Insular

2009

ANNUAL REPORT

We Plan the Future with You

Mission Statement

Our mission is to provide a full-range of high-value insurance products and other financial services that empower families to fulfill their dreams, thus helping build a stronger Philippines.

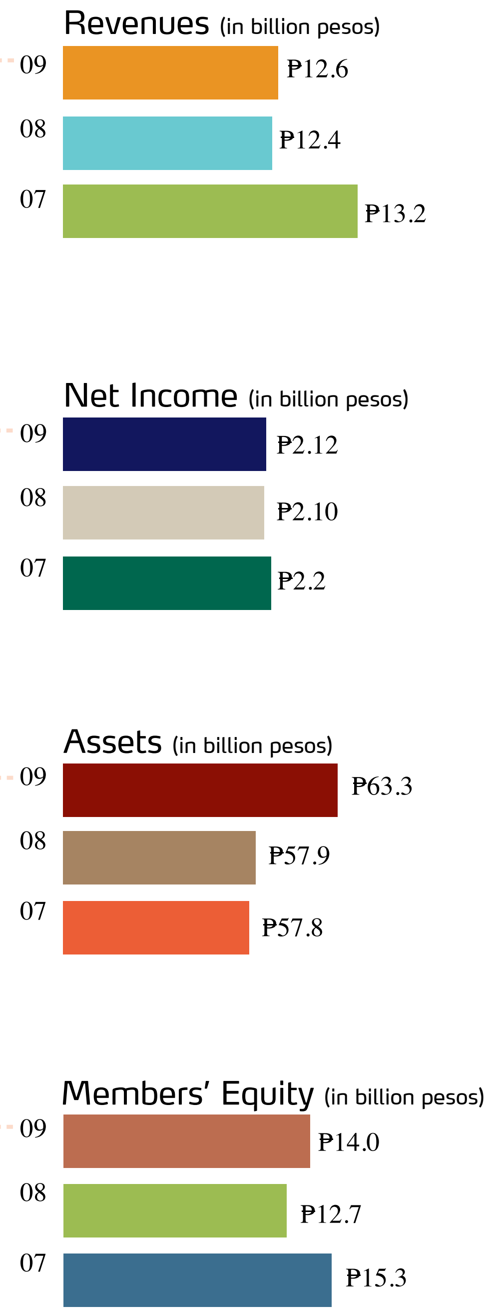
We are Insular Life, the pioneering and largest Filipino life insurance company. We enable our professional, customer-oriented employee and agency force to render service of the highest quality.

We optimize stakeholder value by pursuing strategic opportunities, and by achieving sustained growth through dynamic marketing, prudent investments, and exceptional service.

In pursuit of our corporate mission, we are guided by our core values:

- Love of God and Country
- Integrity
- Excellence
- Prudence
- Respect for the Individual
- Teamwork

Consolidated Financial Highlights



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Message to Policyholders

Dear Policyholders:

In November 2009, Insular Life turned 99 years old. A year shy of its centennial, your Company has steadily shown marked improvement as we continue to leverage on our long years of experience enabling us to read the market well and spot opportunities that would create better value for our stakeholders. From developing product offerings for the insuring public to strengthening our investment portfolio, we have always exercised prudence, mindful of our short-term needs and long term obligations.

Insular Life has remained to be the insurance company that you can trust, and our 99 years of service highlights the fact that you can depend on Insular Life to be with you as you see the fulfillment of your dreams. It has been part of our discipline to envision, prepare, then build what the future will require.

In every decision we make, we remain focused on the interests of our policyholders, our agents, our people, and the communities we touch. WE PLAN THE FUTURE WITH YOU is not only the theme of this Annual Report; it has been our commitment to you since day one, when you entrusted your financial security with us.

Today's difficult business and social realities have only strengthened our resolve to enrich the trust you have placed in us. We are developing new revenue streams, enhancing our portfolio of products, strengthening our balance sheet, and making a positive difference in people's lives.

We consider our age and agility as our competitive edge when it comes to having the ability to flex up or down as economic conditions and paradigms shift. These give us the resiliency to power through hard times like the present.

Domestic and Global Economies

In 2009, the Philippine economy was hit by a double blow – the global economic recession that created the most difficult business environment since the Great Depression, and the havoc from the tropical storms Ondoy and Pepeng that cost the domestic economy ₱38.32 billion.

Thankfully, dealing with challenges is no longer unfamiliar terrain for our countrymen. Against all odds, our economy emerged as one of the few in Asia that posted positive growth in 2009. Our full-year Gross Domestic Product (GDP) was up 0.9%, well within the national government's target range of 0.8% to 1.8%.

While our agriculture sector – which accounts for a third of our economy – was the hardest hit because of the typhoons, the double-digit growth in retail trade, the financial sector, recreational services, and the mining sector, as well as the recovery of the manufacturing sector, gave the impetus that buoyed our country's economic stance.

Consumer spending was up. Increase in government's funds release for relief and rehabilitation of areas affected by tropical storms, as well as for the automated May 2010 elections, offset the impact of less investments and export demand from our major trading partners.

Moreover, remittances from overseas Filipino workers (OFWs) propelled consumer spending and thus kept domestic consumption at a healthy level. Even amid concerns that the global crisis would adversely affect income from abroad, remittance inflows from the country's estimated 8.2 million OFWs grew by 15.6% in 2009 from US$22.4 billion in 2008. They sent home US$25.9 billion, averaging more than US$2 billion a month.

And while it was the worst of times for the agricultural sector and the global economy, it was the best of times for the financial markets. The Philippine Stock Exchange index (PSEi) surged 63% to close at 3,052.68 from 1,872.85 during the last trading day of 2008. This made it one of the best-performing equities markets in Asia.

Riding on these portfolio flows and higher OFW remittances, the peso continued to strengthen against the US dollar and ranked as the most stable currency in the world, next to the Chinese yuan, on a year-to-date percentage basis.

With the credit crunch from the global financial crisis, Philippine companies turned to the domestic market, which was awash with liquidity, and took advantage of the relatively low and stable interest rate environment. As a result, several companies buoyed the local debt market with unprecedented volumes of debt issues, putting the spotlight on the Philippines. Even the National Government made history with its ₱114-billion Retail Treasury Bonds offer.

The financial system also continued to manifest its resiliency and strength. Total resources expanded by 7% to ₱7.95 trillion from 2008 levels. Despite the global financial turmoil, the Philippine banking system has remained largely stable with a Capital Adequacy Ratio of 15.68% – much higher than the 10% minimum required by the Bangko Sentral ng Pilipinas.

Our Consolidated Performance in 2009

Amidst the strong economic headwinds in 2009, your Company, Insular Life, drew on its strengths to produce positive results. In 2009, net income increased to ₱2.12 billion compared to 2008 performance.

Consolidated assets rose 9.3% to P63.3 billion in 2009 from ₱57.9 billion the previous year. Consolidated liabilities grew 9.1% to ₱49.3 billion from the 2008 level of ₱45.2 billion. Total members' equity amounted to ₱14.0 billion, posting a 10.2% growth. Gross earned premiums increased by 5.6% to ₱7.5 billion on a consolidated basis from ₱7.1 billion. Our investment income of ₱3.7 billion, equity earnings of our associates of ₱741 million, net realized gains of ₱305 million and rental income of ₱245 million contributed to the increase of the Group's total revenues to ₱12.6 billion. Total policyholders' benefits, claims, changes in legal policy reserves and other operating expenses amounted to ₱10.2 billion from the previous year's ₱10.3 billion. Dividends to individual life insurance policyholders reached ₱1.2 billion from ₱1.1 billion in 2008. By end-2009, total life insurance business in-force reached ₱196.1 billion.

Amidst the strong economic headwinds in 2009, Insular Life drew on its strengths to produce positive results.

We believe there will be greater opportunities to enhance our bottom line as the global economy begins to recover.

Parent Company

Parent company Insular Life posted profits of ₱1.5 billion in 2009. While this was 21% lower than the ₱1.9 billion in 2008, we nonetheless consider this an achievement given the challenges that gripped the economy in 2009. Through our prudent approach to investment, a continuous drive to strengthen our pipeline of products, and a renewed focus on efficiency, we responded to the changing economic environment with speed and success.

While we sustained investments in marketing and product development, our parent company's full-year revenue was slightly lower at ₱11.6 billion from ₱11.9 billion the previous year. Gross earned premiums on insurance contracts, however, went up 5% to ₱7.2 billion from the 2008 level.

Investing for the Future

Our success is inextricably linked to your financial well-being. As such, we have always focused on prudence in diversifying our investment portfolio, with an eye toward the long haul.

As of end-2009, parent company Insular Life's managed assets under our Investment team grew 13.7% to P42.8 billion from the year-ago level of ₱37.6 billion. Fixed-income assets still accounted for 70% of our investment pie.

We played an active role in capital market development in 2009. We extended ₱2.8 billion to seven local companies involved in property development, power generation and distribution, and telecommunications. This boosted our corporate term loan portfolio by 25.4% to ₱11.0 billion from the previous year's ₱8.8 billion. This portfolio has now grown to include 21 prime corporate names from only nine in 2004, with zero default.

In addition, we also stepped up our investments in peso and dollar bonds by almost 9% to ₱17.5 billion in 2009 from the previous year. This resulted in higher interest income of ₱1.6 billion, or up by almost 6% from 2008 levels.

We also took positions in government securities with tenors ranging from 10 to 20 years to lengthen the average life of our peso bond portfolio. This enabled us to maintain our double-digit composite yield despite the downtrend in interest rates. We likewise participated in the government's bond exchange program in January and in the process realized gains amounting to ₱21.9 million.

Subsidiaries and Affiliate

2009 was a banner year for our subsidiaries and affiliate, which contributed to our Company's stellar financial performance.

Insular Health Care, Inc. posted revenues of ₱294.4 million – its highest in 18 years – from ₱271.4 million the previous year. Net profit after tax more than doubled to ₱25.0 million from P9.5 million in 2008. Total assets stood at ₱265.1 million.

Insular Investment and Trust Corporation registered significant growth in 2009, with net income reaching ₱4.4 million. Its gross revenues stood at ₱38.9 million.

HomeCredit Mutual Building and Loan Association's net income before taxes stood at ₱3 million, similar to 2008 levels as the company maintained its growth in membership, loans, and real property sales. In 2009, HomeCredit generated 1,265 members, 51% higher than the previous year. Gross loans extended to members reached ₱22 million, an 83% rise from ₱12 million in 2008.

Affiliate Mapfre Insular Insurance Corporation celebrated its 75th anniversary in 2009. One of the country's top non-life insurers, Mapfre Insular recorded ₱1.5 billion in gross premiums and a net income of ₱184.4 million in 2009. It had total assets of ₱2.8 billion and total equity of ₱1.3 billion.

New Corporate Brand

As we approach our 100th founding anniversary as an institution, we embarked on a journey of self-discovery in 2009 and took a hard look at the future.

After months of consultative discussions with the help of two branding experts, we came up with a new brand promise: "Your far-sighted guardian." This is depicted in our new logo that features the Philippine eagle, the *Pithecophaga jefferyi*. The choice of the Philippine eagle is very symbolic. With its forward gaze, keen and sharp vision, the eagle represents Insular's commitment to look out for our customers' needs at every life stage and to help them plan ahead for an assured and financially secure future. Our new brand identity also pays homage to the original Insular Life seal used in 1910 that also depicted an eagle.

Along with our new logo and other representations of our new visual identity is our new corporate tagline, "Look ahead. Be assured." The new corporate brand promise will shape all that we do in terms of people development, products and services, communications, and the experience we give at every customer's touchpoint. Through our brand identity and promise, we hope to stay relevant to you, as well as motivate and inspire our employees and agents. As a company, we also aim to leverage on our brand strength to create a competitive advantage.

Products and Services

Amidst the difficult economic conditions, Insular Life continued to invigorate the marketplace by introducing in 2009 new products and compelling campaigns as we geared up to mark the celebration of our centennial anniversary this year. Notable among these were two "first to market" endowment products – the ***Peso Earner*** and the ***Dollar Endowment 5*** – which offered superior insurance and investment return benefits to a market seeking financial safe havens.

Since we introduced these products during the first half of 2009, we have generated strong new business premiums, which we sustained throughout the year. This enabled us to be the only top-ranked insurer in the industry to post a positive growth of 17% in new sales revenues during the year.

In November 2009, we launched a customer information update campaign with corresponding rewards for successful updates. Dubbed ***CASHandog Centennial Edition***, the year-long program gives policyholders with in-force policies, who update their information, additional accidental death insurance coverage, and the chance to win in the daily, monthly and grand raffle draws. This is our way of rewarding you for being our loyal partner in our 100-year journey of success.

We also introduced a new product called ***I-Assure Sulit***, a 20 years-to-pay protection plan that provides lifetime insurance coverage. True to our commitment to providing policies at affordable costs to every Filipino, ***I-Assure Sulit*** is available for a minimum of ₱23.00 savings per day for a ₱300,000 face amount for issue age zero.

Still with an eye toward enhancing our services to our policyholders, we created the Customer Portal, a private and secure site that allows policyholders, instant 24/7 access to Policy Information and company updates, and a mailbox that serves as your "direct line" to us. We shall add more online services to better respond to your needs.

We likewise placed a web-based Agents' Portal which allows our agents to view their status pertaining CA Renewal, drives, contests and honors programs, and Statement of Account; download Company circulars, memos, presentations and other sales material through the e-Library; check policy details of their clients; and generate proposals using the I-Quote online. These are just initial features which we would further enhance to more efficiently support our agents.

2009 was also a fruitful year for our Wealth Series products. The various fund types on which the Wealth Series products are invested gave a strong showing during the year: the **Peso Fixed Income Fund** grew 6.1%; the **Equity Fund** rose 60.9%; the **Balanced Fund** posted 27.3%; and the **Dollar Fixed Income Fund** increased 17.7%. Moreover, we are pleased to note that the Equity Fund earned the highest gains among the funds since its inception in 2005, posting 63.2% or a 10.66% effective return rate per annum.

A Year of Reorganization, Recognition

During the year, our Sales & Marketing Group realigned its units to better achieve our key objectives. We created the Office of the Chief Agency Executive, headed by First Vice President Ramon M. Cabrera, to focus on the expansion of our agency manpower and increased productivity. The new office will be in-charge of the following sales divisions: Metro Manila Direct Agencies, North/Central Luzon, South Luzon, and Visayas-Mindanao. It will be supported by the Agency Recruitment and Development Office which is tasked with the expansion of our agency force.

We likewise established a new sales unit called Business Development to ensure that our strategic thrusts are relevant to business expansion, as well as contribute to income generation and our overall productivity.

Reflecting our consistent efforts to improve the quality of our agents, 58 Insular Life agents met the requirements in 2009 to qualify for membership to the Million Dollar Round Table (MDRT) in 2010. The MDRT is an international association of the world's leading life insurance and financial services professionals. MDRT membership is recognized internationally as the standard of sales excellence in the life insurance and financial services business.

Amidst the economic conditions, Insular Life continued to invigorate the marketplace by introducing in 2009 new products and compelling campaigns.

In addition, 19 of our agency leaders qualified to the General Agency & Managers Association (GAMA) International Management Award. GAMA International is the only international association dedicated to supporting the professional development of agency leaders in the insurance and financial services industry.

We continued to reap recognition for breaking new ground in our corporate publications and collaterals. In 2009, Insular Life's calendar set, ***Alamat at Mitolohiya***, won two awards: a Philippine Quill Merit award from the International Association of Business Communicators (IABC) Philippines, and another Merit trophy from the Anvil Awards mounted annually by the Public Relations Society of the Philippines.

Our Company was also recognized "for the outstanding production of a calendar that features illustrations and an innovative design that are targeted to engage the young, and a mix of familiar and new stories that were selected to spark further exploration into Filipino folk literature." The calendar set, which features beloved Filipino myths and legends, aims to increase the youth's appreciation for Philippine culture, especially literature.

Giving Back

Being a 100% Filipino-owned institution whose longevity lies in our long partnership with the Filipino people, we recognize our corporate social responsibility. 2009 was a trying time for many Filipinos and this allowed us to demonstrate our commitment as a responsive corporate citizen.

When tropical storm Ondoy unleashed its fury in late September 2009 and brought havoc to thousands of Metro Manila residents, including a number of our employees and agents, it became an opportunity for the Company to come together as a family. We all buckled down to gather, sort, pack and distribute food, clothing, medicine and other relief goods to affected Insular Life employees, agents, security and maintenance personnel. In addition, we also came to the aid of our nearby communities in the City of Muntinlupa.

The improvement and access to quality public school education for majority of our youth has always been the driving force behind most of the Insular Foundation programs. Alongside existing education programs, we forged a groundbreaking project with Gawad Kalinga for the ***Tambayan ng mga Bayani*** (***Tambayani***) Program, benefiting both out-of-school youth and in-school youth ages 13 to 21 years old. Insular Life donated ₱1.1 million to Gawad Kalinga which was received by its founder, Antonio Meloto, Jr., to fund the GK Tambayani project in GK Manggahan Kawayanan in Parañaque City that we are supporting.

We likewise sustained our commitment in education through various college scholarships under the Insular Life Gold Eagle Award, the University of the Philippines Scholarship Grant Program, and the Insular Life Dependents' Scholarship Program. During SY 2009-2010, we had a total of 17 Insular Life scholars under these programs. In addition, 100 Grade One pupils of the Muntinlupa Elementary School became part of our Adopt-a-Scholar program.

2009 was a trying time for many Filipinos and this allowed us to demonstrate our commitment as a responsive corporate citizen.

With our support, more than 150 elementary and secondary public school principals completed the Ateneo Center for Educational Development's Principal Empowerment Program (PEP) in 2009. The PEP is an eight-month training course that provides a holistic approach to school management and equips principals with the skills to improve the quality of education in their respective schools.

In July 2009, we mounted the Insular Life and Adarna House Storytelling Workshop, now on its third year. Educators and social workers from the Educational Research and Development Assistance (ERDA) Foundation participated in the workshop together with some of our employees and agents. These storytellers would later be tapped for the forthcoming storytelling events that Insular Life will hold in various schools.

We also renewed our commitment to honor great Filipinos through our partnership with the JCI Senate Philippines for the 2009 The Outstanding Filipino (TOFIL) Awards. In its 23rd year, the TOFIL recognized five more Filipinos: Teotimo M. Aganon, Ph.D. (*Science and Technology*); Senen C. Bacani (*Agriculture*); Arturo C. Cunanan, Jr., M.D., Ph. D. (*Public Health*); Lydia B. Echauz, D.B.A. (*Education*); and Oscar M. Lopez (*Business*).

An Exciting Future

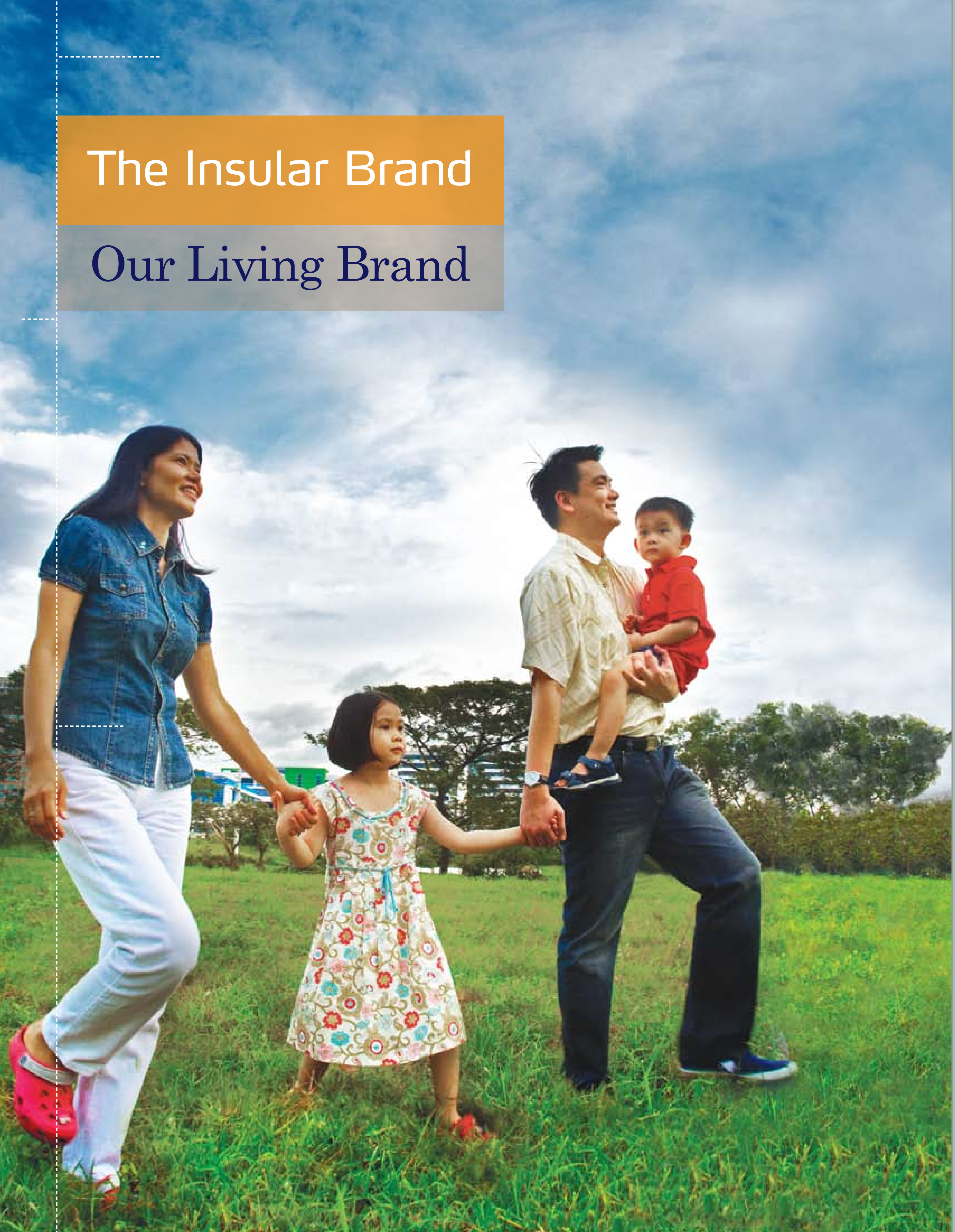
As we prepare to mark our 100th year as an institution, we look back at our humble beginnings and our rich past. Insular Life could not have existed this long without the extraordinary support of our policyholders, employees, agents and partners in nation-building.

Without a doubt, our greatest asset is the collective strength, ingenuity and creativity of our people. We are rich in committed people who are always ready to serve our customers and communities. We have continued to improve service levels during the toughest of times. Thus, we are confident to approach the future with more focus than at any time in our history.

For this, we see the future with you – with much hope, passion, and excitement.

Vicente R. Ayllón
Chairman of the Board and Chief Executive Officer

Mayo Jose B. Ongsingco
President and Chief Operating Officer



The Insular Brand

Our Living Brand

It is said that a brand is the sum of all the hearts and minds of every single person that comes into contact with a company. It is thus a living entity, enriched over time, the product of a thousand small gestures.

In 2009, on the eve of our centennial year, Insular Life gave life to a refreshed brand identity – a product of more than a year-long journey of self-retrospection.

So much has changed in the world since the Company started in 1910, especially with the advent of the Internet Age. Understanding who we are and what we stand for in the midst of all these changes required taking a hard look at our beliefs and values as an institution.

Thus, we embarked on a branding project that was designed to distill the essence of the Insular brand: how it would continue to inspire our employees and agents, how it would resonate with our customers so that Insular Life's image will remain refreshed and relevant, and how it will help us build on our strengths to create a competitive edge in the market.

From Conception

Conceiving the new brand took one year and seven months. Insular Life tapped two branding experts to help position our brand for the future. The branding project also entailed conducting extensive research, interviewing staff, and having several rounds of internal discussions.

We pored over all our business strategy documents, product brochures, communication materials and website. We studied what our competitors are doing and learned from their best practices. We visited our regional, as well as district offices. We conducted 10 one-on-one interviews and seven focus group discussions that involved management, our sales force, media, and consumers. We also engaged a market research firm to get feedback from all our key customer segments.

During the process, we found out that the key ingredients of our brand are strength, prudence and heritage, which spark confidence in our customers through good and bad times. Customers want us to look after their interest, understand their needs before offering our products, and help them learn about financial matters. Customers like an image that conveys experience but is approachable.

The Insular Brand

Our New Brand Promise

The journey of one year and seven months led us to a new brand promise. With our rich experience as a leading Filipino life insurance company, we are the Filipino's far-sighted guardian.

We understand customer needs, in whatever life stage they are in. We look out for their best interest. We share our experience and knowledge and help them lay solid foundations for the future.

The symbol of this new brand identity is the Philippine eagle. In addition to being one of the largest in the world, it also possesses the traits of Insular Life: a loyal mate and partner, and a strong protector. With its keen vision and lofty perch, it is able to provide for its family's needs and protect them as well. These are traits that we want to relate strongly with the Insular brand.

As the far-seeing guardian, Insular is prudent, sincere and has a keen foresight – our new brand attributes. The guardian eagle also reflects our corporate heritage: our very first logo in 1910 made use of the eagle as an icon. We have also been prominently using the eagle icon in our corporate identity over the years. Our flagship education program, in fact, was named the Insular Life Gold Eagle Award.

Making The Brand Stick

As we launch the new brand in 2010, we will consistently embed Insular's promise of the far-sighted guardian within our corporate culture and in all our communication materials, products, business and CSR programs, and at every stakeholder touch point, including our sales and service offices. The brand identity will be supported by our new tagline "Look ahead, be assured." which will help us communicate our brand promise to our customers.

We have created a distinctive visual identity system for the brand. We now have two specific sets of color palette, a primary and a secondary one, that will clearly distinguish Insular.

the

guardian

We likewise applied the idea of the far-seeing guardian into our photography schematics. Our communication materials and advertisements will highlight images of horizons: people looking into the distance, silhouettes against open spaces, paths leading to the horizon, people looking to the future. A distinct secondary visual element, a timeline, will be applied to our communication materials as well. This will signify life stages, which is tied to Insular's current marketing stance. Finally, the new corporate font types will be Max and Century.

Through our ability to successfully integrate and implement all elements of our brand into our organization, we aim to create a brand equity that will leave a lasting imprint in the hearts and minds of those who come into contact with Insular.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Insular
We Plan the
Future with You

Elenita C. Bolipata, Insular Life Policyholder

Living the dream:

A widow counts her blessings

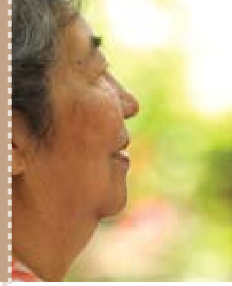
As a 76-year old widow, I am so fortunate to have been witness to the success of all of my children. My grandchildren appear to be also on their way. So when asked, "How do you see yourself in the future?" all I could say with a humble smile, "I am already living it."

Right now, I live with my youngest daughter Rica, her husband and her kids in a subdivision in Quezon City. I wake up at 6 a.m. I hear mass on my TV, which only has four channels: EWTN, TV Maria, TCM, and Basketball TV. Afterwards, I listen to classical music until noon. I eat lunch. I then take a nap and spend the rest of the afternoon watching TV or reading. I am usually in bed by 9 p.m.

It wasn't this peaceful some 40 years ago. I was a full-time mother to six very talented children. I may not know how to cook, but I nurtured them. Three of my six kids, Alfonso (Coke), Jaime (Jed) and Ramon (Chino), got into music.

Before we knew it, our Mabini house resonated every afternoon with the loud sound of three boys rehearsing simultaneously, their cello, violin, and piano making beautiful music together, and I, their proud, dutiful mother fully supportive and doting eternally. We were making regular trips to the Cultural Center of the Philippines.

If other kids their age watched movies and played outside, the Bolipata boys practiced their instruments without being told to, believing what I habitually preached: always hold on to your instruments like birds do their wings.



My three girls were equally successful. I have a talented painter (Preciosa or Plet), a multi-awarded writer (Rica), and a lawyer (Socorro or Non), who was no doubt influenced my late lawyer-husband. He insisted that there's also an art in the legalese. I believed him, of course.

But music is my first love. I'm eternally grateful that something in them responded to music. While in one respect I admit I'm a bad mother because I can't cook, I'd like to think I nourished my kids to be the world-class artists that they are today. From cramming to fix things for a CCP performance to the simple leeway of letting them do what they want, I'm very happy with how things turned out.

When I look back, I think it's only natural for a parent of such talented kids to be excited and protective of their future. This is why life insurance is very important. That my husband, Ricardo, sold insurance policies to work his way through college only underscores its value to us as a family.

A family friend introduced us to Insular Life. It is one of the reasons I have no fears about the future, except perhaps in the field of politics or my favorite basketball team losing. All my kids have Insular Life policies of their own, something we attribute to the trust that the brand has cultivated over the years and decades. Claiming had never been an issue, and things are facilitated quickly.

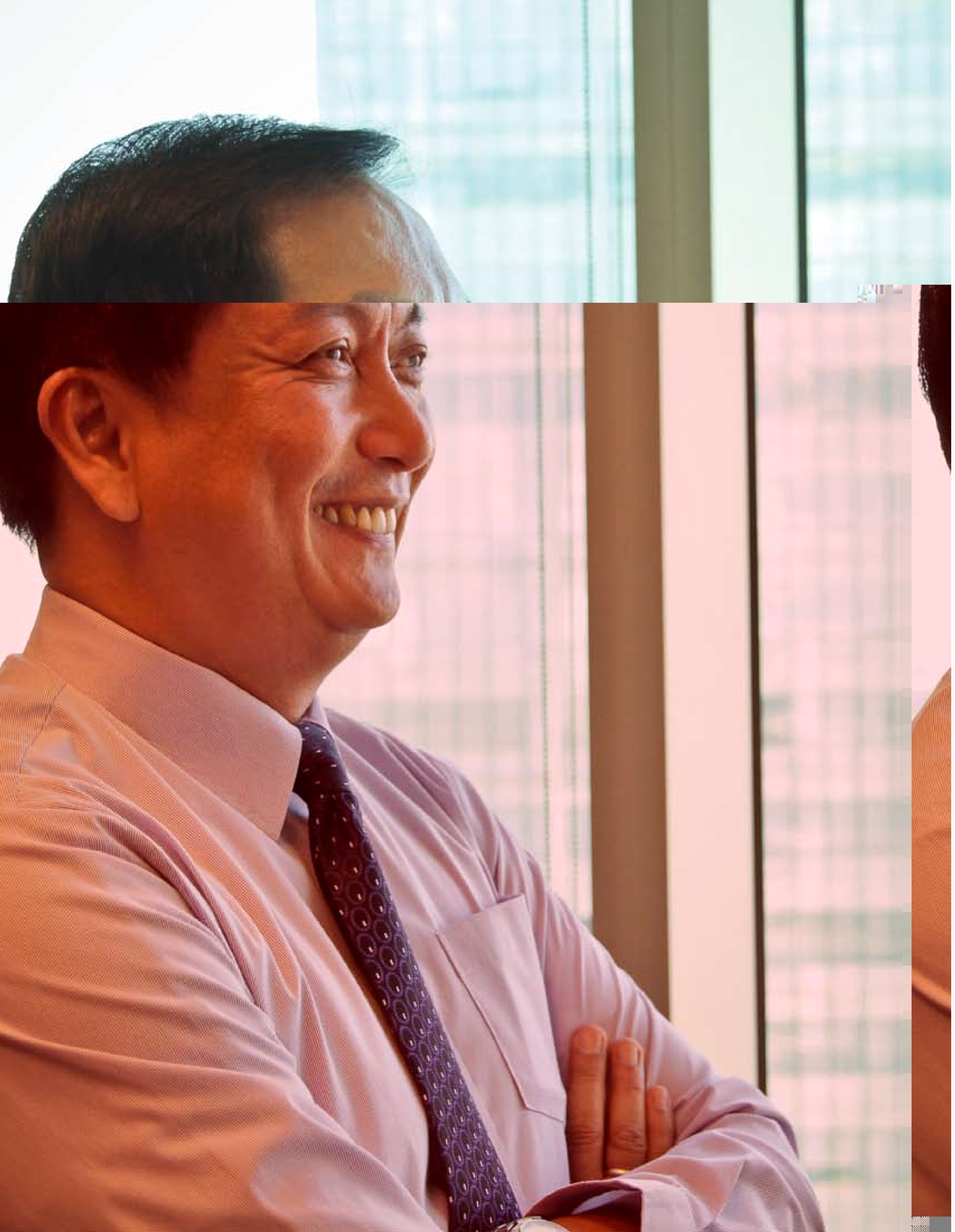
The Bolipata family photo taken during Ricardo and Elenita's 40th wedding anniversary. (Seated, L-R). Preciosa B. Borlongan with Yakovina, Elenita, Ricardo with Aviva, Socorro B. Lerer, and Rica B. Santos. (Standing, L-R): Jaime, Ramon, Alfonso, Michael Lerer, and Rodolfo Santos. Not in photo: Elmer Borlongan

"This is why life insurance is very important. That my husband, Ricardo, sold insurance policies to work his way through college only underscores its value to us as a family."

Something happened recently that further solidified this trust. When my husband passed away, it turned out that I overlooked two policies. Insular Life Information Services Department head Tisha Cruz found out about them. Their cash value had since risen to ₱900,000. Since she lives in the same subdivision, she took it upon herself to personally deliver the letter to me. I got the check recently.

I was thrilled, but not only at the windfall. I was touched that the company went beyond the normal customer service to do something extra for me. It helped securing not just my future, but my grandkids' as well.

At the end of the day, I have faith that God knows what is best. Worrying about the future has never been an occupation of mine. I feel blessed through and through, and as a grandmother watching her grandchildren grow up with the same talent and fervor as their parents, I am confident the future will come in a high note.



Ramon M. Cabrera, Employee

Ready for the future:

A top career man invests in loyalty

Would you entrust the future of your family and stake your career in a single company in your lifetime? Many people cringe at the thought. A wise man would never place all his eggs in a single basket. The unforeseen and the unexpected have always marked these uncertain times. Nonetheless, both my family and career have grown and flourished in Insular Life and I believe that in the years ahead, my basket will not topple.

Having worked in sales for the past twenty five years, I can convincingly say that I've encountered almost all kinds of pains and gains in the field. I have also worked with so many kinds of people among the sales force and the industry. These experiences have enriched not only my career in sales but they have as well gifted me with friendships that have stood the test of time.

And then of course, there is Insular Life.

Simply put, Insular Life has taken very good care of me.

There are two basic facets in my life: my career and my family, though not necessarily in that order. As an employee, I worked my way from being a trainor, to a district manager, regional manager and then division manager. Right now, as Chief Agency Executive Officer, I head sales for Metro Manila, Luzon, Visayas and Mindanao. Things did not always come easy though, nor did they just fall into place. I studied hard and worked even harder. I know what and how much I can demand from those working with me because I too have been where they are now. And it is for this reason that I constantly keep myself abreast of developments in the industry. I try to learn and go beyond life insurance. Amidst all the demands of my job, I managed to complete the requirements to earn the title Fellow in Life Management Institute (FLMI) and I am currently enrolled in a course that will lead to a degree in Fellow in Financial Services Institute (FFSI).

I always ask myself: What more can I do to grow in my career? And then I say to those I work with: If I can do all these things, if I can accomplish all these things, so can you.

But then again, my life is not all work. I have a wonderful family that I am extremely proud of. My eldest son, Carlo, 23, is currently taking his master's degree; Daniel, 21, is a freshman law student; and Kina is a sophomore student in medical school. Incidentally, Kina is a beneficiary of the Insular Life Employee Dependents Scholarship Program and she has been enjoying this privilege for the past four years, successfully maintaining the grade requirement of the Program.

While my work entails a lot of travel and demands so much of my time, I am still able to indulge in pleasures like playing golf, cooking special dishes for my family, and tinkering around the house. Living in a village just five minutes away from the office makes a big difference, too. Almost always, I eat all my meals at home and have more time to be with my wife.

Having a healthy balance between career and family makes me optimistic about the future. I am not one who dwells so much on problems; I look for solutions. I do not want to focus on the negative aspects of a person; I choose to see his strengths. Challenges urge me to learn more. One case in point is that economic crises directly affect our industry. They can even jeopardize my children's future. Yet I don't toss and turn in my sleep. The skills, knowledge and experience I have gained through the years assure me that while life may sometimes take a wrong turn, I am in control of my life and my family's welfare.

I can manage to say all these because I have prepared my family and myself for any eventuality that may come along. Upon retirement, I shall be financially secure. By then, my children will have finished school, advanced in their careers and maybe have their own families. I may even have the opportunity to spoil my grandchildren. Meantime, my wife and I will get to do what we enjoy, like travelling and seeing the world together. And when my time comes, I know that my loved ones will not be left wanting. After all, I am also a loyal client of Insular Life.

The Company was built on solid ground and while, in the past, there were rumblings in the economy and in the industry, Insular Life has always remained stable and committed to its clients, sales force and employees.

Jocelyn M. Flores, Agent

The future is now:

A life planner lives with passion

In my 23 years of selling life insurance, I have already gained a lot of lessons that have enriched my professional as well as personal life.

Some say insurance is not easy to sell because it's not tangible; people literally don't see anything but paper when they buy, and the benefit can only be reaped in the future. But as soon as I sealed my first million-peso policy six months after becoming an Insular Life underwriter in 1987, I realized that selling is just a matter of mindset.

If you know your product well, you know the plan, you believe in the company you represent, and you approach the right people who need insurance, there's no such thing as "hard sell".

Every month, I psyche myself up: "I will get a ₱1 million commission today." I creatively visualize it and it usually happens. Since I became Unit Manager in 1988, I would always be recognized as "Unit Manager of the Month." In the near term, I want to see myself winning the "Unit Manager of the Year" and our district, Quezon Avenue, winning the "District of the Year" on the centennial year of Insular Life.

When I became an agent 23 years ago, the premiums were still small. We would already be called a "Million-Peso Producer" if we were able to sell a ₱1 million coverage. Nowadays, if you sell ₱1 to 2 million, that's ordinary. After a year or so, ₱1 million will no longer be that much. But whether your coverage is ₱1 million or ₱10 million, it will still be a great deal to those who will be left behind.

Some say it's also difficult to sell insurance nowadays because of the hard times. I don't subscribe to this. In fact, it's easier to sell a policy during times of uncertainty. We all don't know what will happen to us in the future. But having a life plan through insurance will give us peace of mind.

I am fortunate that I work in a company that has built a rock-solid reputation for almost a century now. The company itself is not hard sell. So we don't need to sell it to be believed. I just tell potential policyholders: "Ask your grandparents. They know that Insular Life is a stable institution." It gets more stable as it ages.

We're the largest Filipino life insurance company in the whole world. This is how I usually introduce Insular Life. We don't have exposures in other countries. If you run into a problem with your policy, you don't have to call abroad because we're just here. That gives clients enough comfort.

My daughter, Hazel Joy, who's 28 and married, also shares the same work. She has been an Insular Life agent for two years now, but only on a part-time basis as she has to take care of my granddaughters who are just five and two years old.

Life insurance is my life's calling, my hobby, and my passion. This is what I love doing. Even if I retell it several times, with my eyes closed, I can talk of life insurance non-stop.

In my past life, I think I was probably Chinese. I have many Chinese clients and I love dealing with them. Once they trust you, that trust is forever; but once you break it, it's also hard to recover. I was told an effective way to sell to Chinese clients is "to Chinese them." That means talk to them in their language to capture their hearts.

The business could be very lucrative if you know the right people. In the Philippines, there's so much money floating around. I read somewhere that there are more than ₱4 trillion just lying around in the banks. We just have to educate and reach out to people about insurance. Imagine, out of 93 million people in our country, only 13-15% are insured.

"I look at the future with great enthusiasm and anticipation because I can sense that people see something special in me. I have all the reasons why I should look at the future with great joy, excitement and hope."

If I can shape the future, I want the Philippines to join the ranks of First World nations. I want to see Filipinos gain respect in the world, and not just looked down as domestic helpers. I want to see us getting the same treatment as those from First World nations.

Even in my own small way, I want to be able to contribute to this vision by being an "encourager" and a blessing, not just to those under my care, but to as many people I could reach out to. I want to help build successful people. After all, it's the role of the agency leader to develop world-class life insurance salespeople or financial planners. I'm proud of my nine agents because all have been recognized by the Company through different awards. They are all highly motivated.

I look to the future with great enthusiasm and anticipation because I can sense that people see something special in me. At 51, I am now living the life that I want to have, and I have all the reasons why I could look at the future with great joy, excitement and hope.

Virgil Gabriel D.J. Garcia, Insular Life Foundation Scholar

A reason to rush:

How a math whiz sees the future

Everybody thinks I'm a Math whiz. That all I ever think about are numbers, equations and graphs. But I'd like to think I live a balanced life. I won't deny it, though. I love Math. I love the exactness of it. And to a certain extent, this sums up my view of the future.

As a kid, I've always wanted to be an actuary. Some kids dream of being President. Some want to be astronauts. I wanted to be an actuary. I probably got it from Uncle Chito who was an actuary for Insular Life. That I ended up liking and enjoying the rigors of the field makes me thankful.

Unlike some kids who changed paths midway, I stayed painstakingly on-course. I got into the geekiest high school in the country, Philippine Science. Being surrounded by people who are more or less inclined to the same things helped. My interests in Math achieved renewed vigor.

But I'd like to think I lived a so-called "normal" life. I was part of the varsity swimming team, and up to now I still remain physically active – playing volleyball, soccer, and weightlifting. I'm also addicted to *Plants Versus Zombies* like most people. My social life is more than OK. But academics and Math remain as my top priorities.

So no one was really surprised when I took up BS Mathematics in UP Diliman. What was shocking was the call I got during my freshman year. I was told I was one of the five Math majors selected as scholars of the Insular Life Foundation. I did submit an application form, but it was the UP Office of Scholarships that urged us to do so.

I also qualified to be an Oblation Scholar, a distinction awarded to the top 50 UPCAT qualifiers, and one that I have managed to maintain up to this day when I'm a few subjects away from graduating.

At 19, planning is very important to me. I reconfigured my curriculum so that I'll be able to finish my four-year course in three. Not that it came easy. I hardly breezed through college. Sure, my average is still thankfully good enough for a cum laude, but every semester, there are always "terror" professors and tough subjects.

I also find time to conduct tutorial classes for Philippine Science students. I have two regular tutees and several others from time to time. I always say that there is never a shortage in tutees because there is always someone struggling with Math.

It's sheer discipline and determination – and the Insular Life scholarship as added motivation – that helped me stay on-track.

In the same way that I was elated when I got the call about the scholarship, it's reassuring that there's a job most likely waiting for me after graduation. I will most likely work as an actuary for an insurance company in the future, but right now I'm still undecided as to what comes next after that big finish line, which will hopefully come a year ahead of schedule. There is always that urge to forge along and go straight to graduate school. Yet often I find myself asking: "What's the rush?"

My ideal future still hasn't changed. I still dream – and work hard – for a stable career, a family of my own, and adequate finances for the sake of my family. But I know that the future is dynamic and it should stay that way. That's precisely what makes it exciting. That's what makes it worthwhile. That's what gives me a reason to rush.

"It's sheer discipline and determination – and the Insular Life scholarship as added motivation – that helped me stay

Insular Health Care

2009 was a record year for Insular Health Care, Inc. as it posted revenues of ₱294.4 million – the highest in 18 years – from ₱271.4 million the previous year. Net Profit after Tax more than doubled to ₱25.0 million from ₱9.5 million in 2008. Total assets stood at ₱265.1 million.

The Company ended the year with total equity of ₱137 million and with retained earnings of ₱36.4 million after paying out ₱60 million in cash dividends. Return on equity was at 15.0%.

In 2009, Insular Health Care launched several sales and marketing management strategies primarily to meet its challenging sales goal for the year, and prepare for the targeted sales growth in 2010. These initiatives, moreover, support the Company's vision to breach the ₱1-billion level in membership fees by 2015, and be among the top three HMO service providers by 2020.

Some of the major action steps it implemented were: the reorganization of the entire Sales and Marketing Division; the conduct of several training programs for sales employees, such as the Essential Selling Skills Workshops; the launch of the Motivational Speaker sessions for agents; the extensive review of sales management processes; and the sales blitzes and various marketing and sales activities.

Insular Health Care's membership expenses were kept at a favorable medical expense ratio, much lower than the projected ratio for the year. The Company also entered into a memorandum of agreement with sub-specialty societies such as the Philippine College of Surgeons, Philippine College of Physicians, and the Philippine Pediatric Society, for negotiated professional fees, among others.

To further enhance its business processes, Insular Health Care tapped Ubix Data Center for its Document Management System requirements. The system allows easy search and retrieval of documents for viewing, printing, saving and referencing.

Insular Health Care is accredited in over 520 hospitals, medical clinics, dental clinics and reference laboratories all over the country. The number of medical specialists in its roster went up to over 8,370. Insular Health Care has a first-class, fully equipped clinic in its Makati Head Office and a mobile clinic that members extensively use. It maintains five provincial offices nationwide: in Cebu, Bacolod, Davao, Baguio, and San Fernando, Pampanga.

The company remains an active member of the Association of Health Maintenance Organizations of the Philippines, Inc. (AHMOPI), the recognized trade association of HMOs in the Philippines.

Insular Investment & Trust

Insular Investment and Trust Corporation (IITC) significantly improved its financial performance despite the economic downturn and the stiff competition among financial institutions in 2009. IITC posted gross revenues of ₱38.9 million, and net income after tax of ₱4.4 million.

In 2009, IITC's Corporate Finance Division (CFD) completed three major deals in the corporate debt market. IITC was one of the joint lead arrangers in the Ayala Land, Inc. ₱2.4-billion Fixed Rate Corporate Notes Facility. In addition, the Company acted as co-manager in the ₱16-billion Project Loan Facility for Cebu Energy Development Corporation, one of the year's biggest fund-raising activities. IITC was also co-manager in the ₱5-billion Fixed Rate Corporate Notes Facility of the leading power distribution company, Manila Electric Company.

Meanwhile, assets under management by its Trust and Investment Management Division (TIMD) stood at ₱1.8 billion by end-2009. In terms of gross revenues, TIMD generated ₱9.6 million in fees.

In line with its prudent investment strategy of maximizing returns while ensuring the safety of the principal, TIMD participated in the San Miguel Brewery, SM Investment Corporation, JG Summit, and Energy Development Corporation bonds offered in 2009. TIMD also participated in the Retail Treasury Bonds (RTBs) offering of the Bureau of the Treasury.

As of end-2009, total resources increased to ₱484.2 million from the previous year's ₱472.1 million. Total stockholders' equity grew to ₱464.5 million in 2009 from ₱457.9 million in 2008.

Insular Home Credit

HomeCredit recorded a net income of ₱2.96 million, primarily due to the consistency of growth in sales, membership generation and stock loans, as well as to efficient administration.

In 2009, the company generated a 51% increase in membership from the previous year. Improved results were mainly due to the utilization of a new collection method through automatic debit arrangements with major banks, which expanded the market significantly. The introduction of a new product for executives, the HomeFund Plus Gold, and a reorganization of the Membership Group allowed the company to forge new partnerships in the BPO, utilities and construction sectors, further expanding its client base.

Gross loans amounted to ₱22 million, translating to a notable 83% increase from ₱12 million in 2008. This was largely due to more aggressive marketing efforts, coupled with the surge in membership. Total loans stood at ₱134.5 million, broken down as follows: ₱38.5 million in mortgages, ₱52.2 million in Rent-to-Own (RTO), ₱38.2 million in stock loans, and ₱5.6 million in other receivables.

Subsequently, 15 RTO, three ROPA (Real and Other Properties Acquired) sales and ₱885,000 worth of mortgage loans were realized compared with 31 RTO sales and no ROPA/mortgage loans in 2008.

Despite the uncertainty in the global financial markets and the slow-paced accreditation of qualified real estate brokers to sell units, HomeCredit managed to post positive results by creating a HomeSales unit that developed competitive pricing schemes.

A total of 407 HomeCredit members who have completed their savings term in 2009 received ₱41.2 million representing total contributions and earnings. Dividends amounting to ₱2.3 million were declared to current and existing members as of September 2009.

To date, HomeCredit has provided homes to more than 300 members and their families under the RTO and Mortgage program. Its main business remains to be contract savings, which is savings by means of periodic and regular accumulation of funds tied-up with mortgage loans. The related businesses revolve around savings protection schemes, home development programs, and expansion of financial sources for its mortgage loans.

MAPFRE | INSULAR

One of the country's top non-life insurers, Mapfre Insular Insurance Corporation ended the year with ₱1.5 billion in gross premiums and a net income of ₱184.4 million. It had total assets of ₱2.8 billion and total equity of ₱1.3 billion.

Mapfre Insular ranks among the top five in the industry in terms of earned premiums, investment income, and net income. The company is also among the highest capitalized and most solvent non-life insurance companies in the country.

Mapfre Insular offers general insurance for optimum financial protection and risk management. Among its products and services are fire and allied lines, motor vehicle, personal accident, casualty, liability, engineering, marine cargo and surety. It has 10 offices all over the country to service its customers.

Mapfre Insular marked its 75th anniversary in 2009. The company recognizes the unselfish efforts of its shareholders, business partners, customers and workforce for making it a successful company today.

Mapfre Insular is 75% owned by Corporacion Mapfre of Spain and 25% by Insular Life.

The Mapfre-Insular alliance has successfully harnessed the strength of both partners by integrating the technical expertise and efficiencies that have driven Mapfre companies worldwide and leveraging the business partnerships of Insular Life and the local familiarity of the Insular brand.

MAPFRE Group of Spain is engaged in insurance, reinsurance, financial and real estate activities. It has total assets of more than €43 billion as of December 31, 2009.

VARIOUS BOARD
COMMITTEES AN

For 99 years now, Insular Life has been upholding the best interest of its stakeholders.

Board of Trustees

**As of December 31, 2009*

Management

Vicente R. Ayllón
Chairman of the Board

Mayo Jose B. Ongsingco
President

Executive Vice President

Mona Lisa B. De La Cruz
Executive Vice President

First Vice Presidents : Ronnie B. Alcantara, Ramon M. Cabrera, Maria Teresa L. Cruz, Ma. Edita C. Elicaño, Susana G. Nicolas, Daniel Rodrigo D. Reyes, Amelita F. Tamayo

**As of April 2010*

Management

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Vice Presidents : John Jesus O. Lim, Seraline L. Manguni, Carlito V. Lucas, Mylene C. Padilla, Jocelyn B. Reyes, Henry A. Pagulayan, Eleanor G. Tañada

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Management

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Insular

Statement of Management's Responsibility for Financial Statements

The management of The Insular Life Assurance Company, Ltd. is responsible for all information and representations contained in the financial statements for the years ended December 31, 2009 and 2008. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The Board of Trustees reviews the financial statements before such statements are approved and submitted to the Members of the Company.

SyCip, Gorres, Velayo & Co., the independent auditors and appointed by the Board of Trustees, has examined the financial statements of the Company in accordance with Philippine Financial Reporting Standards and has expressed its opinion on the fairness of presentation upon completion of such examination in its report to members.

VICENTE R. AYLLÓN
Chairman of the Board and
Chief Executive Officer

MAYO JOSE B. ONGSINGCO
President and Chief Operating Officer

MebdelaCruz
MONA LISA B. DE LA CRUZ
Executive Vice President
Chief Actuary, Corporate Treasurer
and AOG Head

Independent Auditors' Report

The Board of Trustees and Members
The Insular Life Assurance Company, Ltd.

We have audited the accompanying financial statements of The Insular Life Assurance Company, Ltd. (a domestic mutual life insurance company) and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2009 and 2008, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in members' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Respon

Ana Lea C. Bergado

THE INSULAR LIFE ASSURANCE COMPANY, LTD.
(A Domestic Mutual Life Insurance Company) AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2009	2008
ASSETS		
Cash and cash equivalents (Note 4)	**₱1,741,578,901**	₱2,152,007,205
Insurance receivables (Note 5)	**241,693,569**	229,346,040
Financial assets (Note 6):		
Fair value through profit or loss	**3,138,773,442**	2,674,801,718
Available-for-sale	**10,034,349,452**	10,372,196,050
Held-to-maturity	**15,672,577,618**	13,585,596,569
Loans and receivables - net	**17,405,009,270**	14,690,701,528
Investments in associates (Note 7)	**5,344,054,555**	4,626,999,714
Investment properties - net (Note 8)	**9,057,192,600**	8,633,950,084
Property and equipment - net (Note 9)	**318,563,791**	277,554,358
Noncurrent assets held for sale - net (Note 10)	**59,260,167**	385,273,443
Retirement benefits asset - net (Note 24)	**27,666,700**	–
Deferred income tax assets - net (Note 25)	**40,183,666**	38,126,206
Other assets - net (Note 11)	**242,993,036**	255,945,148
TOTAL ASSETS	**₱63,323,896,767**	₱57,922,498,063
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Legal policy reserves (Note 12)	**₱37,795,751,604**	₱34,328,093,587
Other insurance liabilities (Note 13)	**9,449,205,175**	8,804,075,604
Accrued expenses and other liabilities (Note 14)	**1,047,922,836**	964,890,512
Retirement benefits liability - net (Note 24)	**5,638,205**	33,995,907
Deferred income tax liabilities - net (Note 25)	**985,308,778**	1,041,293,425
Total Liabilities	**49,283,826,598**	45,172,349,035
Members' Equity		
Equity attributable to Parent Company		
Reserve for fluctuation in available-for-sale financial assets (Note 6):		
Attributable to the Group:		
Equity securities	**2,484,610,690**	2,544,320,620
Debt securities	**118,874,451**	140,017,036
Attributable to associates (Note 7)	**(21,459,969)**	(138,472,065)
	2,582,025,172	2,545,865,591
Revaluation increment in investment properties (Note 8)	**3,131,514,650**	3,173,684,404
Premium on deemed disposal of investment in an associate (Note 7)	**304,954,486**	304,954,486
Share in surplus reserves of a subsidiary	**2,79**	

THE INSULAR LIFE ASSURANCE COMPANY, LTD.
(A Domestic Mutual Life Insurance Company) AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2009	2008
NET INCOME	**₱2,119,718,382**	₱2,096,818,293
OTHER COMPREHENSIVE INCOME (LOSS)		
Increase (decrease) in value of available-for-sale equity securities - net of percentage tax (Note 6)	**138,528,578**	(3,925,850,592)
Valuation losses (gains) realized through profit or loss (Note 6)	**(198,238,508)**	214,667,828
	(59,709,930)	(3,711,182,764)
Increase (decrease) in value of available-for-sale debt securities - net of tax (Note 6)	**71,988,998**	(115,129,107)
Valuation gains realized through profit or loss (Note 6)	**(93,131,583)**	–
Effect of change in tax rate (Note 25)	–	(456,591)
	(21,142,585)	(115,585,698)
Increase (decrease) in value of available-for-sale equity securities attributable to associates (Notes 6 and 7)	**117,012,096**	(200,905,813)
Increase (decrease) in revaluation increment in investment properties - net (Note 8)	**(33,218,557)**	874,393
Effect of change in tax rate (Note 25)	–	226,670,553
	(33,218,557)	227,544,946
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**2,941,024**	(3,800,129,329)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱2,122,659,406**	(₱1,703,311,036)
ATTRIBUTABLE TO:		
Parent Company	**₱2,122,658,278**	(₱1,703,312,306)
Minority Interest	**1,128**	1,270
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱2,122,659,406**	(₱1,703,311,036)

See accompanying Notes to Consolidated Financial Statements.

THE INSULAR LIFE ASSURANCE COMPANY, LTD.
(A Domestic Mutual Life Insurance Company) AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Equity Attributable to Parent Company										
	Reserve for Fluctuation in Available-for-Sale Financial Assets										
	Attributable to the Group										
	Equity Securities (Note 6)	Debt Securities (Note 6)	Attributable to Associates (Notes 6 and 7)	Revaluation Increment in Investment Properties (Note 8)	Premium on Deemed Disposal of Investment in an Associate (Note 7)	Share in Surplus Reserves of Subsidiary	Retained Earnings (Notes 15 and 31) Appropriated	Retained Earnings (Notes 15 and 31) Unappropriated	Total	Equity Attributable to Minority Interests	Total
BALANCES AT DECEMBER 31, 2007	**₱6,255,503,384**	**₱255,602,734**	**₱62,433,748**	**₱2,959,222,276**	**₱304,954,486**	**₱2,793,019**	**₱75,000,000**	**₱5,346,725,142**	**₱15,262,234,789**	**₱2,732,196**	**₱15,264,966,985**
Transfer of revaluation increment of investment properties sold - net of tax effect	–	–	–	(7,074,507)	–	–	–	7,074,506	–	–	–
Transfer of revaluation increment in investment properties absorbed through depreciation - net of tax effect	–	–	–	(6,008,311)	–	–	–	6,008,312	–	–	–
Appropriation of retained earnings for the required minimum paid-up capital (Note 31)	–	–	–	–	–	–	25,000,000	(25,000,000)	–	–	–
Dividends to members (Note 15)	–	–	–	–	–	–	–	(809,638,165)	(809,638,165)	–	(809,638,165)
Liquidation of Insular Plus Properties Development Corporation (Note 2)	–	–	–	–	–	–	–	843,181	843,181	(2,711,937)	(1,868,756)
	–	–	–	(13,082,818)	–	–	25,000,000	(820,712,166)	(808,794,984)	(2,711,937)	(811,506,921)
Net income for the year	–	–	–	–	–	–	–	2,096,817,023	2,096,817,023	1,270	2,096,818,293
Other comprehensive income (loss)	(3,711,182,764)	(115,585,698)	(200,905,813)	227,544,946	–	–	–	–	(3,800,129,329)	–	(3,800,129,329)
Total comprehensive income (loss)	(3,711,182,764)	(115,585,698)	(200,905,813)	227,544,946	–	–	–	2,096,817,023	(1,703,312,306)	1,270	(1,703,311,036)
BALANCES AT DECEMBER 31, 2008	**2,544,320,620**	**140,017,036**	**(138,472,065)**	**3,173,684,404**	**304,954,486**	**2,793,019**	**100,000,000**	**6,622,829,999**	**12,750,127,499**	**21,529**	**12,750,149,028**
Transfer of revaluation increment of investment properties sold - net of tax effect	–	–	–	(2,480,708)	–	–	–	2,480,708	–	–	–
Transfer of revaluation increment in investment properties absorbed through depreciation - net of tax effect	–	–	–	(6,470,489)	–	–	–	6,470,489	–	–	–
Appropriation of retained earnings for the required minimum paid-up capital (Note 31)	–	–	–	–	–	–	25,000,000	(25,000,000)	–	–	–
Dividends to members (Note 15)	–	–	–	–	–	–	–	(832,738,265)	(832,738,265)	–	(832,738,265)
	–	–	–	(8,951,197)	–	–	25,000,000	(848,787,068)	(832,738,265)	–	(832,738,265)
Net income for the year	–	–	–	–	–	–	–	2,119,717,254	2,119,717,254	1,128	2,119,718,382
Other comprehensive income (loss)	(59,709,930)	(21,142,585)	117,012,096	(33,218,557)	–	–	–	–	2,941,024	–	2,941,024
Total comprehensive income (loss)	(59,709,930)	(21,142,585)	117,012,096	(33,218,557)	–	–	–	2,119,717,254	2,122,658,278	1,128	2,122,659,406
BALANCES AT DECEMBER 31, 2009	**₱2,484,610,690**	**₱118,874,451**	**(₱21,459,969)**	**₱3,131,514,650**	**₱304,954,486**	**₱2,793,019**	**₱125,000,000**	**₱7,893,760,185**	**₱14,040,047,512**	**₱22,657**	**₱14,040,070,169**

See accompanying Notes to Consolidated Financial Statements.

THE INSULAR LIFE ASSURANCE COMPANY, LTD.
(A Domestic Mutual Life Insurance Company) AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱2,366,292,877**	₱2,157,340,623
Adjustments for:		
Net change in legal policy reserves (Note 19)	**3,467,658,017**	3,634,706,075
Interest income (Note 17)	**(3,125,376,384)**	(2,792,131,599)
Dividend income (Note 17)	**(511,797,977)**	(1,458,649,613)
Equity in net earnings of associates (Note 7)	**(740,805,105)**	(383,409,537)
Interest expense (Note 19)	**348,120,780**	337,725,220
Foreign exchange loss (gain) - net (Note 6)	**107,142,879**	(512,997,348)
Dividends to members (Note 15)	**241,416,000**	231,966,000
Loss (income) on VUL funds (Note 17)	**(78,657,570)**	70,440,128
Net realized loss (gain) on disposals of (Note 18):		
Available-for-sale financial assets	**(291,370,091)**	(18,644,062)
Noncurrent assets held for sale	**(3,347,116)**	14,662,892
Investment properties	**(3,008,552)**	1,580,582
Property and equipment	**(2,237,880)**	(592,134)
Realized loss (gain) on foreclosed properties (Note 18)	**(5,264,634)**	973,411
Depreciation and amortization of:		
Investment properties (Note 8)	**116,367,802**	114,012,326
Property and equipment and computer software (Notes 9 and 11)	**58,055,394**	55,111,358
Impairment loss on:		
Investment properties (Note 8)	**4,188,704**	2,443,055
Noncurrent assets held for sale (Note 10)	**900,976**	7,588,304
Available-for-sale equity securities (Note 6)	**–**	233,311,890
Operating income before working capital changes	**1,948,278,120**	1,695,437,571
Net decrease (increase) in:		
Insurance receivables	**(12,347,529)**	9,242,655
Loans and receivables	**(363,900,648)**	(190,666,105)
Retirement benefits asset - net	**(27,666,700)**	9,356,531
Net increase (decrease) in:		
Other insurance liabilities	**600,073,950**	(334,550,000)
Accrued expenses and other liabilities	**83,032,324**	12,002,827
Retirement benefits liability - net	**(28,357,701)**	27,947,335
Net cash generated from operations	**2,199,111,816**	1,228,770,814
Income taxes paid	**(266,915,293)**	(238,087,695)
Net cash generated from operating activities	**1,932,196,523**	990,683,119

(Forward)

	Years Ended December 31	
	2009	2008
CASH FLOWS FROM INVESTING ACTIVITIES		
Releases of loans and receivables	**(₱2,865,887,630)**	(₱3,010,228,826)
Collections of loans and receivables	**673,610,978**	330,561,253
Additional investments in:		
Financial assets at fair value through profit or loss - net (Note 6)	**(463,971,724)**	–
Held-to-maturity financial assets (Note 6)	**(2,406,076,446)**	(1,590,867,971)
Available-for-sale financial assets (Note 6)	**(1,206,326,608)**	(2,236,027,281)
Investment properties (Note 8)	**(324,859,298)**	(75,670,956)
Property and equipment and computer software (Notes 9 and 11)	**(102,670,555)**	(54,550,836)
Proceeds from disposals and/or maturities of:		
Held-to-maturity financial assets (Note 6)	**220,863,280**	590,597,997
Available-for-sale financial assets	**1,683,291,184**	816,318,121
Investment properties	**34,390,925**	74,154,770
Property and equipment	**4,333,905**	1,802,824
Noncurrent assets held for sale	**73,198,129**	56,813,094
Financial assets at fair value through profit or loss - net	**–**	673,578,168
Interest income received	**3,188,494,286**	2,605,874,666
Dividends received	**511,797,977**	1,458,649,613
Net decrease in other assets	**14,461,815**	36,894,299
Net cash used in investing activities	**(965,349,782)**	(322,101,065)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of dividends to members	**(1,029,154,265)**	(985,204,164)
Interest paid to members (Note 19)	**(348,120,780)**	(337,725,220)
Cash used in financing activities	**(1,377,275,045)**	(1,322,929,384)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(410,428,304)**	(654,347,330)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,152,007,205**	2,806,354,535
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱1,741,578,901**	₱2,152,007,205

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information and Authorization for Issuance of the Financial Statements

Corporate Information
The Insular Life Assurance Company, Ltd. (the Company) is a mutual life insurance company primarily engaged in the life insurance business, was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on November 25, 1910.

The registered business address of the Company is IL Corporate Centre, Insular Life Drive, Filinvest Corporate City, Alabang, Muntinlupa City.

The Company and its subsidiaries (collectively referred to as "the Group") are primarily engaged in the business of life insurance, healthcare, lending and investment management.

Authorization for Issuance of the Financial Statements
The consolidated financial statements of the Group were authorized for issuance by the Board of Trustees (BOT) on March 25, 2010.

2. Summary of Significant Accounting and Financial Reporting Policies

Statement of Compliance
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value. Investment properties are stated at deemed cost based on their fair values as of January 1, 2004. These consolidated financial statements are presented in Philippine Peso (₱), which is the Company's functional and presentation currency.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations which became effective on January 1, 2009.

New Standards and Interpretations

PAS 1, *Presentation of Financial Statements*
The Revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in a single statement, or in two-linked statements. These Amendments also prescribe additional requirements in the presentation of the balance sheet and members' equity as well as additional disclosures to be included in the financial statements. The Group has elected to present two-linked statements, a statement of income and a statement of comprehensive income. The consolidated financial statements have been prepared under the revised disclosure requirements.

PAS 23, *Borrowing Costs* (Revised)
The Revised PAS 23 requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements of this Standard, the Group will adopt this as a prospective change in accounting policy. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. The Group has no transactions within the scope of this standard, thus, the adoption of this Standard did not have an impact on the consolidated financial statements.

PFRS 8, *Operating Segments*
PFRS 8 replaced PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the statement of financial position and statement of comprehensive income and the Group will provide explanations and reconciliations of the differences. This Standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements with a securities commission or similar party. The Group is not required to present segment information, thus, the adoption of this Standard did not have an impact on the consolidated financial statements.

Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognized as revenue over the period that the award credits are redeemed. The Group has no transactions within the scope of this Interpretation, thus, the adoption of this Interpretation did not have an impact on the consolidated financial statements.

Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
This Interpretation is to be applied prospectively which provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group has no transactions within the scope of this Interpretation, thus, the adoption of this Interpretation did not have an impact on the consolidated financial statements.

Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*
This Interpretation is to be applied prospectively to transfers of assets from customers received on or after July 1, 2009. The Interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. When the transferred item meets the definition of an asset, the asset is measured at fair value on initial recognition as part of an exchange transaction. The service(s) delivered are identified and the consideration received (the fair value of the asset) allocated to each identifiable service. Revenue is recognized as each service is delivered by the entity. The Group has no transactions within the scope of this Interpretation, thus, the adoption of this Interpretation did not have an impact on the consolidated financial statements.

Amendments to Standards and Interpretations

Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
These Amendments prescribe changes in respect of the holding companies' separate financial statements including (a) the deletion of 'cost method', making the distinction between pre-acquisition and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in profit or loss. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. Adoption of this Amendment did not have any impact on the consolidated financial statements.

PAS 32, *Financial Instruments: Presentation*, and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
These Amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro-rata share of the entity's net assets; (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) all instruments in the subordinate class have identical features; (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets; and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument. The adoption of these Amendments did not have any impact on the financial position or the performance of the Group.

PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* and PAS 27, *Consolidated and Separate Financial Statements*
The Amendments to PFRS 1 allowed an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening PFRS financial statements in accordance with PAS 27, or using a deemed cost method. The Amendment to PAS 27 required all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the income statement in the separate financial statement. The adoption of these Amendments did not have any impact on the financial position or the performance of the Group.

PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*
The Standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation. The adoption of this Amendment did not have any impact on the financial position or the performance of the Group.

PFRS 7, *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*
The amendments to PFRS 7 require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The Amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement and liquidity risk disclosures are presented in Notes 29 and 30 to the consolidated financial statements, respectively.

Philippine Interpretation IFRIC 9, *Re-assessment of Embedded Derivatives* and PAS 39, *Financial Instruments: Recognition and Measurement - Embedded Derivatives*
Amendment to Philippine Interpretation IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract.

PAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The adoption of this Amendment did not have any impact on the financial position or the performance of the Group.

Improvements to PFRSs 2008 and 2009

In May 2008 and April 2009, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes in accounting policies but did not have any impact on the financial position or performance of the Group.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
  - When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

- PAS 1, *Presentation of Financial Statements*
  - Assets and liabilities classified as held-for-trading accordance with PAS 39 are not automatically classified as current in the statement of financial position.

- PAS 16, *Property, Plant and Equipment*
  - Replaced the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5 and PAS 36, *Impairment of Assets*.
  - Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

- PAS 18, *Revenue*
  - The Amendment adds guidance (which accompanies the Standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity (a) has primary responsibility for providing the goods or service; (b) has inventory risk; (c) has discretion in establishing prices; and (d) bears the credit risk.
  - The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition policy has been updated accordingly.

- PAS 19, *Employee Benefits*
  - Revises the definition of 'past service cost' to include reduction in benefits related to past services ('negative past service cost') and to exclude reduction in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.
  - Revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.
  - Revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled.
  - Deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*
  - Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.

- PAS 23, *Borrowing Costs*
  - The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one - the interest expense calculated using the effective interest rate method calculated in accordance with PAS 39.

- PAS 28, *Investments in Associates*
  - If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans will apply.
  - An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- PAS 29, *Financial Reporting in Hyperinflationary Economies*
  - Revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

- PAS 31, *Interests in Joint Ventures*
  - If a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

- PAS 36, *Impairment of Assets*
  - When discounted cash flows are used to estimate 'fair value less cost to sell', additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value-in-use'.

- PAS 38, *Intangible Assets*
  - Expenditure on advertising and promotional activities is recognized as an expense when a company either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.
  - Deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit-of-production method.

- PAS 39, *Financial Instruments: Recognition and Measurement*
  - Changes in circumstances relating to derivatives (specifically derivatives designated or re-designated as hedging instruments after initial recognition) are not reclassifications.
  - When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, *Insurance Contracts*, this is a change in circumstance, not a reclassification.
  - Removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge.
  - Requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

- PAS 40, *Investment Properties*
  - Revises the scope (and the scope of PAS 16) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

- PAS 41, *Agriculture*
  - Removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.
  - Removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

New Accounting Standards, Interpretations, and Amendments to
Existing Standards Effective Subsequent to December 31, 2009
The Group will adopt the following standards, interpretations and amendments to existing standards enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have a significant impact on the financial statements.

New Standard and Interpretations

PFRS 3, *Business Combinations* (Revised), and PAS 27 (Amended)
PFRS 3 (Revised) introduces significant changes in the accounting for business combination occurring after July 1, 2009. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. The PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the Amended Standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests (previously referred to as 'minority interests'). PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions.

Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners*
This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. This Interpretation covers accounting for all non-reciprocal distribution of non-cash assets to owners. It provides guidance on when to recognize a liability, how to measure it and the associated assets and when to derecognize the asset and liability and the consequences of doing so.

Amendments to Standards

PAS 39, *Eligible Hedged Items*
Amendment to PAS 39, effective for annual periods beginning on or after July 1, 2009, addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The Amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

PFRS 2, *Group Cash-settled Share-based Payment Transactions*
The Amendments to PFRS 2 effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions.

Improvements to PFRS effective in 2010
The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods financial years January 1, 2010 except otherwise stated. The Group has not yet adopted the following improvements and anticipates that these changes will have no material effect on the consolidated financial statements.

- PFRS 2, *Share-based Payment*
  - Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3 (Revised). The Amendment is effective for annual periods beginning on or after July 1, 2009.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
  - Clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such noncurrent assets or discontinued operations.

- PFRS 8, *Operating Segment*
  - Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements*
  - Clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows*
  - Explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*
  - Removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating lease. The Amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The Amendment will be applied retrospectively.

- PAS 36, *Impairment of Assets*
  - Clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets*
  - Clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement*
  - Clarifies that (a) a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (b) that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and (c) that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC 9, *Re-assessment of Embedded Derivatives*
  - Clarifies that it does not apply to possible re-assessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*
  - States that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Basis of Consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiaries as of December 31, 2009 and 2008. The financial statements of the subsidiaries are prepared for the same reporting years as the Company, except for Insular Life Management and Development Corp. (ILMADECO) which was presented as of and for the years ended March 31, 2009 and 2008, using consistent accounting principles. Following are the Company's subsidiaries and the corresponding percentages of ownership as of December 31, 2009 and 2008:

	Percentage of Ownership	
	2009	2008
Insular Investment and Trust Corporation (IITC)	**100.00**	100.00
IITC Properties, Inc. (IPI)	**100.00***	100.00*
Insular Property Ventures, Inc. (IPVI)	**100.00***	100.00*
Insular Life Health Care Incorporated (I-Care)	**100.00**	100.00
ILMADECO	**100.00**	100.00
ILAC General Insurance Agency, Inc.	**100.00****	100.00**
Insular Life Property Holdings, Inc.	**100.00**	100.00
Home Credit Mutual Building & Loan Association, Inc. (Home Credit)	**99.96**	99.96

* *Represents the Company's ownership through IITC*
** *Represents the Company's ownership through ILMADECO*
On May 19, 2008, Insular Plus Properties Development Corporation, in which the Company has 100% ownership through IITC, was liquidated.

All intercompany balances, transactions, income and expenses and gains and losses resulting from intercompany transactions are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being that date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority Interest
Minority interest represents the portion of income and expense and net assets in Home Credit not held by the Company and are presented separately in the consolidated statement of income and within members' equity in the consolidated balance sheet, separate from the members' equity attributable to the Group.

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

Financial Instruments
Financial instruments within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, are recognized in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument.

All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date the Group commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of financial assets within the time frame generally established by regulation or convention in the market place.

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs, if any, are included in the initial measurement of all financial assets and financial liabilities, except for financial instruments measured at FVPL.

The Group classifies its financial assets as financial assets at FVPL, held-to-maturity (HTM) financial assets, loans and receivables or AFS financial assets, as appropriate. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities, as appropriate. The classification depends on the purpose for which the financial instruments were acquired or originated. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

Financial assets
a. Financial Assets at FVPL

Financial assets at FVPL include financial assets held-for-trading purposes or designated by management as financial asset at FVPL at initial recognition. Derivative instruments, except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term.

Financial assets are designated as at FVPL by management on initial recognition when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the financial assets or recognizing gains or losses on them on a different basis;
- the assets are part of a group of financial assets 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 asset 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.

These financial assets are subsequently measured at fair market value. Realized and unrealized gains and losses arising from changes in fair market value of financial assets at FVPL are recognized in the consolidated statement of income. Interest earned on debt securities is recognized as the interest accrues taking into account the effective interest rate. Dividend income on equity securities is recognized according to the terms of the contract or when the right of the payment has been established.

As of December 31, 2009 and 2008, the Group's financial assets that have been designated as at FVPL consist primarily of quoted government and corporate debt securities with fixed interest rates and quoted equity securities which are separately administered under Insular Life Wealth Series Funds (the Separate Funds) (Note 6).

As of December 31, 2009, the Group's held-for-trading financial assets at FVPL consists of quoted equity securities.

b. HTM Financial Assets

HTM financial assets are nonderivative financial assets that are quoted in the market, with fixed or determinable payments and fixed maturity which the Group has the positive intention and ability to hold to maturity. Financial assets intended to be held for an undefined period are not included in this classification. HTM financial assets are subsequently measured at amortized cost. The amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the consolidated statement of income when the financial assets are derecognized, impaired or amortized.

As of December 31, 2009 and 2008, the Group's HTM financial assets consist of quoted government and corporate debt securities with fixed interest rates (Note 6).

c. Loans and Receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost. The amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the consolidated statement of income when the financial assets are derecognized, impaired or amortized.

As of December 31, 2009 and 2008, the Group's loans and receivables consist of cash and cash equivalents, term loans, policy loans, interest receivable, accounts receivable, mortgage loans, housing loans, due from agents, car financing loans, finance leases, stock loans and other receivables (Note 6).

d. AFS Financial Assets

AFS financial assets are those which are designated as such or do not qualify to be classified as designated as at FVPL, HTM or loans and receivables. Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. AFS financial assets are subsequently measured at fair market value. 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 securities, these financial assets are carried at cost, less any allowance for impairment losses. 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 the consolidated statement of income. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS investments are recognized in the consolidated statement of income as investment income when the right of the payment has been established. Unrealized gains and losses arising from changes in fair market value of AFS financial assets are reported in other comprehensive income until the financial asset is derecognized or as the financial asset is determined to be impaired. When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as realized gain in the consolidated statement of income.

As of December 31, 2009 and 2008, the Group's AFS financial assets consist of quoted and unquoted government and corporate debt securities with fixed interest rates and quoted and unquoted equity securities (Note 6).

Financial liabilities
Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group 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. Other financial liabilities are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initially recognized amount and the maturity amount.

This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the consolidated statement of income when the financial liabilities are derecognized, impaired or amortized.

As of December 31, 2009 and 2008, the Group's other financial liabilities consist of legal policy reserves, other insurance liabilities and accrued expenses and other liabilities (Notes 12, 13 and 14).

The Group does not have financial liabilities at FVPL as of December 31, 2009 and 2008.

Embedded Derivatives
The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Re-assessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

An embedded derivative is separated from the host financial or nonfinancial asset contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized as at FVPL.

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets at FVPL. Changes in fair values are included in the consolidated statement of income.

As of December 31, 2009 and 2008, the Group has no embedded derivatives requiring bifurcation.

Determination of Fair Values
The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for financial assets and offer prices for financial liabilities at the close of business on the balance sheet date. 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.

The fair value of financial instruments where there is no active market is determined by using valuation techniques. Such techniques include reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and using recent arm's length transactions. For discounted cash flow analysis technique, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. Certain financial instruments are valued using pricing models that consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values. If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

The fair value of floating rate and overnight deposits with credit institutions is their carrying value. The carrying value is the cost of the deposit and accrued interest. The fair value of fixed interest-bearing deposits is estimated using discounted cash flow analysis technique.

Day 1 Gain or Loss
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (Day 1 gain or loss) in the consolidated statement of income 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 the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the Day 1 difference amount.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the financial assets and settle the financial liability simultaneously. This is not generally the case with master netting agreements; thus, the related assets and liabilities are presented gross in the consolidated balance sheet.

<u>Classification of Financial Instruments Between Debt and Equity</u>
A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- 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.

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

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

<u>Derecognition of Financial Instruments</u>
Financial assets
A financial asset is derecognized when:

- the rights to receive cash flows from the financial asset has expired;
- the Group retains the right to receive cash flows from the financial 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 Group has transferred its right to receive cash flows from the financial asset and either: (a) has transferred substantially all the risks and rewards of the financial asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset.

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

Financial liabilities
A financial liability is derecognized when the obligation under the financial liability is extinguished, i.e., when discharged or 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 financial liability are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

<u>Impairment of Financial Assets</u>
The Group assesses at each balance sheet 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 a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate i.e. the effective interest rate computed at initial recognition. The carrying amount of the financial asset shall be reduced either directly or through the use of an allowance account. HTM financial assets and loans and receivables, together with the associated allowance accounts are written off when there is no realistic prospect of future recovery and all the collaterals have been realized. The amount of the loss shall be recognized in the consolidated statement of income.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Group about loss events such as but not limited to significant financial difficulty of the counter-party, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial re-organization. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics such as customer type, payment history, past due status and term, and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated. Financial 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 of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income to the extent that the carrying value of the financial asset does not exceed its amortized cost at the reversal date.

The Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment loss. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment loss being determined for each risk grouping identified by the Group.

AFS financial assets
If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statement of income, is transferred from other comprehensive income to the consolidated statement of income.

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

In case of equity securities classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the financial assets 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 the consolidated statement of income, is removed from other comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity securities are not reversed through the consolidated statement of income. Increases in fair value after impairment and reversals of impairment losses on equity instruments are recognized directly in other comprehensive income.

Financial assets carried at cost
If there is objective evidence that an impairment loss on an unquoted debt or 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 an unquoted debt or equity instrument has been incurred, the amount of the loss is measured as the difference between the financial 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>Investments in Associates</u>
The investments in associates are accounted for under the equity method. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

The reporting date of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

The Group's percentages of ownership in the shares of stock of associates for both years are as follows:

Pamplona Realty, Inc.	30.00
Mapfre Insular Insurance Corporation (Mapfre)	25.00
Union Bank of the Philippines (UBP)	16.11

Under the equity method, the investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. The Group determines whether it is necessary to recognize any impairment loss with respect to the Group's net investment in the associate. The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share on the said change and discloses this, when applicable, in the consolidated statement of changes in members' equity. Profits or losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associate.

The share of profit of the associates is shown on the face of the statement of income. This is profit attributable to equity holders of the associates and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates.

Reduction in investment in an associate deemed as disposal is accounted for using the entity concept method. Under the entity concept method, the Group should regard the deemed disposal of investment in an associate as an equity transaction. Gain or loss from the deemed disposal of investment in an associate is recognized as a separate component in the members' equity section of the consolidated balance sheet (Note 7).

Investment Properties

Investment properties consist of land, buildings and improvements owned by the Group that are primarily leased to others or held for capital appreciation or both. Investment properties are stated at cost, including transaction costs, less accumulated depreciation and amortization and any impairment in value. Investment properties outstanding as of January 1, 2004 were stated at deemed cost based on their fair value as of that date. Depreciation of depreciable investment properties is computed on a straight-line method over the estimated useful life of the properties of 40 years.

Depreciation of revaluation increment and revaluation increment in investment properties sold are subsequently transferred from revaluation increment in investment properties to retained earnings, net of tax effect.

Investment properties are derecognized when they have been disposed, permanently withdrawn from use or when no future economic benefit is expected from their disposal. Any gain or loss on the disposal of an investment property is recognized in the consolidated statement of income in the year of disposal. Revaluation increment on investment properties disposed is subsequently transferred from revaluation increment on investment properties to retained earnings.

The investment properties' use, estimated useful life and method of depreciation and amortization are reviewed on a regular basis and transferred to other property accounts, if appropriate, upon determination of change in use.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

For a transfer from investment property to property and equipment and transfer of property and equipment to investment property, the Group accounts for such property in accordance with the policy stated under investment property and property and equipment, respectively, up to the date of change in use.

Property and Equipment

Property and equipment, including predominantly owner-occupied properties, except for land, are stated at cost, net of accumulated depreciation and amortization and any impairment in value. The cost of an item of property and equipment comprises its purchase price and any cost attributable in bringing the asset to its intended location and working condition.

Land is stated at cost less any impairment in value.

Subsequent costs are capitalized as part of the property and equipment account, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization of property and equipment commence, once the property and equipment are available for use and are computed using the straight-line method over the estimated useful lives (EUL) of the assets regardless of utilization.

The EUL of property and equipment of the Group follow:

	Years
Buildings	40
Furniture, fixtures and equipment	3-10
Electronic and data processing equipment	3-5
Transportation equipment	4-5

Leasehold improvements are amortized over the term of the lease or the estimated useful life of five years, whichever is shorter.

The assets' residual values, estimated useful lives and depreciation and amortization method are reviewed and adjusted, if appropriate, at each financial year-end.

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 from its derecognition, calculated as the difference between the net disposal proceeds and the carrying amount of the property and equipment, is included in the consolidated statement of income in the year the property and equipment is derecognized.

Noncurrent Assets Held for Sale

Noncurrent assets held for sale are carried at the lower of its carrying amount and net realizable value (NRV), which is the fair value less costs to sell. At balance sheet date, the Group classifies assets as held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must be initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. However, events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset.

At balance sheet date, assessment is done to determine if properties under this account qualify to be classified as asset held for sale and are not depreciated for the year.

Interest in Joint Venture

The Group's interest in its joint venture is accounted for using the equity method of accounting. The interest in joint venture is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the joint venture. The Group's share in the results of operations of the joint venture is reflected in the consolidated financial statements.

Computer Software

Computer software, included in 'Other assets' in the consolidated balance sheet, is carried at cost less accumulated amortization and impairment loss, if any. Costs incurred to acquire computer software (not an integral part of its related hardware) and bring it to its intended use and costs directly associated with the development of identifiable computer software that generate expected future benefits to the Group are capitalized. All other costs of developing and maintaining computer software programs are recognized as expenses as incurred. These costs are amortized over the estimated useful life of five years. Subsequently, computer software is measured at cost, less any accumulated amortization and any accumulated impairment loss.

Periods and method of amortization for computer software are reviewed annually or earlier when an indicator of impairment exists.

Impairment of Nonfinancial Assets

The Group's nonfinancial assets consist of investments in associates, investment properties, property and equipment, noncurrent assets held for sale and other assets.

The Group assesses at each balance sheet date whether there is an indication that a nonfinancial asset may be impaired. If any such indication exists, or when annual impairment testing for a nonfinancial asset is required, the Group makes an estimate of the asset's recoverable amount. A nonfinancial asset's recoverable amount, except for land, is the higher of a nonfinancial asset 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 nonfinancial asset does not generate cash inflows that are largely independent of those from other assets or groups of nonfinancial assets. Land's recoverable amount is the appraised value or net selling price, which may be obtained from its sale in an arm's length transaction, less costs to sell. Where the carrying amount of a nonfinancial asset (or cash generating unit) exceeds its recoverable amount, the nonfinancial asset 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 risks specific to the nonfinancial asset.

Impairment losses, if any, are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired nonfinancial asset, except for nonfinancial asset previously revalued where the revaluation was taken to the members' equity. In this case, the impairment is also recognized in the members' equity up to the amount of any previous revaluation.

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 nonfinancial asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the nonfinancial asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated depreciation and amortization, had no impairment loss been recognized for the asset in previous years. Such reversal is recognized in the consolidated statement of income, unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization charges are adjusted in the future periods to allocate the nonfinancial asset's revised carrying amount on a systematic basis over its remaining useful life.

Retained Earnings

Retained earnings represent the cumulative balance of net income, dividend distributions and other capital adjustments.

Insurance Contracts

Product classification

a. Insurance and Investment Contracts

Insurance contracts are those contracts where the Group has accepted 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 policyholders. As a general guideline, the Group determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index or price or rates, a credit rating or credit index or other variable.

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 have been extinguished or have expired. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being either with or without discretionary participation features (DPF). DPF is a contractual right to receive, as a supplement to guaranteed benefits, 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
- contractually based on the: (a) performance of a specified pool of contracts or a specified type of contract; (b) realized and/or unrealized investment returns on a specified pool of assets held by the issuer; or (c) profit or loss of the Group, fund or other entity that issues the contract.

b. Variable Unit-Linked (VUL) Insurance Contracts

The Group issues VUL insurance contracts. In addition to providing life insurance coverage, a VUL insurance contract links payments to units of an investment fund set up by the Group with the consideration received from the policyholders. Premiums received from the issuance of VUL insurance contracts are recognized as premium revenue. As allowed by PFRS 4, *Insurance Contracts*, the Group chose not to unbundle the investment fund of its VUL insurance contracts.

The reserve for VUL insurance contracts is increased by additional deposits and change in unit prices and is decreased by policy administration fees, fund charges, mortality and surrender charges and any withdrawals. As of the balance sheet date, this reserve is computed on the basis of the number of units allocated to the policyholders multiplied by the unit price of the underlying investment funds. The fund assets and liabilities are separately administered under Separate Funds by the Group's trustee, Hongkong and Shanghai Banking Corporation (HSBC). The fund assets are designated as financial assets at FVPL and are valued on a basis consistent with the measurement basis in the consolidated balance sheet. The fund liabilities are included in members' deposits and other funds on deposit under other insurance liabilities.

c. Options and Guarantees

Options and guarantees within insurance contracts are treated as derivative financial instruments which are clearly and closely related to the host contract and are, therefore, not accounted for separately.

Recognition and measurement

a. Due Premiums

Due premiums are recognized when due and measured on initial recognition at the fair value of the consideration paid plus incremental cost. Subsequent to initial recognition, due premiums are measured at amortized cost, using the effective interest rate method.

b. Reinsurance Assets

The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

The Group also assumes reinsurance risk in the normal course of business. Premiums and claims on assumed reinsurance are recognized in the profit or loss in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Claims receivable from reinsurers on businesses ceded are offset against premiums payable to the reinsurers which is customary in the industry. Details of the amount are shown in the exhibits of the Group's Annual Statement submitted to the Insurance Commission (IC).

An impairment review is performed on all due premiums and reinsurance assets whenever events or circumstances indicate that impairment loss occurs. Insurance receivables and reinsurance assets are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that this can be measured reliably. If such evidence exists, impairment loss is recognized in the consolidated statement of income.

The Group uses the statutory guideline in evaluating impairment wherein premiums remaining unpaid beyond a limit set by the IC are impaired and are no longer recognized in the consolidated financial statements.

c. Premiums

Premiums are recognized as revenue when they become due from the policyholders which, for single premium business, is the date from which the policy is effective. Due premiums which remain unpaid are recognized on a net basis except for those which remain unpaid beyond the statutory defined limit for recognition where premiums are shown before deduction of underwriting expenses.

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.

A liability for contractual benefits that are expected to be incurred in the future is recorded whenever premiums are recognized. For Phase 1 of PFRS 4, *Insurance Contracts*, the liability is determined following the guidelines in the Insurance Code (the Code). This liability is compared with a fair valued liability as described in the Liability Adequacy Test (LAT) as discussed below and as provided for in Phase 1 of the PFRS 4 implementation. Any deficiency in the statutory liability is booked as an expense to bring the balance of the liability to the fair valued liability.

Generally, the statutory liability is always higher than the fair valued liability due to the conservative interest rate assumption dictated by the Code. This interest rate is set at the development of the product and cannot be more than 6%. The Group's statutory liabilities are valued at interest rates ranging from 3% to 6%.

The Group 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). Effectively, however, this option was considered in the conduct of the LAT since surrender rates are included as one of the parameters driving the cash flow projections.

The Group's LAT involves the construction of a model of the behavior of future cash flows for each plan in the Group's portfolio. The model projects inflows and outflows from each product for its future lifetime. The Group carried out LAT in 2009, 2008, 2007 and 2006 to ensure the adequacy of legal policy reserves.

Inflows include premium and investment income. Outflows include benefit payments (death, surrender, maturity and survivorship), commissions, expenses and reserve increases. The model also considers all guaranteed options and benefits. Parameters of the model were based on assumptions for items such as probability of death and surrender, investment income and policy expenses. In coming up with these assumptions, the Group considered the current experience and the expectation of future experience. The model is then applied to each policy in force in the Group's portfolio as of the end of the year. The resulting future cash flows from the policies in the portfolio are discounted to the present value in order to determine if additional amounts to the balance sheet policy reserve liability are needed to support the policies in the portfolio. Any additional amount needed is immediately charged against the consolidated statement of income by establishing a provision for losses arising from the LAT.

This method of determining sufficiency of legal policy reserves is done at every balance sheet date, in satisfaction of the provisions in PFRS 4.

d. Benefits and Claims

Life insurance claims reflect the cost of all claims arising during the year. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

e. Incurred But Not Reported (IBNR)

IBNR claims are based on the estimated ultimate cost of unreported claims incurred but not settled at the balance sheet date, together with related claims handling costs. These costs pertain to estimates of the Group's obligations to the policyholders where the Group has not yet received notification on. Delays can be experienced in the notification and settlement of obligations, therefore the ultimate cost of which cannot be known with certainty at the balance sheet date. The Group develops estimates for IBNR using an actuarial process that is centrally controlled. The actuarial models consider factors such as time from the date of the insured event to claim receipt and claim backlogs. Each period, the Group re-examines previously established provisions for claims based on actual claim submissions and other changes in facts and circumstances. As the liability estimates recorded in prior periods become more precise, the Group increases or decreases the amount of the estimates, and include the changes in estimates in claims in the period in which the change is identified.

f. Reserve for Dividends to Members

Dividends distributable to members are charged to operations and retained earnings. The amount charged against current year's operations represents the savings on loadings or policy administration costs which are measured on the basis of current year's actual experience versus assumptions. On the other hand, the amount charged against retained earnings represents savings on mortality and favorable investment yields which are determined based on actual investment income and mortality experience over several years. Investment income and mortality are long-term factors such that savings on these are better measured over a number of years rather than on a single-year basis. Any difference between the amount set up as reserve for dividends for the year as against the dividends actually paid is charged against retained earnings. The Group believes that this dividend sourcing policy more appropriately matches the dividends with its proper source and is more logical and rational. The charging of a portion of the dividends against retained earnings is approved by the IC.

Operating Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the income can be measured reliably. The Group has assessed its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent and concluded that it is acting as a principal in all its arrangements. Revenue is measured at fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognized:

Interest income

Interest income is recognized in the consolidated statement of income as it accrues, taking into account the effective interest rate of the related asset or an applicable floating rate. Interest income includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income in policy loans is earned over the term of the loan, normally over one year. The unearned portion of the interest on policy loans deducted in advance is offset against the policy loan account under loans and receivables.

Interest income on impaired mortgage loans and collateral and guaranteed loans is recognized as cash is received.

Dividend income

Dividend income is recognized when the 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.

Service income

Service income for fees from professional services, including trust fees, are recognized when services are rendered.

Underwriting and arrangement fees

Fees earned by the Group, in which the Group acts as an underwriter or agent, are recognized at the time the underwriting or arrangement is completed and the gain or loss is readily determinable.

Membership fees

Membership fees are recognized as revenue over the period of the membership. Unearned membership fees are set up to recognize the portion of membership fees still unearned as of balance sheet date. The changes in unearned membership fees during the year are reported as an adjustment to the current year reported membership fees.

Operating Expenses

Operating expenses, except lease, are charged to operations when incurred.

Retirement Benefits
The Group operates defined benefit retirement plans, which require contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined separately using the projected unit credit valuation method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur.

Retirement benefits includes current service cost, interest cost, expected return on plan assets, actuarial gains and losses, past service cost and the effect of any curtailment or settlement.

Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately following the introduction of, or changes to, a retirement plan, the past service cost is recognized immediately.

Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The defined benefit liability comprises the present value of the defined benefit obligation and actuarial gains or losses less past service cost and actuarial losses not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If the amount derived is negative, the value of any plan asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Operating Leases
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

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 re-assessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

Where a re-assessment is made, lease accounting shall commence or cease from the date when the change in circumstance gave rise to the re-assessment for scenarios *a*, *c* or *d* above, and the date of renewal or extension for scenario *b*.

Foreign Currency-Denominated Transactions and Translations
Transactions in foreign currency are initially recorded at the exchange rate at the date of transaction. Foreign currency denominated monetary assets and liabilities are translated using the closing exchange rate at the end of the year. Exchange differences arising from translation of foreign currency monetary items at rates different from those at which they were originally recorded were recognized in the consolidated statement of income.

Income Tax
Final tax
Final tax on interest income is presented in profit or loss at the time interest is earned.

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

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

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

Deferred income tax relating to items recognized directly in members' equity is recognized in the consolidated statement of change in members' equity and not in the consolidated statement of income.

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

Deferred income 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 at the balance sheet date.

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

Provisions
Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefit is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Events After the Balance Sheet Date
Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are nonadjusting events are disclosed in the notes to the consolidated financial statements when material.

3. Management's Use of Significant Accounting Judgments, Estimates and Assumptions

The Group uses accounting judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date as well as the reported income and expenses for the year. Although the judgments, estimates and assumptions are based on management's best knowledge and judgment of current facts as at the balance sheet date, the actual outcome may differ from these estimates, possibly significantly. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable. Judgments, estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgment
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on amounts recognized in the consolidated financial statements:

Product classification
The Group has determined that the VUL insurance contracts it issues that link the payments on the contract to units of an internal investment fund has significant insurance risk and therefore meets the definition of an insurance contract and should be accounted for as such.

Classification of financial instruments
The Group classifies a financial instrument depending on the purpose for which the financial instrument was acquired or originated. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this classification at every financial reporting date.

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Group's financial assets which are separately administered under the Separate Funds underlying the VUL insurance contracts are designated as at FVPL in accordance with the investment strategy and valuation provisions of the VUL insurance contracts.

The classification of the Group's financial instruments by categories is shown in Note 29.

Classification of investment in associate
The Group classifies its 16.11% equity ownership in UBP as an associate since the Group actively participates in the financial and operating policy decisions of UBP through representations in the board and the various committees of UBP.

Distinction among property and equipment, investment properties and noncurrent assets held for sale
The Group determines whether a property qualifies as property and equipment, investment properties or noncurrent assets held for sale. In making its judgment, the Group considers whether the property is held for use in the supply of services or is held for appreciation and to earn rentals or is held with the intention of selling within one year by including in the sales auction program for the year, in which case the property shall be classified as property and equipment, investment properties and noncurrent assets held for sale, respectively, as the case may be. The Group considers each property separately in making its judgment.

The Company's head office in Alabang is classified as investment property rather than property and equipment since the entire property is predominantly leased by third parties. In 2009, the Company reclassified noncurrent assets held for sale properties to investment properties because the immediate sale of these properties did not push through (Notes 8 and 10).

Estimation of reserve for dividends to members
Dividends charged against retained earnings represent savings on mortality and favorable investment yields which are determined based on actual investment income and mortality experience over several years. Investment income and mortality are long-term factors such that savings on these are better measured over a number of years rather than on a single year basis. Any difference between the amount set up as reserve for dividends for the year as against the dividends actually paid is charged against retained earnings. Management believes that this dividend sourcing policy more appropriately matches the dividends with its proper source and is more logical and rational. The charging of a portion of the dividends against retained earnings is approved by the IC.

Reserve for dividends to members charged against retained earnings amounted to ₱832,738,265 and ₱809,638,165 as of December 31, 2009 and 2008, respectively (Note 15).

Classification of leases
Group as lessor
Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are entered.

Group as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) there is a substantial change to the asset.

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

<u>Estimates</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities follow:

Determination of fair values of unquoted AFS equity securities
The Group has unquoted AFS equity securities whose fair value is determined using pricing models which include reference to the current market value of another instrument that is substantially the same and assumptions as determined reasonable by management at the time of valuation. The use of a different pricing model and assumptions could produce materially different estimates of fair values.

There are also unquoted AFS equity securities where there is no reference to current market value of a similar instrument. Fair value of these securities is based on their book values as shown in their audited financial statements. The assets of these investee companies are substantially carried at market value.

The carrying value of the unquoted AFS equity securities referred to above amounted to ₱5,057,648,781 and ₱5,355,235,641 as of December 31, 2009 and 2008, respectively (Note 6).

Impairment of insurance receivables
In determining impairment of insurance receivables, the Group determines whether all amounts due to it under the terms of the contract may not be received. While the Group believes that the estimates are reasonable and appropriate, significant differences in actual experience or significant changes in estimates may materially affect the estimate of impairment.

The carrying value of insurance receivables amounted to ₱241,693,569 and ₱229,346,040 as of December 31, 2009 and 2008, respectively (Note 5). Based on management's assessment, there is no impairment of its insurance receivables in 2009 and 2008.

Impairment of AFS debt securities, HTM financial assets and loans and receivables
The Group maintains allowance for impairment at a level based on the results of individual and collective assessments under PAS 39. Under the individual assessment, the Group is required to obtain the present vale of estimated cash flows using the financial asset's original effective interest rate. Impairment loss is determined as the difference between the financial assets' carrying balance and the computed present value. Factors considered in individual assessment are payment history, past due status and term. The collective assessment would require the Group to group its financial assets based on the credit risk characteristics such as customer type, payment history, past-due status and term of the customers. Impairment loss is then determined based on historical loss experience of the financial assets grouped per credit risk profile. Historical loss profile is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the periods on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

The carrying value of the Group's loans and receivables, excluding cash and cash equivalents, amounted to ₱17,405,009,270 and ₱14,690,701,528 as of December 31, 2009 and 2008, respectively (Note 6). Allowance for impairment on loans and receivables amounted to ₱303,635,380 and ₱328,367,567 as of December 31, 2009 and 2008, respectively (Note 6). Provision for impairment on loans and receivables amounted to ₱11,667,984 in 2009 and ₱15,613,460 in 2008 (Note 6).

The carrying value of the Group's AFS debt securities amounted to ₱2,263,943,237 and ₱2,878,469,261 as of December 31, 2009 and 2008, respectively while the carrying value of the Company's HTM financial assets amounted to ₱15,672,577,618 and ₱13,585,596,569 as of December 31, 2009 and 2008, respectively (Note 6).

As of December 31, 2009 and 2008, the Group did not recognize any impairment loss on AFS debt securities and HTM financial assets.

Impairment of AFS equity securities
The Group determines AFS equity securities as impaired when there has been a significant or prolonged decline in the fair value of the financial assets below its cost or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgment. The Group treats 'significant' generally as 20% or more of the original cost of investment and 'prolonged' as greater than six months. In addition, the Group evaluates other factors, including normal volatility in share price for unquoted equities.

In 2008, the Group recognized impairment loss amounting to ₱233,311,890 (nil in 2009) (Note 6).

The carrying value of the Group's AFS equity securities amounted to ₱7,770,406,215 and ₱7,493,726,789 as of December 31, 2009 and 2008, respectively (Note 6).

Estimation of useful lives of depreciable nonfinancial assets
The Group's depreciable nonfinancial assets consist of investment properties, property and equipment and computer software, excluding land.

The Group estimates the useful lives of depreciable nonfinancial assets based on the period over which the assets are expected to be available for use. The estimated useful lives are periodically reviewed and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned above. A reduction in the estimated useful lives would increase depreciation and amortization expense and decrease in the value of the asset.

The carrying value of depreciable investment properties, property and equipment and computer software, net of accumulated depreciation and amortization, amounted to ₱2,989,636,049, ₱262,314,042 and ₱17,028,707, respectively as of December 31, 2009, and ₱2,813,876,309, ₱220,793,796 and ₱15,519,004, respectively as of December 31, 2008 (Notes 8, 9 and 11).

Impairment of nonfinancial assets
The Group's nonfinancial assets consist of investments in associates, investment properties, property and equipment, noncurrent assets held for sale and other assets.

Impairment assessment of nonfinancial assets includes considering certain indications such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, significant underperformance relative to the expected historical or future operating results and significant negative industry or economic trends.

As described in the accounting policy, the Group estimates the recoverable amount as the higher of the net selling price and value-in-use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect the nonfinancial assets. The Group recognized impairment loss on its investment properties amounting to ₱4,188,704 and ₱2,443,055 in 2009 and 2008, respectively (Notes 8 and 22).

The carrying value of the Group's nonfinancial assets amounted to ₱15,022,064,149 and ₱14,179,722,747 as of December 31, 2009 and 2008, respectively (Notes 7, 8, 9, 10 and 11). Impairment loss on noncurrent assets held for sale amounted to ₱900,976 in 2009 and ₱7,588,304 in 2008 (Notes 10 and 22).

Estimation of NRV of Noncurrent Assets Held for Sale
Provision for impairment is made for noncurrent assets held for sale whose NRV are lower than their carrying cost. This entails estimation of costs of completion and costs necessary to make the sale which is deducted from the net selling price of the asset to arrive at its recoverable amount.

The carrying value of noncurrent assets held for sale amounted to ₱59,260,167 and ₱385,273,443 as of December 31, 2009 and 2008 (Note 10).

Adequacy of Legal Policy Reserves
In determining legal policy reserves, estimates are made as to the expected number of deaths, illness or injury for each of the years in which the Group 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 sufficiency of 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 legal policy reserves, computed in accordance with the LAT procedure, remained lower than the statutory reserve liability for all changes in assumptions. As such, Phase 1 of PFRS 4 will have no impact in the profit or loss since the reflected liability will remain to be the statutory liability.

The carrying value of legal policy reserves amounted to ₱37,795,751,604 and ₱34,328,093,587 as of December 31, 2009 and 2008, respectively (Note 12). Net change in legal policy reserves amounted to ₱3,467,658,017 in 2009 and ₱3,634,706,075 in 2008 (Note 19).

Estimation of Claims Pending Settlement, Including Claims Incurred But Not Yet Reported (IBNR)
Estimates have to be made both for the expected ultimate cost of claims pending settlement reported at the balance sheet date and for the expected ultimate cost of IBNR. The Group develops estimates for the claims using an actuarial process that is centrally controlled. The actuarial models consider factors such as time from the date of the insured event to claim receipt and claim backlogs, as well as changes in the claims processing and settlement policies and changes in insurance industry practices.

Total claims pending settlement, included under 'Other insurance liabilities' in the consolidated balance sheets amounted to ₱523,485,585 and ₱553,988,472 as of December 31, 2009 and 2008, respectively (Note 13).

Estimation of Retirement Benefits Cost
The determination of retirement benefits cost and obligation is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rates, expected return on plan assets and salary increase rates. In accordance with PFRS, actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

Net retirement benefits asset amounted to ₱27,666,700 as of December 31, 2009 (nil in 2008). Net retirement benefits liability amounted to ₱5,638,205 and ₱33,995,907 as of December 31, 2009 and 2008, respectively. The Group's unrecognized net actuarial gains amounted to ₱205,470,347 and ₱411,920,236 as of December 31, 2009 and 2008, respectively (Note 24).

Realizability of Deferred Income Tax Assets
The carrying amount of deferred income tax assets recognized is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. However, if there is no assurance that the Group will generate sufficient taxable profit to allow all or part of deferred income tax assets to be utilized, the assets are not recognized in the books. The Company did not recognize deferred income tax assets, on NOLCO and excess of MCIT over RCIT, amounting to ₱659,657,182 in 2009 and ₱281,749,352 in 2008 (Note 25).

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

IITC is currently involved in legal proceedings. IITC does not believe the proceeding will have a material adverse effect on its financial position. It is possible, however, that changes in estimates relating to those proceedings may materially affect the consolidated financial statements in subsequent years (Note 32).

4. Cash and Cash Equivalents

	2009	2008
Cash on hand	**₱260,907**	₱316,945
Cash in banks:		
Commercial banks (Note 26)	**303,731,161**	416,651,937
Thrift bank	**54,755**	165,514
	303,785,916	416,817,451
Cash equivalents in commercial banks (Note 26)	**1,437,532,078**	1,734,872,809
	₱1,741,578,901	₱2,152,007,205

Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interests at the prevailing short-term deposit rates.

5. Insurance Receivables

	2009	2008
Due premiums	**₱231,560,280**	₱221,366,891
Reinsurance assets	**10,133,289**	7,979,149
	₱241,693,569	₱229,346,040

6. Financial Assets

The Group's financial assets, excluding cash and cash equivalents, are summarized by measurement categories as follows:

	2009	2008
Financial assets at FVPL	**₱3,138,773,442**	₱2,674,801,718
AFS financial assets	**10,034,349,452**	10,372,196,050
HTM financial assets	**15,672,577,618**	13,585,596,569
Loans and receivables - net	**17,405,009,270**	14,690,701,528
	₱46,250,709,782	₱41,323,295,865

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

Financial Assets at FVPL

	2009	2008
At Fair Value		
Cash and cash equivalents	**₱157,794,926**	₱260,564,563
Equity securities - quoted	**1,337,830,639**	793,223,868
Debt securities - quoted - fixed interest rates:		
Government:		
Local currency	**720,025,016**	815,322,568
Foreign currency	**262,200,953**	179,967,523
Corporate	**555,790,129**	595,011,575
Accrued interest receivable	**105,131,779**	30,711,621
	₱3,138,773,442	₱2,674,801,718

Information on cost and amortized cost of financial assets at FVPL follows:

	2009	2008
Cash and cash equivalents	**₱157,794,926**	₱260,564,563
Equity securities - quoted	**1,579,964,722**	1,564,724,697
Debt securities - quoted fixed - interest rates:		
Government:		
Local currency	**727,319,725**	822,631,464
Foreign currency	**257,131,888**	205,628,450
Corporate	**551,301,980**	591,907,119
Accrued interest receivable	**105,131,779**	30,711,621
	₱3,378,645,020	₱3,476,167,914

Financial assets at FVPL consist of net assets which are separately administered and reported under the Separate Funds underlying the VUL insurance contracts. These financial assets are designated as at FVPL in accordance with the investment strategy and valuation provisions of the VUL insurance contracts. Likewise, this is consistent with the valuation basis of the reserve for policies held by the policyholders. Financial assets designated as at FVPL amounted to ₱3,138,773,442 and ₱2,667,270,330 as of December 31, 2009 and 2008, respectively. A subsidiary has held-for-trading financial assets at FVPL which amounted to ₱7,531,388 as of December 31, 2008 (nil in 2009).

Fair value gain (loss) from financial assets designated as at FVPL amounted to ₱551,777,846 and (₱763,609,763) in 2009 and 2008, respectively. Fair value gain (loss) from held-for-trading FVPL financial assets amounted to ₱4,563,164 and (₱12,911,513) in 2009 and 2008, respectively.

AFS Financial Assets

AFS financial assets as of December 31 are as follows:

	2009	2008
At Fair Value		
Equity securities:		
Quoted	**₱2,712,757,434**	₱2,138,491,148
Unquoted	**5,057,648,781**	5,355,235,641
	7,770,406,215	7,493,726,789
Debt securities:		
Quoted		
Government:		
Local currency	**₱1,508,743,495**	₱2,373,555,779
Foreign currency	**555,225,960**	366,089,407
Corporate	**149,541,232**	119,753,371
Unquoted - government	**50,432,550**	19,070,704
	2,263,943,237	2,878,469,261
	₱10,034,349,452	₱10,372,196,050

Information on cost and amortized cost of AFS financial assets follows:

	2009	2008
Equity securities:		
Quoted	**₱2,549,524,927**	₱2,545,288,539
Unquoted	**2,466,655,590**	2,070,228,481
	5,016,180,517	4,615,517,020
Debt securities:		
Quoted:		
Government:		
Local currency	**1,488,921,632**	2,267,623,824
Foreign currency	**516,052,112**	384,017,865
Corporate	**143,771,982**	127,675,525
Unquoted - government	**49,313,324**	19,070,704
	2,198,059,050	2,798,387,918
	₱7,214,239,567	₱7,413,904,938

The Group's AFS financial assets may be disposed of from time to time to fund higher-yielding and acceptable investments. Sale of such assets may also be considered if and when offers are received and found acceptable by the Group.

The movement in unrealized gains in respect of AFS financial assets as of December 31 follows:

	2009	2008
Equity securities:		
Attributable to the Group:		
Beginning balance	**₱2,544,320,620**	₱6,255,503,384
Valuation gains (losses) taken directly to other comprehensive income	**138,528,578**	(3,925,850,592)
Valuation losses (gains) realized through profit or loss:		
Gain on sale	**(198,238,508)**	(18,644,062)
Impairment	–	233,311,890
Ending balance	**2,484,610,690**	2,544,320,620
Attributable to associates:		
Beginning balance	**(138,472,065)**	62,433,748
Valuation gains (losses) taken directly to other comprehensive income (Note 7)	**117,012,096**	(200,905,813)
Ending balance	**(21,459,969)**	(138,472,065)
	₱2,463,150,721	₱2,405,848,555
Debt securities:		
Beginning balance	**₱140,017,036**	₱255,602,734
Valuation gains (losses) taken directly to other comprehensive income	**71,988,998**	(115,129,107)
Valuation gains realized through profit or loss	**(93,131,583)**	–
Effect of change in tax rate	–	(456,591)
Ending balance	**₱118,874,451**	₱140,017,036

HTM Financial Assets

	2009		2008	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Debt securities - quoted:				
Government:				
Local currency	**₱10,970,938,405**	**₱11,669,468,299**	₱8,915,975,568	₱8,909,718,803
Foreign currency	**3,298,525,971**	**3,858,339,694**	3,475,662,340	4,000,074,840
Corporate:				
Local currency	**1,379,021,664**	**1,483,692,117**	1,168,853,361	1,138,219,433
Foreign currency	**24,091,578**	**26,432,567**	25,105,300	31,510,433
	₱15,672,577,618	**₱17,037,932,677**	₱13,585,596,569	₱14,079,523,509

Loans and Receivables

	2009	2008
Term loans	**₱11,065,683,517**	₱8,801,289,016
Policy loans	**4,926,962,359**	4,522,054,338
Interest receivable	**679,848,397**	660,345,735
Accounts receivable	**363,316,871**	340,843,749
Mortgage loans	**191,729,425**	228,180,847
Housing loans	**153,266,941**	160,424,451
Due from agents	**101,194,264**	125,348,199
Car financing loans	**44,373,215**	44,810,610
Finance leases	**37,792,481**	54,684,191
Stock loans	**37,216,690**	34,599,537
Others	**107,260,490**	46,488,422
	17,708,644,650	15,019,069,095
Less allowance for impairment loss on loans and receivables	**303,635,380**	328,367,567
	₱17,405,009,270	₱14,690,701,528

The classes of loans and receivables of the Group are as follows:

- Term loans - pertain to investments in fixed-rate loans to corporate borrowers with terms ranging from 5 to 10 years.
- Policy loans - pertain to loans granted to policyholders. The loan is issued with the cash surrender value of the policyholder's insurance policy as collateral. Interest rates on policy loans range from 6% to 10% in 2009 and from 9% to 12 % in 2008.
- Interest receivable - pertains to accrued interest arising from investments in debt securities, cash equivalents, term loans, mortgage loans, and other receivables with interest rates ranging from .05% to 15% in 2009 and from 3% to 15% in 2008.
- Accounts receivable - pertain to miscellaneous receivables from employees, agents, related parties and third parties.
- Mortgage loans - pertain to housing loans granted to third parties and former employees with terms ranging from 4 to 20 years. Interest rates on these loans are higher compared to housing loans ranging from 7% to 21% in 2009 and from 8% to 21% in 2008.
- Housing loans - pertain to long-term loans granted to employees at an annual interest of 8% payable semi-annually with terms ranging from 5 to 20 years.
- Due from agents - pertain to unremitted collections, advances by agents, invalid withdrawal of compensation by agents and charges for amendment/ replacement of policies.
- Car financing loans - pertain to car loans granted to employees at an annual interest of 6% payable semi-annually and with terms ranging from 5 to 7 years.
- Finance leases - pertain to real estate mortgages which are collectible over a period of 20 years at an annual interest of 18% in 2009 and 2008.
- Stock loans - pertain to short-term loans which are granted to qualified members of the programs launched by Home Credit, a subsidiary.

Day 1 loss was recognized on loans with off-market interest rates. The nominal amount of these loans as of December 31 follows:

	2009	2008
Housing loans	**₱173,462,442**	₱186,251,657
Less unamortized deferred interest income	**20,195,501**	25,827,206
	₱153,266,941	₱160,424,451
Car financing loans	**₱44,658,178**	₱45,452,946
Less unamortized deferred interest income	**284,963**	642,336
	₱44,373,215	₱44,810,610

The reconciliation of the changes in deferred interest income is as follows:

	2009	2008
Housing loans:		
Beginning balance	**₱25,827,206**	₱30,781,101
Day 1 loss recognized during the year	**11,987**	635,106
Amortization through profit or loss	**(5,643,692)**	(5,589,001)
Ending balance	**₱20,195,501**	₱25,827,206
Car financing loans:		
Beginning balance	**₱642,336**	₱1,317,417
Amortization through profit or loss	**(357,373)**	(675,081)
Ending balance	**₱284,963**	₱642,336

The amortization of deferred interest income is recognized as part of interest on loans and receivables included under 'Investment income' in the consolidated statement of income (Note 17).

The reconciliation of changes in allowance for impairment on loans and receivables is as follows:

	2009			
	Accounts Receivable	**Mortgage Loans**	**Due from Agents**	**Total**
Beginning balances	**₱174,241,455**	**₱29,506,193**	**₱124,619,919**	**₱328,367,567**
Provisions for the year (Note 20)	**6,564,447**	**5,103,537**	**–**	**11,667,984**
Recoveries	**(1,962,220)**	**(9,932,129)**	**(481,204)**	**(12,375,553)**
Write-off	**–**	**(922,935)**	**(23,101,683)**	**(24,024,618)**
Ending balances	**₱178,843,682**	**₱23,754,666**	**₱101,037,032**	**₱303,635,380**

	2008			
	Accounts Receivable	Mortgage Loans	Due from Agents	Total
Beginning balances	₱158,864,385	₱34,381,674	₱125,224,940	₱318,470,999
Provisions for the year (Note 20)	15,613,460	–	–	15,613,460
Recoveries	(236,390)	(4,875,481)	(605,021)	(5,716,892)
Ending balances	₱174,241,455	₱29,506,193	₱124,619,919	₱328,367,567

The above balances were identified by the Group using the individual and collective assessment.

The Group did not recognize interest income on impaired loans and receivables in 2009 and 2008.

The movements in carrying values of financial assets, excluding loans and receivables, are as follows:

	2009				
			AFS		
	FVPL	**HTM**	**Equity Securities**	**Debt Securities**	**Total**
Beginning balances	**₱2,674,801,718**	**₱13,585,596,569**	**₱7,493,726,789**	**₱2,878,469,261**	**₱26,632,594,337**
Acquisitions	**606,008,849**	**2,406,076,446**	**710,731,576**	**991,988,636**	**4,714,805,507**
Disposals/maturities	**(813,496,629)**	**(220,863,280)**	**(307,149,435)**	**(1,574,116,622)**	**(2,915,625,966)**
Fair value gain (loss)	**677,981,096**	**–**	**(126,902,715**	**(14,320,529)**	**536,757,852**
Foreign exchange adjustments	**(6,521,592)**	**(80,972,239)**	**–**	**(16,711,684)**	**(104,205,515)**
Premium amortization - net	**–**	**(17,259,878)**	**–**	**(1,365,825)**	**(18,625,703)**
Ending balances	**₱3,138,773,442**	**₱15,672,577,618**	**₱7,770,406,215**	**₱2,263,943,237**	**₱28,845,700,512**

	2008				
			AFS		
	FVPL	HTM	Equity Securities	Debt Securities	Total
Beginning balances	₱3,409,264,048	₱11,751,882,774	₱10,758,706,326	₱2,860,619,485	₱28,780,472,633
Acquisitions	420,207,999	1,590,867,971	1,791,201,326	444,825,955	4,247,103,251
Disposals/maturities	(456,988,379)	(590,597,997)	(779,466,914)	(18,207,145)	(1,845,260,435)
Fair value loss	(666,460,692)	–	(4,043,402,059)	(118,171,915)	(4,828,034,666)
Reclassification	(60,884,162)	403,990,282	–	(343,106,120)	–
Impairment (Note 22)	–	–	(233,311,890)	–	(233,311,890)
Foreign exchange adjustments	29,662,904	436,981,993	–	55,982,665	522,627,562
Premium amortization- net	–	(7,528,454)	–	(3,473,664)	(11,002,118)
Ending balances	₱2,674,801,718	₱13,585,596,569	₱7,493,726,789	₱2,878,469,261	₱26,632,594,337

As of December 31, 2009 and 2008, government securities under HTM financial assets totaling ₱62,500,000 are deposited with the IC in accordance with the provision of the Code as security for the benefit of policyholders and creditors of the Group.

Reclassification from AFS financial assets to HTM financial assets
On September 15, 2008, the Group reclassified AFS debt securities with amortized cost amounting to ₱283,501,557 to HTM financial assets due to change in management's intention. At the date of reclassification, the fair market value of the debt securities amounted to ₱343,106,120 which became the new amortized cost of HTM financial assets as of reclassification date.

The difference of the fair value and amortized cost as of the date of reclassification amounting to ₱59,604,563 was taken directly to other comprehensive income and is to be amortized until maturity.

The effective interest rate as at the date of reclassification is 8.18%

Fair value gain (loss) on financial assets reclassified that would have been recognized in the statement of comprehensive income had the debt securities not been reclassified to HTM financial assets amounted to (₱54,412,690) and ₱22,820,041 in 2009 and 2008, respectively.The amortization of difference between the fair value and amortized cost at the date of reclassification recognized in the statement of income amounted to ₱1,020,697 in 2009 and ₱434,751 in 2008.

The fair value and carrying value of the debt securities reclassified to HTM financial assets amounted to ₱252,534,330 and ₱338,441,950 as of December 31, 2009, respectively and ₱306,947,020 and ₱342,080,035 as of December 31, 2008, respectively.

Reclassification from financial assets at FVPL to HTM financial assets
On September 11, 2008, the Group reclassified its held-for-trading debt securities at FVPL to HTM financial assets due to a change in management's intention as a result of the significant decline in market value brought about by the global financial crisis. At the date of reclassification, the fair market value of the FVPL debt securities amounted to ₱60,884,162 which automatically became the amortized cost of the HTM financial assets as of reclassification date.

The effective interest rates as at the date of reclassification range from 6.52% to 6.83%.

Fair value loss on financial assets reclassified recognized in the statement of income for 2008 amounted to ₱3,245,975.

Fair value loss on financial assets reclassified that would have been recognized in the statement of income for 2009 and 2008 had the debt securities not been reclassified to HTM financial assets amounted to ₱2,232,556 and ₱636,749, respectively. Interest income recognized in the statement of income amounted to ₱3,515,643 in 2009 and ₱1,239,256 in 2008.

The fair value and carrying value of the debt securities reclassified to HTM financial assets amounted to ₱47,912,238 and ₱47,271,996 as of December 31, 2009, respectively and ₱60,247,413 and ₱59,976,149 as of December 31, 2008, respectively.

There were no reclassifications made in 2009.

7. Investments in Associates

The movement of the investments in associates is as follows:

	2009	2008
Acquisition cost:		
Beginning balance	**₱ 1,655,410,255**	₱ 1,653,130,255
Additional investment during the year	**–**	2,280,000
Ending balance	**1,655,410,255**	1,655,410,255
Accumulated equity in net earnings:		
Beginning balance	**2,805,107,038**	2,632,744,177
Equity in net earnings for the year	**740,805,105**	383,409,537
Dividends received	**(140,762,360)**	(211,046,676)
Ending balance	**3,405,149,783**	2,805,107,038
Equity in reserve for fluctuation in AFS		
Beginning balance	**(₱ 138,472,065)**	₱ 62,433,748
Share in net movement of reserve for fluctuation in AFS financial assets of the associates during the year (Note 6)	**117,012,096**	(200,905,813)
Ending balance	**(21,459,969)**	(138,472,065)
Premium on deemed disposal of investment in an associate	**304,954,486**	304,954,486
	₱ 5,344,054,555	₱ 4,626,999,714

In 2008, the Company's advances to Pamplona Realty, Inc. amounting to ₱2,280,000 was converted into 22,800 shares in Pamplona. There was a corresponding proportionate subscription by the other stockholders, thus retaining the equity ownership of all stockholders in Pamplona.

On various dates in 2007, UBP issued a total number of 90,176,456 shares of stock to its equity holders. The Group did not subscribe for additional shares thereby reducing its interest in UBP from 18.74% to 16.11% as of December 31, 2007. The reduction in interest in UBP deemed as disposal was accounted for using the entity concept method and recognized the deemed disposal of interest as an equity transaction. Thus, dilution gain arising from the deemed disposal of interest in UBP amounting to ₱304,954,486 was recognized as "Premium on deemed disposal of investment in an associate" in the members' equity section of the consolidated balance sheets.

Financial information on significant associates as of and for the years ended December 31 are as follows:

	2009	2008
UBP		
Total assets	**₱ 244,361,318,000**	₱ 203,901,103,000
Total liabilities	**213,080,968,000**	176,884,343,000
Net income	**4,325,003,000**	2,068,426,000
MAPFRE		
Total assets	**2,824,392,491**	2,537,041,168
Total liabilities	**1,499,750,501**	1,341,428,767
Net income	**184,445,828**	160,094,357
PAMPLONA		
Total assets	**28,388,821**	18,928,529
Total liabilities	**37,216,083**	20,285,535
Net loss	**(8,827,262)**	(6,965,279)

8. Investment Properties

The movement in the carrying amount of investment properties is as follows:

	2009		
	Land	Buildings and Improvements	Total
Costs			
Beginning balances	**₱ 5,967,992,973**	**₱ 3,088,379,051**	**₱ 9,056,372,024**
Additions	**7,953,398**	**322,170,534**	**330,123,932**
Disposals	**(11,910,062)**	**(32,833,066)**	**(44,743,128)**
Reclassifications	**251,439,440**	**4,103,005**	**255,542,445**
Ending balances	**6,215,475,749**	**3,381,819,524**	**9,597,295,273**
Accumulated Depreciation and Impairment Loss			
Beginning balances	**147,919,198**	**274,502,742**	**422,421,940**
Depreciation and amortization (Note 20)	**–**	**116,367,802**	**116,367,802**
Impairment loss (Note 22)	**–**	**4,188,704**	**4,188,704**
Disposals	**–**	**(3,156,931)**	**(3,156,931)**
Reclassifications	**–**	**281,158**	**281,158**
Ending balances	**147,919,198**	**392,183,475**	**540,102,673**
Net Book Values	**₱ 6,067,556,551**	**₱ 2,989,636,049**	**₱ 9,057,192,600**

	2008		
	Land	Buildings and Improvements	Total
Costs			
Beginning balances	₱ 6,035,381,039	₱ 3,017,291,611	₱ 9,052,672,650
Additions	15,653,825	59,043,720	74,697,545
Disposals	(59,841,244)	(17,434,707)	(77,275,951)
Reclassifications	(23,200,647)	29,478,427	6,277,780
Ending balances	5,967,992,973	3,088,379,051	9,056,372,024
Accumulated Depreciation and Impairment Loss			
Beginning balances	147,926,117	148,717,203	296,643,320
Depreciation and amortization (Note 20)	–	114,012,326	114,012,326
Impairment loss (Note 22)	–	2,443,055	2,443,055
Disposals	–	(1,540,599)	(1,540,599)
Reclassifications	(6,919)	10,870,757	10,863,838
Ending balances	147,919,198	274,502,742	422,421,940
Net Book Values	₱ 5,820,073,775	₱ 2,813,876,309	₱ 8,633,950,084

As allowed under PFRS 1, *First-time Adoption of International Financial Reporting Standards*, the Group used the fair value of the investment properties as of January 1, 2004 as deemed cost. The amount by which the fair value exceeds the carrying value of the property was added to the carrying value of the property with a corresponding credit to 'Revaluation increment in investment properties', net of tax, under members' equity in the consolidated balance sheets.

The total fair value of the investment properties amounted to ₱9,451,487,764 as of December 31, 2009 based on an independent appraiser valuation and the Group's in-house valuation and ₱8,641,163,288 (roughly 15% to 20% of the total investment properties) as of December 31, 2008 based on the Group's in-house valuation. The fair value represents the amount at which the assets could be exchanged between a knowledgeable and willing buyer and seller in an arm's length transaction at the date of the valuation.

The Group enters into operating leases for all its investment properties. Rental income amounted to ₱244,847,286 in 2009 and ₱236,848,133 in 2008. Direct expenses arising in respect of such investment properties amounted to ₱143,168,981 in 2009 and ₱126,016,713 in 2008 while indirect operating expenses amounted to ₱9,483,861 in 2009 and ₱37,338,285 in 2008 (Note 12).

In 2009, noncurrent assets held for sale with carrying value of ₱274,031,855 were reclassified to investment properties because the immediate sale of these properties did not push through while investment properties with carrying value of ₱18,770,568 were reclassified to noncurrent assets held for sale (Note 10). In 2008, investment properties with carrying value of ₱7,035,769 and ₱127,117,125 were reclassified to property and equipment and noncurrent assets held for sale, respectively, while noncurrent assets held for sale with carrying value of ₱129,566,836 were reclassified to investment properties (Notes 9 and 10).

Depreciation expense charged to income pertaining to the revaluation increment amounted to ₱9,243,555 in 2009 and 2008.

The cost of fully depreciated investment properties that are still in use amounted to ₱282,896,200 and ₱294,818,352 as of December 31, 2009 and 2008, respectively.

9. Property and Equipment

The movement in the carrying amount of property and equipment is as follows:

	2009					
	Land and Buildings	**Furniture Fixtures and Equipment**	**Electronic and Data Processing Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Total**
Costs						
Beginning balances	**₱126,838,931**	**₱283,440,000**	**₱170,080,750**	**₱89,325,767**	**₱57,474,235**	**₱727,159,683**
Additions	**158,035**	**15,368,219**	**51,026,674**	**23,640,487**	**4,453,004**	**94,646,419**
Retirements/disposals	**(510,812)**	**(1,084,813)**	**(34,461,261)**	**(19,622,276)**	**–**	**(55,679,162)**
Ending balances	**126,486,154**	**297,723,406**	**186,646,163**	**93,343,978**	**61,927,239**	**766,126,940**
Accumulated Depreciation and Amortization						
Beginning balances	**27,979,093**	**193,074,632**	**124,802,503**	**53,632,262**	**50,116,835**	**449,605,325**
Depreciation and amortization (Note 20)	**1,896,939**	**12,508,514**	**19,474,609**	**14,924,749**	**2,736,150**	**51,540,961**
Retirements/disposals	**–**	**(1,060,813)**	**(34,461,261)**	**(18,061,063)**	**–**	**(53,583,137)**
Ending balances	**29,876,032**	**204,522,333**	**109,815,851**	**50,495,948**	**52,852,985**	**447,563,149**
Net Book Values	**₱96,610,122**	**₱93,201,073**	**₱76,830,312**	**₱42,848,030**	**₱9,074,254**	**₱ 318,563,791**

	2008					
	Land and Buildings	Furniture Fixtures and Equipment	Electronic and Data Processing Equipment	Transportation Equipment	Leasehold Improvements	Total
Costs						
Beginning balances	₱116,694,790	₱278,013,580	₱151,812,169	₱83,410,001	₱55,455,483	₱685,386,023
Additions	–	6,378,246	19,280,149	18,012,300	2,018,752	45,689,447
Retirements/disposals	–	(951,826)	(1,011,568)	(12,096,534)	–	(14,059,928)
Reclassifications (Note 8)	10,144,141	–	–	–	–	10,144,141
Ending balances	126,838,931	283,440,000	170,080,750	89,325,767	57,474,235	727,159,683
Accumulated Depreciation and Amortization						
Beginning balances	₱23,235,232	₱182,156,084	₱111,222,135	₱49,210,947	₱47,062,022	₱412,886,420
Depreciation and amortization (Note 20)	1,635,489	11,751,031	14,587,398	15,431,040	3,054,813	46,459,771
Retirements/disposals	–	(832,483)	(1,007,030)	(11,009,725)	–	(12,849,238)
Reclassifications (Note 8)	3,108,372	–	–	–	–	3,108,372
Ending balances	27,979,093	193,074,632	124,802,503	53,632,262	50,116,835	449,605,325
Net Book Values	₱98,859,838	₱90,365,368	₱45,278,247	₱35,693,505	₱7,357,400	₱277,554,358

The carrying value of investment properties reclassified to property and equipment in 2008 amounted to ₱7,035,769 (nil in 2009).

10. Noncurrent Assets Held for Sale

This account consists of various real estate properties carried at the lower of cost or NRV. The properties are highly probable to be sold within one year and are included in the sales auction program for the year. Management believes that the carrying amount of these assets will be recovered principally through a sale transaction rather than through continuing use.

Movement in noncurrent assets held for sale is as follows:

	2009	2008
Beginning balance	**₱ 385,273,443**	₱ 466,787,444
Sold	**(69,851,013)**	(71,475,986)
Impairment loss (Note 22)	**(900,976)**	(7,588,304)
Reclassifications (Note 8)	**(255,261,287)**	(2,449,711)
Ending balance	**₱ 59,260,167**	₱ 385,273,443

11. Other Assets

	2009	2008
Interest in joint venture	**₱ 148,349,598**	₱ 148,349,598
Value added input tax	**36,868,946**	44,033,212
Computer software - net	**17,028,707**	15,519,004
Others	**40,745,785**	48,043,334
	₱ 242,993,036	₱ 255,945,148

Interest in Joint Venture
On February 20, 2002, IPVI, IPI and Plus Builders, Inc. (PBI) entered into a contractual and unincorporated joint venture for the conversion and development of parcels of land owned by PBI located in Imus, Cavite into a residential subdivision project (the Project). IPVI and IPI are the financiers while PBI is the landowner/developer of the Project.

Under the joint venture agreement, the subdivided lots will be allocated between the financiers and the landowner/developer on a 50-50 sharing, the method of which will be agreed separately by the parties.

On the same date, IPVI and IPI appointed PBI as the sole and exclusive marketing, promotional and selling agent of their share in the subdivided lots under a marketing and selling agency agreement. As the agent, PBI will be entitled to commissions and fees to be agreed upon by the parties.

In February 2004, PBI has started operations on the Project.

On March 25, 2009, PBI sought the intervention of Delfin Hermanos, Inc. (DHI), in cooperation with Bahayang Pag-asa, Inc. (BPI) to take over PBI. With the takeover, DHI has the full authority and power to utilize PBI's properties and titles as collaterals to any loan that DHI may secure from finance institutions; shall take over the management and development of PBI properties; and shall undertake the exclusive marketing and sale of the projects through its marketing arm.

Computer Software
The movement in the carrying amount of computer software is as follows:

	2009	2008
Cost		
Beginning balance	**₱228,252,047**	₱219,390,658
Additions	**8,024,136**	8,861,389
Ending balance	**236,276,183**	228,252,047
Accumulated Amortization		
Beginning balance	**212,733,043**	204,081,456
Amortization (Note 20)	**6,514,433**	8,651,587
Ending balance	**219,247,476**	212,733,043
Net Book Value	**₱17,028,707**	₱15,519,004

Others
Others include prepaid employee loan benefit, prepaid expenses, prepaid taxes, deposits and other current assets.

12. Legal Policy Reserves

Details of legal policy reserves are as follows:

	2009		
	Legal Policy Reserves	**Reinsurers' Share of Liabilities**	**Net**
Aggregate reserves for:			
Ordinary life policies	**₱36,833,658,323**	**₱63,213,599**	**₱36,770,444,724**
Group life policies	**919,922,539**	–	**919,922,539**
Accident and health policies	**100,747,942**	**5,545,599**	**95,202,343**
Unit-linked policies	**10,527,988**	**345,990**	**10,181,998**
	₱37,864,856,792	**₱69,105,188**	**₱37,795,751,604**

	2008		
	Legal Policy Reserves	Reinsurers' Share of Liabilities	Net
Aggregate reserves for:			
Ordinary life policies	₱33,575,774,252	₱66,081,296	₱33,509,692,956
Group life policies	711,707,636	–	711,707,636
Accident and health policies	85,151,047	9,993,885	75,157,162
Unit-linked policies	31,977,974	442,141	31,535,833
	₱34,404,610,909	₱76,517,322	₱34,328,093,587

Movement of aggregate reserves is as follows:

	2009		
	Legal Policy Reserves	**Reinsurers' Share of Liabilities**	**Net**
Beginning balances	**₱34,404,610,909**	**₱76,517,322**	**₱34,328,093,587**
Premiums received	**5,931,946,827**	–	**5,931,946,827**
Liability released for payments of death, maturities, surrender benefits and claims	**(694,652,567)**	–	**(694,652,567)**
Accretion of investment income or change in unit prices	**1,296,272,851**	–	**1,296,272,851**
Fees deducted	**(2,989,795,133)**	**(7,412,134)**	**(2,982,382,999)**
Foreign exchange adjustment	**(83,526,095)**	–	**(83,526,095)**
Ending balances	**₱37,864,856,792**	**₱69,105,188**	**₱37,795,751,604**

	2008		
	Legal Policy Reserves	Reinsurers' Share of Liabilities	Net
Beginning balances	₱30,765,578,060	₱72,190,548	₱30,693,387,512
Premiums received	5,759,590,437	–	5,759,590,437
Liability released for payments of death, maturities, surrender benefits and claims	(517,568,294)	–	(517,568,294)
Accretion of investment income or change in unit prices	2,772,685,114	–	2,772,685,114
Fees deducted	(4,785,836,066)	4,326,774	(4,790,162,840)
Foreign exchange adjustment	410,161,658	–	410,161,658
Ending balances	₱34,404,610,909	₱76,517,322	₱34,328,093,587

As discussed under Note 2, legal policy reserves reflect the statutory reserves. These reserves are, however, higher compared to the fair valued liability. The process of determining the fair valued liability is also discussed in the LAT section of Note 2.

13. Other Insurance Liabilities

	2009	2008
Members' deposits and other funds on deposit	₱7,766,644,568	₱7,130,125,853
Reserve for dividends to members	1,159,075,022	1,119,961,279
Claims pending settlement	523,485,585	553,988,472
	₱9,449,205,175	₱8,804,075,604

14. Accrued Expenses and Other Liabilities

	2009	2008
Accounts payable	₱345,881,634	₱305,115,885
Accrued employee benefits	251,870,089	218,832,464
Preferred shares of Home Credit owned by its members	121,319,650	121,126,162
Commissions payable	95,248,869	92,318,715
Advances from joint venture (Note 11)	79,834,764	59,663,642
General expenses due and accrued	48,044,262	70,009,584
Remittances not yet allocated	43,701,815	31,826,744
Taxes payable	29,083,405	21,384,457
Others	32,938,348	44,612,859
	₱1,047,922,836	₱964,890,512

The classes of accrued expenses and other liabilities of the Group are as follows:

- Accounts payable - pertain to amounts due to contractors and suppliers.
- Preferred shares of Home Credit owned by its members - pertain to Preferred Serial B shares which are reclassified as Redeemable Preferred Capital Contributions. Accordingly, dividend payments on these shares are presented as interest expense in the consolidated statement of income. Holders of Preferred Serial B shares have priority in the availment of housing loans and are entitled to obtain mortgage loan and interest discounts.
- Remittances not yet allocated - pertain to collections from policyholders during the last month of the reporting period unapplied to their corresponding receivable set-up as of balance sheet date.

15. Dividend Declaration

On February 25, 2010 and March 12, 2009, the BOT approved the set up of provision for dividends to members for the years ended December 31, 2009 and 2008 applicable to dividends to be paid out for the period January 1, 2010 to December 31, 2010 and January 1, 2009 to December 31, 2009, respectively.

Breakdown of the dividend provision is as follows:

	2009	2008
Chargeable to retained earnings	₱908,184,000	₱872,634,000
Chargeable to income (Note 19)	241,416,000	231,966,000
	₱1,149,600,000	₱1,104,600,000

Dividends to members charged against retained earnings are as follow:

	2009	2008
Dividends declared during the year	₱908,184,000	₱872,634,000
Excess of dividends declared in prior year against actual amount paid	(75,445,735)	(62,995,835)
	₱832,738,265	₱809,638,165

16. Insurance Revenue

	2009	2008
Life insurance contracts	₱6,709,724,564	₱6,197,834,785
VUL insurance contracts	373,968,768	537,859,076
Accident and health contracts	443,223,260	416,399,615
Gross earned premiums on insurance contracts	7,526,916,592	7,152,093,476
Reinsurers' share of premiums on insurance contracts	(125,323,532)	(142,783,475)
Net insurance revenue	₱7,401,593,060	₱7,009,310,001

17. Investment Income

	2009	2008
Interest income on:		
Loans and receivables	₱1,427,015,976	₱1,133,260,391
HTM financial assets	1,424,272,711	1,335,063,915
AFS financial assets	263,551,545	312,814,346
Others	10,536,152	10,992,947
	3,125,376,384	2,792,131,599
Dividend income	511,797,977	1,458,649,613
Income (loss) on VUL funds	78,657,570	(70,440,128)
Total investment income	₱3,715,831,931	₱4,180,341,084

18. Net Realized Gains - net

	2009	2008
AFS financial assets	₱291,370,091	₱18,644,062
Foreclosure of properties	5,264,634	(973,411)
Noncurrent assets held for sale	3,347,116	(14,662,892)
Investment properties	3,008,552	(1,580,582)
Property and equipment	2,237,880	592,134
	₱305,228,273	₱2,019,311

19. Insurance Benefits Expenses

	2009	2008
Surrenders	₱1,481,855,314	₱1,325,056,563
Death and hospitalization benefits	940,480,973	940,952,406
Increase in reserve for supplementary contracts	623,306,020	616,527,323
Maturities	356,590,400	244,655,179
Interest expense	348,120,780	337,725,220
Payments on supplementary contracts	324,878,759	282,168,831
VUL funds allocation	316,166,295	472,267,285
Dividends to members (Note 15)	241,416,000	231,966,000
Others	10,852,377	15,204,798
Total gross benefits and claims paid on insurance contracts	4,643,666,918	4,466,523,605
Reinsurers' share of benefits and claims paid on insurance	(66,379,652)	(32,341,172)
Change in:		
Legal policy reserves	3,460,245,883	3,639,032,849
Reinsurers' share in legal policy reserves	7,412,134	(4,326,774)
	₱8,044,945,283	₱8,068,888,508

Details of net change in legal policy reserves are as follows:

2009	Gross Change in Legal Policy Reserves	Reinsurers' Share of Change in Legal Policy Reserves	Net
Life insurance contracts	₱3,481,695,869	(₱7,315,983)	₱3,489,011,852
VUL insurance contracts	(21,449,986)	(96,151)	(21,353,835)
	₱3,460,245,883	(₱7,412,134)	₱3,467,658,017

2008	Gross Change in Legal Policy Reserves	Reinsurers' Share of Change in Legal Policy Reserves	Net
Life insurance contracts	₱3,615,944,201	₱4,326,774	₱3,611,617,427
VUL insurance contracts	23,088,648	–	23,088,648
	₱3,639,032,849	₱4,326,774	₱3,634,706,075

20. General Insurance Expenses

	2009	2008
Personnel (Notes 23, 24 and 26)	**₱726,942,886**	₱691,402,848
Depreciation and amortization (Notes 9 and 11)	**174,423,196**	169,123,684
Outside services	**88,954,029**	59,704,213
Marketing, advertising, and promotion	**67,260,077**	69,559,162
Transportation and communication	**57,078,309**	57,105,288
Repairs and maintenance	**23,824,730**	21,529,475
Rent (Note 28)	**21,060,370**	20,133,420
Printing and supplies	**12,508,030**	15,718,018
Provision for impairment on loans and receivables (Note 6)	**11,667,984**	15,613,460
Training	**11,199,938**	12,026,012
Utilities	**10,628,079**	8,522,407
Others	**139,054,448**	156,160,184
	₱1,344,602,076	₱1,296,598,171

Others pertain to collection expenses, taxes and licenses, bank charges and miscellaneous fees and expenses incurred by the Group.

21. Investment Expenses

	2009	2008
Real estate expenses (Note 8)	**₱152,652,842**	₱163,354,998
Investment management expenses	**2,567,111**	497,636
	₱155,219,953	₱163,852,634

22. Other Losses

	2009	2008
Impairment loss on:		
Investment properties (Note 8)	**₱4,188,704**	₱2,443,055
Noncurrent assets held for sale (Note 10)	**900,976**	7,588,304
AFS equity securities (Note 6)	**–**	233,311,890
	5,089,680	243,343,249
Trading losses - net	**–**	11,038,824
	₱5,089,680	₱254,382,073

23. Personnel Expenses

	2009	2008
Salaries and bonuses	**₱636,365,916**	₱565,563,464
Employee benefits	**92,514,270**	84,906,886
Retirement benefits cost (income) (Note 24)	**(1,937,300)**	40,932,498
	₱726,942,886	₱691,402,848

24. Retirement Benefits

The Group has defined benefit plans covering substantially all employees and executives, which require contributions to be made to the retirement funds. The Company's retirement fund is administered by the BOT consisting of its key officers while that of the subsidiaries are administered by IITC. The latest actuarial valuation of the defined benefit plans was made on December 31, 2009.

The following tables summarize the components of retirement benefits cost recognized in the consolidated statement of income and the funded status and amounts recognized in the consolidated balance sheet for the retirement plan:

a. Retirement benefits cost recognized in the consolidated statement of income is as follows:

	2009				
	Parent	**Subsidiaries**			
	Company	**IITC**	**I-Care**	**Home Credit**	**Total**
Current service cost	**₱26,602,000**	**₱216,467**	**₱954,564**	**₱321,410**	**₱28,094,441**
Interest cost	**50,393,000**	**439,208**	**735,780**	**238,563**	**51,806,551**
Expected return on plan assets	**(58,721,400)**	**(274,736)**	**(437,159)**	**(193,770)**	**(59,627,065)**
Amortization of net actuarial gains	**(22,320,200)**	**(35,100)**	**(67,369)**	**(42,681)**	**(22,465,350)**
Transitional liability recognized during the year	**–**	**–**	**–**	**254,123**	**254,123**
	(₱4,046,600)	**₱345,839**	**₱1,185,816**	**₱577,645**	**(₱1,937,300)**

	2008				
	Parent	Subsidiaries			
	Company	IITC	I-Care	Home Credit	Total
Current service cost	₱50,848,200	₱348,681	₱1,282,768	₱361,065	₱52,840,714
Interest cost	53,637,000	338,316	673,865	207,409	54,856,590
Expected return on plan assets	(63,485,869)	(236,790)	(348,013)	(58,215)	(64,128,887)
Amortization of net actuarial losses (gains)	(2,824,900)	(47,251)	–	236,232	(2,635,919)
	₱38,174,431	₱402,956	₱1,608,620	₱746,491	₱40,932,498

b. Retirement benefits liability (asset) recognized in the consolidated balance sheet is as follows:

	2009				
	Parent	**Subsidiaries**			
	Company	**IITC**	**I-Care**	**Home Credit**	**Total**
Present value of defined benefit obligation	**₱622,826,400**	**₱2,597,711**	**₱10,783,048**	**₱2,540,541**	**₱15,921,300**
Fair value of plan assets	**854,657,000**	**1,381,752**	**7,501,513**	**2,960,399**	**11,843,665**
	(231,830,600)	**1,215,959**	**3,281,535**	**(419,858)**	**4,077,635**
Unrecognized net actuarial gains (losses)	**204,163,900**	**231,636**	**(384,765)**	**1,459,576**	**1,306,447**
Transitional Liability	**–**	**–**	**–**	**254,123**	**254,123**
Retirement benefits liability	**(₱27,666,700)**	**₱1,447,595**	**₱2,896,770**	**₱1,293,841**	**₱5,638,205**

	2008				
	Parent	Subsidiaries			
	Company	IITC	I-Care	Home Credit	Total
Present value of defined benefit obligation	₱354,630,272	₱4,392,075	₱7,357,805	₱2,650,702	₱369,030,854
Fair value of plan assets	(734,017,115)	(3,924,795)	(6,245,133)	(2,768,140)	(746,955,183)
	(379,386,843)	467,280	1,112,672	(117,438)	(377,924,329)
Unrecognized net actuarial gains	408,204,743	1,000,810	1,881,049	833,634	411,920,236
Retirement benefits liability	₱28,817,900	₱1,468,090	₱2,993,721	₱716,196	₱33,995,907

The net retirement benefits asset as of December 31, 2009 amounting to ₱27,666,700 qualified for recognition in the financial statements based on the asset ceiling test.

c. Changes in the present value of defined benefit obligation are as follows:

	2009				
	Parent	**Subsidiaries**			
	Company	**IITC**	**I-Care**	**Home Credit**	**Total**
Beginning balances	**₱354,630,272**	**₱4,392,075**	**₱7,357,805**	**₱2,650,702**	**₱14,400,582**
Current service cost	**26,602,000**	**216,467**	**954,564**	**321,410**	**1,492,441**
Interest cost	**50,393,000**	**439,208**	**735,780**	**238,563**	**1,413,551**
Benefits paid	**(12,000,500)**	**(3,210,436)**	**(164,125)**	**–**	**(3,374,561)**
Actuarial loss (gain)	**203,201,628**	**760,397**	**1,899,024**	**(670,134)**	**1,989,287**
Ending balances	**₱622,826,400**	**₱2,597,711**	**₱10,783,048**	**₱2,540,541**	**₱15,921,300**

	2008				
	Parent	Subsidiaries			
	Company	IITC	I-Care	Home Credit	Total
Beginning balances	₱647,086,772	₱4,228,944	₱8,423,309	₱2,592,612	₱15,244,865
Current service cost	50,848,200	348,681	1,282,768	361,065	1,992,514
Interest cost	53,637,000	338,316	673,865	207,409	1,219,590
Benefits paid	(50,551,800)	(477,995)	(192,908)	–	(670,903)
Actuarial gain	(346,389,900)	(45,871)	(2,829,229)	(510,384)	(3,385,484)
Ending balances	₱354,630,272	₱4,392,075	₱7,357,805	₱2,650,702	₱14,400,582

d. Changes in the fair value of plan assets are as follows:

	2009				
	Parent	**Subsidiaries**			
	Company	**IITC**	**I-Care**	**Home Credit**	**Total**
Beginning balances	**₱734,017,115**	**₱3,924,795**	**₱6,245,133**	**₱2,768,140**	**₱12,938,068**
Expected return on plan assets	**58,721,400**	**274,736**	**437,159**	**193,770**	**905,665**
Actual contribution	**52,438,000**	**366,334**	**1,282,767**	**–**	**1,649,101**
Benefits paid	**(12,000,500)**	**(3,210,436)**	**(164,125)**	**–**	**(3,374,561)**
Actuarial gain (loss)	**21,480,985**	**26,323**	**(299,421)**	**(1,511)**	**(274,609)**
Ending balances	**₱854,657,000**	**₱1,381,752**	**₱7,501,513**	**₱2,960,399**	**₱11,843,664**

	2008				
	Parent	Subsidiaries			
	Company	IITC	I-Care	Home Credit	Total
Beginning balances	₱780,742,615	₱3,946,503	₱4,971,619	₱831,637	₱9,749,759
Expected return on plan assets	62,459,400	236,790	348,013	58,215	643,018
Actual contribution	–	396,227	1,332,401	1,900,000	3,628,628
Benefits paid	(50,551,800)	(477,995)	(192,908)	–	(670,903)
Actuarial loss	(58,633,100)	(176,730)	(213,992)	(21,712)	(412,434)
Ending balances	₱734,017,115	₱3,924,795	₱6,245,133	₱2,768,140	₱12,938,068

The major categories of plan assets as a percentage of fair value of net plan assets are as follows:

	2009			
	Parent	**Subsidiaries**		
	Company	**IITC**	**I-Care**	**Home Credit**
Cash and cash equivalents	**14.00%**	–	**0.69%**	**97.88%**
Investments in debt and equity securities	**86.00%**	**98.95%**	**90.55%**	**0.43%**
Receivables	–	**1.05%**	**8.76%**	**1.69%**
	100.00%	**100.00%**	**100.00%**	**100.00%**

	2008			
	Parent	Subsidiaries		
	Company	IITC	I-Care	Home Credit
Cash and cash equivalents	11.00%	0.02%	6.0%	31.77%
Investments in debt and equity securities	89.00%	98.55%	92.0%	49.87%
Receivables	–	1.43%	2.0%	18.36%
	100.00%	100.00%	100.00%	100.00%

Actual return on plan assets is as follows:

	2009			
	Parent	**Subsidiaries**		
	Company	**IITC**	**I-Care**	**Home Credit**
Expected return on plan assets	**₱58,721,400**	**₱274,736**	**₱437,159**	**₱193,770**
Actuarial gain (loss) on plan assets	**21,480,985**	**26,323**	**(299,421)**	**1,511**
Actual return on plan assets	**₱80,202,385**	**₱301,059**	**₱137,738**	**₱195,281**

	2008			
	Parent	Subsidiaries		
	Company	IITC	I-Care	Home Credit
Expected return on plan assets	₱62,459,400	₱236,790	₱348,013	₱58,215
Actuarial loss on plan assets	(58,633,100)	(176,730)	(213,992)	(21,712)
Actual return on plan assets	₱3,826,300	₱60,060	₱134,021	₱36,503

The overall expected return on the plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled. There has been no change in the expected rate of return on plan assets.

The Group contributed ₱54,087,102 to its defined benefit plan in 2009. The Group expects to contribute ₱77,295,600 to its defined benefit plan in 2010.

The principal assumptions used in determining retirement benefits cost for the Group's plan are as follows:

	2009			
	Parent	**Subsidiaries**		
	Company	**IITC**	**I-Care**	**Home Credit**
Discount rate	**10%**	**10%**	**10%**	**9%**
Expected rate of return on plan assets	**7%**	**7%**	**7%**	**7%**
Rate of salary increases	**10%**	**8%**	**8%**	**4%**

	2008			
	Parent	Subsidiaries		
	Company	IITC	I-Care	Home Credit
Discount rate	14%	8%	8%	8%
Expected rate of return on plan assets	8%	6%	7%	7%
Rate of salary increases	10%	6%	8%	4%

Amounts for the current and prior periods are as follows:

	2009			
	Parent	**Subsidiaries**		
	Company	**IITC**	**I-Care**	**Home Credit**
Present value of defined benefit obligation	**₱622,826,400**	**₱2,597,711**	**₱10,783,048**	**₱2,540,541**
Fair value of plan assets	**854,657,000**	**1,381,752**	**7,501,513**	**2,960,399**
Unfunded defined benefit obligation (net plan assets)	**(231,830,600)**	**1,215,959**	**3,281,535**	**(419,858)**
Experience adjustments on defined benefit obligation - gain	**(13,025,672)**	**(288,437)**	**(142,456)**	**–**
Experience adjustments on plan assets - gain (loss)	**21,480,985**	**26,323**	**(299,421)**	**1,511**

	2008			
	Parent	Subsidiaries		
	Company	IITC	I-Care	Home Credit
Present value of defined benefit obligation	₱354,630,272	₱4,392,075	₱7,357,805	₱2,650,702
Fair value of plan assets	734,017,115	3,924,795	6,245,133	2,768,140
Unfunded defined benefit obligation (net plan assets)	(379,386,843)	467,280	1,112,672	(117,438)
Experience adjustments on defined benefit obligation - loss (gain)	(15,302,900)	(45,871)	–	103,854
Experience adjustments on plan assets - gain (loss)	(58,633,100)	(176,730)	(213,992)	(21,712)

	2007			
	Parent	Subsidiaries		
	Company	IITC	I-Care	Home Credit
Present value of defined benefit obligation	₱647,086,772	₱4,228,944	₱8,423,309	₱2,592,612
Fair value of plan assets	780,742,615	3,946,503	4,971,619	(831,637)
Unfunded defined benefit obligation (net plan assets)	(133,655,843)	282,441	3,451,690	1,760,975
Experience adjustments on defined benefit obligation - loss (gain)	2,872,179	(42,056)	–	(348,390)
Experience adjustments on plan assets - gain (loss)	477,943	(18,934)	(95,927)	–

	2006			
	Parent	Subsidiaries		
	Company	IITC	I-Care	Home Credit
Present value of defined benefit obligations	₱596,649,342	₱4,183,106	₱6,296,720	₱3,038,340
Fair value of plan assets	759,569,429	3,341,583	4,371,325	784,949
Unfunded defined benefit obligation (net plan assets)	(162,920,087)	841,523	1,925,395	2,253,391
Experience adjustments on defined benefit obligation - loss (gain)	96,849,794	(950,045)	765,830	(75,679)
Experience adjustments on plan assets - gain	65,486,732	62,061	287,591	(22,507)

	2005			
	Parent	Subsidiaries		
	Company	IITC	I-Care	Home Credit
Present value of defined benefit obligations	₱268,666,642	₱2,934,061	₱4,577,125	₱1,296,515
Fair value of plan assets	609,569,647	2,469,988	3,384,268	740,785
Unfunded defined benefit obligation (net plan assets)	(340,903,005)	464,073	1,192,857	555,730
Experience adjustments on defined benefit obligation - loss (gain)	–	–	(618,092)	429,556
Experience adjustments on plan assets - gain (loss)	39,877,543	(296,777)	(230,847)	3,406

25. Income Taxes

a. The components of provision for income tax are as follows:

	2009	2008
Current:		
Final tax	**₱258,633,650**	₱244,180,799
RCIT	**4,658,543**	1,250,771
MCIT	**3,849,748**	463,712
	267,141,941	245,895,282
Deferred	**(20,567,446)**	(185,372,952)
	₱246,574,495	₱60,522,330

b. The components of the Group's net deferred income tax assets and liabilities follow:

Deferred Income Tax Assets - Net

	2009	2008
Tax effects of:		
Allowance for impairment on loans and receivables	**₱37,554,514**	₱35,775,972
Retirement and other long-term employee benefits payable	**1,303,309**	1,336,524
Accrued expenses not yet deductible	**1,040,153**	719,340
Unamortized past service cost contributions	**385,407**	347,652
Allowance for impairment of supplies	**67,240**	119,410
Unrealized foreign exchange loss	**17,318**	–
Total deferred income tax assets	**40,367,941**	38,298,898
Tax effects of:		
Unrealized gain on AFS financial assets	**(184,275)**	(92,590)
Unrealized foreign exchange gain	–	(80,102)
Total deferred income tax liabilities	**(184,275)**	(172,692)
Net deferred income tax assets	**₱40,183,666**	₱38,126,206

Deferred Income Tax Liabilities - Net

	2009	2008
Tax effects of:		
NOLCO	**₱290,715,418**	₱290,715,418
Unrealized foreign exchange loss	**194,418,246**	156,362,996
Accrued expenses not yet deductible	**98,372,102**	89,428,627
Unamortized past service cost contributions	**56,233,888**	63,810,440
Allowance for impairment on loans and receivables	**51,639,919**	62,402,064
Retirement and other long-term employee benefits payable	–	8,645,370
Total deferred income tax assets	**691,379,573**	671,364,915
Tax effects of:		
Revaluation increment in investment properties	**(1,379,520,776)**	(1,360,023,320)
Reserve for fluctuation in AFS financial assets	**(274,988,524)**	(336,462,302)
Accrued rent income	**(13,879,041)**	(16,172,718)
Retirement benefits asset	**(8,300,010)**	–
Total deferred income tax liabilities	**(1,676,688,351)**	(1,712,658,340)
Net deferred income tax liabilities	**(₱985,308,778)**	(₱1,041,293,425)

c. Deferred income tax assets were not recognized on the following items since it is not expected that taxable profits will be available against which these items can be utilized:

	2009	2008
NOLCO	**₱632,592,113**	₱257,279,457
Excess of MCIT over RCIT	**27,065,069**	24,469,895
	₱659,657,182	₱281,749,352

d. The Group's NOLCO available for deduction from future taxable income follows:

Year Incurred	Expiration	Beginning Balance	Incurred	Applied	Expired	Ending Balance
2006	2009	₱138,412,136	₱–	₱–	(₱138,412,136)	₱–
2007	2010	5,043,507	–	–	–	5,043,507
2008	2011	1,082,875,207	–	(2,038,333)	–	1,080,836,874
2009	2012	–	515,763,125	–	–	515,763,125
		₱1,226,330,850	₱515,763,125	(₱2,038,333)	(₱138,412,136)	₱1,601,643,506

e. The Group's excess of MCIT over RCIT that can be applied against future RCIT due follows:

Year Incurred	Expiration	Beginning Balance	Incurred	Applied	Expired	Ending Balance
2006	2009	₱1,254,574	₱–	₱–	(₱1,254,574)	₱–
2007	2010	22,879,678	–	–	–	22,879,678
2008	2011	335,643	–	–	–	335,643
2009	2012	–	3,849,748	–	–	3,849,748
		₱24,469,895	₱3,849,748	₱–	(₱1,254,574)	₱27,065,069

f. The reconciliation of the provision for income tax at the statutory income tax rates to the provision for income tax shown in the Group's consolidated statements of income is as follows:

	2009	2008
Provision for income tax at statutory income tax rates	**₱709,887,863**	₱755,069,218
Adjustments for:		
Interests and dividends subjected to final tax at a lower rate	**(288,021,625)**	(687,755,190)
Equity in net earnings of an associate	**(222,241,532)**	(134,193,338)
Impairment losses on properties and AFS financial assets	**1,526,904**	85,170,137
Recognition of deferred tax asset on allowance for impairment on loans and receivables	–	(71,669,769)
Loss (income) on VUL funds	**(23,597,271)**	24,654,045
Derecognized deferred income tax assets on NOLCO and excess of MCIT over RCIT	**157,123,220**	41,071,539
Nontaxable income - net	**(4,544,106)**	(7,080,850)
Nondeductible expenses	**3,154,021**	2,972,996
Gain on sale of investments in AFS financial assets - net	**(87,623,768)**	(2,641,309)
Nondeductible interest expense	**910,789**	1,301,466
Effect of change in statutory income tax rate	–	53,623,385
Provision for income tax	**₱246,574,495**	₱60,522,330

Republic Act (RA) 9337

The RA No. 9337 or the Expanded-Value Added Tax (E-VAT) Act of 2005 took effect on November 1, 2005. Starting January 1, 2009, the new E-VAT law provides, among others, for change in RCIT rate from 35% to 30% while the allowable deductions for interest expense was likewise changed from 42% of the interest income subjected to final tax to 33%.

26. Related Party Transactions

Transactions with related parties consist mainly of:

a. Savings and current accounts and short-term investments are maintained with UBP, an associate bank:

	2009	2008
Savings and current accounts	**₱28,924,369**	₱75,335,950
Short-term investments	**331,486,062**	231,180,541
	₱360,410,431	₱306,516,491

b. Compensation of key management personnel is summarized below:

	2009	2008
Salaries and other short-term employee benefits	**₱206,510,592**	₱184,695,166
Post-employment and other long term benefits	**10,396,972**	5,520,981
	₱216,907,564	₱ 190,216,147

27. Trust Operations

Securities and other properties held by IITC in fiduciary or agency capacities for its customers amounting to ₱1.8 billion and ₱1.5 billion as of December 31, 2009 and 2008, respectively, are not included in the consolidated financial statements since these are not assets of the Group. Trust income amounted to ₱9.6 million in 2009 and ₱8.8 million in 2008.

28. Lease Commitments

The Group has entered into noncancelable leases with terms ranging between 1 month and 10 years, both as lessee and as lessor. Most leases include a clause to enable upward revision of the rental charge on an annual basis based on stipulation.

a. Operating lease commitments - the Group as lessee

The future minimum rentals payable under noncancelable operating leases follows:

	2009	2008
Within one year	**₱15,583,685**	₱11,367,375
After one year but not more than five years	**23,410,339**	10,802,269
	₱38,994,024	₱22,169,644

b. Operating lease commitments - the Group as lessor

The future minimum rentals receivable under noncancelable operating leases follows:

	2009	2008
Within one year	**₱162,654,850**	₱225,255,084
After one year but not more than five years	**190,964,583**	319,344,361
More than five years	**47,125,108**	39,553,003
	₱400,744,541	₱584,152,448

29. Financial Instruments

Set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments:

	2009 Carrying Value	2009 Fair Value	2008 Carrying Value	2008 Fair Value
FINANCIAL ASSETS				
Insurance Receivables				
Due premiums	**₱231,560,280**	**₱231,560,280**	₱221,366,891	₱221,366,891
Reinsurance assets	**10,133,289**	**10,133,289**	7,979,149	7,979,149
	241,693,569	**241,693,569**	229,346,040	229,346,040
Financial Assets at FVPL				
Cash and cash equivalents	**157,794,926**	**157,794,926**	260,564,563	260,564,563
Equity securities - quoted	**1,337,830,639**	**1,337,830,639**	793,223,868	793,223,868
Debt securities - fixed interest rates - quoted:				
Government:				
Local currency	**720,025,016**	**720,025,016**	815,322,568	815,322,568
Foreign currency	**262,200,953**	**262,200,953**	179,967,523	179,967,523
Corporate	**555,790,129**	**555,790,129**	595,011,575	595,011,575
Accrued interest receivable	**105,131,779**	**105,131,779**	30,711,621	30,711,621
	3,138,773,442	**3,138,773,442**	2,674,801,718	2,674,801,718
HTM Financial Assets - quoted debt securities - fixed interest rates:				
Government:				
Local currency	**10,970,938,405**	**11,669,468,299**	8,915,975,568	8,909,718,803
Foreign currency	**3,298,525,971**	**3,858,339,694**	3,475,662,340	4,000,074,840
Corporate:				
Local currency	**1,379,021,664**	**1,483,692,117**	1,168,853,361	1,138,219,433
Foreign currency	**24,091,578**	**26,432,567**	25,105,300	31,510,433
	15,672,577,618	**17,037,932,677**	13,585,596,569	14,079,523,509
Loans and Receivables				
Cash and cash equivalents	**1,741,578,901**	**1,741,578,901**	2,152,007,205	2,152,007,205
Term loans	**11,065,683,517**	**11,672,196,413**	8,801,289,016	9,451,920,081
Policy loans	**4,926,962,359**	**4,926,962,359**	4,522,054,338	4,522,054,338
Interest receivable	**679,848,397**	**679,848,397**	660,345,735	660,345,735
Mortgage loans	**167,974,759**	**167,974,759**	198,674,654	198,674,654
Housing loans	**153,266,941**	**172,484,199**	160,424,451	191,556,196
Finance leases	**37,792,481**	**29,105,058**	54,684,191	48,634,922
Car financing loans	**44,373,215**	**42,096,111**	44,810,610	46,037,838
Accounts receivable	**184,473,189**	**184,473,189**	166,602,294	166,602,294
Stock loans	**37,216,690**	**37,216,690**	34,599,537	31,818,700
Due from agents	**157,232**	**157,232**	728,280	728,280
Others	**107,260,490**	**107,260,490**	46,488,422	46,488,422
	17,405,009,270	**18,019,774,897**	14,690,701,528	15,366,282,908
Total Loans and Receivables	**19,146,588,171**	**19,761,353,798**	16,842,708,733	17,518,290,113
AFS Financial Assets				
Equity securities:				
Quoted	**2,712,757,434**	**2,712,757,434**	2,138,491,148	2,138,491,148
Unquoted	**5,057,648,781**	**5,057,648,781**	5,355,235,641	5,355,235,641
Debt securities:				
Quoted:				
Government:				
Local currency	**1,508,743,495**	**1,508,743,495**	2,373,555,779	2,373,555,779
Foreign currency	**555,225,960**	**555,225,960**	366,089,407	366,089,407
Corporate	**149,541,232**	**149,541,232**	119,753,371	119,753,371
Unquoted	**50,432,550**	**50,432,550**	19,070,704	20,142,064
	10,034,349,452	**10,034,349,452**	10,372,196,050	10,373,267,410
	₱48,233,982,252	**₱50,214,102,938**	₱43,705,720,470	₱44,875,228,790
FINANCIAL LIABILITIES				
Insurance Liabilities				
Legal policy reserves	**₱37,795,751,604**	**₱37,795,751,604**	₱34,328,093,587	₱34,328,093,587
Other insurance liabilities:				
Members' deposits and other funds on deposit	**7,766,644,568**	**7,766,644,568**	7,130,125,853	7,130,125,853
Reserve for dividends to members	**1,159,075,022**	**1,159,075,022**	1,119,961,279	1,119,961,279
Claims pending settlement	**523,485,585**	**523,485,585**	553,988,472	553,988,472
Other Financial Liabilities				
Accrued expenses and other liabilities:				
Accounts payable	**345,881,634**	**333,402,330**	305,115,885	301,860,565
Accrued employee benefits	**251,870,089**	**251,870,089**	218,832,464	218,832,464
Preferred shares of Home Credit owned by its members	**121,319,650**	**121,319,650**	121,126,162	121,126,162
Commissions payable	**95,248,869**	**95,248,869**	92,318,715	92,318,715
Advances from joint venture	**79,834,764**	**79,834,764**	59,663,642	59,663,642
General expenses due and accrued	**48,044,262**	**48,044,262**	70,009,584	70,009,584
Others	**19,504,100**	**19,504,100**	28,704,470	28,704,470
	₱48,206,660,147	**₱48,194,180,843**	₱44,027,940,113	₱44,024,684,793

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, due premiums and insurance receivables
The fair values of cash and cash equivalents, due premiums and insurance receivables equal their carrying values due to the short-term nature of these assets.

Debt securities
The fair values of debt securities are based on quoted prices. For unquoted debt securities, where fair value is not reasonably determinable, fair values are estimated using the discounted cash flows technique that makes use of market rates.

Equity securities
The fair values of equity securities are based on quoted prices. Fair value of unquoted equity securities were valued using pricing models which include reference to the current market value of another instrument that is substantially the same and assumptions as determined reasonable by the management at the time of valuation. For unquoted equity securities, where fair value is not reasonably determinable, financial assets are valued at cost less impairment loss.

Policy loans
The fair values of policy loans equal their carrying values due to the short-term nature of these assets.

Term, housing and car financing loans
Fair values of term, housing and car financing loans are estimated using the discounted cash flow technique that makes use of market rates ranging from 6% to 10% in 2009 and from 5% to 9% in 2008. There is also an assumption that credit risk is minimal for such types of secured lending instruments.

Other loans and receivables
The fair values of other loans and receivables equal their carrying values due to the short-term nature of these assets.

Legal policy reserves and other insurance liabilities
The carrying amounts of legal policy reserves and other insurance liabilities approximate their fair values.

Accrued expenses and other liabilities
The fair values of short-term accrued expenses and other liabilities, except rental deposits included under "Accounts payable", equal their carrying values. The fair values of long-term accrued expenses and other liabilities are estimated to be the present value of the future cash flows discounted at market rates for similar types of instruments.

Rental Deposits
The fair values of rental deposits are estimated using the discounted cash flows technique that makes use of market rates.

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

Level 1 - quoted (unadjusted) prices in active markets for identical assets and liabilities.

Level 2 - other techniques for which all inputs which have a significant effect on the recorded fair value.

Level 3 - techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows analysis of financial instruments recorded at fair value by level of the fair value hierarchy as of December 31, 2009:

	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Financial Assets at FVPL				
Equity securities	**₱1,337,830,639**	**₱–**	**₱–**	**₱1,337,830,639**
Debt securities	**1,205,216,098**	–	–	**1,205,216,098**
	2,543,046,737	–	–	**2,543,046,737**
AFS Financial Assets				
Equity securities	**2,744,981,505**	–	**4,898,073,683**	**7,643,055,188**
Debt securities	**2,200,548,944**	**34,619,226**	–	**2,235,168,170**
	4,945,530,449	**34,619,226**	**4,898,073,683**	**9,878,223,358**
	₱7,488,577,186	**₱367,419,226**	**₱4,898,073,683**	**₱12,421,270,095**

The following table shows the reconciliation of the beginning and ending balances of Level 3 AFS financial assets which are recorded at fair value for 2009:

Beginning balance	**₱5,208,263,571**
Acquisitions	**385,755,969**
Fair value loss	**(695,945,857)**
Ending balance	**₱4,898,073,683**

The Group has investments in Pilipinas Shell Petroleum Corporation (PSPC) shares of stock classified as AFS which is not quoted in the market. PSPC shares are marked to market using a valuation technique based on adjusted Price to Earnings (PE) Ratio in previous years. Starting in 2008, the Company changed its valuation method to Price to Book Value (PBV) Ratio. Management believes that PE Ratio is no longer appropriate due to the general condition in the market.

As a result of the change in valuation method, fair market value of PSPC shares of stock decreased by ₱3,210,592,861 in 2008 (Note 6). Fair market value of PSPC shares amounted to ₱4,276,037,031 and ₱4,635,532,287 as of December 31, 2009 and 2008, respectively.

The following assumptions were used to determine the fair value of PSPC shares of stock as of December 31, 2009 and 2008.

- For stocks not traded in any exchange, the approximate fair value of PSPC can be determined using relative valuation tools and the price performance of peer corporation.
- Use of the PBV as the valuation tool for the investment of the Company in PSPC shares of stock
  a. The PBV Ratio is a regular valuation tool used to compare peer corporation.
  b. Use of the PBV Ratio is expected to provide a relatively more stable and conservative valuation than PE Ratio as the latter becomes unstable when earnings of corporation nears or falls below zero.

- Among the peer listed corporations of PSPC, Petron Corporation (PCOR) is considered the nearest petroleum company that PSPC can be compared to.
  a. Petron is listed and operates in the Philippines.
  b. Information about other peer corporations in the region is not readily accessible or available.
- The price used for the PBV Ratio computation of PSPC is the weighted average price of Petron amounting to ₱5.30 per share and ₱5.65 per share in 2009 and 2008, respectively.
  a. The weighted average price for the year takes into account the full market performance of the stock for 2009 and 2008, including the volume of shares transacted in various price levels.
  b. The weighted average price was determined using a third party system (i.e. Technistock)
- The book value per share was determined using the disclosed 2009 and 2008 financial statements of PCOR and PSPC.

The analysis of market value of PSPC shares below is performed for reasonably possible movements in price of PCOR shares of stock with all other variables held constant, showing the impact on statements of changes in members' equity:

2009		2008	
Change in variable	**Effect on equity**	Change in variable	Effect on equity
Increase by .5%	**₱ 21,380,185**	Increase by .5%	₱ 23,179,295
Decrease by .5%	**(21,380,185)**	Decrease by .5%	(23,179,295)

The Company has investments in Asian Hospital, Inc. (AHI), Shell Co. of the Philippines (SCOP) and the Medical City (MC) shares of stock which are not quoted in the market. These are valued based on their prior year's BV per share.

Fair market values of the aforementioned shares are as follows;

	2009	2008
Asian Hospital Inc.	**₱ 256,591,077**	₱ 243,314,043
Shell Co. of the Philippines	**69,552,238**	69,552,238
The Medical City	**295,893,337**	295,893,337

The analysis of book value of the unquoted shares below is performed for the reasonably possible movements in their book values with all other variables held constant, showing the impact on the other comprehensive income:

		Change in BV per share			Total effect in equity
		AHI	SCOP	MC	
2009	**Increase**	**.78%**	**1.32%**	**.64%**	**₱ 7,705,850**
	Decrease	**.78%**	**1.32%**	**.64%**	**(7,705,850)**
2008	Increase	1.56%	1.37%	1.00%	₱ 4,840,191
	Decrease	1.56%	1.37%	1.00%	(4,840,191)

30. Insurance and Financial Risk Management

The primary objective of the Group's risk and financial management framework is to protect the Group's policyholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognizes the critical importance of having efficient and effective risk management systems in place.

The Group has established a risk management function with clear terms of reference from the BOT, its committees and the associated executive management committees. This is supplemented with a clear organizational structure with documented delegated authorities and responsibilities from the BOT to executive management committees and senior managers. Lastly, a group policy framework which sets out the risk profiles for the Group, risk management, control and business conduct standards for the Group's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Group.

The BOT approves the Group risk management policies and meets regularly to approve any commercial, regulatory and organizational requirements of such policies. These policies define the Group's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

Regulatory Framework

A substantial portion of the Group's long term insurance business comprises of policies where the investment risk is borne by policyholders. Risk attributable to policyholders is actively managed keeping in view their investment objectives and constraints. IC, the Group's regulator, is interested in protecting the rights of the policyholders and maintains close vigil to ensure that the Group is satisfactorily managing its affairs for their benefit. At the same time, the IC is also interested in ensuring that the Group maintains an appropriate solvency position to meet liabilities arising from claims and that the risks are at acceptable levels.

The operations of the Group are also 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., capital adequacy, to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise.

Insurance Risk

The risk under an insurance contract is the possibility of occurrence of an insured event and uncertainty of the amount and timing of the resulting claim. The principal risk the Group faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. The risks associated with the life insurance contracts 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 due to policyholder death experience being different than expected.
- Morbidity risk - risk of loss arising due to policyholder health experience being different than expected.
- Occurrence risk - the possibility that the number of insured events will differ from those expected.
- Severity risk - the possibility that the cost of the events will differ from those expected.
- Development risk - the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The variability of risks is improved by 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 a change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategies and guidelines.

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

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

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

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

- the use and maintenance of management information systems that provide up to date, accurate and reliable data on risk exposure at any point in time;
- actuarial models based on past experience and statistical techniques aid in pricing decisions and monitoring claims patterns;
- guidelines are issued for concluding insurance contracts and assuming insurance risks;
- pro-active claims handling procedures are followed to investigate and adjust claims, thereby preventing settlement of dubious or fraudulent claims;
- reinsurance is used to limit the Group's exposure to large claims by placing risk with reinsurers providing high security;
- diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of type and amount of risk, industry and geography; and
- 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 resultant insurance risk is subject to the policyholders' behavior and decisions.

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

	2009	2008
Whole Life		
Gross	**₱90,877,568,097**	₱91,430,037,634
Net	**81,092,426,149**	80,769,649,014
Endowment		
Gross	**21,158,773,050**	21,755,548,551
Net	**20,622,773,205**	21,000,477,921
Term Insurance		
Gross	**13,461,462,339**	13,623,922,650
Net	**13,337,870,333**	13,331,096,884
Group Insurance		
Gross	**65,711,192,313**	77,764,831,175
Net	**50,811,142,992**	62,114,702,111
Total		
Gross	**₱191,208,995,799**	₱204,574,340,010
Net	**₱165,864,212,679**	₱177,215,925,930

Life Insurance Contracts

Assumptions

Material judgment is required in determining the liabilities and in the choice of assumptions relating to insurance contracts. Assumptions in use 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.

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

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

Terms

Life insurance contracts offered by the Group mainly include whole life, endowments, term insurance, and group insurance.

Whole life and term insurance are conventional products where lump sum benefits are payable upon death of insured.

Endowment products are investments/savings products where lump sum benefits are payable after a fixed period or upon death before the period is completed.

Group insurance policies are yearly renewable life plan products issued to corporate accounts that provide the beneficiaries of the insured employee cash proceeds in the event of the employee's death.

For legal policy reserves, two sets of assumptions are used:

a. the assumptions used in statutory reserve computations which were submitted to the IC when the product was approved, which are generally conservative; and
b. the assumptions used for the LAT which reflect best estimate assumptions.

The key assumptions to which the estimation of both the statutory and fair valued liabilities are particularly sensitive are:

a. 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 the Group's own experiences. Assumptions are differentiated by sex, underwriting class and contract type. For life insurance policies, increased mortality rates would lead to larger number of claims and claims occurring sooner than anticipated, increasing the expenditure and reducing profits for stakeholders.

b. Discount rates

Discount rates relate to the time value of money. For fair valued liabilities, the discount rate is set to be equal to the investment return. For statutory liability, discount rate ranges from 3% to 6%. The IC does not allow a discount rate of more than 6%. An increase in discount rate would result in increase in expenditure thereby reducing profits for the stakeholders.

c. Investment return

The weighted average rate of return is derived based on a model portfolio that is assumed to back the liabilities, consistent with the long term asset allocation strategy. An increase in investment return would lead to reduction in expenditure and increase in profits for the stakeholders.

d. Expenses

Statutory valuation requires no expense assumption. For fair valued liability, operating expense assumptions reflect the projected costs of maintaining and servicing in force policies and associated overhead expenses. The current level of expense is adjusted for inflation in the future. An increase in the level of expense would result in an increase in expenditure thereby reducing profits for the stakeholders.

As required by the Code, lapse, surrender and expense assumptions are not factored in the computation of the legal policy reserves.

Reinsurance Contracts
Terms and assumptions
The Group limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on excess share basis with retention limits varying by issue age and underwriting classification.

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligation 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 Group is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any reinsurance contract.

Sensitivities
Sensitivity testing on the LAT model was done to determine net changes in legal policy reserves that would arise due to changes in parameters such as mortality, expenses, investment income and discount rate. The scenarios tested involved increasing/decreasing one parameter while retaining the others constant at the original base run for the LAT. The resulting values for the discounted cash flows per scenario were then tabulated and compared to the value for the base run. The tabulation of results below showing percentage change of the value for each scenario from the value for the base run would give an idea of the sensitivity of the discounted cash flow to changes in the various items driving profit for the Group. Note that only changes that result in values bigger than the statutory reserves held would necessitate additional liabilities and that would result in a reduction in profit for the Group. None of the tabulated results below would have resulted in additional liability set up over and above the statutory reserves held by the Group.

The analysis below is performed for a reasonable possible movement in key assumptions with all other assumptions held constant on the consolidated statements of income and members' equity. Based on the scenarios tested for 2009 and 2008, the resulting values are lower than the statutory reserves.

Scenario	**December 31, 2009** **% Change from Base Run**	December 31, 2008 % Change from Base Run
Base Run	**0.00%**	0.00%
Mortality + 5%	**(2.61%)**	(1.95%)
Mortality – 5%	**–**	1.98%
Investment Return + 1%	**2.90%**	3.01%
Discount Rate + 1%	**3.66%**	0.15%
Expense + 10%	**(10.52%)**	(9.07%)
Lapse + 5%	**(1.20%)**	(1.43%)

Financial Risk
The Group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk that the Group is exposed to is that 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.

The Group has guidelines and procedures on fixed and equity investments. On fixed investments, the Group has to place its investment portfolio in negotiable instruments that will give high-yield, low-risks return without sacrificing the IC and the Group's requirements. The IC requirements state that the investment in fixed instruments shall only come from financial institutions or corporate entities with acceptable ratings from PhilRatings, or at least the rank is within the top 15, in case of banks. Meanwhile, investment in negotiable instruments involving reserve and surplus investments shall follow the guidelines set by the Code and the Margin of Solvency (MOS) requirements (Note 31). On equity investments, the Group has to place its investment portfolio in equity market that will give high-yield, low-risks return taking into account the IC and the Group's requirements. Equity investments shall not exceed 15% of total investible funds.

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. Key areas where the Group is exposed to credit risk pertain to the amounts due from the following:

- reinsurers in respect of unpaid claims;
- reinsurers in respect of claims already paid;
- insurance contract holders; and
- insurance intermediaries
- financial assets at FVPL
- HTM financial assets
- Loans and receivables
- AFS financial assets

The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved by the Division Heads.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract.

Reinsurance is placed with high rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At each year-end, management performs assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertain a suitable allowance for impairment of reinsurance assets.

Individual operating units maintain records of the payment history for significant contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Group. Internal audit makes regular reviews to assess the degree of compliance with the Group procedures on credit. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency.

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

Loans to policyholders, which are granted at amount not to exceed the policyholder's cash surrender value, are netted off against the cash surrender values of policies and carry substantially no credit risk.

In respect of investment securities, the Group secures satisfactory credit quality by setting maximum limits of portfolio securities with a single issuer or group of issuers and setting the minimum ratings for each issuer or group of issuers.

The Group 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.

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. Commissions due to intermediaries are netted off against amounts receivable from them to reduce the risk of doubtful debts. The credit risk in respect of customer balances, incurred on nonpayment of premiums or contributions, will only persist during the grace period specified in the policy document or trust deed on the expiry of which the policy is either paid up or terminated.

The following table provides information regarding the maximum credit risk exposure of the Group as of December 31:

	2009	2008
Insurance receivables:		
Due premiums	**₱231,560,280**	₱221,366,891
Reinsurance assets	**10,133,289**	7,979,149
	241,693,569	229,346,040
Financial assets at FVPL:		
Cash and cash equivalents	**157,794,926**	260,564,563
Quoted equity securities	**1,337,830,639**	793,223,868
Quoted debt securities - fixed interest rates:		
Government:		
Local currency	**720,025,016**	815,322,568
Foreign currency	**262,200,953**	179,967,523
Corporate	**555,790,129**	595,011,575
Accrued interest receivable	**105,131,779**	30,711,621
	3,138,773,442	2,674,801,718
HTM financial assets - quoted debt securities - fixed interest rates:		
Government:		
Local currency	**10,970,938,405**	8,915,975,568
Foreign currency	**3,298,525,971**	3,475,662,340
Corporate:		
Local currency	**1,379,021,664**	1,168,853,361
Foreign currency	**24,091,578**	25,105,300
	15,672,577,618	13,585,596,569
Loans and receivables:		
Cash and cash equivalents*	**1,741,317,994**	2,151,690,260
Term loans	**11,065,683,517**	8,801,289,016
Policy loans	**4,926,962,359**	4,522,054,338
Interest receivable	**679,848,397**	660,345,735
Accounts receivable	**184,473,189**	166,602,294
Mortgage loans	**167,974,759**	198,674,654
Housing loans	**153,266,941**	160,424,451
Car financing loans	**44,373,215**	44,810,610
Finance leases	**37,792,481**	54,684,191
Stock loans	**37,216,690**	34,599,537
Due from agents	**157,232**	728,280
Others	**107,260,490**	46,488,422
	17,405,009,270	14,690,701,528

(Forward)

	2009	2008
AFS financial assets:		
Equity securities:		
Quoted	**₱2,712,757,434**	₱2,138,491,148
Unquoted	**5,057,648,781**	5,355,235,641
Debt securities - fixed interest rates:		
Quoted:		
Government:		
Local currency	**1,508,743,495**	2,373,555,779
Foreign currency	**555,225,960**	366,089,407
Corporate	**149,541,232**	119,753,371
Unquoted	**50,432,550**	19,070,704
	10,034,349,452	10,372,196,050
	₱48,233,721,345	₱43,704,332,165

**Excluding cash on hand*

The Group 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, 2009 and 2008.

The following table provides the credit quality of the Group's financial assets that are neither past due nor impaired as of December 31:

	2009			
	Neither past due nor impaired			
	Investment Grade	Non-Investment Grade	Past due or Impaired	Total
Insurance receivables:				
Due premiums	**₱231,560,280**	**₱–**	**₱–**	**₱231,560,280**
Reinsurance assets	–	**10,133,289**	–	**10,133,289**
	231,560,280	**10,133,289**	–	**241,693,569**
Financial assets at FVPL:				
Cash and cash equivalents	**157,794,926**	–	–	**157,794,926**
Quoted equity securities	**1,337,830,639**	–	–	**1,337,830,639**
Quoted debt securities - fixed interest rates:				
Government:				
Local currency	**720,025,016**	–	–	**720,025,016**
Foreign currency	**262,200,953**	–	–	**262,200,953**
Corporate	**555,790,129**	–	–	**555,790,129**
Accrued interest receivable	**105,131,779**	–	–	**105,131,779**
	3,138,773,442	–	–	**3,138,773,442**
HTM financial assets - quoted - fixed interest rates:				
Government:				
Local currency	**10,970,938,405**	–	–	**10,970,938,405**
Foreign currency	**3,298,525,971**	–	–	**3,298,525,971**
Corporate:				
Local currency	**1,379,021,664**	–	–	**1,379,021,664**
Foreign currency	**24,091,578**	–	–	**24,091,578**
	15,672,577,618	–	–	**15,672,577,618**
Loans and receivables:				
Cash and cash equivalents*	**1,741,311,975**	–	–	**1,741,317,994**
Term loans	**11,065,683,517**	–	–	**11,065,683,517**
Policy loans	**4,926,962,359**	–	–	**4,926,962,359**
Interest receivable	**622,090,236**	**57,758,161**	–	**679,848,397**
Mortgage loans	**167,974,759**	–	**23,754,666**	**191,729,425**
Accounts receivable	–	**48,083,924**	**315,232,947**	**363,316,871**
Housing loans	–	**153,266,941**	–	**153,266,941**
Due from agents	–	–	**101,194,264**	**101,194,264**
Finance leases	–	**37,792,481**	–	**37,792,481**
Car financing loans	**44,373,215**	–	–	**44,373,215**
Stock loans	–	**37,216,690**	–	**37,216,690**
Others	–	**107,260,490**	–	**107,260,490**
	16,827,084,086	**441,378,687**	**440,181,877**	**17,708,644,650**
AFS financial assets:				
Equity securities:				
Quoted	**2,712,757,434**	–	–	**2,712,757,434**
Unquoted	**5,057,648,781**	–	–	**5,057,648,781**
Debt securities:				
Quoted:				
Government:				
Local currency	**1,508,743,495**	–	–	**1,508,743,495**
Foreign currency	**555,225,960**	–	–	**555,225,960**
Corporate	**149,541,232**	–	–	**149,541,232**
Unquoted	**50,432,550**	–	–	**50,432,550**
	10,034,349,452	–	–	**10,034,349,452**
	₱ 47,645,656,852	**₱ 451,511,976**	**₱ 440,181,877**	**₱ 48,537,356,723**

**Excluding cash on hand*

	2008			
	Neither past due nor impaired			
	Investment Grade	Non-Investment Grade	Past due or Impaired	Total
Insurance receivables:				
Due premiums	₱221,366,891	₱–	₱–	₱221,366,891
Reinsurance assets	–	7,979,149	–	7,979,149
	221,366,891	7,979,149	–	229,346,040
Financial assets at FVPL:				
Cash and cash equivalents*	260,564,563	–	–	260,564,563
Quoted equity securities	793,223,868			793,223,868
Quoted debt securities - fixed interest rates:				
Government				
Local currency	815,322,568	–	–	815,322,568
Foreign currency	179,967,523	–	–	179,967,523
Corporate	595,011,575	–	–	595,011,575
Accrued interest receivable	30,711,621	–	–	30,711,621
	2,674,801,718	–	–	2,674,801,718
HTM financial assets - quoted - fixed interest rates:				
Government				
Local currency	8,915,975,568	–	–	8,915,975,568
Foreign currency	3,475,662,340	–	–	3,475,662,340
Corporate:				
Local currency	1,168,853,361	–	–	1,168,853,361
Foreign currency	25,105,300	–	–	25,105,300
	13,585,596,569	–	–	13,585,596,569
Loans and receivables:				
Cash and cash equivalents*	2,151,690,260	–	–	2,151,690,260
Term loans	8,801,289,016	–	–	8,801,289,016
Policy loans	4,522,054,338	–	–	4,522,054,338
Interest receivable	590,928,602	69,417,133	–	660,345,735
Mortgage loans	198,674,654	–	29,506,193	228,180,847
Accounts receivable	–	144,496,362	196,347,387	340,843,749
Housing loans	160,424,451	–	–	160,424,451
Due from agents	–	94,000	125,254,199	125,348,199
Finance leases	–	54,684,191	–	54,684,191
Car financing loans	44,810,610	–	–	44,810,610
Stock loans	–	34,599,537	–	34,599,537
Others	–	466,488,422	–	46,488,422
	14,318,181,671	349,779,645	351,107,779	15,019,069,095
AFS financial assets:				
Equity securities:				
Quoted	2,138,491,148	–	–	2,138,491,148
Unquoted	5,355,235,641	–	–	5,355,235,641
Debt securities-fixed interest rate:				
Quoted:				
Government:				
Local currency	2,373,555,779	–	–	2,373,555,779
Foreign currency	366,089,407	–	–	366,089,407
Corporate	119,753,371	–	–	119,753,371
Unquoted	19,070,704	–	–	19,070,704
	10,372,196,050	–	–	10,372,196,050
	₱43,323,833,159	₱380,499,006	₱351,107,779	₱ 4,032,699,732

**Excluding cash on hand*

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

Investment grade - rating given to borrowers and counterparties who possess strong to very strong capacity to meet their obligations.

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

The following table provides the breakdown of past due financial assets and the aging analysis of past due but not impaired as of December 31:

	2009					
	Past due but not impaired					
	< 30 days	**31 to 60 days**	**>60 days**	**Total**	**Past due and Impaired**	**Total**
Loans and receivables:						
Accounts receivable	**₱–**	**₱100,375**	**₱136,288,890**	**₱136,389,265**	**₱178,843,682**	**₱315,232,947**
Mortgage loans	–	–	–	–	**23,754,666**	**23,754,666**
Due from agents	–	–	**157,232**	**157,232**	**101,037,032**	**101,194,264**
	₱–	**₱100,375**	**₱136,446,122**	**₱136,546,497**	**₱303,635,380**	**₱440,181,877**

	2008					
	Past due but not impaired				Past due and	
	< 30 days	31 to 60 days	>60 days	Total	Impaired	Total
Loans and receivables:						
Accounts receivable	₱1,748,941	₱936,342	₱19,420,649	₱22,105,932	₱174,241,455	₱196,347,387
Mortgage loans	–	–	–	–	29,506,193	29,506,193
Due from agents	–	31,718	602,562	634,280	124,619,919	125,254,199
	₱1,748,941	₱968,060	₱20,023,211	₱22,740,212	₱328,367,567	₱351,107,779

For assets to be classified as 'past due and impaired', contractual payments in arrears are more than 90 days. An impairment adjustment is recorded in the consolidated statement of income for these asset write-offs. When credit exposure is adequately secured, arrears of more than 90 days might still be classified as 'past due but not impaired', with no impairment adjustment recorded.

The Group operates mainly on a 'neither past due nor impaired basis' and when evidence of impairment is available, sufficient collateral will be obtained for 'past due and impaired' assets, an impairment assessment will also be performed if applicable.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for securities lending and for cash purposes. Credit risk is also mitigated by entering into collateral agreements. Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

Collaterals obtained by the Group are investment properties upon default on mortgage loans. The fair value of the collaterals obtained where the Group has the right by contract or custom to sell the assets amounted to ₱243,335,780 and ₱265,686,513 as of December 31, 2009 and 2008, respectively.

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

The major liquidity risk confronting the Group is the matching of available cash resources in respect of claims arising from insurance contracts.

The Group manages liquidity through a group liquidity risk policy which determines what constitutes liquidity risk for the Group, specifies minimum proportion of funds to meet emergency calls, sets up contingency funding plans, specifies the sources of funding and the events that would trigger the plan, determines concentration of funding sources, reports of liquidity risk exposures and breaches to the monitoring authority, monitors compliance with liquidity risk policy and reviews liquidity risk policy for pertinence and changing environment.

The amounts disclosed in the maturity analysis of financial assets, insurance liabilities and financial liabilities of the Group are the contractual undiscounted cash flows based on the remaining period at the balance sheet date to their contractual maturities or expected repayment dates:

	2009				
	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Financial assets:					
Cash and cash equivalents	₱1,741,578,901	₱–	₱–	₱–	₱1,741,578,901
Insurance receivables	239,729,267	–	–	–	239,729,267
Financial assets at FVPL	327,926,705	274,898,400	299,000,000	2,020,614,293	2,922,439,398
HTM financial assets	62,186,516	4,342,791,500	5,343,123,765	6,394,972,810	16,143,074,591
Loans and receivables	6,844,797,411	2,717,038,467	5,387,692,265	7,945,343,583	22,894,871,726
AFS financial assets	85,704,696	504,438,230	148,067,825	12,962,572,508	13,700,783,259
Total financial assets	9,301,923,496	7,839,166,597	11,177,883,855	29,323,503,194	57,642,477,142
Insurance liabilities:					
Legal policy reserves	2,300,220,047	1,267,803,188	3,419,460,420	30,744,279,371	37,731,763,026
Other insurance liabilities:					
Members' deposits and other funds on deposit	9,092,456	821,172	451,057,462	7,305,673,478	7,766,644,568
Reserve for dividends to members	1,159,075,022	–	–	–	1,159,075,022
Claims pending settlement	523,485,585	–	–	–	523,485,585
	1,691,653,063	821,172	451,057,462	7,305,673,478	9,449,205,175
Other financial liabilities:					
Accrued expenses and other liabilities:					
Accounts payable	348,682,232	–	–	–	348,682,232
Accrued employee benefits	–	–	–	251,870,089	251,870,089
Commissions payable	95,248,869	–	–	–	95,248,869
Advances from joint venture	79,834,764	–	–	–	79,834,764
General expenses due and accrued	48,044,262	–	–	–	48,044,262
Others	32,938,347	–	–	–	32,938,347
	604,748,474	–	–	251,870,089	856,618,563
Total financial liabilities	4,596,621,584	1,268,624,360	3,870,517,882	38,301,822,938	48,037,586,764
Liquidity gap	₱4,705,301,912	₱6,570,542,237	₱7,307,365,973	(₱8,978,319,744)	₱9,604,890,378

	2008				
	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Insurance liabilities:					
Legal policy reserves	₱1,745,993,103	₱295,319,938	₱2,311,120,726	₱29,975,659,820	₱34,328,093,587
Other insurance liabilities:					
Members' deposits and other funds on deposit	14,733,418	44,706,317	121,537,381	6,949,148,737	7,130,125,853
Reserve for dividends to members	1,119,961,279	–	–	–	1,119,961,279
Claims pending settlement	553,988,472	–	–	–	553,988,472
	1,688,683,169	44,706,317	121,537,381	6,949,148,737	8,804,075,604
Other financial liabilities:					
Accrued expenses and other liabilities:					
Accounts payable	310,249,183	–	–	–	310,249,183
Accrued employee benefits	218,832,464	–	–	–	218,832,464
Preferred shares of Home Credit owned by its members	–	–	–	121,126,162	121,126,162
Commissions payable	92,318,715	–	–	–	92,318,715
Advances from joint venture	59,663,642	–	–	–	59,663,642
General expenses due and accrued	70,009,584	–	–	–	70,009,584
Others	88,368,112	–	–	–	88,368,112
	839,441,700	–	–	121,126,162	960,567,862
Total financial liabilities	₱4,274,117,972	₱–	₱–	₱37,045,934,719	₱44,092,737,053

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

The amount of legal policy reserves and death claims pending settlements amounted to ₱2,823,705,632 as of December 31, 2009 expected to be paid out in 2010 and ₱2,246,104,039 as of December 31, 2008 expected to be paid out in 2009.

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

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

- the Group structures levels of market risk it accepts through a group market risk policy that determines what constitutes market risk for the Group; basis used to fair value financial assets and financial liabilities; asset allocation and portfolio limit structure; diversification benchmarks by type and duration of instrument; reporting of market risk exposures and breaches to the monitoring authority; monitoring compliance with market risk policy and review of market risk policy for pertinence and changing environment.

- set out the assessment and determination of what constitutes market risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment; and

- establish asset allocation and portfolio limit structure, to ensure that assets back specific policyholders liabilities and that assets are held to deliver income and gains for policyholders which are in line with expectations of the policyholders.

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

The following table shows the information relating to the Group's exposure to fair value interest rate risk:

	2009							
		Maturity						
Fixed Rate Instruments	Effective Interest Rate	In 1 year or less	More than 1 year but not more than 2 years	More than 2 years but not more than 3 years	More than 3 years but not more than 4 years	More than 4 years but not more than 5 years	More than 5 years	Total
Financial assets at FVPL - debt securities								
Government:								
Local currency	6%-15%	₱100,289,925	₱42,286,400	₱32,452,935	₱50,024,970	₱21,336,436	₱473,634,350	₱720,025,016
Foreign currency	8%-10%	–	–	–	21,605,750	19,921,955	220,673,245	262,200,950
Corporate	6%-12%	15,000,000	109,001,285	149,000,000	70,488,844	59,800,000	152,500,000	555,790,129
		115,289,925	151,287,685	181,452,935	142,119,564	101,058,391	846,807,595	1,538,016,095
AFS debt securities:								
Quoted:								
Government:								
Local currency	5%-9%	98,732,538	43,798,799	239,098,170	96,554,299	12,961,741	1,017,597,947	1,508,743,494
Foreign currency	7%-8%	–	–	–	–	26,941,180	528,284,780	555,225,960
Corporate - foreign currency	8%	–	–	128,779,401	–	20,761,831	–	149,541,232
Unquoted	3%-5%	380,807	324,904	1,000,000	942,012	47,784,827	–	50,432,550
		99,113,345	44,123,703	368,877,571	97,496,311	108,449,579	1,545,882,727	2,263,943,236
		₱214,403,270	₱195,411,388	₱550,330,506	₱239,615,878	₱209,507,970	₱2,392,690,322	₱3,801,959,331

Fixed Rate Instruments	Effective Interest Rate	2008 Maturity In 1 year or less	More than 1 year but not more than 2 years	More than 2 years but not more than 3 years	More than 3 years but not more than 4 years	More than 4 years but not more than 5 years	More than 5 years	Total
Financial assets at								
FVPL - debt securities								
Government:								
Local currency	6% - 11%	₱47,893,545	₱60,032,559	₱104,125,687	₱141,138,007	₱197,977,719	₱264,155,051	₱815,322,568
Foreign currency	7% - 11%	–	–	–	–	–	179,967,523	179,967,523
Corporate	5% - 12%		15,000,000	50,000,000	108,511,575	149,500,000	272,000,000	595,011,575
		47,893,545	75,032,559	154,125,687	249,649,582	347,477,719	716,122,574	1,590,301,666
AFS debt securities:								
Quoted:								
Government:								
Local currency	6% - 13%	38,897,861	89,892,620	121,372,490	592,751,258	177,941,904	1,352,699,646	2,373,555,779
Foreign currency	8 - 10%	–	–	–	–	–	366,089,407	366,089,407
Corporate - foreign currency	8%	–	–	–	119,753,371	–	–	119,753,371
Unquoted	3% - 5%	15,719	751,155	481,099	1,000,000	1,166,565	15,656,166	19,070,704
		38,913,580	90,643,775	121,853,589	713,504,629	179,108,469	1,734,445,219	2,878,469,261
		₱86,807,125	₱165,676,334	₱275,979,276	₱963,154,211	₱526,586,188	₱2,450,567,793	₱4,468,770,927

The following table provides the sensitivity analysis of the fair value of financial assets and its impact to profit before tax and equity due to changes in interest rates as of:

December 31, 2009:

	Changes in variable	Effect on income before tax	Effect on equity
USD	**+ 25 basis points**	**(₱4,388,805)**	**(₱11,846,965)**
PHP	**+ 25 basis points**	**(15,639,786)**	**(14,261,929)**
USD	**- 25 basis points**	**4,912,453**	**12,364,458**
PHP	**- 25 basis points**	**7,605,945**	**14,564,853**

December 31, 2008:

	Changes in variable	Effect on income before tax	Effect on equity
USD	+ 25 basis points	(₱3,675,386)	(₱16,349,281)
PHP	+ 25 basis points	(3,373,048)	(24,739,838)
USD	- 25 basis points	3,140,695	972,428
PHP	- 25 basis points	13,287,667	25,221,981

The impact on the Group's equity already excludes the impact on transactions affecting profit or loss and deferred tax.

The use of +/- 25 basis points is a reasonably possible change in the market value of the debt securities on a regular day basis.

Equity Price Risk
The Group's price risk exposure at year-end relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally, AFS investment securities and investment securities at FVPL.

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 Group's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each industry or sector.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of financial assets and liabilities whose fair values are recorded in the consolidated statement of income and statements of changes in members' equity):

	Change in PSEi index	Effect on Income Before tax	Effect on Equity
2009	**Increase by .5%**	**₱5,553,058**	**₱20,773,974**
	Decrease by .5%	**(5,553,058)**	**(20,773,974)**
2008	Increase by .5%	3,725,411	5,439,069
	Decrease by .5%	(3,725,411)	(5,439,069)

The impact on the Group's equity already excludes the impact on transactions affecting profit or loss and deferred tax.

To provide a consistent measure of sensitivity to equity securities, a percentage measure of one-half of a percent (0.5%) that will provide a value of reasonably possible change in the overall investment that can be an easy multiple of measurement for the Group was used.

Currency Risk
Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's foreign currency-denominated assets and liability as of December 31 consist of the following:

	2009 United States Dollar Value	**2009** Peso Equivalent	2008 United States Dollar Value	2008 Peso Equivalent
Assets				
Cash and cash equivalents	**US$44,314**	**₱2,047,307**	US$45,687	₱2,076,021
Financial assets:				
Financial assets at FVPL	**6,334,551**	**293,644,444**	5,785,263	274,713,197
HTM financial assets	**71,676,106**	**3,322,617,548**	73,723,653	3,500,767,641
AFS financial assets	**13,802,401**	**639,824,094**	10,231,500	485,842,778
	US$91,813,058	**₱4,258,133,393**	US$89,786,103	₱4,263,399,637
Liability				
Legal policy reserves	**US$73,982,369**	**₱3,429,526,717**	US$67,439,054	₱3,202,343,498

The foregoing United States Dollar amounts have been restated to their Peso equivalents using the exchange rate of ₱46.356 and ₱47.485 to US$1 as recommended by IC, except for cash and cash equivalents which have been restated using the exchange rate of ₱46.20 and ₱47.52 per Philippine Dealing and Exchange Corporation as of December 31, 2009 and 2008, respectively. Net unrealized foreign exchange gain (loss) amounted to (₱107,142,879) and ₱493,231,665 in 2009 and 2008, respectively.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on income before tax (due to changes in fair value of currency sensitive monetary assets and liabilities):

	Change in USD - PHP exchange rate	Effect on Income Before Tax
2009	**Increase by 2.86%**	**₱130,503,027**
	Decrease by 2.86%	**(130,503,027)**
2008	Increase by 6.88%	72,857,832
	Decrease by 6.88%	(72,857,832)

There is no other impact on the Group's equity other than those already affecting profit or loss.

31. Capital Management and Regulatory Requirements

Capital Management Framework
The Group manages its capital through its compliance with the statutory requirements on MOS, minimum paid-up capital and minimum net worth. The Group is also complying with the statutory regulations on Risk-Based Capital (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.

The Group manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Group's activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to policyholders.

To ensure compliance with these externally imposed capital requirements, it is the Group's policy to monitor the MOS, fixed capital requirements and RBC requirements on a quarterly basis as part of Group's internal financial reporting process.

The Group fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its 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 plans and ₱2 per thousand of net amount at risk for VUL insurance contracts 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) over the amount of its liabilities, unearned premiums and reinsurance reserves. As of December 31, 2009, the Company's MOS estimated based on its calculation amounted to ₱3,731,686,000. The final amount of the MOS can be determined only after the accounts of the Company have been examined by the IC specifically as to admitted and nonadmitted assets as defined under the same Code.

As of December 31, the estimated amount of nonadmitted assets of the Group, as defined under the Code, which are included in the accompanying consolidated balance sheets, follows:

	2009	2008
Property and equipment - net	**₱133,274,234**	₱122,396,259
Accounts receivable and other assets	**241,003,849**	197,082,042
	₱374,278,083	₱319,478,301

Fixed capitalization requirements
The minimum paid up capital requirement imposed by SEC for insurance companies amount to ₱0.25 million. In September 2006, the Department of Finance (DOF) issued Order 27-06 LK increasing the capitalization requirements for life, nonlife and reinsurance companies on a staggered basis for the years ended December 31, 2006 up to 2011. Depending on the level of the foreign ownership in the insurance company, the minimum statutory net worth and minimum paid-up requirements vary, the statutory net worth shall include the Group's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the IC. The minimum paid-up capital is pegged at 50% of the minimum statutory net worth.

As of December 31, 2009 and 2008, the required minimum statutory net worth and minimum paid-up capital for the Group, being a wholly Filipino-owned domestic insurance company amounted to the following:

	2009	2008
Minimum statutory net worth	**₱250,000,000**	₱200,000,000
Minimum paid-up capital	**125,000,000**	100,000,000

On October 26, 2006, the BOT approved the appropriation of ₱125,000,0000 and ₱100,000,000 for the minimum paid-up capital required as of December 31, 2009 and 2008, respectively, and such amount as required under the foregoing DOF Order No. 27-06 dated September 1, 2006 by December 31 of each year until 2011.

The Group has complied with the minimum paid-up capital requirement.

RBC requirements
In October 2006, the IC issued Insurance Memorandum Circular (IMC) No. 6-2006 adopting the risk-based capital framework for the life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every life insurance company is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

On October 29, 2008, the IC issued Circular Letter No. 26-2008, which recalls that in view of the compliance of insurance companies with the requirement of Insurance Memorandum Circular (IMC) No. 10-2006, the scheduled increases due December 31, 2007 have been deferred for a year. Hence, the IMC reiterates that by December 31, 2009, insurance companies should comply with the increase previously scheduled for December 31, 2008. As of December 31, 2009 and 2008, the Company has complied with the minimum paid-up capital requirements.

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

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

	2009	2008
Net worth	**₱13,721,319,941**	₱11,594,356,523
Aggregate RBC requirement	**7,541,839,125**	6,604,811,533
RBC Ratio	**182%**	176%

The final amount of the RBC ratio can be determined only after the accounts of the Group have been examined by the IC specifically as to admitted and nonadmitted assets as defined under the same Code.

Consolidated compliance framework
In November 2006, the IC issued IMC 10-2006 integrating the compliance standards for the fixed capitalization and risk-based capital framework. Under this IMC, all insurers must possess the capitalization required for the year 2006. Likewise, all insurers shall annually comply with RBC ratio requirements.

Subsequent to year 2006, the fixed capitalization requirement for a given year may be suspended for insurers that may comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance Rates and the RBC Hurdle Rates from 2007 to 2011. For the review year 2009 which shall be based on the 2008 synopsis, the Industry RBC Ratio Compliance Rate is 85% and the RBC Hurdle Rate is 200%. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the year under review.

32. Other Matters

a. On July 15, 2005, the Company filed separate Petitions for Review with the Court of Tax Appeals (CTA), seeking to contest the assessments by the Bureau of Internal Revenue (BIR) for deficiency documentary stamp taxes (DST) for the calendar years 2001 and 2002. In September 2008, the CTA, in one of the Petitions for Review, decided in favor of the Company. It granted the relief prayed for and ordered the cancellation and withdrawal of the assessment by the BIR. The BIR filed a Motion for Reconsideration seeking to reverse said CTA Order, but this was denied by the CTA Division. The case was appealed by the BIR to the CTA En Banc but this was likewise denied on October 12, 2009. A Motion for Reconsideration was then filed by the BIR and is still pending resolution by the CTA En Banc.

   On the other hand, the other Petition for Review was also decided in favor of the Company on April 21, 2009. BIR's Motion for Reconsideration with the CTA Division is still pending resolution.

   Nevertheless, the Company's Management and Legal Counsel continue to believe that it has a strong legal basis for exemption from the said tax.

   In a previous case involving the Company on a similar assessment for DST and premium tax, the Court of Appeals (CA), in its September 29, 1998 decision, upheld the CTA ruling dated December 29, 1997 affirming the Company's exemption from payment of DST and premium tax. Furthermore, the Supreme Court, in a 2006 decision involving another mutual life insurance company, confirmed that said company is a cooperative and thus exempt from the payment of DST on life insurance premiums.

b. On January 16, 2009, the Company filed with the BIR, a request for refund and/or issuance of Tax Credit Certificates to recover the Final Withholding Taxes remitted during the period September 2005 to May 2007 in connection with the License Fees paid to LIDP Consulting Services, Inc. ("LIDP"). The tax remittances were made by the Company on behalf and as a withholding agent of LIDP for the use of a proprietary software system owned by LIDP. According to the Resolution of the BIR granting the tax exemption, LIDP being a foreign corporation organized under the existing laws of Illinois, USA and not registered either as a corporation or a partnership licensed to engage in business in the Philippines, is not subject to Philippine Income tax.

   The request for refund and/or issuance of Tax Credit Certificates is still pending in the BIR Office of the Commissioner.

c. IITC entered into certain prearranged transactions involving a series of mutual sale and purchase transactions of treasury bills with two financial institutions in 1994. The transactions led to a case filed against IITC that involves a complaint for specific performance and sum of money amounting to ₱90 million. As counterclaims, IITC seeks the award of ₱21.1 million. The main case was dismissed on August 28, 2008 for failure of the other party to file a Pre-trial Brief within the prescribed period. IITC was allowed to present evidence on its counterclaims on September 9, 2008. The other party filed a motion for reconsideration which the court denied on January 26, 2009 and filed a Notice of Appeal on March 2, 2009. IITC awaits the initial order from the Court of Appeals.

   There are other treasury bills amounting to ₱119.6 million (included in the "Accounts Receivables" account under "Loans and receivables-net" in the consolidated balance sheet) bought and paid for, but remain undelivered to IITC by a financial institution also involved in the prearranged transactions. On March 25, 1995, IITC filed a case with the Makati Regional Trial Court (Makati RTC) for the recovery of the ₱119.6 million undelivered treasury bills. On June 16, 2003, the Makati RTC rendered a decision allowing IITC to claim for ₱119.6 million (plus accrued interest), net of counterclaims awarded to a co-respondent. At various dates after the Makati RTC decision, all the parties, including IITC, filed their respective appeals before the CA. On June 8, 2008, the CA set aside for lack of basis the Makati RTC's decision allowing IITC to claim for the ₱119. 6 million, including accrued interest. In response to this decision, IITC filed the petition for review with the Supreme Court where it is still pending. Management and its legal counsel, however, believe that the case will ultimately be resolved in favor of IITC.

33. Note to Consolidated Statements of Cash Flows

The principal noncash transaction of the Group under investing activities pertains to a bond exchange in 2009. Carrying value of AFS debt securities received and given up amounted to ₱496,393,604 and ₱469,154,652 in 2009, respectively (nil in 2008).

The Insular Life Assurance Company, Ltd.

EXECUTIVE COMMITTEE

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Antonio H. Ozaeta, *Vice Chairman*
Edilberto B. Bravo, *Member*
Mayo Jose B. Ongsingco, *Member*
Alfredo B. Paruñgao, *Member*

OFFICERS
(*As of May 2010*)

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Chairman of the Board and
Chief Executive Officer

Mayo Jose B. Ongsingco
President and Chief Operating Officer

Executive Vice Presidents
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Jesus Alfonso G. Hofileña

First Vice Presidents
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Ramon M. Cabrera
Maria Teresa L. Cruz
Ma. Edita C. Elicaño
Susana G. Nicolas
Daniel Rodrigo D. Reyes[2]
Amelita F. Tamayo

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Geraldine B. Alvarez
Maria Rosa Aurora D. Cacanando
Christopher Cary C. Casipit
Enrico L. Cordoba
Renato S. De Jesus
Carmen G. Duque
John Jesus O. Lim
Carlito V. Lucas
Seraline L. Manguni[3]
Mylene C. Padilla
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Jocelyn B. Reyes
Eleanor G. Tañada

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Alijeffty C. Gonzales
Esperanza A. Gregorio
Mundece L. Lu
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William S. Racadio
Ana Maria R. Soriano
Katerina V. Suarez
Engeline T. Ureta

Assistant Vice Presidents
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Arnaldo I. Aquino
Rene P. Asuncion
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Ma. Sandra J. Bustos
Hilario C. Delos Santos
Regina Karla E. Fernandez[5]
Lorenzo Luis Liborio B. Gallardo II
Michael L. Manalastas
Vera Victoria C. Morales
Jose A. Padilla
Geraldine G. Pascual
Cesar Y. Salera

[1] Seconded as concurrent President of Insular Investment and Trust Corporation and of HomeCredit Mutual Building and Loan Association, Inc.
[2] Seconded as President of Insular Health Care, Inc.
[3] Seconded as First Vice President, Actuary and Head of Technical Operations, Insular Health Care, Inc.
[4] Seconded as Chief Financial Officer and Head of Administration Operations, Insular Health Care, Inc.
[5] Seconded as Senior Assistant Vice President and Head of Marketing Operations, Insular Health Care, Inc.

Insular Group of Companies

The Insular Life Assurance Company, Ltd.
Holding Company, life insurance underwriting

Subsidiaries

Insular Investment and Trust Corporation (IITC)
Investment banking

IITC Subsidiaries:
Insular Property Ventures, Inc.
Residential/Commercial development

IITC Properties, Inc.
Residential/Commercial development

Insular Health Care, Inc.
Health/HMO

ILAC General Insurance Agency, Inc.
Insurance brokerage

Insular Property Holdings, Inc.
Real estate

Insular Management and Development Corporation
Management services

HomeCredit Mutual Building & Loan Association, Inc.
Mutual building and loan association

Affiliates

Mapfre Insular Insurance Corporation
Non-life insurance underwriting

Union Bank of the Philippines
Universal banking

PPI Prime Venture, Inc.
Real estate

Social Commitment

Insular Foundation, Inc.

We Plan the Future with You

Simple ideas backed by constructive action can change the world. As we, at Insular, prepare to mark the Company's 100th founding anniversary, we begin by visualizing what the future might look like. Through the voices, passion and imagination of our stakeholders — our policyholders, employees, agents and people in communities we touch— we set out to make that vision a reality. Insular believes that nothing significant was ever achieved without imagination and aspiration, nor accomplished without organized effort.

Thus, the theme ***We Plan the Future with You.*** With this, we commit our corporate longevity to the future of our various stakeholders – a future that is financially secure, flourishing and fulfilling.

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