Other income is recognized in the profit or loss as it accrues.

<u>Benefits, Claims and Expenses Recognition</u>
Benefits and claims
Benefits and claims consist of cost of all claims and benefits incurred during the period, which includes excess benefit claims for unit-linked contracts, as well as changes in the valuation of legal policy reserves and reserves for policyholders' dividends. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

Interest expense
Interest expense on accumulated policyholders' dividends and premium deposit fund is recognized through profit or loss as it accrues and is calculated by using the effective interest rate method. Accrued interest is credited to the liability account every month.

Commission expense
Commission expense is recognized as incurred. Commissions are paid to agents and financial executives from selling individual and group policies. Rates applied on collected premiums vary depending on the type of product and payment terms of the contract. Referral fees are also paid in relation to the referrals made through the bancassurance business (see Note 20).

Taxes, operating and administrative and other expenses
Taxes, operating and administrative and other expenses are recognized in the parent company statement of comprehensive income as 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 term, 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.

When a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c), or (d) above, and at the date of renewal or extension period for scenario (b).

Company as a 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 profit or loss on a straight-line basis over the lease term. Minimum lease payments are recognized on a straight-line basis.

Company as a lessor
Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income.

Income Tax
Income tax for the year consists of current and deferred tax. Income tax is determined in accordance with Philippine tax laws. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income. Tax on these items is recognized in equity or other comprehensive income.

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 this amount are those that are enacted or substantively enacted as of the reporting date.

Deferred tax
Deferred tax is provided, using the liability method, on all temporary differences, with certain exceptions, 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, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from excess MCIT and NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets 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 all or part of the deferred tax assets to be recovered.
Current tax and deferred tax relating to items recognized directly in other comprehensive income are likewise recognized in other comprehensive income.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of end of the reporting period. Movements in the deferred tax assets and liabilities arising from changes in the rates are charged or credited to profit or loss for the period.

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 taxes relate to the same taxable entity and the same taxation authority.

Provisions
Provisions are recognized when the Parent Company has a present obligation (legal or constructive) as a result of a past event, and when 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 discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

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

Events after the Reporting Date
Post year-end events that provide additional information about the Parent Company's financial position at the end of the reporting date (adjusting events) are reflected in the parent company financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the parent company financial statements.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the parent company financial statements in accordance with PFRS requires the Parent Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimate are reflected in the financial statements as they become reasonably determinable.

Estimates and judgments 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

Product classification

The Parent Company has determined that the traditional insurance policies and the unit-linked insurance policies have significant insurance risks and therefore meet the definition of insurance contracts and should be accounted for as such.

The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Parent Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

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 expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Operating leases – Company as a lessor

The Parent Company has entered into property leases on its investment property portfolio. The Parent Company has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Operating leases – Company as a lessee

The Parent Company has entered into contracts of lease for the office spaces of its branches. The Parent Company has determined that all significant risks and rewards of ownership on these properties are retained by the respective lessors.

Estimates

Legal policy reserves

In determining the legal policy reserves, estimates are made as to the expected number of deaths, illness or injury for each of the years in which the Parent Company is exposed to risk. These estimates are based on standard mortality and morbidity tables as required by the Code. The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments. In accordance with the provisions of the Code, estimates for future deaths, illness or injury and investment returns are determined at the inception of the contract and are used to calculate the liability over the term of the contract. The interest rate used to discount future liabilities does not exceed 6% as required by the Code. Likewise, no lapse, surrender and expense assumptions are factored in the computation of the liability.

The carrying values of legal policy reserves, shown as part of insurance contract liabilities, amounted to ₱7,481,926,073 and ₱6,823,260,456 as of December 31, 2016 and 2015 respectively (see Note 13).

Fair value of financial instruments
Fair value determinations for financial instruments are based generally on listed or quoted market prices. Where the fair values of financial assets and financial liabilities recorded in the statement of financial position or disclosed in the notes to the financial statements cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Certain financial assets and liabilities were initially recorded at fair values by using the discounted cash flow method.

As of December 31, 2016 and 2015, the carrying value of the financial assets at FVPL amounted to ₱867,847,993 and ₱3,378,712,907, respectively (see Note 6). As of December 31, 2016 and 2015, the carrying value of AFS financial assets recognized at fair value amounted to ₱8,292,055,256 and ₱8,061,843,745, respectively (see Note 6).

The Parent Company has structured notes whose fair value is determined using valuation techniques as determined reasonable by management at time of valuation. The use of different assumptions could produce materially different estimates of fair value. The details of valuation techniques are provided in Note 24.

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

As of December 31, 2016 and 2015, the carrying value of the structured notes amounted to ₱392,451,501 and ₱412,876,815, respectively (see Notes 12 and 24).

Impairment of loans and receivables
The Parent Company reviews its loans and receivables at each reporting date to assess whether an allowance for impairment should be recognized. 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 and known market factors. The Parent Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a regular basis.

In addition to specific allowance against individually significant loans and receivables, the Parent Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The amount and timing of recorded expenses for any period would differ if the Parent Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

Insurance receivables consist of:

	2016	2015
Premiums due and uncollected (Note 5 and 25)	**₱81,539,350**	₱76,203,467
Due from reinsurers (Note 5)	**33,806,412**	35,369,819
	₱115,345,762	₱111,573,286

As of December 31, 2016 and 2015, the Parent Company has not recognized any allowance for impairment losses on insurance receivables (see Note 5).

Loans and receivables consist of the following (see Note 6):

	2016	2015
Loans and receivables	**₱725,773,843**	₱681,444,333
Less allowance for impairment losses	**10,158,339**	9,039,252
	₱715,615,504	₱672,405,081

Impairment of AFS financial assets
The Parent Company treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is ‘significant’ or ‘prolonged’ requires judgment. The Parent Company treats ‘significant’ generally as 20% or more and ‘prolonged’ as greater than 12 months for quoted equity investments.

In addition, the Parent Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate also when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, changes in technology and operational and financing cash flows.

The amount and timing of recorded expenses for any period would differ if the Parent Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

As of December 31, 2016 and 2015, the carrying value of AFS equity investments amounted to ₱41,870,545 and ₱235,853,790, respectively (see Note 6).

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

The carrying values of the property and equipment and intangible assets are as follows:

	2016	2015
Property and equipment (Note 10)	**₱189,536,597**	₱199,345,210
Intangible assets (Note 11)	**10,525,790**	681,990

Impairment of nonfinancial assets
The Parent Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amounts of assets may not be recoverable. The factors that the Parent Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Parent Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if not possible, for the cash-generating unit to which the asset belongs.

The carrying values of the investment in subsidiary, property and equipment and intangible assets are as follows:

	2016	2015
Investment in subsidiary (Note 8)	**₱3,901,960,000**	₱–
Property and equipment (Note 10)	**189,536,597**	199,345,210
Intangible assets (Note 11)	**10,525,790**	681,990

Recognition of deferred tax assets
Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which these can be utilized.

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized. These assets are periodically reviewed for realization. Periodic reviews cover the nature and amount of deferred income and expense items, expected timing when assets will be used or liabilities will be required to be reported, reliability of historical profitability of businesses expected to provide future earnings and tax planning strategies which can be utilized to increase the likelihood that tax assets will be realized.

As of December 31, 2016 and 2015, deferred tax assets amounted to ₱143,295,125 and ₱95,995,321, respectively (see Note 23).

Pension and other employee benefits
The determination of pension obligation and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rate, expected return on plan assets, salary increase rate, mortality rate, disability rate and turnover rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

The cost of defined benefit plan and the present value of the pension obligation are determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.

While the Parent Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the market yields on Philippine government bonds with terms consistent with the expected term of the defined benefit obligation as of reporting date. The mortality rate is based on publicly available mortality tables in the Philippines. Future salary increases are based on expected future inflation rates. Refer to Note 22 for the details of assumptions used in the calculation.

The carrying value of net pension liabilities as of December 31, 2016 and 2015 amounted to ₱139,703,041 and ₱89,188,060, respectively (see Note 22).

The Parent Company also estimates other employee benefit obligations and expenses, including costs of paid leaves based on historical leave availment of employees and subject to the Parent Company's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

Accrued incentives and bonuses as of December 31, 2016 and 2015 amounted to ₱225,651,780 and ₱195,826,546, respectively (see Note 16).

Contingencies
The Parent Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with legal counsels and based upon an analysis of potential results. The Parent Company currently does not believe these proceedings will have a material adverse effect on the Parent Company's financial position. It is possible, however, that the results of operations could be materially affected by changes in the estimates.

4. Cash and Cash Equivalents

This account consists of:

	2016	2015
Petty cash fund	**₱1,283,943**	₱1,320,526
Cash in banks (Notes 24 and 25)	**793,129,381**	1,118,883,669
Cash equivalents (Note 25)	**1,890,383,967**	919,424,380
	₱2,684,797,291	₱2,039,628,575

Cash in banks earns interest at the prevailing bank deposit rates that ranged from 0.01% to 0.50% in 2016 and in 2015. Cash equivalents are made for varying periods not exceeding three months depending on the immediate cash requirements of the Parent Company, and earned interest at the prevailing short-term deposit rates that ranged from 0.10% to 2.50% and 0.10% to 1.70% in 2016 and 2015, respectively.

Interest income from cash and cash equivalents of the Company amounted to ₱31,682,915 and ₱17,512,225 in 2016 and 2015, respectively (see Note 19). Interest receivable as of December 31, 2016 and 2015 amounted to ₱3,362,852 and ₱1,121,061, respectively (see Note 7).

5. Insurance Receivables

This account consists of:

	2016	2015
Premiums due and uncollected (Note 25)	**₱81,539,350**	₱76,203,467
Due from reinsurers	**33,806,412**	35,369,819
	₱115,345,762	₱111,573,286

Premiums due and uncollected pertain to premiums receivable from policyholders that are due within the grace period.

Due from reinsurers pertains to amounts recoverable from the reinsurers in respect of claims already incurred and paid by the Parent Company which are due and demandable.

The following table shows aging information of insurance receivables:

December 31, 2016

	< 30 days	**30 – 60 days**	**61 – 120 days**	**121 – 180 days**	**> 180 days**	**Total**
Premiums due and uncollected	**₱24,422,200**	**₱25,454,121**	**₱20,028,599**	**₱4,455,678**	**₱7,178,752**	**₱81,539,350**
Due from reinsurers	**2,363,782**	**3,485,943**	**4,886,517**	**697,592**	**22,372,578**	**33,806,412**
	₱26,785,982	**₱28,940,064**	**₱24,915,116**	**₱5,153,270**	**₱29,551,330**	**₱115,345,762**

December 31, 2015

	< 30 days	30 – 60 days	61 – 120 days	121 – 180 days	> 180 days	Total
Premiums due and uncollected	₱37,764,447	₱14,861,698	₱16,074,071	₱6,325,609	₱1,177,642	₱76,203,467
Due from reinsurers	1,064,507	4,046,361	824,676	6,425,195	23,009,080	35,369,819
	₱38,828,954	₱18,908,059	₱16,898,747	₱12,750,804	₱24,186,722	₱111,573,286

6. Financial Assets

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

	2016	2015
Financial assets at FVPL	**₱867,847,993**	₱3,378,712,907
AFS financial assets	**8,292,055,256**	8,061,843,745
Loans and receivables – net	**715,615,504**	672,405,081
	₱9,875,518,753	₱12,112,961,733

As of December 31, 2016 and 2015, the financial assets at FVPL are designated by management as at FVPL on initial recognition.

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

Financial assets at FVPL

	2016	2015
Unit investment trust funds	**₱295,809,553**	₱2,258,983,308
Listed equity securities	**298,877,230**	611,693,790
Government debt securities - local currency	**224,348,879**	458,038,446
Investment in unit-linked funds (Note 12)	**48,812,331**	49,997,363
	₱867,847,993	₱3,378,712,907

Investment in unit investment trust funds (UITFs) classified as financial assets at FVPL are ready-made investments that allow the pooling of funds from different investors with similar investment objectives. These funds are managed by professional fund managers and are invested in various financial instruments such as money market securities, bonds and equities, which are normally available to bigger investors only. As of December 31, 2016, the Parent Company owns 190,541,566 outstanding number of units with cost and net asset value of ₱294,439,805 and ₱295,809,553, respectively. As of December 31, 2015, the Parent Company owns 1,502,558,395 outstanding number of units with cost and net asset value of ₱2,242,647,039 and ₱2,258,983,308, respectively.

Investments in government debt securities classified as financial assets at FVPL bear interest ranging from 7.75% to 10.25% in 2016 and in 2015.

Interest income from government debt securities classified by the Parent Company as financial assets at FVPL amounted to ₱25,818,281 and ₱36,488,037 in 2016 and 2015, respectively (see Note 19). Interest receivable as of December 31, 2016 and 2015 amounted to ₱4,356,444 and ₱10,347,056, respectively (see Note 7).

Dividend income from listed equity securities classified by the Parent Company as financial assets at FVPL amounted to ₱16,105,257 and ₱17,010,740 in 2016 and 2015, respectively (see Note 19). Dividend receivable as of December 31, 2016 and 2015 amounted to ₱1,637,627 and nil, respectively (see Note 7).

AFS financial assets

	2016	2015
Government debt securities - local currency	**₱6,692,124,365**	₱6,377,546,098
Corporate debt securities - local currency	**1,558,060,346**	1,448,443,857
Listed equity securities	**24,791,445**	220,274,678
Golf club shares	**17,079,100**	15,579,112
	₱8,292,055,256	₱8,061,843,745

Investments in government and corporate debt securities classified as AFS financial assets bear interest that ranged from 2.13% to 18.25% and 1.63% to 18.25% in 2016 and 2015, respectively.

The carrying values of financial assets at FVPL and AFS financial assets have been determined as follows:

	Financial Assets at FVPL	AFS Financial Assets	Total
At January 1, 2015	₱1,135,135,574	₱6,492,090,593	₱7,627,226,167
Additions	4,048,240,253	2,683,341,689	6,731,581,942
Disposals/maturities	(1,758,289,320)	(903,204,895)	(2,661,494,215)
Fair value losses (Note 18)	(46,373,600)	(135,552,231)	(181,925,831)
Amortization of discount	–	(74,831,411)	(74,831,411)
At December 31, 2015	**3,378,712,907**	**8,061,843,745**	**11,440,556,652**
Additions	**2,343,807,533**	**2,431,139,432**	**4,774,946,965**
Disposals/maturities	**(4,841,222,296)**	**(1,994,936,293)**	**(6,836,158,589)**
Fair value losses (Note 18)	**(13,450,151)**	**(157,166,937)**	**(170,617,088)**
Amortization of discount	–	**(48,824,691)**	**(48,824,691)**
At December 31, 2016	**₱867,847,993**	**₱8,292,055,256**	**₱9,159,903,249**

Interest income from corporate and government debt securities classified by the Parent Company as AFS financial assets amounted to ₱400,276,958 and ₱347,202,468 in 2016 and 2015, respectively (see Note 19). Interest receivable as of December 31, 2016 and 2015 amounted to ₱114,485,571 and ₱82,774,961, respectively (see Note 7).

As of December 31, 2016 and 2015, government securities totaling ₱137,500,000 and ₱62,500,000, respectively, classified under AFS financial assets are deposited with the IC in accordance with the provisions of the Code as security for the benefit of policyholders and creditors of the Parent Company.

Loans and receivables

	2016	2015
Intercompany receivables (Note 25)	**₱173,416,263**	₱160,618,249
Due from fund custodian (Note 12)	**90,318,555**	68,838,634
Due from officers and employees (Note 25)	**44,794,683**	35,487,937
Due from agents	**27,468,035**	26,737,585
Other receivables	**10,245,290**	11,749,626
	346,242,826	303,432,031
Less allowance for impairment losses	**10,158,339**	9,039,252
	336,084,487	294,392,779
Policy loans	**379,531,017**	378,012,302
	₱715,615,504	₱672,405,081

Due from fund custodian pertains to redemptions of units held by policyholders from unit-linked investments. These are due and collected within one to two days.

Due from officers and employees include secured interest-bearing loans pertaining to car plan and salary loans, and other unsecured non-interest-bearing loans and advances granted to the Parent Company's officers and employees. Interest rates on interest-bearing loans range from 6% to 12% in 2016 and in 2015. The Parent Company's loans to officers and employees are secured by lease agreement or promissory note.

Due from agents are non-interest bearing accounts which pertain to receivable owed by certain agents that are due within one year.

Other receivables are non-interest bearing accounts which pertain to receivables owed by employees other than those covered in due from officers and employees account, such as payroll adjustments, cash advances and SSS loans, which are due within one year.

Policy loans pertain to loans granted to policyholders. The loan is granted with the cash surrender value of the policyholder's insurance policy as collateral. Interest rates on peso and dollar policy loans are pegged at 10% and 8%, respectively.

Interest income from loans and receivables amounted to ₱41,106,114 and ₱41,989,987 in 2016 and 2015, respectively (see Note 19). Interest receivable as of December 31, 2016 and 2015 amounted to ₱16,505,595 and ₱16,714,603, respectively (see Note 7).

The rollforward of the changes in the allowance for impairment losses on loans and receivables follows:

	Due from Officers and Employees	**Due from Agents**	**Other Receivables**	**Total**
At January 1, 2015	₱1,873,854	₱3,263,760	₱1,438,557	₱6,576,171
Provision (Note 21)	961,943	1,501,138	–	2,463,081
At December 31, 2015	**2,835,797**	**4,764,898**	**1,438,557**	**9,039,252**
Provision (Note 21)	**610,360**	**508,727**	**–**	**1,119,087**
At December 31, 2016	**₱3,446,157**	**₱5,273,625**	**₱1,438,557**	**₱10,158,339**

Loans and receivables amounting to ₱10,158,339 and ₱9,039,252 as of December 31, 2016 and 2015, respectively, are impaired based on collective assessment.

7. Accrued Income

This account consists of:

	2016	2015
Interest receivable on:		
AFS financial assets (Note 6)	**₱114,485,571**	₱82,774,961
Loans and receivables (Note 6)	**16,505,595**	16,714,603
Financial assets at FVPL (Note 6)	**4,356,444**	10,347,056
Cash and cash equivalents (Note 4)	**3,362,852**	1,121,061
Dividend receivable (Note 6)	**1,637,627**	–
	₱140,348,089	₱110,957,681

8. Investment in Subsidiary

On April 4, 2016, the Parent Company acquired 5,124,975 shares of stock of Charter Ping An Insurance Corporation (CPAIC) amounting to ₱2,101,960,000 representing 100% of its total shares. CPAIC is presently engaged in the business of nonlife insurance which includes fire, motor, car, marine hull, marine cargo, personal accident insurance and other products that are permitted to be sold by a nonlife insurance company in the Philippines.

On March 29, 2016, the Parent Company completed its acquisition of the 100% issued shares of CPAIC amounting to ₱2,101,960,000.

On November 28 and December 23, 2016, the Parent Company made fund infusion to CPAIC amounting to ₱1,500,000,000 and ₱300,000,000, respectively, for CPAIC to meet its minimum capital requirement and risk-based capital (RBC) ratio as required by the Insurance Code.

The recoverable amount of CPAIC's cash generating unit (CGU) was based on value-in-use calculations using the cash flow projections from financial budgets approved by management covering the years 2017 up to 2027. The pre-tax discount rate applied to cash flow projections in 2016 is 11.8%. Regarding the assessment of the value-in-use, management believes that no reasonably possible change in the assumptions used will cause the recoverable amount to be lower than its carrying value.
As of December 31, 2016, the carrying value the investment subsidiary amounted to ₱3,901,960,000 and no impairment loss was recognized in 2016.

Financial information of CPAIC as of and for the year ended December 31, 2016 are as follows:

Total assets	₱9,677,688,239
Total liabilities	7,534,375,788
Total equity	2,143,312,451
Net loss	(1,118,310,721)

9. Investment Properties - net

The rollforward analysis of this account follows:

December 31, 2016

	Land	Residential and Condominium Units	Total
Cost			
Beginning balance	₱–	₱10,960,432	₱10,960,432
Transfer from property and equipment (Note 10)	–	2,604,892	2,604,892
Ending balance	–	13,565,324	13,565,324
Accumulated Depreciation			
Beginning balance	–	10,960,432	10,960,432
Transfer from property and equipment (Note 10)	–	2,604,892	2,604,892
Ending balance	–	13,565,324	13,565,324
Net Book Value	₱–	₱–	₱–

December 31, 2015

	Land	Residential and Condominium Units	Total
Cost			
Beginning balances	₱8,159,805	₱10,960,432	₱19,120,237
Disposal	(8,159,805)	–	(8,159,805)
Ending balances	–	10,960,432	10,960,432
Accumulated Depreciation			
Beginning and ending balances	–	10,960,432	10,960,432
Net Book Value	₱–	₱–	₱–

In 2016, Parent Company entered into a contract to lease its condominium unit in Skyland Plaza. The Parent Company reclassified the said unit from Property and Equipment to Investment Property (see Note 10).

On February 16, 2015, the Parent Company sold the raw land located at Taytay, Rizal with total proceeds amounting to ₱15,216,220. Recognized gain on sale amounted to ₱7,056,415 (see Note 19).

Depreciation expense charged to operations amounted to nil in 2016 and 2015. All investment properties of the Company are still being used for rentals to tenants despite being fully-depreciated already as of December 31, 2016 and 2015.

Based on the appraisal conducted in December 2016 and 2015, the investment properties have a total fair value of ₱11,672,250 and ₱7,566,000, respectively. The values were arrived using the Sales Comparison Approach. This approach involves the analysis of rental and capital values of comparable properties in the vicinity. Adjustments are made to reflect the differences in use, location, tenure, size, amenities, efficiency, age and condition of the subject properties.

As of December 31, 2016 and 2015, the fair values of the properties are based on valuations performed by Colliers International Philippines, Inc., an accredited independent appraiser. Colliers International Philippines, Inc. is a specialist in valuing these types of investment properties.

Rental income and direct operating expenses on investment properties are as follows (see Notes 19, 25 and 26):

	2016	2015
Rental income	**₱1,121,115**	₱776,403
Direct operating expenses	–	(137,646)
Net income arising from investment properties	**₱1,121,115**	₱638,757

Description of valuation techniques used and key inputs to valuation on investment properties follow:

December 31, 2016

Valuation techniques	**Level**	**Significant unobservable inputs**	**Range**
Sales Comparison Approach	2	Estimated Computed Value per square meter	₱79,000 per square meter

December 31, 2015

Valuation techniques	Level	Significant unobservable inputs	Range
Sales Comparison Approach	2	Estimated Computed Value per square meter	₱78,000 per square meter

The Parent Company has determined that the highest and best use of the investment property is its current use. The highest and best use of this investment property has been determined to be for commercial utilization. The Parent Company has no restrictions on the realizability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

10. Property and Equipment – net

The rollforward analysis of this account follows:

December 31, 2016

	Building	**Leasehold Improvements**	**Transportation Equipment**	**Computer Equipment**	**Furniture and Equipment (Note 25)**	**Total**
Cost						
At January 1, 2016	**₱138,983,737**	**₱240,630,256**	**₱14,163,626**	**₱376,502,539**	**₱104,905,576**	**₱875,185,734**
Additions	**–**	**39,498,298**	**1,320,000**	**47,088,206**	**4,539,580**	**92,446,084**
Transfer to investment properties (Note 9)	**(2,604,892)**	**–**	**–**	**–**	**–**	**(2,604,892)**
At December 31, 2016	**136,378,845**	**280,128,554**	**15,483,626**	**423,590,745**	**109,445,156**	**965,026,926**
Accumulated Depreciation						
At January 1, 2016	**₱116,251,451**	**₱170,171,576**	**₱12,680,765**	**₱291,996,240**	**₱84,740,492**	**₱675,840,524**
Depreciation (Note 21)	**3,247,470**	**33,180,476**	**1,028,538**	**52,739,007**	**12,059,206**	**102,254,697**
Transfer to investment properties (Note 9)	**(2,604,892)**	**–**	**–**	**–**	**–**	**(2,604,892)**
At December 31, 2016	**116,894,029**	**203,352,052**	**13,709,303**	**344,735,247**	**96,799,698**	**775,490,329**
Net Book Value	**₱19,484,816**	**₱76,776,502**	**₱1,774,323**	**₱78,855,498**	**₱12,645,458**	**₱189,536,597**

December 31, 2015

	Building	Leasehold Improvements	Transportation Equipment	Computer Equipment	Furniture and Equipment	Total
Cost						
At January 1, 2015	₱138,983,737	₱230,742,861	₱14,053,936	₱325,269,576	₱86,069,696	₱795,119,806
Additions	–	9,887,395	109,690	51,232,963	18,835,880	80,065,928
At December 31, 2015	138,983,737	240,630,256	14,163,626	376,502,539	104,905,576	875,185,734
Accumulated Depreciation						
At January 1, 2015	112,279,509	138,121,014	11,750,171	241,934,927	77,650,767	581,736,388
Depreciation (Note 21)	3,971,942	32,050,562	930,594	50,061,313	7,089,725	94,104,136
At December 31, 2015	116,251,451	170,171,576	12,680,765	291,996,240	84,740,492	675,840,524
Net Book Value	₱22,732,286	₱70,458,680	₱1,482,861	₱84,506,299	₱20,165,084	₱199,345,210

Depreciation expense charged to operations amounted to ₱102,254,697 and ₱94,104,136 in 2016 and 2015, respectively (see Note 21). Cost of fully depreciated property and equipment still being used amounted to ₱514,223,305 and ₱433,229,382 as of December 31, 2016 and 2015, respectively.

11. Intangible Assets - net

The rollforward analysis for this account follows:

	2016	2015
Cost		
At January 1	**₱78,599,122**	₱78,599,122
Additions	**10,493,250**	–
At December 31	**89,092,372**	78,599,122
Accumulated Amortization		
At January 1	**77,917,132**	77,011,749
Amortization (Note 21)	**649,450**	905,383
At December 31	**78,566,582**	77,917,132
Net Book Value	**₱10,525,790**	₱681,990

Intangible assets pertain to computer software purchased from third parties. Amortization expense charged to operations amounted to ₱649,450 and ₱905,383 in 2016 and 2015, respectively (see Note 21).

12. Assets Held to Cover Unit-Linked Liabilities / Unit-Linked Liabilities

Assets held to cover unit-linked liabilities consist of:

	2016	2015
Net asset values of the unit-linked funds (Note 25)	**₱73,108,767,053**	₱65,141,211,304
Subscriptions subsequently transferred to unit-linked funds (Note 16)	**161,922,472**	227,130,956
Investment in unit-linked funds under financial assets at FVPL (Note 6)	**(48,812,331)**	(49,997,363)
	₱73,221,877,194	₱65,318,344,897

Investment in unit-linked funds under financial assets at FVPL pertains to the seed capital invested by the Parent Company.

The unit-linked funds' net assets consist of:

	2016	2015
Assets		
Cash and cash equivalents:		
Cash in banks	**₱746,088,426**	₱676,660,057
Cash equivalents	**1,810,823,619**	1,503,255,840
Financial assets at fair value through profit or loss:		
Government debt securities:		
Local currency	**9,504,511,391**	10,223,414,682
Foreign currency	**8,780,633,166**	9,366,335,666
Listed equity securities	**42,950,455,804**	35,900,635,417
Exchange-traded funds	**8,641,255,373**	6,796,415,777
Unit investment trust funds	**859,851,626**	449,838,360
Structured notes	**392,451,501**	412,876,815
Accrued income:		
Interest receivable	**250,782,859**	288,478,640
Dividends receivable	**19,641,668**	12,625,420
Accounts receivable	**22,876,392**	50,160,827
	73,979,371,825	65,680,697,501
Liabilities		
Accounts payable	**673,422,161**	332,577,041
Asset management fees payable (Note 6 and 24)	**151,595,489**	164,132,984
Service fees payable (Note 24)	**16,234,354**	15,255,395
Administration and custody fees payable	**29,352,768**	27,520,777
	870,604,772	539,486,197
	₱73,108,767,053	₱65,141,211,304

Cash and cash equivalents
Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are made for varying periods not exceeding three months depending on the immediate cash requirements of the funds, and earn interest at the prevailing short-term deposit rates.

Financial assets at FVPL
The unit-linked funds' financial assets at FVPL are designated by management as at FVPL on initial recognition. As of December 31, 2016, government securities held by the Parent Company bear interest ranging from 2.13% to 9.25% and from 3.95% to 10.63% for peso bonds and dollar bonds, respectively. As of December 31, 2015, government securities held by the Parent Company bear interest ranging from 2.13% to 9.25% and from 4.20% to 10.63% for peso bonds and dollar bonds, respectively.

Exchange-traded funds
Investment in exchange-traded funds (ETFs) classified as financial assets at FVPL are investment funds traded on stock exchanges, on which it trades close to its net asset value over the course of the trading day. As of December 31, 2016, the cost and net asset values of the investment in ETFs amount to ₱7,581,026,952 and ₱8,641,255,373, respectively. As of December 31, 2015, the cost and net asset values of the investment in ETFs amount to ₱6,179,281,309 and ₱6,796,415,777, respectively.

Unit investment trust funds
Investment in unit investment trust funds (UITFs) classified as financial assets at FVPL are ready-made investments that allow the pooling of funds from different investors with similar investment objectives. These funds are managed by professional fund managers and are invested in various financial instruments such as money market securities, bonds and equities, which are normally available to bigger investors only. As of December 31, 2016, the cost and net asset values of the investment in UITFs amounted to ₱852,477,080 and ₱859,851,626, respectively. As of December 31, 2015, the cost and net asset values of the investment in UITFs amounted to ₱448,192,406 and ₱449,838,690, respectively.

Structured notes
The Parent Company, through AXA Philippine Peso Phoenix 5 Fund, AXA Philippine Peso Phoenix 7 Fund, AXA Philippine Dollar Phoenix 5 Fund and AXA Philippine Dollar Phoenix 7 Fund, purchased structured notes issued by foreign investment grade banks. The structured notes pertain to both peso and dollar equity-linked structured product with 5-year and 7-year tenors. The structured notes provide guarantee based on the single premium amount on maturity dates. At maturity date, unit holders of the fund will get the 80% guarantee, considering counterparty risk, plus upside based on the performance of both Philippines and China equity index. As of December 31, 2016 and 2015, the market value of peso structured notes amounting to ₱155,706,950 and ₱172,265,550, respectively and dollar structured notes amounting to US$4,752,666 (₱236,744,551) and US$5,101,371 (₱240,611,265), respectively, are derived from counterparty banks.

Interest receivable
Interest receivable pertains to interest accrued on short-term deposits and government debt securities.

Dividends receivable
Dividends receivable pertain to dividends accrued on listed equity securities.

Accounts receivable
Accounts receivable pertain to amounts due from brokers which represent receivables for securities sold that have been contracted for but not yet settled as of the end of the reporting period. It also includes subscriptions from unit holders.

Accounts payable
Accounts payable pertain to amounts due to brokers which represent payables for securities purchased that have been contracted for but not yet settled as of the end of the reporting period. It also includes redemptions payable to unit holders.

Asset management fees payable and service fees payable
Unit-linked funds were established through a Service Level Agreement (SLA) between the unit-linked funds and MBTC. Under the SLA, MBTC shall manage the unit-linked funds faithfully in accordance with the terms and conditions of the SLA. The Parent Company is entitled to an asset management fee equivalent to 1.30% to 2.10% per annum based on the net asset value of the unit-linked funds. As compensation for services rendered, MBTC shall be entitled to a service fee equivalent to 0.10% to 0.30% per annum based on the net asset value of the unit-linked funds.

Administration and custody fees payable
The unit-linked funds and Citibank entered into a fund administration services agreement wherein Citibank shall perform administrative functions, which include, among others, the preparation and maintenance of books of accounts, computation of net asset value, and payment of expenses incurred by the unit-linked funds. As compensation for services rendered, Citibank shall be

entitled to an administration and custody fee equivalent to 0.10% per annum based on the net asset value of the unit-linked funds.

The net asset values of the various unit-linked funds follow:

	2016	2015
AXA Philippine Chinese Tycoon Fund	**₱21,675,492,336**	₱15,799,162,329
AXA Philippine Wealth Equity Fund	**12,284,844,826**	11,971,958,975
AXA Philippine Wealth Balanced Fund	**10,998,490,354**	11,826,038,348
AXA Philippine Global Advantage Fund	**7,508,797,704**	5,551,709,908
AXA Philippine Premium Bond Fund	**7,058,595,393**	7,484,127,939
AXA Philippine Opportunity Fund	**3,953,172,433**	2,509,987,164
AXA Philippine Wealth Bond Fund	**2,000,863,088**	1,281,830,029
AXA Philippine 3GXceed B20 Dollar Fund	**1,294,628,945**	1,268,445,718
AXA Philippine Asia Growth Fund	**966,049,252**	952,765,804
AXA Philippine European Wealth Fund	**620,913,104**	658,422,303
AXA Philippine 3GXceed B19 Dollar Fund	**609,753,891**	749,278,451
AXA Philippine Spanish American Legacy Fund	**603,965,976**	490,606,600
AXA Philippine 3GXceed B20 Fund	**573,728,183**	637,842,966
AXA Philippine Peso Liquidity Fund	**571,887,129**	109,270,777
AXA Philippine 3GXceed B21 Fund	**381,328,619**	391,372,114
AXA Philippine 3GXceed B17 Fund	**320,459,325**	410,268,165
AXA Philippine 3GXceed B18 Series 2 Fund	**318,043,841**	495,540,554
AXA Philippine 3GXceed B17 Series 2 Fund	**275,680,802**	317,074,115
AXA Philippine 3GXceed B19 Fund	**241,171,349**	286,905,432
AXA Philippine Capital Investment Fund	**232,450,950**	231,299,991
AXA Philippine 3GXceed B21 Dollar Fund	**174,779,160**	183,163,491
AXA Philippine Dollar Phoenix 5 Fund	**144,257,651**	148,768,167
AXA Philippine Peso Phoenix 5 Fund	**94,118,300**	105,186,900
AXA Philippine Dollar Phoenix 7 Fund	**92,486,900**	91,843,097
AXA Philippine Peso Phoenix 7 Fund	**61,588,650**	67,078,650
AXA Philippine 3GXceed B18 Fund	**51,218,892**	58,293,421
AXA Philippine 3GXceed B16 Series 2 Fund	**–**	682,343,941
AXA Philippine 3GXceed B16 Fund	**–**	380,625,955
	₱73,108,767,053	₱65,141,211,304

The movements in unit-linked liabilities during the year follow (in thousands):

	2016	2015
At January 1	**₱65,318,345**	₱55,478,599
Tabular net premiums or considerations	**20,708,725**	17,320,842
Tabular interest (cost)	**(838,581)**	(1,399,821)
	85,188,489	71,399,620
Reserves released by death	**(188,239)**	(65,467)
Reserves released by other terminations	**(12,829,809)**	(7,019,410)
	(13,018,048)	(7,084,877)
Foreign exchange adjustments	**1,051,436**	1,003,602
At December 31	**₱73,221,877**	₱65,318,345

13. **Insurance Contract Liabilities**

This account consists of:

	2016	2015
Legal policy reserves	**₱7,481,926,073**	₱6,823,260,456
Claims and benefits payable (Note 24)	**1,127,776,806**	945,022,126
Policyholders' dividends	**229,472,864**	218,708,712
Reserve for policyholders' dividends	**34,831,100**	35,226,278
	₱8,874,006,843	₱8,022,217,572

Insurance contract liabilities may be analyzed as follows (in thousands):

December 31, 2016

	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities**	**Net**
Aggregate reserves for ordinary life policies	**₱7,138,462**	**₱7,878**	**₱7,130,584**
Aggregate reserves for group life policies	**158,291**	**20,522**	**137,769**
Cost of insurance related reserves	**222,370**	**12,035**	**210,335**
Aggregate reserves for accident and health policies	**3,238**	**–**	**3,238**
Policy and contract claims	**1,127,777**	**–**	**1,127,777**
Policyholders' dividends	**229,473**	**–**	**229,473**
Reserve for policyholders' dividends	**34,831**	**–**	**34,831**
	₱8,914,442	**₱40,435**	**₱8,874,007**

December 31, 2015

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Aggregate reserves for ordinary life policies	₱6,568,882	₱6,155	₱6,562,727
Aggregate reserves for group life policies	160,400	19,554	140,846
Cost of insurance related reserves	123,529	6,773	116,756
Aggregate reserves for accident and health policies	2,932	–	2,932
Policy and contract claims	945,022	–	945,022
Policyholders' dividends	218,709	–	218,709
Reserve for policyholders' dividends	35,226	–	35,226
	₱8,054,700	₱32,482	₱8,022,218

Legal policy reserves may be analyzed as follows:

	2016	2015
Gross		
With fixed and guaranteed terms:		
Partially fixed and guaranteed – participating	**₱4,988,964,012**	₱5,503,936,498
Fixed and guaranteed – nonparticipating	**2,311,027,771**	1,228,277,149
Cost of insurance	**222,369,729**	123,529,095
	7,522,361,512	6,855,742,742

(Forward)

	2016	2015
Recoverable from reinsurers		
With fixed and guaranteed terms:		
Partially fixed and guaranteed – participating	**₱2,113,647**	₱2,102,293
Fixed and guaranteed – nonparticipating	**26,287,014**	23,606,598
Cost of insurance	**12,034,778**	6,773,395
	40,435,439	32,482,286
Net		
With fixed and guaranteed terms:		
Partially fixed and guaranteed – participating	**4,986,850,365**	5,501,834,205
Fixed and guaranteed – nonparticipating	**2,284,740,757**	1,204,670,551
Cost of insurance	**210,334,951**	116,755,700
	₱7,481,926,073	₱6,823,260,456

The movements in legal policy reserves during the year follow (in thousands):

	2016			2015		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities**	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
At January 1	**₱6,855,743**	**₱32,482**	**₱6,823,261**	₱6,190,930	₱25,138	₱6,165,792
Tabular net premiums or considerations	**2,264,069**	**–**	**2,264,069**	2,211,508	–	2,211,508
Tabular interest	**452,947**	**–**	**452,947**	411,983	–	411,983
Other increase (decrease)	**99,110**	**7,953**	**91,157**	(11,018)	7,344	(18,362)
	9,671,869	**40,435**	**9,631,434**	8,803,403	32,482	8,770,921
Tabular cost	**(1,828,115)**	**–**	**(1,828,115)**	(1,664,458)	–	(1,664,458)
Reserves released by death	**(9,273)**	**–**	**(9,273)**	(6,034)	–	(6,034)
Reserves released by other terminations	**(313,067)**	**–**	**(313,067)**	(278,059)	–	(278,059)
	(2,150,455)	**–**	**(2,150,455)**	(1,948,551)	–	(1,948,551)
Foreign exchange adjustments	**947**	**–**	**947**	891	–	891
At December 31	**₱7,522,361**	**₱40,435**	**₱7,481,926**	₱6,855,743	₱32,482	₱6,823,261

The movements during the year in claims and benefits payable follow:

	2016	2015
At January 1	**₱945,022,126**	₱765,887,715
Arising during the year (Note 19)	**1,030,185,466**	865,239,048
Paid during the year	**(847,430,786)**	(686,104,637)
At December 31	**₱1,127,776,806**	₱945,022,126

The movements during the year in policyholders' dividends follow:

	2016	2015
At January 1	**₱218,708,712**	₱183,622,121
Arising during the year (Note 19)	**79,383,837**	63,791,781
Paid during the year	**(68,619,685)**	(28,705,190)
At December 31	**₱229,472,864**	₱218,708,712

The movements during the year in reserves for policyholders' dividends follow:

	2016	2015
At January 1	**₱35,226,278**	₱25,713,722
Arising during the year	**–**	9,512,556
Paid during the year	**(395,178)**	–
At December 31	**₱34,831,100**	₱35,226,278

14. **Insurance Contract Liabilities – Terms and Assumptions**

Terms
Life insurance contracts offered by the Parent Company mainly include: (a) traditional whole life participating policies (with and without anticipated endowments) and a wide range of nonparticipating riders (i.e., accidental death and dismemberment, term, critical illness, hospital income, term life, etc.); (b) unit-linked products, both regular premium and single premium with nonparticipating riders; (c) various nonparticipating products; and (d) a participating US$ single-premium product. In addition, the Parent Company offers group yearly renewable term, credit life and personal accident insurance.

Life Insurance Contract Liabilities
For life insurance contracts with fixed and guaranteed terms (including partially fixed and guaranteed terms), the Parent Company determines assumptions in relation to future deaths and investment returns at inception of the contracts. These assumptions are used for calculating the liabilities during the life of the contract. These assumptions, which may be changed during the life of the contract, are in compliance with statutory requirements.

Key assumptions
Material judgment is required in determining the liabilities and in the choice of assumptions relating to insurance contracts. Assumptions are based on past experience, current internal data and conditions, and external market indices and benchmarks, which reflect current observable market prices and other published information. Such assumptions are determined as appropriate at inception of the contract 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 subject to the provisions of the Code and guidelines set by the IC.

As required by the Code, lapse, surrender and expense assumptions are not factored in the computation of the insurance contract liabilities.

For insurance contracts, the Parent Company determines the assumptions in relation to future deaths, illness or injury and investment returns at inception of the contract. Subsequently, new estimates are developed at each reporting date and liabilities are tested to determine whether such liabilities are adequate in the light of the latest current estimates. The initial assumptions are not altered if the liabilities are considered adequate. If the liabilities are not adequate, the assumptions are altered (“unlocked”) to reflect the latest current estimates. As a result, the effect of changes in the underlying variables on insurance liabilities and related assets is not symmetrical. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant enough deteriorations in estimates have an impact.

The key assumptions to which the estimation and adequacy testing of liabilities are particularly sensitive follows:

- Mortality and morbidity rates
  Assumptions are based on standard industry and national mortality and morbidity tables, according to the type of contract written and which may be adjusted where appropriate to reflect contract type. For life insurance policies, increased mortality and morbidity rates would lead to a larger number of claims and claims occurring sooner than anticipated, increased the expenditure, and reduced profits for the shareholders.

- Discount rates
  Life insurance liabilities are determined as the sum of the discounted value of the expected benefits, less the discounted value of the expected future theoretical premiums that would be required to meet these future cash outflows. The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long-term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments. Interest rates used for estimating liabilities are capped at 6% by the Code. An increase in investment return would lead to an increase in profits for the shareholders. A decrease in the discount rate will increase the value of the liability.

Pursuant to Sections 216 and 423 of the Amended Insurance Code (RA 10607), a new set of valuation standards for life insurance policy reserves has been promulgated by the Insurance Commission per Circular No. 2014-42-A effective 2015. Under the Circular, the reserves for traditional life insurance policies must be valued, where appropriate, using gross premium valuation. This is calculated as the sum of the present value of future benefits and expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate risk-free discount rate. For reserves of variable life insurance contracts, there were no changes in the valuation method. Furthermore, these shall be valued as the sum of:

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

The assumptions that have the greatest effect on the statements of financial position and statements of comprehensive income of the Parent Company in 2016 and 2015 are listed below:

Portfolio assumptions by product impacting net liabilities	Mortality and Morbidity rates	Discount rates
Whole life / Endowment	90% 1980 CSO	6%
	1980 CSO	6%
	1958 CSO	6%
Term insurance	1958 CSO	6%

Sensitivities
The analysis below is performed for a reasonably possible movement in key assumptions with all other assumptions held constant, on 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.

December 31, 2016

	Change in assumptions	Increase/(decrease) in liabilities	Increase/(decrease) in profit before tax	Increase/(decrease) in equity
Mortality/morbidity	**+10%**	**₱148,014,133**	**(₱148,014,133)**	**₱148,014,133**
	-10%	**(59,249,606)**	**59,249,606**	**(59,249,606)**
Discount rate	**-1%**	**1,002,403,808**	**(1,002,403,808)**	**1,002,403,808**

December 31, 2015

	Change in assumptions	Increase/(decrease) in liabilities	Increase/(decrease) in profit before tax	Increase/(decrease) in equity
Mortality/morbidity	+ 10%	₱86,726,092	(₱86,726,092)	(₱86,726,092)
	- 10%	(77,333,105)	77,333,105	77,333,105
Discount rate	-1%	834,450,796	(834,450,796)	(834,450,796)

The method used for deriving sensitivity information and significant assumptions did not change from the previous period.

Reinsurance – Assumptions and Methods

The Parent Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. Amounts receivable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented under the "Insurance receivables" account in the statement of financial position. Even though the Parent Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Parent Company is neither dependent on a single reinsurer nor are the operations of the Parent Company substantially dependent upon any reinsurance contract.

15. **Insurance Payables**

The rollforward analysis of this account follows:

	2016	2015
At January 1	**₱135,430,301**	₱142,236,945
Arising during the year (Note 19)	**109,058,820**	102,364,610
Paid during the year	**(99,227,513)**	(109,171,254)
At December 31	**₱145,261,608**	₱135,430,301

Insurance payables pertain to premiums due to reinsurers which are non-interest bearing payable on a quarterly basis.

16. **Trade and Other Liabilities**

This account consists of:

	2016	2015
Subscriptions payable (Note 12)	**₱161,922,472**	₱227,130,956
Commissions payable (Note 25)	**267,555,040**	222,604,487
Accrued incentives and bonuses	**225,651,780**	195,826,546
Accrued shared service costs (Note 25)	**306,592,568**	192,814,761
Taxes payable	**60,706,171**	51,046,524
Accounts payable (Note 25)	**96,424,039**	37,633,663
Others	**41,753,098**	23,595,417
	₱1,160,605,168	₱950,652,354

Subscriptions payable pertain to investment subscriptions from policyholders to be transferred to unit-linked funds. These are non-interest bearing and are payable on demand.

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

Accrued incentives and bonuses pertain to incentive plans based on business performance, accrual of unused leaves, mid-year and 13th month pay, medical reimbursements and provident plan contribution. These are non-interest bearing and payable within approved terms within one year.

Accrued shared service costs pertain to regional charges for IT services, consultancy and support services. These are charged based on actual costs incurred. These are non-interest bearing and are payable on demand.

Taxes payable include taxes withheld from staffs and agents, fringe benefits taxes, stamp duties and premium taxes. These are remitted to government agencies one month after reporting date.

Accounts payable include amounts due to suppliers which represent payables for goods and services purchased that have been contracted for but not yet settled as of the end of the reporting period which are payable on demand.

Other liabilities pertain to accrued professional fees, accrued advertising expenses and other miscellaneous payables. These are non-interest bearing and are payable on demand.

17. Equity

Capital stock
This account consists of common stock as of December 31, 2016 and 2015 as follows:

Authorized – 10,000,000 shares, ₱100 par value	
Issued – 10,000,000 shares	₱1,000,000,000
	₱1,000,000,000

Retained earnings
Retained earnings are further restricted for the payment of dividends to the extent of the cost of the common shares held in treasury.

Treasury stock
Common shares held in treasury are 207 shares as of December 31, 2016 and 2015.

18. Revaluation Reserves for Available-for-sale Financial Assets

The rollforward analysis of this account follows:

	2016	2015
At January 1	**₱611,545,530**	₱923,822,499
Fair value losses (Note 6)	**(157,166,937)**	(135,552,231)
Transferred to profit and loss		
Gain on sale (Note 19)	**(157,632,695)**	(176,724,738)
At December 31	**₱296,745,898**	₱611,545,530

The revaluation reserve for AFS financial assets records the difference between the amortized cost and fair value of debt instruments and acquisition cost and fair value of equity investments classified as AFS financial assets.

19. Revenue and Benefits and Claims

The net insurance premium revenue consists of:

	2016	2015
Premium revenue arising from contracts issued		
Unit-linked insurance contracts	**₱19,135,373,939**	₱20,545,753,563
Life insurance contracts (Note 25)	**2,489,547,054**	2,377,501,658
	21,624,920,993	22,923,255,221
Premium revenue ceded to reinsurers on contracts issued (Note 15)		
Life insurance contracts	**76,599,703**	62,002,999
Unit-linked insurance contracts	**32,459,117**	40,361,611
	109,058,820	102,364,610
	₱21,515,862,173	₱22,820,890,611

The investment income consists of:

	2016	2015
Interest on:		
AFS financial assets (Note 6)	**₱400,276,958**	₱347,202,468
Financial assets at FVPL (Note 6)	**25,818,281**	36,488,037
Loans and receivables (Note 6)	**41,106,114**	41,989,987
Cash and cash equivalents (Notes 4 and 25)	**31,682,915**	17,512,225
	498,884,268	443,192,717
Fair value losses from financial assets at FVPL (Notes 6 and 25)	**(13,450,151)**	(46,373,600)
Gain on sale of available-for-sale financial assets (Note 18)	**157,632,695**	176,724,738
Dividend income (Note 6)	**16,105,257**	17,010,740
Rental income (Notes 9, 25 and 26)	**1,121,115**	776,403
Gain on sale of investment property (Note 9)	–	7,056,415
	₱660,293,184	₱598,387,413

Net claims and benefits incurred during the year consist of (see Note 13):

	2016	2015
Death and hospitalization benefits (Note 25)	**₱594,105,996**	₱517,398,439
Maturities	**238,093,267**	173,199,007
Surrenders	**157,857,355**	123,949,890
Gross experience refunds (Note 25)	**40,128,848**	50,691,712
	1,030,185,466	865,239,048
Reinsurers' share on claims and benefits incurred	**(15,917,300)**	(7,802,926)
	1,014,268,166	857,436,122
Policyholders' dividends and interest	**79,383,837**	63,791,781
	₱1,093,652,003	₱921,227,903

20. **Loss on Assets Held to Cover Unit-linked Liabilities**

This account consists of:

	2016	2015
Income		
Interest on:		
Financial assets at FVPL	**₱1,031,895,830**	₱1,173,066,398
Cash and cash equivalents	**11,949,652**	10,821,003
Dividend income	**712,565,129**	610,741,612
Other income	**18,680,575**	81,276
	1,775,091,186	1,794,710,289
Expenses		
Asset management and service fees	**1,563,072,318**	1,339,446,629
Fund administration and custody fees	**69,897,641**	62,022,524
Fair value losses on financial assets at FVPL	**833,058,773**	1,549,084,958
Other expenses	**14,965,408**	32,313,396
	2,480,994,140	2,982,867,507
Loss before final tax	**(705,902,954)**	(1,188,157,218)
Final tax	**131,493,366**	144,374,976
	(₱837,396,320)	(₱1,332,532,194)

21. **Operating and Administrative Expenses**

This account consists of:

	2016	2015
Salaries, allowances and benefits (Note 22)	**₱1,296,944,782**	₱1,124,321,008
Shared service costs (Note 25)	**251,935,007**	249,112,468
Collection fees	**240,717,936**	142,988,800
Training and convention	**136,578,677**	155,611,837
Rent (Notes 25 and 26)	**128,285,278**	118,609,800
Project development costs	**110,939,383**	73,973,486
Depreciation and amortization (Notes 10 and 11)	**102,904,147**	95,009,519
Transportation and travel	**81,510,989**	71,845,537
Advertising and promotions	**76,523,641**	86,325,994
Communication, light and water	**72,744,119**	60,188,772
Taxes, licenses and fees	**20,087,818**	23,504,559
Courier costs	**17,790,445**	19,933,552
Management and directors’ fees (Note 25)	**16,299,853**	15,056,041
Supplies	**14,415,388**	19,979,857
Repairs and maintenance	**5,325,411**	4,510,033
Professional fees	**3,960,205**	4,813,102
Provision for impairment loss on loans and receivables (Note 6)	**1,119,087**	2,463,081
Miscellaneous	**43,526,769**	31,318,946
	₱2,621,608,935	₱2,299,566,392

Shared service costs pertain to allocated regional charges for consultancy and support services based on the service level agreement.

Collection fees pertain to accrual of services in relation to premium collections of salary deduction policies and group policies. Fees are applied to collected premiums at various rates.

Project development costs pertain to charges for information technology services and other expenditures.

Miscellaneous includes credit card fees, legal fees, bank charges and other expenses.

22. Employee Benefits

The Parent Company has a noncontributory defined benefit pension plan, covering substantially all of its employees, which requires contributions to be made by the Parent Company to an administered fund. The Parent Company's retirement fund is administered by Metropolitan Bank and Trust Company (MBTC) as trustee (see Note 25), under the supervision of the Board of Trustees of the plan. The Board of Trustees is responsible for investment of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes account of the plans' objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The Board of Trustees delegates the implementation of the investment policy in accordance with the investment strategy as well as various principles and objectives to an Investment Committee, which also consists of members of the Board of Trustees.

Under the existing regulatory framework, Republic Act 7641 requires a 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 under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. The Parent Company also provides additional post employment healthcare benefits to certain employees. These benefits are unfunded.

Changes in net defined benefit liability of funded funds are as follows:

2016

	At January 1	Net benefit cost in statements of comprehensive income: Current service cost	Net interest	Subtotal	Benefits paid	Remeasurements in other comprehensive income: Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes rising from changes in financial assumptions	Actuarial changes arising from experience adjustments	Subtotal	Contribution by employer	At December 31
Present value of defined benefit obligation	₱185,597,290	₱30,197,095	₱9,354,650	₱39,551,745	(₱12,119,224)	₱–	₱–	(₱4,225,736)	₱33,668,464	₱29,442,728	₱–	₱242,472,539
Fair value of plan assets	(96,409,230)	–	(5,684,515)	(5,684,515)	12,119,224	11,458,490	–	–	–	11,458,490	(24,253,467)	(102,769,498)
	₱89,188,060	₱30,197,095	₱3,670,135	₱33,867,230	₱–	₱11,458,490	₱–	(₱4,225,736)	₱33,668,464	₱40,901,218	(₱24,253,467)	₱139,703,041

2015

	At January 1	Net benefit cost in statements of comprehensive income: Current service cost	Net interest	Subtotal	Benefits paid	Remeasurements in other comprehensive income: Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes rising from changes in financial assumptions	Actuarial changes arising from experience adjustments	Subtotal	Contribution by employer	At December 31
Present value of defined benefit obligation	₱108,391,337	₱16,268,868	₱4,953,484	₱21,222,352	(₱9,539,498)	₱–	₱16,092,277	(₱14,194,474)	₱63,625,296	₱65,523,099	₱–	₱185,597,290
Fair value of plan assets	(86,670,527)	–	(3,960,843)	(3,960,843)	9,539,498	(580,044)	–	–	–	(580,044)	(14,737,314)	(96,409,230)
	₱21,720,810	₱16,268,868	₱992,641	₱17,261,509	₱–	(₱580,044)	₱16,092,277	(₱14,194,474)	₱63,625,296	₱64,943,055	(₱14,737,314)	₱89,188,060

The distribution of the plan assets follows:

	2016	2015
Assets		
Cash and cash equivalents	**₱17,743,980**	₱805,948
Debt securities	**70,679,138**	72,747,072
Equity securities	**18,170,930**	20,818,470
Receivables	**1,043,766**	2,113,207
	107,637,814	96,484,697
Liabilities		
Benefits payable from fund	**4,654,718**	–
Accounts payable	**213,598**	75,467
	4,868,316	75,467
	₱102,769,498	₱96,409,230

The Parent Company's plan assets consist of:

- Cash and cash equivalents include regular savings and time deposits;
- Investments in debt securities include investments in government consisting of long-term treasury bills and bonds, which bear interest ranging from 4.22% to 8.14% and have maturities from August, 2015 to October, 2037;
- Equity instruments include investments in listed stocks and mutual funds and other equity instruments; and
- Receivables consist of interest and dividend receivables.
- Accounts payable pertain to trust fees payable.

The plan assets have diverse investments and do not have any concentration risk.

The Parent Company plans to contribute ₱58,457,141 to the retirement fund in 2017.

The principal assumptions used in determining pension liability for the Parent Company's plan follow:

	2016	2015
Discount rate	**5.44%**	5.18%
Rate of salary increase	**7.00%**	7.00%
Mortality rate	**1994 GAM**	1994 GAM
Average years of service	**3.34 years**	4.20 years

The Parent Company plans to continue making contributions to the fund which consist of normal cost and unfunded actuarial liability. To adjust the normal cost for future salary changes and new entrants to the plan, the contributions for normal cost will be made on the basis of 6.47% of the annual covered compensation in effect at the time.

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, 2016 and 2015, assuming if all other assumptions were held constant:

December 31, 2016

	Increase (decrease) in basis points	**Impact on defined benefit obligation**
Discount rate	**+100**	**(₱24,463,510)**
	(100)	**28,869,134**
Rate of salary increase	**+100**	**29,897,677**
	(100)	**(25,817,061)**

December 31, 2015

	Increase (decrease) in basis points	Impact on defined benefit obligation
Discount rate	+100	(₱19,509,008)
	(100)	23,126,789
Rate of salary increase	+100	21,880,410
	(100)	(18,926,474)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The management performed an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of the Parent Company's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans.

The average duration of the expected benefit payments as of December 31, 2016 and 2015 is 19.26 years and 19.16 years, respectively.

The maturity analysis of the undiscounted benefit payments as of December 31, 2016 and 2015 follows:

December 31, 2016

	Normal Retirement	**Other than Normal Retirement**	**Total**
Less than one year	**₱–**	**₱11,853,929**	**₱11,853,929**
More than one year to five years	**4,680,228**	**59,475,100**	**64,155,328**
More than five years to 10 years	**56,719,294**	**107,342,352**	**164,061,646**
More than 10 years to 15 years	**179,486,111**	**130,966,652**	**310,452,763**
More than 15 years to 20 years	**367,273,194**	**136,693,084**	**503,966,278**
More than 20 years	**930,292,940**	**141,547,677**	**1,071,840,617**

December 31, 2015

	Normal Retirement	Other than Normal Retirement	Total
Less than one year	₱1,514,858	₱8,496,333	₱10,011,191
More than one year to five years	–	43,328,165	43,328,165
More than five years to 10 years	44,361,109	76,004,347	120,365,456
More than 10 years to 15 years	116,616,061	91,077,769	207,693,830
More than 15 years to 20 years	186,561,872	93,643,645	280,205,517
More than 20 years	694,901,749	96,599,657	791,501,406

Staff costs and other employee related costs consist of:

	2016	2015
Salaries and wages	**₱1,120,381,584**	₱993,449,842
Short-term employee benefits	**86,145,272**	57,559,820
Social security costs and Pag-ibig contributions	**47,264,942**	46,190,625
Net benefit expense	**30,197,095**	16,268,868
Others	**12,955,889**	10,851,853
	₱1,296,944,782	₱1,124,321,008

23. **Income Taxes**

Provision for income tax consists of:

	2016	2015
Current:		
RCIT	**₱571,714,101**	₱448,827,288
Final	**99,071,251**	91,539,287
	670,785,352	540,366,575
Deferred	**(43,343,455)**	(17,241,748)
	₱627,441,897	₱523,124,827

Deferred tax assets are recognized only to the extent that realization of the related tax benefit is probable. Components of recognized deferred tax assets and liabilities follow:

	2016	2015
Deferred tax assets:		
Affecting profit and loss:		
Accrual of nondeductible expenses	**₱97,508,214**	₱64,349,039
Net pension liability	**7,440,581**	5,906,043
Allowance for impairment losses	**3,050,207**	2,714,481
Affecting other comprehensive income:		
Remeasurement loss on defined benefit plan	**35,296,123**	23,025,758
	143,295,125	95,995,321
Deferred tax liabilities on:		
Unrealized foreign exchange gains	**3,333,532**	11,647,548
Net deferred tax assets	**₱139,961,593**	₱84,347,773

The reconciliation of the statutory income tax rate to the effective income tax rate follows:

	2016	2015
Statutory income tax rate	**30.00%**	30.00%
Add (deduct) tax effects of:		
Interest income subjected to final tax	**(3.56)**	(2.41)
Income exempt from tax	**(2.10)**	(2.32)
Nondeductible expenses	**1.13**	1.10
Change in unrecognized deferred tax assets	**1.89**	1.07
Effective income tax rate	**27.36%**	27.44%

24. Management of Insurance and Financial Risks

Governance Framework

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

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

Regulatory Framework

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

The operations of the Parent Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g. MOS), fixed capitalization requirements and risk-based capital (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.

Capital Management

The Parent Company manages its capital through its compliance with the statutory requirements on MOS, minimum paid-up capital and minimum net worth. The Parent Company is also complying with the statutory regulations on RBC to measure the adequacy of its statutory surplus in relation to the risks inherent in its business. The RBC method involves developing a risk-adjusted target level of statutory surplus by applying certain factors to various asset, premium and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. The target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations.

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

The Parent Company's policy to address the situations where the capital level maintained is lower than required is to oblige the shareholders to add more capital. The Parent Company currently holds surplus capital as a buffer for possible deviation in future profitability.

To ensure compliance with these externally imposed capital requirements, it is the Parent Company's policy to monitor the MOS, paid-up capital, net worth and RBC requirements on a quarterly basis as part of the Parent Company's internal financial reporting process.

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

MOS
Under the Code, a life insurance company doing business in the Philippines shall maintain at all times a MOS equal to ₱500,000 or ₱2 per thousand of the total amount of its insurance in force for traditional policies and ₱2 per thousand of net amount at risk for unit-linked products as of the preceding calendar year on all policies, except term insurance, whichever is higher.

The MOS shall be the excess of the value of its admitted assets (as defined under the same Code), exclusive of paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserves. As of December 31, 2016 and 2015, the Parent Company's MOS based on its calculations amounted to ₱1,300,037,519 and ₱3,225,481,792, respectively.

The estimated amounts of non-admitted assets as defined under the Code, and are still subject to examination by the IC, which are included in the accompanying parent company statements of financial position, follow:

	2016	2015
Investment in subsidiary	**₱3,901,960,000**	₱–
Property and equipment - net	**91,196,283**	99,724,742
Loans and receivables	**97,478,097**	91,342,707
Other assets	**245,441,237**	117,134,810
	₱4,336,075,617	₱308,202,259

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

If an insurance company failed to meet the minimum required MOS, the IC 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 IC.

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

On January 13, 2015, the IC issued Circular Letter No. 2015-02-A clarifying the minimum capitalization and networth requirements of new and existing insurance companies in the Philippines. All domestic life and non-life insurance companies duly licensed by the IC must have a networth of at least ₱250.00 million by December 31, 2013. (Section 194) The minimum networth of the said companies shall remain unimpaired at all times and shall increase to the amounts as follows:

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, 2016 and 2015, the Parent Company has complied with the minimum net worth requirement.

RBC requirements
In 2006, the IC issued Memorandum Circular (IMC) No. 6-2006 adopting a risk-based capital framework to establish the required amounts of capital to be maintained by the life insurance companies in relation to their investment and insurance risks. The investments and insurance risks of the Parent Company are classified under four major categories as asset default risk, insurance pricing risk, interest rate risk and general business risk.

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

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

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

Failure to meet the RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The following table shows how the RBC ratio was determined by the Parent Company based on its calculations:

	2016	2015
Net worth	**₱1,780,302,599**	₱4,289,969,277
RBC requirement	**813,983,159**	898,494,325
RBC Ratio	**219%**	477%

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

In 2016, IC issued Circular Letter No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework*, prescribes that all insurance companies must satisfy the minimum statutory RBC ratio of 100% and not fail the Trend Test as stated under Section 3 of this Circular. The RBC ratio of an insurance company shall be equal to the Total Available Capital (TAC) divided by the RBC requirement.

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

This will take effect beginning January 1, 2017.

Valuation Standards for Life Insurance Policy Reserves
IC has released Circular Letter No. 2016-66 on the Valuation Standards for Life Insurance Policy Reserves which provides a change in the basis of valuation of the life insurance policy reserves from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV) which now considers other assumptions such as morbidity, lapse and/or persistency, expenses, non-guaranteed benefits and margin for adverse deviation. This shall take effect beginning January 1, 2017

Financial Reporting Framework (FRF)
With the implementation of the provisions of Section 189 of Amended Insurance Code which provides for the FRF of all insurance and reinsurance companies, IC issued Circular Letter No. 2016-65, *Financial Reporting Framework under Section 189 of the Amended Insurance Code (Republic Act No. 10607),* which serves as guidance to ensure the transparent and consistent application of accounting principles. The FRF includes economic valuation of assets and liabilities based on internationally accepted accounting, actuarial and insurance core principles. The FRF is not the same as the FRF used for general purpose financial statements for the public and filed to other regulators. The FRF will be used on the statutory quarterly and annual reporting for net worth requirements as approved by the IC. This shall take effect beginning January 1, 2017.

Insurance Risk
The risk under an insurance contract is the risk that an insured event will occur, including the uncertainty of the amount and timing of any resulting claim. The principal risk the Parent Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid that are greater than those originally estimated, and subsequent development of long-term claims.

Terms and conditions
The Parent Company principally writes life insurance where the life of policyholder is insured against death, illness, injury or permanent disability, usually for a pre-determined amount. Life insurance contracts offered by the Parent Company mainly include whole life, term insurance, endowments and unit-linked products. Whole life and term insurance are conventional products where lump sum benefits are payable on death. Endowment products are investments/savings products where lump sum benefits are payable after a fixed period or on death before the period is completed. Unit-linked products differ from conventional policies in that a guaranteed percentage of each premium is allocated to units in a pooled investment fund and the policyholder benefits directly from the total investment growth and income of the fund.

The risks associated with the life and accident and health products are underwriting risk and investment risk.

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 from the policyholder's death experience being different than expected.
- Morbidity risk - risk of loss arising from the 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 variability of risks is improved by diversification of 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 change in any subset of the portfolio.

The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines.

The business of the Parent Company consists of underwriting life insurance contracts. For contracts where death is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. These risks currently do not vary significantly in relation to the location of the risk insured by the Parent Company whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

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

- The use and maintenance of sophisticated management information systems that provide up to date, accurate and reliable data on risk exposure at any point in time.
- The use of actuarial models based on past experience and statistical techniques to aid in pricing decisions and monitoring claims pattern.
- Issuance of guidelines for concluding insurance contracts and assuming insurance risks.
- Pro-active compliance of claims handling procedures to investigate and adjust claims, thereby preventing settlement of dubious or fraudulent claims.
- The use of reinsurance to limit the Parent Company's exposure to large claims by placing risk with re-insurers providing high security.
- Diversification to achieve 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.

The mix of insurance assets is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the expected pattern of claim payments with the maturity dates of assets.

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

Using the amounts in the legal policy reserves (see Note 13), the Parent Company's concentration of insurance risk before and after reinsurance in relation to the type of insurance contract follows:

	2016	2015
Whole Life		
Gross	**₱4,499,095,887**	₱3,987,378,005
Net	**4,496,956,891**	3,985,290,751
Endowment		
Gross	**1,768,208,175**	1,619,106,105
Net	**1,768,181,147**	1,619,103,033
Cost of insurance		
Gross	**222,369,729**	123,529,095
Net	**210,334,951**	116,755,700
Term insurance		
Gross	**46,345,398**	159,973,035
Net	**44,877,953**	159,219,793
Group insurance		
Gross	**161,528,985**	163,331,666
Net	**141,006,720**	143,777,565
Rider		
Gross	**824,813,338**	802,524,836
Net	**820,568,410**	799,113,614
Total		
Gross	**7,522,361,512**	6,855,742,742
Net	**7,481,926,073**	6,823,260,456

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. Additionally, 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 a yield below than 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 required to reinvest the proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality.

The Parent Company utilizes dynamic asset allocation strategies consistent with its risk appetite framework to manage investment risk and to ensure sustainable investment returns. As a management tool, the Parent Company uses asset-liability matching to determine the composition of the invested assets and appropriate investment and marketing strategies. As part of these strategies, the Parent Company may determine that it is economically advantageous to be temporarily in an unmatched position due to anticipated interest rate or other economic changes.

Fair Value of Financial Instruments

Non-linked
Due to the short-term nature of cash and cash equivalents, insurance receivables, accrued income, short-term loans and receivables, premium deposit fund, insurance payables, life insurance deposits and trade and other liabilities, their carrying values reasonably approximate their fair values at year end.

The fair value of financial assets at FVPL and AFS financial assets that are actively traded in organized financial markets is determined by reference to quoted market bid prices, at the close of business on the reporting date, or the last trading day as applicable.

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

Unit-linked
Due to the short-term nature of cash and cash equivalents, interest receivable, dividend receivable, accounts receivable and other financial liabilities, their carrying values reasonably approximate their fair values at year end.

The fair value of financial assets designated as at FVPL that are actively traded in organized financial markets is determined by reference to quoted market bid prices, at the close of business on the reporting date, or the last trading day as applicable.

The currency forward derivative asset is valued using net present value method using forward curves to estimate the future cash flows from the floating leg of the forward and converted to a single currency using the current foreign exchange spot rate.

Fair value hierarchy
The Parent Company classifies its non-linked financial assets at fair value as follows:

December 31, 2016

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Financial assets at FVPL				
Government debt securities				
Local currency	**₱–**	**₱224,348,879**	**₱–**	**₱224,348,879**
Listed equity securities	**298,877,230**	**–**	**–**	**298,877,230**
Unit investment trust funds	**–**	**295,809,553**	**–**	**295,809,553**
Investment in unit-linked funds	**48,812,331**	**–**	**–**	**48,812,331**
AFS financial assets				
Government debt securities				
Local currency	**2,562,889,344**	**4,129,235,021**	**–**	**6,692,124,365**
Corporate debt securities				
Local currency	**1,558,060,346**	**–**	**–**	**1,558,060,346**
Listed equity securities	**24,791,445**	**–**	**–**	**24,791,445**
Golf club shares	**17,079,100**	**–**	**–**	**17,079,100**
	4,510,509,796	**4,649,393,453**	**–**	**9,159,903,249**
Assets for which fair values are disclosed:				
Loans and receivables				
Due from officers and employees	**–**	**41,348,526**	**–**	**41,348,526**
	₱4,510,509,796	**₱4,690,741,979**	**₱–**	**₱9,201,251,775**

December 31, 2015

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Financial assets at FVPL				
Government debt securities				
Local currency	₱155,503,563	₱302,534,883	₱–	₱458,038,446
Listed equity securities	611,693,790	–	–	611,693,790
Unit investment trust funds	–	2,258,983,308	–	2,258,983,308
Investment in unit-linked funds	49,997,363	–	–	49,997,363
AFS financial assets				
Government debt securities				
Local currency	2,112,269,699	4,265,276,399	–	6,377,546,098
Corporate debt securities				
Local currency	1,448,443,857	–	–	1,448,443,857
Listed equity securities	220,274,678	–	–	220,274,678
Golf club shares	15,579,112	–	–	15,579,112
	4,613,762,062	6,826,794,590	–	11,440,556,652
Assets for which fair values are disclosed:				
Loans and receivables				
Due from officers and employees	–	57,525,738	–	57,525,738
	₱4,613,762,062	₱6,884,320,328	₱–	₱11,498,082,390

The Parent Company classifies its unit-linked financial assets at fair value as follows:

December 31, 2016

	Level 1	**Level 2**	**Level 3**	**Total**
Assets measured at fair value:				
Financial assets at FVPL				
Government debt securities				
Local currency	**₱2,731,427,563**	**₱6,773,083,828**	**₱–**	**₱9,504,511,391**
Foreign currency	**8,780,633,166**	**–**	**–**	**8,780,633,166**
Listed equity securities	**42,950,455,804**	**–**	**–**	**42,950,455,804**
Exchange-traded funds	**8,641,255,373**	**–**	**–**	**8,641,255,373**
Unit investment trust funds	**–**	**859,851,626**	**–**	**859,851,626**
Structured notes	**–**	**–**	**392,451,501**	**392,451,501**
	₱63,103,771,906	**₱7,632,935,454**	**₱392,451,501**	**₱71,129,158,861**

December 31, 2015

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Financial assets at FVPL				
Government debt securities				
Local currency	₱5,326,596,936	₱4,896,817,746	₱–	₱10,223,414,682
Foreign currency	9,366,335,666	–	–	9,366,335,666
Listed equity securities	35,900,635,417	–	–	35,900,635,417
Exchange-traded funds	6,796,415,777	–	–	6,796,415,777
Unit investment trust funds	–	449,838,360	–	449,838,360
Structured notes	–	–	412,876,815	412,876,815
	₱57,389,983,796	₱5,346,656,106	₱412,876,815	₱63,149,516,717

The Parent Company uses the following hierarchy for determining and disclosing the fair value of financial assets 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.

In 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

The assumptions used to determine the fair value of structured notes as of December 31, 2016 and 2015 and the description of significant unobservable inputs to valuation are discussed below.

The fair values of the structured products can be decomposed into the fair values of the bonds and option components which were determined using present value technique and option pricing model, respectively.

Discount rate used to value the bond component is the combination of the risk free rate and credit spread. Risk free rate is determined by their corresponding number of years swap rate while the credit spread is defined by the counterparty bank's credit default swap rate.

A custom index composed of Philippine and China equities that are equally weighted are used to approximate the value of the option.

Valuation of options embedded in the structured notes that are unobservable is 20% of the total investment which considers the actual funding levels of the issuer banks. Value of options is adjusted using the following techniques:

- Bid/offer adjustments
- Input uncertainty adjustments
- Model uncertainty adjustments
- Own-credit valuation adjustment for debts (OCA) and for derivatives (debit valuation adjustment - DVA)

The future payout of the structured notes is dependent on how the underlying index performed at certain points in the past. Monte Carlo simulation is used to simulate the price evolution of the underlying factors over the life of the trade. From a large number of simulations, the probability of payout at the end of each year can be obtained. The option price is then the expected payout of the trade based on the computed probabilities.

The description of significant observable inputs to valuation follows:

	Valuation technique	Significant observable inputs	Range (weighted average)	Sensitivity of the input to fair value
Structured notes - ING Bank N.V.	Fixed Income Leg: Discounted Cash Flow	PHP Swap Rates	±1% absolute	+1.00% absolute increase (decrease) in swap rate would result in decrease (increase) in fair value by USD59,689 for the 5yr note and USD78,017 for the 7yr note. -1.00% absolute increase (decrease) in swap rate would result in decrease (increase) in fair value by USD(60,879) for the 5yr note and USD(81,140) for the 7yr note.
	Asian Option: Bloomberg Option Valuation	Underlying Index – ING Phil-China Index (Bloomberg Ticker: INGPHCHE Index)	±1% relative	±1.00% relative increase (decrease) in underlying index would result in increase (decrease) in fair value by USD9,833 for the 5yr note and USD8,607 for the 7yr note.
Structured notes - BNP Paribas	Fixed Income Leg: Discounted Cash Flow	USD Swap Rates	±1% absolute	+1.00% absolute increase (decrease) in swap rate would result in decrease (increase) in fair value by USD59,386 for the 5yr note and USD78,684 for the 7yr note. -1.00% absolute increase (decrease) in swap rate would result in decrease (increase) in fair value by USD(60,456) for the 5yr note and USD(81,690) for the 7yr note.
	Asian Option: Bloomberg Option Valuation	Underlying Index – Phil-China Index (Bloomberg Ticker: ENHAPHCE Index)	±1% relative	±1.00% relative increase (decrease) in underlying index would result in increase (decrease) in fair value by USD10,905 for the 5yr note and by USD8,796 for the 7yr note.

The description of significant unobservable inputs to valuation follows:

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of the input to fair value
Structured notes - ING Bank N.V.	Fixed Income Leg: Discounted Cash Flow	Funding cost (credit spread)	+1% absolute	+1.00% absolute increase (decrease) in swap rate would result in decrease (increase) in fair value by USD59,689 for the 5yr note and USD78,017 for the 7yr note.
	Asian Option: Bloomberg Option Valuation	Volatility	±1% absolute	±1.00% absolute increase (decrease) in volatility would result in increase (decrease) in fair value by USD307 for the 5yr note and USD3,313 for the 7yr note.
Structured notes - BNP Paribas	Fixed Income Leg: Discounted Cash Flow	Funding cost (credit spread)	+1% absolute	+1.00% absolute increase (decrease) in swap rate would result in decrease (increase) in fair value by USD59,386 for the 5yr note and USD78,684 for the 7yr note.
	Asian Option: Bloomberg Option Valuation	Volatility	±1% absolute	±1.00% absolute increase (decrease) in volatility would result in increase (decrease) in fair value by USD1,446 for the 5yr note and USD3,982 for the 7yr note.

The following table shows the reconciliation of the beginning balance and ending balances of Level 3 unit-linked financial assets at FVPL which are recorded at fair value as of December 31, 2016 and 2015:

	Peso-denominated structured notes	**US dollar-denominated structured notes**
At December 31, 2014	₱200,558,850	US$6,096,548
Redemption	–	(142,375)
Fair value loss	(28,293,300)	(852,802)
At December 31, 2015	**172,265,550**	**5,101,371**
Redemption	**(626,258)**	**(157,618)**
Fair value loss	**(15,932,342)**	**(191,087)**
At December 31, 2016	**₱155,706,950**	**US$4,752,666**

The table below summarizes the valuation techniques and the inputs used in the valuation of both unit-linked and non-linked financial assets categorized under Level 2.

	Valuation Technique	Significant Observable Input	Range
Loans and receivables			
Due from officers and employees	Discounted cash flow	Discount rate	0.04% to 2.84%
Government debt securities	Discounted cash flow	Discount rate (PDST-R2)	2.29% to 5.52%

Financial Risk

The Parent 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 fail to discharge an obligation and cause the other party to incur a financial loss. The Parent Company manages the level of credit risk it accepts through a comprehensive credit risk policy which focuses on minimizing credit risk exposures. The credit risk policies are set as follows:

a. Concentration limit - The Parent Company sets maximum exposure to an individual issuer and to a particular sector.
b. Counterparty ratings - The Parent Company reviews and recommends financial institutions that will complement over-all investment objectives and service requirements.

Reporting of credit risk exposures, monitoring compliance with credit risk policy and review of credit risk policy is done on a regular basis.

Loans to policyholders granted against the surrender value of policies carry substantially no credit risk. A credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements. The Parent Company selects only domestic and foreign companies with strong financial standing and excellent track records which are allowed to participate in the Parent Company's reinsurance programs. In respect of investment securities, the Parent Company secures satisfactory credit quality by setting maximum limits of portfolio securities with a single issuer or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer or group of issuers. The Parent Company sets the maximum amounts and limits that may be advanced to/placed with individual corporate counterparties which are set by reference to their long term ratings.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position:

Non-linked

	2016	2015
Cash and cash equivalents*	**₱2,683,513,348**	₱2,038,308,049
Insurance receivables		
Premiums due and uncollected	**81,539,350**	76,203,467
Due from reinsurers	**33,806,412**	35,369,819
Financial assets at FVPL		
Government debt securities		
Local currency	**224,348,879**	458,038,446
Listed equity securities	**298,877,230**	611,693,790
Unit investment trust funds	**295,809,553**	2,258,983,308
Investment in unit-linked funds	**48,812,331**	49,997,363
AFS financial assets		
Government debt securities		
Local currency	**6,692,124,365**	6,377,546,098
Corporate debt securities		
Local currency	**1,558,060,346**	1,448,443,857
Listed equity securities	**24,791,445**	220,274,678
Golf club shares	**17,079,100**	15,579,112
Loans and receivables - net		
Intercompany receivables	**173,416,263**	160,618,249
Due from custodian	**90,318,555**	68,838,634
Due from officers and employees	**44,794,683**	35,487,937
Due from agents	**27,468,035**	26,737,585
Policy loan	**379,531,017**	378,012,302
Other receivables	**10,245,290**	11,749,626
Accrued income	**140,348,089**	110,957,681
	₱12,824,884,291	₱14,382,840,001

**Excluding petty cash fund*

Unit-linked

	2016	2015
Cash and cash equivalents	**₱2,556,912,045**	₱2,179,915,897
Financial assets at FVPL		
Government debt securities		
Local currency	**9,504,511,391**	10,223,414,682
Foreign currency	**8,780,633,166**	9,366,335,666
Listed equity securities	**42,950,455,804**	35,900,635,417
Exchange-traded funds	**8,641,255,373**	6,796,415,777
Unit investment trust funds	**859,851,626**	449,838,360
Structured notes	**392,451,501**	412,876,815
Interest receivable	**250,782,859**	288,478,640
Dividend receivable	**19,641,668**	12,625,420
Accounts receivable	**22,876,392**	50,160,827
	₱73,979,371,825	₱65,680,697,501

The Parent Company's investment policy mandates it to invest only in investment grade bonds. The peso funds are invested in cash and money market instruments, fixed income investments (fixed rate bond issuances of the Philippine government with a minimum credit rating of AA), corporate bonds and equities of Philippine corporations included in the Philippine Stock Exchange (PSE) Index.

The dollar funds are invested in dollar-denominated cash and money market instruments, fixed income investments, particular issuances of the Philippine government with a minimum credit rating of AAA, and corporate bonds.

The table below provides information regarding the credit risk exposure of the Parent Company by classifying non-linked assets according to the Parent Company's credit ratings of counterparties:

December 31, 2016

	Neither Past-Due nor Impaired			
	Investment Grade	Non-investment Grade: Satisfactory	Past Due or Impaired	Total
Cash and cash equivalents*	₱2,683,513,348	₱–	₱–	₱2,683,513,348
Insurance receivables				
Premiums due and uncollected	–	81,539,350	–	81,539,350
Due from reinsurers	–	11,434,024	22,372,388	33,806,412
Financial assets at FVPL				
Government debt securities				
Local currency	224,348,879	–	–	224,348,879
Listed equity securities	298,877,230	–	–	298,877,230
Unit investment trust funds	295,809,553	–	–	295,809,553
Investment in unit-linked funds	48,812,331	–	–	48,812,331
AFS financial assets				
Government debt securities				
Local currency	6,692,124,365	–	–	6,692,124,365
Corporate debt securities				
Local currency	1,558,060,346	–	–	1,558,060,346
Listed equity securities	24,791,445	–	–	24,791,445
Golf club shares	17,079,100	–	–	17,079,100
Loans and receivables				
Intercompany receivables	–	173,416,263	–	173,416,263
Due from custodian	–	90,318,555	–	90,318,555
Due from officers and employees	–	41,348,526	3,446,157	44,794,683
Due from agents	–	13,413,715	5,273,625	18,687,340
Policy loans	–	379,531,017	–	379,531,017
Other receivables	–	8,806,733	1,438,557	10,245,290
Accrued income	140,348,089	–	–	140,348,089
	₱11,983,764,686	₱799,808,183	₱32,530,727	₱12,816,103,596

** Excluding petty cash fund*

December 31, 2015

	Neither Past-Due nor Impaired			
	Investment Grade	Non-investment Grade: Satisfactory	Past Due or Impaired	Total
Cash and cash equivalents*	₱2,038,308,049	₱–	₱–	₱2,038,308,049
Insurance receivables				
Premiums due and uncollected	–	76,203,467	–	76,203,467
Due from reinsurers	–	12,360,739	23,009,080	35,369,819
Financial assets at FVPL				
Government debt securities				
Local currency	458,038,446	–	–	458,038,446
Listed equity securities	611,693,790	–	–	611,693,790
Unit investment trust funds	2,258,983,308	–	–	2,258,983,308
Investment in unit-linked funds	49,997,363	–	–	49,997,363
AFS financial assets				
Government debt securities				
Local currency	6,377,546,098	–	–	6,377,546,098
Corporate debt securities				
Local currency	1,448,443,857	–	–	1,448,443,857
Listed equity securities	220,274,678	–	–	220,274,678
Golf club shares	15,579,112	–	–	15,579,112
Loans and receivables				
Intercompany receivables	–	160,618,249	–	160,618,249
Due from custodian	–	68,838,634	–	68,838,634
Due from officers and employees	–	32,652,179	2,835,798	35,487,977
Due from agents	–	21,972,687	4,764,898	26,737,585
Policy loans	–	378,012,302	–	378,012,302
Other receivables	–	10,311,070	1,438,556	11,749,626
Accrued income	110,957,681	–	–	110,957,681
	₱13,589,822,382	₱760,969,327	₱32,048,332	₱14,382,840,041

** Excluding petty cash fund*

The table below provides information regarding the credit risk exposure of the Parent Company by classifying unit-linked assets according to the Parent Company's credit ratings of counterparties:

December 31, 2016

	Neither Past Due nor Impaired			
	Investment Grade	**Non-investment Grade: Satisfactory**	**Past Due or Impaired**	**Total**
Cash and cash equivalents	**₱2,556,912,045**	**₱–**	**₱–**	**₱2,556,912,045**
Financial assets at FVPL				
Government debt securities				
Local currency	**9,504,511,391**	**–**	**–**	**9,504,511,391**
Foreign currency	**8,780,633,166**	**–**	**–**	**8,780,633,166**
Listed equity securities	**42,950,455,804**	**–**	**–**	**42,950,455,804**
Exchange-traded funds	**8,641,255,373**	**–**	**–**	**8,641,255,373**
Unit investment trust funds	**859,851,626**	**–**	**–**	**859,851,626**
Structured notes	**392,451,501**	**–**	**–**	**392,451,501**
Interest receivable	**250,782,859**	**–**	**–**	**250,782,859**
Dividend receivable	**19,641,668**	**–**	**–**	**19,641,668**
Accounts receivable	**22,876,392**	**–**	**–**	**22,876,392**
	₱73,979,371,825	**₱–**	**₱–**	**₱73,979,371,825**

December 31, 2015

	Neither Past Due nor Impaired			
	Investment Grade	Non-investment Grade: Satisfactory	Past Due or Impaired	Total
Cash and cash equivalents	₱2,179,915,897	₱–	₱–	₱2,179,915,897
Financial assets at FVPL				
Government debt securities				
Local currency	10,223,414,682	–	–	10,223,414,682
Foreign currency	9,366,335,666	–	–	9,366,335,666
Listed equity securities	35,900,635,417	–	–	35,900,635,417
Exchange-traded funds	6,796,415,777	–	–	6,796,415,777
Unit investment trust funds	449,838,360	–	–	449,838,360
Structured notes	412,876,815	–	–	412,876,815
Interest receivable	288,478,640	–	–	288,478,640
Dividend receivable	12,625,420	–	–	12,625,420
Accounts receivable	50,160,827	–	–	50,160,827
	₱65,680,697,501	₱–	₱–	₱65,680,697,501

The Parent Company uses a credit rating concept based on the borrowers' and counterparties' overall creditworthiness, as follows:

Investment grade - Rating given to counterparties who possess strong to very strong capacity to meet their obligations.

Non-investment grade - Rating given to counterparties who possess above average capacity to meet their obligations.

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

December 31, 2016

	Age Analysis of Financial Assets Past-Due but not Impaired					
	< 30 days	**31 to 90 days**	**More than 90 days**	**Total Past-Due but not Impaired**	**Past-Due and Impaired**	**Total**
Insurance receivables						
Due from reinsurers	**₱–**	**₱–**	**₱22,372,388**	**₱22,372,388**	**₱–**	**₱22,372,388**
Loans and receivables						
Due from officers and employees	–	–	–	–	**3,446,157**	**3,446,157**
Due from agents	–	–	–	–	**5,273,625**	**5,273,625**
Other receivables	–	–	–	–	**1,438,557**	**1,438,557**
	₱–	**₱–**	**₱22,372,388**	**₱22,372,388**	**₱10,158,339**	**₱32,530,727**

December 31, 2015

	Age Analysis of Financial Assets Past-Due but not Impaired					
	< 30 days	31 to 90 days	More than 90 days	Total Past-Due but not Impaired	Past-Due and Impaired	Total
Insurance receivables						
Due from reinsurers	₱–	₱	₱23,009,080	₱23,009,080	₱–	₱23,009,080
Loans and receivables						
Due from officers and employees	–	–	–	–	2,835,798	2,835,798
Due from agents	–	–	–	–	4,764,898	4,764,898
Other receivables	–	–	–	–	1,438,556	1,438,556
	₱	₱	₱23,009,080	₱23,009,080	₱9,039,252	₱32,048,332

The Parent Company conducts a periodic review of allowance for impairment losses based on the corresponding age of past due accounts, payment behavior, credit capacity and length of relationship with the counterparty.

The Parent Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2016 and 2015.

Liquidity risk
Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or a counterparty failing on repayment of a contractual obligation; or the insurance liabilities falling due for payment earlier than expected; or the inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Parent Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts and operating expenses. The Parent Company manages liquidity by forecasting cash flow requirements. Investments are made in assets with maturities or interest payments which are matched against expected payouts of claims benefits (i.e., amount and duration of assets are matched against amount and duration of liabilities). In addition, significant outflows due to operating expenses (e.g., salaries, bonuses, IT expenditures, etc.) are scheduled based on an agreed budget timeline.

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

The table below summarizes the maturity profile of the Parent Company's financial liabilities based on contractual undiscounted payments except for the legal policy reserves of the life insurance contracts (included in the insurance contract liabilities account) which shows the maturity analysis based on the estimated timing of the net cash outflows using the recognized insurance liability amounts. The table also analyses the maturity profile of the Parent Company's financial assets in order to provide a complete view of the Parent Company's contractual commitments. For the unit-linked contracts, the Parent Company is ready to dispose its investments in securities to meet surrenders of unit-linked liabilities.

Non-linked

December 31, 2016

	On demand	Up to a year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets:							
Loans and receivables							
Cash and cash equivalents	**₱794,413,324**	**₱1,890,383,967**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,684,797,291**
Insurance receivables							
Premiums due and uncollected	–	**81,539,350**	–	–	–	–	**81,539,350**
Due from reinsurers	–	**33,806,412**	–	–	–	–	**33,806,412**
Loans and receivables							
Intercompany receivables	–	**173,416,263**	–	–	–	–	**173,416,263**
Due from custodians	–	**90,318,555**	–	–	–	–	**90,318,555**
Due from officers and employees	–	**44,794,683**		–	–	–	**44,794,683**
Due from agents	–	**27,468,035**	–	–	–	–	**27,468,035**
Policy loans	–	**379,531,017**	–	–	–	–	**379,531,017**

(Forward)

	On demand	Up to a year	1-3 years	3-5 years	Over 5 years	No term	Total
Other receivables	**₱–**	**₱10,245,290**	**₱–**	**₱–**	**₱–**	**₱–**	**₱10,245,290**
Accrued income	**–**	**140,348,089**	**–**	**–**	**–**	**–**	**140,348,089**
Financial assets at FVPL							
Government debt securities							
Local currency	**–**	**51,402,570**	**–**	**–**	**172,946,309**	**–**	**224,348,879**
Listed equity securities	**–**	**–**	**–**	**–**	**–**	**298,877,230**	**298,877,230**
Unit investment trust funds	**–**	**–**	**–**	**–**	**–**	**295,809,553**	**295,809,553**
Investment in unit-linked fund	**–**	**–**	**–**	**–**	**–**	**48,812,331**	**48,812,331**
AFS financial assets							
Government debt securities							
Local currency	**–**	**360,894,180**	**1,644,567,344**	**184,101,213**	**4,502,561,628**	**–**	**6,692,124,365**
Corporate debt securities							
Local currency	**–**	**–**	**330,548,949**	**545,113,131**	**682,398,266**	**–**	**1,558,060,346**
Listed equity securities	**–**	**–**	**–**	**–**	**–**	**24,791,445**	**24,791,445**
Golf club shares	**–**	**–**	**–**	**–**	**–**	**17,079,100**	**17,079,100**
Total financial assets	**₱794,413,324**	**₱3,284,148,411**	**₱1,975,116,293**	**₱729,214,344**	**₱5,357,906,203**	**₱685,369,659**	**₱12,826,168,234**
Financial liabilities:							
Other financial liabilities							
Insurance contract liabilities	**₱229,472,864**	**₱1,884,262,778**	**₱1,152,401,530**	**₱1,214,088,135**	**₱4,393,781,536**	**₱–**	**₱8,874,006,843**
Premium deposit fund	**–**	**83,992,411**	**–**	**–**	**–**	**–**	**83,992,411**
Insurance payables	**–**	**145,261,608**	**–**	**–**	**–**	**–**	**145,261,608**
Life insurance deposits	**–**	**196,803,526**	**–**	**–**	**–**	**–**	**196,803,526**
Trade and other liabilities*	**–**	**1,099,898,997**	**–**	**–**	**–**	**–**	**1,099,898,997**
Total financial liabilities	**₱229,472,864**	**₱3,410,218,820**	**₱1,152,401,530**	**₱1,214,088,135**	**₱4,393,781,536**	**₱–**	**₱10,399,963,385**
Liquidity gap							**₱2,424,204,849**

** Excluding taxes payable*

December 31, 2015

	On demand	Up to a year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets:							
Loans and receivables							
Cash and cash equivalents	₱1,120,204,195	₱919,424,380	₱–	₱–	₱–	₱–	₱2,039,628,575
Insurance receivables							
Premiums due and uncollected	–	76,203,467	–	–	–	–	76,203,467
Due from reinsurers	–	35,369,819	–	–	–	–	35,369,819
Loans and receivables							
Intercompany receivables	–	160,618,249	–	–	–	–	160,618,249
Due from custodian	–	68,838,634	–	–	–	–	68,838,634
Due from officers and employees	–	35,487,937	–	–	–	–	35,487,937
Due from agents	–	26,737,585	–	–	–	–	26,737,585
Policy loans	–	378,012,302	–	–	–	–	378,012,302
Other receivables	–	11,749,626	–	–	–	–	11,749,626
Accrued income	–	110,957,681	–	–	–	–	110,957,681
Financial assets at FVPL							
Government debt securities							
Local currency	–	225,603,878	52,395,788	–	180,038,780	–	458,038,446
Listed equity securities	–	–	–	–	–	611,693,790	611,693,790
Unit investment trust funds	–	–	–	–	–	2,258,983,308	2,258,983,308
Investment in unit-linked fund	–	–	–	–	–	49,997,363	49,997,363
AFS financial assets							
Government debt securities							
Local currency	–	852,537,211	1,608,493,593	932,607,371	2,983,907,923	–	6,377,546,098
Corporate debt securities							
Local currency	–	–	–	534,036,428	914,407,429	–	1,448,443,857
Listed equity securities	–	–	–	–	–	220,274,678	220,274,678
Golf club shares	–	–	–	–	–	15,579,112	15,579,112
Total financial assets	₱1,120,204,195	₱2,901,540,769	₱1,660,889,381	₱1,466,643,799	₱4,078,354,132	₱3,156,528,251	₱14,384,160,527
Financial liabilities:							
Other financial liabilities							
Insurance contract liabilities	₱218,708,278,	₱1,844,562,465	₱1,326,707,637	₱1,224,804,709	₱3,407,434,050	₱–	₱8,022,217,139
Premium deposit fund	–	93,544,364	–	–	–	–	93,544,364
Insurance payables	–	135,430,301	–	–	–	–	135,430,301
Life insurance deposits	–	220,133,090	–	–	–	–	220,133,090
Trade and other liabilities*	–	899,605,830	–	–	–	–	899,605,830
Total financial liabilities	₱218,708,278	₱3,193,276,050	₱1,326,707,637	₱1,224,804,709	₱3,407,434,050	₱–	₱9,370,930,724
Liquidity gap							₱5,013,229,803

** Excluding taxes payable*

Unit-linked

December 31, 2016

	On demand	Up to a year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets:							
Loans and receivables							
Cash and cash equivalents	**₱746,088,426**	**₱1,810,823,619**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,556,912,045**
Accrued income							
Interest receivable	**–**	**250,782,859**	**–**	**–**	**–**	**–**	**250,782,859**
Dividend receivable	**–**	**19,641,668**	**–**	**–**	**–**	**–**	**19,641,668**
Accounts receivable	**–**	**22,876,392**	**–**	**–**	**–**	**–**	**22,876,392**
Financial assets at FVPL							
Government debt securities							
Local currency	**–**	**669,568,537**	**1,943,849,722**	**2,017,362,469**	**4,873,730,663**	**–**	**9,504,511,391**
Foreign currency	**–**	**–**	**1,130,770,886**	**2,525,838,175**	**5,124,024,105**	**–**	**8,780,633,166**
Listed equity securities	**–**	**–**	**–**	**–**	**–**	**42,950,455,804**	**42,950,455,804**
Exchange-traded funds	**–**	**–**	**–**	**–**	**–**	**8,641,255,373**	**8,641,255,373**
Unit trust investment funds	**–**	**–**	**–**	**–**	**–**	**859,851,626**	**859,851,626**
Structured notes	**–**	**–**	**–**	**392,451,501**	**–**	**–**	**392,451,501**
Total financial assets	**₱746,088,426**	**₱2,773,693,075**	**₱3,074,620,608**	**₱4,935,652,145**	**₱9,997,754,768**	**₱52,451,562,803**	**₱73,979,371,825**
Financial liabilities:							
Other financial liabilities							
Accounts payable	**₱–**	**₱673,422,161**	**₱–**	**₱–**	**₱–**	**₱–**	**₱673,422,161**
Asset management fees payable	**–**	**151,595,489**	**–**	**–**	**–**	**–**	**151,595,489**
Administration and custody fees payable	**–**	**29,352,768**	**–**	**–**	**–**	**–**	**29,352,768**
Service fees payable	**–**	**16,234,354**	**–**	**–**	**–**	**–**	**16,234,354**
Unit-linked liabilities	**–**	**5,210,633,937**	**21,933,447,682**	**19,328,987,820**	**26,748,807,755**	**–**	**73,221,877,194**
Total financial liabilities	**₱–**	**₱6,081,238,709**	**₱21,933,447,682**	**₱19,328,987,820**	**₱26,748,807,755**	**₱–**	**₱74,092,481,966**
Liquidity gap							**(₱113,110,141)**

December 31, 2015

	On demand	Up to a year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets:							
Loans and receivables							
Cash and cash equivalents	₱676,660,057	₱1,503,255,840	₱–	₱–	₱–	₱–	₱2,179,915,897
Accrued income							
Interest receivable	–	288,478,640	–	–	–	–	288,478,640
Dividend receivable	–	12,625,420	–	–	–	–	12,625,420
Accounts receivable	–	50,160,827	–	–	–	–	50,160,827
Financial assets at FVPL							
Government debt securities							
Local currency	–	1,418,997,200	1,911,066,997	1,905,174,377	4,988,176,108	–	10,223,414,682
Foreign currency	–	–	19,977,239	2,984,012,307	6,362,346,120	–	9,366,335,666
Listed equity securities	–	–	–	–	–	35,900,635,417	35,900,635,417
Exchange-traded funds	–	–	–	–	–	6,796,415,777	6,796,415,777
Unit investment trust funds	–	–	–	–	–	449,838,360	449,838,360
Structured notes	–	–	–	–	412,876,815	–	412,876,815
Total financial assets	₱676,660,057	₱3,273,517,927	₱1,931,044,236	₱4,889,186,684	₱11,763,399,043	₱43,146,889,554	₱65,680,697,501
Financial liabilities:							
Other financial liabilities							
Accounts payable	₱–	₱332,577,041	₱–	₱–	₱–	₱–	₱332,577,041
Asset management fees payable	–	164,132,984	–	–	–	–	164,132,984
Administration and custody fees payable	–	15,255,395	–	–	–	–	15,255,395
Service fees payable	–	27,520,777	–	–	–	–	27,520,777
Unit-linked liabilities	–	8,914,095,396	18,560,319,804	13,172,020,920	24,671,908,777	–	65,318,344,897
Total financial liabilities	₱–	₱9,453,581,593	₱18,560,319,804	₱13,172,020,920	₱24,671,908,777	₱–	₱65,857,831,094
Liquidity gap							(₱177,132,593)

The Parent Company's investment policy is long term in nature. It is subject to annual review for update on asset-liability management, alignment with the Parent Company's latest business plan and other developments during the year. The investment policy is reviewed, approved and endorsed by the Local Management Investment Committee (LMIC), Regional Investment Asset Liability Committee (RIALC), AXA S.A. Board Investment Committee and Philippine AXA Life Board Investment Committee (BIC).

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign exchange rate (currency risk), market interest rate (fair value interest rate risk) and market price (equity price risk).

The following policies and procedures are in place to mitigate the Parent Company's exposure to market risk:

- Set out the assessment and determination of what constitutes market risk for the Parent Company. Compliance with the policy is monitored and exposures and breaches are reported to the risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Establish asset allocation and portfolio limit structure to ensure that assets back specific policyholders' liabilities and those assets are held to deliver income and gains for policyholders in line with expectations of the policyholders.
- Stipulate diversification benchmarks by type of instrument, as the Parent Company is exposed to guaranteed bonuses, cash and annuity options when interest rates fall.

It is the Parent Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

Currency risk
The Parent Company's principal transactions are carried out in Philippine Peso and its foreign exchange risk arises primarily with respect to United States (US) Dollars (US$), where some of its products are denominated. The Parent Company's financial assets are primarily denominated in the same currencies as its insurance contracts, which mitigate the foreign exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than in which the insurance contracts are expected to be settled.

The following table shows the details of the Parent Company's foreign currency denominated monetary assets and liabilities and their Philippine Peso equivalents.

December 31, 2016

	US$	PHP
Assets		
Cash and cash equivalents	**US$10,575,100**	**₱526,777,444**
Assets held to cover unit-linked liabilities	**375,634,109**	**18,711,461,872**
	386,209,209	**19,238,239,316**
Liabilities		
Unit-linked liabilities	**375,634,109**	**18,711,461,872**
Legal policy reserves	**358,748**	**17,870,313**
	375,992,857	**18,729,332,185**
	US$10,216,352	**₱508,907,131**

December 31, 2015

	US$	PHP
Assets		
Cash and cash equivalents	US$20,970,528	₱989,095,920
Assets held to cover unit-linked liabilities	368,159,137	17,364,593,878
	389,129,665	18,353,689,798
Liabilities		
Unit-linked liabilities	368,159,137	17,364,593,878
Legal policy reserves	354,598	16,724,969
	368,513,735	17,381,318,847
	US$20,615,930	₱972,370,951

The analysis below is performed for reasonably possible movements in US$ with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of currency sensitive monetary assets and liabilities). The exchange rate used to present the US Dollar denominated assets and liabilities to Peso denominations are the 2016 and 2015 closing rates. There is no impact on the Parent Company's equity other than those already affecting the profit.

December 31, 2016

	Change in variable	**Impact on profit before tax**
US$	**+4.00%**	**₱20,344,162**
US$	**-4.00%**	**(20,344,162)**

December 31, 2015

	Change in variable	Impact on profit before tax
US$	+4.70%	₱45,678,029
US$	-4.70%	(45,678,029)

In 2016 and 2015, the Parent Company used the average of changes in year-end closing rate for the past three years in determining the reasonably possible change in foreign exchange rates.

Fair value interest rate risk
Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Parent Company's fixed rate investments classified as AFS financial assets and financial assets at FVPL in particular are exposed to such risk.

The Parent Company's investment policy manages interest rate risk by matching the maturities of interest-bearing financial assets and interest-bearing financial liabilities. The amount, duration and yield to maturity of assets are matched against the amount and duration of the liabilities.

The following table shows the information relating to the Parent Company's non-linked fixed interest-bearing financial instruments presented by maturity profile.

December 31, 2016

	Range of interest rate	On demand	Up to a year	1-3 years	3-5 years	Over 5 years
Financial assets:						
Loans and receivables						
Cash and cash equivalents	**0.10% - 2.50%**	**₱793,129,381**	**₱1,890,383,967**	**₱–**	**₱–**	**₱–**
Loans and receivables						
Due from officers and employees	**6.00% - 12.00%**	**–**	**44,101,737**	**692,946**	**–**	**–**
Due from agents	**6.00% - 12.00%**	**–**	**18,687,340**	**–**	**–**	**–**
Policy loans	**8.00% - 10.00%**	**–**	**379,531,017**	**–**	**–**	**–**
Financial assets at FVPL						
Government debt securities						
Local currency	**7.75% - 10.25%**	**–**	**51,402,570**	**–**	**–**	**172,946,309**
AFS financial assets						
Government debt securities						
Local currency	**1.63% - 18.25%**	**–**	**360,894,180**	**1,644,567,344**	**184,101,213**	**4,502,561,628**
Private debt securities						
Local currency	**4.41% - 6.94%**	**–**	**–**	**330,548,949**	**545,113,131**	**682,398,266**
Total financial assets		**₱793,129,381**	**₱2,745,000,811**	**₱1,975,809,239**	**₱729,214,344**	**₱5,357,906,203**
Financial liabilities:						
Other financial liabilities						
Premium deposit fund	**5.00%**	**₱83,992,411**	**₱–**	**₱–**	**₱–**	**₱–**
Total financial liabilities		**₱83,992,411**	**₱–**	**₱–**	**₱–**	**₱–**

December 31, 2015

	Range of interest rate	On demand	Up to a year	1-3 years	3-5 years	Over 5 years
Financial assets:						
Loans and receivables						
Cash and cash equivalents	0.10% - 1.70%	₱1,118,883,669	919,424,380	–	–	–
Loans and receivables						
Due from officers and employees	6.00% - 12.00%	–	27,852,432	7,635,505	–	–
Due from agents	6.00% - 12.00%	–	26,737,585	–	–	–
Policy loans	8.00% - 10.00%	–	378,012,302	–	–	–
Financial assets at FVPL						
Government debt securities						
Local currency	7.75% - 10.25%	–	225,603,878	52,395,788	–	180,038,780
AFS financial assets						
Government debt securities						
Local currency	1.63% - 18.25%	–	852,537,211	1,608,493,593	932,607,371	2,983,907,923
Private debt securities						
Local currency	4.47% - 6.88%	–	–	–	534,036,428	914,407,429
Total financial assets		₱1,118,883,669	₱2,430,167,788	₱1,668,524,886	₱1,466,643,799	₱4,078,354,132
Financial liabilities:						
Other financial liabilities						
Premium deposit fund	5.00%	₱93,544,364	₱–	₱–	₱–	₱–
Total financial liabilities		₱93,544,364	₱–	₱–	₱–	₱–

The following table shows the information relating to the Parent Company's unit-linked fixed interest-bearing financial instruments presented by maturity profile.

December 31, 2016

	Range of interest rate	On demand	Up to a year	1-3 years	3-5 years	Over 5 years
Financial assets:						
Loans and receivables						
Cash and cash equivalents	**0.25% - 1.39%**	**₱746,088,426**	**₱1,810,823,619**	**₱–**	**₱–**	**₱–**
Financial assets at FVPL						
Government debt securities						
Local currency	**2.13% - 9.25%**	–	**669,568,537**	**1,943,849,722**	**2,017,362,469**	**4,873,730,663**
Foreign currency	**3.95% -10.63%**	–	–	**1,130,770,886**	**2,525,838,175**	**5,124,024,105**
Structured notes	**1.90% - 2.00%**	–	–	–	**392,451,501**	–
Total financial assets		**₱746,088,426**	**₱2,480,392,156**	**₱3,074,620,608**	**₱4,935,652,145**	**₱9,997,754,768**

December 31, 2015

	Range of interest rate	On demand	Up to a year	1-3 years	3-5 years	Over 5 years
Financial assets:						
Loans and receivables						
Cash and cash equivalents	0.25% - 1.50%	₱676,660,057	₱1,503,255,840	₱–	₱–	₱–
Financial assets at FVPL						
Government debt securities						
Local currency	2.13% - 9.25%	–	1,418,997,200	1,911,066,997	1,905,174,377	4,988,176,108
Foreign currency	4.20% - 10.63%	–	–	19,977,239	2,984,012,307	6,362,346,120
Structured notes	1.90% - 2.00%	–	–	–	–	412,876,815
Total financial assets		₱676,660,057	₱2,922,253,040	₱1,931,044,236	₱4,889,186,684	₱11,763,399,043

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of fixed rate financial assets at FVPL) and equity (due to changes in fair value of fixed rate AFS financial assets). The impact on the Parent Company's equity already excludes the impact on transactions affecting the profit or loss in the parent company statement of comprehensive income.

December 31, 2016

	Change in variable	Impact on Profit before tax	Impact on equity
Peso	**+0.31%**	**(₱1,297,731)**	**(₱54,745,139)**
Peso	**-0.31%**	**1,309,480**	**55,336,650**

December 31, 2015

	Change in Variable	Impact on Profit before tax	Impact on equity
Peso	+0.41%	(₱1,409,479)	(₱38,805,753)
Peso	-0.41%	1,421,535	39,166,831

In 2016 and 2015, the Parent Company determined the reasonably possible change in interest rates using the percentage changes in weighted average yield rates of outstanding securities for the past three years.

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

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

The Parent Company's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; limits on investment in each sector and market. Investments in derivatives are also subject to such requirements.

The Parent Company has certain direct strategic minority investments in publicly traded companies. These investments are classified as AFS financial assets. The Parent Company also invests in equity shares through its unit-linked funds. Investments held by these unit-linked funds were designated as financial assets at FVPL.

As of December 31, 2016 and 2015, the fair values of equity investments classified as financial assets at FVPL amounted to ₱298,877,230 and ₱611,693,790, respectively (see Note 6). As of December 31, 2016 and 2015, the fair values of equity investments classified as AFS financial assets amounted to ₱41,870,545 and ₱235,853,790, respectively (see Note 6).

The analysis below is performed for reasonably possible movements in the PSE index with all other variables held constant. The impact on profit before tax (due to changes in fair value of equity securities classified as financial assets at FVPL) and equity (due to changes in fair value of equity securities classified as AFS financial assets) is arrived at using the change in variable and the specific adjusted beta of each share of stock the Parent Company holds at the reporting date. Adjusted beta is the forecasted measure of the volatility of a security or a portfolio in comparison to the market as a whole. The impact on the Parent Company's equity already excludes the impact on transactions affecting profit or loss.

December 31, 2016

Market Index	**Change in variable**	**Impact on profit before tax**	**Impact on equity**
PSE index	**+8%**	**₱24,705,018**	**₱3,460,995**
PSE index	**-8%**	**(24,705,018)**	**(3,460,995)**

December 31, 2015

Market Index	Change in variable	Impact on profit before tax	Impact on equity
PSE index	+14%	₱83,840,327	₱32,326,727
PSE index	-14%	(83,840,327)	(32,326,727)

In 2016 and 2015, the change in variable was derived from the percentage changes of the composite PSE index for the past three years.

25. **Related Party Transactions**

Transactions between related parties are based on terms similar to those offered to nonrelated parties. Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Related party transactions consist mainly of the following:

a. The Parent Company maintains savings and current accounts and short-term deposits with Metropolitan Bank and Trust Company (MBTC), the parent of FMIC, details of which follow:

	2016	2015
Savings and current accounts	**₱451,984,744**	₱887,182,394
Cash equivalents	**141,710,235**	155,426,981
Unit investment trust funds	**285,500,558**	2,000,474,055
	₱879,195,537	₱3,043,083,430

Cash equivalents are to mature within 90 days. Interest rates on savings accounts and short-term deposits range from 0.10% to 1.25% in 2016 and 2015.

Interest income from these savings accounts and short-term deposits included in "Investment income" amounted to ₱2,751,152 and ₱3,076,279 in 2016 and 2015, respectively.

Investment in unit investment trust funds (UITFs) classified as financial assets at FVPL are invested in various financial instruments such as money market securities, bonds and equities, which are normally available to bigger investors only. As of December 31, 2016, the Parent Company owns 182,497,039 outstanding number of units with cost and net asset value of ₱284,167,415 and ₱285,500,558, respectively while as of December 31, 2015, the Parent Company owns 1,297,421,891 outstanding number of units with cost and net asset value of ₱2,000,474,055 and ₱1,984,647,039, respectively.

b. The Parent Company maintains savings account and short-term deposits with Philippine Savings Bank (PS Bank), a subsidiary of MBTC, details of which are as follow:

	2016	2015
Savings and current accounts	**₱91,047,727**	₱42,255,509
Cash equivalents	**799,633,322**	102,375,031
	₱890,681,049	₱144,630,540

Cash equivalents are to mature within 90 days. Interest rates on savings account and short-term deposits range from 0.25% to 1.83% and 0.25% to 1.75% in 2016 and 2015, respectively.

Interest income from these savings account and short-term deposits included in "Investment income" amounted to ₱13,310,430 and ₱2,133,288 in 2016 and 2015, respectively.

c. The Parent Company is entitled to an asset management fee equivalent to 1.30% to 2.10% per annum based on the net asset value of the unit-linked funds.

The Parent Company's "Asset management fees" from unit-linked funds amounted to ₱1,248,123,841 and ₱1,045,442,595 in 2016 and 2015, respectively. Asset management fees receivable included in "Intercompany receivables" under "Loans and receivables" amounted to ₱158,244,979 and ₱153,640,781 as of December 31, 2016 and 2015 respectively (see Notes 6 and 12).

d. The Parent Company maintains a SLA with MBTC - Trust Banking Group for the management of the Parent Company's separate variable funds for its variable life insurance contracts. Under the SLA, MBTC shall manage the unit-linked funds faithfully in accordance with the terms and conditions of the SLA. As compensation for services rendered, MBTC shall be entitled to a service fee ranging from 0.10% to 0.30% per annum based on the net asset value of the unit-linked funds.

   Service fees charged against the funds and included under "Income on assets held to cover unit-linked liabilities" amounted to ₱177,512,873 and ₱152,558,562 in 2016 and 2015, respectively (see Note 19). Service fees payable included under "Assets held to cover unit-linked liabilities" amounted to ₱16,234,354 and ₱15,255,395 as of December 31, 2016 and 2015, respectively (see Note 12).

e. The Parent Company entered into a bancassurance agreement with MBTC in relation to the sale of policy insurance contracts to the clients of MBTC and through the Parent Company's financial executives. In 2014, the Parent Company entered into same bancassurance agreement with PS Bank. The Parent Company pays referral fees recognized as "Commission expense" in the profit or loss. Referral fees for banks and banks staff referrals are determined at various rates based on the collected premiums.

   Referral fees recognized as "Commission expense" amounted to ₱328,662,551 and ₱361,927,573 in 2016 and 2015, respectively. The outstanding balance included in "Commissions payable" under "Trade and other liabilities" amounted to ₱41,913,103 and ₱25,991,100as of December 31, 2016 and 2015, respectively (see Note 16).

f. MBTC is the trustee bank of the Parent Company's retirement plan. The Parent Company's plan assets amounted to ₱102,769,498 and ₱96,409,230 as of December 31, 2016 and 2015, respectively (see Note 22). Trustee fees charged by MBTC amounted to ₱283,740 and ₱273,316 in 2016 and 2015, respectively.

   The distribution of the plan assets follows:

	2016	2015
Assets		
Cash and cash equivalents	**₱17,743,980**	₱805,948
Debt securities	**70,679,138**	72,747,072
Equity securities	**18,170,930**	20,818,470
Receivables	**1,043,766**	2,113,207
	107,637,814	96,484,697
Liabilities		
Benefit payable from fund	**4,654,718**	–
Accounts payable	**213,598**	75,467
	4,868,316	75,467
	₱102,769,498	₱96,409,230

All equity and debt securities held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market. Receivables consist of interest and dividend receivables.

Accounts payable pertains to trust fee payables.

The plan assets have diverse investments and do not have any concentration risk.

As of December 31, 2016 and 2015, the plan assets of the retirement plan do not have any debt or equity securities of a related party.

g. The Parent Company has entered into several lease agreements with its related parties for the use of office spaces. The Parent Company leases commercial office spaces in the GT Tower International from MBTC and Philippine AXA Life Centre from Philippine Savings Bank for the use of Company's head office in 2016 and 2015, respectively. In 2016 and 2015, rent expense included in "Operating and Administrative Expenses" pertaining to this leases amounted to ₱56,222,165 and ₱56,927,067, respectively. There is no rent payable as of December 31, 2016 and 2015.

   The Parent Company also leases commercial offices spaces with MBTC for its Cebu and Davao offices. In 2016 and 2015, rent expense included in "Operating and Administrative Expenses" pertaining to this lease amounted to ₱7,714,731 and ₱6,916,217, respectively. There is no rent payable as of December 31, 2016 and 2015.

   In 2016 and 2015, "Rental income" from MBTC Skyland included in "Investment income" amounted to ₱815,256 and ₱776,403, respectively. There is no rent receivable as of December 31, 2016 and 2015.

h. Other transactions with related parties pertain to reimbursement of expenses. The Parent Company's outstanding receivables on account of these transactions, included in "Intercompany receivables" under "Loans and receivables" follow:

	2016	2015
AXA Hongkong	**₱3,737,590**	₱118,291
AXA S.A.	**1,542,979**	6,282,774
AXA Paris	**1,043,211**	491,702
AXA Malaysia	**84,701**	84,701
	₱6,408,481	₱6,977,468

   These receivables are non-interest bearing and due within one year.

i. The Parent Company has transactions with affiliates (companies belonging to Metrobank Group) in relation to group policies which are based on terms similar to those offered to nonrelated parties. These pertain to credit life and yearly renewable term policies. Details of the balances with affiliates are as follows:

Premiums earned

	2016	2015
Philippine Savings Bank	**₱231,644,757**	₱211,170,378
MBTC	**173,535,566**	191,805,010
Toyota Motor Philippines Corporation	**7,740,617**	6,864,865
Orix Metro Leasing and Finance Corporation	**1,487,708**	746,589
FMIC	**983,266**	1,047,153
Federal Land	**491,262**	440,094
CPAIC	**433,340**	409,135
	₱416,316,516	₱412,483,224

Premiums due and uncollected

	2016	2015
Philippine Savings Bank	**₱37,218,702**	₱34,906,757
MBTC	**29,177,745**	14,919,046
	₱66,396,447	₱49,825,803

Claims incurred

	2016	2015
MBTC	**₱58,493,588**	₱55,902,064
Philippine Savings Bank	**73,094,612**	53,849,376
Toyota Motor Philippines Corporation	**5,031,938**	2,028,049
CPAIC	**–**	500,000
	₱136,620,138	₱112,279,489

Claims payable

	2016	2015
MBTC	**₱3,939,810**	₱30,000
Philippine Savings Bank	**549,032**	–
	₱4,488,842	₱30,000

Outstanding gross experience refunds

	2016	2015
MBTC	**₱79,089,126**	₱53,390,373
Philippine Savings Bank	**21,143,809**	12,841,489
Toyota Motor Philippines Corporation	**6,192,221**	4,807,111
CPAIC	**12,472**	12,472
	₱106,437,628	₱71,051,445

In 2016 and 2015, the related experience refunds charged to statement of comprehensive income amounted to ₱17,072,639 and ₱5,510,205, respectively.

j. AXA S.A. allocated certain expenses to the Parent Company that pertain to shared service costs as a result of providing services on management planning, support and maintenance services, procurement regional projects and information technology service delivery charges. Shared service costs included in "Operating and administrative expenses" amounted to ₱251,935,007 and ₱249,112,468 in 2016 and 2015, respectively (see Note 21). The outstanding balance included in "Accrued expenses" under "Trade and other liabilities" amounted to ₱306,592,568 and ₱192,814,761 as of December 31, 2016 and 2015, respectively (see Note 16).

k. The Parent Company entered into a Deposit Collection Agreement with MBTC for bill payments from the Parent Company's clients who are depositors of MBTC through delivery channels, online bills payments and auto-debit arrangements. MBTC shall debit the Parent Company's client accounts for the total amount of fees due at the end of every reference months, enable customers to perform online banking transactions and accept bill payments through extensive banking system and the se of various delivery channels such as over-the-counter payments, Metrobank ET, Metrophone, Mobile and Metrobankdirect banking facilities.

l. The Parent Company entered into a memorandum of agreement with Metrobank Card Corporation to issue corporate guaranteed credit cards to certain authorized employees. The Parent Company shall bear complete liability for all the obligations, liabilities and charges incurred by the authorized employees arising from the use of credit cards.

m. Compensation of key management personnel

   Key management personnel of the Parent Company include all management committee officers.

   Salaries and other short-term employee benefits of key management personnel amounted to ₱136,912,820 and ₱91,064,814 in 2016 and 2015, respectively.

   In 2016 and 2015, director fees paid to the Parent Company's BOD included in "Management and directors' fees" amounted to ₱8,830,000 and ₱7,160,000, respectively.

n. Due from officers and employees

   Amounts due from officers and employees include secured interest-bearing loans pertaining to car plan and salary loans, and other unsecured noninterest-bearing loans and advances granted to the Parent Company's officers and employees. Interest rates on interest bearing loans range from 6% to 12% in 2016 and 2015.

The summary of balances arising from related party transactions for the relevant financial year follows:

	2016		2015			
	Amount/volume	**Outstanding Balance**	Amount/volume	Outstanding Balance	Terms	Conditions
Entities with joint control over the Parent Company						
MBTC						
Savings, current and time deposits accounts	**₱–**	**₱593,694,978**	₱–	₱1,042,609,375	90 days, 0.10 % to 2.75%	Unsecured, no impairment
Unit investment trust funds	–	**285,500,558**	–	2,000,474,055	At NAV, settlement in cash	Unsecured, no impairment
Interest income	**2,751,152**	–	3,076,279	–	90 days, 0.10 % to 2.75%	Unsecured, no impairment
Service fees	**177,512,873**	**16,234,354**	152,558,562	15,255,395	0.10% to 0.30% of NAV	Unsecured, no impairment
Commission expense	**328,662,551**	**41,913,103**	361,927,573	25,991,100	Interest-free, settlement in cash	Unsecured, no impairment
Pension liability	–	**102,769,498**	–	96,409,230	Interest-free, settlement in cash	Unsecured, no impairment
Trust fees	**283,740**	–	273,316	–	Interest-free, settlement in cash	Unsecured, no impairment
Rent expense	**63,936,896**	–	63,843,284	–	Interest-free, settlement in cash	Unsecured, no impairment
Rent income	**815,256**	–	776,403	–	Interest-free, settlement in cash	Unsecured, no impairment
Premium income	**173,535,566**	**29,177,745**	191,805,010	14,919,046	Interest-free, settlement in cash	Unsecured, no impairment
Claims	**58,493,588**	**30,000**	55,902,064	30,000	Interest-free, settlement in cash	Unsecured, no impairment
Gross experience refund	–	**79,089,126**	–	53,390,373	Interest-free, settlement in cash	Unsecured, no impairment
FMIC						
Premium income	**983,266**	–	1,047,153	–	Interest-free, settlement in cash	Unsecured, no impairment
AXA S.A.						
Shared service costs	**251,935,007**	**306,592,568**	249,112,468	192,814,761	Interest-free, settlement in cash	Unsecured, no impairment
Various expenses	–		–	2,601,387	Interest-free, settlement in cash	Unsecured, no impairment
Subsidiary						
CPAIC						
Premium income	**433,340**	–	409,135	–	Interest-free, settlement in cash	Unsecured, no impairment
Gross experience refund	–	**12,472**	–	12,472	Interest-free, settlement in cash	Unsecured, no impairment
Unit-linked funds						
Asset management fees	**1,248,123,841**	**158,244,979**	1,045,442,595	153,640,781	1.30% to 2.10% of NAV	Unsecured, no impairment

	2016		2015			
	Amount/volume	**Outstanding Balance**	Amount/volume	Outstanding Balance	Terms	Conditions
Other related parties						
Philippine Savings Bank						
Savings, current and time deposits accounts	**₱–**	**₱890,681,049**	₱–	₱144,630,540	90 days, 0.25 % to 3.75%	Unsecured, no impairment
Interest income	**13,310,430**	**–**	2,133,288	–	90 days, 0.25 % to 3.75%	Unsecured, no impairment
Premium income	**231,644,757**	**37,218,702**	211,170,378	34,906,757	Interest-free, settlement in cash	Unsecured, no impairment
Claims	**73,094,612**	**–**	53,849,376	–	Interest-free, settlement in cash	Unsecured, no impairment
Gross experience refund	**–**	**21,143,809**	–	12,841,489	Interest-free, settlement in cash	Unsecured, no impairment
Federal Land						
Premium income	**491,262**	**–**	440,094	–	Interest-free, settlement in cash	Unsecured, no impairment
Orix Metro Leasing and Finance Corporation						
Premium income	**1,487,708**	**–**	746,589	–	Interest-free, settlement in cash	Unsecured, no impairment
Toyota Motor Philippines Corporation						
Premium income	**7,740,617**	**–**	6,864,865	–	Interest-free, settlement in cash	Unsecured, no impairment
Claims	**5,031,938**	**–**	2,028,049	–	Interest-free, settlement in cash	Unsecured, no impairment
Gross experience refund	**–**	**6,192,221**	–	4,807,111	Interest-free, settlement in cash	Unsecured, no impairment
AXA Malaysia						
Various expenses	**–**	**84,701**	–	84,701	Interest-free, settlement in cash	Unsecured, no impairment
AXA HK						
Various expenses	**–**	**3,737,590**	–	118,291	Interest-free, settlement in cash	Unsecured, no impairment
AXA Paris						
Various expenses	**–**	**1,043,211**	491,702	491,702	Interest-free, settlement in cash	Unsecured, no impairment
Key management personnel						
Compensation and benefits	**136,912,820**	**–**	91,064,814	–	Interest-free, settlement in cash	Unsecured, no impairment
Directors' fees	**8,830,000**	**–**	7,160,000	–	Interest-free, settlement in cash	Unsecured, no impairment
Due from officers and employees	**–**	**44,794,683**	–	35,487,937	6% to 12% interest bearing, settlement in cash or salary deduction	Secured, with impairment

Except for the car loans of the officers and employees, receivable from/payable to related parties are not secured. No guarantees were given by the Parent Company nor received. Allowance for impairment losses on due from officers and employees amounted to ₱3,446,157 and ₱2,835,797 as of December 31, 2016 and 2015, respectively. No expense was recognized in 2016 and 2015 in respect of bad or doubtful debts due from related parties.

26. Commitments

Operating Lease Commitments

Company as lessee

The Parent Company entered into commercial leases on certain offices for its branches. These leases have an average life of between 1 to 5 years with renewal terms included in the contracts. Certain lease contracts also include escalation clauses. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rental payments under noncancellable operating leases follow:

	2016	2015
Within one year	**₱90,089,803**	₱87,281,197
After one year but not more than five years	**297,098,746**	387,188,549
	₱387,188,549	₱474,469,746

Company as lessor

The Parent Company has entered into property leases on its investment properties, consisting of the Parent Company's surplus office spaces. These non-cancellable leases have remaining lease terms of below 5 years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases follow:

	2016	2015
Within one year	**₱1,605,101**	₱815,223
After one year but not more than five years	**2,753,328**	855,984
	₱4,358,429	₱1,671,207

27. Contingencies

The Parent Company is a defendant in several lawsuits arising from the normal course of carrying out its insurance business. The Parent Company currently does not believe these proceedings will have a material adverse effect on the Parent Company's financial position.

28. Supplementary Tax Information under Revenue Regulations No. 15-2010

In compliance with the requirements set forth by RR 15-2010 hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

Value Added Tax (VAT)
The Parent Company is exempt from VAT being engaged in the business of life insurance under Section 4.109-1 (B)(e)(6) of Revenue Regulation No. 16-05 or otherwise known as the Consolidated VAT Regulations of 2005. However, it is subject to percentage tax under Section 123 of the Tax Code, as amended. Hence, it paid the amount of ₱71,246,608 in 2016 as percentage tax based on the amount reflected in the premiums on insurance contracts of ₱3,562,330,398.

Revenue Memorandum Circular (RMC) No. 30-08, as amended by RMC 59-08, provides that management fees, rental income, or income earned by the life insurance company from services which can be pursued independently of the insurance business activity are not subject to 5% (now 2%) premium tax but the same are treated as income for services that are subject to the imposition of VAT pursuant to Section 108 of the Tax Code, as amended.

In compliance with the said RMC, the Parent Company paid VAT amounting to ₱149,909,395. Details are as follows:

	Tax base	VAT
Asset management charge	₱1,248,123,839	₱149,774,861
Rental income	1,121,116	134,534
Balance at end of the year	₱1,249,244,955	₱149,909,395

Documentary Stamp Tax (DST)
The DST paid/accrued on the following transactions are:

Transaction	Tax base	DST
Life insurance policies		
Sum insured	₱44,078,385,804	₱2,363,710
Policy loan	68,865,412	344,987
Individual certificates of group insurance	6,375	95,625
Balance at end of the year		₱2,804,322

Other Taxes and Licenses
This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the 'Operating and administrative expenses' sections in the Parent Company's 2016 Statement of Comprehensive Income. Details consist of the following:

Local	
Mayor's permit	₱11,440,981
Real estate taxes	447,415
Community Tax	20,154
	11,908,550
National	
Fringe benefit tax	4,020,755
Final withholding VAT	1,267,854
Regulatory body fees	206,249
BIR annual registration	16,500
	5,511,358
	₱17,419,908

Withholding Taxes

The amount of withholding taxes paid and accrued for the year 2016 amounted to:

Tax on compensation and benefits	₱253,848,372
Expanded Withholding Taxes	187,185,800
Final withholding taxes	3,002,906
	₱444,037,078