1910 Insular

100 Years of Insular Life

Your Lifeline Across Lifetimes

2010 ANNUAL REPORT

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.

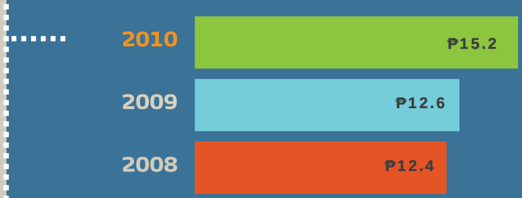
We optimize stakeholder value by pursuing strategic opportunities, and by achieving sustained growth through dynamic marketing, prudent investments, and exceptional service.

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

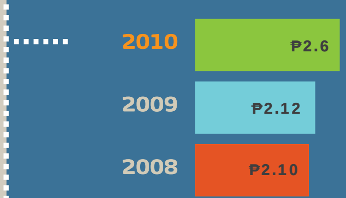
- Love of God and Country
- Integrity
- Excellence
- Prudence
- Respect for the Individual
- Teamwork

Consolidated Financial Highlights

REVENUES (in billion pesos)

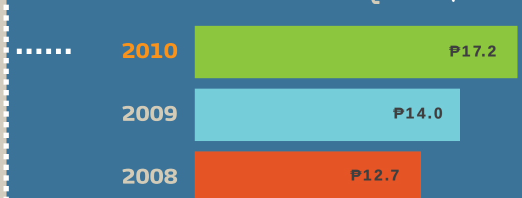


NET INCOME (in billion pesos)



ASSETS (in billion pesos)

MEMBERS' EQUITY (in billion pesos)



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Message to Policyholders

Dear Policyholders:

The year 2010 was pivotal for Insular Life. Not only was it a celebration of our corporate longevity as a 100-year old Filipino company, it was also the start of a fresh chapter in our history, as we remain your lifeline across lifetimes.

However, this occasion is not just about one company. The story of Insular Life offers valuable lessons. It is a story of how the Philippines has evolved—and where it is heading. How it has surmounted the odds and how it continues to become a resilient nation. It also speaks of how we all can create value, engage, and help make a difference in society.

These lessons of the past will continue to guide Insular Life as it transitions to the next century.

In its centennial, the Company continued to make history. We ended 2010 with sharply improved financial results on the back of better economic conditions. We also proceeded with making significant investments aimed at widening our corporate footprint and expanding our market presence nationwide. As a result, we remain well-positioned to capitalize on further growth in the Philippine economy and, longer term, to benefit from broad economic trends that hold attractive promise for the future.

Trends supporting our growth

Overall market trends continued to be favorable for Insular Life. In 2010, we benefited from positive developments both in the Philippine economic and political landscapes. Gross domestic product (GDP) grew by 7.3 percent – the highest growth in the post-Marcos era. Fueling robust domestic consumption were strong overseas Filipino workers' remittance flows, benign inflation and low interest rates. The services sector posted a healthy 6.1 percent growth, largely due to the strong showing of the business process outsourcing industry.

The credible results of the May 2010 elections, as well as the smooth leadership transition in government, also boosted consumer and business confidence.

Consolidated results

Against the backdrop of a sturdy performance of the domestic economy and improving global market recovery, and fueled by a highly motivated employee and sales force, Insular Life posted its most remarkable performance in its 100-year history.

On a consolidated basis, our net income rose 23 percent to ₱2.6 billion from ₱2.1 billion in 2009.

Increase in net income was driven by a 21-percent rise in total consolidated revenues amounting to ₱15.2 billion from ₱12.6 billion in 2009.

Of the amount, net insurance revenues contributed ₱8.4 billion, followed by investment income of ₱4.97 billion, equity earnings of ₱933 million, net realized gains of ₱538 million, and rental and other income of ₱358 million.

Total policyholders' benefits and operating expenses rose 21 percent to ₱12.3 billion from ₱10.2 billion, with gross benefits and claims on insurance contracts and net change in legal policy reserves accounting for the bulk of the total. Total life insurance business in-force as of end-2010 stood at ₱200 billion.

Consolidated assets rose 14 percent to ₱72 billion from ₱63 billion, previously. This was due to a significant increase in cash and cash equivalents and in all the financial assets of the Insular group. Consolidated liabilities grew 12 percent to ₱55 billion from ₱49 billion in 2009 due to the increase in legal policy reserves set up for ordinary and group life insurance policies, as well as accident and health policies. Total members' equity grew 22 percent to ₱17.2 billion from ₱14 billion.

Parent company's performance

Consistent with our consolidated performance, results from the 2010 operations of our parent company, Insular Life, surpassed our targets, posting double-digit growth. New business premiums hit ₱3.2 billion – exceeding our 2009 performance by 70 percent. Our investment income of ₱5.2 billion represents a 33 percent growth from 2009 levels. Net income for parent company reached ₱1.9 billion, 27 percent higher than in 2009.

That this stellar performance happened during our centennial year made it truly a milestone for Insular Life.

Investing in the future

Riding on growth opportunities in the economy and guided by prudent management, Insular Life continued to invest in promising sectors in the equities market such as consumer, power and telecoms with an eye on their long-term dividend potential. At the same time, the Company maintained focus on shifting its investments into fixed income assets that ensure a steady income stream and delivery of long-term gains for policyholders.

As a result, our managed assets grew by 20 percent to ₱51.4 billion from its year-ago level of ₱42.8 billion, with fixed income assets accounting for almost 70 percent of the pie.

Consistent with this strategy, we raised our investments in bonds (by 12 percent to ₱19.6 million) and equities (by 31.7 percent to more than ₱16 million). We also maximized yields from our long-term peso fixed income portfolio by extending ₱2.2 billion new term loans to companies in power generation and distribution, broadcasting, and retail industries.

We now have a total of 21 corporate term loan accounts worth ₱12.4 billion, 12.3 percent up from last year's balance. Taking advantage of asset price surges in the Philippine Stock Exchange, we unloaded some investments in listed stock issues and realized additional gains amounting to ₱127.9 million. Unrealized gains on listed stock investments stood at ₱5.7 billion as of year-end.

We also took advantage of asset price surges of some stock issues and realized additional gains.

We made a more concerted effort to build up our US Dollar investments to match our US Dollar liabilities. New investments reached US$7.3 million at par, bringing our total investments in US dollar-denominated bonds to a par of US$89 million.

To keep our liquidity position at a healthy balance, we invested ₱2.8 billion in money market placements of top-rated banks at competitive yields. Interest income stood at ₱65.8 million, slightly higher than 2009 levels.

Our Investment Management team remains at the forefront of managing our six variable funds: Peso Equity Fund, Peso Fixed Income Fund, Peso Balanced Fund, Dollar Fixed Income Fund, Greater China Fund, and Strategic Energy Fund, which have a combined fund value of ₱4.13 billion as of end-2010. Year-end returns on these funds showed significant increases, with Equity Funds leading at 66.35 percent.

We remain well-positioned to capitalize on further growth in the Philippine economy and, longer term, to benefit from broad economic trends that hold attractive promise for the future.

In 2010, the Company acquired an investment management system from Princeton Financial Systems (PFS). Aimed at further improving the efficiencies in investment operations and accounting, the Portfolio Accounting Management System from PFS is targeted to be fully operational in 2011.

Stronger showing

Supporting the overall Company growth, Insular Life's subsidiaries and affiliate also reaped dramatic gains in 2010.

Insular Health Care, Inc. (IHCI), our Health Maintenance Organization arm, made 2010 a banner year with record revenues of ₱306.4 million – its highest in over 19 years. Net profit after taxes stood at ₱9.0 million, which boosted total assets at ₱290.8 million. The company ended the year with total equity of ₱145.1 million and with retained earnings of ₱43.0 million.

While competition in the investment banking sector remained fever-pitch in 2010, subsidiary Insular Investment & Trust Corporation (IITC) continued to show commendable performance. It recorded a net income of ₱3.9 million and revenues of ₱28.0 million. Its total stockholders' equity was at ₱471.65 million while its asset base remained strong at ₱484.89 million.

HomeCredit Mutual Building & Loan Association's assets rose 6.9 percent to ₱229 million, with cash and cash equivalents significantly growing 73 percent to ₱56.0 million, from ₱32.5 million in 2009. Its membership growth in 2010 resulted in a net increase in Preferred Shares by 65 percent to ₱102 million from ₱61.9 million, and boosted total equity by 28.7 percent.

Mapfre Insular's gross premiums were up 7.5 percent to ₱1.7 billion, notwithstanding the residual effects of the Typhoon Ondoy tragedy in 2008 and the difficult business conditions of 2009. Net income likewise increased by 13 percent to ₱207.8 million, representing an outstanding double-digit ROE (Return on Equity) of 15 percent.

Innovating in a new century

As we move into a new century, we aim to be defined as an innovative company that continues to meet its policyholders' evolving financial needs.

With renewed energy, we launched two new products on our centennial. We developed **I-Insure** to make life insurance protection more accessible to the common Filipino. A versatile life insurance plan, **I-Insure** provides coverage for specific periods of time, offering coverage as short as one year and as long as 15 years or until age 65. **I-Insure** is automatically renewable and convertible to a permanent plan should its features better fit the client's financial needs at that time.

Another product called **Variable Returns Asset** or **VRA** is the first variable unit linked (VUL) policy with no front-end charges, enabling the fullest investment possible from the policyholder from day one. **VRA** targets long-term investors who seek a comfortable retirement in the future.

As we move into a new century, we aim to be defined as an innovative company that continues to meet its policyholders' evolving financial needs.

In addition, we also launched two limited pay products: the **i-Dollar Wealth Multiplier**, our first structured variable life insurance product, and the **i-Dollar Energy 5**. Both generated significant premiums for our Company in 2010.

We take pride in bringing excellent service to our policyholders. In 2010, we launched PATH or the Policy Anniversary Transaction History, which provides policyholders with an automatic statement of their yearly transactions so they are constantly informed of the official record of their payments.

With the increasing reliance on online services, we upgraded the functionality of our corporate website. New functions include the Lifestage microsite, an improved Financial Needs Analysis page, the i-EAGLE Customer Portal, the Agent Portal, ESP pages and the e-Bayad online premium payment facility.

Celebrating 100 years

To celebrate a milestone that not too many institutions have reached, Insular Life marked its 100th year with a series of events that actively engaged our policyholders, agents, employees, and partners in our activities as our way of thanking them for their support all these years.

Among the highlights of the year-long centennial celebration were: a special offer to policyholders called CASHandog Centennial Edition Raffle Draw in which more than ₱2 million in cash prizes, laptop computers, mobile phones and mobile loads were given away; the staging of an all-original musical on Insular Life's 100-year journey at the Meralco Theater; the publication of a coffee table book on our corporate history; and the launching of a compilation of rearranged kundiman or Filipino love songs in a compact disk, targeting the young generation of Filipinos. The Company also inaugurated the new Insular Life Cebu Business Centre, one of the most modern edifices in the business district of Cebu City.

A year of recognition

2010 was also the year Insular Life made waves in various fields in the industry.

The Life Office Management Association (LOMA) conferred its 13th LOMA Excellence in Education Award to Insular Life. LOMA is the prestigious international association of over 1,200 financial and insurance organizations in over 80 countries. The award is given to member companies who have exceptional pass rate for all LOMA takers. We are proud to say that Insular is the second-longest recipient of the award.

Our President and COO Mayo Jose B. Ongsingco was elected president of the Philippine Life Insurance Association (PLIA) to serve his term of office starting 2011. PLIA is the association of life insurance companies in the country whose purpose is to propagate the concept, principles and benefits of life insurance. Likewise, IITC President Ronnie B. Alcantara was elected president of the Financial Executives of the Philippines for 2011.

LOMA also gave its highest marks to two Insular Life employees. Abel L. Vergara from our Actuarial Services Department, earned the highest marks in the Associate, Financial Services Institute (AFSI), Associate, Reinsurance Administration (ARA) in LOMA's eastern region. Meanwhile, Atty. Analyn S. Benito from our Legal Affairs Coordinating Office was recognized for being the top examinee in the Eastern Region for the Associate, Insurance Regulatory Compliance (AIRC) program.

Executive Vice President Mona Lisa B. De La Cruz and Senior Assistant Vice President Katerina V. Suarez were elected as Governor and as Treasurer, respectively, by the Actuarial Society of the Philippines. Assistant Vice President and Underwriting Department Head Diana Rose A. Tagra, on the other hand, was elected as President of the Home Office Life Underwriters Association of the Philippines (HOLUAP).

The quality of our agency force has always been a source of pride for Insular. For membership year 2011 (based on production year 2010), 84 of our agents met the requirements for membership to the prestigious Million Dollar Round Table (MDRT) honors program, a significant increase from 58 agents the previous year. Of the 84 qualifiers, three met the requirements for Court of the Table (COT) and five to the Top of the Table (TOT). The three COTs who produced three times the entry level to MDRT are Paul Sheng, John Tan, and Veronica Venus. The five agents who achieved the TOT status, the highest distinction given to MDRT qualifiers who produced six times the entry level of MDRT are Paul Bolaños, Nunnatus Cortez, Joselito Lee, Arslie Malipero, and Marivic Tapado. Membership in MDRT, an exclusive association of financial professionals worldwide, is recognized as the standard of sales excellence in the life insurance and financial services industry.

In addition, 20 of our agency leaders received the General Agency and Managers Association (GAMA) International Management award. GAMA International is the sole organization dedicated to supporting the professional development of agency leaders in the insurance and financial services industry.

Sharing our success

Every year, Insular Life shares its success with those who have made it possible for the Company to retain its leadership in the industry. This became more significant in 2010 as we strengthened our efforts toward our corporate social responsibility programs, to make a more significant imprint in the lives of the younger generation of Filipinos.

Renewing our commitment in promoting excellence in education, Insular Life, through the Insular Foundation, continued its education programs. The Insular Life Gold Eagle Awards Program sent 13 new scholars to B.S. Education courses at the University of the Philippines in Diliman. Three scholars from the first batch of the Insular Life College Scholarship Grant to U.P. Diliman successfully completed their baccalaureate degrees in Mathematics and in Education, all graduating magna cum laude last April.

In the primary school level, we continued to invest in the future of the Filipino child through our Adopt-a-Scholar program. In SY 2010-2011, we provided school supplies and other materials to more than 100 Grade 2 scholars of the Itaas Elementary School in Muntinlupa who were adopted by our employees.

A groundbreaking project for 2010 was the production of the first Insular Life Children's Storybooks, espousing Filipino values and the importance of stewardship of resources. Conceptualized in partnership with Filipino publishing house Adarna House, the books were donated to the top 1,000 public and private schools all over the country. We also sustained our free Storytelling Workshop as part of our literacy programs. In 2010, we took a different approach as we offered the workshop for the first time to grade school students from Comembo Elementary School in Makati, and from Milagrosa Elementary School in Carmona.

We strengthened our efforts toward our corporate social responsibility programs, to make a more significant imprint in the lives of the younger generation of Filipinos.

We honored six new awardees of **The Outstanding Filipino (TOFIL)** awards:
Dr. Esperanza I. Cabral for Government Service,
Dr. Ray L. Catague for Public Health,
Dr. Isagani R. Cruz for Literature,
Ms. Shirley Halili-Cruz for Arts and Culture,
Dr. Anthony C. Leachon for Medicine, and
Fr. Joel E. Tabora, S.J. for Education. The latest TOFIL awardees received their recognition in ceremonies held in December, witnessed by guests led by the Vice President of the Philippines, Jejomar C. Binay.

Retirement of Trustees

We bade farewell to three members of the Board of Trustees. Effective December 31, 2010, Judge Cesar C. Cruz, Mr. Antonio H. Ozaeta, and Mr. Edilberto B. Bravo retired as Trustees of Insular Life upon reaching the mandatory retirement age and tenure. They have all served the Company well. We sincerely thank them for their loyalty, wise counsel, and valuable contribution to our Company's continued success. Three new trustees have been appointed to serve the unexpired portion of the retired trustees' current terms of office. They are Atty. Francisco Ed. Lim, Ms. Mona Lisa B. De la Cruz and Ms. Marietta C. Gorrez.

Into the next century

As a corporate institution, Insular's history is inextricably linked with the stories of the Filipino. We are proud to bear this heritage -- the wellspring of strength from where we draw the very values that form the backbone of our Company.

It humbles us that we have touched countless lives across generations. Fully aware of this honor, we will continue our journey to our next hundred years with an even greater awareness of our responsibility as the Filipino's far-sighted guardian.

As we make progress and tackle fresh challenges into the next century, we will mark a path toward better, more creative ways of planning for a more secure future for our Company and our policyholders.

As we come to this point in our journey, we would like to express our gratitude to you, our policyholders for your 100 years of trust and confidence in Insular. Maraming salamat sa isang daang taong pagtitiwala!

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

MAYO JOSE B. ONGSINGCO
President and Chief Operating Officer

Corporate Governance

As Insular Life celebrates its centennial, the Company's drive to promote and protect its stakeholders' interests remains paramount. The Company continuously pursues excellence in all aspects of its operations, and is always guided by the corporate values of Love of God and Country, Integrity, Excellence, Prudence, Respect for the Individual, and Teamwork.

BOARD OF TRUSTEES

The Board of Trustees, composed of elected representatives from among the policyholder-members of the corporation, is the primary advocate of good governance in the organization. It directs the Company to attain its vision, mission and corporate objectives, and ensures that the Company's undertakings are aligned with the fundamental principles of good governance — fairness, accountability, transparency, and integrity.

Upon the recommendation of Management, the Board sets the Company's corporate objectives, strategies, and annual budget. The Board monitors and evaluates Management's performance for efficiency and effectiveness in achieving its strategic targets while at the same time protecting its stakeholders' interests.

The Board of Trustees likewise sets Company policies. Certain matters of operations within prescribed limits may be delegated by the Board to Management for better efficiency. Those which are beyond the said limits are required to be presented to the Board for prior approval.

Composition

The Board in 2010 was composed of nine members who are leaders in their respective fields and were selected for their integrity and probity. The Chairman of the Board and Chief Executive Officer, Mr. Vicente R. Ayllón, and the President and Chief Operating Officer, Mr. Mayo Jose B. Ongsingco, are executive directors while the Vice Chairman of the Board, Mr. Edilberto B. Bravo is a non-executive director. The remaining members of the Board namely, Judge Cesar C. Cruz, Mr. Delfin L. Lazaro, Mr. Ricardo G. Librea, Mr. Antonio H. Ozaeta, Mr. Antonio B. Paruñgao, and Dr. Bernardo M. Villegas are independent directors.

Members of the Board are mostly independent directors, ensuring open and independent discussion of the issues. Decisions are arrived at based on objective evaluation of the issues keeping in mind the best interests of the Company.

On December 31, 2010, Judge Cesar C. Cruz and Mr. Antonio H. Ozaeta retired as Trustees of the Corporation upon reaching the age of 75. Mr. Edilberto B. Bravo also retired as Trustee upon completing five terms (or a total of 15 years) pursuant to the Retirement Policy of the Board of Trustees. They have been replaced by Ms. Marietta C. Gorrez, Ms. Mona Lisa B. De La Cruz and Atty. Francisco Ed. Lim, respectively, to serve the unexpired portion of their current terms of office.

Each Trustee possesses all the qualifications and none of the disqualifications provided in the Company's amended By-Laws, and as required under the Insurance Commission's Corporate Governance Principles and Leading Practices (CGPLP). All of them are experts in their own fields and competent managers in insurance and insurance-related fields. They all have the necessary skills, training, experience, and integrity that help them in the performance of their roles and responsibilities as guardians of the corporation.

All of them have attended the required corporate governance seminar conducted by training providers accredited by the Insurance Commission pursuant to its directive. None of the Trustees possesses any temporary disqualification as provided in the CGPLP. Any change in their circumstances that would cause any temporary or permanent disqualification is required to be immediately disclosed.

The Chairman of the Board

Mr. Vicente R. Ayllón is the Chairman of the Board and the Company's Chief Executive Officer. Mr. Ayllón also sits as Chairman of the subsidiary corporations of Insular Life namely, Insular Health Care, Inc., Insular Investment and Trust Corporation, Home Credit Mutual Building and Loan Association, Insular Life Management and Development Co. (ILMADECO) and Insular Life Property Holdings, Inc. His chairmanship in these companies is primarily for the protection of the parent company's (Insular Life) investments in these subsidiaries.

He has also been elected as Chairman of the Board of Asian Hospital, Inc., Co-Vice Chairman of the Board of Directors of Union Bank of the Philippines, and Vice Chairman of Mapfre Insular Insurance Corporation. He is also a director in Pilipinas Shell Petroleum Corp. and in Shell Company of the Philippines, Ltd. Insular Life has minority shareholdings in the foregoing companies. Mr. Ayllón's other directorships are in Philippine Hoteliers, Inc. as an independent director, and in The Palms Country Club.

Mr. Ayllón also sits as the Chairman of the Insular Life Foundation that helps in the performance of the Company's corporate social responsibility.

Board Committees

The Board has constituted six committees to help perform its role and responsibility in the overall management of the Company.

The Executive Committee of the Board exercises any of the powers and attributes, allowable by law, of the Board of Trustees during the intervening period between the Board's meetings, and shall report all resolutions adopted by it to the Board of Trustees at the first meeting that the latter may subsequently hold.

The other Board Committees are the Budget and Audit Committee, the Finance and Investment Committee, the Governance Committee, the Personnel and Compensation Committee and the Nominations Committee. For the chairmanship and composition of each of the Board Committees, please refer to the table on the list of the Various Board Committees and Members as of December 31, 2010 on page 13.

Operations of the Board and the various decisions and resolutions it has made

The meetings of the Board of Trustees and its Executive Committee are held monthly or as often as necessary. All the material information are completely disclosed to the Board and the Executive Committee to help them in their decision-making. Minutes of these meetings, including relevant comments, opinions, and any dissenting opinion, are properly recorded.

The Board reviews and approves significant corporate actions that have not been otherwise delegated to Management. During the previous year, the Board has considered and acted on corporate matters referred to it pertaining to strategic initiatives, investments, adoption of Company policies and the like. The Board likewise monitors and evaluates the Company's corporate performance through the regular reports rendered by Management on production inclusive of its financial statements vis-à-vis corporate targets, the legal and regulatory compliance and other relevant aspects of the operations that are regularly reported to the Board.

The average attendance for the 12 Board meetings for the year was 91 percent. Majority of the Trustees had higher than 80 percent attendance in the regular Board meetings. Four had perfect attendance while two had 92 percent attendance. On the other hand, average attendance for the Executive Committee meetings was 87 percent. No one had an attendance of less than 50 percent.

The record of attendance of the Trustees for the Board and Committee meetings held for the year is shown below:

Trustee	Regular/ Special Board Meetings	Executive Committee Meetings	Other Committees			
			Budget & Audit	Governance	Finance & Investment	Personnel & Compensation
Vicente R. Ayllón	10/12*	8/9*				
Edilberto B. Bravo	12/12**	7/9**			2/3*	2/2
Cesar C. Cruz	11/12		7/7	4/4*		2/2**
Delfin L. Lazaro	8/12		1/7		2/3	
Ricardo G. Librea	12/12		7/7	4/4		2/2
Mayo Jose B. Ongsingco	12/12	9/9			3/3	
Antonio H. Ozaeta	11/12	8/9	7/7**			2/2*
Alfredo B. Paruñgao	12/12	7/9	7/7*		3/3**	
Bernardo M. Villegas	10/12			4/4**	3/3	2/2

*Chairman
**Vice-Chairman

The Nominations Committee did not hold any meeting for the year.

All the members of the Board of Trustees attended the 2010 Annual Regular Members' Meeting held last May 26, 2010.

MANAGEMENT

Management is in charge of the day-to-day operations and the conduct of business of the Company. It implements the policies and strategies as approved by the Board in directing the Company's course and business activities. Management is accountable to the Board for the efficient and effective performance of the corporation and for the attainment of the corporate targets.

Compensation of Key Management Personnel

The total compensation of key management personnel with ranks of Vice President and up for the year is ₱284,888,734. The estimated total amount of compensation for the key management personnel for 2011 is ₱330,470,931.

Governance Program

Management continuously promotes a culture of good governance and compliance through its Governance Program. It strictly adheres to mandated requirements and guidelines such as those stated in the Insurance Code, Anti-Money Laundering Act, other laws, and in the rules and regulations of the Insurance Commission and other government regulatory agencies. Various initiatives are undertaken to support the foregoing objective, including compliance and good governance educational campaigns, policy implementation, regular feedback and monitoring system, and other activities.

Last year, to further inculcate the value of ethical conduct in the minds of the employees, a two-day Compliance Convention for employees with the theme "Moving Beyond Compliance: Strengthening Our Ethical Framework" was held on August 19-20, 2010 at the auditorium of the Insular Life Corporate Centre. Distinguished resource persons from various fields were invited to speak on topics related to the Convention's theme.

VARIOUS BOARD COMMITTEES AND MEMBERS

(As of December 31, 2010)

EXECUTIVE COMMITTEE
Vicente R. Ayllón, Chairman
Edilberto B. Bravo, Vice Chairman
Antonio H. Ozaeta
Alfredo B. Paruñgao
Mayo Jose B. Ongsingco

BUDGET & AUDIT COMMITTEE
Alfredo B. Paruñgao, Chairman
Antonio H. Ozaeta, Vice Chairman
Cesar C. Cruz
Delfin L. Lazaro
Ricardo G. Librea

FINANCE & INVESTMENT COMMITTEE
Edilberto B. Bravo, Chairman
Alfredo B. Paruñgao, Vice Chairman
Delfin L. Lazaro
Mayo Jose B. Ongsingco
Bernardo M. Villegas

GOVERNANCE COMMITTEE
Cesar C. Cruz, Chairman
Bernardo M. Villegas, Vice Chairman
Ricardo G. Librea

NOMINATIONS COMMITTEE
Alfredo B. Paruñgao, Chairman
Cesar C. Cruz, Vice Chairman
Mayo Jose B. Ongsingco

PERSONNEL & COMPENSATION COMMITTEE
Antonio H. Ozaeta, Chairman
Cesar C. Cruz, Vice Chairman
Edilberto B. Bravo
Ricardo G. Librea
Bernardo M. Villegas

Subsidiaries' and Affiliate's Performance Highlights

Insular Health Care

Year 2010 was a record year for Insular Health Care, Inc. (IHCI) as it posted revenues of ₱306.4 million, the highest in 19 years.

Net profit after taxes stood at ₱9.0 million while total assets amounted to ₱290.8 million. The company ended the year with total equity of ₱145.1 million and retained earnings of ₱43.0 million.

In 2010, IHCI launched several initiatives to meet its sales goal and breach the ₱1-billion mark in membership fees by 2015. Some of these were the organizational development of the Sales and Marketing Division, and the creation of the Corporate Account Management, Sales Agency Management and Direct Sales Teams.

The company also launched a new membership card to carry its new corporate name and brand identity. It also introduced new Prepaid Clinic Products: the Elite Card, which serves as the Clinic Membership Card; the Healthcheck Card, also known as the Annual Physical Examination or Pre-employment Medical Examination; and the Peak of Health Packages for out-patient wellness/executive check-up packages for a more comprehensive medical examination.

The company is accredited in over 1,130 hospitals, medical clinics, dental clinics and reference laboratories all over the country. The number of medical specialists in its roster exceeded 8,530 in 2010. The company also maintains a first-class, fully equipped clinic in its Makati Head Office, and a Mobile Clinic used extensively by members.

It maintains four provincial offices nationwide (Cebu, Bacolod, Davao and Pampanga) and operates a 24/7 call center to better serve its ever-growing clientele. 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

Amid the fever-pitch competition in the investment banking sector in 2010, Insular Investment and Trust Corporation (IITC) posted improved financial results versus 2009 levels.

The investment arm of Insular Life recorded a net income of ₱3.9 million on revenues of ₱28.0 million. Total stockholders' equity stood at ₱471.7 million, from ₱464.5 million in 2009, while its asset base expanded to ₱484.9 million.

IITC focused on corporate finance operations such as debt and equity underwriting, loan syndication, project finance, and financial advisory services. Riding on the bullish stock market in 2010, IITC's Corporate Finance Division (CFD) generated higher returns from its equity investments in publicly listed companies.

Insular Home Credit

HomeCredit Mutual Building and Loan Association, Inc. took advantage of the phenomenal growth of targeted segments of the market and reaped the benefits from system enhancements to register better financial results in 2010.

The wholly-owned subsidiary of Insular Life reported a 6.9 percent growth in assets to ₱229 million. Cash and cash equivalents substantially increased by 73 percent to ₱56.0 million from the previous year's ₱32.5 million, due to improved collection processes, efficient administration, and the sale of several real estate properties.

HomeCredit rode on the growth of the Business Process Outsourcing (BPO) sector, which generated 3,345 new members from the employees of accredited companies. This represented a 38 percent increase from the previous year. Improved results were also due to the expansion and improved efficiency of its automatic debit arrangements with major banks.

Increased membership resulted in the net increase in preferred shares by 65 percent to ₱102 million from ₱61.9 million in 2009, boosting total equity by 29 percent. This additional cash was earmarked for the mortgage financing requirements of members and the planned build-and-sell project of the company in Sta. Rosa, Laguna.

Total loans stood at ₱129.5 million, broken down as follows: ₱54.3 million in mortgages, ₱36.2 million in Rent-to-Own (RTO), ₱35.1 million in stock loans, and ₱3.9 million in other receivables.

The company remains committed to providing excellent service and professional management to fulfill its mission of realizing fund buildup mechanisms towards home acquisition.

Affiliate

MAPFRE | INSULAR

Ranking as one of the Philippines' top non-life insurers, Mapfre Insular Insurance Corporation reported positive growth in key areas in 2010. It posted a 7.5 percent growth in gross premiums written, which stood at ₱1.7 billion in 2010, compared to year-ago levels.

Net income increased 13 percent to ₱207.8 million during the period, representing a Return on Equity of 15 percent. The better financial results exceeded the company's target and were due to the growth in investment returns and healthy underwriting results.

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, micro-insurance, marine cargo and surety. It has 10 offices all over the country to service its customers. For 2011, it will continue to aggressively pursue opportunities in the retail and commercial insurance sectors. It plans to further build and strengthen its sales force, both in number and quality. It will also continue to improve service delivery, focusing on customer satisfaction with an eye toward profitability.

Mapfre Insular is 75 percent owned by Corporacion Mapfre of Spain and 25 percent by Insular Life. MAPFRE Group of Spain is engaged in insurance, reinsurance, financial and real estate activities. It has total assets of more than 48 billion euros as of December 31, 2010.

1910

Insular Life

Empowering Lives Across a Century

Q&A

with **Mr. Jesus Alfonso G. Hofileña**
Executive Vice President and Head,
Sales and Marketing Group

We are a diverse team of company veterans and outside “imports”(meaning those who, like me, came from other companies or industries). But there was no division insofar as acceptance and devotion to the mission were concerned.

Q: What was SMG’s over-all direction for 2011? What was the rallying call to the entire group during the year?

JGH: In 2010, SMG’s sales theme was LIPAD - an acronym for “Let’s Intensify Productivity and Agency Development”. We focused on these two critical success factors in order to deliver our huge centennial year sales targets. “Productivity” meant closing new sales on a daily basis and, at the same time, working relentlessly to engage every Insular Life agent to produce business. To achieve these objectives Insular Life’s Chief Agency Executive, Mr. Ramon Cabrera, conceived and orchestrated the campaign, **An IC a Day, An IC from All**. The first half of 2010 was devoted to re-instilling daily selling activity discipline in every district and general agency sales office. The conscious effort was all about not having any zero days in submission throughout the week. Within a short period of time, this became a highly competitive campaign with district and general agency offices trying to outdo one another by improving their own output.

By the 2nd half of 2010, we concentrated more on the **An IC from All** half of the equation. Activity ratios of every sales agency were reviewed and critiqued. Identified gaps were plugged and once again there was a very conscious effort on everyone’s part to raise activity ratio from the previous year’s average of between 20-25 percent only. As a result of these initiatives, agency activity ratio significantly improved to between 35 to 40 percent during this period and even reached close to 50 percent at its peak. The overall result in 2010 was a very significant 22 percent increase in the number of new policies sold and issued, ensuring the accomplishment of our 2010 First Year Premium target of ₱2.5 billion. Actual new business production reached nearly ₱2.9 billion.

Q: SMG truly delivered in the outstanding performance of Insular in 2010. What were the factors, in your opinion, that led to the record-breaking performance of the group?

JGH: First and foremost, there was such a great commitment on the part of every member of the sales force as well the SMG team not to let Insular Life down in its centennial year. Such a “centennial spirit” was manifested in every corner of the country where we had agents and leaders. It was a collective resolve to rise to the occasion, to go for milestones, to break individual as well as agency production records, to contribute to the honor of a banner 100th year. This spirit was likewise complimented by all other operating areas of the company, most especially the Administrative Operations Group (AOG) who served as our partners and allies in the field. But this collective determination did not just happen last year. It was carefully and deliberately nurtured several years before in preparing for 2010.

Definitely another factor for the success of 2010 was the untarnished reputation of our company. Insular Life was the only major life insurer to post growth in new business premiums in 2009 despite the anxieties and negative sentiments of the marketplace following the global financial crisis.

We reached out to the public even more through an expanded communication plan clarifying their questions, addressing their fears, dispelling misconceptions, thus showing that they could keep on depending on Insular Life as a worthy voice of authority for financial security. Our refusal to shirk from our mission was responded to by higher patronage from existing as well as new policyholders.

Third, Insular Life continued to find gaps in the market by developing more relevant insurance products for those needs. Our two limited offer campaigns of **i-Dollar Wealth Multiplier** and **i-Dollar Energy 5**, both principle-protected variable unit-linked life insurance policies, exceeded all expectations in terms of market demand. Insular Life made the right call in realizing that while Filipinos wanted to keep their money safe, they also wanted their disposable funds to earn more than what prevailing interest earnings could give them.

Fourth, our agency force responded resoundingly to the appeal to start 2010 fast and strong. Last year the main concern was on the May elections. Because of this, we just had to get everyone to perform early. I must credit the men and women of SMG for their tireless efforts to spur activity, monitor results on a daily basis, travel to all parts of their region just to reach out to as many as they could. I consider their zeal as nothing less than heroic.

Fifth, both traditional and non-traditional distribution channels responded well. Because Insular Life is a multiple distribution sales organization composed of regular district agencies, general agencies, direct marketing, financial alliances and the like, it was necessary for all channels to deliver their share for 2010 to be successful. And they did!

Sixth, we achieved a more balanced product mix in 2010. All lines of business grew significantly. While the VUL product line exhibited the strongest growth, mainstream insurance sales also improved. Direct Marketing had an excellent performance. Group insurance business likewise grew strongly.

Seventh, we had a great mix of special incentives as well as short term drives to keep our salespeople motivated. The Company generously offered foreign trip incentives for 2010 production. We also instituted short production drives each quarter to enable agents and leaders to augment their earnings.

Eighth was responsive leadership, all the way from top corporate management to the field manager. Undoubtedly there were many more factors, but these are among the ones we considered most significant.

Q: What would you say are the group’s strengths that allowed it to exceed targets?

JGH: I stressed commitment earlier and I will stress it again. I am privileged to lead a group of young men and women who make up the Sales and Marketing Group. We are a diverse team of company veterans and outside “imports”(meaning those who, like me, came from other companies or industries). But there was no division insofar as acceptance and devotion to the mission were concerned. In fact, our heterogeneous nature actually enhanced creative thinking as well as mentoring. We learn a lot from one another. We trust and support one another. Definitely these were strengths that served SMG well throughout the yearlong sales campaign. I would also say that the ability to execute strategies and action plans well also count as strengths of the group. We did not really have brilliant strategies last year, preferring instead to keep things as close to the basics as possible. What could be simpler and more understandable than **An IC a Day** for example? Yet it was the concretization of those foundation programs that spelled victory in the end. Finally, I would also say that the group showed character under pressure. Setbacks were inevitable, but disappointments never lasted long. Our front line field sales management people – Division heads, Regional heads and staff, training personnel – withstood a variety of challenges that come when you are naturally pushing for more business. But they did not waver in their resolve. They showed maturity beyond their years and, in so doing, they earned the respect and following of our sales associates.

Q: In what area or areas do you think your group really shone?

JGH: Monitoring activities over simply tallying results was an area I felt many of the staff excelled in last year. It was a very pivotal paradigm shift because in previous years almost all that I would hear from them were just the results of production that I already knew anyway. We talked about this in our meetings and we all agreed that we needed to go back to the basics, and that meant nurturing a daily activity discipline. Buti na lang may “unli-text” because they were able to stay in touch everyday with their agents and leaders to check on their activities. I personally witnessed this level of attention to detail.

Another area that I believed we did very well last year was in organizing numerous client and agent forums in order to enlighten the market and promote our insurance services. Marketing under First Vice President Ms. Amy Tamayo had a full plate of events which resulted in the generation of leads and referrals to our agents. Our OFW team under Vice President Cary Casipit immersed themselves in this very vital sector and likewise sponsored symposiums and seminars to teach sound personal financial management to OFWs and their families. When it came to the high-end sector of the market, so many sessions were organized to further educate clients as well as agents on finance and investments. Many of these meetings were expertly conducted by Business Development Officer (now VP), Mr. Jeff Gonzales. Let me also cite the invaluable contribution of our training staff under Ms. Sandy Bustos for successfully conducting key training programs on life stage marketing as well as field sales management.

Q: What challenges did you have to surmount as a group? How did you address these?

JGH: We had to work on our cohesiveness as a group considering that we were a diverse bunch of neophytes, veterans, young and not-so-young. Believing that diversity is good if properly harnessed and directed, we strived to operate under such an environment. Keeping in constant touch with the field was another huge challenge. Since Insular Life maintains a nationwide presence, I can personally attest to the fact that as soon as I finish one rotation of visits to all of our sales offices, nearly half of the year would have already passed. Hence, maintaining frequent visibility and contact was quite formidable, but we learned to manage this by likewise using technology – e-mail, teleconferencing, video messages and the like. Finally, we also needed to address the challenge of competence. While everyone has stock knowledge of how to do their jobs, we all knew that wasn't enough to achieve the proficiency level required to be truly effective. So we had to work on gaining new knowledge either from the outside or from one another.

Q: How did the company's centennial factor in the performance of the group?

JGH: That was the very first critical success factor, that "centennial spirit" I referred to earlier. In fact, I wish we could continue to keep it bottled inside us this year and in the years ahead. The thing about spirit or attitude is – you can't measure it but you know its value is priceless. It is what creates the "extra mile" energy so you can stretch beyond what you were first willing or able to do. Any time that hundreds of people can set aside their own self-interest or even prejudices in order to join forces to achieve a collectively desired goal, you will see results beyond expectations as we experienced in 2010. The centennial was THE factor, but it also shows that we can overcome any market or business environment whether or not we have a centennial milestone. The key is in finding that meaning and significance in every year that can be a rallying point for everyone.

Q: Agents form the backbone of the sales group. How did you inspire them to out-perform themselves?

JGH: I don't know if we can claim to have inspired them. Pressured them certainly, and maybe tormented a few, but it's actually the other way around – there were many instances when we drew our inspiration from them. Think about a small group of agents in a remote rural community delivering two to three ICs a day simply for the love of Insular Life. Now that's inspiration we could and did use to encourage others to realize and unleash their potentials. But for the most part I think we simply had good and honest conversations with our sales people. Sales and marketing management is primarily about building and nurturing people relationships. We listened to them even as they had to endure listening to us. We fed back their opinions, needs and concerns to the company while at the same time conveying the sentiments of the company back to them. When there is mutual respect among associates, you will see wonderful performance.

Sales and marketing management is primarily about building and nurturing people relationships.

Q: How has the Life Stage Marketing approach changed your game plan, so to speak? How difficult was it to 'sell' this mindset internally?

JGH: In a very real sense we are still in the process of instilling the life stage mindset to providing insurance services. Last year saw the introduction of this marketing platform. It did not alter our game plan; rather, it complimented it. In 2010, we sought to achieve higher productivity and more production from everybody. In order to succeed, we needed to orient our agents on something much better than product selling but, at the same time, less complicated than full-blown financial planning. The answer was "Life Stage Marketing" which is the level between these two ends. In life stage marketing, insurance is made more relevant and understandable because it relates strongly to the life profile of each prospect. Product features are matched with their key needs for financial and lifestyle security. The obvious lesson here is that a person must continuously secure insurance during his lifetime, but the specific policies he will get will be based on his growing and/or changing needs during major segments of his life. If all our agents can be proficient in life stage marketing, then they will have continuing reasons to call on their clients and be relevant to them as they go through their lives. At the very least this will mean more sales as well as better persistency.

Q: How would you say has Life Stage Marketing enriched the agent-client experience?

JGH: For agents who diligently practice it, I would say their stature to their clients is elevated. Life stage marketing definitely professionalizes their business practice even more. It builds a closer bond between agent and client because the agent is able to follow and grow with his client as he goes through his life. It should ultimately transcend the agent-client relationship to be a peer relationship of close friends and mutual advisers.

Q: Insurance companies continue to churn out different products for the market. How do you hope to make Insular Life stand out? What can clients and partners expect from a 100-year-young company?

JGH: First, Insular Life will continue to be relevant to them. We have done a good job listening to the market all these years. We have responded in ways they desired, and this should also be our guide for the future. As the prime Filipino exponent of life insurance, we should align ourselves to our fellow Filipinos much more closely. Therefore, Insular Life will continue to stand out for as long as it remains a worthy advocate and far-sighted guardian for financial security to the Filipino family. I believe our clients and partners deserve a company that truly embodies the philosophy of our Magandang Araw ideal in all our dealings with them. And we must be consistent in showing our best side to all our stakeholders – clients, agents, employees, suppliers, etc. That is how Insular Life will endure for the next century. It is all about relevance. A commitment to relevance means nothing less than a willingness to continue changing and evolving for the better. I believe we also need to be more forceful in how we communicate with the market. We should be heard more as well as be seen more. Hence, we will continue to contribute to the expansion of our organization. Recruitment and agency leader development will be a key mission for us in the years ahead.

Q: How does the Sales and Marketing Group intend on moving forward after Insular's centennial?

JGH: I have always believed that sustainable success has four components. First, continue our best practices. A company doesn't reach 100 years without learning to do many things well. It stands to reason that the best practices of our past, the legacies of our corporate history be nurtured and continued.

Second, find new best practices. Respecting our past is good, but living only in the past is definitely not! As the world changes so must we. New competencies must be found and applied. There are new best practices that must therefore be put into play.

Third, do both of these more often. Progress is additive. If we can harness both old and new best practices and do them more frequently, then we should grow even more. In selling we have a simple lesson to prove this. See more prospects in a day and you will almost certainly have more sales. So the challenge down the road is being much more productive by doing the right things more often.

Fourth and last, do all these NOW. The emphasis is on a sense of urgency that compels us to always maximize today instead of putting off until tomorrow. Urgency is what enables one institution to move ahead while all the other competitors are still admiring themselves in the mirror. Insular Life has many things to be proud of, but we mustn't fall into that trap. We need to acknowledge our strengths and immediately continue working with a pace to move forward even more quickly. We will have to set higher benchmarks for performance and believe we can achieve them not at an undetermined time in the future, but rather TODAY.

What is Life Stage Marketing?

Life Stage Marketing is based on the idea that there are times in a person's life that trigger specific needs. These needs are further anchored onto the various stages of human life and addressing them calls for providing accurate and approriate financial advice.

("New Innovations to Kick-start a New Century", Insular Life Centennial Supplement, Philippine Daily Inquirer, November 25, 2010)

Chris Tiu:

Beyond basketball and the tube

The golden boy plans his golden years

It's hard to imagine Chris Tiu, golden boy of the national team Smart Gilas and former star of the Ateneo basketball team, once had to make do with a single pair of shoes for several years. After all, the 25-year old has a lot of commercial endorsements, in addition to hosting several television shows and other gigs.

"The shoes fit well and they looked OK," he says. "Nothing fancy or splendid, but they did their job. Kids today, they have three to four pairs of top-of-the-line shoes."

This simplicity he had since childhood, influenced by his parents who impressed upon him and his four other siblings the value of saving for the future. And while they were financially secure as a family, he always knew the difference between wants and needs.

Growing up, he saw his grade school classmates blow their allowance money on different things while he spent as little as possible and saved whatever he could. As a result, his forward-looking nature has become a way of life, guiding all the decisions and steps he had taken.

"The future is the reason why I'm working hard," says the management engineering and applied math graduate of Ateneo. "You can only go so far in playing basketball and working on television. I know they're both temporary so I try to invest on my future both financially and intellectually."

He had dabbled in business, bringing to the country the popular Hong Kong and Shanghai bubble tea and milk tea brand Happy Lemon. He looks forward to handling some of the family business and has great interest in the financial market and investments, including real estate, bonds and equities. But what he feels will equip him most is his strong value system, hinged on perseverance, compassion and hard work, not to mention a keen preparation for unforeseen events.

"I know someone who recently incurred more than ₱1 million worth of hospital bills," he shares. The event made him realize the importance of preparing for any eventuality, making him appreciate the value of health and life insurance even more. That he has been a brand ambassador for Insular Life for more than two years now bolsters his beliefs even further.

"If you have the correct perspective, you will protect yourself," he says. "You don't see the benefits now, but sooner or later, you will see it, and it might be too late. Some people are concerned with the stability of their insurance companies. I think you can't get anyone more stable than Insular Life."

At 25 years, single and in the pink of health, Chris feels secure about things that other people of his age might find unclear.

"It's a little embarrassing but I do think about retirement, even if it's far ahead. Some people laugh and they tell me, 'You're at the prime of your life! Why do you think about retirement?' But at a certain point in your life, you have to think about it and prepare for it. It's a reality that everyone has to deal with."

Today he is accustomed with this fast lifestyle. Wearing many hats as TV host, athlete, civil servant and entrepreneur is a testament to his success and determination. "I've become an efficiency freak," he says, "which I realize is not entirely a good thing."

Meantime, Chris has no plans of slowing down. "Nothing concrete yet," he cautions, but in the next five years, he sees himself being more involved with a family business, perhaps pursuing his master's degree and being married with three kids. He wants to buy a nice home and get his hands on the financial markets.

Eventually, he says he will have to give up one of his many hats and focus on a few select businesses that he likes to personally handle. He'll perhaps be on the advisory or consultancy board of some company.

He'll definitely continue his advocacies on education as his way of honoring his Jesuit upbringing. He will continue to play basketball, but definitely not professionally. He might pursue another sport, like tennis, or play golf.

One thing's certain: "I like to continue being competitive," he says.

Today, a time when a lot of opportunities present themselves and the future looms large before his eyes, he says his main goal is simple: "I just want to keep myself happy. I always tell myself, 'Don't be greedy.' I think those are key to living a full life."

"If you have the correct perspective, you will protect yourself," he says. "You don't see the benefits now, but sooner or later, you will see it, and it might be too late."

Ned and Lou Chanco:

Planning a match made in heaven

From whirlwind romance to long-term goals

Ned Chanco was as certain as day he would marry Lou Cillan, 28, two weeks after they started seeing each other. The then 28-year old bachelor was already computing the wedding budget and the cost of moving in together without her knowing.

For her part, Lou admits, “It was not love at first sight. I thought he was cute, but he started acting too sweet too early. I found it a little weird.”

Ned, who works for Insular Life’s Investment Management Staff, says he knew Lou was “the one” the moment she walked into a restaurant one fateful Friday two years ago. “All I could think of was, ‘Wow!’ I just knew.”

When she out-drank him on their first date the following week, he says he became all the more convinced.

Lou’s sister Aileen, who works with Ned in the same floor at the Insular Life Corporate Center in Alabang, played the part of cupid in their lives. Lou is a medical representative based in the area. The two got married only last January, two years after they started their whirlwind romance.

Insular Life, Ned’s home for the past five years, has been intertwined with their relationship all throughout, starting from when he arrived from their first lunch together.

“After eating, we had coffee then I walked her to her next appointment. I came back from lunch still on cloud nine. My boss was very supportive,” he says. “I told her I just met this amazing girl.”

As the years passed, he realized that working for a company like Insular Life gives him guidance and confidence unlike any other. “I work with people who are experts in planning for the future. They know all these products that are available to someone like me, who’s in that stage when I’m starting a family of my own. I learn a lot from the people I work with, especially my bosses. They’re my role models because they’re very generous with advice. It’s something that I appreciate and follow as one of the youngest in the group.”

Insular Life has taken care of me and kept my feet on the ground. It feels great to see the direct impact of what you’re doing to the company, to see investments grow before your eyes.

Today, just a few months after saying their vows, the Chancos are integrating their finances, putting their funds together and mapping out their future. Ned says he just got additional coverage for his life insurance. “I want her to be comfortable...not necessarily very rich,” he says, laughing. They’re also trying to replenish their savings account, depleted after the big day, laying the foundation for bigger investments in the future.

While Ned says the feeling of getting married is just starting to sink in, his personal goals have already changed, and the direction of his life is now more defined.

“I know I have more responsibilities now. I’m not just looking after myself. Someone depends on me, so I want to be healthier, physically and financially. I must work doubly hard, and I am now more conscious of my spending habits,” he says. “Good thing I had already bought all my gadgets before marrying her!”

One of their near-term goals is to build a small house in the next year or so, then move into a bigger one in ten years. They want to have three kids, although anything beyond the number is fine, too. And as the family grows, changes have to be made, they say.

“My job takes a lot of my time and requires a lot of energy”, says Lou. “I’m always on the road and my schedule is very fluid. When we have kids, I hope I would to be able to stay at home and look after them. Maybe I can start a business, something I’m interested in. But we have to maintain two incomes no matter what.”

Ned says he is at home with Insular Life, and he is grateful for being equipped to deal with the future.

“I know where I belong,” he says. “Insular Life has taken care of me and kept my feet on the ground. It feels great to see the direct impact of what you’re doing to the company, to see investments grow before your eyes. Not only did I get to meet my wife through the company, Insular Life is helping shape our lives together,” he says with confidence.

And while the future remains to be seen, Ned and Lou say they cannot wait to see it unfold.

Dr. Cathy and Mr. Willy Young:

A sure love affair

Married couple turns 'segurista' for their children

Being the daughter of an accomplished insurance man who had been named "Agent of the Year" by Insular Life several times, Dr. Catherine Young grew up in a family that knows how to plan ahead.

But when she met Willy, she dropped her guard, listened intently to her heart, and heard nothing else. She did not even know if he earned enough to raise a family from overseeing a carbon printing business. "We didn't talk about money. I was just blinded by love!" the 43-year-old pediatrician says.

It was a typical tale of love at first sight – a whirlwind affair that caught their family and friends by surprise.

Cathy recalls the day he first paid her a visit. "He was so cute, very different from how I remembered him during high school. He used to be so tall and thin."

Willy, meanwhile, was simply enamored by her heart. "She thought I was poor. She had no idea how I was doing financially." However, when the day came to ask her parents' blessings in marriage, he remembers telling her dad: "I promise to put a roof above her head and feed her three times a day. If she wants something, I will work for it."

It was a promise that sealed their future as husband and wife. After Willy's first visit to her Binondo home in December 2000, the two got engaged the next summer then tied the knot two months later.

"I was 33 years old; I wasn't getting any younger," the vibrant and bubbly pediatrician exclaims.

"We work for our kids. We may be healthy now, but you can never tell. We need to leave them something behind just in case. If nothing happens, it's a bonus. If something happens, it's a lifesaver."

Besides, Willy showed he was up to the task. "I challenged him: You want to get married so soon? Then find a church!" Cathy says. "He found three."

Ten years later, the handsome couple still looks at each other with the same affection, and even jokes around like they just started dating. The only difference is that their sights are now set on the future, with their two kids – son Zanti Gerard, 4, and daughter Elize Aldene, 2, as their priority.

Cathy remembers trying to convince her husband to get an insurance policy a few years after their wedding. "Paano na lang ako when you die? (What happens to me when you die?)," she remembers telling Willy.

When Santi was born, the need to prepare became more compelling.

She explains: "We work for our kids. We may be healthy now, but you can never tell. We need to leave them something behind just in case. If nothing happens, it's a bonus. If something happens, it's a lifesaver."

The couple also sees insurance as both investment and savings. Since Willy takes care of the household expenses, Cathy sets aside her earnings for insurance. "You need to diversify your investment," she says. "You can't put everything in just one institution. And if there's one that's most reliable and trusted, it's Insular Life."

Santi is in kindergarten and Elize has not even started school, but both now have three policies each, including an educational plan. Their parents are no longer throwing caution to the wind. With solid parenting and a well mapped out life, their children are already secured of a bright future.

Q&A

with Mona Lisa B. De La Cruz
Executive Vice President,
Chief Actuary, Treasurer and
Head of the Administrative Operations Group

Each and every one of our innovations is a source of pride and fulfillment, as we are able to demonstrate our capability to deliver our commitment to our policyholders and customers.

Q: What was the over-all direction of the Administrative Operations Group in 2010?

MLBD: 2010 was Insular Life's centennial, so our general objective was to establish stronger communication lines with our policyholders, and to get them engaged in the celebration of Insular Life's 100 years of service to our policyholders.

Specifically, our directions included the following:

- To encourage our policyholders to update their contact information with Insular Life, we had a year-long campaign, the CASHandog Centennial Edition, with daily draws for cell phone loads, monthly draws for laptops and LCD television sets, and a grand raffle draw for one million pesos.
- To be able to reach a greater number of policyholders as well as to create more public awareness of Insular Life's celebration of 100 years of service to our policyholders, we had daily radio ads about the CASHandog and the announcement of the winners in the daily raffle draws.
- To show Insular Life's appreciation for maintaining their relationship with the Company's policyholders who updated their contact information during the CASHandog Centennial Edition period were also given a centennial gift – ₱100,000 accident insurance protection for a period of three months.
- On the other hand, to provide an update to our policyholders on their Insular Life policies, in July we started sending out policy anniversary statements. Such policy anniversary statements include current policy values as well as transactions on these policy values which occurred during the previous policy year.
- To make available more convenient ways for policyholders to get updates on their policy information, in November we launched i-EAGLE, Insular Life's web-based customer portal. Through i-EAGLE, policyholders may now get information about their policies, such as premiums, premium due dates, dividends, cash values, etc. at their convenience. Through its email facility, we are also able to send communications directly to our policyholders. This facility should be of greater value to our policyholders who are overseas.
- To make available more convenient premium payment options, in November we also launched two online premium payment facilities: the e-BAYAD for online payment of current premiums due, and the Auto Charge Option (ACO) for enrollment of automatic credit card charging of future premium payments.
- Policy information continues to be available to our policyholders through our **Magandang Araw Insular** Integrated Voice Response System (IVRS), our automated self-service telephone inquiry system.
- Our head office, as well as our branch offices located all over the country, was available to serve our policyholders. In addition, for the year 2010, we expanded home office communication lines available to our policyholders in the provinces through our toll-free number, 1-800-10-INSULAR.
- To enhance communications with our corporate clients, we issue a welcome kit upon installation of our client's insurance program. The welcome kit includes, among others, a reference manual for the various types of services available under their insurance program, as well as contact names, numbers and email addresses for these services.

Q: AOG encompasses an extensive range of Insular's operations, from product research and development, underwriting and policy issuance, policy services and customer relationship management, information technology services, business process review, and financial administration for both individual policyholders as well as for corporate accounts. Were there any specific areas, in terms of operational efficiency, that the group focused on improving in 2010 that contributed significantly to Insular's record-setting performance?

MLBD: Our group focused on building a more effective and more efficient customer relationship management capability through the use of information and communications technology.

For our policyholders, we worked on (1) creating one customer database where each customer is uniquely identified and (2) defining the information requirements from our customers and the sources of such information, for a more comprehensive customer data base. To be able to maintain the uniqueness of each customer, we had to establish a naming convention which was implemented across the organization. With the increase in customer touch points as a result of improved communication with our policyholders, we worked on our capability to capture more information about our customers, to be able to better respond to their requirements. This was done through our SUKI diary where each customer encounter is captured and where such record is made available, on line, to all service personnel across the country. The corresponding alignment of insurance application forms, business rules, business processes, systems and data communication links with the branches were initiated during the year.

For our agents, who are our partners in customer relationship management, we worked on making more information available to them through the web-based Agent Portal. In 2010, the agents were given online access to their Statement of Accounts, Field Management Reports, information on their solicited policies, agency-related announcements and other information. The agency compensation system was also aligned with the revised agency compensation package.

A major component of our customer relationship management is the availability of products responsive to the needs and wants of our current and prospective customers. During the year, we worked with our partners in Sales and Marketing Group in the design and development of new products.

Q: What would you say are the strengths of the group that allow it to perform cohesively?

MLBD: Our group shared the focus and the passion to build a more effective and more efficient customer relationship management capability.

Grand prize winner of the CASHandog Centennial Edition raffle draw Jovencio O. Icayan (2nd from left) poses with Insular Life Chairman of the Board and CEO Vicente R. Ayllón (3rd from left), Insular Life President and COO Mayo Jose B. Ongsingco (extreme left), and Insular Life EVP and AOG Head Mona Lisa B. De La Cruz (extreme right).

Q: How was the branding of Insular translated into the centennial projects/ efforts of the Administrative Operations Group?

MLBD: Our **Magandang Araw** brand of service has been our guide in delivering our service. To us, **Magandang Araw** is not just a greeting; it is Insular Life's commitment to make each customer touch point a pleasant experience for the customer. This commitment served as our guide in our participation in the centennial projects, as well as in all other projects during the year.

Q: Insular has been known as an innovator as it introduced different firsts in the industry. Within the company, AOG has always been among the frontrunners of innovation. What novel ideas did the group introduce during the centennial year?

MLBD: We believe that the CASHandog customer information update program, which we initially launched in 2007, was an innovation introduced by Insular Life. The toll-free vanity number, 1-800-10-INSULAR, for provincial policyholders, is another innovation in the life insurance industry. Our **Premium Deal-lite**, an interest-free installment premium payment through credit card, which we introduced a few years back, is an Insular Life innovation. Also, we are one of a few life insurance companies with online premium payment facilities through our e-BAYAD and ACO.

Q: What are you most proud of among these and why?

MLBD: Each and every one of our innovations is a source of pride and fulfillment, as we are able to demonstrate our capability to deliver our commitment to our policyholders and customers.

Q: What would you say would make a lasting contribution to the Company's history?

MLBD: Our **Magandang Araw** commitment, we believe, will make a lasting contribution.

Q: How did the Company's centennial factor in the performance of the group in 2010?

MLBD: The celebration of 100 years of service to our policyholders put pressure on us to make 2010 a banner year for Insular Life.

Q: What can policyholders and partners expect in terms of innovations after the centennial year?

MLBD: Having proven that we can achieve so much, we must preserve what we have so far achieved, and build on these achievements.

Q: CASHandog was among the biggest projects for the centennial celebration. What unique experiences and insights did you and your group gain from this project?

MLBD: Insular Life has built so many relationships with its policyholders over the last 100 years; we have touched so many lives, provided financial security for so many widows and orphans, administered savings programs for children's education, parents' retirement, families' health, individual's aspirations. Our policyholders come from almost all walks of life, all life stages, all over the Philippines. We have a wealth of experience and information to continue building on these relationships, and developing new relationships. There are so many opportunities and infinite possibilities (from the song in our centennial musicale), to make a difference in our customers' lives, for the years to come.

Q: The Magandang Araw effort is a unique customer experience system that your group spearheaded. How has this developed over the years? How has this effort challenged and shaped your group's direction?

MLBD: We all had the concept of the Filipino style of customer care. We all wanted global service standards with a differentiation from the big, foreign, friendly competitors. Somehow, **Magandang Araw** captured our definition of the Insular Life service brand. Defining the **Magandang Araw** commitment in terms of turnaround time, employee knowledge, skills and demeanor, business rules, systems and procedures continues to be work in progress. Aligning these with the **Magandang Araw** experience definition from the customer perspective is our next level objective. Delivering the Magandang Araw commitment/ experience consistently in every transaction, everyday, in all Insular Life offices nationwide, is our higher level objective.

What is the Magandang Araw experience?

The Magandang Araw experience is how Insular Life refers to its Policy Servicing Brand and it is a throwback to the bright and cheery greeting that starts the day in this part of the world. Specifically crafted to lead customers into becoming staunch Insular Life advocates, the experience makes customers more loyal by making them feel welcome and comfortable. This homey, familial feeling puts Insular Life top-of-mind among policyholders as the best company to meet their insurance and investment needs.

The experience also provides the Magandang Araw Insular Interactive Voice Response System (IVRS) which allows customers to access their policy information and policy values 24/7 via the 876-1-800 hotline.

("The Far-Sighted Guardian's Far-Reaching Customer Service", Insular Life Centennial Supplement, Philippine Daily Inquirer, November 25, 2010)

Drs. Ramon and Melina Pineda:

Riding off into the sunset

A couple's excitement over retirement

Drs. Ramon and Melina Pineda have always known how to give value to the most important things in life. When they decided to settle down, they got married thrice: first in a tiny Las Vegas chapel, followed weeks after by a garden wedding, set against one of the world's most breathtaking sunsets at the Coconut Palace in Manila; and finally, in an intimate ceremony at the St. Joseph Church in Angeles, Pampanga, two days after their Manila wedding.

For their first home as husband and wife, the couple chose to live in a condominium unit to look after the health conditions of Melina's parents who own the place and live nearby. When Mon decided to pay rent despite her parents' insistence not to collect, Melina took the money and plowed it back into an account that eventually jumpstarted the family savings.

The couple became more careful planners when they welcomed their first-born in 2001. "We both realized that we were working not just for us anymore," Melina says. Despite earlier difficulties in conceiving and during pregnancy, the couple was blessed with three more kids in the next five years.

As he himself came from a large family, Ramon initially wanted more kids. "I didn't really plan (on how many kids we'll have), but I told myself that I will send them to school no matter what," just like his parents who were able to raise a brood of nine through sheer hard work.

Handling the family's purse strings proved to be one of Melina's greatest strengths. With the sound financial advice from her financial adviser, they made a plan on how to protect their future. The first insurance policies she got were protection plans for herself and her husband. As their children depend on them, they believed the plan would give them peace of mind should anything uncertain happens. As a firm believer in insurance, Melina bought educational plans for their children's high school and college needs.

"I remember my financial adviser recommended that while I'm funding the educational plans, I also have to start building up my retirement plan. He told my husband, 'I want you to be self-supporting and financially independent when you retire'." Melina says. "I seriously thought about it. Who wouldn't want to retire relaxed and not thinking about money?"

By following a financial road map, Ramon and Melina can be assured that they can maintain their present lifestyle even when they retire.

"I want my children to be independent. I want them to be stable. I want them to have a future to rely on, and as parents, we know that education is the key in achieving that," explains Melina, a meticulous planner who looks at least two years into the future. "I'll be very happy if at least one of them decides to be a doctor."

That the cheerful couple can look at the future with such clear vision is mostly due to a sound financial planning in partnership with Insular Life, they say.

At this stage in their life, they can already picture their retirement: working for two to three hours a day, "returning" to each other after the kids have left, and traveling.

"First, I want to travel all over the Philippines," says Melina, who is an Assistant Professor and a Consultant at the Department of Internal Medicine of FEU-NRMF Medical Center. "Then maybe cruise around the world. My mother was very strict. My first domestic travel without my family was to Boracay six months after my wedding, when I was already 32. So I want to make up for that and do some traveling."

Her husband, however, does not share her taste for travel and adventure. "He's always been a homebody," Melina says.

Ramon, an Interventional Cardiologist, admits he has always been a laidback man, unlike other doctors who try to juggle numerous commitments. He does not plan to stop working, citing that a doctor's life is one of continuous learning. After retirement, he dreams of having a farm, relax even more, and bond with his wife once the kids have moved out.

"I think my routine will be the same. I will go to work in the morning, then return to my own house and enjoy life," he says.

Looking into the near future, they plan to begin construction of their dream house in the next year or so. She wants an infinity pool and a statue of "The Thinker"; he simply wants to relax. They also see themselves playing doting Lolo and Lola to their would-be grandchildren.

One thing's certain in their minds: this dream home will be a loving witness to their golden years. "We can't ask for anything more. Soon we will be reaping the gains from our retirement planning," says Melina, confident of riding off into the sunset with husband Ramon.

"We can't ask for anything more. Soon we will be reaping the gains from our careful retirement planning."

Jovencio Icayan:

A second chance at happiness

Four years away from retirement

"I could die anytime. I'm at peace with the world," said Ben Icayan, who won ₱1 million from Insular Life's CASHandog Centennial Edition grand raffle draw in November 2010.

It might sound morbid to some, but for the 56-year-old father of two, mortality is a truth that he had easily come to terms with, thanks to Insular Life. The company has helped him feel at ease about his financial future, as well as those of his two children, he says.

"Insular life gives me peace of mind," he adds. "My loved ones will have no problem after I pass away. "

Four years away from retirement, the electrical engineer who works as a team leader for Meralco has every detail all meticulously mapped out. He already computed his monthly income and has set aside his retirement funds accordingly.

"I have savings and investments. When I retire, I will allot a certain portion of my monthly pension to savings. Some will go to medicine, to travel, and the rest will be for my loved ones," he proudly beams.

TIPPING POINT

Mr. Icayan has not always been this financially savvy. When he joined Meralco as a design engineer in 1980, he got his first policy from the resident agent of Insular Life at the company. For someone who earned ₱700 a month, the ₱25,000 policy was "nakakalula," he says. But even then, he frequented nightclubs and treated friends. When he settled down in 1983, his wife handled the finances so he started the habit of saving. He also got his second policy.

"My outlook about the future changed when I became a father. I spared no expense in raising my kids. I sent them to good schools, enrolled them in extra-curricular activities like ballet and piano. I wanted to give them the best preparation for life," he says. When his children were entering college, he also got them life insurance policies, each amounting to half a million pesos.

"Every once in a while, I add someone to my coverage. Little by little. After all, I asked my wife to quit her job, so it's my way of guaranteeing that she's taken care of," he says.

As it turned out, not everything happens according to plan. His wife was diagnosed with lung cancer and eventually passed away in 1999. This changed the family fortune. "I was so devastated. I thought, 'nag-ipon pa ako, wala namang nangyari (All the saving I did amounted to nothing)'," he says. Distraught, he went back to his old habits, visiting nightclubs again to drown his sorrow in revelry and alcohol.

HARD LESSON

Then five years ago, he attended a workshop where he learned the nitty-gritty of retirement. He learned about his business options, financial management and investment possibilities. But the lessons became clearer in the years to come, he says, when he saw colleagues who retired with little financial security.

"It was troubling. I knew these people used to live very comfortable lives when they were still working. After retirement, their lives fell apart. They were having a hard time coping with retirement. That was a wake-up call," he adds.

Afraid of suffering the same fate, Mr. Icayan started seriously planning for retirement. He made it a point to invest and save. He also dabbled in business, but a couple of bad experiences changed his mind.

"You're supposed to enjoy life when you retire. Starting a business is very stressful. When you start a business, you don't really retire. As it is, my job is very stressful. So I plan to reward myself once I retire," he adds.

WELCOME BREAK

As operations team leader for the Dasmariñas sector of Meralco, Mr. Icayan handles power interruptions. He says the last time he took a vacation was during his honeymoon with his second wife.

"That was non-negotiable," he relates, laughing. "They can take away my Christmas, they can take away my New Year, but let me have my honeymoon."

Both his children, 25 and 26, are professionals now. During his days off, he goes to the mall with his wife or to Divisoria to buy clothes for her small retail business. He says he is not sure if he had impressed on his family the same value for the future. But one thing is certain: "They can't say, 'Oh Papa doesn't love us. He didn't prepare for his death.'"

The millionaire who wants to retire at 60 says his life has been blessed. A big chunk -- some 70 percent -- of his prize money went to savings. He gave some to his kids and "shared" some more. "I will die a happy man because I am leaving behind a legacy of stability to my loved ones. I can't really ask for anything more."

Four years away from retirement, the electrical engineer who works as a team leader for Meralco has every detail all meticulously mapped out. He already computed his monthly income and has set aside his retirement funds accordingly.

1910

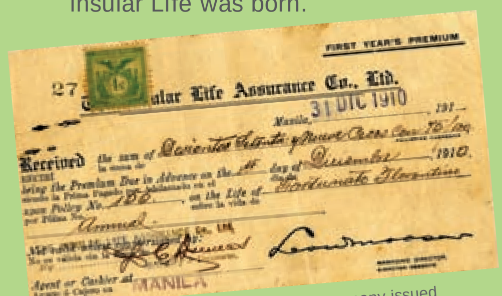
Insular

100 Years OF Insular Life

Insular Life: 100 years of being the Filipino's Far-sighted Guardian

To become a nation's far-sighted guardian calls for the qualities of resilience, reliability, and integrity despite the ravages of time. As it celebrates its Centennial, Insular Life has displayed these qualities time and again throughout its storied history.

1910 was an important year for the Filipino people. The year, indeed, turned out to be a good one with the Americans teaching us every aspect of economic, political and social development. Optimistic about the future without disregarding the challenges that lay ahead, the founding fathers of what is now the first and largest Filipino insurance company, Insular Life, thought that there was no better time to establish a life insurance company than then. On November 25, 1910, just as the Philippines was flexing its wings as an independent nation, Insular Life was born.



One of the first official receipts of the Company issued in 1910. This is now at the Insular Life Archives

While the world was suffering from the Great Depression, Insular Life made its first milestone when it occupied its own building in Plaza Moraga, then the most important commercial and business district in Manila. It also expanded its overseas operations when it opened its Honolulu, Hawaii branch in Hawaii in 1934, making it the first Filipino insurance company to operate in a foreign country.

STEADFAST COMMITMENT

The Company proved its steadfast commitment to its policyholders most vividly when it honored its pre-war and Japanese occupation commitments at war's end. Policies with premiums paid during the war with Mickey Mouse currency were deemed in force and almost ₱1 million was paid out to beneficiaries of the policyholders who died or were killed during the war.

During the reconstruction period, Insular Life lost about 92 percent of its total assets when the Commonwealth Government nullified all bank balances to rehabilitate the country's banks. The Company could have very conveniently declared bankruptcy and shed off its obligations with whatever resources it had left. But Insular Life chose not to declare bankruptcy, continuing its operations and meeting its obligations to policyholders.

In 1953, Insular Life opened the first school of insurance in the Philippines. The following year, it became the first company to lower its premiums in order to reach out to more segments of Philippine society. It introduced what would soon be a hugely successful business line- industrial life insurance for lower-income earning Filipinos- in 1958. That same year, Insular Life also assumed the peso business written by Occidental Life Insurance Co. of California in one of the biggest insurance transactions in the insurance industry.

THE GOLDEN YEAR

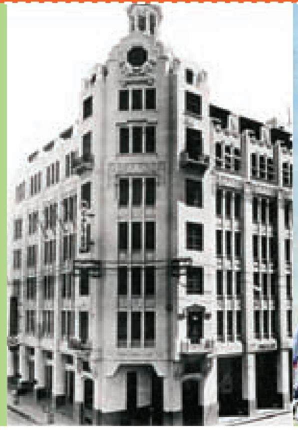
As the Company celebrated its golden jubilee in 1960, Insular Life marked another milestone by declaring its first post-war cash dividend to stockholders. Continuing its commitment to society in its role to help the underprivileged, it established the Insular Life Educational Foundation (ILEF) in 1962. Formally incorporated in 1969 and known today as the Insular Life Foundation (ILF), it awards college scholarships for poor but scholastically outstanding youth.

In 1963, the Insular Life offices moved to a new building at the corner of Ayala Avenue and Paseo de Roxas in Makati. In 1976, more than a decade later, the Office of the Insurance Commissioner approved the mutualization plan of Insular Life and made it the first Filipino life insurance company to mutualize. The mutualization process was completed in 1987 and transferred ownership of the Company from stockholders to policyholders.

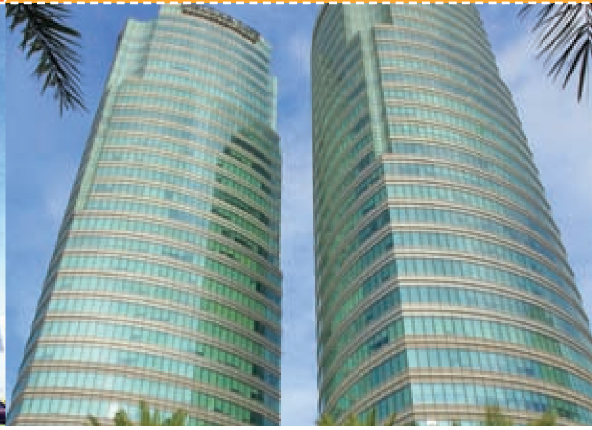

The Management of Insular Life at the time of Teodoro R. Yangco (seated, 3rd from left), company president from 1913-17.


Insular Life's Underwriters' Conference with Dr. Emeterio Roa, Sr. (seated 2nd from left), General Manager of Insular Life and Assistant Bank Commissioner Felix Dela Costa (seated 3rd from left)


Insular Life Management when Vicente Singson-Encarnacion (6th from right) was president from 1918-45.


The Insular Life headquarters from 1930-1962 at the corner of Plaza Moraga and Plaza Cervantes, Manila


The Insular Life Office at Makati City circa 1970s


Twin towers of the Insular Life Corporate Centre, the current headquarters of the Company at Alabang, Muntinlupa City

In the 1990s, Insular Life embarked on an investment diversification strategy to expand its range of financial services and to provide opportunities for profit and growth.

Insular Life Healthcare Inc., the Company's health care insurance subsidiary, was established in 1991. At the time, Insular Life also acquired a 20 percent equity in Union Bank of the Philippines, a 49 percent equity in an investment house, Asian Oceanic Investment House,and a 99.9 percent equity in a savings bank which was later renamed Insular Life Savings and Trust Company. The following year, it acquired 100 percent ownership of the AOIH and renamed it Insular Investment and Trust Corporation.

In 1993, Insular General Insurance Co. Inc., Insular Life's general insurance subsidiary, became fully operational. During the same decade, in 1996, the Company's consolidated assets also reached the ₱ 20 billion mark.

NEW MILLENNIUM

As the country ushered in the new millennium, it faced challenges on both the political and economic fronts. Despite these challenging situations, Insular Life defied logic by transferring to its new headquarters in Alabang, Muntinlupa City in 2001. Insular Life's new home brought renewed confidence in the Company and showed its resilience and signaled that the company was here for the long run. This transfer served as a symbolic step for a company bracing itself for the fast-paced and IT-based 21st century.

Just a year after its transfer to its new home, the Company reached a new milestone when it collected ₱1 billion in first-year premiums. In 2004, it again made its mark as the first Filipino life insurance company to break the billion-peso mark when its net income reached ₱1.06 billion.

Insular Life has long been aware that blessings come with challenges. Over the past 100 years, it continues to reinvent itself, becoming relevant and ready for the years to come.

Not resting on its laurels, the Company believes that creating innovative new services for Filipinos is the key for sustainable growth. It launched Wealth Builder, its first investment-linked product, in 2005. At the time, Insular Life earned recognition for its trustworthiness when **Reader's Digest**, a highly esteemed global publication, presented it with the Gold Superbrand Award. The award was special for the Company since it was given by the publication on behalf of the consumers who voted Insular Life as a very trusted brand against other insurance companies.

In 2006, just as Insular Life passed the ₱50 billion mark in assets, it received **Reader's Digest's** Gold Trusted Brand award for the second year in a row.

To mark its 98th year, Insular Life broke ground for its Cebu Business Center while keeping its faith in the market in the Queen City of the South and its environs. The Insular Life Gold Eagle Awards for outstanding achievers was re-launched in the same year.

Insular Life has long been aware that blessings come with challenges. Over the past 100 years, it continues to reinvent itself, becoming relevant and ready for the years to come.

In celebration of its centennial, the Company re-launched its new brand identity. With the national bird, the Philippine eagle, symbolically in its new logo, Insular Life has its eye firmly set on the next century ahead as takes off to soar to new heights.

As the Philippines' largest Filipino life insurance company, Insular Life has been the nation's far-sighted guardian for a century. Its products offer the best cost-benefit ratios among insurance plans in the market and are designed to allow individuals to wield control over their and their family's financial security. Indeed, Insular Life continues to design innovative and responsive products and services for Filipino families, helping them realize their dreams for the next century, and beyond.

Making a difference a hundredfold

"A hundred years from now, it will not matter what your bank account was, how big the house you lived in, or the kind of car you drove. What would matter is if the world were different because you were born."

If Insular Life were a person, this would have been his or her guiding philosophy in life – because what matters more than maintaining its industry leadership, the new business it generates, or its asset size is the lasting imprint it has made on the nation.

This is why in 2010, Insular Life celebrated its centennial anniversary, not with much fanfare and fireworks. Instead, it intensified a hundredfold what it does best: giving back to society and enriching the Filipino culture.

CENTENNIAL EVENTS

Celebrating a milestone that not too many institutions have achieved, Insular Life marked its 100th year with a series of events that made the momentous occasion truly meaningful and memorable.

The centennial countdown started with the launch of its new corporate branding system anchored on the visual icon of the Philippine eagle, and with the brand identity of the far-sighted guardian. The new brand identity pays homage to the original Insular Life logo used in 1910, which depicts a flying eagle. With its forward gaze, the Guardian Eagle represents the Company's commitment to look out for its customers' needs through every life stage.

In January, the Company also kicked off its year-long celebration by participating in the float category of the 2010 Sinulog Festival in Cebu. The Insular float depicted Filipinos' conversion to Christianity and included a representation of the façade of the Basilica del Sto. Niño.

Insular's centennial ad announcing the new brand identity of the Company.

The Insular Life coffee table book and Kundiman CD

Mr. Ayllón (right) draws the winning policy number for the ₱1 million CASHandog grand raffle prize, with Insular EVP and AOG Head Mona Lisa B. De La Cruz

The Company raised the stakes for its long-running promotion for policyholders, dubbed the CASHandog Centennial Edition Raffle Draw. This was Insular Life's way of showing its appreciation for the trust and partnership of its policyholders. Several prizes – from cellphone load credits to hundreds of thousands of pesos and gadgets and appliances were given out to winners of daily and monthly draws over the course of 12 months in 2010. On November 25, 2010, CASHandog produced a millionaire policyholder with the ₱1 million grand raffle prize.

Through the CASHandog and centennial letters, the Company was also able to firm up its database of active customer information from over 89,000 policyholders.

LEGACY FOR EDUCATION

In March, Insular held the **Takbo Para sa Sentenaryo** Fun Run at the Fort Bonifacio Global City for the benefit of the Educational Research, Development and Assistance (ERDA) Foundation.

As part of its advocacy for quality education, Insular launched in July two storybooks, The Luckiest Girl in the World and Christmas in February, at the Event Area of Market! Market! Mall. The books were donated nationwide to 1,000 public and private elementary schools that topped the Department of Education's National Achievement Test (NAT).

Celebrity endorser Dingdong Dantes reads from Christmas in February during the Insular storybooks launch at the Market!Market! in July 2010.

Mr. Ayllón (right) hands copies of the Insular storybooks to Mrs. Veronica Gaspar of Comembo Elementary School, and to Ms. Ann Tadeo of ERDA (4th and 3rd from left, respectively) during the book launch at the Market!Market! Mall in Taguig. With him are Mr. Ongsingco (2nd from left), and Adarna Project Development Officer Ani Almario (left).

Students from SY 2008-2009 NAT topnotcher Ilajas Elementary School in Dingle, Iloilo listen to Insular storyteller during the 100 Years of Insular storytelling caravan in August 2010.

Insular Life celebrity endorser Chris Tiu walks with Insular employees and agents during the LICW Walk-for-a-Cause

Insular Life Historical Marker

A storytelling caravan, 100 Years of Insular, 100 Beloved Filipino Children's Stories, followed soon after the launch. This involved various storytellers who visited 10 schools in Luzon and Visayas, and related a hundred Filipino children's stories. The caravan reached more than 3,000 school children who were hungry for great storytelling and good reads. In addition, more than 100 teachers received practical tips from expert storytellers. The caravan was not the only one of its kind in the country; it was also a proven success insofar as igniting young audience's appreciation for modern Filipino literature.

Insular Life also mounted the Bottle School Run project on June 13. The marathon was held to generate the volume of PET or plastic bottles needed to construct four schoolrooms in Bottle School Houses sponsored by Insular Life.

The Bottle School House project, spearheaded by My Shelter Foundation, uses a revolutionary system where recycled PET or plastic bottles are used as alternative to hollow blocks. The earth-friendly and cost-effective classrooms in Bottle Schools will be built to replace those that were destroyed by the super typhoons in 2009. A single classroom requires at least 5,000 recycled bottles to make. Insular Life employees also visited the Bottle Schools site in in San Pablo, Laguna in November to help build the structures.

LEGACY OF SOLIDARITY AND SHARING

In a pledge of solidarity with the Philippine life insurance industry, the Company threw its full support behind the celebration of the Life Insurance Consciousness Week in October. More than 200 delegates from the Company's employee and sales force attended the kick-off activities during which the Philippine Life Insurance Association awarded a plaque of recognition to Insular Life for its 100th year milestone in the industry.

At the closing event, more than 150 Insular Life employees, along with celebrity endorser Chris Tiu, went the extra mile and joined the Walk-for-a-Cause for the benefit of the University of the Philippines-Philippine General Hospital Pediatric Cancer Ward. As a pledge of their goodwill and commitment to make a difference in the lives of the young cancer patients and their families, Insular Life employees turned over the ₱100,000 they raised for the pediatric cancer ward.

NHCP Acting Executive Director Emelina V. Almosara and Acting Deputy Executive Director Carminda R. Arevalo (2nd and 3rd from left respectively) turned over the marker to Insular Life Chairman and CEO Vicente R. Ayllón (right), and to President and COO Mayo Jose B. Ongsingo (left). NHCP and Insular Life also signed the Certificate of Transfer of the marker, which assigns the responsiblity of safekeeping the marker to the Filipino life insurer.

The Company also enjoined its employees to participate in an annual bloodletting with the Philippine National Red Cross on October 27, 2010. Bowling and badminton tournaments were also held on November 18-19 at Festival Mall Alabang as part of the centennial celebration.

LEGACY ON STAGE

The Company capped its yearlong centennial celebration with a series of grand events.

On November 25, 2010, the National Historical Commission of the Philippines (NHCP) formally conferred a historical marker to Insular Life on the occasion of its 100th anniversary. The Commission also recognized Insular Life's historic role as the first Filipino life insurer in the country. The marker rests at the Company headquarters, at the Insular Life Corporate Centre in Alabang, Muntinlupa City.

Top: Cast of the Insular Life musicale during the November 25 show in Meralco Theater.

Bottom: Cast sing and perform the song Insulares which talks about how Insular Life got its name.

Insular's 100-year journey was also poignantly retold in the musicale entitled 100: Insular Life's Musical Journey in C Major, staged at the Meralco Theater in Pasig City. Master composer/arranger Eduardo Gatchalian, the brains behind the musical arrangement, said the 100-year story of Insular Life offers rich insights into the history of the nation.

"Throughout the history of Insular Life, all those who made it possible had one common denominator: they made very difficult decisions on the basis of (what would benefit) the Filipino. They deliberately established a 100 percent Filipino-owned company despite the limited resources and the stiff foreign competition," said Mr. Gatchalian.

The musical also captures the drama when Insular Life became the only company that remained open even during the war years. "The 100-year story of Insular Life is also the story of the Filipino people. Being a wholly-owned Filipino company that has stood the test of time, our stories are inextricably linked," said Vicente R. Ayllón, Insular Life Chairman and CEO.

The 100-year story of Insular Life is also the story of the Filipino people. Being a wholly owned Filipino company that has stood the test of time, our stories are inextricably linked.

The musical was directed by veteran theater director/actor/writer Jaime del Mundo, best known for his work in theater hits such as Little Mermaid, and The Lion, the Witch and the Wardrobe. He also played the character of Don Jaime Zobel de Ayala, one of the early chairmen of Insular Life, in the musical. Luna Inocian penned the libretto.

LEGACY IN PRINT

Another legacy is a commemorative coffee table book entitled 1910-2010, The Century Past, A Century Forward, which offers deep insights into the history of a nation and its people, from the point of view of a company that was deliberately founded in the service of the Filipino. It poignantly captures the drama when Insular Life became the only company that remained open even during the war years.

Mr. Ayllón (right) and Mr. Ongsingco (left) award the certificate of appreciation to Insular coffee table book author Joan Orendain.

Curtain Call. Composer/Arranger/Producer Ed Gatchalian (2nd from left) take a bow with musicale director Jaime Del Mundo (right), librettist Luna Inocian (3rd from left), and choreographer Nancy Crowe (left).

Insular Cebu Business Centre at Ayala Center Cebu

"Today, as we celebrate our centennial, we bring with us 100 years of knowledge, experience and goodwill of the past as we write a new chapter in the history of our company... toward our vision of being the No. 1 life insurance company in the country by year 2021."

The book opens with a sweet tale of how the founders of Insular Life took a leisurely stroll in Luneta to watch the famous sunset on Manila Bay. Eventually, they ended up forming a company that not just endured 100 years and is now more than ₱70 billion worth, but has also become a national heritage.

"This book is our tribute to the men and women who have brought us to where we are today as the first insurance company in the Philippines, and the first and largest Filipino-owned insurance company," said Mr. Ayllón.

Veteran publicist Joan Orendain, the book's writer and editor, aptly captured Insular Life's legacy when she wrote: "To have participated in the mainstream of Philippine economic history in the past one hundred years, and to continue to do so in a meaningful way, is The Insular Life Assurance Company's contribution to the quality of life of Filipinos."

While the coffee table book was mainly intended to commemorate its centennial, Insular Life also left behind a concrete legacy. It donated copies to select private and public libraries, educational institutions, and the country's top 100 corporations.

LEGACY IN MUSIC

The Company also launched a collection of rearranged kundiman as its legacy to the young generation of Filipinos growing alienated from their musical roots.

The CD album compilation, entitled "Bagong Anyong Kundiman," features Filipino love songs considered mainstream music in the 1920s. Seasoned composer Ed Gatchalian rearranged the songs using modern techniques. Contemporary artists Hajji Alejandro, Juliene Mendoza, Joey Bautista, RJ Serrano and Camille Gallano breathed new life into the well-loved kundiman classics.

Through the album, Insular Life hopes to rekindle Filipinos' dying romance with the kundiman, especially among the young generation who grew up more familiar with rap and hip-hop music.

TOWARDS A GREENER INSULAR

Finally, on November 27, 2010, Insular Life inaugurated the new Insular Life Cebu Business Center located right across the bustling Ayala Center Cebu.

More than 200 guests witnessed the unveiling of the 12-story eco-friendly structure, designed by the architectural firm of Architect Jose T. Mañosa.

The new edifice is the third Insular Life building the Company has put up in the province since it established its first building in the area in 1938.

The Insular Life building stands on a 3,000 square meter lot. It has an all-glass wall that is thick enough and slightly tinted to repel sunlight from coming in, but bright enough to reduce the use of internal lighting. This ecologically-friendly feature serves as a built-in insulation. The building also has a 90,000-gallon cistern to collect rainwater, which will be recycled for cleaning, gardening and other uses, while another 10,000-gallon cistern for back up potable water supply, was installed at the penthouse to ensure adequate water pressure to reach the topmost floors of the building.

Architect Mañosa along with brothers Francisco and Manuel, notably, are credited for the country's first green building, the San Miguel Corporation Head Office Complex in Ortigas, Mandaluyong City, which was built in 1976.

With all these events, Insular extended its gratitude to generations of policyholders, employees, beneficiaries and partners who have been part of its story for 100 years.

Above: Insular Life Chairman and CEO Vicente R. Ayllón (2nd from right) and Insular Life President and COO Mayo Jose B. Ongsingco (extreme left) together with the Cebu building blessing's inaugurating priests, Cebu Mayor Michael Rama (3rd from right) and Cebu Representative Cutie del Mar (extreme right).

"Today, as we celebrate our centennial, we bring with us 100 years of knowledge, experience and goodwill of the past as we write a new chapter in the history of our company towards our vision of being the Number one life insurance company in the country by year 2021," said Mr. Ayllón.

Board of Trustees

Management

from left to right
Vicente R. Ayllón, Chairman of the Board and Chief Executive Officer
Mayo Jose B. Ongsingco, President and Chief Operating Officer

from left to right
Mona Lisa B. De La Cruz, Executive Vice President | Jesus Alfonso G. Hofileña, Executive Vice President
Ma. Edita C. Elicaño, Senior Vice President

First Vice Presidents

Seated (left to right)
Maria Teresa L. Cruz | Myrna A. Alcantara
Standing (left to right)
Ramon M. Cabrera | Ronnie B. Alcantara | Renato S. De Jesus

Seated (left to right)
Jocelyn B. Reyes | Susana G. Nicolas
Standing (left to right)
Daniel Rodrigo D. Reyes | Amelita F. Tamayo

Vice Presidents

Seated (left to right)
Geraldine B. Alvarez | Carmen G. Duque
Standing (left to right)
Enrico L. Cordoba | Christopher Cary C. Casipit | Maria Rosa Aurora D. Cacanando | Alijeffty C. Gonzales

Seated (left to right)
Eleanor G. Tañada | Mylene C. Padilla
Standing (left to right)
Henry A. Pagulayan | Carlito V. Lucas | Seraline L. Manguni | John Jesus O. Lim

Senior Assistant Vice Presidents

from left to right
Mundece L. Lu | Roderick L. Canlas | Corazon S. Cruz | Laarni F. Garraton | Esperanza A. Gregorio

Seated (left to right)
William S. Racadio | Engeline T. Ureta | Katerina V. Suarez
Standing (left to right)
Floro M. Marasigan, Jr. | Vera Victoria C. Morales | Ana Maria R. Soriano

Assistant Vice Presidents

Seated (left to right)
Maria Sandra J. Bustos | Johanna C. Coronado
Standing (left to right)
Reynaldo R. Aldaba | Alan Joseph S. Amador | Iris S. Aman | Rene P. Asuncion | Florfida L. Buitre | Arnaldo I. Aquino

Seated (left to right)
Diana Rose A. Tagra | Hilario C. Delos Santos
Standing (left to right)
Lorenzo Luis Liborio B. Gallardo II | Geraldine G. Pascual | Jose A. Padilla | Michael L. Manalastas | Regina Karla E. Fernandez | Cesar Y. Salera

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of The Insular Life Assurance Co., Ltd. is responsible for all information and representations contained in the financial statements for the years ended December 31, 2010 and 2009. 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 and Co., the independent auditors and appointed by the Board of Trustees, has examined the financial statements of the Company in accordance with Philippine Standards on Auditing 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

Mona Lisa B. De La Cruz
Executive Vice President
Chief Actuary, Corporate Treasurer
and AOG Head

INDEPENDENT AUDITORS' REPORT

SGV & Co
Ernst & Young

The Board of Trustees and Members
The Insular Life Assurance Company, Ltd.
IL Corporate Centre, Insular Life Drive
Filinvest Corporate City
Alabang, Muntinlupa City

We have audited the accompanying consolidated 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, 2010 and 2009, and the consolidated statements of income, statements of comprehensive income, statements of changes in members' equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Insular Life Assurance Company, Ltd. and Subsidiaries as at December 31, 2010 and 2009, and their financial performance and cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-AR-1
Tax Identification No. 012-082-670
BIR Accreditation No. 08-001998-63-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641506, January 3, 2011, Makati City

March 29, 2011

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

	December 31	
	2010	2009
ASSETS		
Cash and cash equivalents (Note 4)	**₱2,984,430,101**	₱1,741,578,901
Insurance receivables (Note 5)	**230,704,373**	241,693,569
Financial assets (Note 6):		
Fair value through profit or loss	**4,135,312,054**	3,138,773,442
Available-for-sale	**12,380,045,532**	10,034,349,452
Held-to-maturity	**16,984,045,826**	15,672,577,618
Loans and receivables - net	**19,032,902,019**	17,405,009,270
Investments in associates (Note 7)	**6,151,302,091**	5,344,054,555
Investment properties - net (Note 8)	**9,312,976,279**	9,057,192,600
Property and equipment - net (Note 9)	**400,003,850**	318,563,791
Noncurrent assets held for sale - net (Note 10)	**–**	59,260,167
Retirement benefits asset - net (Note 24)	**67,992,101**	27,666,700
Deferred income tax assets - net (Note 25)	**38,223,015**	40,183,666
Other assets - net (Note 11)	**264,140,127**	242,993,036
TOTAL ASSETS	**₱71,982,077,368**	₱63,323,896,767
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Legal policy reserves (Note 12)	**₱41,505,471,988**	₱37,795,751,604
Other insurance liabilities (Note 13)	**10,871,411,839**	9,449,205,175
Accrued expenses and other liabilities (Note 14)	**1,352,847,111**	1,047,922,836
Retirement benefits liability - net (Note 24)	**2,391,545**	5,638,205
Deferred income tax liabilities - net (Note 25)	**1,005,377,983**	985,308,778
Total Liabilities	**54,737,500,466**	49,283,826,598
Members' Equity		
Equity attributable to Parent Company		
Reserve for fluctuation in available-for-sale financial assets (Note 6):		
Attributable to the Group:		
Equity securities	**3,692,019,878**	2,484,610,690
Debt securities	**279,163,007**	118,874,451
Attributable to associates (Notes 6 and 7)	**109,835,027**	(21,459,969)
	4,081,017,912	2,582,025,172
Revaluation increment in investment properties (Note 8)	**3,062,231,948**	3,131,514,650
Premium on deemed disposal of investment in an associate (Note 7)	**304,954,486**	304,954,486
Share in surplus reserves of a subsidiary	**2,940,756**	2,793,019
Retained earnings (Notes 15 and 31):		
Appropriated	**175,000,000**	125,000,000
Unappropriated	**9,618,410,729**	7,893,760,185
	17,244,555,831	14,040,047,512
Equity attributable to noncontrolling interests	**21,071**	22,657
Total Members' Equity	**17,244,576,902**	14,040,070,169
TOTAL LIABILITIES AND MEMBERS' EQUITY	**₱71,982,077,368**	₱63,323,896,767

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31	
	2010	2009
REVENUE		
Insurance Revenue (Note 16)		
Gross earned premiums on insurance contracts	**₱8,532,358,821**	**₱7,526,916,592**
Reinsurers' share of premiums on insurance contracts	**(155,907,747)**	**(125,323,532)**
Net Insurance Revenue	**8,376,451,074**	**7,401,593,060**
Operating Revenue		
Investment income (Note 17)	**4,970,887,317**	**3,715,831,931**
Equity in net earnings of associates (Note 7)	**933,343,076**	**740,805,105**
Net realized gains (Note 18)	**537,998,344**	**305,228,273**
Rental income (Notes 8 and 28)	**245,912,726**	**244,847,286**
Other income	**111,607,329**	**147,999,761**
Total Operating Revenue	**6,799,748,792**	**5,154,712,356**
Total Revenue	**15,176,199,866**	**12,556,305,416**
INSURANCE BENEFITS AND OPERATING EXPENSES		
Insurance Benefits Expenses (Note 19)		
Gross benefits and claims on insurance contracts	**5,913,535,947**	**4,643,666,918**
Reinsurers' share of benefits and claims on insurance contracts	**(47,530,390)**	**(66,379,652)**
Net change in:		
Legal policy reserves	**3,711,729,655**	**3,460,245,883**
Reinsurers' share in legal policy reserves	**(2,009,271)**	**7,412,134**
Net Insurance Benefits Expenses	**9,575,725,941**	**8,044,945,283**
Operating Expenses		
General insurance expenses (Note 20)	**1,633,073,442**	**1,344,602,076**
Commissions and other acquisition expenses	**648,276,008**	**533,012,668**
Foreign exchange loss - net (Note 6)	**257,812,384**	**107,142,879**
Investment expenses (Note 21)	**160,757,700**	**155,219,953**
Other losses (Note 22)	**36,282,186**	**5,089,680**
Total Operating Expenses	**2,736,201,720**	**2,145,067,256**
Total Insurance Benefits and Operating Expenses	**12,311,927,661**	**10,190,012,539**
INCOME BEFORE INCOME TAX	**2,864,272,205**	**2,366,292,877**
PROVISION FOR INCOME TAX (Note 25)	**289,826,216**	**246,574,495**
NET INCOME	**₱2,574,445,989**	**₱2,119,718,382**
ATTRIBUTABLE TO:		
Parent Company	**₱2,574,447,575**	**₱2,119,717,254**
Noncontrolling Interests	**(1,586)**	**1,128**
NET INCOME	**₱2,574,445,989**	**₱2,119,718,382**

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31	
	2010	2009
NET INCOME	**₱2,574,445,989**	₱2,119,718,382
OTHER COMPREHENSIVE INCOME (LOSS)		
Increase in value of available-for-sale equity securities - net of tax (Note 6)	**1,705,290,566**	138,528,578
Valuation gains realized through profit or loss (Note 6)	**(497,881,378)**	(198,238,508)
	1,207,409,188	(59,709,930)
Increase in value of available-for-sale debt securities - net of tax (Note 6)	**161,024,101**	71,988,998
Valuation gains realized through profit or loss (Note 6)	**(735,545)**	(93,131,583)
	160,288,556	(21,142,585)
Increase in value of available-for-sale equity securities attributable to associates (Notes 6 and 7)	**131,294,996**	117,012,096
Decrease in revaluation increment in investment properties (Note 8)	**–**	(33,218,557)
TOTAL OTHER COMPREHENSIVE INCOME	**1,498,992,740**	2,941,024
TOTAL COMPREHENSIVE INCOME	**₱4,073,438,729**	₱2,122,659,406
ATTRIBUTABLE TO:		
Parent Company	**₱4,073,440,315**	₱2,122,658,278
Noncontrolling Interest	**(1,586)**	1,128
TOTAL COMPREHENSIVE INCOME	**₱4,073,438,729**	₱2,122,659,406

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 Noncontrolling Interests	Total
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**
Transfer of revaluation increment of investment properties sold - net of tax effect	–	–	–	(49,958,436)	–	–	–	49,958,436	–	–	–
Transfer of revaluation increment in investment absorbed through impairment - net of tax effect	–	–	–	(12,962,139)	–	–	–	–	(12,962,139)	–	(12,962,139)
Transfer of revaluation increment in investment properties absorbed through depreciation - net of tax effect	–	–	–	(6,362,127)	–	–	–	6,362,127	–	–	–
Appropriation of retained earnings for the required minimum paid-up capital (Note 31)	–	–	–	–	–	–	50,000,000	(50,000,000)	–	–	
Dividends to members (Note 15)	–	–	–	–	–	–	–	(855,969,857)	(855,969,857)	–	(855,969,857)
Appropriation of Surplus	–	–	–	–	–	147,737	–	(147,737)	–	–	–
	–	–	–	(69,282,702)	–	147,737	50,000,000	(849,797,031)	(868,931,996)	–	(868,931,996)
Net income for the year	–	–	–	–	–	–	–	2,574,447,575	2,574,447,575	(1,586)	2,574,445,989
Other comprehensive income (loss)	1,207,409,188	160,288,556	131,294,996	–	–	–	–	–	1,498,992,740		1,498,992,740
Total comprehensive income (loss)	1,207,409,188	160,288,556	131,294,996	–	–	–	–	2,574,447,575	4,073,440,315	(1,586)	4,073,438,729
BALANCES AT DECEMBER 31, 2010	**₱3,692,019,878**	**₱279,163,007**	**₱109,835,027**	**₱3,062,231,948**	**₱304,954,486**	**₱2,940,756**	**₱175,000,000**	**₱9,618,410,729**	**₱17,244,555,831**	**₱21,071**	**₱17,244,576,902**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱2,864,272,205**	₱2,366,292,877
Adjustments for:		
Net change in legal policy reserves (Note 19)	**3,709,720,384**	3,467,658,017
Interest income (Note 17)	**(3,336,524,727)**	(3,125,376,384)
Dividend income (Note 17)	**(1,516,535,928)**	(511,797,977)
Equity in net earnings of associates (Note 7)	**(933,343,076)**	(740,805,105)
Interest expense (Note 19)	**371,581,544**	348,120,780
Foreign exchange loss - net (Note 6)	**257,812,384**	107,142,879
Dividends to members (Note 15)	**250,614,000**	241,416,000
Income on VUL funds (Note 17)	**(117,826,662)**	(78,657,570)
Net change in retirement benefits asset	**(43,572,061)**	(56,024,401)
Net realized loss (gain) on disposals of (Note 18):		
Available-for-sale financial assets	**(532,946,100)**	(291,370,091)
Investment properties	**4,776,141**	(3,008,552)
Noncurrent assets held for sale	**1,959,078**	(3,347,116)
Property and equipment	**124,734**	(2,237,880)
Realized gain on foreclosed properties (Note 18)	**(11,912,197)**	(5,264,634)
Depreciation and amortization of:		
Investment properties (Note 8)	**119,369,446**	116,367,802
Property and equipment and computer software (Notes 9 and 11)	**66,809,181**	58,055,394
Impairment loss on:		
Available-for-sale equity securities (Note 6)	**34,329,177**	–
Investment properties (Note 8)	**1,944,592**	4,188,704
Property and equipment (Note 9)	**8,417**	–
Noncurrent assets held for sale (Note 10)	**–**	900,976
Operating income before working capital changes	**1,190,660,532**	1,892,253,719
Changes in operating assets and liabilities:		
Net decrease (increase) in:		
Insurance receivables	**10,989,196**	(12,347,529)
Loans and receivables	**(42,134,985)**	(363,900,648)
Net increase in:		
Other insurance liabilities	**1,334,511,975**	600,073,950
Accrued expenses and other liabilities	**304,924,275**	83,032,324
Net cash generated from operations	**2,798,950,993**	2,199,111,816
Income taxes paid	**(313,218,601)**	(266,915,293)
Net cash generated from operating activities	**2,485,732,392**	1,932,196,523
CASH FLOWS FROM INVESTING ACTIVITIES		
Releases of loans and receivables	**(2,262,072,485)**	(2,865,887,630)
Collections of loans and receivables	**922,417,359**	673,610,978
Additional investments in:		
Held-to-maturity financial assets (Note 6)	**(3,360,752,152)**	(2,406,076,446)
Available-for-sale financial assets (Note 6)	**(1,489,925,664)**	(1,206,326,608)

(Forward)

	Years Ended December 31	
	2010	2009
Financial assets at fair value through profit or loss - net (Note 6)	**(₱996,538,612)**	(₱463,971,724)
Investment properties (Note 8)	**(530,258,727)**	(324,859,298)
Property and equipment and computer software (Notes 9 and 11)	**(106,571,728)**	(102,670,555)
Proceeds from disposals and/or maturities of:		
Held-to-maturity financial assets (Note 6)	**1,899,203,172**	220,863,280
Available-for-sale financial assets	**1,016,036,053**	1,683,291,184
Investment properties	**106,100,262**	34,390,925
Noncurrent assets held for sale	**33,055,626**	73,198,129
Property and equipment	**5,372,913**	4,333,905
Interest income received	**3,447,288,005**	3,188,494,286
Dividends received	**1,516,535,928**	511,797,977
Net decrease (increase) in other assets	**(8,405,741)**	14,461,815
Net cash generated from (used in) investing activities	**191,484,209**	(965,349,782)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of dividends to members	**(1,062,783,857)**	(1,029,154,265)
Interest paid to members (Note 19)	**(371,581,544)**	(348,120,780)
Cash used in financing activities	**(1,434,365,401)**	(1,377,275,045)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,242,851,200**	(410,428,304)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,741,578,901**	2,152,007,205
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱2,984,430,101**	₱1,741,578,901

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 Company celebrated its 100th year anniversary on November 25, 2010. On November 12, 2010, the SEC has approved the amendment of the Company's Articles of Incorporation to extend its corporate term for another 50 years or until November 26, 2060.

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 29, 2011.

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. All amounts were rounded to the nearest Peso except when otherwise indicated.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new, revised 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, 2010.

New and Amended Standards and Interpretations
PFRS 2, Share-based Payment (Amendment) - Group Cash-settled Share-based Payment Transactions
The amendment to PFRS 2 clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of January 1, 2010. It did not have an impact on the financial position or performance of the Group.

PFRS 3 (Revised) Business Combinations, and PAS 27 (Amended), Consolidated and Separate Financial Statements
PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. The adoption of this standard did not have an impact on the financial statements.

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. Adoption of this amendment did not have any impact on the financial statements.

PAS 39 (Amendment) Financial Instruments: Recognition and Measurement - Eligible Hedged Items
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. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment did not have impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

Philippine Interpretation IFRIC 17, Distributions of Non-cash Assets to Owners
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either the financial position or performance of the Group.

Improvements to PFRS
The Financial Reporting Standards Council (FRSC) approved in its meeting in May 2009 the adoption of improvements to PFRS issued by the International Accounting Standards Board (IASB) in April 2009 effective in 2010. There are separate transitional provisions for each standard. The adoption of the following improvements resulted in changes in accounting policies but did not have any impact on the financial position or performance of the Group.

- PFRS 2, Share-based Payment - Group Cash-settled Share-based Payment
- PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations
- PFRS 8, Operating Segments
- PAS 1, Presentation of Financial Statements
- PAS 7, Statement of Cash Flows
- PAS 17, Leases
- PAS 36, Impairment of Assets
- PAS 38, Intangible Assets
- PAS 39, Financial Instruments: Recognition and Measurement - Eligible Hedged Items
- Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives
- Philippine Interpretation IFRIC 16, Hedge of a Net Investment in a Foreign Operation

New Accounting Standards, Interpretations, and Amendments to
Existing Standards Effective Subsequent to December 31, 2010
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.

Effective in 2011

PAS 24 (Amended), Related Party Disclosures
It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

PAS 32 (Amendment), Financial Instruments: Presentation - Classification of Rights Issues
It amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

Philippine Interpretation IFRIC 14 (Amendment), Prepayments of a Minimum Funding Requirement
The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments
The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in statement of income. The adoption of this interpretation will have no effect on the financial statements of the Group.

Effective in 2012

PFRS 7 (Amendments), Financial Instruments: Disclosures - Transfers of Financial Assets
The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

PAS 12 (Amendment), Income Taxes - Deferred Tax: Recovery of Underlying Assets
The amendment provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

Philippine Interpretation IFRIC 15, Agreements for Construction of Real Estate
This Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, 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.

Effective in 2013

PFRS 9, Financial Instruments: Classification and Measurement
PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in early 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Improvements to PFRS effective in 2011

The omnibus amendments to PFRS issued in May 2010 were issued primarily with a view to remove inconsistencies and clarify wordings. The amendments are effective for annual periods financial years January 1, 2011 except otherwise stated. The Group has not yet adopted the following improvements and anticipates that these changes will have no material effect on the financial statements.

- PFRS 3 (Revised) clarifies that the amendments to PFRS 7, PAS 32 and PAS 39 that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3.

- PFRS 7 (Amendment) emphasizes the interaction between quantitative disclosures and the nature and extent of risks associated with financial instruments which should be applied retrospectively.

- PAS 1 (Amendment) clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in members' equity or in the notes to the financial statements.

- PAS 27 (Amended) clarifies that the consequential amendments from PAS 27 made to PAS 21, The Effects of Changes in Foreign Exchange Rates, PAS 28, Investments in Associates and PAS 31, Interests in Joint Ventures, apply prospectively for annual periods beginning on or after July 1, 2010 or earlier when PAS 27 is applied earlier.

- Philippine Interpretation IFRIC 13 (Amendment), Customer Loyalty Programmes, clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

Basis of Consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiaries as of December 31, 2010 and 2009. 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, 2010 and 2009, using consistent accounting principles. Following are the Company's subsidiaries and the corresponding percentages of ownership as of December 31:

	Percentage of Ownership	
	2010	2009
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.

Noncontrolling Interest
Noncontrolling 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 from the date of acquisition 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 financial 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 balance sheet 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 financial 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, 2010 and 2009, 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, 2010, the Group's held-for-trading financial assets at FVPL consist of quoted equity securities (nil in 2009) (Note 6).

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 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, 2010 and 2009, the Group's HTM financial assets consist of quoted and unquoted 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 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, 2010 and 2009, 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, finance leases, car financing loans, stock loans and other receivables (Notes 3 and 6).

d. AFS Financial Assets

AFS financial assets are nonderivative financial assets 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 financial assets 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, 2010 and 2009, 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 method. The amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest 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, 2010 and 2009, 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, 2010 and 2009.

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. Reassessment 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 contract and accounted for as a derivative if all of the following conditions are met:

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

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, 2010 and 2009, the Group has no embedded derivatives requiring bifurcation.

Fair value of financial instruments
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 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.

Classification of Financial Instruments Between Debt and Equity
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.

Derecognition of Financial Instruments
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.

Impairment of Financial Assets
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 expected 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.

Investments in Associates
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 balance sheet 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 consolidated 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 is 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. Land is stated at cost less any impairment in value.

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

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 follows:

	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.

Depreciation of an item of property and equipment begins when the asset becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5 and the date the asset is derecognized.

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 under '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 only when there are indicators 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 balance sheet 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. Retained earnings may be classified as unappropriated retained earnings and appropriated retained earnings. Unappropriated retained earnings represent that portion which is free and can be declared as dividends to members. Appropriated retained earnings represent that portion which is restricted and therefore not available for any dividend declaration.

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 payable on occurrence of insured event with benefits payable on non-occurrence of insured event at inception. 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 liability for the investment portion of VUL insurance contracts is increased by additional deposits and changes 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 liability 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 Company's trustee, a third party multinational bank accredited by the Bangko Sentral ng Pilipinas. The fund assets are designated as financial assets at FVPL and are valued on a basis consistent with the measurement basis in the 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 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 consolidated statement of income 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 within the statutory defined limit are recognized on a net basis.

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. 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) Claims

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. This is approximated as 21% of the total dividends. On the other hand, the remaining 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 cost 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 or a net plan asset, 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.

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 reporting date. 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 the consolidated statement of income 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 sufficient future taxable profits 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 changes 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 future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date, and are recognized to the extent that it has become probable that sufficient future taxable profits will allow all or part of the deferred income 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.

Judgments

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 all the products including the VUL insurance contracts it issues that link the payments on the contract to units of an internal investment fund have significant insurance risk and therefore meet 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 balance sheet 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.

Determination of existence of significant influence
The 16.11% equity investment in Union Bank of the Philippines (UBP) is classified as an associate since the Company has established that it has significant influence over UBP. The Group actively participates in the financial and operating policy decisions of UBP through representations in the board and various committees in UBP. Accordingly, the investment is accounted for using the equity method.

On the other hand, equity investment in Pilipinas Shell Petroleum Company (PSPC) is classified as AFS since the Company does not have significant influence over PSPC even if it owns 19.49% of PSPC. Accordingly, the investment is carried at its estimated fair value as of December 31, 2010 and 2009 (Note 29).

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 2010 and 2009, the Company reclassified noncurrent assets held for sale to investment properties because the immediate sale of these properties did not push through (Notes 8 and 10). In 2010, noncurrent assets held for sale were reclassified to property and equipment because these were used in the operations.

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 ₱855,969,857 and ₱832,738,265 as of December 31, 2010 and 2009, 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.

<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 ₱5,268,015,558 and ₱4,898,073,683 as of December 31, 2010 and 2009, respectively (Note 29).

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 ₱230,704,373 and ₱241,693,569 as of December 31, 2010 and 2009, respectively (Note 5). Based on management's assessment, there is no impairment of its insurance receivables in 2010 and 2009.

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 ₱19,032,902,019 and ₱17,405,009,270 as of December 31, 2010 and 2009, respectively (Note 6). Allowance for impairment on loans and receivables amounted to ₱289,138,754 and ₱303,635,380 as of December 31, 2010 and 2009, respectively (Note 6). Provision for impairment on loans and receivables amounted to ₱10,314,030 in 2010 and ₱11,667,984 in 2009 (Note 6).

The carrying value of the Group's AFS debt securities amounted to ₱3,096,719,396 and ₱2,263,943,237 as of December 31, 2010 and 2009, respectively while the carrying value of the Group's HTM financial assets amounted to ₱16,984,045,826 and ₱15,672,577,618 as of December 31, 2010 and 2009, respectively (Note 6). In 2010 and 2009, 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 12 months. In addition, the Group evaluates other factors, including normal volatility in share price for unquoted equities.

In 2010, the Group recognized impairment loss amounting to ₱34,329,177 (nil in 2009) (Note 6).

The carrying value of the Group's AFS equity securities amounted to ₱9,283,326,136 and ₱7,770,406,215 as of December 31, 2010 and 2009, respectively (Note 6).

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

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 ₱3,337,177,513,₱256,674,604 and ₱29,660,627, respectively as of December 31, 2010, and ₱2,989,636,049, ₱262,314,042 and ₱17,028,707, respectively as of December 31, 2009 (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 ₱1,944,592 and ₱4,188,704 in 2010 and 2009, respectively (Notes 8 and 22). Impairment loss on property and equipment amounted to P8,417 in 2010 (nil in 2009) (Notes 9 and 22). Impairment loss on noncurrent assets held for sale amounted to ₱900,976 in 2009 (nil in 2010) (Notes 10 and 22). The carrying value of the Group's nonfinancial assets amounted to ₱16,128,422,347 and ₱15,022,064,149 as of December 31, 2010 and 2009, respectively (Notes 7, 8, 9, 10 and 11).

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 as of December 31, 2009 (nil in 2010) (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 profit or loss since the reflected liability will remain to be the statutory liability.

The carrying value of legal policy reserves amounted to ₱41,505,471,988 and ₱37,795,751,604 as of December 31, 2010 and 2009, respectively (Note 12). Net change in legal policy reserves amounted to ₱3,709,720,384 and ₱3,467,658,017 in 2010 and 2009, respectively (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 ₱615,102,700 and ₱523,485,585 as of December 31, 2010 and 2009, 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 ₱67,992,101 as of December 31, 2010 and ₱27,666,700 as of December 31, 2009. Net retirement benefits liability amounted to ₱2,391,545 and ₱5,638,205 as of December 31, 2010 and 2009, respectively. The Group's unrecognized net actuarial gains amounted to ₱205,108,637 and ₱205,470,347 as of December 31, 2010 and 2009, 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 future taxable profits 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 future taxable profits to allow all or part of deferred income tax assets to be utilized, the assets are not recognized in the books. The Group did not recognize deferred income tax assets, on NOLCO and excess of MCIT over RCIT, amounting to ₱1,977,392,698 in 2010 and ₱659,657,182 in 2009 (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

	2010	2009
Cash on hand	**₱251,225**	₱260,907
Cash in banks:		
Commercial banks (Note 26)	**514,541,752**	303,731,161
Thrift bank	**53,736**	54,755
	514,595,488	303,785,916
Cash equivalents in commercial banks (Note 26)	**2,469,583,388**	1,437,532,078
	₱2,984,430,101	₱1,741,578,901

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

	2010	2009
Due premiums	**₱221,455,139**	₱231,560,280
Reinsurance assets	**9,249,234**	10,133,289
	₱230,704,373	₱241,693,569

6. Financial Assets

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

	2010	2009
Financial assets at FVPL	**₱4,135,312,054**	₱3,138,773,442
AFS financial assets	**12,380,045,532**	10,034,349,452
HTM financial assets	**16,984,045,826**	15,672,577,618
Loans and receivables - net	**19,032,902,019**	17,405,009,270
	₱52,532,305,431	₱46,250,709,782

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

Financial Assets at FVPL

	2010	2009
At Fair Value		
Cash and cash equivalents	**₱114,093,126**	₱157,794,926
Equity securities - quoted	**1,522,164,669**	1,337,830,639
Debt securities - quoted - fixed interest rates:		
Government:		
Local currency	**596,181,600**	720,025,016
Foreign currency	**1,338,366,162**	262,200,953
Corporate	**539,401,535**	555,790,129
Interest receivable	**25,104,962**	105,131,779
	₱4,135,312,054	₱3,138,773,442

Financial assets at FVPL consist of net assets of separately administered and reported 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 ₱4,134,225,654 and ₱3,138,773,442 as of December 31, 2010 and 2009, respectively. A subsidiary has held-for-trading financial assets at FVPL which amounted to ₱1,086,400 as of December 31, 2010 (nil in 2009).

Fair value gain from financial assets designated as at FVPL amounted to ₱644,619,456 and ₱551,777,846 in 2010 and 2009, respectively. Fair value gain from held-for-trading FVPL financial assets amounted to ₱875,152 and ₱4,563,164 in 2010 and 2009, respectively.

AFS Financial Assets

	2010	2009
At Fair Value		
Equity securities:		
Quoted	**₱3,919,270,017**	₱2,712,757,434
Unquoted	**5,364,056,119**	5,057,648,781
	9,283,326,136	7,770,406,215
Debt securities:		
Quoted:		
Government:		
Local currency	**2,022,605,154**	1,508,743,495
Foreign currency	**994,128,298**	555,225,960
Corporate	**36,267,564**	149,541,232
Unquoted - government	**43,718,380**	50,432,550
	3,096,719,396	2,263,943,237
	₱12,380,045,532	₱10,034,349,452

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:

	2010	2009
Equity securities:		
Attributable to the Group:		
Beginning balance	₱2,484,610,690	₱2,544,320,620
Valuation gains taken directly to other comprehensive income	1,705,290,566	138,528,578
Valuation losses (gains) realized through profit or loss:		
Gain on sale	(532,210,555)	(198,238,508)
Impairment (Note 22)	34,329,177	–
Ending balance	3,692,019,878	2,484,610,690
Attributable to associates:		
Beginning balance	(21,459,969)	(138,472,065)
Valuation gains taken directly to other comprehensive income (Note 7)	131,294,996	117,012,096
Ending balance	109,835,027	(21,459,969)
	₱3,801,854,905	₱2,463,150,721
Debt securities:		
Beginning balance	₱118,874,451	₱140,017,036
Valuation gains taken directly to other comprehensive income	161,024,101	71,988,998
Valuation gains realized through profit or loss	(735,545)	(93,131,583)
Ending balance	₱279,163,007	₱118,874,451

HTM Financial Assets

	2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt securities - quoted:				
Government:				
Local currency	₱12,882,949,060	₱15,187,774,995	₱10,970,938,405	₱11,669,468,299
Foreign currency	3,035,847,385	3,602,271,136	3,298,525,971	3,858,339,694
Corporate:				
Local currency	1,043,037,579	1,165,062,015	1,379,021,664	1,483,692,117
Foreign currency	22,211,802	23,895,931	24,091,578	26,432,567
	₱16,984,045,826	₱19,979,004,077	₱15,672,577,618	₱17,037,932,677

Loans and Receivables

	2010	2009
Term loans	₱12,423,451,477	₱11,065,683,517
Policy loans	5,265,458,648	4,926,962,359
Interest receivable	667,605,951	679,848,397
Accounts receivable	372,474,457	363,316,871
Mortgage loans	161,785,047	191,729,425
Housing loans	158,607,975	153,266,941
Due from agents	97,308,524	101,194,264
Finance leases	36,206,523	37,792,481
Car financing loans	42,987,237	44,373,215
Stock loans	38,137,261	37,216,690
Others	58,017,673	107,260,490
	19,322,040,773	17,708,644,650
Less allowance for impairment loss on loans	289,138,754	303,635,380
	₱19,032,902,019	₱17,405,009,270

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. Interest rates range from 2.25% to 10.35% and 2.25% to 10.95% in 2010 and 2009, respectively.
- 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 2010 and 2009.
- 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 0.03% to 16.8% and 0.05% to 15% in 2010 and 2009, respectively.
- 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 5 to 15 years. Interest rates on these loans are higher compared to housing loans ranging from 9.5% to 13% and 7% to 21% in 2010 and 2009, respectively.
- 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 2010 and 2009.
- 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:

	2010	2009
Housing loans	₱170,313,549	₱173,462,442
Less unamortized deferred interest income	16,655,587	20,195,501
	₱153,657,962	₱153,266,941
Car financing loans	₱43,080,430	₱44,658,178
Less unamortized deferred interest income	93,193	284,963
	₱42,987,237	₱44,373,215

The amortization of deferred interest income amounting to ₱3,731,684 in 2010 and ₱6,001,065 in 2009 is recognized as part of interest on loans and receivables included under 'Investment income' in the consolidated statements of income (Note 17).

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

	2010			
	Accounts Receivable	Mortgage Loans	Due from Agents	Total
Beginning balances	₱178,843,682	₱23,754,666	₱101,037,032	₱303,635,380
Provisions for the year (Note 20)	2,933,979	7,380,051	–	10,314,030
Recoveries	(1,223,285)	(734,693)	(917,602)	(2,875,580)
Write-off	(5,272,483)	(12,605,282)	(4,057,311)	(21,935,076)
Ending balances	₱175,281,893	₱17,794,742	₱96,062,119	₱289,138,754

	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

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

The Group does not recognize interest income on impaired loans and receivables.

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

	2010				
			AFS		
	FVPL	HTM	Equity Securities	Debt Securities	Total
Beginning balances	**₱3,138,773,442**	**₱15,672,577,618**	**₱7,770,406,215**	**₱2,263,943,237**	**₱28,845,700,512**
Acquisitions	**1,768,824,776**	**3,360,752,152**	**599,771,702**	**890,153,962**	**6,619,502,592**
Disposals/maturities	**(1,590,249,234)**	**(1,899,203,172)**	**(303,323,489)**	**(179,766,464)**	**(3,972,542,359)**
Fair value gain	**833,699,239**	**–**	**1,250,800,885**	**169,229,921**	**2,253,730,045**
Impairment	**–**	**–**	**(34,329,177)**	**–**	**(34,329,177)**
Reclassification	**–**	**12,506,398**	**–**	**(12,506,398)**	**–**
Foreign exchange adjustments	**(15,736,169)**	**(172,169,325)**	**–**	**(29,823,001)**	**(217,728,495)**
Discount (premium) amortization - net	**–**	**9,582,155**	**–**	**(4,511,861)**	**5,070,294**
Ending balances	**₱4,135,312,054**	**₱16,984,045,826**	**₱9,283,326,136**	**₱3,096,719,396**	**₱33,499,403,412**

	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

As of December 31, 2010 and 2009, 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
In 2010, the Company reclassified AFS debt securities, which are unquoted and are valued at amortized cost amounting to ₱12,506,398 to HTM financial assets due to change in management's intention. There was no reclassification made in 2009.

7. Investments in Associates

The movement of the investments in associates is as follows:

	2010	2009
Acquisition cost:		
Beginning balance	**₱1,655,410,255**	₱1,655,410,255
Accumulated equity in net earnings:		
Beginning balance	**3,405,149,783**	2,805,107,038
Equity in net earnings for the year	**933,343,076**	740,805,105
Dividends received	**(257,390,536)**	(140,762,360)
Ending balance	**4,081,102,323**	3,405,149,783
Equity in reserve for fluctuation in AFS		
Beginning balance	**(21,459,969)**	(138,472,065)
Share in net movement of reserve for fluctuation in AFS financial assets of the associates during the year (Note 6)	**131,294,996**	117,012,096
Ending balance	**109,835,027**	(21,459,969)
Premium on deemed disposal of investment in an associate	**304,954,486**	304,954,486
	₱6,151,302,091	₱5,344,054,555

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%. 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:

	2010	2009
UBP		
Total assets	**₱252,999,817,000**	₱244,361,318,000
Total liabilities	**217,014,467,000**	213,080,968,000
Net income	**5,353,251,000**	4,325,003,000
MAPFRE		
Total assets	**3,335,498,106**	2,824,392,491
Total liabilities	**1,889,544,053**	1,499,750,501
Net income	**207,855,312**	184,445,828
PAMPLONA		
Total assets	**63,246,982**	28,388,821
Total liabilities	**36,985,257**	37,216,083
Net income (loss)	**62,506,043**	(8,827,262)

8. Investment Properties

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

	2010		
	Land	Buildings and Improvements	Total
Costs			
Beginning balances	**₱6,215,475,749**	**₱3,381,819,524**	**₱9,597,295,273**
Additions	**3,884,600**	**538,286,324**	**542,170,924**
Disposals	**(104,219,822)**	**(7,588,815)**	**(111,808,637)**
Reclassifications	**8,577,437**	**(44,256,900)**	**(35,679,463)**
Ending balances	**6,123,717,964**	**3,868,260,133**	**9,991,978,097**
Accumulated Depreciation and Impairment Loss			
Beginning balances	**147,919,198**	**392,183,475**	**540,102,673**
Depreciation and amortization (Note 20)	**–**	**119,369,446**	**119,369,446**
Impairment loss (Note 22)	**–**	**20,461,933**	**20,461,933**
Disposals	**–**	**(932,234)**	**(932,234)**
Ending balances	**147,919,198**	**531,082,620**	**679,001,818**
Net Book Values	**₱5,975,798,766**	**₱3,337,177,513**	**₱9,312,976,279**

	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

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 ₱9,848,281,007 and ₱9,451,487,764 as of December 31, 2010 and 2009, respectively, based on an independent appraiser valuation and the Group's in-house valuation (roughly 15% to 20% of the total investment properties). 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 ₱245,912,726 in 2010 and ₱244,847,286 in 2009. Direct expenses arising in respect of such investment properties amounted to ₱156,008,839 in 2010 and ₱143,168,981 in 2009 while indirect operating expenses amounted to ₱3,697,188 in 2010 and ₱9,483,861 in 2009 (Note 21). Future minimum lease rentals receivable under noncancellable operating leases are disclosed in Note 28.

In 2010, noncurrent assets held for sale with carrying value of ₱22,031,052 were reclassified to investment properties (Note 10). Investment properties reclassified to property and equipment amounted to ₱57,710,515 in 2010 (Note 9). 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).

Depreciation expense charged to income pertaining to the revaluation increment amounted to ₱9,088,753 and ₱9,243,556 in 2010 and 2009, respectively. Impairment loss charged to revaluation increment amounted to ₱12,962,139 in 2010 (nil in 2009). Impairment loss charged to statements of income amounted to ₱1,944,592 and ₱4,188,704 in 2010 and 2009, respectively (Note 22).

9. Property and Equipment

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

2010	Land and Buildings	Furniture Fixtures and Equipment	Electronic and Data Processing Equipment	Transportation Equipment	Leasehold Improvements	Total
Costs						
Beginning balances	**₱126,486,154**	**₱297,723,406**	**₱186,646,163**	**₱93,343,978**	**₱61,927,239**	**₱766,126,940**
Additions	**32,216,447**	**13,554,342**	**16,109,817**	**22,526,640**	**827,304**	**85,234,550**
Retirements/disposals	**–**	**(2,404,306)**	**(167,640)**	**(18,356,881)**	**(1,772,697)**	**(22,701,524)**
Reclassifications	**59,815,496**	**20,089**	**–**	**–**	**(20,089)**	**59,815,496**
Ending balances	**218,518,097**	**308,893,531**	**202,588,340**	**97,513,737**	**60,961,757**	**888,475,462**
Accumulated Depreciation and Amortization						
Beginning balances	**29,876,032**	**204,522,333**	**109,815,851**	**50,495,948**	**52,852,985**	**447,563,149**
Depreciation and amortization (Note 20)	**1,907,172**	**12,673,128**	**23,895,588**	**18,278,852**	**2,391,483**	**59,146,223**
Impairment (Note 22)	**8,417**	**–**	**–**	**–**	**–**	**8,417**
Retirements/disposals	**–**	**(1,414,610)**	**(19,260)**	**(14,696,787)**	**(2,115,520)**	**(18,246,177)**
Ending balances	**31,791,621**	**215,780,851**	**133,692,179**	**54,078,013**	**53,128,948**	**488,471,612**
Net Book Values	**₱186,726,476**	**₱93,112,680**	**₱68,896,161**	**₱43,435,724**	**₱7,832,809**	**₱400,003,850**

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

Noncurrent assets held for sale reclassified to property and equipment amounted to ₱2,104,981 in 2010 (nil in 2009).

10. Noncurrent Assets Held for Sale

This account consists of various real estate properties, i.e. house and lots and memorial lots, 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:

	2010	2009
Beginning balance	**₱59,260,167**	₱385,273,443
Sold	**(35,014,704)**	(69,851,013)
Impairment loss (Note 22)	**–**	(900,976)
Reclassifications (Notes 8 and 9)	**(24,245,463)**	(255,261,287)
Ending balance	**₱–**	₱59,260,167

11. Other Assets

	2010	2009
Interest in joint venture	**₱148,349,598**	₱148,349,598
Computer software - net	**29,660,627**	17,028,707
Value added input tax	**29,619,588**	36,868,946
Others	**56,510,314**	40,745,785
	₱264,140,127	₱242,993,036

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:

	2010	2009
Cost		
Beginning balance	**₱236,276,183**	₱228,252,047
Additions	**20,294,878**	8,024,136
Ending balance	**256,571,061**	236,276,183
Accumulated Amortization		
Beginning balance	**219,247,476**	212,733,043
Amortization (Note 20)	**7,662,958**	6,514,433
Ending balance	**226,910,434**	219,247,476
Net Book Value	**₱29,660,627**	₱17,028,707

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

12. Legal Policy Reserves

Details of legal policy reserves are as follows:

	2010		
	Legal Policy Reserves	**Reinsurers' Share of Liabilities**	**Net**
Aggregate reserves for:			
Ordinary life policies	**₱40,350,605,477**	**₱67,265,023**	**₱40,283,340,454**
Group life policies	**1,114,999,425**	**–**	**1,114,999,425**
Accident and health policies	**103,439,969**	**3,290,864**	**100,149,105**
Unit-linked policies	**7,541,576**	**558,572**	**6,983,004**
	₱41,576,586,447	**₱71,114,459**	**₱41,505,471,988**

	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

Movement of aggregate reserves is as follows:

	2010		
	Legal Policy Reserves	**Reinsurers' Share of Liabilities**	**Net**
Beginning balances	**₱37,864,856,792**	**₱69,105,188**	**₱37,795,751,604**
Premiums received	**4,919,112,588**	**–**	**4,919,112,588**
Liability released for payments of death, maturities, surrender benefits and claims	**(576,893,693)**	**–**	**(576,893,693)**
Accretion of investment income or change in unit prices	**1,400,566,747**	**–**	**1,400,566,747**
Fees deducted	**(1,840,965,013)**	**2,009,271**	**(1,842,974,284)**
Foreign exchange adjustment	**(190,090,974)**	**–**	**(190,090,974)**
Ending balances	**₱41,576,586,447**	**₱71,114,459**	**₱41,505,471,988**

	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

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

	2010	2009
Members' deposits and other funds on deposit	**₱9,052,937,714**	₱7,766,644,568
Reserve for dividends to members	**1,203,371,425**	1,159,075,022
Claims pending settlement	**615,102,700**	523,485,585
	₱10,871,411,839	₱9,449,205,175

14. Accrued Expenses and Other Liabilities

	2010	2009
Accounts payable	**₱417,001,948**	₱345,881,634
Accrued employee benefits	**277,744,359**	251,870,089
Remittances not yet allocated	**158,164,345**	43,701,815
Preferred shares of Home Credit owned by its members	**137,546,581**	121,319,650
Commissions payable	**129,756,161**	95,248,869
Advances from joint venture (Note 11)	**79,834,764**	79,834,764
General expenses due and accrued	**60,912,380**	48,044,262
Taxes payable	**44,476,305**	29,083,405
Others	**47,410,268**	32,938,348
	₱1,352,847,111	₱1,047,922,836

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 new business deposits with pending underwriting requirements and collections from policyholders unapplied to their corresponding receivable set-up as of balance sheet date.

15. Dividend Declaration

On February 17, 2011 and February 25, 2010, the BOT approved the set up of provision for dividends to members for the years ended December 31, 2010 and 2009 applicable to dividends to be paid out for the period January 1, 2011 to December 31, 2011 and January 1, 2010 to December 31, 2010, respectively.

Breakdown of the dividend provision is as follows:

	2010	2009
Chargeable to retained earnings	**₱942,786,000**	₱908,184,000
Chargeable to income (Note 19)	**250,614,000**	241,416,000
	₱1,193,400,000	₱1,149,600,000

Dividends to members charged against retained earnings are as follow:

	2010	2009
Dividends declared during the year	**₱942,786,000**	₱908,184,000
Excess of dividends declared in prior year against actual amount paid	**(86,816,143)**	(75,445,735)
	₱855,969,857	₱832,738,265

16. Insurance Revenue

	2010	2009
Life insurance contracts	**₱6,319,912,198**	₱6,709,724,564
VUL insurance contracts	**1,777,181,550**	373,968,768
Accident and health contracts	**435,265,073**	443,223,260
Gross earned premiums on insurance contracts	**8,532,358,821**	7,526,916,592
Reinsurers' share of premiums on insurance contracts	**(155,907,747)**	(125,323,532)
Net insurance revenue	**₱8,376,451,074**	₱7,401,593,060

17. Investment Income

	2010	2009
Interest income on:		
Loans and receivables	**₱1,557,558,505**	₱1,427,015,976
HTM financial assets	**1,525,059,212**	1,424,272,711
AFS financial assets	**242,301,738**	263,551,545
Others	**11,605,272**	10,536,152
	3,336,524,727	3,125,376,384
Dividend income	**1,516,535,928**	511,797,977
Income from VUL funds	**117,826,662**	78,657,570
Total investment income	**₱4,970,887,317**	₱3,715,831,931

18. Net Realized Gains - net

	2010	2009
AFS financial assets	**₱532,946,100**	₱291,370,091
Foreclosure of properties	**11,912,197**	5,264,634
Investment properties	**(4,776,141)**	3,008,552
Noncurrent assets held for sale	**(1,959,078)**	3,347,116
Property and equipment	**(124,734)**	2,237,880
	₱537,998,344	₱305,228,273

19. Insurance Benefits Expenses

	2010	2009
VUL funds allocation	**₱1,740,397,119**	₱316,166,295
Surrenders	**1,098,064,251**	1,481,855,314
Death and hospitalization benefits	**938,227,791**	940,480,973
Increase in reserve for supplementary contracts	**608,295,114**	623,306,020
Maturities	**539,498,120**	356,590,400
Interest expense	**371,581,544**	348,120,780
Payments on supplementary contracts	**354,842,967**	324,878,759
Dividends to members (Note 15)	**₱250,614,000**	₱241,416,000
Others	**12,015,041**	10,852,377
Total gross benefits and claims on insurance contracts	**5,913,535,947**	4,643,666,918
Reinsurers' share of benefits and claims on insurance contracts	**(47,530,390)**	(66,379,652)
Net change in:		
Legal policy reserves	**3,711,729,655**	3,460,245,883
Reinsurers' share in legal policy reserves	**(2,009,271)**	7,412,134
	₱9,575,725,941	₱8,044,945,283

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

	2010		
	Gross Change in Legal Policy Reserves	**Reinsurers' Share of Change in Legal Policy Reserves**	**Net**
Life insurance contracts	**₱3,714,716,067**	**₱1,796,689**	**₱3,712,919,378**
VUL insurance contracts	**(2,986,412)**	**212,582**	**(3,198,994)**
	₱3,711,729,655	**₱2,009,271**	**₱3,709,720,384**

	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

20. General Insurance Expenses

	2010	2009
Personnel (Notes 23, 24 and 26)	**₱949,949,010**	₱726,942,886
Depreciation and amortization (Notes 8, 9 and 11)	**186,178,627**	174,423,196
Marketing, advertising, and promotion	**101,514,396**	67,260,077
Outside services	**69,256,943**	88,954,029
Transportation and communication	**56,623,954**	57,078,309
Repairs and maintenance	**32,014,973**	23,824,730
Rent (Note 28)	**21,743,783**	21,060,370
Printing and supplies	**15,396,544**	12,508,030
Training	**11,853,405**	11,199,938
Utilities	**11,483,232**	10,628,079
Provision for impairment on loans and receivables (Note 6)	**10,314,030**	11,667,984
Others	**166,744,545**	139,054,448
	₱1,633,073,442	₱1,344,602,076

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

21. Investment Expenses

	2010	2009
Real estate expenses (Note 8)	**₱159,706,027**	₱152,652,842
Investment management expenses	**1,051,673**	2,567,111
	₱160,757,700	₱155,219,953

22. Other Losses

	2010	2009
Impairment loss on:		
AFS equity securities (Note 6)	**₱34,329,177**	₱–
Investment properties (Note 8)	**1,944,592**	4,188,704
Property and equipment (Note 9)	**8,417**	–
Noncurrent assets held for sale (Note 10)	**–**	900,976
	₱36,282,186	₱5,089,680

23. Personnel Expenses

	2010	2009
Salaries and bonuses	**₱811,248,427**	₱636,365,916
Employee benefits	**93,579,819**	92,514,270
Retirement benefits cost (income) (Note 24)	**45,120,764**	(1,937,300)
	₱949,949,010	₱726,942,886

24. Retirement Benefits

The Group has defined benefit plans covering substantially all regular employees and executives, which require contributions to be made to the retirement funds. The Parent 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 Parent Company's defined benefit plans was made on December 31, 2009 while that of the subsidiaries was on December 31, 2010.

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

a. Retirement benefits cost (income) recognized in the consolidated statements of income is as follows:

	2010				
	Parent	**Subsidiaries**			
	Company	**IITC**	**I-Care**	**Home Credit**	**Total**
Current service cost	**₱48,104,100**	**₱231,620**	**₱1,425,166**	**₱287,616**	**₱50,048,502**
Interest cost	**62,843,200**	**214,311**	**943,517**	**265,487**	**64,266,515**
Expected return on plan assets	**(59,826,000)**	**(82,905)**	**(525,106)**	**(207,228)**	**(60,641,239)**
Amortization of net actuarial gains	**(8,478,400)**	**–**	**–**	**(74,614)**	**(8,553,014)**
	₱42,642,900	**₱363,026**	**₱1,843,577**	**₱271,261**	**₱45,120,764**

	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)

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

	2010				
	Parent	**Subsidiaries**			
	Company	**IITC**	**I-Care**	**Home Credit**	**Total**
Present value of defined benefit obligation	**₱689,507,344**	**₱1,091,786**	**₱10,336,980**	**₱3,681,664**	**₱15,110,430**
Fair value of plan assets	**960,489,523**	**1,988,111**	**7,683,105**	**5,166,228**	**14,837,444**
	(270,982,179)	**(896,325)**	**2,653,875**	**(1,484,564)**	**272,986**
Unrecognized net actuarial gains (losses)	**203,588,728**	**1,001,822**	**(367,827)**	**885,914**	**1,519,909**
Retirement benefits liability (asset)	**(₱67,393,451)**	**₱105,497**	**₱2,286,048**	**(₱598,650)**	**₱1,792,895**

	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 (asset)	(₱27,666,700)	₱1,447,595	₱2,896,770	₱1,293,841	₱5,638,205

The net retirement benefits asset as of December 31, 2010 and 2009 amounting to ₱67,992,101 and ₱27,666,700, respectively, are 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:

	2010				
	Parent	**Subsidiaries**			
	Company	**IITC**	**I-Care**	**Home Credit**	**Total**
Beginning balances	**₱622,826,400**	**₱2,597,711**	**₱10,783,048**	**₱2,540,541**	**₱15,921,300**
Current service cost	**48,104,100**	**231,620**	**1,425,166**	**287,616**	**1,944,402**
Interest cost	**62,843,200**	**214,311**	**943,517**	**265,487**	**1,423,315**
Benefits paid	**(44,266,356)**	**(1,259,543)**	**(2,692,980)**	**(163,752)**	**(4,116,275)**
Actuarial loss (gain)	**–**	**(692,313)**	**(121,771)**	**751,772**	**(62,312)**
Ending balances	**689,507,344**	**1,091,786**	**10,336,980**	**3,681,664**	**15,110,430**

	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

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

	2010				
	Parent	**Subsidiaries**			
	Company	**IITC**	**I-Care**	**Home Credit**	**Total**
Beginning balances	**₱854,657,000**	**₱1,381,752**	**₱7,501,513**	**₱2,960,399**	**₱11,843,664**
Expected return on plan assets	**59,826,000**	**82,905**	**525,106**	**207,228**	**815,239**
Actual contribution	**82,369,625**	**1,705,124**	**2,454,300**	**2,163,752**	**6,323,175**
Benefits paid	**(44,266,356)**	**(1,259,543)**	**(2,692,980)**	**(163,752)**	**(4,116,275)**
Actuarial gain (loss)	**7,903,254**	**77,873**	**(104,834)**	**(1,399)**	**(28,360)**
Ending balances	**₱960,489,523**	**₱1,988,111**	**₱7,683,105**	**₱5,166,228**	**₱14,837,444**

	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

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

2010

	Parent	Subsidiaries		
	Company	**IITC**	**I-Care**	**Home Credit**
Cash and cash equivalents	**25%**	**53.54%**	**47.07%**	**50.90%**
Investments in debt and equity securities	**75%**	**46.46%**	**52.01%**	**49.10%**
Receivables	**–**	**–**	**0.92%**	**–**
	100.00%	**100.00%**	**100.00%**	**100.00%**

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%

Actual return on plan assets is as follows:

2010

	Parent	Subsidiaries		
	Company	**IITC**	**I-Care**	**Home Credit**
Expected return on plan assets	**₱59,826,000**	**₱82,905**	**₱525,106**	**₱207,228**
Actuarial gain (loss) on plan assets	**7,903,254**	**77,873**	**(104,834)**	**(1,399)**
Actual return on plan assets	**₱67,729,254**	**₱160,778**	**₱420,272**	**₱205,829**

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

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 ₱88,692,826 to its defined benefit plan in 2010. The Group expects to contribute ₱83,552,003 to its defined benefit plan in 2011.

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

2010

	Parent	Subsidiaries		
	Company	**IITC**	**I-Care**	**Home Credit**
Discount rate	**10.09%**	**8.25%**	**8.75%**	**10.50%**
Expected rate of return on plan assets	**7.00%**	**7.00%**	**7.00%**	**7.00%**
Rate of salary increases	**10.00%**	**8.00%**	**8.00%**	**4.00%**

2009

	Parent	Subsidiaries		
	Company	IITC	I-Care	Home Credit
Discount rate	10.09%	10.00%	10.00%	9.00%
Expected rate of return on plan assets	7.00%	7.00%	7.00%	7.00%
Rate of salary increases	10.00%	8.00%	8.00%	4.00%

Amounts for the current and prior periods are as follows:

2010

	Parent	Subsidiaries		
	Company	**IITC**	**I-Care**	**Home Credit**
Present value of defined benefit obligation	**₱689,507,344**	**₱1,091,786**	**₱10,336,980**	**₱3,681,664**
Fair value of plan assets	**960,489,523**	**1,988,111**	**7,683,105**	**5,166,228**
Unfunded defined benefit obligation (net plan assets)	**(270,982,179)**	**(896,325)**	**2,653,875**	**(1,484,564)**
Experience adjustments on defined benefit obligation - gain	**–**	**643,361**	**2,029,976**	**–**
Experience adjustments on plan assets - gain (loss)	**7,903,254**	**77,873**	**(104,834)**	**(1,399)**

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 (loss)	65,486,732	62,061	287,591	(22,507)

25. Income Taxes

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

	2010	2009
Current:		
Final tax	**₱310,736,321**	₱258,633,650
RCIT	**1,382,879**	4,658,543
MCIT	**1,388,815**	3,849,748
	313,508,015	267,141,941
Deferred	**(23,681,799)**	(20,567,446)
	₱289,826,216	₱246,574,495

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

Deferred Income Tax Assets - Net

	2010	2009
Deferred income tax assets - tax effects of:		
Allowance for impairment on loans and receivables	**₱36,853,626**	₱37,554,514
Accrued expenses not yet deductible	**1,080,358**	1,040,153
Unamortized past service cost contributions	**955,453**	385,407
Retirement and other long-term employee benefits payable	**717,463**	1,303,309
Allowance for impairment of supplies	**67,240**	67,240
Unrealized foreign exchange loss	**31,609**	17,318
Excess MCIT	**20,818**	–
Total deferred income tax assets	**39,726,567**	40,367,941
Deferred income tax liability - tax effect of unrealized gain on AFS financial assets	**(1,503,552)**	(184,275)
Net deferred income tax assets	**₱38,223,015**	₱40,183,666

Deferred Income Tax Liabilities - Net

	2010	2009
Deferred income tax assets - tax effects of:		
NOLCO	**₱232,715,418**	₱290,715,418
Unrealized foreign exchange loss	**268,909,984**	194,418,246
Accrued expenses not yet deductible	**106,205,719**	98,372,102
Unamortized past service cost contributions	**50,442,247**	56,233,888
Allowance for impairment on loans and receivables	**48,217,096**	51,639,919
Total deferred income tax assets	**706,490,464**	691,379,573
Deferred income tax liabilities - tax effects of:		
Revaluation increment in investment properties	**(1,356,251,415)**	(1,379,520,776)
Reserve for fluctuation in AFS financial assets	**(324,936,103)**	(274,988,524)
Retirement benefits asset	**(20,218,035)**	(8,300,010)
Accrued rent income	**(10,462,894)**	(13,879,041)
Total deferred income tax liabilities	**(1,711,868,447)**	(1,676,688,351)
Net deferred income tax liabilities	**(₱1,005,377,983)**	(₱985,308,778)

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

	2010	2009
NOLCO	**₱1,973,075,912**	₱632,592,113
Excess of MCIT over RCIT	**4,316,786**	27,065,069

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

Year Incurred	Expiration	January 1, 2010	Incurred	Applied	Expired	December 31, 2010
2007	2010	₱5,043,507	₱–	₱–	(₱5,043,507)	₱–
2008	2011	1,080,836,874	–	–	–	1,080,836,874
2009	2012	515,763,125	–	–	–	515,763,125
2010	2013	–	1,152,193,973	–	–	1,152,193,973
		₱1,601,643,506	₱1,152,193,973	₱–	(₱5,043,507)	₱2,748,793,972

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

Year Incurred	Expiration	January 1, 2010	Incurred	Applied	Expired	December 31, 2010
2007	2010	₱22,879,678	₱–	₱–	(₱22,879,678)	₱–
2008	2011	335,643	–	–	–	335,643
2009	2012	3,849,748	–	–	–	3,849,748
2010	2013	–	131,395	–	–	131,395
		₱27,065,069	₱131,395	₱–	(₱22,879,678)	₱4,316,786

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:

	2010	2009
Provision for income tax at statutory income tax rates	**₱859,281,662**	₱709,887,863
Adjustments for:		
Interests and dividends subjected to final tax at a lower rate	**(546,735,966)**	(288,021,625)
Movement in deferred income tax assets on NOLCO and excess of MCIT over RCIT	**403,783,341**	157,123,220
Equity in net earnings of an associate	**(280,002,923)**	(222,241,532)
Gain on sale of investments in AFS financial assets - net	**(160,126,745)**	(87,623,768)
Impairment losses on properties and AFS financial assets	**10,826,905**	1,526,904
Income on VUL funds	**–**	(23,597,271)
Nontaxable income - net	**(5,101,216)**	(4,544,106)
Nondeductible expenses	**6,083,109**	3,154,021
Nondeductible interest expense	**1,818,049**	910,789
Provision for income tax	**₱289,826,216**	₱246,574,495

Revenue Regulation (RR) 15-2010
On November 25, 2010, the BIR issued Revenue Regulation 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes, duties and licenses paid or accrued during the year. Details are disclosed in the separate financial statements of the parent company and its subsidiaries.

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:

	2010	2009
Savings and current accounts (Note 4)	**₱63,998,316**	₱28,924,369
Short-term investments (Note 4)	**1,080,886,202**	331,486,062
	₱1,144,884,518	₱360,410,431

Interest income relating to these accounts, which are based on market rates, amounted to ₱22,435,431 and ₱14,390,964 in 2010 and 2009, respectively.

b. Key management personnel include all officers that have ranks of vice president and up. Compensation of key management personnel is summarized below:

	2010	2009
Salaries and other short-term employee benefits	**₱275,137,785**	₱206,510,592
Post-employment and other long term benefits	**9,750,949**	10,396,972
	₱284,888,734	₱216,907,564

27. Trust Operations

Securities and other properties held by IITC in fiduciary or agency capacities for its customers amounting to ₱0.3 billion and ₱1.8 billion as of December 31, 2010 and 2009, respectively, are not included in the consolidated financial statements since these are not assets of the Group. Trust income amounted to ₱5.4 million in 2010 and ₱9.6 million in 2009.

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:

	2010	2009
Within one year	**₱15,895,710**	₱15,583,685
After one year but not more than five years	**16,518,513**	23,410,339
	₱32,414,223	₱38,994,024

b. Operating lease commitments - the Group as lessor

The future minimum rentals receivable under noncancelable operating leases follows:

	2010	2009
Within one year	**₱100,293,261**	₱162,654,850
After one year but not more than five years	**195,935,933**	190,964,583
More than five years	**27,960,271**	47,125,108
	₱324,189,465	₱400,744,541

Rent expense recognized in 2010 and 2009 amounted to ₱21,743,783 and ₱21,060,370, respectively (Note 20).

29. Financial Instruments

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

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS				
Insurance Receivables				
Due premiums	**₱221,455,139**	**₱221,455,139**	₱231,560,280	₱231,560,280
Reinsurance assets	**9,249,234**	**9,249,234**	10,133,289	10,133,289
	230,704,373	**230,704,373**	241,693,569	241,693,569
Financial Assets at FVPL				
Cash and cash equivalents	**114,093,126**	**114,093,126**	157,794,926	157,794,926
Equity securities - quoted	**1,522,164,669**	**1,522,164,669**	1,337,830,639	1,337,830,639
Debt securities - fixed interest rates - quoted:				
Government:				
Local currency	**596,181,600**	**596,181,600**	720,025,016	720,025,016
Foreign currency	**1,338,366,162**	**1,338,366,162**	262,200,953	262,200,953

(Forward)

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Corporate	**₱539,401,535**	**₱539,401,535**	₱555,790,129	₱555,790,129
Interest receivable	**25,104,962**	**25,104,962**	105,131,779	105,131,779
	4,135,312,054	**4,135,312,054**	3,138,773,442	3,138,773,442
HTM Financial Assets - quoted debt securities - fixed interest rates:				
Government:				
Local currency	**12,882,949,060**	**15,187,774,995**	10,970,938,405	11,669,468,299
Foreign currency	**3,035,847,385**	**3,602,271,136**	3,298,525,971	3,858,339,694
Corporate:				
Local currency	**₱1,043,037,579**	**₱1,165,062,015**	₱1,379,021,664	₱1,483,692,117
Foreign currency	**22,211,802**	**23,895,931**	24,091,578	26,432,567
	16,984,045,826	**19,979,004,077**	15,672,577,618	17,037,932,677
Loans and Receivables				
Cash and cash equivalents	**2,984,430,101**	**2,984,430,101**	1,741,578,901	1,741,578,901
Term loans	**12,423,451,477**	**14,068,912,273**	11,065,683,517	11,672,196,413
Policy loans	**5,265,458,648**	**5,265,458,648**	4,926,962,359	4,926,962,359
Interest receivable	**667,605,951**	**667,605,951**	679,848,397	679,848,397
Accounts receivable	**197,192,564**	**197,192,564**	184,473,189	184,473,189
Housing loans	**158,607,975**	**193,916,743**	153,266,941	172,484,199
Mortgage loans	**143,990,305**	**143,990,305**	167,974,759	167,974,759
Car financing loans	**42,987,237**	**50,870,206**	44,373,215	42,096,111
Stock loans	**38,137,261**	**38,137,261**	37,216,690	37,216,690
Finance leases	**36,206,523**	**32,644,621**	37,792,481	29,105,058
Due from agents	**1,246,405**	**1,246,405**	157,232	157,232
Others	**58,017,673**	**58,017,673**	107,260,490	107,260,490
	19,032,902,019	**20,717,992,650**	17,405,009,270	18,019,774,897
Total Loans and Receivables	**22,017,332,120**	**23,702,422,751**	19,146,588,171	19,761,353,798
AFS Financial Assets				
Equity securities:				
Quoted	**3,919,270,017**	**3,919,270,017**	2,712,757,434	2,712,757,434
Unquoted	**5,364,056,119**	**5,364,056,119**	5,057,648,781	5,057,648,781
Debt securities:				
Quoted:				
Government:				
Local currency	**2,022,605,154**	**2,022,605,154**	1,508,743,495	1,508,743,495
Foreign currency	**994,128,298**	**994,128,298**	555,225,960	555,225,960
Corporate	**36,267,564**	**36,267,564**	149,541,232	149,541,232
Unquoted - government	**43,718,380**	**43,718,380**	50,432,550	50,432,550
	12,380,045,532	**12,380,045,532**	10,034,349,452	10,034,349,452
	55,747,439,905	**60,427,488,787**	48,233,982,252	50,214,102,938
FINANCIAL LIABILITIES				
Insurance Liabilities				
Legal policy reserves	**41,505,471,988**	**41,505,471,988**	37,795,751,604	37,795,751,604
Other insurance liabilities:				
Members' deposits and other funds on deposit	**9,052,937,714**	**9,052,937,714**	7,766,644,568	7,766,644,568
Reserve for dividends to members	**1,203,371,425**	**1,203,371,425**	1,159,075,022	1,159,075,022
Claims pending settlement	**615,102,700**	**615,102,700**	523,485,585	523,485,585
Other Financial Liabilities				
Accrued expenses and other liabilities:				
Accounts payable	**417,001,948**	**428,950,372**	345,881,634	333,402,330
Accrued employee benefits	**277,744,359**	**277,744,359**	251,870,089	251,870,089
Preferred shares of Home Credit owned by its members	**137,546,581**	**137,546,581**	121,319,650	121,319,650
Commissions payable	**129,756,161**	**129,756,161**	95,248,869	95,248,869
Advances from joint venture	**79,834,764**	**79,834,764**	79,834,764	79,834,764
General expenses due and accrued	**60,912,380**	**60,912,380**	48,044,262	48,044,262
Others*	**23,160,798**	**23,160,798**	19,504,100	19,504,100
	₱53,502,840,818	**₱53,514,789,242**	₱48,206,660,147	₱48,194,180,843

*Excluding statutory liabilities amounting to ₱24,249,470 and ₱13,434,248 as of December 31, 2010 and 2009, respectively.

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

Cash and cash equivalents and insurance receivables
The fair values of cash and cash equivalents 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 11% in 2010 and from 6% to 10% in 2009. 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 reflect the statutory reserves. 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 tables show analysis of financial instruments recorded at fair value by level of the fair value hierarchy as of December 31:

	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Financial Assets at FVPL				
Equity securities	**₱1,522,164,669**	**₱–**	**₱–**	**₱1,522,164,669**
Debt securities	**2,473,949,297**	**–**	**–**	**2,473,949,297**
	3,996,113,966	**–**	**–**	**3,996,113,966**
AFS Financial Assets				
Equity securities	**3,919,270,017**	**–**	**5,268,015,558**	**9,187,285,575**
Debt securities	**3,053,001,016**	**43,718,380**	**–**	**3,096,719,396**
	6,972,271,033	**43,718,380**	**5,268,015,558**	**12,284,004,971**
	₱10,968,384,999	**₱43,718,380**	**₱5,268,015,558**	**₱16,280,118,937**

	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	1,538,016,098	–	–	1,538,016,098
	₱2,875,846,737	₱–	₱–	₱2,875,846,737
AFS Financial Assets				
Equity securities	₱3,919,270,017	–	₱4,898,073,683	₱8,817,343,700
Debt securities	2,213,510,687	34,619,226	–	2,248,129,913
	6,132,780,704	34,619,226	4,898,073,683	11,065,473,613
	₱9,008,627,441	₱34,619,226	₱4,898,073,683	₱13,941,320,350

(Forward)

In 2010 and 2009, there were no transfers within the different levels.

The following table shows the reconciliation of the beginning and ending balances of Level 3 AFS financial assets which are recorded at fair value as of December 31:

	2010	2009
Beginning balance	**₱4,898,073,683**	₱5,208,263,571
Acquisitions	**–**	385,755,969
Fair value gain (loss)	**369,941,875**	(695,945,857)
Ending balance	**₱5,268,015,558**	₱4,898,073,683

The Group has investments in 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 Book Value (PBV) Ratio. Fair market value of PSPC shares amounted to ₱4,561,451,063 and ₱4,276,037,031 as of December 31, 2010 and 2009, respectively.

The following assumptions were used to determine the fair value of PSPC shares of stock as of December 31, 2010 and 2009.

- 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 closing price of Petron amounting to ₱18.82 per share and ₱5.30 per share in 2010 and 2009, respectively.
- The PBV multiple of PCOR is 3.3076x and 1.3238x in 2010 and 2009, respectively.
- The PBV multiple of Petron for 2010 was discounted by 55.45%. The discount tempers the year-end PCOR PBV multiple, which significantly rose due to the extreme price movement on news specific only to Petron. The discount factor of 55.45% was arrived at by comparing the weighted average price of Petron in the first 11 months of 2010 (i.e ₱6.2315 for the period January 4 to November 22) when prices were stable as against the last month (i.e. ₱13.9891 for the period November 23 to December 30), when prices rose from ₱6.00 levels to a high of ₱18.82 at yearend 2010. The weighted average price:
  a. takes into account the full market performance of the stock for 2010, including the volume of shares transacted in various price levels.
  b. tempers extreme price movements caused by extraordinary developments/news in the market.
  c. was determined using a third party system (i.e. Technistock)
- The book value per share was determined using the disclosed 2010 and 2009 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:

2010		2009	
Change in variable	**Effect on equity**	Change in variable	Effect on equity
Increase by 0.5%	**₱22,807,255**	Increase by 0.5%	₱21,380,185
Decrease by 0.5%	**(22,807,255)**	Decrease by 0.5%	(21,380,185)

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 book value (BV) per share.

Fair market values of the aforementioned shares are as follows:

	2010	2009
Asian Hospital Inc.	**₱278,280,748**	₱256,591,077
Shell Co. of the Philippines	**100,550,384**	69,552,238
The Medical City	**327,733,363**	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 on equity
		AHI	SCOP	MC	
2010	**Increase**	**1.52%**	**13.03%**	**2.94%**	**₱26,996,596**
	Decrease	**1.52%**	**13.03%**	**2.94%**	**(26,996,596)**
2009	Increase	0.78%	1.32%	0.64%	₱7,705,850
	Decrease	0.78%	1.32%	0.64%	(7,705,850)

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:

	2010	2009
Whole Life		
Gross	**₱92,066,915,254**	₱89,700,898,275
Net	**82,023,613,847**	79,915,756,327
Endowment		
Gross	**21,132,005,154**	21,158,773,050
Net	**20,556,431,439**	20,622,773,205
Term Insurance		
Gross	**14,045,583,894**	13,461,462,339
Net	**14,046,810,919**	13,337,870,333
Group Insurance		
Gross	**68,608,745,179**	65,711,192,313
Net	**49,351,953,749**	50,811,142,992
Variable Life		
Gross	**1,119,237,738**	1,176,669,822
Net	**909,312,605**	992,818,411
Total		
Gross	**₱196,972,487,219**	₱191,208,995,799
Net	**₱166,888,122,559**	₱165,680,361,268

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 balance sheet 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, group insurance and variable 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.

Variable life products provide, in addition to life insurance coverage, living benefit where payments are linked to units of an investment fund set up by the Group from the premiums paid by the policyholders.

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 decrease in liability that needs to be set up to meet obligations to policyholders.

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 increase in investment income, thus increasing profits for 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 2010 and 2009, the resulting values are lower than the statutory reserves.

	December 31, 2010	December 31, 2009
Scenario	**% Change from Base Run**	% Change from Base Run
Base Run	**0.00%**	0.00%
Mortality + 5%	**(1.96%)**	(2.61%)
Investment Return + 1%	**1.89%**	2.90%
Discount Rate - 1%	**7.13%**	3.66%
Expense + 10%	**(6.74%)**	(10.52%)
Lapse + 5%	**(0.48%)**	(1.20%)

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.

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;
- insurance intermediaries;
- financial assets at FVPL;
- HTM financial assets;
- Loans and receivables; and
- 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:

	2010	2009
Insurance receivables:		
Due premiums	**₱221,455,139**	₱231,560,280
Reinsurance assets	**9,249,234**	10,133,289
	230,704,373	241,693,569
Financial assets at FVPL:		
Cash and cash equivalents	**114,093,126**	157,794,926
Quoted equity securities	**1,522,164,669**	1,337,830,639
Quoted debt securities - fixed interest rates:		
Government:		
Local currency	**596,181,600**	720,025,016
Foreign currency	**1,338,366,162**	262,200,953
Corporate	**539,401,535**	555,790,129
Interest receivable	**25,104,962**	105,131,779
	4,135,312,054	3,138,773,442
HTM financial assets - debt securities - fixed interest rates:		
Government:		
Local currency	**12,882,949,060**	10,970,938,405
Foreign currency	**3,035,847,385**	3,298,525,971
Corporate:		
Local currency	**1,043,037,579**	1,379,021,664
Foreign currency	**22,211,802**	24,091,578
	16,984,045,826	15,672,577,618
Loans and receivables:		
Cash and cash equivalents*	**2,984,178,876**	1,741,317,994
Term loans	**12,423,451,477**	11,065,683,517
Policy loans	**5,265,458,648**	4,926,962,359
Interest receivable	**667,605,951**	679,848,397
Accounts receivable	**197,192,564**	184,473,189
Housing loans	**158,607,975**	153,266,941
Mortgage loans	**143,990,305**	167,974,759
Car financing loans	**42,987,237**	44,373,215
Stock loans	**38,137,261**	37,216,690
Finance leases	**36,206,523**	37,792,481
Due from agents	**1,246,405**	157,232
Others	**58,017,673**	107,260,490
	19,032,902,019	17,405,009,270
AFS financial assets:		
Equity securities:		
Quoted	**3,919,270,017**	2,712,757,434
Unquoted	**5,364,056,119**	5,057,648,781
Debt securities - fixed interest rates:		
Quoted:		
Government:		
Local currency	**2,022,605,154**	1,508,743,495
Foreign currency	**994,128,298**	555,225,960
Corporate	**36,267,564**	149,541,232
Unquoted - government	**43,718,380**	50,432,550
	12,380,045,532	10,034,349,452
	₱55,747,188,680	₱48,233,721,345

*Excluding cash on hand amounting to ₱251,225 as of December 31, 2010 and ₱260,907 as of December 31, 2009.

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, 2010 and 2009.

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

	2010			
	Neither past due nor impaired			
	Investment Grade	Non-Investment Grade	Past due or Impaired	Total
Insurance receivables:				
Due premiums	₱221,455,139	₱–	₱–	₱221,455,139
Reinsurance assets	–	9,249,234	–	9,249,234
	221,455,139	9,249,234	–	230,704,373
Financial assets at FVPL:				
Cash and cash equivalents	114,093,126	–	–	114,093,126
Quoted equity securities	1,522,164,669	–	–	1,522,164,669
Quoted debt securities - fixed interest rates:				
Government:				
Local currency	596,181,600	–	–	596,181,600
Foreign currency	1,338,366,162	–	–	1,338,366,162
Corporate	539,401,535	–	–	539,401,535
Interest receivable	25,104,962	–	–	25,104,962
	4,135,312,054	–	–	4,135,312,054
HTM financial assets – debt securities - fixed interest rates:				
Government:				
Local currency	12,882,949,060	–	–	12,882,949,060
Foreign currency	3,035,847,385	–	–	3,035,847,385
Corporate:				
Local currency	1,043,037,579	–	–	1,043,037,579
Foreign currency	22,211,802	–	–	22,211,802
	16,984,045,826	–	–	16,984,045,826
Loans and receivables:				
Cash and cash equivalents*	2,984,178,876	–	–	2,984,178,876
Term loans	12,423,451,477	–	–	12,423,451,477
Policy loans	5,265,458,648	–	–	5,265,458,648
Interest receivable	667,605,951	–	–	667,605,951
Mortgage loans	143,990,305	–	17,794,742	161,785,047
Accounts receivable	–	140,944,993	231,529,464	372,474,457
Housing loans	158,607,975	–	–	158,607,975
Due from agents	–	1,246,405	96,062,119	97,308,524
Finance leases	–	36,206,523	–	36,206,523
Car financing loans	42,987,237	–	–	42,987,237
Stock loans	–	38,137,261	–	38,137,261
Others	–	58,017,673	–	58,017,673
	18,702,101,593	274,552,855	345,386,325	19,322,040,773
AFS financial assets:				
Equity securities:				
Quoted	3,919,270,017	–	–	3,919,270,017
Unquoted	5,364,056,119	–	–	5,364,056,119
Debt securities:				
Quoted:				
Government:				
Local currency	2,022,605,154	–	–	2,022,605,154
Foreign currency	994,128,298	–	–	994,128,298
Corporate	36,267,564	–	–	36,267,564
Unquoted - government	43,718,380	–	–	43,718,380
	12,380,045,532	–	–	12,380,045,532
	₱55,407,139,020	₱283,802,089	₱345,386,325	₱56,036,327,434

*Excluding cash on hand amounting to ₱251,225 as of December 31, 2010.

	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
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*	1,741,317,994	–	–	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 - government	50,432,550	–	–	50,432,550
	10,034,349,452	–	–	10,034,349,452
	₱47,645,662,872	₱451,511,976	₱440,181,877	₱48,537,356,725

*Excluding cash on hand amounting to ₱260,907 as of December 31, 2009.

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 tables provide the breakdown of past due financial assets and the aging analysis of past due but not impaired as of December 31:

	2010					
	Past due but not impaired				**Past due and**	
	< 30 days	**31 to 60 days**	**>60 days**	**Total**	**Impaired**	**Total**
Loans and receivables:						
Accounts receivable	**₱–**	**₱360,048**	**₱55,887,523**	**₱56,247,571**	**₱175,281,893**	**₱231,529,464**
Mortgage loans	**–**	**–**	**–**	**–**	**17,794,742**	**17,794,742**
Due from agents	**–**	**–**	**–**	**–**	**96,062,119**	**96,062,119**
	₱–	**₱360,048**	**₱55,887,523**	**₱56,247,571**	**₱289,138,754**	**₱345,386,325**

	2009					
	Past due but not impaired				Past due and	
	< 30 days	31 to 60 days	>60 days	Total	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

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 ₱110,468,109 and ₱243,335,780 as of December 31, 2010 and 2009, 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:

	2010				
	Up to a year	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
Financial assets:					
Cash and cash equivalents	**₱2,984,430,101**	**₱–**	**₱–**	**₱–**	**₱2,984,430,101**
Insurance receivables	**230,704,373**	**–**	**–**	**–**	**230,704,373**
Financial assets at FVPL	**66,574,294**	**375,229,618**	**1,316,646,198**	**2,313,847,429**	**4,072,297,539**
HTM financial assets	**1,729,124,955**	**9,951,410,801**	**4,323,042,827**	**20,781,647,825**	**36,785,226,408**
Loans and receivables	**7,446,985,247**	**4,260,548,211**	**4,181,346,392**	**7,084,194,118**	**22,973,073,968**
AFS financial assets	**869,317,975**	**2,387,967,894**	**1,737,471,252**	**25,546,483,284**	**30,541,240,405**
Total financial assets	**13,327,136,945**	**16,975,156,524**	**11,558,506,669**	**55,726,172,656**	**97,586,972,794**
Insurance liabilities:					
Legal policy reserves	**3,273,518,185**	**2,502,618,521**	**2,994,902,390**	**32,670,655,091**	**41,441,694,187**

(Forward)

	2010				
	Up to a year	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
Other insurance liabilities:					
Members' deposits and other funds on deposit	**₱1,695,896,672**	**₱11,908,016**	**₱1,039,202,041**	**₱6,305,930,985**	**₱9,052,937,714**
Reserve for dividends to members	**1,203,371,425**	–	–	–	**1,203,371,425**
Claims pending settlement	**615,102,700**	–	–	–	**615,102,700**
	3,514,370,797	**11,908,016**	**1,039,202,041**	**6,305,930,985**	**10,871,411,839**
Other financial liabilities:					
Accrued expenses and other liabilities:					
Accounts payable	**380,891,664**	**32,278,990**	**40,750,970**	**20,597,576**	**474,519,200**
Accrued employee benefits	**4,609,273**	–	–	**273,135,086**	**277,744,359**
Commissions payable	**129,756,161**	–	–	–	**129,756,161**
Advances from joint venture	**79,834,764**	–	–	–	**79,834,764**
General expenses due and accrued	**60,912,380**	–	–	–	**60,912,380**
Others	**26,200,184**	**21,210,084**	–	–	**47,410,268**
	682,204,426	**53,489,074**	**40,750,970**	**293,732,662**	**1,070,177,132**
Total financial liabilities	**7,470,093,408**	**2,568,015,611**	**4,074,855,401**	**39,270,318,738**	**53,383,283,158**
Liquidity gap	**₱5,857,043,537**	**₱14,407,140,913**	**₱7,483,651,268**	**₱16,455,853,918**	**₱44,203,689,636**

	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	509,950,379	15,150,663	735,994	3,012,617	528,849,653
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	11,481,735	21,456,613	–	–	32,938,348
	744,560,009	36,607,276	735,994	254,882,706	1,036,785,985
Total financial liabilities	4,736,433,119	1,305,231,636	3,871,253,876	38,304,835,555	48,217,754,186
Liquidity gap	₱4,565,490,377	₱6,533,934,961	₱7,306,629,979	(₱8,981,332,361)	₱9,424,722,956

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 ₱3,888,620,885 as of December 31, 2010 expected to be paid out in 2011 and ₱2,823,705,632 as of December 31, 2009 expected to be paid out in 2010.

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:

		2010						
		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%**	**₱–**	**₱41,053,452**	**₱–**	**₱52,634,875**	**₱22,396,426**	**₱480,096,847**	**₱596,181,600**
Foreign currency	**2%-10%**	**–**	**20,085,726**	**–**	**53,789,037**	**988,758,452**	**275,732,947**	**1,338,366,162**
Corporate	**6%-12%**	**103,000,000**	**65,384,626**	**148,500,000**	**70,385,540**	**123,100,760**	**29,030,609**	**539,401,535**
		103,000,000	**126,523,804**	**148,500,000**	**176,809,452**	**1,134,255,638**	**784,860,403**	**2,473,949,297**
AFS debt securities:								
Quoted:								
Government:								
Local currency	**5%-9%**	**42,775,408**	**441,619,115**	**106,201,082**	**53,227,111**	**–**	**1,378,782,438**	**2,022,605,154**
Foreign currency	**7%-8%**	**–**	**123,043,483**	**–**	**25,680,844**	**–**	**845,403,971**	**994,128,298**
Corporate	**8%**	**–**	**14,126,539**	**–**	**22,141,025**	**–**	**–**	**36,267,564**
Unquoted	**3%-5%**	**–**	**34,486,615**	**9,231,765**	**–**	**–**	**–**	**43,718,380**
		42,775,408	**613,275,752**	**115,432,847**	**101,048,980**	**–**	**2,224,186,409**	**3,096,719,396**
		₱145,775,408	**₱739,799,556**	**₱263,932,847**	**₱277,858,432**	**₱1,134,255,638**	**₱3,009,046,812**	**₱5,570,668,693**

		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	₱239,615,875	₱209,507,970	₱2,392,690,322	₱3,801,959,334

The following tables provide 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, 2010:

	Changes in variable	Effect on income before tax	Effect on equity
USD	**+ 25 basis points**	**(₱5,684,545)**	**(₱22,026,013)**
PHP	**+ 25 basis points**	**(6,561,135)**	**(17,876,090)**
USD	**- 25 basis points**	**6,009,970**	**23,334,394**
PHP	**- 25 basis points**	**6,656,595**	**18,197,423**

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

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 assets and financial assets 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
2010	**Increase by 0.5%**	**₱7,920,716**	**₱38,639,935**
	Decrease by 0.5%	**(7,920,716)**	**(38,639,935)**
2009	Increase by 0.5%	₱5,553,058	₱20,670,104
	Decrease by 0.5%	(5,553,058)	(20,670,104)

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:

	2010		2009	
	United States Dollar Value	**Peso Equivalent**	United States Dollar Value	Peso Equivalent
Assets				
Financial assets at FVPL	**US$9,421,564**	**₱413,465,336**	US$6,334,551	₱293,644,444
HTM financial assets	**69,683,472**	**3,058,059,169**	71,676,106	3,322,617,548
AFS financial assets	**21,782,920**	**955,943,444**	13,802,401	639,824,094
	US$100,887,956	**₱4,427,467,949**	US$91,813,058	₱4,256,086,086
Liability				
Legal policy reserves	**US$76,928,763**	**₱3,376,018,764**	US$73,982,369	₱3,429,526,717

The foregoing United States Dollar amounts have been restated to their Peso equivalents using the exchange rate of ₱43.885 and ₱46.356 to US$1 as recommended by IC as of December 31, 2010 and 2009, respectively. Net unrealized foreign exchange loss amounted to ₱257,812,384 and ₱107,142,879 in 2010 and 2009, 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
2010	**Increase by 1.43%**	**₱64,039,754**
	Decrease by 1.43%	**(64,039,754)**
2009	Increase by 2.86%	₱130,503,027
	Decrease by 2.86%	(130,503,027)

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, 2010 and 2009, the Group's estimated MOS based on its calculation amounted to ₱4,672,551,611 and ₱3,731,686,000, respectively. The final amount of the MOS 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.

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:

	2010	2009
Property and equipment - net	**₱134,003,287**	₱133,274,234
Accounts receivable and other assets	**268,663,029**	241,003,849
	₱402,666,316	₱374,278,083

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 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, 2010 and 2009, 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:

	2010	2009
Minimum statutory net worth	**₱350,000,000**	₱250,000,000
Minimum paid-up capital	**175,000,000**	125,000,000

The BOT has approved the appropriation of ₱175,000,000 and ₱125,000,000 for the minimum paid-up capital required as of December 31, 2010 and 2009, 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, 2010 and 2009, the Group 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 Group based on its calculations:

	2010	2009
Net worth	**₱18,288,079,650**	₱13,721,320,004
Aggregate RBC requirement	**9,569,311,099**	7,541,839,125
RBC Ratio	**191%**	182%

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.

32. Other Matters

a. On July 15, 2005, the Company filed separate Petitions for Review with the Court of Tax Appeals (CTA), seeking contest the assessment 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 granted on the Petitions for Review and decided in favor of the Company. It ordered the cancellation and withdrawal of the assessment by the BIR for calendar year 2001. BIR filed a Motion for Reconsideration seeking to reverse said CTA Order, but this was denied. The case was then appealed by the BIR to the CTA En Banc which upheld the decision and subsequently denied BIR's Motion for Reconsideration. In 2010, BIR appealed to the Supreme Court where the case is yet to be resolved.

   On April 21, 2009, the other Petition for Review was also granted, whereby the CTA ordered the cancellation and withdrawal of the assessment by the BIR for calendar year 2002. BIR filed a Motion for Reconsideration seeking to reverse said CTA Order, but this was denied. BIR appealed to the CTA En Banc. Said appeal is pending.

   The cases are expected to be resolved within 2011 by the Supreme Court and the CTA En Banc. respectively. 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 assessments for DST for calendar years 1990 to 1994 and premium tax for calendar years 1993 to 1994, the Court of Appeals (CA), in its September 29, 1998 decision, upheld the CTA Resolution date December 29, 1997 declaring the Company's exemption from payment of DST and premium tax. This earlier case was cited by the Supreme Court in a 2006 decision involving another mutual life insurance company where it was confirmed that said Company is a cooperative, 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 "Other receivables" account under "Loans and receivables-net" in the 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. IITC questioned the said CA decision through a Petition for Review filed with the Supreme Court. The case is still pending resolution. IITC 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 (nil in 2010).

The Insular Life Assurance Co., Ltd.

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4 Seconded as Vice President, Chief Financial Officer and Head of Administration Operations, Insular Health Care, Inc.

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

Subsidiaries
Insular Investment and Trust Corporation (IITC)
Investment banking

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Insular Property Ventures, Inc.
Residential/ Commercial development

IITC Properties, Inc.
Residential/ Commercial development

Insular Health Care, Inc.
Health/ HMO

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General agency

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Real estate

Insular Management and Development Corporation
Management services

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

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Non-life insurance underwriting

Union Bank of the Philippines
Universal banking

PPI Prime Venture, Inc.
Real estate

Social Commitment
Insular Foundation, Inc.

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