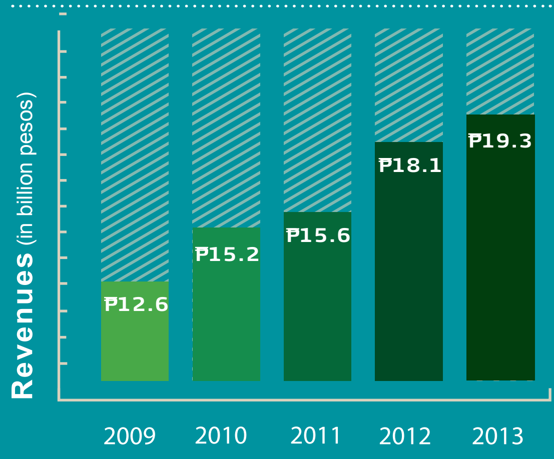
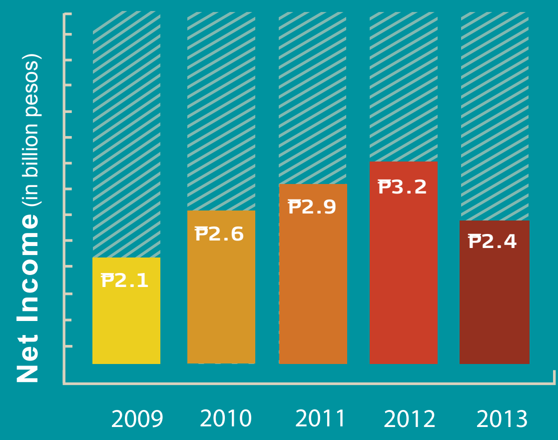

Insular

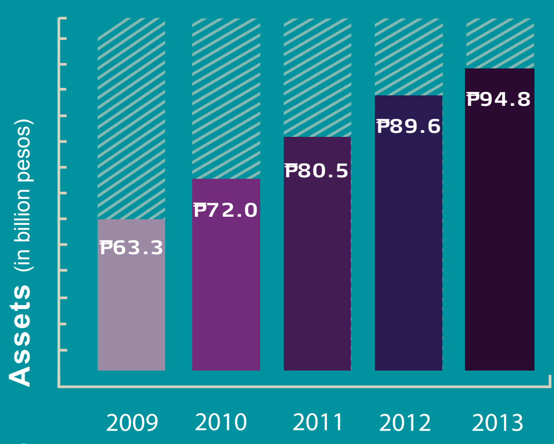
# REACH

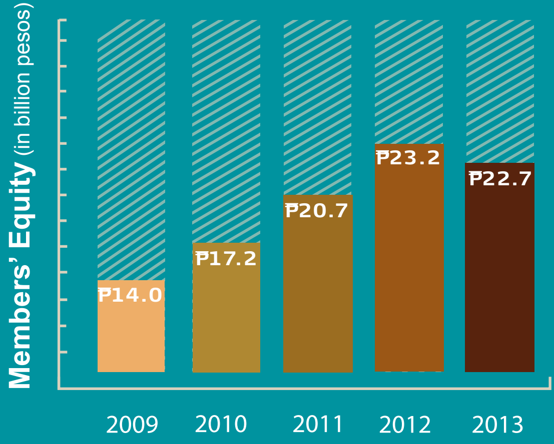
## 2013 INSULAR ANNUAL REPORT

# CONSOLIDATED FINANCIAL HIGHLIGHTS




# ABOUT THE REPORT

## Content

This Insular Life Consolidated 2013 Annual Report gives an update on the progress and priorities set out in our previous report in 2012. It contains data and information on various aspects of our business and operations. Our intention is to provide a holistic view of our financial, operational, social responsibility, and governance performance.

## Audience

This report aims to address the information needs of our policyholders and other stakeholders with an interest in both our financial and non-financial performance.

## Reporting Cycle and Boundary

This report comes out annually and covers the performances of The Insular Life Group of Companies which is comprised of parent company, The Insular Life Assurance Company, Ltd., its subsidiaries (Insular Health Care, Inc., Insular Investment Corporation, and Home Credit Mutual Building & Loan Association), and affiliate (Mapfre Insular Insurance Corporation). Data were consolidated from our Insular Life Head Office, as well as from our nationwide offices and subsidiaries.

## Data Collection and Validation

In order to obtain the relevant data for this report, consultations were made with our business units on the financial, social, and operational topics that they deem most relevant to our business as an insurance company. Meanwhile, we engaged the services of SGV & Co. to audit our financial reports for the parent company, Insular Life, and the consolidated report of the Insular Group of Companies.

Data are validated and processed by our Public Relations Staff. We have developed a basic reporting protocol and defined the requests for specific data in our collection tool to align the understanding of what data are required from our offices.

## Reporting Criteria

Our goal is to eventually adopt the Sustainability Reporting Guidelines and the Financial Sector Supplement of the Global Reporting Initiative (www.globalreporting.org). We will continue to closely track our sustainability performance and lay the groundwork for seeking independent assurance in the near future to be aligned with global best practices on sustainability reporting.

## Feedback

We welcome feedback from our stakeholders to improve our reporting process. Please email the Public Relations Staff at mdsantos@insular.com.ph.

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# FINANCIAL HIGHLIGHTS

**The Insular Life Assurance Company, Ltd.**
**Consolidated**
**Five-Year Financial Highlights *(In Million Pesos)***

| For the year | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| **Net Income per FS** | **2,392** | **3,217** | 2,893 | 2,561 | 2,120 |
| **Net Insurance Revenue per FS** | **12,342** | **10,444** | 8,701 | 8,376 | 7,402 |
| **Operating Revenue** | **7,003** | **7,645** | 6,860 | 6,800 | 5,155 |
| **Total Revenue per FS** (Net Insurance Revenue + Operating Revenue) | **19,345** | **18,089** | **15,561** | **15,176** | **12,556** |
| **Assets** | **94,779** | **89,601** | **80,523** | **71,982** | **63,324** |
| **Cash and Cash Equivalents** | **5,499** | **4,704** | **3,237** | **2,984** | **1,742** |
| Cash on hand and in banks | 864 | 909 | 481 | 515 | 304 |
| Short term investments | 4,635 | 3,796 | 2,757 | 2,470 | 1,438 |
| **Liabilities** | **72,105** | **66,358** | **59,828** | **54,738** | **49,284** |
| **Retained Earnings** | **18,889** | **17,225** | **14,898** | **12,856** | **8,019** |
| Appropriated | 250 | 250 | 250 | 175 | 125 |
| Unappropriated | 18,639 | 16,975 | 14,648 | 12,681 | 7,894 |
| **Members' Equity** | **22,675** | **23,243** | **20,695** | **17,245** | **14,040** |
| **Total Liabilities and Members' Equity** | **94,779** | **89,601** | **80,523** | **71,982** | **63,324** |

## The Insular Life Assurance Company, Ltd.
## Parent Company
## Five-Year Financial Highlights *(In Million Pesos)*

| For the year | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| **Net Income per FS** | **1,503** | **2,131** | 2,059 | 1,879 | 1,535 |
| **Net Insurance Revenue per FS** | **12,121** | **10,188** | 8,452 | 8,092 | 7,132 |
| **Operating Revenue** | **6,049** | **6,383** | 5,965 | 6,049 | 4,503 |
| **Total Revenue per FS** (Net Insurance Revenue + Operating Revenue) | **18,170** | **16,571** | **14,417** | **14,141** | **11,635** |
| **Assets** | **100,108** | **92,941** | **79,923** | **71,853** | **61,672** |
| **Cash and Cash Equivalents** | **5,149** | **4,537** | **3,087** | **2,802** | **1,611** |
| Cash on hand and in banks | 709 | 770 | 382 | 405 | 266 |
| Short term investments | 4,440 | 3,767 | 2,705 | 2,398 | 1,345 |
| **Liabilities** | **72,253** | **66,396** | **59,716** | **54,635** | **49,175** |
| **Retained Earnings** | **11,900** | **11,125** | **9,801** | **8,589** | **4,435** |
| Appropriated | 250 | 250 | 250 | 175 | 125 |
| Unappropriated | 11,650 | 10,875 | 9,551 | 8,414 | 4,310 |
| **Members' Equity** | **27,854** | **26,546** | **20,207** | **17,218** | **12,496** |
| **Total Liabilities and Members' Equity** | **100,108** | **92,941** | **79,923** | **71,853** | **61,672** |
| **New Business Premiums** | **7,349** | **5,246** | **3,618** | **3,269** | **2,193** |
| **Total Premiums** | **11,277** | **9,354** | **7,569** | **7,262** | **6,272** |
| **Gross Investment Income** | **4,438** | **5,444** | **5,204** | **5,171** | **3,852** |
| **Legal Policy Reserves** | **49,554** | **47,491** | **44,843** | **41,442** | **37,732** |
| **Net worth** | **27,854** | **26,546** | **20,207** | **17,218** | **12,496** |
| **Gross Benefits and Claims Paid** | **8,325** | **7,088** | **6,188** | **6,579** | **5,607** |

# MESSAGE TO POLICYHOLDERS

## DEAR POLICYHOLDERS:

For Insular Life, 2013 was all about celebrating the realization of our big dreams, as well as the beginning of a new day.

As early as January 2013, we had already inched closer to our ambitious goal of generating ₱1 billion in New Business Premiums for the month. By August, we had already attained our yearend target of ₱5.3 billion — more than a quarter ahead. As a result, New Business Premiums reached ₱7.3 billion for the entire 2013, 40 percent higher than the previous year.

This marked the fourth consecutive year that the Company's productivity has exceeded expectations. And this would not have been possible without your continued trust in our products and services, as well as the tireless work and commitment of our agency force and employees.

### 2013: REALIZATION AND REALITY CHECK

While achieving these numbers may seem like a walk in the park, we actually had to confront the many faces of reality — both in the macroeconomy and on the ground.

In 2013, our neighboring economies were all hit by the contagion from China's slowing economic growth. Thailand entered into an economic recession for the first time since 2009, and Indonesia posted its weakest expansion since 2010.

It did not help that capital had to fly back to developed economies as uncertainty over the U.S. Federal Reserve's tapering of its monetary stimulus package gripped the global financial markets. This capital outflow, particularly from emerging market economies, also slowed the expansion in Asia and spun a fresh round of market volatility.

Just like Insular Life, the Philippines began the year on a high note. The country obtained its first of a grand slam of investment upgrades from three major credit rating agencies, reaffirming investor confidence. This bit of good news drove up the Philippine Stock Exchange Index to record-high closings almost every day in the first quarter. Corporate earnings were also higher on account of strong growth and benign inflation.

All the jubilation, however, was swept away in the latter months of 2013 when the country was saddled with a succession of man-made and natural disasters. In September, the siege of Zamboanga City by lawless elements displaced thousands of villagers. In October, a magnitude 7.2 earthquake in the Visayas destroyed much of the area's infrastructure, including historical churches in Cebu and Bohol. The Philippines had yet to recover from this string of disasters when Super Typhoon Yolanda (international name: Haiyan) slammed into parts of the Visayas region, bringing some of the strongest winds ever

VICENTE R. AYLLÓN

recorded in history. Left in its path of destruction were 7,500 people dead or missing, and an estimated damage of US$12.5 billion to the Philippines and Vietnam where the typhoon next landed, with insured losses of US$1.5 billion.

Amid the backdrop of the sputtering economies in the region and the disaster-stricken areas in the Philippines, the country managed to pull off a phenomenal Gross Domestic Product (GDP) growth of 7.2 percent from 6.8 percent in the previous year. It was reported that this was, in fact, the country's fastest two-year pace since the post-war reconstruction boom of the 1950s.

Once again, we relied on our twin saviors: the remittances from overseas Filipino workers, and revenues from the business process outsourcing industry. This spurred consumer spending and rippled through the retail, real estate, tourism, banking, and other sectors.

**Amid the backdrop of the sputtering economies in the region and the disaster-stricken areas in the Philippines, the country managed to pull off a phenomenal Gross Domestic Product (GDP) growth of 7.2 percent from 6.8 percent in the previous year. It was reported that this was, in fact, the country's fastest two-year pace since the post-war reconstruction boom of the 1950s.**

The GDP growth was also reflected in the local insurance industry. The Insurance Commission reported that life insurance premiums rose by 47 percent in 2013. However, this surge was primarily boosted by variable unit-linked life insurance policies, which have increasingly become popular in the last few years as an alternative investment instrument in the light of low interest rates.

### BRAVELY FACING A NEW WORLD

The financial services industry directly benefited from the country's bullish economic performance. However, it also had to deal with realities in the operating environment. And this single-biggest reality that confronted all life insurers, banks and other financial services companies around the world: cheap money, or credit that came as an offshoot of low interest rates.

According to leading international publication *The Economist*, "never in recent economic history have interest rates been so low for so many, for so long." In fact, it said, it has already been six years since interest rates were first cut to their current levels in 2008-2009 to help economies get out of the global financial crisis.

After six years, it looks like this low interest rate environment has become the "New World Order," as *The Economist* put it, and businesses and investors are starting to wake up. And Insular Life is, too.

Notwithstanding our impressive sales performance in 2013, our bottom line was largely affected by the ripple effect of having this "cheap money" around. Many of the companies that borrowed from the Company opted to pay their corporate loans ahead of term maturity to refinance and take advantage of the low interest rates. Another reason is that the Company reaped lower income from its investments in companies that chose to plow back their earnings into their business expansion activities instead of giving out dividends.

As a result, our consolidated net income diminished by 25 percent to ₱2.4 billion from ₱3.2 billion in 2012. On the other hand, our consolidated revenues managed to grow by 7 percent at ₱19.3 billion from ₱18.1 billion a year ago. Of the amount, net insurance revenues contributed ₱12.3 billion, 18 percent better than the ₱10.4 billion in 2012, and other operating revenues such as investment income, equity in net earnings, net realized gains amounted to ₱7.0 billion.

Total insurance benefits and operating expenses reached ₱16.4 billion, 12 percent higher than ₱14.6 billion, previously, with gross benefits and claims on insurance contracts and net change in legal policy reserves accounting for the bulk of the total.

Our consolidated assets rose 6 percent to ₱94.8 billion from ₱89.6 billion the previous year while consolidated liabilities grew 9 percent to ₱72.1 billion from ₱66.3 billion. Total members' equity slightly dipped to ₱22.7 billion from ₱23.2 billion. Our gross earned premiums on insurance contracts expanded by 18 percent to ₱12.5 billion from ₱10.6 billion a year ago.

Our parent company, Insular Life, recorded ₱7.3 billion in new business premiums, a 40 percent increase from 2012 levels. Total premiums increased to ₱11.3 billion, which is 20 percent higher than a year ago. Our gross investment income reached ₱4.4 billion, 18 percent lower than the previous year's ₱5.4 billion.

The performance of our three subsidiaries and one affiliate in 2013 was equally commendable.

**Insular Health Care, Inc.** (IHCI) posted a net income of ₱14.5 million and return on equity of 9 percent. Total assets, total liabilities and total equity ended at ₱287.4 million, ₱125.1 million and ₱162.3 million, respectively. Retained earnings ended at ₱60.3 million, net of the cash dividend payment of ₱4.8 million. Its list of accredited medical specialists went up to 15,802, a 46 percent increase from 10,829 in 2012.

**Insular Investment Corporation** (IIC), our investment banking arm, posted gross revenues of ₱44.9 million in 2013. Total assets amounted to ₱477.3 million while

MAYO JOSE B. ONGSINGCO

stockholders' equity stood at ₱454.0 million, as IIC declared cash dividends of ₱200 million in 2013 out of its 2012 retained earnings.

**Home Credit Mutual Building & Loan Association**'s cash and cash equivalents grew 6 percent to ₱82.6 million due to increased collection processes, efficient administration, and the liquidation of several real estate assets. The company continued to gain from the expansion of the Business Processing, Manufacturing, Logistics, I.T., and Educational Services industries, as reflected by its growing membership base. The increase in membership, in turn, contributed to the 9 percent net increase in the Preferred Shares and Redeemable Capital Contribution, and boosted total equity by 4 percent. Home Credit's total assets as of end-2013 reached ₱251.2 million.

Our affiliate non-life insurance company **Mapfre Insular Insurance Corporation** reported a 5 percent growth in Gross Premiums Written in 2013 versus the prior year as it finally breached the ₱2.0 billion mark. The company likewise posted a 9 percent growth in Premiums Earned. Similar to other local insurers, Mapfre Insular was not spared from the impact of the natural calamities that struck the country in 2013, particularly typhoons Maring and Yolanda, as well as the Bohol earthquake. Despite this setback, Mapfre Insular still managed to end the year with a net income of ₱30 million.

## REACHING NEW HEIGHTS

To allow policyholders to cast their nets wider on opportunities, our Company offered five new exciting and pioneering investment-linked insurance products in the market: **Wealth Assure**, a peso-denominated product where regular premium payments are required to enjoy the benefits of lifetime protection; **I-Dollar Asset Plus**, a structured product hinged on the performance of the Asian markets; **I-Dollar Asian Gems**, a structured product hinged on Asia's emerging companies; **Wealth Assure Education**, an insurance plan that maximizes the education fund's earning potential; and **I-Pinoy Pro Save**, a 25-year to mature product issued on a guaranteed basis to enable overseas Filipino workers to save.

campaign that involved TV and print advertisements, online contest promotions, social media campaigns, and financial literacy engagements.

In 2014, we expect to finally complete the physical makeover of our 60 offices nationwide to align with the refreshed Insular Life brand. We also carried out the Company's migration towards using HP Ingenium, a core policy administration system rich in features that allow full automation of the entire policy life cycle, from acquisition to after-sales service. This provides Insular Life easier access to our policyholders' complete portfolio, allowing us to better analyze their profile and offer innovative products faster. With the system's added flexibility, we can also quickly install new products or product variations customized to policyholders' needs. This will also mean we can render faster service to our policyholders since the system automatically performs all necessary process calculations and easily integrates with other interfaces.

## AFFIRMING AND SOLIDIFYING TRUST

While numbers may speak volumes about a company's strength, it is just one measure. For us at Insular Life, what is more important is the value we provide to our policyholders. And this starts by being a strong and financially sustainable company that meets its obligations to policyholders now and in the future. At the end of the day, we are here to provide protection and to help people reach their fullest potential.

For 2013, our Company paid a total of ₱8.3 billion in total policy benefits, including dividends, claims, surrenders, maturities and, survivorship benefits. The total number of policies in-force by end-2013 stood at 317,764.

We also set aside ₱49.6 billion worth of policy reserves to pay for future claims. With a net worth of ₱27.9 billion, among the highest in the industry, our Company's reserves-to-business-in-force ratio now stands as the highest in the insurance industry.

As Insular Life generates higher premiums, so are we able to insure more people. This means spreading the benefits of life insurance to more Filipinos and, in the process, safeguarding the future of our country.

**Being a company that has witnessed many disasters, calamities and crises, Insular Life has seen how the Filipino remains resilient, unbreakable, and unstoppable; he rises easily to the challenge and rebuilds from the ruins.**

Insular Life also launched the **Gift of Dreams**, an online application that offers the option to set aside money for Christening or birthdays for the funding of the future educational expenses of one's child.

The Company sustained its multi-media marketing

For us, this approach speaks louder than numbers, especially given the developments in our country in the latter part of 2013. As people are confronted with life's uncertainty in surviving disasters, an important priority for our Company is to restore trust in the future.

As a Filipino institution, we take pride in being the only company that remained open during World War II, earning the distinction of being the life insurance company with the longest unbroken service record.

This was why, with a great sense of urgency, we resumed operations at our Insular Life Office in Tacloban City on November 26, two weeks after Super Typhoon Yolanda caused vast devastation to lives and property in the city. Notwithstanding the pile of debris, the intermittent communication lines, and nearly non-existent basic facilities, we opened our doors to policyholders and beneficiaries of the insured to process their policy loans, disability, and death claims. We were also surprised to have received more premium and policy loan payments, as people realized the importance of securing their financial future.

**With our enduring faith in the indomitable spirit of the Filipino and our nation, Insular Life will not waver in reaching for our goal to become the life insurer of choice in the country.**

Apart from our policyholders, we also tried to address the immediate needs of our own employees and agents residing in Tacloban who also suffered personal losses. To allow them time to recover from the harrowing experience of Typhoon Yolanda, we deployed a team from our head office and Cebu to temporarily assume our Tacloban operations and provide the much-needed services to our policyholders.

We did this out of grief and compassion, as well as of pride. Being a company that has been in the business of insuring and protecting lives for more than a century, we have been witness to many disasters, calamities and crises. And in these struggles, the Filipino spirit remains resilient, unbreakable, and unstoppable; he rises easily to the challenge and rebuilds from the ruins.

Rebuilding lives is never an easy task and this is the reason behind the launch of our Positivism Campaign in the latter part of 2013. Through this campaign, we aim to shine a bright light on our positive traits as Filipinos, and inspire people to be more confident and optimistic about each brand new day. To reinforce our *"Magandang Araw"* brand campaign, we introduced a new brand ambassador, world-class Filipino talent Ms. Lea Salonga, who also sang *"Isang Magandang Araw,"* a song composed for Insular Life to promote our advocacy on positivism.

Just like in the lyrics of the song, *"May buong mundong naghihintay lang sa'yo, Magandang araw ngayon, Magandang buhay bukas,"* Insular Life shares a bullish view on our nation in 2014 and beyond, especially as we reap the benefits of the amended Insurance Code that was finally enacted in 2013 after three years of congressional deliberations. Through Insular Life's leadership role in the Philippine Life Insurance Association (PLIA) in 2011, as well as the relentless dedication of other PLIA leaders, amendments that address a range of issues were introduced in the new law which should spur further growth of the insurance industry.

Through our affiliate Mapfre Insular, we continue to be one of the few companies accredited to officially provide life and non-life insurance coverage to OFWs under Republic Act 10022, otherwise known as the Migrant Workers Law.

As the Philippines moves closer towards the creation of a single ASEAN market by 2015, there is a perceived threat of bigger foreign competition entering the market directly and through bancassurance. However, Insular Life remains confident that it can face up squarely to competition, just as it has been doing for more than a century.

With our enduring faith in the indomitable spirit of the Filipino and our nation, Insular Life will continue to strive to be the life insurer of choice in the country. We thank you for sharing our positive view of the future and the dream it holds.

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

**Mayo Jose B. Ongsingco, MNSA**
*President and Chief Operating Officer*

# CORPORATE GOVERNANCE

Board of Trustees (L-R): Mr. Mayo Jose B. Ongsingco, Ms. Marietta C. Gorrez, Mr. Alfredo B. Paruñgao,Mr. Vicente R. Ayllón, Atty. Francisco Ed. Lim, Ms. Mona Lisa B. de la Cruz, Mr. Ricardo G. Librea, Dr. Bernardo M. Villegas, Mr. Delfin L. Lazaro

Good corporate governance remains to be at the core of the Company's operations. It is ingrained in the policies, systems, processes and procedures as the Company continues to pursue further productivity and growth.

The Board of Trustees, the employees from the executives to the staff, auditors and other key personnel in the organization all interact and coordinate with each other to ensure that good governance practices are properly observed to protect stakeholder interests.

Close coordination with the relevant government regulatory agencies, more particularly the Insurance Commission, as well as with the Securities and Exchange Commission and the Anti-Money Laundering Council keeps the Company abreast with the best practices in good governance.

On a quarterly basis, the Compliance Unit of the Company renders a report to the Governance Committee of the Board on all the governance and compliance activities performed during the period. Current issues and concerns are likewise presented and discussed for information or consideration of the Committee.

## THE BOARD OF TRUSTEES

The Board of Trustees sets the Mission and Vision of the Company and approves the corporate strategies as formulated by Management. They are also responsible for monitoring Company performance vis-à-vis the goals and targets that have been set. The Board has the primary role of ensuring that all the mechanisms for good governance are in place for the benefit of all stakeholders.

The members of the Board are all policyholders of the Company and were elected as their representatives for their proven integrity and high ethical standards. All Trustees have all the qualifications and none of the disqualifications as required by law, regulation and the Company's By-Laws. They are experts in their respective fields and possess a broad range of scholastic attainment, skills and experience necessary for the performance of their leadership and advisory duties. All of them have attended Corporate Governance seminars conducted by duly accredited training providers.

The nine-member Board of Trustees has a well-balanced composition that helps ensure that Board discussions are conducted openly and freely and decisions are arrived at without undue influence from any one group. Four out of nine members of the Board, or 44 percent of the membership, are Independent Trustees. They are Alfredo B. Paruñgao, Bernardo M. Villegas, Delfin L. Lazaro and Ricardo G. Librea. Francisco Ed. Lim and Marietta C. Gorrez are non-executive trustees.

The Insurance Commission, in its Circular No. 13-2002 on Corporate Governance Principles and Leading Practices (CGPLP), defines the term "independent" as an environment that allows a person to carry out his/her work freely and objectively. Thus, Independent Trustees are those who have no official or personal relationship or interest with the Company as provided in the CGPLP that could interfere with their independent exercise of their functions as such members of the Board of Trustees.

The non-executive trustees and the independent trustees met once in 2013 without the executive trustees and members of Management.

### THE CHAIRMAN AND THE VICE CHAIRMAN OF THE BOARD

Mr. Vicente R. Ayllón is the Company's Chairman of the Board and Chief Executive Officer. As Chairman of the Board, he leads the Board in the latter's primary role of charting the strategic directions of the Company and evaluating the performance of Management. The Vice Chairman of the Board is Mr. Alfredo B. Paruñgao. Their credentials and other designations are indicated in the Board of Trustees' section of this Annual Report, from page 38 to 39.

Through their direction and stewardship, Insular Life's Manual of Corporate Governance has been fully observed and complied with.

Various committees in the Board of Trustees provide the Company with relevant advice and guidance in various strategic issues on each of their respective areas of concern. The Board Committees likewise help the Board in its decision-making role. Following are the Board Committees and their composition:

## BOARD COMMITEES AND MEMBERS

(as of 31 December 2013)

| Executive Committee | Budget and Audit Committee (BAC) | Finance and Investment Committee (FIC) |
|---|---|---|
| Vicente R. Ayllón<br>*Chairman*<br>Bernardo M. Villegas<br>*Vice Chairman*<br>Ricardo G. Librea<br>Mayo Jose B. Ongsingco<br>Alfredo B. Paruñgao | Ricardo G. Librea<br>*Chairman*<br>Alfredo B. Paruñgao<br>*Vice Chairman*<br>Marietta C. Gorrez<br>Francisco Ed. Lim<br>Bernardo M. Villegas | Alfredo B. Paruñgao<br>*Chairman*<br>Bernardo M. Villegas<br>*Vice Chairman*<br>Delfin L. Lazaro<br>Francisco Ed. Lim<br>Mayo Jose B. Ongsingco |

| Governance Committee (GovCom) | Personel and Compensation Committee (PerCom) | Nominations Committee |
|---|---|---|
| Francisco Ed. Lim<br>*Chairman*<br>Bernardo M. Villegas<br>*Vice Chairman*<br>Ricardo G. Librea | Bernardo M. Villegas<br>*Chairman*<br>Ricardo G. Librea<br>*Vice Chairman*<br>Mona Lisa B. de la Cruz<br>Marietta C. Gorrez<br>Alfredo B. Paruñgao | Alfredo B. Paruñgao<br>*Chairman*<br>Mayo Jose B. Ongsingco<br>*Vice Chairman*<br>Marietta C. Gorrez |

### BOARD ACTIONS

The meetings of the Board of Trustees and its Executive Committee (ExCom) are held on a monthly basis or as often as necessary in accordance with the Company's By-Laws. All information material to the items in the agenda are fully and promptly disclosed and made available to the members of the Board and the Executive Committee to aid them in their decision making. Board and Excom matters are discussed openly and freely, and each Trustee is free to voice out his or her opinion and recommendation on any particular matter. Minutes of these meetings, including relevant comments, opinions and any dissenting opinion, are properly documented.

The Board and the Executive Committee review and approve significant corporate actions that have not been otherwise delegated to Management. The Board has acted on corporate matters referred to it pertaining to strategic plans, budget, adoption or revision of Company policies, investments, and the like. The Board likewise monitors and evaluates corporate performance through the regular reports submitted by Management, including but not limited to financial statements, legal and regulatory compliance and other relevant aspects of the operations that are regularly reported to the Board. There were no material related-party transactions that needed to be discussed in the previous year.

Full disclosure of any significant change in the directorships of the Trustees outside of Insular Life is likewise required of them to ensure that they have enough time to handle their responsibilities as the Company's Trustees.

With the well-balanced structure of the Board, the competence and integrity of the Trustees and the unrestricted business environment, there is free, open and unhampered discussion of all matters referred to it to arrive at a decision.

For 2013, the average attendance in the regular/special Board meetings is 93 percent. On the other hand, the average attendance in the Executive Committee meetings is 87 percent. No one had an attendance record of less than 50 percent in either meeting.

The results of the self-assessments are reported to the Governance Committee of the Board and to the Board of Trustees.

## KEY RISKS AND MATERIAL CONTROLS

The Board of Trustees, upon the recommendation of Management and the Budget and Audit Committees of the Board, approves policies and procedures for the effective management and control of risks. This ensures that the key risks involved in the insurance business are avoided or mitigated, managed, and in the case of breaches, addressed and immediately resolved. To help in avoiding or mitigating risks, appropriate control mechanisms such as operational, financial, and compliance controls are properly in place together with the regular review and assessment of the Company's risk management systems.

Management exerts all efforts to ensure compliance with the overall risk management framework of the Company to protect the interests of all its stakeholders. An effective reporting line to the Board is also established so that all material concerns are endorsed to and approved by the Board.

Furthermore, an effective internal audit unit reviews the Company's internal control system and reports its findings and recommendations to the Budget and Audit Committee on a quarterly basis or as necessary. An independent External Auditor's services are also availed of to ensure an independent review of the Corporation's books and financial condition.

*A summary of the Board and Board Committee attendance is indicated below:*

| Trustee | Regular/ Special Board Meetings | Executive Committee Meetings | Other Board Committees | | | | |
|---|---|---|---|---|---|---|---|
| | | | BAC | FIC | GovCom | Nominations | PerCom |
| Vicente R. Ayllón | 10/12 | 10/12 | | | | | |
| Alfredo B. Paruñgao | 12/12 | 10/12 | 6/6** | 7/7* | | 1/1* | 2/2 |
| Mona Lisa B. de la Cruz | 11/12 | | | | | | 2/2 |
| Marietta C. Gorrez | 11/12 | | 6/6 | | | 1/1 | 2/2 |
| Delfin L. Lazaro | 11/12 | | | 4/7 | | | |
| Ricardo G. Librea | 12/12 | 12/12 | 6/6* | | 4/4 | | 2/2** |
| Francisco Ed. Lim | 11/12 | | 5/6 | 6/7 | 4/4* | | |
| Mayo Jose B. Ongsingco | 12/12 | 10/12 | | 7/7 | | 1/1** | |
| Bernardo M. Villegas | 10/12 | 10/12 | 4/6 | 5/7** | 4/4** | | 2/2* |
| **Average Attendace** | **93%** | **87%** | **77%** | **66%** | **100%** | **100%** | **100%** |

* Committee Chairman

** Committee Vice Chairman

## BOARD PERFORMANCE APPRAISAL

An annual assessment of performance of the Board is conducted in compliance with the CGPLP and pursuant to Insular Life's Manual on Corporate Governance. These include self-assessments on their performance as an Individual Trustee, on the performance of the Board as a whole, and on the performance of each of their respective Board Committees. In addition, the Performance Assessment of the Chairman of the Board is also conducted by the Non-Executive Trustees.

The Trustees also provide their inputs and recommendations on how the Company can further improve its governance practices for the discussion and consideration of the Board.

## THE MANAGEMENT

Management is primarily responsible for and accountable to the Board for the achievement of its corporate objectives and goals. It is likewise responsible for the efficient and effective conduct of its operations. It is the duty of Management to cascade in clear and specific terms the action plans to carry out the corporate strategies for the attainment of the Company's objectives.

The Chairman of the Board and Chief Executive Officer (CEO) sets out the Company directions as approved by the Board of Trustees and puts Management and the rest of the Company on track in executing the action steps to achieve corporate targets. Complementing this is the President and Chief Operating Officer (COO) who takes care of the day-to-day management of the Company's operations and implementation of its policies and procedures. Senior Management, as well as key management personnel of the Company, holds regular meetings for performance review, discussions and resolution of issues and coordination.

The performance of the CEO and the COO, together with those of the key management personnel, are reviewed and evaluated by the Personnel and Compensation Committee of the Board which, in turn, reports to the Board and recommends the appropriate compensation and any other actions.

For 2013, the total compensation income received by key management personnel directly employed by Insular Life with the rank of Vice President and up is ₱325,625,621.77 while the estimated total amount for 2014 is ₱345,163,159.08.

### EMPLOYEES

All employees are required to comply with the Employees' Code of Conduct, which embodies the Company's rules of behavior and conduct for all its employees. The Code covers prescribed behavior in the workplace, handling/ disclosure of actual or potential conflict of interest, prudent use and management of company resources, strict observance of confidentiality obligations on personal and sensitive information, and compliance to other corporate policies.

As partners in the attainment of the Company's corporate objectives, the employees are provided with competitive compensation and fringe benefits package over and above that which is mandated by law. Their safety and security are prioritized in the conduct of daily operations of the Company through appropriate and well-disseminated measures adopted to avoid any harm, sickness or injury. Medical benefits such as group insurance, annual medical examinations, wellness updates and other medical and health benefits are provided to all the employees of the Company. Regular training and development are an integral part of the Company's manpower plans and activities which are geared to continually advance its employees' competencies, for professional and personal growth.

### POLICYHOLDERS AND OTHER STAKEHOLDERS

Good corporate governance practices are evident in our engagements within the Insular Life Community, government regulators and with the general public. All dealings are always conducted in a fair, honest, equitable and timely manner.

Every fourth Wednesday of May each year, the Company conducts its Regular Members' Meeting during which, among other things, the Company apprises its policyholder-members about its operations and other significant corporate news and updates. This is also when policyholder-members elect a set of Trustees to replace those whose terms have expired, in compliance with the Company's By-Laws. The Company also encourages feedback from them, and ensures that all inquiries, suggestions or comments are attended to by the Board themselves or by authorized Officers. All feedback is properly documented in the Minutes of the Meeting.

In addition to the Annual Regular Members' Meeting, the policyholder-members are periodically updated about company developments inclusive of its performance for the covered period, new products, improvements in services and the like through brochures, notifications in the Company website, and more importantly even updates on their individual insurance policies through the electronic Customer Portal.

Insular Life, as a non-stock mutual life insurance company, does not have stockholders to whom dividends are paid as return on their investment. Instead, members of the Company, who are owners of participating insurance policies as provided in the Company's By-Laws, receive policy dividends, if and when they are allocated, as return of their premiums paid. The amount of policy dividends allotted to the policyholder-members is determined based on a set formula as approved by the Board in accordance with the Company's By-Laws.

### REPORTING VIOLATIONS

Consistent with our thrust for full disclosure and transparency, the Company encourages individuals to report or call Management's attention about any suspected or actual breaches or violations of law, regulation, Code of Conduct or other company policies.

A report may be addressed to the Company's Compliance Officer, Atty. Renato S. de Jesus, who is also the Company's Chief Legal Officer and Corporate Secretary, through the following contact information:

**Office Telephone No.**: + 63 (02) 5821818
**Email:** rsdejesus@insular.com.ph

The Company ensures that all reports received will be treated with utmost confidentiality and that the identity of all those who shall make the foregoing report in good faith shall be strictly protected from any form of retaliation, in compliance with the Company's Code of Conduct.

# SUBSIDIARIES' AND AFFILIATE'S PERFORMANCE HIGHLIGHTS

## Insular Health Care

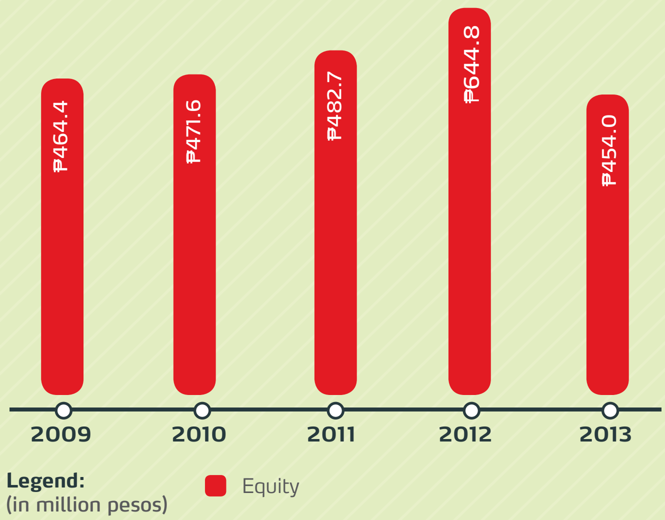
Insular Health Care, Inc. (IHCI) is one of the top ten health maintenance organizations (HMOs) in the Philippines in terms of capitalization, comprehensive healthcare packages and service delivery. It offers one of the industry's most comprehensive healthcare programs, with the flexibility to meet the specific needs of its members. To date, it has a network of 1,417 hospitals, outpatient facilities, and dental clinics nationwide and 15,802 medical specialists. IHCI maintains a dynamic website with an online application, a rate calculator that computes membership fees for individual and family accounts, and payment facilities.


### 2013 HIGHLIGHTS

- Gross Revenues stood at ₱238.9 million
- Gross Profit Ratio increased to 20 percent from 18 percent in 2012
- Recorded Net Profit After Taxes of ₱14.5 million
- Total Assets stood at ₱287.4 million
- Total Stockholders' Equity was at ₱162.3 million
- Retained Earnings posted at ₱60.3 million
- Return on Equity stood at 9 percent.

## Insular Investment

Insular Investment Corporation (IIC) is the wholly owned investment house subsidiary of Insular Life. It focuses on corporate finance activities such as loan arrangement and syndication; underwriting; financial advisory; mergers, acquisition, and divestments; private placements; and joint ventures.




### 2013 HIGHLIGHTS

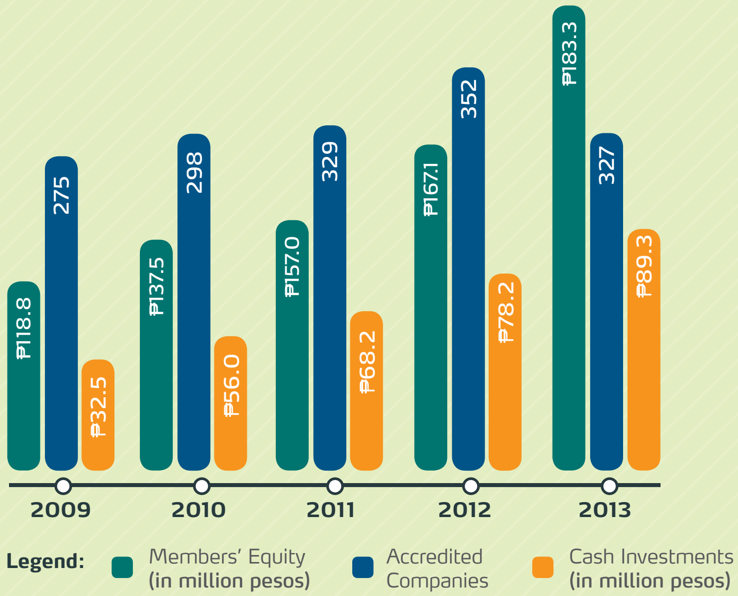
- Gross Revenues stood at ₱44.9 million
- Total Assets recorded at ₱477.3 million
- Stockholders' Equity was at ₱454.0 million
- Declared Cash Dividends of ₱200 million, out of its 2012 retained earnings (paid in December 2013)

# Insular Home Credit

Home Credit Mutual Building & Loan Association (Insular Home Credit) is a wholly owned subsidiary of Insular Life that primarily offers a disciplined savings program with a housing and cash loan component to employees of accredited companies. In the second half of 2013, Insular Home Credit launched its Baguio operations and started delivering encouraging results, with the accreditation of six companies and 243 membership applications worth Php17.5 million. The company also continued to ride on the growth of the business process outsourcing, manufacturing, logistics, information technology, and educational services sectors, which generated most of the 2,156 new members from the employees of accredited companies. These results were due to the expansion and improved efficiency of its automatic debit arrangements with major banks.

### 2013 HIGHLIGHTS

- Cash and Cash Equivalents increased 5.7 percent or ₱4.4 million to ₱82.6 million
- Total Assets grew by 4.3 percent to ₱251.2 million
- Preferred Shares and Redeemable Capital Contribution saw a net increase of about 9.0 percent or ₱15.2 million
- Total Loans reported at ₱P136.1 million
- Mortgage Loans was at ₱2.7 million out of the sale of seven Rent-to-Own units
- New members totaled 2,156



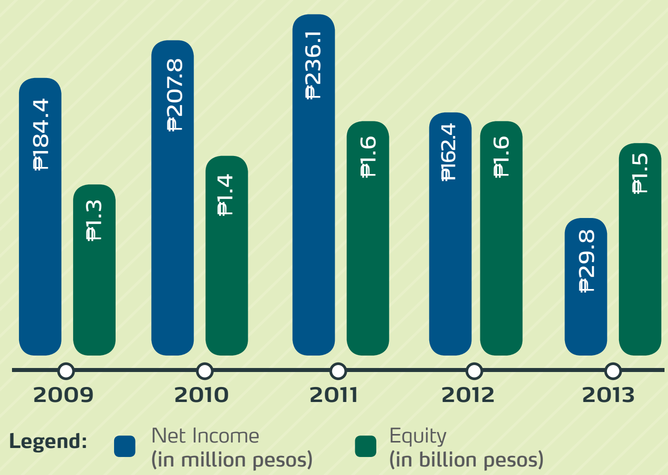

## Affiliate

MAPFRE | INSULAR

Mapfre Insular ranks among the leading and more stable non-life insurance providers in the country with almost 80 years of experience. The company was formed out of an alliance between Mapfre of Spain, the largest insurance conglomerate in Spain and operates in 36 other countries nationwide, and Insular Life Assurance Co., Ltd., the Philippines' largest Filipino-owned insurer.

### 2013 HIGHLIGHTS

- Breached the ₱2.0-billion mark in Gross Premiums Written in 2013, posting a growth of 5 percent versus the prior year
- Premiums Earned grew by 9 percent
- Posted a Net Income of ₱29.8 million despite the impact of a string of natural calamities that struck the country in 2013
- Reported ₱1.5 billion in Stockholders' Equity as of end-2013



# BEING A TOP EMPLOYER

**Insular Life is a company founded on a handshake. Implicit in this act was the determination that we would build our business based on trust, teamwork, integrity, and prudence. We can only be an admired company and an employer of choice if our people can truly embody the positive spirit behind the *Magandang Araw* brand of service we render to our customers and other stakeholders.**

Empowering our people to possess a combination of pride, loyalty and motivation so they can make a positive difference to our stakeholders is the hallmark of our human resource programs.

## EMPLOYEE FORCE PROFILE

As of end-2013, Insular Life has a regular employee force of 789 employees, which cover those in our head office in Alabang, Muntinlupa City, as well as in our branch offices in key cities and provinces nationwide.

The ratio of male to female staff was at 3:7, of which 520 were female and 269 were male. Of the total, 21 percent or 165 employees occupied senior personnel positions (assistant managers and up) in 2013.

As our business requires a dynamic synergy of expertise, work experience, and energy to meet the needs of our policyholders, the average age of our employee force in 2013 was 36 years old.

## COMPENSATION & BENEFITS

Our Human Resources Division (HRD) together with our line managers administers a thorough review of the job performance and career development path of all our employees. These regular evaluations are based on employees' individual accomplishments as measured against their job responsibilities, as well as the performance of the business unit or the company as a whole.

The results of these evaluations form part of our remuneration policy. We design our compensation and benefits schemes based on a variety of factors, such as the scope of the employee's responsibilities, individual performance, and contributions to the industry and the community.

The increasing demand for talent makes it all the more compelling to regularly benchmark our compensation structure with that of the industry and the local community. This ensures that we not only remain competitive, but we also fulfill our corporate core value for respect for the individual, and our brand promise of being the Filipinos' Far-Sighted Guardian.

We extend the inherent benefits of being a financial institution by offering our employees and their dependents a generous healthcare program and a housing program. These benefits are offered on top of the benefits mandated by law.

## REWARDS AND RECOGNITION

The company recognizes and rewards employees for their outstanding achievements within and outside the organization. Employees who display exemplary job performance and high level of competence to fulfill the responsibilities of a higher position are the best candidates for promotion. We also value and recognize their loyalty and commitment to Insular Life through their long years of service.

Every year, our HRD organizes a Recognition Day for all newly promoted employees, perfect attendance awardees, service awardees, outstanding achievement in formal courses under the Company's scholarship program, and special contributions to the industry.

Insular Life extends subsidies to employees taking up courses under the Life Office Management Association (LOMA), an employee training and development association used by life insurance companies in over 70 countries worldwide. Due to its commitment to the program, Insular Life has been a consistent recipient of the Excellence in Education Awards from LOMA in the past 13 years starting in 1992.

We also developed a steady roster in the Fellow, Life Management Institute (FLMI), with 41 fellows to date. The FLMI Program has been the standard of excellence in the insurance and financial services industry in the world since 1932.

In addition, we also offer a scholarship program for employees who wish to pursue postgraduate degrees and offer advanced courses related to their job functions. Their dependents are also provided opportunities under the College Scholarship for Employee Dependents program, which covers full tuition, book allowance and other fees.

## TRAINING AND DEVELOPMENT

We continue to provide a range of training programs designed to hone the skills and capabilities of our employees in carrying out their daily duties, as well as preparing them to assume higher responsibilities as the next leaders of the organization.

In 2013, each Insular Life employee participated in training and development activities for an average of 60 hours, inclusive of general orientation, product training, and behavioral programs. This cut across all levels – from the rank and file to middle management. We use a blended approach that includes workshops, coaching and instructor-led training sessions all designed and conducted among target participants across all units nationwide.

A key focus of our training is the Executive Development Program. Key executives of the Company are sent to attend Management courses here and abroad to facilitate the advancement from being a specialist to a generalist.

## COMMUNICATING WITH EMPLOYEES

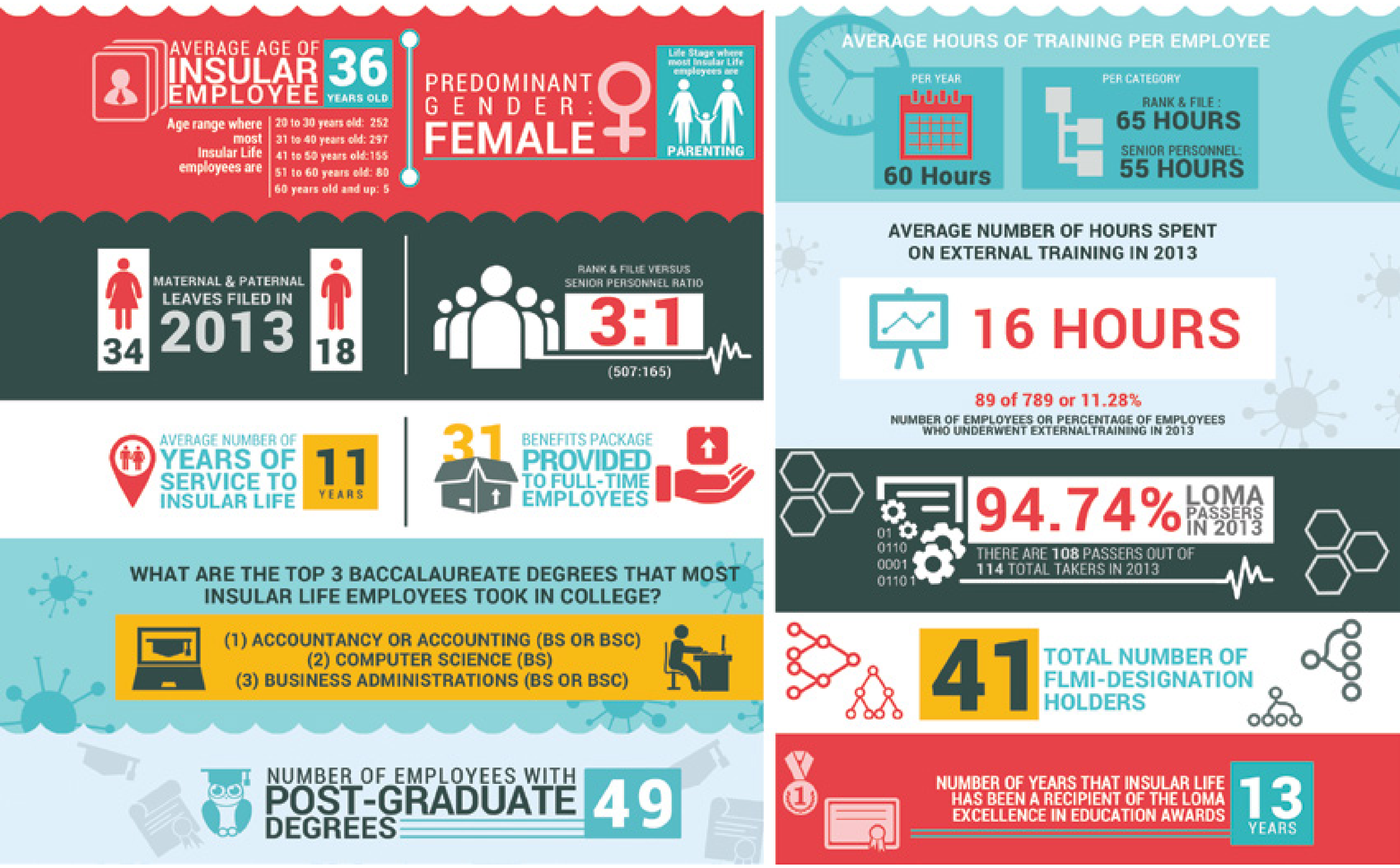
Critical to maintaining a good two-way communication within the organization is the existence of a formal management and employee council. This addresses work-related issues as well as lends support to Insular Life's overall business direction.

We have an employee council called AGILA that works in partnership with Management to communicate company initiatives, and engage the participation of employees in various internal and industry-wide activities such as the Life Insurance Consciousness Week.

We also continue to invest in having an active internal communications program to ensure that our employees are well-informed about the company and the industry. All employees have access to an intranet portal, an employee magazine called *Life Cycles*, a weekly digest called *Weekly Life Cycles*, and a number of electronic information resources. These also serve as an important source of employee feedback.

All Insular Life employees also abide by a Code of Business Conduct, which lays down our formal policies and procedures in raising and addressing concerns in relation to any business conduct issue or malpractice.

# PROFILE OF THE AVERAGE INSULAR LIFE EMPLOYEE AS OF END-2013




## INDUSTRY LEADERSHIP

As one of the top life insurance companies in the country, Insular Life contributes to raising industry standards and issues that affect the insurance public.

**Insular Life Employees in Industry Leadership Positions in 2013**

| | |
|---|---|
| **Atty. Renato S. De Jesus** | Chairperson – Legislative Committee of Philippine Life Insurance Association (PLIA) |
| **Geraldine B. Alvarez** | Member and Head – Research Committee of Association of Service Professionals in Life Insurance (ASPLI) |
| **Josephine F. Bongcaras** | Auditor – Home Office Life Underwriters Association of the Philippines (HOLUAP) |
| **Edgardo G. Polistico** | Treasurer – Life Insurance Claims Association of the Philippines (LICAP) |
| **Mylene C. Padilla** | Member – Finance Committee of Philippine Life Insurance Association (PLIA) |
| **Ana Maria R. Soriano** | Member - Marketing Committee of Philippine Life Insurance Association (PLIA) |
| **Katerina V. Suarez** | Member – Technical Committee of Philippine Life Insurance Association (PLIA) |
| **Alijeffty C. Gonzales** | Chartered Wealth Member – American Academy of Financial Management |
| **Atty. Cesar Y. Salera** | Panel - LOMA 311 Textbook Development |

## EMPLOYMENT POLICIES

Insular Life promotes fair treatment of any kind and offers equal opportunities in all aspects of employment and advancement, regardless of gender, age, marital status, sexual orientation, disability, religious or political beliefs. This also applies to our agency force, the self-employed and contractual workers who work for us.

Apart from being the leading Filipino life insurer in the country, Insular Life also wants to be recognized as one of the best places to work. While we take pride in having a high overall satisfaction level among our employees, we also acknowledge the fact that competition for talent in the insurance industry will increase and there are still areas where we can improve. Thus, our journey to become an Employer of Choice continues.


Scan this QR code to view the 2013 Annual Report on your mobile device, or go to www.insularlife.com.ph/annualreport2013/


# AFFIRMATION

# A TING OF THE PAST, PRESENT AND FUTURE

**How Insular Life Chairman of the Board and CEO Vicente R. Ayllón battled with a life of uncertainty and emerged triumphant.**

At the tender age of seven, Vicente "Ting" R. Ayllón already knew the face of uncertainty.

His father died of appendicitis at 35 years old. His mother never worked her entire life so they lived mostly on his father's monthly pension of a hundred pesos from being a merchant mariner at Madrigal Shipping Lines.

Even as his young life was filled with uncertainty, Mr. Ayllón said: "We never felt it." He was busy enjoying his youth, playing basketball with their rich next-door neighbors, the Aguinaldos, owners of the venerable Aguinaldo's Department Store on Avenida Rizal from the '30s to the '60s.

He and his younger brother also never looked impoverished or shabby. They sported nice clothes that were hand-me-downs from their well-off cousins. Though the clothes were sometimes bigger than his frame, the young Ting always felt grateful he had something.

The Ayllón brothers also lived on the generosity of their grand uncle who funded their schooling. In grade school, he went to St. Joseph College on E. Rodriguez Avenue in Quezon City, and attended high school at Letran College. "When all my friends were sent to La Salle and Ateneo, I was sent to Letran," he says without envy or regret, but with pride. "It's where Cesar Zalamea also studied, and at one time, when I was president of Insular Life, he was also president of our competitor-company."

He spent his growing-up years in a house on Sta. Mesa, Manila that was owned by John Murphy, an American who married his aunt. It was such a comfortable house for the family of four until the Japanese came and burned it down.

"People lived in fear during the Japanese occupation. We lived on selling family possessions," Mr. Ayllón says. This became his early lesson in the art of selling.

## WORKING HARD FOR THE FUTURE

Life was filled with storm clouds then, but the industrious Ting always found a way to make hay.

To put himself through college and help his mother with the daily house expenses, he worked from 6 a.m. to 6 p.m., seven days a week, at Elizalde Rope. After work, he attended night classes from 7 p.m. to 10 p.m. at the University of the East (then called the Philippine College of Commerce and Business) where he got a degree in Bachelor of Science in Commerce. "It was the simplest course to take that's why I chose it. I did not have much time to study," he says.

The rigid hours, however, did not stop him from his personal pursuits. Even if he didn't have much in life, he says, he was always rich in friends. He would find the time to go out with his "barkada" and would go home at 4 a.m. His mother would wake him up at 6 a.m. and serve him a glass of milk with two raw eggs for breakfast. "And that's all I needed to keep me going," he says.

Filled with energy, he worked the long hours at daytime, studied hard at nighttime, and sometimes found himself deeply in love in between. At one point, he would walk the stretch from P. Guevarra in San Juan to Shaw Boulevard in Mandaluyong in the evening after visiting his girlfriend. "I did not have money for transportation so I had to walk, even on dark alleys," he says, relishing his days as a gentleman caller.

He would automatically give more than half of his P300 monthly salary to his mother and set aside the rest for his personal expenses. "I did not have a lot of money so I did not have any personal savings," he adds.

"We sold insurance the same way it is sold all over the world until this day: face to face, eyeball to eyeball. That's why it's important for a person to tell the truth and have integrity."

## TURNING THE TIDE

While working at Elizalde Rope, he chanced upon a former classmate, Julian Saenz, who was an agent at Insular Life. "You're alright now, but what if something happens to you? Who would take care of your mother?" Mr. Saenz told Mr. Ayllón, who was then in his twenties. "I didn't want my mother to suffer the same fate again when my father passed away, so I bought insurance," he says.

His first life insurance policy with Insular Life had a ₱10,000 amount of insurance, with his mother listed as principal beneficiary. Little did Mr. Ayllón know that the insurance would not only secure his family's financial future, but also lead him to a path of certainty.

When his former classmate sounded him off about a job opening at Insular Life, Mr. Ayllón grabbed the opportunity. In 1955, at age 24, he became one of Insular Life's 200 employees, starting out as a junior clerk at its Head Office on Plaza Cervantes near Jones Bridge in Quiapo. His starting salary of less than ₱200 a month was less than what he used to earn at Elizalde Rope, but he did not mind. Insular Life did not make him work on weekends so it gave him time to attend Sunday mass at 6 a.m.

At Insular Life, he also had the fortune of working under two men with strong work ethic and integrity, which helped mold Mr. Ayllón's character as an employee. He considers Jose M. Olbes, former president of Insular Life, and Antonio Diokno, his boss when he was in Group Insurance, as his career role models.

It was in the company that he learned to get along well with people and not to be careless with the truth. "We sold insurance the same way it is sold all over the world until this day: face to face, eyeball to eyeball. That's why it's important for a person to tell the truth and have integrity," he says. "Mother always taught us to tell the truth. It was embarrassing or shameful to be caught lying in our family. Even if it goes against you, you have to tell the truth."

## A GUARDIAN FOR ALL

Facing uncertainty early in life taught him to value financial security. From his humble beginnings as a junior clerk until now that he is Chairman of the company, Mr. Ayllón has bought almost every insurance product that Insular Life has offered. "I don't believe in being over-insured. Insurance is the only thing you will leave behind to your family, and when it comes to your family, there's no such thing as more than enough," he says.

This very Filipino trait of looking after the welfare of his family also makes Insular Life under Mr. Ayllón an endearing and enduring institution. "Our people enjoy working for us because we take care of them. In fact, most of our full-time employees own their homes. For Filipinos, that's a big source of pride and confidence," he says.

In the face of a continuing influx of foreign competition, he believes that Insular Life would remain as the No. 1 Filipino insurance institution because of its people. "We are the best in Asia because our people are happier and can compete," he adds.

Like a true *padre de familia*, Mr. Ayllón also believes in leadership by example. And being in the business of insuring people's lives and property for the long term, this means honoring your word.

"Many insurance companies in the country had left after the Liberation because Filipinos could not afford to buy insurance. There were also many insurance claims after the Japanese killings and US military shellings destroyed lives and property. But Insular Life remained and we paid all the insurance claims," he adds. "The company suffered heavy financial losses when Japanese money was demonetized after World War 2. But what did we do? All the claims were honored and paid."

Mr. Ayllón says this was why it was important for Insular Life to open immediately after Super Typhoon Yolanda hit last November 2013 and resume operations to pay all the claims. "We remained standing even after World War 2, so we also remained standing after (Typhoon) Yolanda; it's in our character," he stresses.

It is because of this that Mr. Ayllón is certain that the day will come when Insular Life would emerge as the No. 1 insurance company in its own country. "We are now the No. 1 Filipino insurer in the Philippines. We surely want to become the No. 1 overall in our own country," he says.

And with a clear vision, Mr. Ayllón paints a future where Insular Life reigns in the hearts and minds of its policyholders and its employees, where millions of Filipinos enjoy economic prosperity and financial security, where his family finds fulfillment, and where the fruit of his hard work enriches the lives of others.

The boy who grew up knowing the face of uncertainty had felt his way through life, and let his heart guide him like a lantern in the dark. Now he is filled with certainty that the future will be brighter because he has kept faith and has been richly blessed.

# TO LOOK OUT FOR OTHERS

**"From commission to mission" is how Pedro "Pedy" and Teresita "Tessie" Arela would sum up their decades-long career in insurance. Initially lured by its seemingly boundless financial rewards, this power couple from Cebu shifted their focus and began to look at insurance as a way to help people and serve God. They had never looked back since.**

Some 30 years before setting up their own general agency in 2002, Pedy and Tessie were both working students in the early 1970s. By day, they were accountants of two big hospitals in Cebu; by night, they were burning the midnight oil as students.

After getting married in 1974 and having their first child soon after, Pedy realized that his income as an employee, no matter how hard he worked, would never be enough for the kind of life he had envisioned for his young family.

"Tessie and I both came from poor families so we know how hard it is. We vowed never to let our kids experience that kind of life," he said.

Even so, quitting a regular job to sell insurance was a daring move. If there was one thing that finally convinced him to join Insular Life, it was his firm belief in the value of insurance. He had processed claims for a hospital, and he had seen with his own two eyes how it could provide a lifeline for those in dire need of support.

"My first job was really an eye-opener for me," he said. "Insurance doesn't only matter in death. Even in good times, it gives you a certain peace of mind."

This unwavering trust in Insular Life products helped Pedy move up his selling career. After just three years as an agent, he became a unit manager in 1980 and a district sales manager in 1989. By then he was handling 11 unit managers and almost 300 agents.

"It has never been difficult to sell Insular Life products because we have a history to tell," he said. "We're the only Filipino company fighting with international giants. That should tell you something."

For her part, Tessie, who had years-worth of experience selling products from cosmetics to Tupperware, sold insurance on the side until she finally joined the industry full-time in 1985. She gave birth to three more kids while she and Pedy were starting to build a reputation as the power couple of Insular Life in Cebu.

"I would bring the kids to sales calls," Tessie said, laughing. She would be carrying Pia, her youngest, with the three other kids in tow.

In a way, it was a foreshadowing of how the two would get the entire family involved in the insurance business. It was not uncommon for insurance to come up during dinner conversations, they said, with their children increasingly becoming curious about what it was that they were parents did.

**"It has never been difficult to sell Insular Life products because we have a history to tell."**

"But more than that, our actions spoke louder," Pedy said. "They saw how insurance was helping us. They saw how it was helping others and affecting people's lives."

Along the way, the couple also realized how selling insurance was aligned with their spiritual beliefs, how it allows them to serve God and fellow Filipinos. As active members of Couples for Christ, they said the sense of fulfillment and joy that come from helping people only proves that this is their true purpose in life.

When they set up The Great Provider General Agency in 2002, Pedy said it became a way for them to realize a long-held vision: for their children to eventually join them in the industry that had nurtured their family from the beginning.
Jay Peterson, 37, is now vice president for administration; James Michael,34, is vice president for operations; and Pia Marie, 31, is vice president for finance and soliciting official. Pamela Vivien, who is based in the US as a nurse, is also a member ofthe board.

The high-performing agency also became an avenue for the couple to pay it forward. From 17 agents, the general agency has since grown to 200 agents, most of them now enjoying vastly improved lifestyles, Pedy said. "We have a clear career path for our agents," he explained. "We train them, and we see to it that they are constantly moving up."

Inspired by these success stories, Pedy said he does not plan to retire anytime soon. "For as long as I can stand up and walk, I'll continue on," he said. "After all, insurance doesn't feel like work to me. It's a passion. It's a way of life."

Mr. Arela serving as an offeror during a Holy Mass celebrated by the late Pope John Paul II, for the 1995 Quadricentennial Mass and 10th World Youth Day, PICC, Manila

Mr. and Mrs. Arela (Center) with their children:
(Front row, L to R) Pamela A. Dingal, and Pia Marie L. Arela;
(Back row, L to R) Jay Peterson L. Arela, and
James Michael L. Arela

# HARVEST TIME


**An Insular Health Care client and Insular Life policyholder reaps the fruits of her labor, living a spirited life with ageless boundaries.**

Her life is hardly soap opera material, but it has its fair share of adventures.

At 22, almost right after earning a pharmacy degree with *magna cum laude* distinction at the University of Santo Tomas, Gloria Sta. Ana married the man she loves.

"I excelled in school, but I prioritized love. My mother's only condition was for me to graduate. I wasn't even offered any incentive to work," recalls Mrs. Sta. Ana, radiating with a zest for life that makes her look so much younger than 62, her current age.

The mother of three believes it's not just that God is playing favorites nor that the stars are aligned in her favor; her hard work, prayers and bold decisions are all paying off.

A registered pharmacist and savvy entrepreneur, Mrs. Sta. Ana hails from a family of pharmacists: from her parents and three aunts to her two sisters. But she did not neglect the practice even as she wedded early in life. To this day, she runs a retail drugstore a few blocks from her lovely home. Aside from it, she and her husband, Bill, manage their condominium building for residential lease right next door.

She looks back at their humble beginnings as a couple. In 1978, her husband grabbed an opportunity to work as a civil engineer in Nigeria. She went with him and got her first job in the same country as a healthcare professional. When they returned in Manila in 1985, they pooled their savings and bought a three-door property that includes her mother's small pharmacy.

"We started humbly and took baby steps in investing – we had savings and tried our hand at lessorship, given my husband's construction background," she said. "We were raising our kids, all of whom have now graduated from good, reputable schools, and are establishing careers for themselves."

The sweet smell of success continued to pervade her life as her family's rental property and pharmacy businesses boomed. The good life she now enjoys is partly the sum of her and her husband's smart investments and keen eye towards setting up nest eggs. These include their Insular Diamond Life plan, a whole life product that they purchased from Insular Life in 1987. The plan's cash value has grown sufficiently over the years, so much so that it is now enough to cover their semi-annual premium payments.

## VIGILANCE PAYS OFF

Mr. and Mrs. Sta. Ana have been Insular Health Care clients since 1994, first through a corporate account, and later, in 2001, as individual members. Mrs. Sta. Ana uses her Insular Health Care card even for the slightest symptoms, and goes for frequent physical examinations. "I would really go to the hospital, meet up with the doctor, and take the right test. With the free time on my hands, it's the right thing to do – make use of what I pay for," she said. "*Konting kirot lang* [with the slightest ache], I use my plan benefits."

With her level of vigilance, Mrs. Sta. Ana said it won't be a surprise if she ends up being an acquaintance of all of the accredited physicians at the Insular Health Care clinic in Makati.

Indeed, closely watching her health has paid off. In 2011, she experienced an extreme back pain that even a string of prescriptions and back massage cannot eradicate. "I didn't take steroids because I'm a pharmacist and I know their efficacy," she said.

Eventually, she had to undergo surgery, which was successfully conducted. Mrs. Sta. Ana has since learned to deal with her ailment gracefully.

"Whenever I feel pain, I just manage it and rest. I whisper to the Lord to help me," said Mrs. Sta. Ana, a member of the Light of Jesus (LOJ) Family, where her husband is also an active lay minister.

Bill, for his part, admitted he enjoys doing "apostolic duties". By "apostolic duties," he means taking care of his "apo" or "grandchildren". Both he and his wife look forward to bonding with their grandkids for several months every year, either in the U.S. or at home in the Philippines, trying their best not to miss that window of opportunity to take care of them while they can.

It's these little things that get the best of Mrs. Sta. Ana and her better half, who enjoy traveling together to different parts of the world and using their senior citizen benefits, such as watching movies for free.

A precious lesson Mrs. Sta. Ana abides by: do it, even if the reward is not yet in sight. For one, she did not think twice about putting her money in interconnected life targets: getting comprehensive yet affordable medical care, and cementing a secure future for herself and her loved ones via life insurance.

"You have to deal with years of paying and paying, seeing little value in it at first. In the end, you will see the pot of gold that you did not see in the beginning," she said.

## INVESTING IN TIME

Even as she and her husband continue to be hands-on in their businesses, Mrs. Sta. Ana puts a premium on optimal health in her sunset years. She takes control of her diet (especially in the U.S., she said, where huge food servings are the norm), and drinks vegetable juices at night as often as she could. She used to go to the gym, but now sweats it out on her own by following free zumba, pilates, and yoga videos on YouTube – a bright idea she got from her youngest son.

The couple are avid travelers: they've been to Asia, Europe and the east and west coasts of the U.S. As with their other ventures, they make sure that they prepare for these trips sufficiently. In fact, right now, they are making travel plans for their 40th wedding anniversary, in September.

## SOMEONE TO WATCH OVER THEM

Whenever she looks back, Mrs. Sta. Ana dares not omit the hard, uncertain times. After all, these are the events that strengthened their family's faith in God.

She recalls, for instance, that "We had to get a considerable amount of loan to put up our building next door." This was a huge risk for them. So they promptly backed it with their fervent trust in God. Today, they tell friends and acquaintances that the property was built on prayers.

**"You (will) have to deal with years of seeing little value in it at first. (But) in the end, you will see the pot of gold that you did not see in the beginning."**

Like finding that one strong institution to entrust her healthcare and life insurance needs with, she is content that her life led her to her partner for life. "It's harvest time for Bill and I, and what we have dreamed of is now within reach. None of this would have happened without God's divine providence and guidance. He blessed all of our labors abundantly."

# THE HEART FOR A COMPASS

**From ensuring just compensation for Filipino seafarers when it was born more than 50 years ago, AMOSUP has transformed into uplifting the quality of life of its member-seafarers' families and communities.**

Filipino seafarers make up a staggering one-third of the world's crew fleet today. In such a risk-laden, highly competitive profession that entails sailing far away from their homeland, they have found their mooring in a labor union organizing and fighting for their needs.

Thanks to the visionary Captain Gregorio S. Oca, the Associated Marine Officers' and Seamen's Union of the Philippines (AMOSUP) was formed in 1960 at a time when there was still no structured organization for Filipino seafarers. Out of his concern for the plight of the licensed crew of shipping companies, Capt. Oca helped address issues on giving just compensation and high-quality maritime education and training.

"My father had always believed that decent ship owners will not entrust their vessels and charted cargo worth hundreds of millions of dollars to officers and crew members who do not know how to operate them safely and efficiently," recalls Dr. Conrado F. Oca, current president of AMOSUP and son of the late captain.

"It was a truly pioneering move he made as there was no structure in place back then. Filipino seamen simply went onboard commercial ships and accepted meager wages out of fear of losing their job," he explains.

## AT THE HEART OF AMOSUP

AMOSUP is affiliated with the Philippine Transport General Workers Organization (PGTWO) and the International Transport Workers' Federation (ITF). Belonging to this international network is important as there are currently around 400,000 Filipino workers in the industry.

Now organizing about one-fourth of the total Filipino seafaring force, AMOSUP has since been anchored on many key services. Foremost of these is securing fair wages and acceptable employment terms, and conditions through collective bargaining agreement (CBA). From the CBAs emanate "womb to tomb" benefits and services, from healthcare to a provident fund.

Quality training and skills upgrading is offered through the Seamen's Training Center, which initially offered pre-departure seminars. The Professional Career Development Center was also established and comprises a faster licensure track through a computer-based, Professional Regulation Commission-manned center to upgrade qualified ratings and respond to the global shortage of maritime officers.

In 1998, AMOSUP took the reins in instituting world-class education through the Maritime Academy of Asia and the Pacific (MAAP), situated in Kamaya Point in Mariveles, Bataan. MAAP is home to four-year baccalaureate programs in marine engineering and in marine transportation. Students also attend a year of total immersion in shipboard training through MAAP's own training vessel, the T/S Kapitan Felix Oca.

Like his father, Dr. Oca puts a premium on continuing education. "When you graduate, you're not even assured of any position. You have to undergo constant training and upgrading. Today's technology even more makes it a lifelong learning process," he stresses.

AMOSUP also looks after its members' welfare and quality living through various programs that include the Sailors' Home, a dormitory that allows more than 300 transient sailors to stay free of charge; the Slop Chest, which provides grocery items and appliances on a credit basis; the Seamen's Village for medium-cost housing; and the Welfare and Mutual Benefit Plan (WMBP) and the Widow/Widower Survivorship Pension Fund for a fixed regular stream of funds on top of existing death benefits.

Slop Chest branches are also present in key cities and there is a multipurpose activity center in Cebu and Davao, where members can avail of a resort-type facility where they enjoy a swimming pool and family bonding over barbeque.

Another key benefit of AMOSUP members is free healthcare access at the Seamen's Hospital, now found in Manila, Cebu, Iloilo, and Davao. A clinic has also been set up in Pangasinan to serve its members in the locality. One recent milestone in healthcare and protection is a recently acquired brand-new 160-slice CT scan in the Manila hospital.

Dr. Oca dreams of having a cardiac catheterization laboratory at Seamen's Hospital. He says many seafarers suffer from cardiac, as well as digestive, issues.

AMOSUP is limited by hospital space and other factors, but there's no stopping it from expanding its reach. Members and their qualified dependents who cannot go to Seamen's Hospital are covered by the Insular Life Group Hospitalization Insurance Plan, a reimbursement plan paying for hospital expenses resulting from sickness or injury.

Committed to the well-roundedness of its "cradle-to-grave" offerings, the labor union also foresees other times of need. Since 1996, it has been availing of the Group Life Insurance Plan, intended as an income replacement program. The plan provides life coverage – with waiver of policyholders' obligation to pay further premiums should they become seriously ill or disabled – to all regular full-time employees and seafarers on board, including repatriated ones.

In 1997, the union also installed a plan for its borrowers through the Creditors Group Life Insurance Plan, which offers life coverage with Total and Permanent Disability (TPD) rider to all present and future housing loan awardees. It serves as a security blanket for them and their loved ones when they die or become totally incapacitated to be able to pay their outstanding housing loan balance.

AMOSUP knows that welfare programs for their members and employees spell a radical difference in their lives. Since the beginning, it has worked only with Insular Life as its insurance provider. "I have no point of comparison because I don't deal with others. It's Insular Life or nothing. Optimal benefits are what we bring to the table – and compromise will never be a part of it," Dr. Oca explains.

## NO SHIP 'ABANDONED'

Hundreds of thousands of Filipino seafarers, however, still need to be organized; there is also a call to get more promising students enrolled in the maritime academy, which offers full scholarship. "(Organization) is the essence of a labor union. For example, those who are left in an 'abandoned ship' are given a helping hand," Dr. Oca says.

Ship owners would sometimes choose to leave their ship in the middle of a voyage, to cut their losses. Crewmembers are then left helpless at sea, with not a cent handed to them as wages. With the sea vessel as their only collateral for compensation, the abandoned crew is forced to stay put and hold on to their only possible source of remuneration. When AMOSUP is called on for assistance, they send boatloads of food to the beleaguered seamen.

> **"Optimal benefits are what we bring to the table – and compromise will never be a part of it."**

Other issues hound Filipino maritime workers, such as fatigue. More and more tasks are assigned to officers onboard, especially with the goal of faster cargo turnaround, which affects operations and safety. Filipino ship captains and officers also bear the brunt – the criminal liability – of coastal and environmental accidents.

Victims of piracy are another focus, as there are those who have been held captive for years and were harassed every day. Unfortunately, a number of them were unable to save up for the proverbial rainy days. AMOSUP caters to their needs through various welfare programs.

## AGENTS OF CHANGE

Dr. Oca believes that the world's eyes are on the Filipino seafarer. "Competitors, regulating agencies, and international

Dr. Conrado F. Oca

federations are looking at us. The biggest challenge is to stay on top. Resources should be poured out on training, education, values formation and work ethic," he adds.

While pursuing excellence, Dr. Oca and AMOSUP make sure that the heart of giving and looking after each member and their loved ones are not lost along the way. By helping improve their lives, seafarers become agents of change and uplift the communities they live in, and this sparks economic progress.

Beyond the material aspects, AMOSUP is also conducting lectures on coping with loneliness and other psychological effects of having a seafarer family member.

Financial literacy talks are also underway to help seafarers' families save up for the future.

Ship owners and foreign marine officers often tell AMOSUP officials that when you ask Filipino workers to fix the door, they will not only do so, but also paint the walls. So whenever asked why the Filipino seafarer is worth investing on, Dr. Oca always retorts: "There's always that value-added service that creates a powerful synergy with our flexibility as humans. It's going the extra mile and making the extra effort to do more."

It's this heart for service that makes them sail forward – and keeps AMOSUP and the Filipino seafarers buoyed for life.

# EMPOWERING MORE TO REACH THEIR DREAMS

Insular Life has grown for more than a century on the belief that corporate social responsibility (CSR) not only helps the business, but also defines the role that we can and should play in society. This also aligns with our role as far-sighted guardians, as we help Filipinos reach their dreams and secure their future.

For almost 50 years now, the Insular Foundation, Inc., our CSR arm, has been implementing programs with a holistic view of the needs of communities — on education, environmental conservation, and disaster relief efforts. We aim to generate positive outcomes in a way that supports long-term community relationships, brand, reputation and business.

## INVESTING IN EDUCATION

Securing the future means investing in education. For us at Insular Life, giving people, especially the underprivileged, access to basic education also means enabling them to break away from the cycle of poverty and inequality.

In 2013, Insular Foundation sustained its various investments in education and forged new partnerships.

## SCHOLARSHIPS

Through the Insular Gold Eagle Awards, the Foundation recognizes and rewards class valedictorians every school year from a select list of public and private high schools in the Philippines. In School Year 2013-2014, Insular Foundation awarded gold medals to a total of 985 high school valedictorians, of which 80 percent were from public schools.

Aside from bestowing this recognition, the Insular Gold Eagle Awards also provides scholarship grants to academically gifted individuals to encourage them to join the teaching profession. This way, we are able to help raise the quality of educators in the country.

Medal recipients of the Insular Gold Eagle Awards are offered the opportunity to vie for the ten slots at the Bachelor of Science in Education of the University of the Philippines in Diliman, Quezon City. In 2013, a total of 36 scholars in various college levels were under the program. The scholarship covers tuition, miscellaneous fee, book allowance, transportation allowance, and stipend.

The Gold Eagle scholarship program has also produced two graduates in 2013. They were Filane Mikee Z. Cervantes, who graduated as *magna cum laude* after completing her degree in BS Secondary Education major in Communications Arts-English; and Katrina G. Villar, who was cum laude after obtaining a degree in BS Secondary Education major in Chemistry, both in UP Diliman.

In addition to BS Education, the Foundation also extends scholarship grants to two qualified students taking up the BS Mathematics program at UP Diliman, every year.

Being a far-sighted guardian also entails looking after the welfare of your own people. Insular Life thus also provides scholarship grants to qualified dependents of its employees. In 2013, there were eight scholars under the program.

## LITERACY

Continuously reaching out to the Filipino youth, Insular Foundation has been bringing its Literacy and Storytelling caravan around the country to launch and donate original storybooks focused on financial literacy. It also hosts book-themed parties for select underprivileged students, and introduces kids and educators alike to the art of storytelling.

On its fourth year, the caravan journeyed in Puerto Princesa City in Palawan, where Insular Foundation partnered with the Department of Education Region IV. Students of ten public elementary schools in Puerto Princesa listened to 100 children's stories read by Adarna House storytellers in a series of storytelling sessions. A total of 69 teachers learned to better engage students and inspire them to read through storytelling workshops. A book-themed Christmas party for 30 under-privileged students of Tagburos Elementary School capped the caravan.

Insular Foundation also turned over 500 copies each of its four Insular Foundation storybooks, as well as other assorted children's books, to DepEd Puerto Princesa. The Foundation gave complimentary copies of the books to each participant of the storytelling sessions and the workshop, as well as copies to the libraries of the ten public schools that the storytelling caravan visited.

## PARTNERSHIP

To magnify its impact on education, Insular Life partners with like-minded and same-purposed organizations which can reach out to more underprivileged Filipino children.

In 2013, we partnered with Knowledge Channel Foundation, Inc. to provide 15 public secondary schools in Batangas with Knowledge Channel's On-Demand (for K to 12) package, which aims to enhance teaching and learning through the use of videos, interactive e-learning modules and games in the classroom. The 15 packages, worth ₱1.5 million, consist of laptops preloaded with Knowledge Channel-produced educational videos that follow the K-12 curriculum; LED TVs; and the training program called Learning Effectively through Enhanced Pedagogies (LEEP) for teachers.

Through the LEEP training, teachers will be able to learn how to apply K to 12 curriculum concepts in the classroom and ensure that teaching approaches result in effective learning as well.

## VOLUNTEERISM

Our employees also help magnify our efforts in providing underprivileged children greater access to education.

Since 2003, Insular Life employee volunteers have been supporting scholars in grade school by donating a year's supply of school supplies, a set of uniform, school shoes or bags, and storybooks. Scholars are selected from the children of inmates, prison guards, employees and residents of the New Bilibid Prison. As of 2013, there were 77 scholars in grade 5 and 94 in grade 3.

## OUTREACH

Insular Foundation also embarked on various outreach activities in 2013:

▪ Monetary donation to Itaas Elementary School for materials needed for cleaning and repainting of school premises and facilities under the DepEd's Brigada Eskwela program;

▪ Donation of 1,000 sets of school supplies and bags to three schools in Bataan, one of the provinces hardest hit by the southwest monsoon rains brought about by Typhoon Maring which hit the country in the middle of August 2013. This was in response to the DepEd's appeal to private institutions for school supplies and bags donations to help replace books and learning materials destroyed during the typhoon.

Insular Life Chairman of the Board and CEO Vicente R. Ayllón (standing, 5th from left) welcomed Insular Gold Eagle scholars Claire Olaivar, Christine Prieto, Ria Manuel, Teresita Curada (seated, 3rd to 6th from left), Jannico Cabañero, Vergel Reyes, and Pierre Moncal (standing, 3rd, 4th and 6th from left). Also with them were (seated, L-R) UP Office of the Scholarship & Student Services (OSSA) Joyce Evangelista; Insular Foundation trustees Mona Lisa dela Cruz and Susan G. Nicolas, and UP OSSA Angela Francisco; (standing, from left) Insular Foundation Staff Kristine Michelle Tingzon, Insular Foundation Administrator Ana Soriano, Insular Foundation trustee Jesus Alfonso G. Hofileña and Insular First VP Ramon M. Cabrera. (Not in Photo: Scholar Kristian Andres)

## ENGAGING OUR EMPLOYEES

Every morning of the third Saturday of the month since 2012, Insular Life employee volunteerism has been at work in the Gawad Kalinga Manggahan-Kawayanan site in Marcelo Green, Parañaque City.

In 2013, employee volunteers sustained their commitment by conducting various educational activities for 65 kids from neighboring poor villages at the GK Tambayani Center that Insular Life donated to the site in 2010. Topics ranged from personal hygiene to saving up for the future.

## HELPING REBUILD LIVES

Insular Foundation also came in solidarity with the nation in reaching out to Filipinos whose lives and properties were affected by the spate of calamities in the latter part of 2013.

Together with Insular Health Care and its employees and agents, Insular Life repacked hygiene kits (comprising of bath soaps, face towels, toothpastes, toothbrushes, alcohol and shampoos) and food packs. These were donated to the survivors of Super Typhoon Yolanda who were flown to Manila and temporarily sheltered at the Villamor Airbase Grandstand.

The Foundation also made donations to Caritas Manila and to La Immaculada Concepcion Parish/ Mision dela Compania de Jesus, Culion Chaplaincy, as well as pledged to assist in the rehabilitation work in Yolanda-devastated areas.

In the coming years, as we strive to adapt to the evolving needs of society and contribute to the overall wellbeing of Filipinos, we will continue to reach out to the underprivileged and share the fruits of our continued success as a business.

# A TRYING TIME, A TIME TO SOAR


Team One (L-R): Francis Valiant Blancas, Randy Quimbo, Dick Aquino, Giovani Gallito, Jofran Abrigana, and Dwight Ike Bernas

There are trying times that test men's souls. And amid the darkness and the destitution after Super Typhoon Yolanda, one company found its soul tested and its spirit as a Filipino company soared, unbroken.

It was a moonless night; even the stars were hiding between limitless banks of clouds. But it was far from being a good and restful night in Tacloban City.

All over the city were thousands of dead people and animal carcasses strewn in the streets and fields. The stench of death was nauseating. Mosquitoes were hungry for blood. But hungrier still were the people who survived the winds that screamed at a sustained 195 miles per hour, and the storm surge that pummeled through their homes as Super Typhoon Yolanda hit the Visayas region in November 2013.

On November 26, 2013, Insular Life deployed a six-man team from its Head Office to temporarily take over the operations in Tacloban City and offer immediate assistance to policyholders affected by the typhoon in the province.

The members of the first team were: Arnaldo "Dick" Aquino, senior assistant vice president and regional head for Central East Visayas Regional Office, who acted as team leader; Randy Quimbo, unit head of Branch Management Information Services Unit; Dwight Ike Bernas, regional sales staff of Central East Visayas Regional Office; Francis Val Blancas, district administrative supervisor for Cebu District Office; Jofran Abrigana, teller at Cebu District Office; and Govanni Gallito, customer care specialist at Cebu District Office.

The six men took on the one-week assignment with a brave heart. Three other teams were deployed by the company on the succeeding weeks, with two being led by senior assistant vice president Jose S. Padilla.

Seeing the TV news that had started to trickle in, the first team was prepared to see the devastation. But as soon as their plane landed, they still could not believe what they saw on the ground.

The only sign of the airport was the runway. Much of Tacloban City had been destroyed; homes and buildings lay in heaps of rubble. "We were speechless. Nothing was spared," says Randy Quimbo. "I was used to hard living, but I'm not used to seeing death."

Realizing the gravity of the situation, the team immediately mobilized and prepared for their mission: to service policyholders' death claims, policy loans, dividend withdrawals, and maturity benefits. Two of their members who came from Sales and Marketing were also on a second mission: to locate and help out the agency force affected by the typhoon.

To allow the regular staff of its Tacloban office to recover from the traumatic experience of Typhoon Yolanda, Insular Life flew them and their families to Cebu and booked them in a hotel for a much needed rest.

## A LITMUS TEST

Dealing with policyholders who have just gone through a tragic experience demanded "a different type of customer service," says Mona Lisa B. de la Cruz,

The Insular Life Tacloban building sustained only minimal damages after Yolanda's fury

Insular Life, executive vice president, treasurer and head of the Administrative Operations Group. "We want our customers to feel Insular Life is there, whether in good times or in bad. That's why we pulled all the stops to respond to their immediate needs."

As most of those in Tacloban and Ormoc have already lost all their belongings, the Company decided to relax its rules on customer identification. The team came with a customer database extracted from the Head Office and used this as reference in validating information from the policyholders.

"We needed to authenticate the identity of the customer, as well as the transaction being applied for. Fortunately, most of our customers still had some means of identification, and this made it easier for us to proceed with the release of benefits," Randy explains.

The policy of leniency also included the immediate release of benefits up to a maximum of ₱50,000 per beneficiary. "We made an arrangement with our local bank partner in Tacloban to allow the encashment of checks issued by Insular Life so our policyholders will have immediate cash they can use to fund their needs," adds Ms. de la Cruz. True enough, most of the typhoon survivors who applied for loans and withdrew dividends used the money to buy tarpaulins that served as temporary shelter as there was no supply of construction materials yet at the time.

Ms. de la Cruz says Insular Life also donated mobile phones to the local government unit for faster validation of policyholders' claims.

The three-storey Insular Life office building in Tacloban, was among the few structures that "miraculously" survived the surge almost unscathed.

Standing strong amid the rubble, the Insular Life building served as a symbol of hope and Filipino pride — traits that the company possess — as it provided temporary shelter for some tenants and their families, and later the office of a United Nations agency engaged in relief operations.

"Our people went all the way to the emergency relocation sites to announce that we are open and ready to service their claims," says Jesus G. Hofileña, Insular Life executive vice president and head of Sales and Marketing. "For us at Insular Life, this experience tested our mettle, not just on the business side, but as a humanitarian organization."

For Insular Life President and Chief Operating Officer Mayo Jose B. Ongsingco, who headed the Crisis Management Committee (CMC), the entire organization went through a "live exercise" to face a different kind of crisis.

"Every year, we conduct our regular disaster recovery drill; this one (Yolanda experience) was no longer a drill; it was a live exercise. We have a business continuity plan in place, but it was never tested in a situation where everything is literally gone. Phone calls, text messages and emails were already flying among the CMC members on the day after Yolanda hit and business continuity meetings started in earnest. But we were prepared to deploy and do everything possible to help out our policyholders and our teams on the ground," he adds.

## HARD REALITIES AND REALIZATION

On the first working hour of November 26, 2013, Insular Life made history in Tacloban City as the first life insurance company to re-open after Super Typhoon Yolanda hit. The team members realized the importance and urgency of making this milestone as soon as the first policyholders walked in.

A couple who had just lost one of their sons from drowning in the storm surge fought back tears when they came into the office to file a death claim. The grief-stricken father recounted his emotional agony when he was trying to give his son a decent burial.

"They could not reach the cemetery because the road could not even be seen due to the debris. They were forced to go to the common burial ground where they dropped his son's body and buried it together with everyone else's. I knew he wanted to do more for his son, but it was the most decent that he could do during that time. I could feel the pain in his voice as he hurriedly wiped the tears in his cheek," says Team 1 Leader Dick Aquino.

To the team's surprise, there were more policyholders who trooped to the office to pay their premium than those who filed claims. This pattern held for most of the company's Yolanda-related operations in the city from November 26 to December 21, 2013, such that there were more collections received than benefits paid out.

"When you face such a horrible experience, it's when you start to appreciate the value of insurance," says Mr. Hofileña. "Some even bought new insurance policies. So as soon as our Ormoc office reopened, our agents started submitting new applications for insurance. Our collection was larger than the claims because people needed to secure their money, also because security became a serious concern in the area when people started looting out of desperation and hunger."

## DEALING WITH DARKNESS

Being on "ground zero," the first team deployed had to deal with the day-to-day realities of living with nearly nothing.

### TEAM 1
(November 26-29, 2013)

Arnaldo A. Aquino – RH CEVRO
Dwight Ike A. Bernas – RSS Cebu
Randy N. Quimbo – BMD Head
Francis Valiant M. Blancas – DAS Cebu
Giovanni M. Gallito – CCS Cebu
Jofran S. Abrigana – Teller Cebu

### TEAM 2
(December 02-06, 2013)

Jose A. Padilla – SAVP, PHSD CEMC
Carlito L. Villarin – Regional Coordinator
Randy N. Quimbo – BMD Head
Jonnel A. Arong – DAS Tacloban
Giovanni M. Gallito – CCS Cebu
Cornelio V. Jancorda Jr. – Teller Iloilo

### TEAM 3
(December 09-13, 2013)

Jose A. Padilla – SAVP, PHSD CEMC
Jonnel A. Arong – DAS Tacloban
Dale P. Patigas – CCS Bacolod
Mae R. Diaz – Teller Tacloban

### TEAM 4
(December 16-20, 2013)

Jonnel A. Arong – DAS Tacloban
Eric S. Baccay – Supervisor PCC
Mae R. Diaz – Teller Tacloban

Randy Quimbo (standing, center), Branch Management Information Services Unit head, and Francis Valiant Blancas, Cebu DAS (seated, facing camera, extreme right), assisting policyholders who visited the Insular Life Tacloban office when it opened a few days after the Yolanda disaster

All the hotels in Tacloban City were fully occupied by various relief groups, so the Insular Life team was forced to stay in the company's office building.

The office operated from 9 a.m. to 3 p.m. using a generator set brought in earlier from Cebu by the Insular Life engineers who also restored the building's deep well, as there was no electricity, no cell phone service, and no clean water supply. "*Pag naligo ka, hindi na bumubula ang sabon sa dumi ng hangin* (When you take a bath, the soap was no longer sudsy because of the dirty air)," Randy says.

When darkness came, so did the fear of lawlessness or of mosquito bites. Talk of hungry men trolling the streets for food, money and possessions easily filled their anxious minds.

"The sleeping bags we brought were uncomfortably warm in the humid night but we were forced to close them because of the pesky mosquitoes. I have not used mosquito coils or *katol* in a long while, but it was a good idea that Val lighted one. I sensed that the others were uncomfortable, too. Randy transferred from floor to sofa, and Val from tables to chairs," Dick narrates.

Hearing the team's plight, the Head Office responded immediately and looked for means to send mosquito nets. Through the help of the Armed Forces of the Philippines, a package of mosquito nets was flown onboard a C-130.

As communications facilities were down, the team was forced to rely on their own means and was unable to update their families in Manila about their situation. When the telecommunication providers were able to restore the lines on the second week, it was only then that the team was able to communicate via Wifi with Cebu and the Head Office.

## TALES OF SURVIVAL

All the inconveniences experienced by the team members, however, were nothing compared to what the survivors had to go through.

"One client had a wife who died months before Typhoon Yolanda hit. It was only after his house had been wiped out that he found the need to follow up on the death claim. He was suffering from concussions, but he had to forego medical treatment so that he can buy food first to feed his three kids," team member Randy says.

After finding most of her possessions destroyed by the storm surge, another client trudged through the rubble, through the bodies, and through the night to traverse the 11-kilometer stretch from her place in Palo to the Insular Life office in Tacloban to surrender her policy.

"On the way, she said she carried a plastic bag to pick up canned goods lying on the streets. She found dead people everywhere, but ignored them because she was searching for food. In Tacloban, she lined up to board the C-130 that would take her to Manila. She arrived in Villamor Airbase, and was given a meal with chicken *adobo*. When she saw the chicken's neck, she threw up. She said she remembered the dead people she saw on the streets. She was very traumatized," Randy adds.

On the third day in the province, team leader Dick Aquino conducted his first post-Typhoon Yolanda meeting and heard eight Insular Life agents share their tales of survival. "All of them had one thing in common: they are grateful to be alive," he says.

One of the agents, Ida Cabalona, was "even ecstatic to find shampoo and other feminine products in the relief packs she received from Insular Life. These are simple things that we take for granted during normal times," he adds.

There were also tales of heroism from Insular Life employees. One was of District Sales Manager Grace Berino, who was instrumental in identifying and locating many of the policyholders.

"Grace and I visited the Tacloban Astrodome that served as an evacuation center. When we boarded the pick-up truck to leave, I saw Grace take off her rubber boots and gave them to a lady. As it turned out, she was moved by compassion after she learned that the lady would have to wade in the muddy and urine-drenched ground to guide girls into an improvised toilet in the evacuation center," Dick narrates.

Grace came home barefoot, but happy to know that the lady could do a better job for the other evacuees in Tacloban. "The joke goes that one day she would come home wearing only her underwear because she might be tempted to give her own clothes to someone who needed it more," says Dick.

The message that became the battle cry against despair after Yolanda: Tindog Tacloban

Insular Health Care's Dr. Art Libao

"All of this was happening barely three weeks after a strong earthquake devastated Bohol and Cebu. We were not even done yet with our own relief operation for the victims of that earthquake, and we had to shift our effort on something that became more traumatic as it unfolded. But no one in Cebu was complaining. We knew that priority had to be given to the victims," Dick adds.

The worst in Yolanda brought out the best in Insular Life. As employees worked in solidarity and selflessly reached out to their colleagues, friends, families, and clients whose lives were turned around by Yolanda, many of those who became part of the company's mission came home with newfound faith in humanity.

Insular Life's post-Yolanda mission not only mobilized the employees from the Head Office, but also entire teams in Region 8.

On the ground, there were those who served as "first responders" to the tragedy. They were Unit Managers Edel-ann Tafalla, who was based in Catarman; Remedios de Guia in Catbalogan; and Anne Blanco in Calbayog. They found ways to purchase immediately needed relief goods, even spending their own money at first, and then had these transported to Insular Life's Tacloban office to help employees and sales associates.

While these areas, except for Ormoc City, did not suffer any direct damage, their operations, especially in the Insular Life Cebu Business Centre which served as the "nerve center," were also affected by the relief efforts for the Yolanda survivors.

"We were packing supplies almost every day for several weeks after Yolanda. Agents in Cebu City had relatives in places in the Northern Cebu like Daang-Bantayan, Bantayan Island, San Remigio, and other areas who also needed help. And they packed and transported goods for them, too," says Dick.

Employees in Cebu were also tasked to communicate with their colleagues from Ormoc, Tacloban and Calbayog, and eventually evacuate them to Cebu. They also looked for temporary housing for colleagues from Region 8 who lost their houses. Insular Life Cebu became the Insular Life relief operation center for the victims of the typhoon.

At the Head Office, employees of Insular Life and its subsidiaries, as well as agents and agency leaders, readily responded to the call for cash donations, which were used to purchase hygiene kits and food packs. Dr. Art Libao of Insular Health Care led the team of volunteers from Insular Life and Insular Health Care in packing all the donations, and transporting a truck-load of assistance to the Villamor Airbase where throngs of survivors from Tacloban were being flown in.

A ranger doing his foot patrol duties around Tacloban with a loud speaker on his back playing Christmas songs.

"Being in Tacloban made me appreciate what I have now. I did not grow up rich. *Lumaki ako sa tabla* (I grew up sleeping on a ply board for a bed). I knew how it was to be deprived of the basic inconveniences," says 40-year-old team member Randy, who also joined the second team deployed. "This one-week assignment has given me a short glimpse of my past life — it was like I went back to where I came from."

On November 30, a Saturday, the first Insular Life team ended their one-week mission in Tacloban City and boarded the plane back to Manila. They passed the torch to the second team. In addition to Randy and Gio Gallito from the first team, the second team was composed of team leader Jose S. Padilla, senior assistant vice president and head of Customer Care Unit; Lito Villarin, regional coordinator, Visayas-Mindanao Sales Division; Jonnel Arong, district administrative supervisor for Tacloban, and Cornelio Jancorda, Jr., teller from Iloilo. Two other teams were deployed every week until December 21, 2013 when business operations in the city, as well as in Ormoc City, had started to have a semblance of normalcy.

In his diary, Dick recounts Team 1's return journey: "It was time for us to go home. Our transport to the airport was running late. When the driver showed up, he was walking. He said he could not get a ride to get to his boss's house where the jeep was parked. We had to find another vehicle. While waiting in front of our building, I heard a Christmas tune coming loud from a distant source. As I looked over to my right, a group of soldiers in green camouflage was approaching. One of them was carrying what looked like an orange backpack. It turned out to be a loud speaker playing Christmas tunes. They were on a 'Christmas patrol'. It made me happy. This is Christmas for Tacloban."

It is said that disasters bring out the best in people. In the post-Yolanda mission, it brought out the best in Insular Life as a Filipino company.

"I'm with a company that really cares for its people. It sent me and my team on a mission, but before it did, it made sure we were ready and supported us all throughout. It's a company with a sense of mission and a sense of history — that in the midst of all these adversities, as it had proven in the past, it was capable again of responding to the needs of the people it vowed to serve," says Dick. "My team and I were strong, brave, and determined only because we knew that we have the entire force of Insular Life behind us."

*With photos from Dick Aquino, Dwight Ike Bernas and Jaybee Santos*

Insular Life employees and volunteers joined hands in packing relief goods for Yolanda survivors

# TAKING THE JOURNEY OF READING BEYOND THE PAGE

## TRAINING AND DEVELOPMENT

A book may be likened to a door to different worlds: a reader may step in and access a multitude of perspectives, realities, and experiences without having to physically go anywhere. In the process of this journey, his knowledge base is enlarged, and his understanding of the world is enriched.

But before any journey could begin, the reader must first open a book.

To Insular Foundation, bringing books closer to children was the ultimate goal of its literacy campaign. Stemming from a simple book donation program in 2005, the project grew over the years to include free storytelling workshops, book parties, development of original Insular Foundation storybooks for children, and a storytelling caravan (*dubbed 100 Years of Insular, 100 Beloved Filipino Children's Stories*) that goes to various schools in the country.

The project's humble beginnings are worth telling. In 2005, Insular Life began hosting annual book fairs where Filipino publishers offered the company a percentage of their sales through book rewards. The Foundation then donated these books to beneficiaries like Itaas Elementary School in Muntinlupa City, and Tuloy sa Don Bosco Foundation, which also included book donations from Insular Life employees.

Later on, Adarna House started to offer storytelling sessions as a reward. Further along, the rewards came in the form of storytelling workshops, which aligned with the Foundation's goal to reach enablers and build their competencies. With a steadfast partner and a program that's the first of its kind in the country, Insular Life went full speed ahead with storybook creation and a bandwagon of reading bugs.

## EARLY HEAD START IN LIFE

Insular saw the need to plant the seed of financial responsibility among children as early as possible, so it initiated a synergistic partnership with Adarna House. They produced four books to inculcate money values to various grade school levels.

"We believe that teaching children the responsible way of handling their money, regardless of the amount should start at a very early age, during their formative years. And we felt that the best way to teach kids is through stories that show real life situations that most of our children live through everyday," explains Insular Life Senior Assistant Vice President and concurrent Insular Foundation Administrator, Ana Maria Soriano.

The first two books — *The Luckiest Girl in the World* and *Christmas in February*, both written by May Tobias-Papa and illustrated by Isabel Roxas and Ariel Santillan, respectively — were launched in July 2010.

Present in the launch were students and teachers from Comembo Elementary School in Makati, Insular Life employees, and guests that included celebrity actor Dingdong Dantes, who read *Christmas in February* before an eager crowd.

Copies of the books were distributed free nationwide to the 1,000 public and private elementary schools that topped the Department of Education's National Achievement Test (NAT). They were read with 100 other storybooks during the Storytelling Caravan.

In 2012, two more books came out of the Insular Life-Adarna House partnership, boasting of a simpler story structure and a bigger book size, and were tested on select grade school students for narrative effectiveness. Children loved the characters Tala and Minggoy from *Wishing Well* (written by Annie Pacana-Lumbao and illustrated by Beth Parrocha-Doctolero) and *Bisnesboy Minggoy* (penned by Augie Rivera and illustrated by Liza Flores).

Adarna House vice-president Ani Rosa Almario says the storybooks were conceived at a very opportune time. "There was a push for children to be more responsible about money. The earlier the head start, the better — as early as age 4, they see things being bought at the grocery, material needs being fulfilled at home," she says.

Seeing the books distributed to public school students gave Almario greater satisfaction. "That is the segment you want to educate most about money," she adds.

## TREASURED TALES ON WHEELS

The storytelling caravan, *100 Years of Insular, 100 Beloved Filipino Children's Stories*, emerged with a pioneering concept: bring 100 children's stories produced by Filipino publishing houses to a hundred grade school classes in select areas in the country. A chosen story will only be told once by a storyteller during the caravan.

The goal was to pique children's interest in books as they listened to the storyteller, leading them to read more. In turn, this is expected to create a demand for teachers who are competent and engaging purveyors of such tales. These educators, for their part, are the focus of the Foundation's free storytelling workshop.

The Foundation also hosted book parties for select underprivileged students, and introduced kids and educators alike to the wonderful art of storytelling.

Insular Foundation mounted its very first book party for 30 elementary school students of Tuloy sa Don Bosco in 2008. One of the most memorable book parties it held, though, was in


December 2010 at the Bagong Tubig Elementary School in Cavite.

Located at a cliffside community in Tagaytay, it takes children an hour's trek to reach their school.

"It takes about 50 pesos to ride the *habal-habal* (motorbike), which was very expensive for them. There was no other way but walk," recalls Adarna House Business Development Manager Fiona Fajardo, one of Adarna's coordinators for the caravan.

Regardless of these trying conditions, Bagong Tubig was ranked 9th overall in the DepEd's NAT for grade 6 students in schoolyear 2008-2009.

The humble school's dedicated pupils and teachers resonated so well with the Insular and Adarna caravan team that they decided to return to it for a book party.

From being a small school with multi-grade classrooms, Bagong Tubig has since been renovated. Today, it boasts of a new building with a classroom for each class.

The success of the individual literacy programs prompted the Foundation to merge these into a unified Literacy Caravan in 2011. Consisting of storybooks distribution, a free storytelling workshop, storytelling sessions of 100 Filipino children's stories, and a book party, the unified caravan was brought to one select beneficiary region during the year to maximize its impact on the community.

## BRINGING STORIES TO LIFE

Jay Menes, a professional storyteller, was among those who brought stories to life during the caravan.

"I love telling stories to preschoolers! I love it when they understand me, and I get their attention. Mastering the craft - the performance, presentation, voicing - all come easy, thinking of their hunger and enthusiasm," he says.

Menes is part of the many storytellers who regaled tiny tots and grade-schoolers with award-winning stories, including tales from the Lola Basyang series, *Half and Half*, and other *Oh! Mateo* stories like *Chenelyn, Chenelyn*, and the 2004

**A book may be likened to a door to different worlds: a reader may step in and access a multitude of perspectives, realities, and experiences without having to physically go anywhere.**

Palanca awardee *The Cat Painter*. But his work didn't stop with just the "telling"; he was also involved in teaching.

Through the storytelling workshops he had been conducting with Insular Life since 2005, Menes taught the school teachers how to conduct storytelling sessions "with fire" — from breathing and speaking tools to body movement and characterization techniques. "Sometimes, when you are a teacher, you are authoritative throughout the day. But at that very moment of telling a story, I tell them to make it fun - and to enrich their 'story treasury' by reading at least one book a month despite their heavy teaching load," Menes says.

## GOING THE DISTANCE

From Batangas, Cavite, and Iloilo on its first year, the caravan traveled to farther distances in the succeeding years: to Digos City, Davao Del Sur in 2011; Del Carmen, Siargao in 2012; and to Puerto Princesa, Palawan in 2014.

The caravan's presence in Del Carmen, Siargao owes much to the municipality's comprehensive Education Roadmap that impressed the Foundation's trustees when it was presented to them. The municipality's public schools, apart from receiving pre-loved references books, brand-new encyclopedia, and a year's supply of basic school materials, were also the very first ones to meet Tala and Minggoy, the protagonists of the two newer Insular Life storybooks.

Puerto Princesa, Palawan, was also picked for its strong education program and local government support. The free book distribution and story-filled week capped with a book party for 30 underprivileged students of Tagburos Elementary School.

Through the series of financial literacy storybooks, young readers were taught that they have the power to get what they want on their own if they save.

The caravan also opened the Foundation's eyes on the various realities that young Filipinos face. For instance, asked what they want to buy, the children of Necencio Isidro Elementary School – a school located at the slopes of Mt. Apo in Davao – responded almost collectively: a nice, warm jacket, as it can get really cold at night in their part of town. In other areas, answers varied: children wanted to save up for a bike; rice and food for their family; their schooling; and to bring home their OFW parents. In Palawan, a number of students said that they wanted to have enough to be able to help the victims on Typhoon Yolanda.

## BUILDING LITERARY MINDS

Research shows literature-based lessons ensure better understanding and a higher level of literacy. Good books are not only fun, but serve as a great springboard for lessons in the classroom and in life - a better understanding of the world at large. There is still so much work to be done, shared Mitch Santos, the literacy caravan lead of Insular Foundation. Schools need serious reconstruction, and there are no libraries to speak of in certain areas. Most Filipino children in impoverished circumstances also have little access to books for leisure reading. "But a great transformation has begun when we discovered one important thing about the children: their love of reading, simply waiting to be discovered and nurtured."

Through the literacy campaign and the pioneering storytelling caravan, thousands of preschoolers and grade school students around the country were brought to new places and met a ragbag of characters - from the boy whose mission is to have his OFW mother stay in the country for good, to the little girl who drops spare coins in her own wishing well. Along the way, they learned a valuable lesson: small as they are to own so much money, they are big enough to save what's on their little hands.

And, of course, no book should ever be left unopened.


Children in public elementary schools were the main recipients of Insular Foundation's storybooks

# BOARD OF TRUSTEES

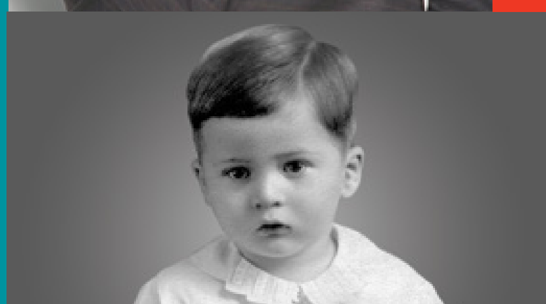
as of December 31, 2013

**1. VICENTE R. AYLLÓN**
Chairman of the Board &
Chief Executive Officer

**2. ALFREDO B. PARUÑGAO**
Vice Chairman

1

2



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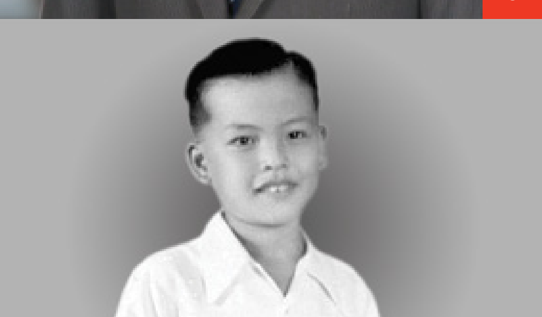


**3. MAYO JOSE B. ONGSINGCO**
Member

**4. BERNARDO M. VILLEGAS**
Member





**5. RICARDO G. LIBREA**
Member

**6. DELFIN L. LAZARO**
Member

**7. MONA LISA B. DE LA CRUZ**
Member

**8. MARIETTA C. GORREZ**
Member

**9. FRANCISCO ED. LIM**
Member

## 1 VICENTE R. AYLLÓN

- 82 years old, elected as Trustee since 1974 (Executive Trustee)
- Chairman of the Board & Chief Executive Officer of The Insular Life Assurance Company, Ltd.; Chairman of the Board & President of Insular Life Property Holdings, Inc.; Chairman of the Board of Insular Investment Corporation, Insular Health Care, Inc., Insular Life Management & Development Corporation, Home Credit Mutual Building & Loan Association, Inc. and Insular Foundation, Inc.; Vice Chairman of the Board of Mapfre Insular Insurance Corporation and Union Bank of the Philippines, a Publicly Listed Company; Director of the following Companies: Pilipinas Shell Petroleum Corporation, Shell Company of the Philippines, Ltd., and The Palms Country Club; also a Director of Rockwell Land Corporation, a Publicly Listed Company.
- B.S. Commerce (1952), University of the East; Associate in Commercial Science (1950), San Juan de Letran College
- Certificate of Appreciation, Management Association of the Philippines; Plaque of Appreciation, Philippine Jaycee Senate; Certificate of Appreciation, Life Underwriters Association of the Philippines (LUAP) Annual Convention; and Plaque of Appreciation, JCI Senate Philippines.
- Trainings/Seminars attended during the last three years: *Pacific Insurance Conference*, Hong Kong; Life Insurance and Market Research Association *(LIMRA) Annual Conference*, New York; *International Insurance Society (IIS) Annual Seminar*, Seoul; *East Asian Insurance Congress*, Kuala Lumpur; *Annual Million Dollar Round Table (MDRT) Meeting*, California; *Singapore International Reinsurance Conference (SIRC)*, Singapore; *LIMRA Annual Conference*, New York; *Pacific Insurance Conference*, Singapore; *IIS Annual Seminar*, Toronto, Canada; *Annual MDRT Meeting*, Georgia, USA; *Life Agency Management Program (LAMP)*, Washington D.C.

## 2 ALFREDO B. PARUÑGAO

- 75 years old, elected as Trustee since 1998 (Independent Trustee)
- Chairman of the Board of Philtown Properties Inc. and CIBI Foundation, Inc.; Director of Insular Investment Corporation and U-Bix Corporation; Director and Vice President of P&GERS Fund, Inc.; Director and Treasurer of DS Realty, Inc.; President of Ligaya Management Corporation; Former Chief of Staff of the Office of the Chairman, Social Security Commission; Former Senior Vice President & Chief Finance Officer of Fort Bonifacio Development Corporation; Former President & Chief Executive Officer of Philippine Global Communications, Inc.; and Former Executive Vice President & Chief Operating Officer of Philippine National Oil Company; also a Director of Swift Foods, Inc., a Publicly Listed Company.
- Certified Public Accountant; B.S. Commerce (1956), *Summa Cum Laude*, Far Eastern University
- Outstanding Alumni Award, Far Eastern University, FEU-IABF Alumni Foundation, Inc.; Dr. Nicanor Reyes, Sr. Medal of Merit, Far Eastern University; and Outstanding CPA in Management Award, Philippine Institute of Certified Public Accountants

## 3 MAYO JOSE B. ONGSINGCO

- 62 years old, elected as Trustee since 2003 (Executive Trustee)
- President and Chief Operating Officer of The Insular Life Assurance Company, Ltd.; Chairman of the Board of Insular Life Employees' Retirement Fund, and Insular Life Assurance Company (ILAC) General Insurance Agency, Inc.; Vice Chairman of the Board & Member of the Executive Committee of Insular Health Care, Inc. and Home Credit Mutual Building and Loan Association, Inc.; Vice Chairman of the Board and President of Insular Life Management & Development Corp.; Vice Chairman of the Board of Insular Life Property Holdings, Inc.; Director and Executive Committee Member of Insular Investment Corporation; Member of the Board of Trustees of Insular Foundation, Inc.; Director of Mapfre Insular Insurance Corporation, Pilipinas Shell Petroleum Corporation and PPI Prime Venture, Inc; also a Director of the following Publicly Listed Companies: Union Bank of the Philippines and Keppel Philippines Holdings, Inc.
- Master of National Security Administration (1999), National Defense College of the Philippines; Master of Business Administration (1977), University of the Philippines; AB Economics (1974), *Magna Cum Laude*, De La Salle University; BSC Accounting (1974), *Magna Cum Laude*, De La Salle University
- La Sallian Achiever Award for Banking and Finance Sector; Distinguished Alumnus Award, University of the Philippines College of Business Administration; St. La Salle Award, University of St. La Salle; Outstanding Alumnus Award, National Defense College of the Philippines; Certificate of Appreciation, Philippine Marine Corps; Plaque of Appreciation, Home Defense Command, Philippine Navy
- Trainings/Seminars attended during the last three years: *Pacific Insurance Conference*, Singapore; *InsuranceCom Asia*, Hong Kong; *Citi Asia Pacific Investor Conference*, Hong Kong

## 4 BERNARDO M. VILLEGAS

- 74 years old, elected as Trustee since 2002 (Independent Trustee)
- University Professor at the University of Asia and the Pacific; Visiting Professor at the IESE Business School, Barcelona, Spain; Director of the following Companies: Alaska Milk Corporation, PHINMA Properties, TDI, Inc. and Dualtech Foundation; Director of Benguet Corporation, a Publicly Listed Company; also a Consultant on Strategic Planning and Management Development of leading firms in the following industries: food and beverage, sugar milling, pharmaceutical, electric power, banking, information technology, construction, agribusiness, trading, transportation and engineering; and Columnist at the *Manila Bulletin* and *Philippine Daily Inquirer*
- Fourth Place, Board Exam for Certified Public Accountant (CPA); Ph.D. in Economics (1963), Harvard University; M.A. in Economics (1961), Harvard University; Bachelor of Science in Commerce (1958), *Summa Cum Laude*, De La Salle University; Bachelor of Arts (1958), *Summa Cum Laude*, De La Salle University
- Certificate of Distinction, Middle East Graduate School of Lyceum and the Philippine Christian University, Dubai, UAE
- Trainings/Seminars attended during the last three years: *Corporate Governance Seminar*, Manila; *Advanced Management Program*, Indonesia; *Advanced Management Program*, Spain; *Advanced Management Program*, Manila; *Family Enterprise Succession Planning*, Indonesia; *ASEAN Investment Forum*, Vietnam; *Global Economic Developments Conference*, Singapore; *ASEAN Regional Integration Seminar*, Jakarta

## 5 RICARDO G. LIBREA

- 73 years old, elected as Trustee since 2005 (Independent Trustee)
- Director of Insular Investment Corporation; Director and Audit Committee Member, Manila Polo Club; Former President of the Financial Executives Institute of the Philippines (FINEX) and Rotary Club of Makati; Former Chairman of the Board of FINEX Research & Development Foundation, Inc., and Makati Rotary Club Foundation, Inc.; Member of the Management Association of the

Philippines and former Director of Union Bank of the Philippines, a Publicly Listed Company.
- Certified Public Accountant; B.S. Business Administration (1957), University of the East

## 6 DELFIN L. LAZARO

- 67 years old, elected as Trustee since 2002 (Independent Trustee)
- Chairman of the Board of Atlas Fertilizer and Chemicals, Inc. and Philwater Holdings Company, Inc.; Vice Chairman of the Board and President of ASIACOM; Managing Director of Lazaro, Bernardo, Tiu and Associates, Inc.; Director of the following Companies: Ayala DBS Holdings, Inc., Probe Productions, Inc., Ayala International Holdings, Ltd., AYC Holdings Ltd., Bestfull Holdings Ltd., AI North America, and Empire Insurance Company; Director of the following Publicly Listed Companies: Ayala Corporation, Ayala Land, Inc., Globe Telecommunications, Inc., Integrated Microelectronics, Inc. and Manila Water Company, Inc.
- Master in Business Administration (1971), with Distinction, Harvard Graduate School of Business; B.S. Metallurgical Engineering (1967), University of the Philippines

## 7 MONA LISA B. DE LA CRUZ

- 56 years old, elected as Trustee since 2011 (Executive Trustee)
- Executive Vice President and Treasurer of The Insular Life Assurance Company, Ltd.; Director/Trustee and Treasurer of the following Companies: Insular Health Care, Inc., Insular Investment Corporation, Home Credit Mutual Building & Loan Association, Insular Life Assurance Company (ILAC) General Insurance Agency, Inc., Insular Life Management & Development Corporation, Insular Life Property Holdings, Inc., Insular Foundation, Inc., Insular Life Employees' Retirement Fund and Professional Services, Inc. (Medical City); Fellow of Actuarial Society of the Philippines; Associate of Society of Actuaries, U.S.A.; and Member of International Actuarial Association
- Master of Science in Mathematics, major in Actuarial Science (1979), University of Michigan; Bachelor of Science in Statistics (1978), *Cum Laude*, University of the Philippines
- Trainings/Seminars attended during the last three years: *Michigan Ross School of Business: The Senior Executive Program*, Hong Kong; *Raffles Leadership Centre: Strategic Negotiator Program*, Singapore; *Institute of Corporate Directors – Corporate Governance Refresh*, Manila; *Society of Actuaries- IFRS 4, Manila; Euromoney – Philippine Investment Forum*, Manila; *Life Office Management Association (LOMA) Life Insurance and Market Research Association (LIMRA) – Strategic Issues Conference*, Beijing; *Actuarial Society of the Philippines – Annual Conventions; IDC- Asian Insurance Congress*, Singapore; *Management Association of the Philippines (MAP) – Chief Executive Officer (CEO) Forum*, Manila

## 8 MARIETTA C. GORREZ

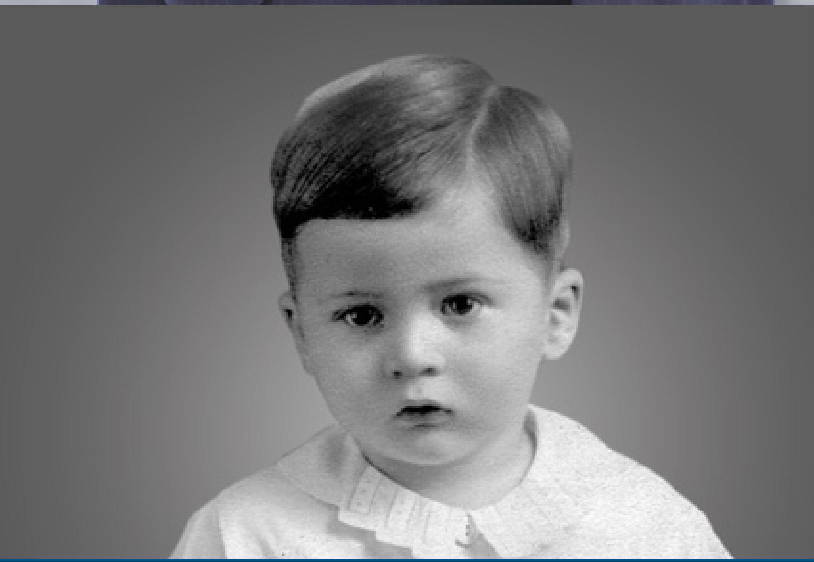
- 60 years old, elected as Trustee since 2011 (Non-Executive Trustee)
- Director of the following Companies: Insular Health Care, Inc., Foundation for Professional Training, Inc. and Alliance for the Family Foundation of the Philippines, Inc. Former Senior Vice President of The Insular Life Assurance Company, Ltd.; Former Head of the following Groups of The Insular Life Assurance Company, Ltd.: Business Support Group, Sales Operations Group, Corporate Operations Group, and Administrative Operations Group; Former President of Insular Life Assurance Company (ILAC) General Insurance Agency, Inc.; Former Director and Treasurer of Insular Investment Corporation; Former Director of Insular Life Management & Development Corporation, Insular Life Property Holdings, Inc., and Home Credit Mutual Building & Loan Association, Inc.; and Former Member of the Board of Trustees of Insular Life Employees' Retirement Fund and Insular Foundation, Inc.
- Registered Financial Consultant, International Association of Registered Financial Consultants; Fellow, Life Management Institute, Life Office Management Association (LOMA); Master in Business Economics (Candidate), University of Asia & the Pacific; Graduate Top Management Program, Asian Institute of Management; Master in Business Administration (1978), De La Salle University; Bachelor of Science in Mathematics (1974), University of Santo Tomas
- Trainings/Seminars attended during the last three years: *Citibank Wealth Management Seminar on 'Global Market Outlook'*, Manila; *BDO/Odyssey Seminar on Unit Investment Trust Fund*, Manila; *International Association of Registered Financial Consultants Forum on Implosion or Prosperity*, Manila

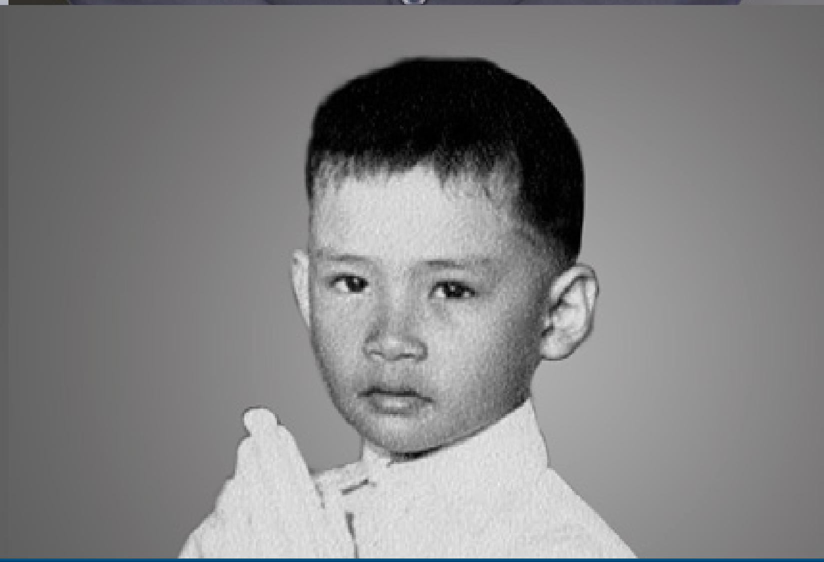
## 9 FRANCISCO ED. LIM

- 58 years old, elected as Trustee since 2011 (Non-Executive Trustee)
- Senior Partner and Member, Special Committee and Executive Committee of ACCRALAW; Member, Board of Directors of Producers Savings Bank Corporation; President, Shareholders' Association of the Philippines (SharePHIL); Co-Chairperson, Sub-Committee of the Philippine Supreme Court on E-Commerce Law; Member, Philippine Supreme Court Sub-Committee on Commercial Courts; Professional Lecturer at the Philippine Judicial Academy; Law Professor at the School of Law, Ateneo de Manila University and Graduate School of Law San Beda College; Philippine Contributor to the Compliance Complete (Thomson Reuters International online publication); Columnist, (Point of Law) *Philippine Daily Inquirer*; Member of the Financial Executives of the Philippines, Management Association of the Philippines, Integrated Bar of the Philippines, Philippine Bar Association, and New York State Bar Association; Former President & CEO of the Philippine Stock Exchange, Inc., and Securities Clearing Corporation of the Philippines; Former Chairman of the Philippine Stock Exchange Foundation, Inc. and Capital Market Development Center, Inc.; Former Director of The Philippine Stock Exchange, Inc., Securities Clearing Corporation of the Philippines, and Philippine Dealing & Exchange Corporation; Former Member of the Board of Trustees of Securities Investors Protection Fund; and Former Member of the Capital Market Development Council: also a Director of Energy Development Corporation, a Publicly Listed Company.
- Master of Laws (1987), University of Pennsylvania, USA; Bachelor of Laws (1981), Second Honors, Ateneo de Manila University; Bachelor of Philosophy (1975), *Magna Cum Laude*, University of Sto. Tomas; Bachelor of Arts (1975), *Cum Laude*, University of Sto. Tomas
- Recipient, Punong Gabay Award from the Philippine Council of Deans and Educators (PCDEB); Professorial Chair in Commercial Law from the Philippine Supreme Court, Philippine Judicial Academy and the Metrobank Foundation, Inc.; Certificate of Commendation, The Supreme Court of the Philippines; Outstanding Alumnus, San Jacinto Seminary and San Jacinto Seminary Alumni Association; Certificate of Appreciation, and Capital Market Institute of the Philippines
- Trainings/Seminars attended during the last three years: *Corporate Governance Workshop*, Manila; *Seminar on Anti-Money Laundering Act of 2001, as amended and BSP Circular 706*, Manila; *Corporate Governance Orientation Program- Professional Directors Program*, Manila

**Credentials as of 31 December 2013**

# MANAGEMENT
as of April 15, 2014



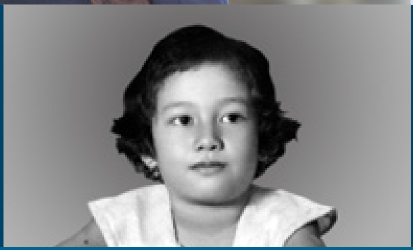


**VICENTE R. AYLLÓN**
Chairman of the Board and Chief Executive Officer

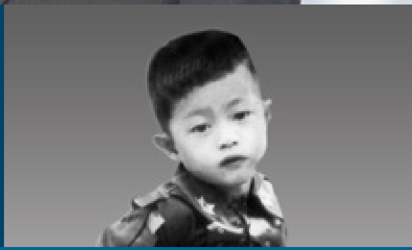
**MAYO JOSE B. ONGSINGCO**
President and Chief Operating Officer

# EXECUTIVE VICE PRESIDENTS

**MONA LISA B. DE LA CRUZ**
Corporate Treasurer & Head Administrative Operations Group

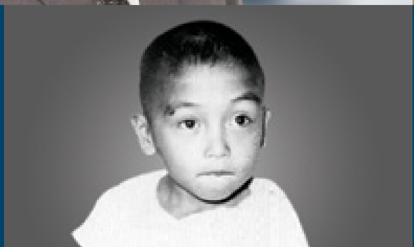


**JESUS ALFONSO G. HOFILEÑA**
Sales and Marketing Group



# SENIOR VICE PRESIDENTS

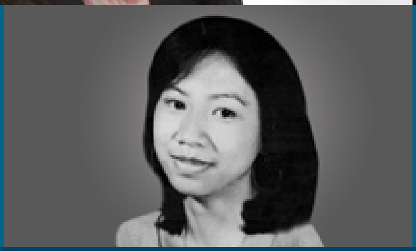
**RAMON M. CABRERA**
Agency Management



**MA. EDITA C. ELICAÑO**
Chief Actuary
Actuarial Division

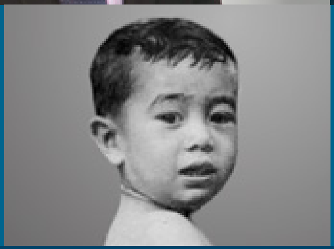
# FIRST VICE PRESIDENTS

## MYRNA A. ALCANTARA
Allied Marketing Channels Division

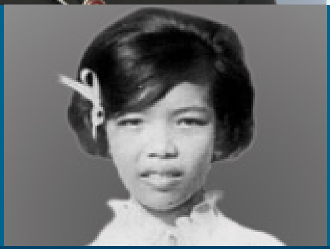


## RONNIE B. ALCANTARA
Seconded to Insular Investment Corporation and to Home Credit Mutual Building and Loan Association as President

## JOHN JESUS O. LIM
Metro Manila Sales Division



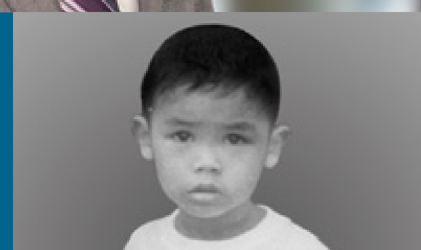
## SERALINE L. MANGUNI
Seconded to Insular Health Care, Inc. as President

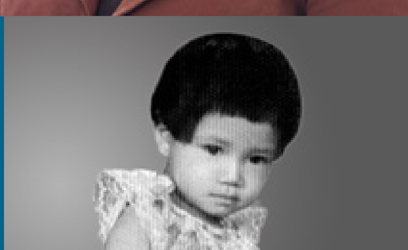


## SUSANA G. NICOLAS
Human Resources Division

**MARIA TERESA L. CRUZ**
Information Services Division

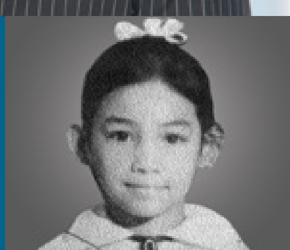
**RENATO S. DE JESUS**
Legal Affairs Coordinating Office





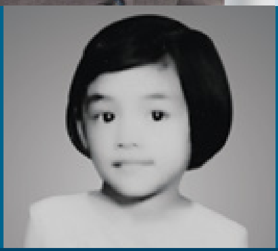
**JOCELYN B. REYES**
Policyholders' Services Division

**AMELITA F. TAMAYO**
Marketing & Agency Support Division

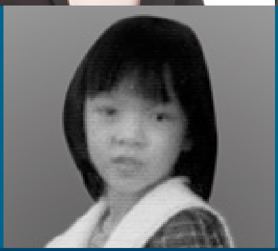


# VICE PRESIDENTS

**GERALDINE B. ALVAREZ**
Branch Management Division



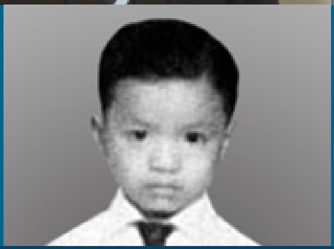
**MARIA ROSA AURORA D. CACANANDO**
Audit Staff



**HECTOR A. CAUNAN**
Real Property Division

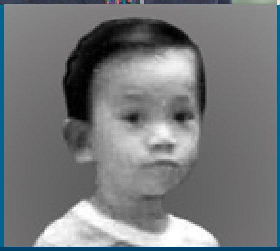
**MUNDECE L. LU**
Visayas-Mindanao Sales Division

**CARLITO V. LUCAS**
Group Marketing Division

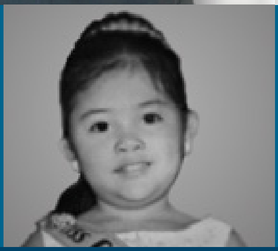


**VERA VICTORIA C. MORALES**
Investment Management Staff

**ENRICO L. CORDOBA**
Corporate Planning Staff



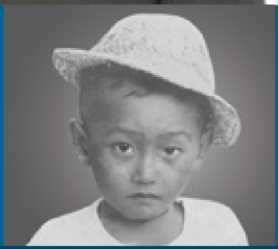
**CARMEN G. DUQUE**
Business Process Management Staff



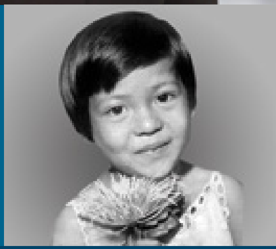
**ALIJEFFTY C. GONZALES**
Business Development Unit

**MYLENE C. PADILLA**
Finance Division

**HENRY A. PAGULAYAN**
Central & North Luzon Sales Division

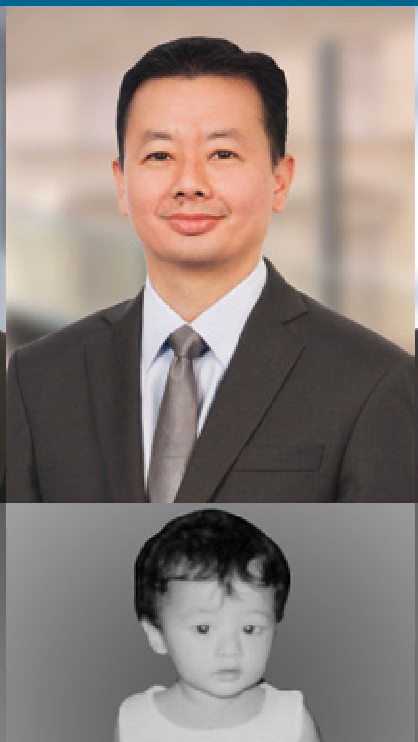


**ELEANOR G. TAÑADA**
New Business Division



# SENIOR ASSISTANT VICE PRESIDENTS

**REYNALDO R. ALDABA**
South Luzon Sales Division



**ALAN JOSEPH S. AMADOR**
Investment Management Staff

**ARNALDO I. AQUINO**
Central East Visayas Regional Office

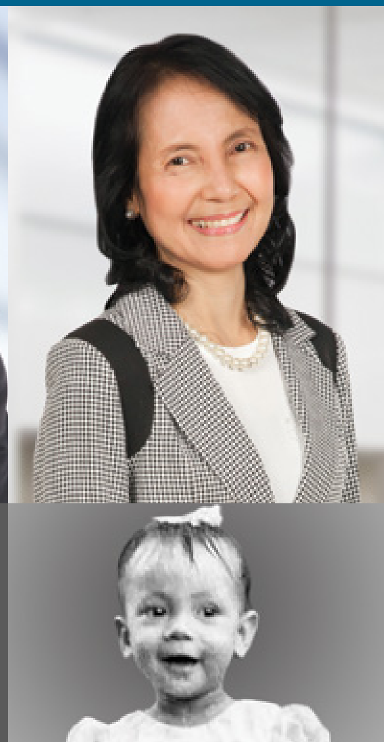
**CORAZON S. CRUZ**
Systems Development Department III

**GERALDINE G. PASCUAL**
Office of the Executive Vice President-SMG

**WILLIAM S. RACADIO**
New Business Division

**CESAR Y. SALERA**
Legal Affairs Unit

**LORENZO LUIS LIBORIO B. GALLARDO II**
Corporate Accounts Department



**LAARNI F. GARRATON**
Seconded to
Insular Health Care, Inc.

**ESPERANZA A. GREGORIO**
General Agencies

**JOSE A. PADILLA**
Customer Experience
Management Center

**ANA MARIA R. SORIANO**
Public Relations Staff

**KATERINA V. SUAREZ**
Actuarial Research & Product
Development Staff

**DIANA ROSE A. TAGRA**
Underwriting Department

# ASSISTANT VICE PRESIDENTS




**IRIS S. AMAN**
Agency Relations Department

**RENE P. ASUNCION**
Systems Development Department II

**HENRY G. BALANGATAN II**
Northeast Luzon Regional Office

**FLORFIDA L. BUITRE**
Compliance Unit



**MICHAEL L. MANALASTAS**
Sales & Marketing Support Team, BPMS

**MA. EDITHA B. MENDIOLA**
Office of the Chairman of the Board and CEO

**TRICCI ROSE A. SADIAN**
Office of the President and COO

**JOHANNA C. CORONADO**
Brand Marketing Department

**HILARIO C. DELOS SANTOS**
Technical Services Department

**MARIA IDA C. HIMAN**
Property Leasing and Sales Department

**BETTINA G. LUMABAN**
Insurance Administration

**PAULITA A. SIOSON**
Corporate Planning Staff

**RUTH R. VELASCO**
Investment Management Staff

**JESITO V. VILLAMOR**
South Mindanao Regional Office

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **The Insular Life Assurance Co., Ltd** is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2013 and 2012, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Trustees reviews and approves the financial statements and submits the same to the members.

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

**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**
Treasurer

Signed this 27th day of March 2014

SGV & Co
ERNST & YOUNG

# INDEPENDENT AUDITORS' REPORT

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

**Report on the Consolidated Financial Statements**

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, 2013 and 2012, 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, 2013 and 2012, and their financial performance and cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Djole S. Garcia

Djole S. Garcia
Partner
CPA Certificate No. 0097907
SEC Accreditation No. 1285-A (Group A),
Fegruary 25, 2011, valid until February 24, 2016
Tax Identification No. 201-960-347
BIR Accreditation No. 08-001998-1022013-2013,
January 28, 2013, Valid until January 27, 2016
PTR No. 4225176, January 2, 2014, Makati City

March 27, 2014

# THE INSULAR LIFE ASSURANCE COMPANY, LTD.
## (A DOMESTIC MUTUAL LIFE INSURANCE COMPANY)
## AND SUBSIDIARIES
# CONSOLIDATED BALANCE SHEETS

| | | December 31 | January 1, |
|---|---|---|---|
| | **2013** | 2012 (As restated, Note 2) | 2012 (As restated, Note 2) |
| **ASSETS** | | | |
| **Cash and Cash Equivalents** (Note 4) | **₱5,498,530,341** | ₱4,704,477,963 | ₱3,237,486,066 |
| **Short-term Investments** | **111,000,000** | – | – |
| **Insurance Receivables** (Note 5) | **226,048,650** | 228,431,255 | 258,409,912 |
| **Financial Assets** (Note 6): | | | |
| Fair value through profit or loss | **14,522,610,219** | 10,294,305,823 | 5,307,769,593 |
| Available-for-sale | **15,698,318,513** | 14,880,854,907 | 14,509,468,041 |
| Held-to-maturity | **23,364,283,696** | 20,053,654,073 | 18,592,423,784 |
| Loans and receivables | **17,784,192,791** | 21,615,060,581 | 21,366,441,198 |
| **Investments in Associates** (Note 7) | **7,760,887,789** | 8,020,941,779 | 7,210,677,625 |
| **Investment Properties** (Note 8) | **9,077,775,054** | 9,048,780,236 | 9,229,298,200 |
| **Property and Equipment** (Note 9) | **324,201,952** | 409,969,670 | 393,105,406 |
| **Retirement Benefits Asset** (Note 24) | **278,722,120** | 280,313,921 | 205,882,151 |
| **Deferred Income Tax Assets** - net (Note 25) | **3,507,155** | 4,242,578 | 37,410,071 |
| **Other Assets** (Note 10) | **129,377,661** | 59,570,814 | 74,819,117 |
| **TOTAL ASSETS** | **₱94,779,455,941** | ₱89,600,603,600 | ₱80,423,191,164 |

| | | | |
|---|---|---|---|
| **LIABILITIES AND MEMBERS' EQUITY** | | | |
| **Liabilities** | | | |
| Legal policy reserves (Note 11) | **₱49,554,299,948** | ₱47,490,940,166 | ₱44,843,041,558 |
| Derivative liability (Note 12) | **8,338,735** | – | – |
| Other insurance liabilities (Note 13) | **19,817,886,387** | 16,373,005,140 | 12,517,995,493 |
| Accrued expenses and other liabilities (Note 14) | **1,532,421,154** | 1,501,973,074 | 1,069,561,559 |
| Retirement benefits liability (Note 24) | **4,889,520** | 2,458,238 | – |
| Deferred income tax liabilities - net (Note 25) | **1,187,033,954** | 989,355,593 | 1,197,184,745 |
| **Total Liabilities** | **72,104,869,698** | 66,357,732,211 | 59,627,783,355 |
| **Members' Equity** | | | |
| **Equity attributable to Parent Company** | | | |
| Reserve for fluctuation in available-for-sale financial assets: | | | |
| Attributable to the Group (Note 6): | | | |
| Equity securities | **4,091,718,166** | 4,459,179,025 | 4,540,264,722 |
| Debt securities | **180,801,969** | 682,639,607 | 515,410,871 |
| Attributable to associates (Notes 7) | **(1,180,338,426)** | 337,306,611 | 433,488,627 |
| | **3,092,181,709** | 5,479,125,243 | 5,489,164,220 |
| Cumulative re-measurement gains (losses) on defined benefit plan: | | | |
| Attributable to the Group (Note 24) | **111,459,548** | 86,353,361 | – |
| Attributable to associates (Note 7) | **99,011,435** | (11,099,985) | – |
| | **210,470,983** | 75,253,376 | – |

(Forward)

| | | December 31 | January 1, |
|---|---|---|---|
| | 2013 | 2012 (As restated, Note 2) | 2012 (As restated, Note 2) |
| Premium on deemed disposal of investment in an associate (Note 7) | **₱304,954,486** | ₱304,954,486 | ₱304,954,486 |
| Share in surplus reserves of a subsidiary | **3,226,537** | 3,226,537 | 2,940,756 |
| Retained earnings (Notes 15 and 34): | | | |
| Appropriated | **250,000,000** | 250,000,000 | 250,000,000 |
| Unappropriated (Note 8) | **18,639,219,296** | 16,975,115,687 | 14,614,595,179 |
| **Equity attributable to Parent Company** | **22,500,053,011** | 23,087,675,329 | 20,661,654,641 |
| **Equity attributable to Non-controlling Interests** (Note 29) | **174,533,232** | 155,196,060 | 133,753,168 |
| **Total Members' Equity** | **22,674,586,243** | 23,242,871,389 | 20,795,407,809 |
| **TOTAL LIABILITIES AND MEMBERS' EQUITY** | **₱94,779,455,941** | ₱89,600,603,600 | ₱80,423,191,164 |

*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 | |
|---|---|---|
| | **2013** | 2012 (As restated, Note 2) |
| **REVENUE** | | |
| **Insurance Revenue** (Note 16) | | |
| Gross earned premiums on insurance contracts | **₱12,506,591,518** | ₱10,610,536,472 |
| Reinsurers' share of premiums on insurance contracts | **(164,730,504)** | (166,476,158) |
| **Net Insurance Revenue** | **12,341,861,014** | 10,444,060,314 |
| **Operating Revenue** | | |
| Investment income (Note 17) | **3,910,240,230** | 5,414,862,282 |
| Equity in net earnings of associates (Note 7) | **1,459,105,176** | 1,266,692,212 |
| Rental income (Notes 8 and 28) | **432,767,223** | 400,450,547 |
| Net realized gains (Note 18) | **654,309,748** | 378,616,879 |
| Foreign exchange gain - net (Note 6) | **293,295,705** | – |
| Other income | **253,752,837** | 183,890,607 |
| **Total Operating Revenue** | **7,003,470,919** | 7,644,512,527 |
| **Total Revenue** | **19,345,331,933** | 18,088,572,841 |
| **INSURANCE BENEFITS AND OPERATING EXPENSES** | | |
| **Insurance Benefits Expenses** (Note 19) | | |
| Gross benefits and claims on insurance contracts | **11,136,989,633** | 8,675,005,211 |
| Reinsurers' share of benefits and claims on insurance contracts | **(13,389,936)** | (25,734,606) |
| Net change in: | | |
| Legal policy reserves | **2,072,613,626** | 2,640,784,319 |
| Reinsurers' share in legal policy reserves | **(9,253,844)** | 2,539,613 |
| **Net Insurance Benefits Expenses** | **13,186,959,479** | 11,292,594,537 |
| **Operating Expenses** | | |
| General insurance expenses (Note 20) | **2,039,451,518** | 2,083,815,121 |
| Commissions and other acquisition expenses | **900,220,134** | 693,894,552 |
| Investment expenses (Note 21) | **194,671,797** | 196,826,797 |
| Foreign exchange loss - net (Note 6) | **–** | 290,378,588 |
| Other losses (Note 22) | **64,941,046** | 17,688,803 |
| **Total Operating Expenses** | **3,199,284,495** | 3,282,603,861 |
| **Total Insurance Benefits and Operating Expenses** | **16,386,243,974** | 14,575,198,398 |
| **INCOME BEFORE INCOME TAX** | **2,959,087,959** | 3,513,374,443 |
| **PROVISION FOR INCOME TAX** (Note 25) | **566,661,907** | 296,583,007 |
| **NET INCOME** | **₱2,392,426,052** | ₱3,216,791,436 |
| **ATTRIBUTABLE TO:** | | |
| Parent Company | **₱2,392,425,200** | ₱3,216,790,645 |
| Non-controlling Interest | **852** | 791 |
| **NET INCOME** | **₱2,392,426,052** | ₱3,216,791,436 |

*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 | |
|---|---|---|
| | **2013** | 2012 (As restated, Note 2) |
| **NET INCOME** | **₱2,392,426,052** | ₱3,216,791,436 |
| **OTHER COMPREHENSIVE INCOME** | | |
| **Other comprehensive income to be reclassified to profit or loss:** | | |
| Increase (decrease) in value of available-for-sale equity securities - net of tax (Note 6) | **(617,593,837)** | 59,672,751 |
| Valuation loss (gain) realized through profit or loss (Note 6) | **250,132,978** | (140,758,448) |
| | **(367,460,859)** | (81,085,697) |
| Increase (decrease) in value of available-for-sale debt securities -net of tax (Notes 6 and 29) | **(887,390,123)** | 167,407,678 |
| Valuation loss (gain) realized through profit or loss (Note 6) | **385,551,609** | (178,453) |
| | **(501,838,514)** | 167,229,225 |
| Decrease in value of available-for-sale equity securities attributable to associates (Notes 6 and 7) | **(1,517,645,037)** | (96,182,016) |
| | **(2,386,944,410)** | (10,038,488) |
| **Other comprehensive income not to be reclassified to profit or loss:** | | |
| Re-measurement gains on defined benefit pension plan (Notes 24 and 29) | **36,170,592** | 124,718,958 |
| Consequential deferred income tax impact (Notes 24 and 29) | **(11,064,690)** | (38,366,865) |
| | **25,105,902** | 86,352,093 |
| Re-measurement gains (losses) on defined benefit pension plan attributable to associates (Note 7) | **110,111,420** | (11,099,985) |
| | **135,217,322** | 75,252,108 |
| **TOTAL OTHER COMPREHENSIVE INCOME (LOSS)** | **(2,251,727,088)** | 65,213,620 |
| **TOTAL COMPREHENSIVE INCOME** | **₱140,698,964** | ₱3,282,005,056 |
| **ATTRIBUTABLE TO:** | | |
| Parent Company | **₱140,699,273** | ₱3,282,004,887 |
| Non-controlling Interest (Note 29) | **(309)** | 169 |
| **TOTAL COMPREHENSIVE INCOME** | **₱140,698,964** | ₱3,282,005,056 |

*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
### FOR THE YEAR ENDED DECEMBER 31, 2013 AND 2012

| | Equity Attributable to Parent Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Reserve for Fluctuation in Available-for-Sale Financial Assets | | | Cumulative Re-measurement Gains (Losses) on Defined Benefit Plan | | | | | | | | |
| | Attributable to the Group | | | | | | | Retained Earnings (Notes 15 and 33) | | | | |
| | Equity Securities (Note 6) | Debt Securities (Note 6) | Attributable to Associates (Note 7) | Attributable to the Group (Note 24) | Attributable to the Associates (Note 7) | Premium on Deemed Disposal of Investment in an Associate (Note 7) | Share in Surplus Reserves of a Subsidiary | Appropriated | Unappropriated | Total | Equity Attributable to Non-controlling Interest (Note 29) | Total |
| **BALANCES AT JANUARY 1, 2012, As previously reported** | **₱4,540,264,722** | **₱515,410,871** | **₱433,488,627** | **₱–** | **₱–** | **₱304,954,486** | **₱2,940,756** | **₱250,000,000** | **₱14,648,105,745** | **₱20,695,165,207** | **₱22,074** | **₱20,695,187,281** |
| Change in accounting policy: | | | | | | | | | | | | |
| Attributable to the Group | – | – | – | – | – | – | – | – | 47,500,870 | 47,500,870 | 300 | 47,501,170 |
| Attributable to the Associates | – | – | – | – | – | – | – | – | (81,011,436) | (81,011,436) | – | (81,011,436) |
| | – | – | – | – | – | – | – | – | (33,510,566) | (33,510,566) | 300 | (33,510,266) |
| Change in the treatment on preferred shares of a subsidiary | – | – | – | – | – | – | – | – | – | – | 133,730,794 | 133,730,794 |
| | – | – | – | – | – | – | – | – | (33,510,566) | (33,510,566) | 133,731,094 | 100,220,528 |
| **BALANCES AT JANUARY 1, 2012, As restated** | **4,540,264,722** | **515,410,871** | **433,488,627** | **–** | **–** | **304,954,486** | **2,940,756** | **250,000,000** | **14,614,595,179** | **20,661,654,641** | **133,753,168** | **20,795,407,809** |
| Total comprehensive income, as previously reported | (81,085,697) | 167,228,736 | (96,182,016) | – | – | – | – | – | 3,215,746,344 | 3,205,707,367 | 1,437 | 3,205,708,804 |
| Change in accounting policy: | | | | | | | | | | | | |
| Attributable to the Group | – | – | – | 86,353,361 | – | – | – | – | (2,783,116) | 83,570,245 | (1,268) | 83,568,977 |
| Attributable to the Associates | – | – | – | – | (11,099,985) | – | – | – | 3,827,260 | (7,272,725) | – | (7,272,725) |
| | – | – | – | 86,353,361 | (11,099,985) | – | – | – | 1,044,144 | 76,297,520 | (1,268) | 76,296,252 |
| Total comprehensive income, as restated | (81,085,697) | 167,228,736 | (96,182,016) | 86,353,361 | (11,099,985) | – | – | – | 3,216,790,488 | 3,282,004,887 | 169 | 3,282,005,056 |

(Forward)

| | 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) | Cumulative Re-measurement Gains (Losses) on Defined Benefit Plan: Attributable to Group | Attributable to the Associates | Premium on Deemed Disposal of Investment in an Associate (Note 7) | Share in Surplus Reserves of a Subsidiary | Retained Earnings (Notes 14 and 30): Appropriated | Unappropriated | Total | Equity Attributable to Non-controlling Interest (Note 29) | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Equity Attributable to Parent Company | | | | | | | | | | | |
| Change in the treatment on preferred shares of a subsidiary: | | | | | | | | | | | | |
| Net increase in preferred shares during the year (Note 29) | ₱– | ₱– | ₱– | ₱– | ₱– | ₱– | ₱– | ₱– | ₱– | ₱– | ₱21,444,567 | ₱21,444,567 |
| Appropriation of surplus | – | – | – | – | – | – | 285,781 | – | (285,781) | – | – | – |
| Dividends to members (Note 15) | – | – | – | – | – | – | – | – | (855,984,199) | (855,984,199) | (1,844) | (855,986,043) |
| **BALANCES AT DECEMBER 31, 2012, As restated** | **₱4,459,179,025** | **₱682,639,607** | **₱337,306,611** | **₱86,353,361** | **(₱11,099,985)** | **₱304,954,486** | **₱3,226,537** | **₱250,000,000** | **₱16,975,115,687** | **₱23,087,675,329** | **₱155,196,060** | **₱23,242,871,389** |
| **BALANCES AT DECEMBER 31, 2012, As previously reported** | **₱4,459,179,025** | **₱682,639,607** | **₱337,306,611** | **₱–** | **₱–** | **₱304,954,486** | **₱3,226,537** | **₱250,000,000** | **₱17,007,582,109** | **₱23,044,888,375** | **₱21,667** | **₱23,044,910,042** |
| Change in accounting policy | | | | | | | | | | | | |
| Attributable to the Group | – | – | – | 86,353,361 | – | – | – | – | 44,717,754 | 131,071,115 | (968) | 131,070,147 |
| Attributable to the Associates | – | – | – | – | (11,099,985) | – | – | – | (77,184,176) | (88,284,161) | – | (88,284,161) |
| | – | – | – | 86,353,361 | (11,099,985) | – | – | – | (32,466,422) | 42,786,954 | (968) | 42,785,986 |
| Change in the treatment on preferred shares of a subsidiary | – | – | – | – | – | – | – | – | – | – | 155,175,361 | 155,175,361 |
| **BALANCES AT DECEMBER 31, 2012, As restated** | **4,459,179,025** | **682,639,607** | **337,306,611** | **86,353,361** | **(11,099,985)** | **304,954,486** | **3,226,537** | **250,000,000** | **16,975,115,687** | **23,087,675,329** | **155,196,060** | **23,242,871,389** |
| Total comprehensive income | (367,460,859) | (501,837,638) | (1,517,645,037) | 25,106,187 | 110,111,420 | – | – | – | 2,392,425,200 | 140,699,273 | (309) | 140,698,964 |
| Net increase in preferred shares during the year (Note 29) | – | – | – | – | – | – | – | – | – | – | 19,337,481 | 19,337,481 |
| Dividends to members (Note 15) | – | – | – | – | – | – | – | – | (728,321,591) | (728,321,591) | – | (728,321,591) |
| **BALANCES AT DECEMBER 31, 2013** | **₱4,091,718,166** | **₱180,801,969** | **(₱1,180,338,426)** | **₱111,459,548** | **₱99,011,435** | **₱304,954,486** | **₱3,226,537** | **₱250,000,000** | **₱18,639,219,296** | **₱22,500,053,011** | **₱174,533,232** | **₱22,674,586,243** |

*See accompanying Notes to Consolidated Financial Statements.*

# THE INSULAR LIFE ASSURANCE COMPANY, LTD.
## (A DOMESTIC MUTUAL LIFE INSURANCE COMPANY)
## AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | |
|---|---|---|
| | **2013** | 2012 (As restated, Note 2) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **₱2,959,087,959** | ₱3,513,374,443 |
| Adjustments for: | | |
| Interest income (Note 17) | **(3,463,046,966)** | (4,055,561,224) |
| Net change in legal policy reserves (Note 19) | **2,063,359,782** | 2,643,323,932 |
| Equity in net earnings of associates (Note 7) | **(1,459,105,176)** | (1,266,692,212) |
| Dividend income (Note 17) | **(396,042,428)** | (1,231,815,080) |
| Interest expense (Note 19) | **442,371,142** | 435,642,780 |
| Foreign exchange loss (gain) - net (Note 6) | **(293,295,705)** | 290,378,588 |
| Dividends to members (Notes 15 and 19) | **67,367,000** | 256,410,000 |
| Net changes in retirement benefits asset | **40,193,674** | 52,745,425 |
| Derivative loss (Note 12) | **8,338,735** | – |
| Net realized gain on disposals of (Note 18): | | |
| Available-for-sale financial assets | **(634,604,955)** | (340,232,722) |
| Property and equipment | **(15,662,296)** | (1,947,397) |
| Investment properties | **(1,607,063)** | (36,654,490) |
| Realized loss (gain) on (Note 18): | | |
| Repossession of properties | **(2,435,434)** | (541,729) |
| Foreclosure of properties | **–** | 759,459 |
| Depreciation and amortization of: | | |
| Investment properties (Note 8) | **144,212,413** | 144,008,618 |
| Property and equipment and computer software (Notes 9 and 10) | **80,820,934** | 69,968,898 |
| Net provision (reversal) of impairment loss on: | | |
| Available-for-sale equity securities (Notes 6 and 22) | **64,526,646** | 890,000 |
| Investment properties (Notes 8 and 22) | **(234,668)** | 1,059,103 |
| Property and equipment (Notes 9 and 22) | **–** | 15,739,700 |
| Operating income before working capital changes | **(395,756,406)** | 490,856,092 |
| Changes in operating assets and liabilities: | | |
| Net decrease (increase) in: | | |
| Short term investment | **(111,000,000)** | – |
| Insurance receivables | **2,382,605** | 29,978,657 |
| Loans and receivables | **(193,535,902)** | (294,804,432) |
| Net increase (decrease) in: | | |
| Other insurance liabilities | **4,323,152,178** | 3,901,466,988 |
| Accrued expenses and other liabilities | **(27,893,596)** | 434,852,726 |
| Net cash generated from operations | **3,597,348,879** | 4,562,350,031 |
| Income taxes paid | **(371,418,673)** | (369,454,641) |
| Net cash generated from operating activities | **3,225,930,206** | 4,192,895,390 |

(Forward)

| | Years Ended December 31 | |
|---|---|---|
| | **2013** | 2012 (As restated, Note 2) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest income received | **₱3,198,856,308** | ₱3,848,376,876 |
| Collections of loans and receivables | **6,596,893,247** | 3,093,264,459 |
| Releases of loans and receivables | **(2,900,395,719)** | (2,840,889,312) |
| Dividends received | **787,799,812** | 1,580,961,137 |
| Proceeds from disposals and/or maturities of: | | |
| Available-for-sale financial assets | **3,631,747,128** | 1,267,841,962 |
| Held-to-maturity financial assets (Note 6) | **2,579,798,218** | 1,204,995,035 |
| Investment properties (Note 30) | **72,803,733** | 128,803,929 |
| Property and equipment (Note 30) | **23,867,731** | 3,905,385 |
| Net decrease in other assets | **2,307,063** | 3,782,164 |
| Net increase in financial asset at fair value through profit or loss | **(4,033,259,420)** | (5,079,692,142) |
| Additional investments in: | | |
| Held-to-maturity financial assets (Note 6) | **(5,777,576,072)** | (2,848,000,883) |
| Available-for-sale financial assets (Note 6) | **(4,706,443,264)** | (1,410,969,383) |
| Property and equipment and computer software (Notes 9 and 10) | **(180,161,519)** | (79,394,860) |
| Investment properties (Note 8) | **(132,851,780)** | (74,679,839) |
| Investment in associates (Note 7) | **(80,131,835)** | – |
| Net cash used in investing activities | **(916,746,369)** | (1,201,695,472) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Payments of dividends to members | **(1,092,097,798)** | (1,110,009,808) |
| Interest paid to members | **(442,371,142)** | (435,642,780) |
| Issuances of preferred shares (Note 29) | **99,667,724** | 86,616,275 |
| Redemption of preferred shares (Note 29) | **(80,330,243)** | (65,171,708) |
| Net cash used in financing activities | **(1,515,131,459)** | (1,524,208,021) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **794,052,378** | 1,466,991,897 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **4,704,477,963** | 3,237,486,066 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 4) | **₱5,498,530,341** | ₱4,704,477,963 |

*See accompanying Notes to Consolidated Financial Statements.*

# THE INSULAR LIFE ASSURANCE COMPANY, LTD.
## (A DOMESTIC MUTUAL LIFE INSURANCE COMPANY)
# AND SUBSIDIARIES
# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Corporate Information
The Insular Life Assurance Company, Ltd. (the "Parent 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. On November 12, 2010, the SEC approved the extension of its corporate term for another 50 years or until November 26, 2060.

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

The Parent Company and its subsidiaries (collectively referred to as "the Group") are primarily engaged in the business of life insurance, healthcare, lending and investment management (Note 29).

Authorization for Issuance of the Consolidated Financial Statements
The consolidated financial statements of the Group were authorized for issuance by the Board of Trustees (BOT) on March 27, 2014.

**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 (Peso), which is the Group's functional and presentation currency. All amounts were rounded to the nearest Peso except when otherwise indicated.

The financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at January 1, 2012 is presented in these consolidated financial statements due to retrospective application of a certain accounting policy (see Changes in Accounting Policies).

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS, Philippine Accounting Standards (PAS), and amendment to existing Philippine Interpretation based on International Financial Reporting Interpretation Committee (IFRIC) interpretations effective as of January 1, 2013:

- PFRS 10, *Consolidated Financial Statements*
  The Group adopted PFRS 10, *Consolidated Financial Statements*, which replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*.

  PFRS 10 does not change the consolidation procedures but establishes a single control model that applies to all entities including special purpose entities. Under PFRS 10, an entity has control over its investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. An entity should have the ability to direct the activities that significantly affect the returns (i.e., the relevant activities) to gain control.

  The changes introduced by PFRS 10 required management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

  The Group reassessed whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Accordingly, the application of PFRS 10 did not have significant impacts to the financial position and performance of the Group.

- PFRS 11, *Joint Arrangements*
  The Group adopted PFRS 11, *Joint Arrangement*, which replaces PAS 31, *Interests in Joint Ventures, and SIC 13, Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. Under PFRS 11, an entity that is a party to an arrangement shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (i.e., the relevant activities). Once it has been determined that all the parties, or a group of the parties, control the arrangement collectively, joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement

collectively. In a joint arrangement, no single party controls the arrangement on its own. A party with joint control of an arrangement can prevent any of the other parties, or a group of the parties, from controlling the arrangement.

An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. This PFRS distinguishes between parties that have joint control of a joint arrangement (*joint operators or joint venturers*) and parties that participate in, but do not have joint control of, a joint arrangement. An entity will need to apply judgment when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. An entity shall make this assessment by considering all facts and circumstances. If facts and circumstances change, an entity shall reassess whether it still has joint control of the arrangement.

An entity shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the PFRSs applicable to the particular assets, liabilities, revenues, and expenses.

A joint venturer shall recognize its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with PAS 28 (as amended 2011), unless the entity is exempted from applying the equity method as specified in that standard.

A party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, unless it has significant influence over the joint venture, in which case it shall account for it in accordance with PAS 28 (as amended in 2011).

Prior to adoption of PFRS 11, the Group accounted for its interest in joint venture using the equity method of accounting under the "Other assets" account in the consolidated balance sheets. The related advances from the joint venture were recorded under "Accrued expenses and other liabilities" account in the consolidated balance sheets. The joint venture has no income yet since its inception.

Upon adoption of PFRS 11, the Group reassessed its existing contractual arrangement with a third party taking into consideration the guidance provided by PFRS 11 as discussed above. Based on the Group's reassessment, the Group concludes that it has no joint control in the existing contractual arrangement entered into with a third party. As such, the Group reclassified its interest in the arrangement from "Other assets" account net of related advances to a receivable account in the consolidated balance sheets and accounted for the interest in the arrangement in accordance with PAS 39. The change in accounting policy has been applied retrospectively. The adoption of PFRS 11 resulted in the following:

| Balance sheet | **As at December 31, 2013** | As at December 31, 2012 | As at January 1, 2012 |
|---|---|---|---|
| Increase (decrease) in: | | | |
| Other assets | **(₱148,349,598)** | (₱148,349,598) | (₱148,349,598) |
| Accrued expenses and other liabilities | **(85,654,186)** | (84,971,083) | (83,797,768) |
| Financial assets | **62,695,412** | 63,378,515 | 64,551,830 |

The net amount of interest in joint venture and advances from joint venture are presented under "Loans and receivables" classification of "Financial assets" account in the consolidated balance sheets (Note 6). There was no impact on the Group's equity as of December 31, 2013 and 2012, and January 1, 2012, and on the Group's consolidated statements of comprehensive income and consolidated statements of cash flows for the years ended December 31, 2013 and 2012.

- PFRS 12, *Disclosure of Interests in Other Entities*, includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as, all the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates, and structured entities.

  The application of PFRS 12 required more extensive disclosures which are provided in Notes 7 and 29.

- PFRS 13, *Fair Value Measurement*, establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. As a result of the guidance in PFRS 13, the Group reassessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of its financial assets at FVPL, AFS financial assets, investment properties, and other financial assets and liabilities for which respective fair values are disclosed. PFRS 13 also requires additional disclosures.

  Application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures are provided in the notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 32.

- Amendments to PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*. The amendments to PAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that will be reclassified (or "recycled") to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will never be reclassified (e.g., re-measurement gains or losses on defined benefit plans). The amendments affect presentation only and have no impact on the Group's financial position and performance.

- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*. These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening balance sheet (as at January 1, 2012 in case of the Group) presented as a result of retrospective restatement or reclassification of items in the consolidated financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Group has not included comparative information in respect of the opening balance sheet as at January 1, 2012. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- Amendments to PAS 19, *Employee Benefits*
  On January 1, 2013, the Group adopted the Revised PAS 19, *Employee Benefits*. For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in OCI and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

  Prior to adoption of the Revised PAS 19, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher between the defined benefit obligation and fair value of plan assets, and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the Revised PAS 19, the Group changed its accounting policy to recognize all actuarial gains and losses in OCI and all past service costs in profit or loss in the period they occur.

  The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, as at the beginning of the annual period.

  The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

  Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any significant impact to the Group's financial position and financial performance.

  The revised standard also requires more extensive disclosures. These have been provided in Note 24. The revised PAS 19 has been applied retrospectively, with following permitted exceptions:

  (i) The carrying amounts of other assets have not been adjusted for changes in employee benefit costs that were included before January 1, 2012; and

  (ii) Sensitivity disclosures for the defined benefit obligation for comparative period (i.e., year ended December 31, 2012) have not been applied.

  The changes in accounting policies have been applied retrospectively. The effects of adoption on the consolidated financial statements are as follows:

| Consolidated Balance Sheets | **As at December 31, 2013** | As at December 31, 2012 | As at January 1, 2012 |
|---|---|---|---|
| **Increase (decrease) in:** | | | |
| Attributable to the Group and non-controlling interest: | | | |
| Retirement benefits asset | **₱216,717,623** | ₱188,942,490 | ₱65,055,573 |
| Deferred income tax assets | **(2,351,809)** | (1,258,376) | (1,255,779) |
| Retirement benefits liability | **1,600,072** | 737,492 | (2,481,480) |
| Deferred income tax liabilities | **64,389,626** | 55,876,475 | 18,780,104 |
| Cumulative re-measurement gain on defined benefit plan | **111,457,994** | 86,353,361 | – |
| Retained earnings | **36,918,950** | 44,717,754 | 47,500,870 |
| Equity attributable to non-controlling interest | **(828)** | (968) | 300 |
| Attributable to Associates: | | | |
| Investments in associates | **66,929,146** | (88,284,161) | (81,011,436) |
| Retained earnings – unappropriated | **(32,082,289)** | (77,184,176) | (81,011,436) |
| Equity in cumulative re-measurement gain (loss) on the associate's defined benefit plan | **(99,011,435)** | 11,099,985 | – |

| Consolidated Statements of Income | **2013** | 2012 |
|---|---|---|
| Increase (decrease) in: | | |
| Equity in net earnings of associates | **₱45,101,887** | ₱3,827,260 |
| Total operating revenue | **45,101,887** | 3,827,260 |
| General insurance expenses | **11,444,618** | 4,051,013 |
| Total operating expenses | **11,444,618** | 4,051,013 |
| Income before income tax | **33,657,269** | (223,753) |
| Provision for income tax | **(3,644,687)** | (1,267,897) |
| Net income | **₱37,301,956** | ₱1,044,144 |

| | 2013 | 2012 |
|---|---|---|
| **Attributable to**: | | |
| Parent Company | **₱37,303,083** | ₱1,044,001 |
| Non-controlling interest | **(1,127)** | 143 |
| | **₱37,301,956** | ₱1,044,144 |

| Consolidated Statements of Comprehensive Income | 2013 | 2012 |
|---|---|---|
| Increase (decrease) in: | | |
| Net income | **₱37,301,956** | ₱1,044,144 |
| Other comprehensive income for the year | | |
| Attributable to the Group | | |
| Re-measurement gain on defined benefit pension plan | **36,170,307** | 124,718,958 |
| Consequential deferred tax impact | **(11,064,405)** | (38,366,865) |
| | **25,105,902** | 86,352,093 |
| Attributable to the associates | | |
| Equity in re-measurement losses on defined benefit pension plan of the associates | **110,111,420** | (11,099,985) |
| | **135,217,322** | 75,252,108 |
| Total comprehensive income | **₱172,519,278** | ₱76,296,252 |
| **Attributable to**: | | |
| Parent Company | **₱172,519,138** | ₱76,297,520 |
| Non-controlling interest | **140** | (1,268) |
| | **₱172,519,278** | ₱76,296,252 |

The Group closed all transition adjustments to retained earnings as at January 1, 2012, the beginning of the earliest period presented. The adoption did not have significant impact on the Group's consolidated statements of cash flows.

The adoption of the following new and amended PFRS, PAS and Philippine Interpretations and annual improvements to PFRS (2009-2011 cycle) are either not relevant to or have no significant impact on the consolidated financial statements:

- Amendments to PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities;*
- PAS 27, *Separate Financial Statements (as amended 2011)*;
- PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011)*;
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine;*
- Annual Improvements to PFRSs (2009-2011 cycle);
  - (i) Amendments to PFRS 1, *First-time Adoption of PFRS - Borrowing costs*;
  - (ii) PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*;
  - (iii) PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*; and
  - (iv) PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*.

New Accounting Standards, Interpretations and Amendments to
<u>Existing Standards Effective Subsequent to December 31, 2013</u>
The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new changes in PFRS to have a significant impact on the consolidated financial statements. The relevant disclosures will be included in the notes to the consolidated financial statements when these become effective.

*Effective in 2014*

- Investment Entities (Amendments to PFRS 10, PFRS 12, and PAS 27)
  They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Group.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as, central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
  These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments

require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively, which affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Group currently assesses the impact of this standard to its financial position and performance.

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Group does not expect that IFRIC 21 will have material financial impact in future consolidated financial statements.

*Effective in 2015*

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
  The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the re-measurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied.

Annual Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. The Group expects that this amendment will not have material impact to the Group.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Group shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are applied retrospectively. The required disclosures of the amendments are not applicable to the Group and have no impact on the Group's financial position or performance.

- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*
  The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses; or
  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Group's financial position or performance.

- PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses; or
  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

  The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Group's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*
  The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*
  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities, and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

- PAS 40, *Investment Property*
  The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

*No mandatory effective date*

- PFRS 9, *Financial Instruments*
  PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relates to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

  On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

  PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

*Deferred effectivity*

- Philippine Interpretation IFRIC 15, *Agreements for the 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 SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until

the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the consolidated financial statements of the Group.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group and its associates as at December 31, 2013 and 2012. Specifically, the Group controls an investee if and only if it has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. A subsidiary is an entity that is controlled by the Parent Company (i.e., either directly or through intermediate parent companies within the Group). Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date the Parent Company gain control until the date the Parent Company ceases to control the subsidiary.

Following are the Parent Company's subsidiaries and the corresponding percentages of ownership as of December 31:

| | Percentage of Ownership | |
|---|---|---|
| | **2013** | 2012 |
| Insular Investment Corporation (IIC) | **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 |
| Insular Life Management and Development Corp. (ILMADECO) | **100.00** | 100.00 |
| • ILAC General Insurance Agency, Inc. (ILACGA) | **100.00**** | 100.00** |
| Insular Life Property Holdings, Inc. (ILPHI) | **100.00** | 100.00 |
| Home Credit Mutual Building & Loan Association, Inc. (Home Credit) | **99.96** | 99.96 |

** Represents the Parent Company's ownership through IIC*
*** Represents the Parent Company's ownership through ILMADECO*

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting years as the Group, except for ILMADECO which was presented as at and for the years ended March 31, 2013 and 2012, using consistent accounting principles and policies.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it: (a) derecognizes the assets and liabilities of the subsidiary; (b) derecognizes the carrying amounts of any non-controlling interest; (c) derecognizes the cumulative translation differences recorded in equity; (d) recognizes the fair value of consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies the parent's share of components previously recognized in OCI to profit or loss.

Non-controlling Interest
Non-controlling interest represents the portion of income and expense, and net assets in Home Credit not held by the Parent Company and are presented separately in the consolidated statements of income and within members' equity in the consolidated balance sheets, separate from the members' equity attributable to the Group.

Fair Value Measurement
The Group measures its financial assets at FVPL and AFS at fair value at each reporting date. Also, the fair values of held-to-maturity (HTM) securities and other financial liabilities measured at amortized cost, and investment properties carried at cost are disclosed in Notes 31 and 32.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; or
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for both recurring and non-recurring fair value measurement.

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics, and risks of the asset or liability, and the level of the fair value hierarchy as explained above.

<u>Cash and Cash Equivalents</u>
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.

<u>Short-term Investments</u>
Short-term investments represent investments not held for the purpose of meeting short-term cash commitments and restricted margin accounts with maturity of more than 90 days but less than one year.

<u>Financial Instruments</u>
Financial instruments within the scope of PAS 39 are recognized in the consolidated balance sheets 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, 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*

*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 statements 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, 2013 and 2012, the Group's financial assets at FVPL amounting to ₱12,355,073,689 and ₱8,802,641,386 as of December 31, 2013 and 2012, respectively, are designated at FVPL by management at initial recognition (Note 6). These 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 investment strategy. The Group manages these financial assets in accordance with the investment strategy and valuation provisions of the Variable Unit-Linked (VUL) insurance contracts. Likewise, this is consistent with the valuation basis of the reserve for policies held by the policyholders. These financial assets consist primarily of quoted government and corporate debt securities with fixed interest rates, quoted equity securities, and structured notes.

The Group also has investments in quoted preferred equity shares amounting to ₱2,167,536,530 and ₱1,491,664,437 as of December 31, 2013 and 2012, respectively, which are designated as at FVPL (Note 6). These preferred securities contain embedded derivatives that significantly modify the cash flow that it would have to be separately recorded.

*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 statements of income when the financial assets are derecognized, impaired or amortized.

As of December 31, 2013 and 2012, the Group's HTM financial assets consist of quoted government and corporate debt securities with fixed interest rates (Note 6).

*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 statements of income when the financial assets are derecognized, impaired or amortized.

As of December 31, 2013 and 2012, the Group's loans and receivables consist of cash and cash equivalents, short-term investments, term loans, policy loans, accounts receivable, interest receivable, housing loans, mortgage loans, net interest in joint venture accounted for under PAS 39, car financing loans, finance leases, stock loans, due from agents, and other receivables (Notes 4 and 6).

*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 statements of income. Interest earned on holding AFS financial assets are reported as interest income using the effective interest method. Dividends earned on holding AFS financial assets are recognized in the consolidated statements 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 OCI 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 OCI is recognized as realized gain in the consolidated statement of income.

As of December 31, 2013 and 2012, 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 statements of income when the financial liabilities are derecognized or amortized.

As of December 31, 2013 and 2012, the Group's other financial liabilities consist of redeemable preferred capital contributions, and accrued expenses and other liabilities excluding taxes and other payable to the government (Note 14).

The Group does not have financial liabilities at FVPL as of December 31, 2013 and 2012.

*Derivative financial instruments*
Derivative financial instruments are initially recognized at fair value on the date in which a derivative transaction is entered into, and are subsequently re-measured at fair value. Any gains and losses from changes in fair value of these derivatives are recognized immediately in profit or loss, unless they are designated hedging instruments in effective cash flow hedges. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

As of December 31, 2013, the Group has cross-currency swaps (CCS) wherein derivative liability amounting to P=8,338,735 is recognized (nil in 2012) (Note 12).

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

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

As of December 31, 2013 and 2012, the Group has no embedded derivatives requiring bifurcation.

*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 sheets 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 sheets.

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.

Certain redeemable preferred shares of Home Credit (i.e., Series B issued prior to 2008), which exhibit the characteristics of a liability, are presented as a liability under "Accrued expenses and other liabilities" account in the consolidated balance sheets. The corresponding dividends on those shares are presented as part of "General insurance expense" account in the consolidated statements of income.

Home Credit's redeemable preferred shares which exhibit the characteristics of equity (i.e., Series A and Series B issued starting 2008), are presented under "Equity attributable to non-controlling interests" account in the consolidated balance sheets. The corresponding dividends on those shares are presented as deduction from "Unappropriated retained earnings" account in the consolidated balance sheets.

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 statements 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 statements 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 statements 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 statements of income, is transferred from OCI to the consolidated statements 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 statements 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 statements of income, the impairment loss is reversed through the consolidated statements 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 statements of income, is removed from OCI and recognized in the consolidated statements of income. Impairment losses on equity securities are not reversed through the consolidated statements of income. Increases in fair value after impairment and reversals of impairment losses on equity instruments are recognized directly in OCI.

*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 dates 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 as of December 31 are as follows:

| | Percentage of Ownership | |
|---|---|---|
| | **2013** | 2012 |
| PPI Prime Ventures, Inc. (PPVI) | **30.00** | 30.00 |
| Mapfre Insular Insurance Corporation (MIIC) | **25.00** | 25.00 |
| Union Bank of the Philippines (UBP) | **16.20** | 16.11 |

Under the equity method, the investments in associates are carried in the consolidated balance sheets 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 in respect to the Group's net investment in the associate. The consolidated statements of income reflect 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 statements 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 statements 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 sheets (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.

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 statements of income in the year of disposal.

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 the consolidated statements 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 |
| Transportation equipment | 2-6 |
| Electronic and data processing equipment | 2-5 |

Leasehold improvements are amortized over the term of the lease or the EUL 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, *Non-current Assets and Held for Sale and Discontinued Operations* and the date the asset is derecognized.

The assets' residual values, EUL, and depreciation and amortization method are reviewed and adjusted, if appropriate, at each balance sheet date.

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 statements of income in the year the property and equipment is derecognized.

<u>Computer Software</u>
Computer software, included under 'Other assets' in the consolidated balance sheets, 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 EUL 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.

<u>Impairment of Nonfinancial Assets</u>
The Group's nonfinancial assets consist of investments in associates, investment properties, property and equipment, 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 CGU'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 CGU) 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.

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.  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.

<u>Retained Earnings</u>
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.

<u>Insurance Contracts</u>
*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. 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 Parent Company's trustee, a third party multinational bank accredited by the BSP. The fund assets are designated as financial assets at FVPL and are valued on a basis consistent with the measurement basis in the consolidated balance sheets. The fund liabilities are included in "Member deposits and other funds on deposit" under "Other insurance liabilities" account in the consolidated balance sheets.

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. 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.

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 statements 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. Due premiums 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 statements 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. Legal Policy Reserves

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, 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 cash flows 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 statements 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 in instances where the Group has not yet received notification. Delays can be experienced in the notification and settlement of obligations, hence 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. On the other hand, the remaining amount of dividends is charged against retained earnings and 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 statements 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 on 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.

*Trading gains and losses*
Trading gains and losses arise from the buying and selling, and changes in fair value of financial assets and financial liabilities categorized upon initial recognition as at FVPL investments and disposal of AFS financial assets.

*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.

Pension Benefits Costs
Pension benefits costs are actuarially determined using the projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

The net pension benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Pension benefit costs comprise the following:
- Service cost;
- Net interest on the net defined benefit liability or asset; and
- Re-measurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs, and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

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

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 expense and income are recognized in the consolidated statements 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 and dividend income is presented in the consolidated statements of income at the time interest and dividends are 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 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 statements 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.

Unrecognized deferred income tax assets are re-assessed 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 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 statements 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 and Estimates

The Group uses accounting judgments and estimates 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 and estimates 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 and estimates 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 classification of the Group's financial instruments by categories is shown in Note 31.

*Determination of existence of significant influence*
The Group has 16.20% and 16.11% equity investment in UBP as of December 31, 2013 and 2012, respectively, which is classified as an associate since the Group has established that it has significant influence over UBP through active participation of all members of the Board in the working committees of UBP (Note 7).

*Evaluation of joint control*
The Group is a party to a contractual and unincorporated joint venture with a third party where the Group is the financiers while the third party is the landowner/developer of the project. PFRS 11 requires a party to an arrangement to assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. Based on that evaluation, management concludes that it does not have joint control over the relevant activities that significantly affect the returns. Management accounts for its interest in the said unincorporated joint venture in accordance with PAS 39 (Note 6).

*Evaluation of control*
The Parent Company owns a number of subsidiaries. PFRS 10 requires an entity to reassess whether it has control over an investee. Management assessed that it has control over its subsidiaries (i.e., as listed in Note 2 under "Basis of consolidation") as it is exposed, or has rights, to variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiaries (Note 29).

*Distinction between property and equipment and investment properties*
The Group determines whether a property qualifies as property and equipment or investment property. In making its judgment, the Group considers whether the property is held for use in the supply of services, or is held for capital appreciation, and to earn rentals, in which case the property shall be classified as property and equipment or investment property respectively, as the case may be. The Group considers each property separately in making its judgment.

Where a single property is partly held for use in the supply of services and partly for capital appreciation or rentals, and that the property cannot be separately sold or leased out under a finance lease, the property is considered by management as investment property only if an insignificant portion is held for use in the supply of services.

In 2012, the total cost of investment properties reclassified to property and equipment amounted to ₱36,215,936 (nil in 2013), while the total cost of property and equipment reclassified to investment properties amounted to ₱125,603,712 and ₱3,342,000 in 2013 and 2012, respectively (Notes 8 and 9).

*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 consolidated statements of income on a straight-line basis over the lease term.

The Group considers, among others, the significance of the lease term as compared to the remaining useful life of the leased assets in determining the significant risks and rewards of ownership.

*Distinction between debt and equity instrument*
The contributions of the members of Home Credit are classified by the Group into either liability or equity. Members' contributions classified as liability takes the legal form of equity but the substance of these financial instruments takes the form of a liability since Home Credit does not have an unconditional right to avoid delivering cash or another financial asset to the members. Members' contributions classified as equity are financial instruments issued by Home Credit wherein the right to redeem for the preferred shares are at the option/discretion of Home Credit.

As of December 31, 2013 and 2012, preferred shares classified as financial liability amounted to ₱7,772,912 and ₱167,097,142, respectively (Note 14), while preferred shares classified as equity amounted to ₱174,512,842 and ₱155,175,361, respectively (Note 29).

<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 the following pricing models (as applicable):
- Price to book value (PBV) ratio;
- Discounted cash flow (DCF) valuation; or
- Adjusted net asset method.

The use of a different pricing model and assumptions could produce materially different estimates of fair values. The carrying value of the unquoted AFS equity securities referred to above amounted to ₱5,131,080,787 and ₱4,970,879,086 as of December 31, 2013 and 2012, respectively (Note 32). Discussion of each method used by the Group to value its unquoted AFS equity securities is disclosed in Note 32.

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

The carrying value of the Group's loans and receivables, excluding cash and cash equivalents, amounted to ₱17,784,192,791 and ₱21,615,060,581 as of December 31, 2013 and 2012, respectively (Note 6). Allowance for impairment on loans and receivables amounted to ₱72,113,785 and ₱84,168,124 as of December 31, 2013 and 2012, respectively (Note 6).

The carrying value of the Group's AFS debt securities amounted to ₱5,276,936,484 and ₱4,165,437,518 as of December 31, 2013 and 2012, respectively (Note 6), while the carrying value of the Group's HTM financial assets amounted to ₱23,364,283,696 and ₱20,053,654,073 as of December 31, 2013 and 2012, respectively (Note 6). In 2013 and 2012, 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.

The carrying value of the Group's AFS equity securities amounted to ₱10,421,382,029 and ₱10,715,417,389 as of December 31, 2013 and 2012, respectively (Note 6).

*Determination of Fair Values of Investment Properties*
In determining the fair values of investment properties, the Group's external appraisers use the sales comparison approach for land by gathering recently transacted sales or listings of current market offerings for comparable properties and applying valuation adjustments based on differences in property characteristics and other relevant factors. On the other hand, cost approach is being used in determining the fair value of building and improvements by estimating the related replacement cost or reproduction cost.

Locally, there is no active market for real estate properties where quoted prices for identical properties may be readily accessed. Transacted sales or listing prices used as bases of valuation are those determined to be reasonably comparable but not identical to the asset being valued. Thus, the fair values determined for investment properties are categorized under Level 3.

The factors considered in the valuation adjustments to be applied to the transacted sales amount and replacement cost of comparable properties are as follows:

*Land*
- Physical characteristics of land such as, shape and terrain, elevation and depth, and number of frontage;
- Proximity to commercial areas and important landmarks;
- Accessibility of property such as, road type and width, major thoroughfares, and availability of public transportation;
- Availability of essential services such as, electricity, water, and telecommunication;
- Neighborhood and social environment; and
- Corner influence.

*Building and Improvements*
- Description and characteristics such as, number of floors;
- Type of improvement (i.e., commercial or residential);
- Estimated remaining useful life;
- Facilities and amenities such as, elevators, generator sets, firefighting system, ventilating system; and
- Condition and frequency of maintenance.

*Other factors*
- Present and prospective use of the property;
- Time adjustment;
- Desirability; and
- Allowance for bargaining.

There have been no changes in the valuation technique used by the external appraisers in determining the fair values of investment properties.

*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 ₱3,179,109,974 (Note 8), ₱301,980,204 (Note 9), and ₱86,876,372 (Note 10), respectively, as of December 31, 2013 and ₱3,156,352,489 (Note 8), ₱329,991,043 (Note 9), and ₱18,855,523 (Note 10), respectively, as of December 31, 2012.

*Impairment of nonfinancial assets*
The Group's nonfinancial assets consist of investments in associates, investment properties, property and equipment, 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 fair value less cost to sell 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 carrying value of the Group's nonfinancial assets amounted to ₱17,292,242,456 and ₱17,539,262,499 as of December 31, 2013 and 2012, respectively (Notes 7, 8, 9, and 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 LAT results per base run scenario show present value of future profits amounting to ₱3,345,626,344 and ₱7,128,653,115 as of December 31, 2013 and 2012, respectively.

The carrying value of legal policy reserves amounted to ₱49,554,299,948 and ₱47,490,940,166 as of December 31, 2013 and 2012, respectively (Note 11).

*Estimation of IBNR claims*
Estimates have to be made in determining the expected ultimate cost of IBNR to be reported at the balance sheet date. The Group develops estimates for the 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, as well as, changes in the claims processing and settlement policies and changes in insurance industry practices.

The total cost of IBNR included in "Claims pending settlement" under "Other insurance liabilities" in the consolidated balance sheets amounted to ₱106,645,721 and ₱97,456,150, as of December 31, 2013 and 2012, 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 and future 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 ₱278,722,120 as of December 31, 2013 and ₱280,313,921 as of December 31, 2012 (Note 24). Net retirement benefits liability amounted ₱4,889,520 and ₱2,458,238 as of December 31, 2013 and 2012 (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, totaling ₱3,208,010,565 in 2013 and ₱2,333,464,718 in 2012 (Note 25).

*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 ₱728,321,591 and ₱855,986,043 as of December 31, 2013 and 2012, respectively (Note 15).

*Contingencies*

The Group is a subject of cases under litigation, 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.

The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels and based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material adverse effect on the Group's financial position.

## 4. Cash and Cash Equivalents

| | **2013** | 2012 |
|---|---|---|
| Cash on hand | **₱741,018** | ₱254,290 |
| Cash in banks (Note 26) | **862,763,827** | 908,520,769 |
| Cash equivalents in commercial banks (Note 26) | **4,635,025,496** | 3,795,702,904 |
| | **₱5,498,530,341** | ₱4,704,477,963 |

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 interest at the prevailing short-term deposit rates.

## 5. Insurance Receivables

| | **2013** | 2012 |
|---|---|---|
| Due premiums | **₱214,289,423** | ₱214,791,757 |
| Reinsurance assets | **11,759,227** | 13,639,498 |
| | **₱226,048,650** | ₱228,431,255 |

## 6. Financial Assets

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

| | **2013** | 2012 |
|---|---|---|
| Financial assets at FVPL | **₱14,522,610,219** | ₱10,294,305,823 |
| AFS financial assets | **15,698,318,513** | 14,880,854,907 |
| HTM financial assets | **23,364,283,696** | 20,053,654,073 |
| Loans and receivables | **17,784,192,791** | 21,615,060,581 |
| | **₱71,369,405,219** | ₱66,843,875,384 |

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

<u>Financial Assets at FVPL</u>

| | **2013** | 2012 |
|---|---|---|
| Equity securities – quoted | **₱2,167,536,530** | ₱1,491,664,437 |
| Under separate fund: | | |
| Traditional VULs: | | |
| Cash and cash equivalents | **1,396,952,643** | 1,040,626,411 |
| Quoted equity securities | **6,535,314,916** | 4,158,980,050 |
| Quoted debt securities: | | |
| Government: | | |
| Local currency | **844,153,449** | 530,062,506 |
| Foreign currency | **815,569,068** | 745,507,806 |
| Corporate | | |
| Local currency | **221,445,172** | 419,495,105 |
| Foreign currency | **115,943,813** | 81,363,361 |
| Other receivables | **64,767,411** | 42,393,784 |
| Other payables | **(19,638,428)** | (47,117,522) |

(Forward)

| | 2013 | 2012 |
|---|---|---|
| Structured VULs: | | |
| Local currency | **₱622,589,528** | ₱656,110,748 |
| Foreign currency | | |
| Credit linked | **1,191,163,494** | 640,409,553 |
| Others | **566,812,623** | 534,809,584 |
| | **₱14,522,610,219** | ₱10,294,305,823 |

Quoted equity security represents preferred shares listed in the stock exchange. Fair value gain (loss) on this equity securities amounted to ₱66,148,780 and (₱8,758,314) in 2013 and 2012, respectively.

Financial assets at FVPL under separate funds consist of net assets with underlying 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.

Fair value gain (loss) from financial assets at FVPL under separate funds amounted to (₱512,659,369) and ₱1,344,875,104 in 2013 and 2012, respectively. The financial asset at FVPL under separate fund comprised the following:

*Traditional VULs*

*Cash and cash equivalent*

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

*Equity security - quoted*

Equity securities under separate funds are quoted equity shares listed in stock exchange. All equity securities are actively traded and are measured at fair value through profit or loss. Dividend income on these equity securities is recognized according to the terms of the contract or when the right of the payment has been established.

*Government debt securities*

In 2013, government debt securities under FVPL bear interest ranging from 3.25% to 8.00% and from 5.00% to 9.88% for peso and dollar bonds, respectively. In 2012, these securities bear interest ranging from 5.75% to 8.00% and from 4.00% to 10.63% for peso and dollar bonds, respectively.

*Corporate debt securities*

Corporate debt securities include bonds issued by reputable counterparties. In 2013, corporate debt securities under FVPL bear interest ranging from 6.88% to 10.25% and from 4.25% to 7.25% for peso and dollar bonds, respectively. In 2012, these securities bear interest ranging from 7.25% to 10.25% and from 2.25% to 7.25% for peso and dollar bonds, respectively.

*Other receivables*

Other receivables comprise accrued interest income from government and corporate debt securities, dividend receivable from quoted equity securities, and subscription receivable.

*Other payables*

Other payables pertain to unpaid custody and administration fees, professional fees, and taxes.

*Structured VULs*

Structured VULs are senior notes issued by Global Issuers (the "Issuer") and constitute direct, unconditional, unsubordinated, and unsecured obligation of the Issuer.

AFS Financial Assets

| | 2013 | 2012 |
|---|---|---|
| Equity securities: | | |
| Quoted | **₱5,266,852,681** | ₱5,660,911,056 |
| Unquoted | **5,154,529,348** | 5,054,506,333 |
| | **10,421,382,029** | 10,715,417,389 |
| Debt securities: | | |
| Quoted: | | |
| Government: | | |
| Local currency | **3,563,921,745** | 2,985,749,001 |
| Foreign currency | **911,376,505** | 974,816,705 |
| Corporate: | | |
| Local currency | **728,675,091** | 129,819,759 |
| Foreign currency | **31,605,535** | 31,767,682 |
| Unquoted – corporate | **41,357,608** | 43,284,371 |
| | **5,276,936,484** | 4,165,437,518 |
| | **₱15,698,318,513** | ₱14,880,854,907 |

The Group's AFS financial assets may be disposed for liquidity requirements or 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:

| | **2013** | 2012 |
|---|---|---|
| Equity securities: | | |
| Attributable to the Group: | | |
| Beginning balance | **₱4,459,179,025** | ₱4,540,264,722 |
| Increase (decrease) in value of AFS equity securities net of tax | **(617,593,837)** | 59,672,751 |
| Valuation losses (gains) realized through profit or loss: | | |
| Loss (gain) on sale | **185,606,332** | (141,648,448) |
| Impairment (Note 22) | **64,526,646** | 890,000 |
| Ending balance | **4,091,718,166** | 4,459,179,025 |
| Attributable to associates: | | |
| Beginning balance | **337,306,611** | 433,488,627 |
| Increase (decrease) in value of AFS equity securities attributable to associates (Note 7) | **(1,517,645,037)** | (96,182,016) |
| Ending balance | **(1,180,338,426)** | 337,306,611 |
| | **₱2,911,379,740** | ₱4,796,485,636 |
| | | |
| Debt securities: | | |
| Beginning balance | **₱682,639,607** | ₱515,410,871 |
| Increase (decrease) in value of AFS debt securities net of tax | **(887,389,247)** | 167,407,189 |
| Valuation losses (gains) realized through profit or loss | **385,551,609** | (178,453) |
| Ending balance | **₱180,801,969** | ₱682,639,607 |

HTM Financial Assets

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Amortized Cost** | **Fair Value** | Amortized Cost | Fair Value |
| Government: | | | | |
| Local currency | **₱15,762,433,251** | **₱20,491,626,173** | ₱15,722,031,096 | ₱20,128,097,445 |
| Foreign currency | **1,693,654,305** | **1,834,083,986** | 2,771,497,990 | 2,996,528,279 |
| Corporate: | | | | |
| Local currency | **5,666,769,690** | **5,840,910,414** | 1,537,674,174 | 1,681,570,828 |
| Foreign currency | **241,426,450** | **239,074,078** | 22,450,813 | 24,588,683 |
| | **₱23,364,283,696** | **₱28,405,694,651** | ₱20,053,654,073 | ₱24,830,785,235 |

Loans and Receivables

| | **2013** | 2012 (As restated, Note 2) |
|---|---|---|
| Term loans | **₱10,429,833,529** | ₱14,101,025,603 |
| Policy loans | **5,673,565,963** | 5,624,884,044 |
| Accounts receivable | **644,903,866** | 389,078,387 |
| Interest receivable | **551,130,352** | 879,003,859 |
| Housing loans | **180,242,535** | 165,196,948 |
| Mortgage loans | **71,787,884** | 83,948,418 |
| Net interest in joint venture accounted for under PAS 39 | **62,695,412** | 63,378,515 |
| Car financing loans | **47,143,160** | 48,542,732 |
| Finance leases | **35,497,333** | 37,483,571 |
| Stock loans | **24,762,870** | 24,130,714 |
| (Forward) | | |

| | 2013 | 2012 (As restated, Note 2) |
|---|---|---|
| Due from agents | **₱21,405,839** | ₱33,890,397 |
| Others | **113,337,833** | 248,665,517 |
| | **17,856,306,576** | 21,699,228,705 |
| Less allowance for impairment loss on loans | **72,113,785** | 84,168,124 |
| | **₱17,784,192,791** | ₱21,615,060,581 |

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

- Term loans pertain to investments in fixed-rate loans of corporate borrowers with terms ranging from 5 to 15 years and 5 to 10 years in 2013 and 2012, respectively. Interest rates range from 2.25% to 10.35% in both 2013 and 2012.

- 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 both 2013 and 2012.

- Accounts receivable pertain to miscellaneous receivables from employees, agents, related parties and third parties.

- Interest receivable pertains to accrued interest arising from investments in debt securities, cash equivalents, term loans, mortgage loans, housing loans, and other receivables with interest rates ranging from 0.01% to 13.75% and 0.03% to 10.35% in 2013 and 2012, 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.

- Mortgage loans pertain to housing loans granted to third parties and former employees with terms ranging from 2 to 15 years and 5 to 15 years in 2013 and 2012, respectively. Interest rates on these loans range from 6.65% to 10.50% and 6.65% to 19% in 2013 and 2012, respectively.

- The net interest in joint venture accounted for under PAS 39 pertains to the Group's interest in an unincorporated 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.

  PBI started its operations on the Project in February 2004. 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 financial institutions. DHI 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.

  The development of the project has not been completed and the joint venture has no income yet in 2013 and 2012. IPVI and IPI have no share of any capital commitment as of December 31, 2013 and 2012.

  As of February 27, 2014, the IPVI, IPI, and PBI are in the process of finalizing the deed of assignment among the parties, wherein the interest in the joint venture of the Group will be assigned in favor of PBI for a cash consideration net of related advances from the unincorporated joint venture as agreed by the parties.

  Prior to adoption of PFRS 11, the Group accounted for its interest in joint venture using the equity method of accounting. Based on the Group's evaluation, the Group assessed that it has no joint control over the above arrangement. As such, the Group reclassified its interest in the arrangement, net of related advances from the joint venture in accordance with the criteria set forth in PAS 32, from "Other assets" account in the consolidated balance sheets and accounted for the net interest in the arrangement in accordance with PAS 39. The change in accounting policy has been applied retrospectively (Note 2).

- 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 5 to 20 years at an annual interest of 18% in 2013 and 2012.

- Stock loans pertain to short-term loans which are granted to qualified members of the programs launched by Home Credit, a subsidiary.

- Due from agents pertain to advances by agents, invalid withdrawal of compensation by agents, unremitted collections and charges for amendment/replacement of policies.

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

| | 2013 | 2012 |
|---|---|---|
| Housing loans | **₱188,237,391** | ₱175,885,547 |
| Less unamortized deferred interest income | **7,994,856** | 10,688,599 |
| | **180,242,535** | 165,196,948 |
| Car financing loans | **47,143,160** | 48,549,260 |
| Less unamortized deferred interest income | **–** | 6,528 |
| | **47,143,160** | 48,542,732 |
| | **₱227,385,695** | ₱213,739,680 |

The amortization of deferred interest income amounting to ₱2,694,945 and ₱2,240,224 in 2013 and 2012, respectively, 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:

| | **2013** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Accounts Receivable** | **Mortgage Loans** | **Finance leases** | **Stock loans** | **Due from Agents** | **Others** | **Total** |
| Beginning balances | **₱43,725,598** | **₱1,179,002** | **₱573,526** | **₱3,050,838** | **₱29,262,434** | **₱6,376,726** | **₱84,168,124** |
| Provisions (reversals) for the year (Note 20) | **3,718,997** | **98,616** | **–** | **(1,432,368)** | **218,377** | **(67,329)** | **2,536,293** |
| Recoveries | **59,904** | **–** | **90,859** | **–** | **–** | **67,329** | **218,092** |
| Write-off | **(466)** | **–** | **–** | **–** | **(13,657,585)** | **(1,150,673)** | **(14,808,724)** |
| Ending balances | **₱47,504,033** | **₱1,277,618** | **₱664,385** | **₱1,618,470** | **₱15,823,226** | **₱5,226,053** | **₱72,113,785** |

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Accounts Receivable | Mortgage Loans | Finance leases | Stock loans | Due from Agents | Others | Total |
| Beginning balances | ₱164,794,563 | ₱2,667,363 | ₱432,054 | ₱2,939,970 | ₱91,667,077 | ₱4,521,290 | ₱267,022,317 |
| Provisions (reversals) for the year (Note 20) | 1,589,213 | (49,581) | 141,472 | 110,868 | 275,461 | 1,855,436 | 3,922,869 |
| Write-off | (122,658,178) | (1,438,780) | – | – | (62,680,104) | – | (186,777,062) |
| Ending balances | ₱43,725,598 | ₱1,179,002 | ₱573,526 | ₱3,050,838 | ₱29,262,434 | ₱6,376,726 | ₱84,168,124 |

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

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

| | **2013** | | | | |
|---|---|---|---|---|---|
| | | | **AFS** | | |
| | **FVPL** | **HTM** | **Equity Securities** | **Debt Securities** | **Total** |
| Beginning balances | **₱10,294,305,823** | **₱20,053,654,073** | **₱10,715,417,389** | **₱4,165,437,518** | **₱45,228,814,803** |
| Acquisitions | **6,687,872,670** | **5,777,576,072** | **1,498,643,685** | **3,207,799,579** | **17,171,892,006** |
| Disposals/maturities | **(2,256,053,087)** | **(2,579,798,218)** | **(1,527,243,599)** | **(2,190,772,659)** | **(8,553,867,563)** |
| Fair value gain (loss) | **(398,560,163)** | **–** | **(200,908,800)** | **40,497,189** | **(558,971,774)** |
| Foreign exchange adjustments | **195,044,976** | **(401,810,018)** | **–** | **(23,460,178)** | **(230,225,220)** |
| Impairment (Note 22) | **–** | **–** | **(64,526,646)** | **–** | **(64,526,646)** |
| Discount (premium) amortization - net | **–** | **514,661,787** | **–** | **77,435,035** | **592,096,822** |
| Ending balances | **₱14,522,610,219** | **₱23,364,283,696** | **₱10,421,382,029** | **₱5,276,936,484** | **₱53,585,212,428** |

| | 2012 | | | | |
| --- | --- | --- | --- | --- | --- |
| | | | AFS | | |
| | FVPL | HTM | Equity Securities | Debt Securities | Total |
| Beginning balances | ₱5,307,769,593 | ₱18,592,423,784 | ₱10,740,848,073 | ₱3,768,619,968 | ₱38,409,661,418 |
| Acquisitions | 4,528,620,923 | 2,848,000,883 | 973,469,383 | 437,500,000 | 8,787,591,189 |
| Disposals/maturities | (825,829,256) | (1,204,995,035) | (1,121,478,449) | (150,227,232) | (3,302,529,972) |
| Fair value gain | 1,376,900,475 | – | 123,468,382 | 169,439,864 | 1,669,808,721 |
| Foreign exchange adjustments | (93,155,912) | (187,064,643) | – | (54,426,933) | (334,647,488) |
| Impairment (Note 22) | – | – | (890,000) | – | (890,000) |
| Discount (premium) amortization - net | – | 5,289,084 | – | (5,468,149) | (179,065) |
| Ending balances | ₱10,294,305,823 | ₱20,053,654,073 | ₱10,715,417,389 | ₱4,165,437,518 | ₱45,228,814,803 |

As of December 31, 2013 and 2012, government securities under HTM financial assets totaling ₱62,500,000 are deposited with the IC as security for the benefit of policyholders and creditors of the Group in accordance with the provision of the Code.

*Reclassification from AFS Financial Assets to HTM Financial Assets*
On September 15, 2008, the Group reclassified AFS debt securities with amortized cost amounting to ₱283,501,557 to HTM financial assets. At the date of reclassification, fair market value of the debt securities amounted to ₱343,106,120 which became the new amortized cost of HTM financial assets as of reclassification date. The difference of fair value and amortized cost as of date of reclassification amounting to ₱59,604,563 was taken directly to equity and is to be amortized until maturity. The Group expects to recover interests from the debt securities at an effective interest of 8.18%.

In 2010, the Group reclassified AFS debt securities amounting to ₱12,506,398 to HTM financial assets due to change in management's intention. The Group expects to recover interests from the debt securities at an effective interest of 1.71% to 1.96%.

There were no reclassifications made in 2013 and 2012.

As of December 31, 2013 and 2012, the carrying values of the debt securities reclassified in 2010 and 2008 had the debt securities not been reclassified to HTM financial assets are as follows:

| | **2013** | 2012 |
| --- | --- | --- |
| Beginning balance | **₱426,663,075** | ₱413,568,034 |
| Fair value gain | **(17,039,304)** | 20,751,167 |
| Amortization | **(7,941,854)** | (7,656,126) |
| Maturities | **(246,718)** | – |
| Ending balance | **₱401,435,199** | ₱426,663,075 |

The amortized cost of the debt securities which are now included under HTM financial assets is as follows:

| | **2013** | 2012 |
| --- | --- | --- |
| Beginning balance | **₱331,215,824** | ₱338,871,950 |
| Amortization | **(7,941,854)** | (7,656,126) |
| Maturities | **(246,718)** | – |
| Ending balance | **₱323,027,252** | ₱331,215,824 |

The amortization of unrealized gain from the financial asset reclassified in 2008 is as follows:

| | **2013** | 2012 |
| --- | --- | --- |
| Beginning balance | **₱51,846,251** | ₱53,972,672 |
| Amortization | **(2,350,755)** | (2,126,421) |
| Ending balance | **₱49,495,496** | ₱51,846,251 |

## 7. Investments in Associates

The principal activities of the Group's associates, which are incorporated and operating in Philippines, follow:

| | Principal Activities |
|---|---|
| PPVI | Development and sale of real estate |
| MIIC | Provision of nonlife general insurance |
| UBP | Universal commercial banking |

The movement of the investments in associates follows:

| | 2013 | | | |
|---|---|---|---|---|
| | **PPVI** | **MIIC** | **UBP** | **Total** |
| **Acquisition cost** | | | | |
| Beginning balance | **₱4,500,000** | **₱224,848,654** | **₱1,426,061,601** | **₱1,655,410,255** |
| Additions | **–** | **–** | **80,131,835** | **80,131,835** |
| | **4,500,000** | **224,848,654** | **1,506,193,436** | **1,735,542,090** |
| **Accumulated equity in net earnings** | | | | |
| Beginning balance | **2,810,264** | **216,622,369** | **5,514,937,779** | **5,734,370,412** |
| Equity in net earnings (losses) for the year | **(3,299,119)** | **7,453,844** | **1,454,950,451** | **1,459,105,176** |
| Dividends received | **–** | **(30,000,000)** | **(361,757,384)** | **(391,757,384)** |
| Ending balance | **(488,855)** | **194,076,213** | **6,608,130,846** | **6,801,718,204** |
| **Equity in reserve for fluctuation in AFS** | | | | |
| Beginning balance | **–** | **36,083,965** | **301,222,646** | **337,306,611** |
| Share in net movement of reserve for fluctuation in AFS financial assets of the associates during the year (Note 6) | **–** | **(12,281,335)** | **(1,505,363,702)** | **(1,517,645,037)** |
| Ending balance | **–** | **23,802,630** | **(1,204,141,056)** | **(1,180,338,426)** |
| **Equity in reserve for re-measurement gains (losses) in defined benefit pension plan** | | | | |
| Beginning balance | **–** | **5,313,339** | **(16,413,324)** | **(11,099,985)** |
| Share in net movement of reserve for re-measurement gains (losses) on defined benefit plan | **–** | **3,472,430** | **106,638,990** | **110,111,420** |
| Ending balance | **–** | **8,785,769** | **90,225,666** | **99,011,435** |
| **Premium on deemed disposal of investment in an associate** | **–** | – | **304,954,486** | **304,954,486** |
| | **₱4,011,145** | **₱451,513,266** | **₱7,305,363,378** | **₱7,760,887,789** |

| | 2012 | | | |
|---|---|---|---|---|
| | PPVI | MIIC | UBP | Total |
| **Acquisition cost** | | | | |
| Beginning balance | ₱4,500,000 | ₱224,848,654 | ₱1,426,061,601 | ₱1,655,410,255 |
| **Accumulated equity in net earnings** | | | | |
| Beginning balance | 2,476,124 | 219,763,776 | 4,594,584,357 | 4,816,824,257 |
| Equity in net earnings for the year | 334,140 | 40,608,593 | 1,225,749,479 | 1,266,692,212 |
| Dividends received | – | (43,750,000) | (305,396,057) | (349,146,057) |
| Ending balance | 2,810,264 | 216,622,369 | 5,514,937,779 | 5,734,370,412 |
| **Equity in reserve for fluctuation in AFS** | | | | |
| Beginning balance | – | 27,062,974 | 406,425,653 | 433,488,627 |
| Share in net movement of reserve for fluctuation in AFS financial assets of the associates during the year (Note 6) | – | 9,020,991 | (105,203,007) | (96,182,016) |
| Ending balance | – | 36,083,965 | 301,222,646 | 337,306,611 |

(Forward)

| | 2012 | | | |
|---|---|---|---|---|
| | PPVI | MIIC | UBP | Total |
| **Equity in reserve for re-measurement gains (losses) in defined benefit pension plan** | | | | |
| Beginning balance | ₱– | ₱– | ₱– | ₱– |
| Share in net movement of reserve for re-measurement gains (losses) on defined benefit plan | – | 5,313,339 | (16,413,324) | (11,099,985) |
| | – | 5,313,339 | (16,413,324) | (11,099,985) |
| **Premium on deemed disposal of investment in an associate** | – | – | 304,954,486 | 304,954,486 |
| | ₱7,310,264 | ₱482,868,327 | ₱7,530,763,188 | ₱8,020,941,779 |

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 of significant associates as of and for the years ended December 31 is as follows:

*Financial position*

| | **2013** | | |
|---|---|---|---|
| | **PPVI** | **MIIC** | **UBP** |
| Cash and cash equivalent | **₱487,423** | **₱234,719,056** | **₱5,196,965,000** |
| Short term investments | **28,862,129** | **–** | **–** |
| Fair value through profit or loss | **–** | **–** | **1,482,015,000** |
| AFS financial assets | **–** | **1,700,113,694** | **95,492,928,000** |
| Loans and receivables | **31,435,012** | **692,775,897** | **258,569,338,000** |
| Investment properties | **–** | **22,938,644** | **13,198,635,000** |
| Property plant and equipment | **–** | **184,229,443** | **2,950,675,000** |
| Other assets | **–** | **2,451,379,150** | **20,604,606,000** |
| Accounts payable | **(44,403,582)** | **(183,885,779)** | **–** |
| Deferred tax liability | **–** | **(25,865,091)** | **–** |
| Other liabilities | **(3,010,496)** | **(3,578,125,891)** | **(352,503,094,000)** |
| **Equity** | **₱13,370,486** | **₱1,498,279,123** | **₱44,992,068,000** |

| | 2012 | | |
|---|---|---|---|
| | PPVI | MIIC | UBP |
| Cash and cash equivalent | ₱321,070 | ₱286,502,753 | ₱4,242,361,000 |
| Short term investments | 74,813,360 | – | – |
| Fair value through profit or loss | – | – | 397,477,000 |
| AFS financial assets | – | 1,570,370,003 | 88,558,276,000 |
| Loans and receivables | 74,571 | 731,041,366 | 155,669,735,000 |
| Investment properties | – | 23,529,233 | 11,555,076,000 |
| Property plant and equipment | – | 160,738,391 | 3,105,790,000 |
| Other assets | – | 1,428,768,433 | 16,393,063,000 |
| Accounts payable | (48,301,977) | (175,442,987) | – |
| Deferred tax liability | – | (32,880,422) | – |
| Other liabilities | (2,539,478) | (2,368,927,403) | (232,583,704,000) |
| **Equity** | ₱24,367,546 | ₱1,623,699,367 | ₱47,338,074,000 |

The difference between the accumulated equity earnings of the Group and the proportionate share in the current net equity of the associate represents movement in the associate's net assets before acquisition.

*Financial performance*

| | 2013 | | |
|---|---|---|---|
| | **PPVI** | **MIIC** | **UBP** |
| Revenue | **₱934,600** | **₱1,467,264,743** | **₱13,305,784,000** |
| Direct costs | **(10,572,874)** | **(711,666,819)** | **(4,396,150,000)** |
| Operating expenses | **(1,171,865)** | **(982,337,397)** | **(10,456,399,000)** |
| Other income | **–** | **265,099,063** | **12,618,659,000** |
| Finance costs | **–** | **–** | **(1,044,882,000)** |
| **Profit before tax** | **(10,810,139)** | **38,359,590** | **10,027,012,000** |
| Income tax expense | **(186,920)** | **(8,544,215)** | **(997,953,000)** |
| **Net profit (loss) for the year** | **(₱10,997,059)** | **₱29,815,375** | **₱9,029,059,000** |
| **Group's share in the net profit of the associate** | **(₱3,299,119)** | **₱7,453,844** | **₱1,454,950,451*** |

**Based on 16.11% ownership interest as the additional acquisition was only made on December 27, 2013.*

| | 2012 | | |
|---|---|---|---|
| | PPVI | MIIC | UBP |
| Revenue | ₱2,909,363 | ₱1,343,974,618 | ₱10,867,867,000 |
| Direct costs | (536,466) | (486,312,351) | (3,556,225,000) |
| Operating expenses | (781,754) | (930,143,090) | (8,640,810,000) |
| Other income | – | 279,777,481 | 10,830,857,000 |
| Finance costs | – | – | (1,559,839,000) |
| **Profit before tax** | 1,591,143 | 207,296,658 | 7,941,850,000 |
| Income tax expense | (477,343) | (44,862,291) | (335,216,000) |
| **Net profit for the year** | ₱1,113,800 | ₱162,434,367 | ₱7,606,634,000 |
| **Group's share in the net profit of the associate** | ₱334,140 | ₱40,608,693 | ₱1,225,749,479 |

The associates have no contingent liabilities or capital commitments as of December 31, 2013 and 2012. PPVI and MIIC are not subject to restrictions (i.e., whether through legal, contractual, or discretionary restrictions) as to the use or transfer of their assets within the Group or settlement of liabilities as of December 31, 2013 and 2012.

BSP, UBP's lead regulator, sets and monitors the capital requirements of UBP. In implementing current capital requirements, the BSP requires UBP to maintain a minimum capital amount and a prescribed ratio of qualifying capital to risk-weighted assets, known as the "capital adequacy ratio." Risk-weighted assets is the aggregate value of assets weighted by credit risk, market risk, and operational risk, based on BSP-prescribed formula provided under its circulars. These, among others, impose significant restrictions as to the use or transfer of assets within the Group or the settlement of liabilities as of December 31, 2013 and 2012.

## 8. Investment Properties

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

| | 2013 | | |
|---|---|---|---|
| | **Land** | **Buildings and Improvements** | **Total** |
| **Costs** | | | |
| Beginning balances | **₱6,048,264,752** | **₱3,941,921,280** | **₱9,990,186,032** |
| Additions | **6,617,300** | **126,234,480** | **132,851,780** |
| Reclassifications (Note 9) | **52,447,000** | **73,156,712** | **125,603,712** |
| Disposals | **(52,985,581)** | **(17,168,475)** | **(70,154,056)** |
| Ending balances | **6,054,343,471** | **4,124,143,997** | **10,178,487,468** |
| (Forward) | | | |

| | 2013 | | |
|---|---|---|---|
| | Land | Buildings and Improvements | Total |
| **Accumulated Depreciation and Impairment Loss** | | | |
| Beginning balances | **₱155,837,005** | **₱785,568,791** | **₱941,405,796** |
| Depreciation and amortization (Note 20) | **–** | **144,212,413** | **144,212,413** |
| Reclassifications (Note 9) | **–** | **16,721,693** | **16,721,693** |
| Impairment loss (Note 22) | **279,200** | **135,200** | **414,400** |
| Reversal of impairment loss | **(437,814)** | **(211,254)** | **(649,068)** |
| Disposals | **–** | **(1,392,820)** | **(1,392,820)** |
| Ending balances | **155,678,391** | **945,034,023** | **1,100,712,414** |
| **Net Book Values** | **₱5,898,665,080** | **₱3,179,109,974** | **₱9,077,775,054** |

| | 2012 | | |
|---|---|---|---|
| | Land | Buildings and Improvements | Total |
| **Costs** | | | |
| Beginning balances | ₱6,081,596,874 | ₱3,976,433,683 | ₱10,058,030,557 |
| Additions | 11,375,848 | 63,303,991 | 74,679,839 |
| Reclassifications (Note 9) | 2,016,000 | (38,231,936) | (36,215,936) |
| Disposals | (46,723,970) | (59,584,458) | (106,308,428) |
| Ending balances | 6,048,264,752 | 3,941,921,280 | 9,990,186,032 |
| **Accumulated Depreciation and Impairment Loss** | | | |
| Beginning balances | 155,837,005 | 672,895,352 | 828,732,357 |
| Depreciation and amortization (Note 20) | – | 144,008,618 | 144,008,618 |
| Reclassifications (Note 9) | – | (18,453,023) | (18,453,023) |
| Impairment loss (Note 22) | – | 1,059,103 | 1,059,103 |
| Disposals | – | (13,941,259) | (13,941,259) |
| Ending balances | 155,837,005 | 785,568,791 | 941,405,796 |
| **Net Book Values** | ₱5,892,427,747 | ₱3,156,352,489 | ₱9,048,780,236 |

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 investment properties was added to the carrying value of the property with a corresponding credit to retained earnings.

As of December 31, 2013 and 2012, the balance of retained earnings includes the remaining balance of the deemed cost adjustment amounting to ₱4,447,281,836 and ₱4,463,298,002, respectively, related to certain investment properties which arose when the Group transitioned to PFRS in 2005. This amount has yet to be absorbed through additional depreciation in profit or loss in the case of depreciable assets and through sale in the case of land.

The total fair value of the investment properties amounted to ₱10,036,549,322 and ₱10,602,989,823 as of December 31, 2013 and 2012, respectively, based on various independent appraisers' valuation and the Group's in-house valuation (roughly 1% of the total investment properties). The fair value of the investment properties as of December 31, 2013 approximates and represents the highest and best use of the properties as of the said date except for a property with carrying value and fair value of ₱203,054,000 and ₱319,085,000, respectively. This property is currently held for an undetermined future use.

The fair value hierarchy of the investment properties is under Level 3 category. The fair value of the investment properties was arrived at using the following approach:

| | **Valuation Technique** | **Significant Unobservable Inputs** |
|---|---|---|
| Land | Sales comparison approach | • Sales price<br>• Location and proximity to important landmarks<br>• Marketability and desirability. |
| Building and Improvements | Cost approach | • Replacement or reproduction cost<br>• Condition and economic life<br>• Facilities and amenities |

Sales comparison approach considers the sales of similar or substitute properties and other related market data had the investment properties been transacted in the market. Market data considered in the valuation include the location of the properties, desirability in the market, and the utility and size of the properties.

Cost approach is a comparative approach used to estimate the replacement cost or reproduction cost of the building and improvements, considering the prevailing market prices for material, labor, contractor's overhead, profit and other charges, less allowance for physical depreciation and obsolescence.

Movements in the significant unobservable inputs are positively correlated to the fair value of the properties subject to valuation.

The Group enters into operating leases for all its investment properties (Note 28). Following are the rental income earned from, as well as, direct and indirect operating expenses incurred for the investment properties:

| | **2013** | 2012 |
|---|---|---|
| Rental income (Note 28) | **₱432,767,223** | ₱400,450,547 |
| Direct operating expenses (Note 21) | **178,686,755** | 178,479,394 |
| Indirect operating expenses (Note 21) | **14,424,357** | 15,941,225 |

Future minimum lease rentals receivable under noncancellable operating leases are disclosed in Note 28.

## 9. Property and Equipment

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

| | **2013** | | | | | |
|---|---|---|---|---|---|---|
| | **Land and Buildings** | **Furniture Fixtures and Equipment** | **Electronic and Data Processing Equipment** | **Transportation Equipment** | **Leasehold Improvements** | **Total** |
| **Costs** | | | | | | |
| Beginning balances | **₱267,196,165** | **₱319,006,024** | **₱214,038,115** | **₱104,504,729** | **₱74,097,036** | **₱978,842,069** |
| Additions | **12,590,840** | **35,490,273** | **27,203,003** | **16,004,216** | **4,480,371** | **95,768,703** |
| Retirements/disposals | **(7,288,878)** | **(44,409,549)** | **(126,206)** | **(29,390,132)** | **(1,155,600)** | **(82,370,365)** |
| Reclassifications (Note 8) | **(125,603,712)** | **–** | **–** | **–** | **–** | **(125,603,712)** |
| Ending balances | **146,894,415** | **310,086,748** | **241,114,912** | **91,118,813** | **77,421,807** | **866,636,695** |
| **Accumulated Depreciation and Amortization** | | | | | | |
| Beginning balances | **70,488,396** | **223,448,325** | **155,733,112** | **67,690,648** | **51,511,918** | **568,872,399** |
| Depreciation and amortization (Note 20) | **3,784,237** | **9,837,357** | **28,134,890** | **16,840,096** | **5,852,387** | **64,448,967** |
| Retirements/disposals | **–** | **(44,409,549)** | **(19,607)** | **(28,153,196)** | **(1,582,578)** | **(74,164,930)** |
| Reclassifications (Note 8) | **(16,721,693)** | **–** | **–** | **–** | **–** | **(16,721,693)** |
| Ending balances | **57,550,940** | **188,876,133** | **183,848,395** | **56,377,548** | **55,781,727** | **542,434,743** |
| **Net Book Values** | **₱89,343,475** | **₱121,210,615** | **₱57,266,517** | **₱34,741,265** | **₱21,640,080** | **₱324,201,952** |

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Land and Buildings | Furniture Fixtures and Equipment | Electronic and Data Processing Equipment | Transportation Equipment | Leasehold Improvements | Total |
| **Costs** | | | | | | |
| Beginning balances | ₱223,113,398 | ₱312,156,756 | ₱223,822,602 | ₱101,651,116 | ₱64,771,242 | ₱925,515,114 |
| Additions | 8,938,933 | 11,738,446 | 22,062,029 | 21,382,960 | 13,092,789 | 77,215,157 |
| Reclassifications (Note 8) | 36,215,936 | 6,944 | (6,944) | – | – | 36,215,936 |
| Retirements/disposals | (1,072,102) | (4,896,122) | (31,839,572) | (18,529,347) | (3,766,995) | (60,104,138) |
| Ending balances | 267,196,165 | 319,006,024 | 214,038,115 | 104,504,729 | 74,097,036 | 978,842,069 |
| **Accumulated Depreciation and Amortization** | | | | | | |
| Beginning balances | 32,677,843 | 220,934,456 | 159,375,250 | 68,105,441 | 51,316,718 | 532,409,708 |
| Depreciation and amortization (Note 20) | 3,617,830 | 7,375,218 | 28,055,362 | 17,405,513 | 3,962,195 | 60,416,118 |
| Reclassifications (Note 8) | 18,453,023 | 515 | (515) | – | – | 18,453,023 |
| Impairment (Note 22) | 15,739,700 | – | – | – | – | 15,739,700 |
| Retirements/disposals | – | (4,861,864) | (31,696,985) | (17,820,306) | (3,766,995) | (58,146,150) |
| Ending balances | 70,488,396 | 223,448,325 | 155,733,112 | 67,690,648 | 51,511,918 | 568,872,399 |
| **Net Book Values** | ₱196,707,769 | ₱95,557,699 | ₱58,305,003 | ₱36,814,081 | ₱22,585,118 | ₱409,969,670 |

The cost of fully depreciated property and equipment that are still in use in the Group's operations amounted to ₱344,386,998 and ₱345,649,797 as of December 31, 2013 and 2012, respectively.

## 10. Other Assets

| | **2013** | 2012 (As restated, Note 2) |
|---|---|---|
| Computer software | **₱86,876,372** | ₱18,855,523 |
| Value added input tax | **6,784,287** | 4,976,146 |
| Others | **35,717,002** | 35,739,145 |
| | **₱129,377,661** | ₱59,570,814 |

Computer Software

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

| | **2013** | 2012 |
|---|---|---|
| **Cost** | | |
| Beginning balance | **₱264,844,658** | ₱262,664,955 |
| Additions | **84,392,816** | 2,179,703 |
| Ending balance | **349,237,474** | 264,844,658 |
| **Accumulated Amortization** | | |
| Beginning balance | **245,989,135** | 236,436,355 |
| Amortization (Note 20) | **16,371,967** | 9,552,780 |
| Ending balance | **262,361,102** | 245,989,135 |
| **Net Book Value** | **₱86,876,372** | ₱18,855,523 |

Others

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

## 11. Legal Policy Reserves

Details of legal policy reserves are as follows:

| | **2013** | | |
|---|---|---|---|
| | **Legal Policy Reserves** | **Reinsurers' Share of Liabilities** | **Net** |
| Aggregate reserves for: | | | |
| Ordinary life policies | **₱48,158,573,888** | **₱74,763,542** | **₱48,083,810,346** |
| Group life policies | **1,394,814,043** | **–** | **1,394,814,043** |
| Accident and health policies | **47,375,300** | **1,041,730** | **46,333,570** |
| Unit-linked policies | **34,360,968** | **5,018,979** | **29,341,989** |
| | **₱49,635,124,199** | **₱80,824,251** | **₱49,554,299,948** |

| | 2012 | | |
|---|---|---|---|
| | Legal Policy Reserves | Reinsurers' Share of Liabilities | Net |
| Aggregate reserves for: | | | |
| Ordinary life policies | ₱46,238,708,384 | ₱70,410,514 | ₱46,168,297,870 |
| Group life policies | 1,280,841,521 | – | 1,280,841,521 |
| Accident and health policies | 36,355,285 | – | 36,355,285 |
| Unit-linked policies | 6,605,383 | 1,159,893 | 5,445,490 |
| | ₱47,562,510,573 | ₱71,570,407 | ₱47,490,940,166 |

Movement of aggregate reserves is as follows:

| | **2013** | | |
|---|---|---|---|
| | **Legal Policy Reserves** | **Reinsurers' Share of Liabilities** | **Net** |
| Beginning balances | **₱47,562,510,573** | **₱71,570,407** | **₱47,490,940,166** |
| Premiums received | **4,033,020,496** | **–** | **4,033,020,496** |
| Fees deducted | **(4,808,559,761)** | **9,253,844** | **(4,817,813,605)** |
| Accretion of investment income or change in unit prices | **1,719,687,038** | **–** | **1,719,687,038** |
| Liability released for payments of death, maturities, surrender benefits and claims | **974,519,397** | **–** | **974,519,397** |
| Foreign exchange adjustment | **153,946,456** | **–** | **153,946,456** |
| Ending balances | **₱49,635,124,199** | **₱80,824,251** | **₱49,554,299,948** |

| | 2012 | | |
|---|---|---|---|
| | Legal Policy Reserves | Reinsurers' Share of Liabilities | Net |
| Beginning balances | ₱44,917,151,578 | ₱74,110,020 | ₱44,843,041,558 |
| Premiums received | 4,141,305,079 | – | 4,141,305,079 |
| Fees deducted | 1,631,778,922 | – | 1,631,778,922 |
| Accretion of investment income or change in unit prices | 822,635,536 | – | 822,635,536 |
| Liability released for payments of death, maturities, surrender benefits and claims | (3,751,440,444) | (2,539,613) | (3,748,900,831) |
| Foreign exchange adjustment | (198,920,098) | – | (198,920,098) |
| Ending balances | ₱47,562,510,573 | ₱71,570,407 | ₱47,490,940,166 |

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.

## 12. Derivative liability

On November 5, 2013, the Group entered into a CCS with a universal bank to receive fixed Peso, and pay fixed USD cash flows using a corporate dollar bond as underlying asset of the CCS.

In the event the issuer of the underlying bond defaults on its obligation, the transaction will be pre-terminated at prevailing market rates. Derivative liability and derivative loss amounted to ₱8,338,735 as of and for the year ended December 31, 2013 (nil as of and for the year ended December 31, 2012).

## 13. Other Insurance Liabilities

| | **2013** | 2012 |
|---|---|---|
| Members' deposits and other funds on deposit | **₱17,747,021,967** | ₱14,163,523,851 |
| Claims pending settlement | **1,135,257,257** | 980,623,688 |
| Reserve for dividends to members | **935,607,163** | 1,228,857,601 |
| | **₱19,817,886,387** | ₱16,373,005,140 |

Members' deposits and other funds on deposit mainly consist of: (1) dividends accumulated on the account of policyholders; (2) net asset value of variable unit link placements subscribed by the variable unit link policyholders; and (3) premium payments received in advance from policyholders. Reserve for dividends to members pertains to cash dividends declared during the year due to policyholders. These liabilities are not subjected to covenants and warranties.

## 14. Accrued Expenses and Other Liabilities

| | **2013** | 2012 (As restated, Note 2) |
|---|---|---|
| Accrued employee benefits | **₱634,439,380** | ₱571,742,346 |
| Accounts payable | **560,777,224** | 388,528,908 |
| General expenses due and accrued | **98,666,806** | 84,208,973 |
| Commissions payable | **74,112,324** | 87,293,879 |
| Remittances not yet allocated | **63,712,160** | 102,301,634 |
| Taxes payable | **48,727,527** | 42,842,405 |
| Preferred shares of Home Credit owned by its members | **7,772,912** | 167,097,142 |
| Others | **44,212,821** | 57,957,787 |
| | **₱1,532,421,154** | ₱1,501,973,074 |

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

- Accrued employee benefits pertain to various unpaid short term employee benefits such as, vacation leave, sick leave, maternity leave, service awards, and other benefits offered by the Group to its employees.
- 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 statements 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 March 13, 2014 the Executive Committee approved the set up of provision for dividends to members for the year ended December 31, 2013 applicable to dividends to be paid out for the period January 1, 2014 to December 31, 2014.

On February 28, 2013 the BOT approved the set up of provision for dividends to members for the year ended December 31, 2012 applicable to dividends to be paid out for the period January 1, 2013 to December 31, 2013.

Breakdown of the dividend provision follows:

| | **2013** | 2012 |
|---|---|---|
| Chargeable to retained earnings | **₱861,833,000** | ₱969,199,207 |
| Chargeable to income (Note 19) | **67,367,000** | 256,410,000 |
| | **₱929,200,000** | ₱1,225,609,207 |

Dividends to members charged against retained earnings follow:

| | **2013** | 2012 |
|---|---|---|
| Dividends declared during the year | **₱861,833,000** | ₱969,199,207 |
| Excess of dividends declared in prior year against actual amount paid | **(133,511,409)** | (113,213,164) |
| | **₱728,321,591** | ₱855,986,043 |

## 16. Insurance Revenue

| | **2013** | 2012 |
|---|---|---|
| Life insurance contracts | **₱6,345,007,706** | ₱6,396,831,842 |
| VUL insurance contracts | **5,761,388,812** | 3,757,287,587 |
| ccident and health contracts | **400,195,000** | 456,417,043 |
| Gross earned premiums on insurance contracts | **12,506,591,518** | 10,610,536,472 |
| Reinsurers' share of premiums on insurance contracts | **(164,730,504)** | (166,476,158) |
| Net insurance revenue | **₱12,341,861,014** | ₱10,444,060,314 |

## 17. Investment Income

| | **2013** | 2012 |
|---|---|---|
| Interest income on: | | |
| AFS financial assets | **₱236,344,405** | ₱274,632,544 |
| HTM financial assets | **1,650,631,627** | 1,656,957,859 |
| Loans and receivables | **1,571,195,605** | 1,849,697,834 |
| Others | **4,875,329** | 274,272,987 |
| | **3,463,046,966** | 4,055,561,224 |
| Dividend income | **396,042,428** | 1,231,815,080 |
| Net trading and realized gains from financial assets at FVPL | **51,150,836** | 127,485,978 |
| Total investment income | **₱3,910,240,230** | ₱5,414,862,282 |

## 18. Net Realized Gains - net

| | **2013** | 2012 |
|---|---|---|
| Disposals of: | | |
| AFS financial assets | **₱634,604,955** | ₱340,232,722 |
| Property and equipment | **15,662,296** | 1,947,397 |
| Investment properties | **1,607,063** | 36,654,490 |
| Repossession of properties | **2,435,434** | 541,729 |
| Foreclosure of properties | **–** | (759,459) |
| | **₱654,309,748** | ₱378,616,879 |

## 19. Insurance Benefits Expenses

| | **2013** | 2012 |
|---|---|---|
| VUL funds allocation | **₱5,223,288,890** | ₱3,484,473,303 |
| Maturities | **2,418,453,704** | 1,405,280,082 |
| Death and hospitalization benefits | **1,090,306,858** | 980,507,651 |
| Surrenders | **922,768,279** | 1,115,022,195 |
| Payments on supplementary contracts | **602,260,961** | 549,496,718 |
| Interest expense | **442,371,142** | 435,642,780 |
| Increase in reserve for supplementary contracts | **365,064,245** | 442,011,622 |
| Dividends paid to members (Note 15) | **67,367,000** | 256,410,000 |
| Others | **5,108,554** | 6,160,860 |
| Total gross benefits and claims on insurance contracts | **11,136,989,633** | 8,675,005,211 |
| Reinsurers' share of benefits and claims on insurance contracts | **(13,389,936)** | (25,734,606) |
| Net change in: | | |
| Legal policy reserves | **2,072,613,626** | 2,640,784,319 |
| Reinsurers' share in legal policy reserves | **(9,253,844)** | 2,539,613 |
| | **₱13,186,959,479** | ₱11,292,594,537 |

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

| | **2013** | | |
|---|---|---|---|
| | **Gross Change in Legal Policy Reserves** | **Reinsurers' Share of Change in Legal Policy Reserves** | **Net** |
| Life insurance contracts | **₱2,044,858,041** | **₱5,394,758** | **₱2,039,463,283** |
| VUL insurance contracts | **27,755,585** | **3,859,086** | **23,896,499** |
| | **₱2,072,613,626** | **₱9,253,844** | **₱2,063,359,782** |

| | 2012 | | |
|---|---|---|---|
| | Gross Change in Legal Policy Reserves | Reinsurers' Share of Change in Legal Policy Reserves | Net |
| Life insurance contracts | ₱2,638,580,929 | (₱2,746,692) | ₱2,641,327,621 |
| VUL insurance contracts | 2,203,390 | 207,079 | 1,996,311 |
| | ₱2,640,784,319 | (₱2,539,613) | ₱2,643,323,932 |

## 20. General Insurance Expenses

| | 2013 | 2012 (As restated, Note 2) |
|---|---|---|
| Personnel (Notes 23 and 24) | **₱1,120,209,971** | ₱1,325,064,580 |
| Depreciation and amortization (Notes 8, 9, and 10) | **225,033,347** | 213,977,516 |
| Marketing, advertising, and promotion | **215,954,949** | 124,163,457 |
| Outside services | **138,060,713** | 161,415,582 |
| Transportation and communication | **57,629,242** | 51,729,045 |
| Repairs and maintenance | **34,897,149** | 29,594,546 |
| Training | **25,230,072** | 20,573,014 |
| Printing and supplies | **19,761,253** | 18,055,026 |
| Utilities | **11,526,111** | 11,728,258 |
| Rent (Note 28) | **11,982,648** | 13,245,652 |
| Provision for impairment on loans and receivables (Note 6) | **2,536,293** | 3,922,869 |
| Others | **176,629,770** | 110,345,576 |
| | **₱2,039,451,518** | ₱2,083,815,121 |

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

## 21. Investment Expenses

| | 2013 | 2012 |
|---|---|---|
| Real estate expenses (Note 8) | **₱193,111,112** | ₱194,420,619 |
| Investment management expenses | **1,560,685** | 2,406,178 |
| | **₱194,671,797** | ₱196,826,797 |

## 22. Other Losses

| | 2013 | 2012 |
|---|---|---|
| Impairment loss on: | | |
| AFS equity securities (Note 6) | **₱64,526,646** | ₱890,000 |
| Investment properties (Note 8) | **414,400** | 1,059,103 |
| Property and equipment (Note 9) | **–** | 15,739,700 |
| | **₱64,941,046** | ₱17,688,803 |

## 23. Personnel Expenses

| | 2013 | 2012 (As restated, Note 2) |
|---|---|---|
| Salaries and bonuses | **₱971,742,790** | ₱918,341,700 |
| Employee benefits | **106,033,563** | 352,832,375 |
| Retirement and other employee benefits (Note 24) | **42,433,618** | 53,890,505 |
| | **₱1,120,209,971** | ₱1,325,064,580 |

## 24. Retirement Benefits

The Group has defined benefit plans covering substantially all regular employees and executives. The retirement plan meets the minimum retirement benefit specified under Republic Act (RA) 7641.

The subsidiaries' retirement funds are administered by UBP under the supervision of the BOT of the respective plans. The BOT of the subsidiaries' plans is responsible for the investment strategy of the plans.

The retirement fund of the Parent Company is administered by its BOT consisting of its key officers. The Parent Company's BOT has the following major responsibilities, with all the powers and duties, as stated in the declaration of trust in the declaration of trust:

- Control and administration of the retirement fund for the accomplishment of the purpose for which the fund is intended in accordance with the plan; and
- Receive and hold title to and ownership of the fund to be held in trust for the best interest of the parties affected thereby in accordance with and for all the uses and purposes as stated in the plan and in the declaration of trust.

The latest actuarial valuation of the Group's defined benefit plans was as of December 31, 2013.

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 recognized in the consolidated statements of income is as follows:

| | **2013** | | | | |
|---|---|---|---|---|---|
| | **Parent** | **Subsidiaries** | | | |
| | **Company** | **IIC** | **I-Care** | **Home Credit** | **Total** |
| Current service cost | **₱56,553,814** | **₱48,927** | **₱1,410,024** | **₱732,499** | **₱2,191,450** |
| Net interest cost (income) | **(16,269,702)** | **(65,803)** | **(99,053)** | **122,912** | **(41,944)** |
| | **₱40,284,112** | **(₱16,876)** | **₱1,310,971** | **₱855,411** | **₱2,149,506** |

| | 2012 (As restated, Note 2) | | | | |
|---|---|---|---|---|---|
| | Parent | Subsidiaries | | | |
| | Company | IIC | I-Care | Home Credit | Total |
| Current service cost | ₱65,740,000 | ₱117,217 | ₱1,167,942 | ₱479,357 | ₱1,764,516 |
| Net interest cost (income) | (13,343,286) | (62,857) | (121,291) | (86,577) | (270,725) |
| | ₱52,396,714 | ₱54,360 | ₱1,046,651 | ₱392,780 | ₱1,493,791 |

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

| | **2013** | | | | |
|---|---|---|---|---|---|
| | **Parent** | **Subsidiaries** | | | |
| | **Company** | **IIC** | **I-Care** | **Home Credit** | **Total** |
| Present value of defined benefit obligation | **₱860,704,354** | **₱812,564** | **₱15,449,676** | **₱8,936,342** | **₱25,198,582** |
| Fair value of plan assets | **1,138,309,713** | **1,929,325** | **13,345,570** | **6,150,928** | **21,425,823** |
| Retirement benefits liability (asset) | **(₱277,605,359)** | **(₱1,116,761)** | **₱2,104,106** | **₱2,785,414** | **₱3,772,759** |

| | 2012 (As restated, Note 2) | | | | |
|---|---|---|---|---|---|
| | Parent | Subsidiaries | | | |
| | Company | IIC | I-Care | Home Credit | Total |
| Present value of defined benefit obligation | ₱826,975,000 | ₱907,271 | ₱11,782,893 | ₱7,949,820 | ₱20,639,984 |
| Fair value of plan assets | 1,104,601,344 | 2,022,583 | 13,355,158 | 5,491,582 | 20,869,323 |
| Retirement benefits liability (asset) | (₱277,626,344) | (₱1,115,312) | (₱1,572,265) | ₱2,458,238 | (₱229,339) |

The net retirement benefits asset as of December 31, 2013 and 2012 amounted to ₱278,722,120 and ₱280,313,921, respectively. The net retirement liability as of December 31, 2013 and 2012 amounted to ₱4,889,520 and ₱2,458,238, respectively.

The cumulative amount of re-measurement losses (gains) recognized as OCI as of December 31 follows:

| | **2013** | | | | |
|---|---|---|---|---|---|
| | **Parent** | **Subsidiaries** | | | |
| | **Company** | **IIC** | **I-Care** | **Home Credit** | **Total** |
| Beginning balances | **(₱89,496,442)** | **(₱73,007)** | **₱46,765** | **₱3,170,591** | **₱3,144,349** |
| Actuarial loss (gain) | **(32,424,251)** | **(160,038)** | **2,724,662** | **528,382** | **3,093,006** |
| Losses sustained by (return on) plan assets excluding amount included in net interest cost | **(7,838,876)** | **175,465** | **640,738** | **183,327** | **999,530** |
| Actuarial loss (gain), gross of deferred income tax consequences | **(40,263,127)** | **15,427** | **3,365,400** | **711,709** | **4,092,536** |
| Income tax effect | **12,078,936** | **(4,627)** | **(1,009,619)** | **–** | **(1,014,246)** |
| | **(28,184,191)** | **10,800** | **2,355,781** | **711,709** | **3,078,290** |
| | **(₱117,680,633)** | **(₱62,207)** | **₱2,402,546** | **₱3,882,300** | **₱6,222,639** |

| | 2012 (As restated, Note 2) | | | | |
|---|---|---|---|---|---|
| | Parent | Subsidiaries | | | |
| | Company | IIC | I-Care | Home Credit | Total |
| Beginning balances | ₱– | ₱– | ₱– | ₱– | ₱– |
| Actuarial loss (gain) | (132,994,789) | – | (367,761) | 2,835,043 | 2,467,282 |
| Losses sustained by (return on) plan assets excluding amount included in net interest cost | 5,142,731 | (104,297) | 434,567 | 335,548 | 665,818 |
| Actuarial loss (gain), gross of deferred income tax consequences | (127,852,058) | (104,297) | 66,806 | 3,170,591 | 3,133,100 |
| Income tax effect | 38,355,616 | 31,290 | (20,041) | – | 11,249 |
| | (89,496,442) | (73,007) | 46,765 | 3,170,591 | 3,144,349 |
| | (₱89,496,442) | (₱73,007) | ₱46,765 | ₱3,170,591 | ₱3,144,349 |

c. Movements in the net retirement benefits liability (asset) during the years ended December 31 follow:

| | **2013** | | | | |
|---|---|---|---|---|---|
| | **Parent** | **Subsidiaries** | | | |
| | **Company** | **IIC** | **I-Care** | **Home Credit** | **Total** |
| Beginning balances | **(₱277,626,344)** | **(₱1,115,312)** | **(₱1,572,265)** | **₱2,458,238** | **(₱229,339)** |
| Pension benefits expense | **40,284,112** | **(16,876)** | **1,310,971** | **855,411** | **2,149,506** |
| Actual contribution | **–** | **–** | **(1,000,000)** | **(1,239,944)** | **(2,239,944)** |
| Re-measurements recognized in OCI | **(40,263,127)** | **15,427** | **3,365,400** | **711,709** | **4,092,536** |
| Ending balances | **(₱277,605,359)** | **(₱1,116,761)** | **₱2,104,106** | **₱2,785,414** | **₱3,772,759** |

| | 2012 (As restated, Note 2) | | | | |
|---|---|---|---|---|---|
| | Parent | Subsidiaries | | | |
| | Company | IIC | I-Care | Home Credit | Total |
| Beginning balances | (₱202,171,000) | (₱1,065,375) | (₱1,639,071) | (₱1,006,705) | (₱3,711,151) |
| Pension benefits expense | 52,396,714 | 54,360 | 1,046,651 | 392,780 | 1,493,791 |
| Actual contribution | – | – | (1,046,651) | (98,428) | (1,145,079) |
| Re-measurements recognized in OCI | (127,852,058) | (104,297) | 66,806 | 3,170,591 | 3,133,100 |
| Ending balances | (₱277,626,344) | (₱1,115,312) | (₱1,572,265) | ₱2,458,238 | (₱229,339) |

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

| | **2013** | | | | |
|---|---|---|---|---|---|
| | **Parent** | **Subsidiaries** | | | |
| | **Company** | **IIC** | **I-Care** | **Home Credit** | **Total** |
| Beginning balances | **₱826,975,000** | **₱907,271** | **₱11,782,893** | **₱7,949,820** | **₱20,639,984** |
| Current service cost | **56,553,814** | **48,927** | **1,410,024** | **732,499** | **2,191,450** |
| Interest cost | **45,981,616** | **53,529** | **742,322** | **397,491** | **1,193,342** |
| Benefits paid | **(36,381,825)** | **(37,125)** | **(1,210,225)** | **(671,850)** | **(1,919,200)** |
| Actuarial loss (gain) due to: | | | | | |
| Changes in financial assumptions | **(73,470,046)** | **(16,810)** | **1,719,972** | **583,502** | **2,286,664** |
| Experience Adjustments | **41,045,795** | **(143,228)** | **1,004,690** | **(53,457)** | **808,005** |
| Changes in demographic assumptions | **–** | **–** | **–** | **(1,663)** | **(1,663)** |
| Ending balances | **₱860,704,354** | **₱812,564** | **₱15,449,676** | **₱8,936,342** | **₱25,198,582** |

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Parent | Subsidiaries | | | |
| | Company | IIC | I-Care | Home Credit | Total |
| Beginning balances | ₱856,090,400 | ₱746,038 | ₱10,772,469 | ₱4,358,976 | ₱15,877,483 |
| Current service cost | 65,740,000 | 117,217 | 1,167,942 | 479,357 | 1,764,516 |
| Interest cost | 55,915,359 | 44,016 | 797,163 | 374,872 | 1,216,051 |
| Benefits paid | (17,775,970) | – | (586,920) | (98,428) | (685,348) |
| Actuarial loss (gain) due to: | | | | | |
| Changes in financial assumptions | (220,328,000) | – | 248,357 | 2,544,198 | 2,792,555 |
| Experience Adjustments | (26,724,900) | – | (616,118) | 290,845 | (325,273) |
| Changes in demographic assumptions | 114,058,111 | – | – | – | – |
| Ending balances | ₱826,975,000 | ₱907,271 | ₱11,782,893 | ₱7,949,820 | ₱20,639,984 |

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

| | **2013** | | | | |
|---|---|---|---|---|---|
| | **Parent** | **Subsidiaries** | | | |
| | **Company** | **IIC** | **I-Care** | **Home Credit** | **Total** |
| Beginning balances | **₱1,104,601,344** | **₱2,022,583** | **₱13,355,158** | **₱5,491,582** | **₱20,869,323** |
| Interest income | **62,251,318** | **119,332** | **841,375** | **274,579** | **1,235,286** |
| Actual return (loss) excluding amount recognized in net interest cost | **7,838,876** | **(175,465)** | **(640,738)** | **(183,327)** | **(999,530)** |
| Actual contribution | **–** | **–** | **1,000,000** | **1,239,944** | **2,239,944** |
| Benefits paid | **(36,381,825)** | **(37,125)** | **(1,210,225)** | **(671,850)** | **(1,919,200)** |
| Ending balances | **₱1,138,309,713** | **₱1,929,325** | **₱13,345,570** | **₱6,150,928** | **₱21,425,823** |

| | 2012 (As restated, Note 2) | | | | |
|---|---|---|---|---|---|
| | Parent | Subsidiaries | | | |
| | Company | IIC | I-Care | Home Credit | Total |
| Beginning balances | ₱1,058,261,400 | ₱1,811,413 | ₱12,411,540 | ₱5,365,681 | ₱19,588,634 |
| Interest income | 69,258,645 | 106,873 | 918,454 | 461,449 | 1,486,776 |
| Actual return (loss) excluding amount recognized in net interest cost | (5,142,731) | 104,297 | (434,567) | (335,548) | (665,818) |
| Actual contribution | – | – | 1,046,651 | 98,428 | 1,145,079 |
| Benefits paid | (17,775,970) | – | (586,920) | (98,428) | (685,348) |
| Ending balances | ₱1,104,601,344 | ₱2,022,583 | ₱13,355,158 | ₱5,491,582 | ₱20,869,323 |

The major categories of plan assets as a percentage of fair value of net plan assets of the Parent Company as of December 31 are as follows:

| | **2013** | 2012 |
|---|---|---|
| Loans and receivable: | | |
| Cash and cash equivalents | **25.26%** | 42.60% |
| Receivables | **11.04%** | 5.11% |
| | **36.30%** | 47.71% |
| Equity securities: | | |
| Holding organization | **7.01%** | 11.99% |
| Telecommunications | **6.53%** | 5.06% |
| Others | **1.81%** | 1.84% |
| | **15.35%** | 18.89% |
| Debt securities: | | |
| Government debt securities | **34.49%** | 21.79% |
| Investment grade | **13.85%** | 11.60% |
| | **48.34%** | 33.39% |
| Fair value of plan assets | **99.99%** | 99.99% |

The major categories of plan assets as a percentage of fair value of net plan assets of the subsidiaries as of December 31 are as follows:

| | **2013** | | |
|---|---|---|---|
| | **Subsidiaries** | | |
| | **IIC** | **I-Care** | **Home Credit** |
| Cash and cash equivalents | **86.73%** | **81.73%** | **57.20%** |
| Investments in debt and equity securities | **13.27%** | **17.57%** | **42.80%** |
| Receivables | **–** | **0.70%** | **–** |
| | **100.00%** | **100.00%** | **100.00%** |

| | 2012 | | |
|---|---|---|---|
| | Subsidiaries | | |
| | IIC | I-Care | Home Credit |
| Cash and cash equivalents | 16.07% | 81.65% | 52.41% |
| Investments in debt and equity securities | 83.93% | 18.35% | 46.61% |
| Receivables | – | – | 0.98% |
| | 100.00% | 100.00% | 100.00% |

All equity and debt securities held have quoted prices in active market. The plan assets have diverse investments and do not have any concentration risk.

The Group's BOT reviews the level of funding of the Group's pension plan annually. The said review includes, among others, asset-liability matching (ALM) and investment strategy. The principal objective of the Group's ALM is to ensure the expected return on plan assets to be sufficient to support the desired level of funding arising from the projected maturity profile of the defined benefit plans. The BOT decides to gear towards investing in fixed income securities based on a matrix of allowable types of investments maintained by the Group. For fixed income instruments, government securities with tenors of 1 to 3 years and more than 3 years may account for up to 30% and 80% of the portfolio, while treasury bills can consist of up to 10%. Corporate issues with maturities of 5 years and less and those more than 5 years may comprise up to 15% and 10% of the portfolio, respectively. Investments in equities are allowed up to 20%, and cash and cash equivalents can reach up to 10% of the portfolio.

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

| | **2013** | | | |
|---|---|---|---|---|
| | **Parent** | **Subsidiaries** | | |
| | **Company** | **IIC** | **I-Care** | **Home Credit** |
| Discount rate | **5.08%** | **5.90%** | **6.30%** | **5.00%** |
| Future salary increases | **5.00%** | **4.00%** | **4.00%** | **4.00%** |
| Mortality rate | **1994 GAM** | **1994 GAM** | **1994 GAM** | **1994 GAM** |
| Disability rate | **1952 Disability Study, Period 2, Benefit 5** | **1952 Disability Study, Period 2, Benefit 5** | **1952 Disability Study, Period 2, Benefit 5** | **1952 Disability Study, Period 2, Benefit 5** |

| | 2012 | | | |
|---|---|---|---|---|
| | Parent | Subsidiaries | | |
| | Company | IIC | I-Care | Home Credit |
| Discount rate | 6.60% | 5.90% | 7.40% | 8.60% |
| Future salary increases | 10.00% | 6.00% | 4.00% | 4.00% |
| Mortality rate | 1994 GAM | 1994 GAM | 1994 GAM | 1994 GAM |
| Disability rate | 1952 Disability Study, Period 2, Benefit 5 | 1952 Disability Study, Period 2, Benefit 5 | 1952 Disability Study, Period 2, Benefit 5 | 1952 Disability Study, Period 2, Benefit 5 |

The discount rates in 2013 were based on PDEX PDST-R2 using various tenors as of December 27, 2013.

The discount rate and future salary increase rate were identified as significant actuarial assumptions. The sensitivity analyses below have been determined based on reasonably possible changes of each significant assumption on defined benefit obligation as of December 31, 2013, assuming all other assumptions were held constant:

Discount rate:

| | **Parent** | **Subsidiaries** | | |
|---|---|---|---|---|
| | **Company** | **IIC** | **I-Care** | **Home Credit** |
| Increase of 1% | **(₱38,243,400)** | **(₱27,050)** | **(₱2,114,669)** | **(₱1,081,247)** |
| Decrease of 1% | **45,446,000** | **27,050** | **2,114,669** | **1,081,247** |

Salary increase rate:

| | **Parent** | **Subsidiaries** | | |
|---|---|---|---|---|
| | **Company** | **IIC** | **I-Care** | **Home Credit** |
| Increase of 1% | **₱82,221,300** | **₱26,922** | **₱2,115,330** | **₱1,074,388** |
| Decrease of 1% | **(69,019,900)** | **(26,922)** | **(2,115,330)** | **(1,074,388)** |

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2013:

| | **Parent Company** | | |
|---|---|---|---|
| | **Normal Retirement** | **Other Than Normal Retirement** | **Total** |
| Less than 1 year | **₱5,666,098** | **₱30,785,531** | **₱36,451,629** |
| More than 1 year to 5 years | **82,261,783** | **138,479,706** | **220,741,489** |
| More than 5 years to 10 years | **255,810,729** | **196,821,791** | **452,632,520** |
| More than 10 years | **2,658,997,068** | **919,434,198** | **3,578,431,266** |

| | **Subsidiaries** | | | |
|---|---|---|---|---|
| | **IIC** | **I-Care** | **Home Credit** | **Total** |
| Less than 1 year | **₱15,945** | **₱929,991** | **₱211,869** | **₱1,157,805** |
| More than 1 year to 5 years | **890,883** | **4,134,292** | **839,322** | **5,864,497** |
| More than 5 years to 10 years | **26,808** | **8,004,941** | **6,705,937** | **14,737,686** |
| More than 10 years | **106,434** | **8,811,600** | **17,374,594** | **26,292,628** |

The Group does not expect to contribute to its defined benefit plan in 2014.

## 25. Income Taxes

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

| | 2013 | 2012 (As restated, Note 2) |
|---|---|---|
| Current: | | |
| Final tax | **₱363,238,808** | ₱346,963,836 |
| RCIT | **3,447,781** | 976,968 |
| MCIT | **415,788** | 24,338,994 |
| | **367,102,377** | 372,279,798 |
| Deferred | **199,559,530** | (75,696,791) |
| | **₱566,661,907** | ₱296,583,007 |

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

Deferred Income Tax Assets - Net

| | 2013 | 2012 (As restated, Note 2) |
|---|---|---|
| Deferred income tax assets - tax effects of: | | |
| Accrued expenses not yet deductible | **₱914,889** | ₱2,221,387 |
| Allowance for impairment on loans and receivables | **1,421,426** | 1,812,511 |
| Retirement and other long-term employee benefits payable | **631,231** | – |
| Unamortized past service cost contributions | **544,266** | 1,021,289 |
| Unrealized foreign exchange loss | **17,387** | 37,858 |
| Total deferred income tax assets | **3,529,199** | 5,093,045 |
| Deferred income tax liability - tax effect of unrealized gain on AFS financial assets | **(22,044)** | (850,467) |
| Net deferred income tax assets | **₱3,507,155** | ₱4,242,578 |

Deferred Income Tax Liabilities - Net

| | 2013 | 2012 (As restated, Note 2) |
|---|---|---|
| Deferred income tax assets - tax effects of: | | |
| Unrealized foreign exchange loss | **₱168,142,779** | ₱313,803,162 |
| Accrued expenses not yet deductible | **239,576,982** | 201,515,420 |
| NOLCO | **100,020,110** | 157,620,109 |
| Unamortized past service cost contributions | **28,816,254** | 42,031,396 |
| Allowance for impairment on loans and receivables | **19,258,213** | 22,051,729 |
| Impairment of investment properties and property and equipment | **6,843,543** | 6,627,723 |
| Total deferred income tax assets | **562,657,881** | 743,649,539 |
| Deferred income tax liabilities - tax effects of: | | |
| Revaluation increment in investment properties | **(1,334,184,551)** | (1,338,989,400) |
| Reserve for fluctuation in AFS financial assets | **(282,396,739)** | (292,508,097) |
| Retirement benefits asset | **(83,616,636)** | (84,094,176) |
| Accrued rent income | **(20,077,115)** | (17,221,423) |
| Unrealized foreign exchange gain | **(29,416,794)** | – |
| Unrealized gain on trading debt securities | **–** | (192,036) |
| Total deferred income tax liabilities | **(1,749,691,835)** | (1,733,005,132) |
| Net deferred income tax liabilities | **(₱1,187,033,954)** | (₱989,355,593) |

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:

| | 2013 | 2012 |
|---|---|---|
| NOLCO | **₱3,201,933,271** | ₱2,327,817,029 |
| Excess of MCIT over RCIT | **6,077,294** | 5,647,689 |

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

| Year Incurred | Expiration | January 1, 2013 | Incurred | Applied | Expired | December 31, 2013 |
|---|---|---|---|---|---|---|
| 2010 | 2013 | ₱1,006,256,555 | ₱– | ₱– | (₱1,006,256,555) | ₱– |
| 2011 | 2014 | 1,128,880,523 | – | – | – | 1,128,880,523 |
| 2012 | 2015 | 718,080,314 | – | – | – | 718,080,314 |
| 2013 | 2016 | – | 1,688,372,801 | – | – | 1,688,372,801 |
| | | ₱2,853,217,392 | ₱1,688,372,801 | ₱– | (₱1,006,256,555) | ₱3,535,333,638 |

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

| Year Incurred | Expiration | January 1, 2013 | Incurred | Applied | Expired | December 31, 2013 |
|---|---|---|---|---|---|---|
| 2010 | 2013 | ₱– | ₱– | ₱– | ₱– | ₱– |
| 2011 | 2014 | 463 | – | – | – | 463 |
| 2012 | 2015 | 5,647,226 | – | – | – | 5,647,226 |
| 2013 | 2016 | – | 429,605 | – | – | 429,605 |
| | | ₱5,647,689 | ₱429,605 | ₱– | ₱– | ₱6,077,294 |

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:

| | 2013 | 2012 (As restated, Note 2) |
|---|---|---|
| Provision for income tax at statutory income tax rates | **₱890,229,424** | ₱1,054,012,333 |
| Adjustments for: | | |
| Movement in NOLCO and excess of MCIT over RCIT with no deferred tax set up and derecognition of NOLCO | **564,541,444** | 251,343,024 |
| Equity in net earnings of an associate | **(437,731,553)** | (380,007,664) |
| Interests and dividends subjected to final tax at a lower rate | **(273,882,186)** | (535,870,163) |
| Gain on sale of investments in AFS financial assets – net | **(190,399,640)** | (101,921,857) |
| Nondeductible expenses | **5,073,946** | 10,876,006 |
| Impairment losses on properties and AFS financial assets | **19,358,010** | – |
| Nontaxable income | **(5,333,813)** | (1,137,320) |
| Dividend and other income exempt from income tax | **(5,193,725)** | (711,352) |
| Provision for income tax | **₱566,661,907** | ₱296,583,007 |

## 26. Related Party Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Group, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Group and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

Transactions with related parties consist mainly of:

a. Lease of office spaces, cash advances, dividends, and loans. The balances as of and for the years ended December 31, 2013 and 2012 are as follows:

| Category | Year | Amount of transactions during the year | Outstanding balance Due from | Due to | Terms and condition |
|---|---|---|---|---|---|
| **Subsidiaries*** | | | | | |
| Common overhead | **2013** | **₱11,569,444** | **₱–** | **₱–** | |
| | 2012 | 22,380,189 | – | – | |
| Rentals | **2013** | **9,370,359** | **105,538** | **–** | **One to three year lease contract; 30-day; non-interest bearing; settled in cash** |
| | 2012 | 12,576,465 | 105,538 | – | One to three year lease contract; 30-day non-interest bearing; settled in cash |
| Dividends | **2013** | **205,300,000** | **–** | **–** | |
| | 2012 | 3,300,000 | – | – | |
| Insurance revenue | **2013** | **1,298,006** | **82,997** | **–** | **30-day; non-interest bearing; unsecured; no impairment; settled in cash** |
| | 2012 | 1,476,771 | – | – | |
| **Associates** | | | | | |
| MIIC | | | | | |
| Dividend income | **2013** | **30,000,000** | **–** | **–** | |
| | 2012 | 43,750,000 | – | – | |
| Rental income | **2013** | **6,896,952** | **–** | **–** | |
| | 2012 | 7,066,997 | 123,148 | – | One to five year lease contract; 30-day non-interest bearing; settled in cash |
| Rental deposits | **2013** | **143,380** | **–** | **–** | |
| | 2012 | 185,938 | – | 12,026 | One to five year lease contract; 30-day; non-interest bearing; settled in cash |
| UBP | | | | | |
| Dividend income | **2013** | **391,757,384** | **–** | **–** | |
| | 2012 | 353,828,201 | – | – | |
| **Retirement Plan** | | | | | |
| Advances | **2013** | **36,381,825** | **–** | **–** | |
| | 2012 | 21,118,695 | – | – | |
| **Total** | **2013** | | **₱188,535** | **₱–** | |
| Total | 2012 | | ₱228,686 | ₱12,026 | |

**The names of the Parent Company's subsidiaries may be referred to Note 2 under "Basis of consolidation."*

Outstanding balances of the intercompany receivables at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables.

Transactions and balances between the Parent Company and the subsidiaries have been eliminated in the consolidation.

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

| | 2013 | 2012 |
|---|---|---|
| Savings and current accounts (Note 4) | **₱369,895,444** | ₱408,607,977 |
| Special savings accounts (Note 4) | **373,419,382** | 790,110,169 |
| | **₱743,314,826** | ₱1,198,718,146 |

Interest income relating to these accounts, which are based on market rates, amounted to ₱31,968,758 and ₱24,817,380 in 2013 and 2012, respectively.

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

| | 2013 | 2012 |
|---|---|---|
| Salaries and other short-term employee benefits | **₱344,788,131** | ₱348,845,903 |
| Post-employment and other long term benefits | **28,044,217** | 28,800,139 |
| | **₱372,832,348** | ₱377,646,042 |

## 27. Trust Operations

On October 23, 2009, the Trust Committee and the Board of Directors (BOD) of IIC approved the temporary cessation of the IIC's trust operation. During its regular meeting held on February 25, 2010, the BOD approved the permanent cessation of IIC's trust operation effective April 16, 2010.

On July 29, 2011, IIC's request for the cancellation of its trust license was approved by the Monetary Board of BSP in its Resolution No. 1152.

On April 19, 2012, SEC approved the amendment of IIC's articles of incorporation and by-laws to remove the word "Trust" from its corporate name.

## 28. Lease Commitments

The Group has entered into noncancelable leases with terms ranging between one month and 15 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:

| | 2013 | 2012 |
|---|---|---|
| Within one year | **₱13,556,119** | ₱13,163,099 |
| After one year but not more than five years | **20,601,922** | 18,521,677 |
| More than five years | **360,034** | 240,293 |
| | **₱34,518,075** | ₱31,925,069 |

Rent expense recognized in 2013 and 2012 amounted to ₱11,982,648 and ₱13,245,652, respectively (Note 20).

b. Operating lease commitments - the Group as lessor

The future minimum rentals receivable under noncancelable operating leases follows:

| | 2013 | 2012 |
|---|---|---|
| Within one year | **₱291,757,402** | ₱250,755,937 |
| After one year but not more than five years | **398,111,324** | 513,547,111 |
| More than five years | **80,804,214** | 80,959,347 |
| | **₱770,672,940** | ₱845,262,395 |

Rent income recognized in 2013 and 2012 amounted to ₱432,767,223 and ₱400,450,547, respectively (Note 8).

## 29. Group Information and Non-controlling Interest

The Group comprises the Parent Company and its subsidiaries and associates. Among the Group's subsidiaries, IIC and ILMADECO are intermediate parents of their respective subsidiaries. IPI and IPVI are wholly-owned subsidiaries of IIC, while ILACGA is a wholly-owned subsidiary of ILMADECO.

The Parent Company's subsidiaries are all incorporated and based in Philippines. The Parent Company's subsidiaries are engaged in the following activities:

| | Principal Activities |
|---|---|
| IIC | Investment banking in the areas of corporate finance, money market, and securities underwriting |
| • IPI | Development and sale of real estate |
| • IPVI | - do - |
| I-Care | Provision of medical and managed care services and facilities to its members |
| ILMADECO | Holding organization of ILACGA |
| • ILACGA | Provision of nonlife general insurance |
| ILPHI | Development and sale of real estate |
| Home Credit | Accumulation of savings of its stockholders and members and lending of funds to them under a housing program |

For the relevant corporate information of the Group's associates, refer to Note 7.

The Parent Company is subject to statutory regulations on Risk-Based Capital (RBC) and other externally imposed capital requirements (Note 34). All asset investments of the Parent Company require approval from the IC. The Parent Company submits annual financial statements to the IC to determine adequacy of the Parent Company's investments. IC classifies assets according to admitted and non-admitted assets for the purpose of calculating financial ratios that the Parent Company is required to maintain. These, among others, pose restrictions as to the use or transfer of assets within the Group, as well as, the settlement of liabilities as of December 31, 2013 and 2012.

The Parent Company is not subject (i.e., under guarantyship, suretyship, or other similar arrangements) to any contingent liability, or capital or purchase commitments as of December 31, 2013 and 2012.

The subsidiaries have no contingent liabilities or capital commitments as of December 31, 2013 and 2012 and are not subject to restrictions (i.e.,whether through legal, contractual, or discretionary restrictions) as to the use or transfer of their assets within the Group, or settlement of liabilities.

While IIC is subject to the minimum capital requirements imposed by SEC, the compliance with the said regulation does not pose significant restrictions as the use or transfer of assets within the Group or the settlement of liabilities as of December 31, 2013 and 2012.

The Group's non-controlling interest as of December 31 pertains to the preferred and common shareholders of Home Credit as follows:

| | **2013** | 2012 |
|---|---|---|
| Preferred shareholders' interest: | | |
| Beginning balance | **₱155,175,361** | ₱133,730,794 |
| Issuances during the year | **99,667,724** | 86,616,275 |
| Redemption during the year | **(80,330,243)** | (65,171,708) |
| | **174,512,842** | 155,175,361 |
| Common shareholders' interest: | | |
| Beginning balance | **20,699** | 20,530 |
| Share in the total comprehensive income during the year | **(309)** | 169 |
| | **20,390** | 20,699 |
| | **₱174,533,232** | ₱155,196,060 |

Home Credit's preferred stocks consist of Serial Preferred "A" shares, Serial Preferred "A-1" shares, Serial Preferred "B" shares and Serial Preferred "C" shares.

Serial Preferred A shares and Serial Preferred A-1 shares are entitled to cumulative dividend per annum at the rate of not more than 20% payable quarterly before any dividends are paid to the common shares, but shall not participate in any further dividends declared by Home Credit.

Prior to 2008, all Serial Preferred B shares are redeemable at any time at the option of the holders. Under PAS 32, the redeemable preferred shares qualify as a financial liability and are included as part of "Accrued expenses and other liabilities" account in the consolidated balance sheets.

In 2008, Home Credit amended the features of the Serial Preferred B shares to provide that the right to redeem for the preferred shares were at the discretion of Home Credit. With the foregoing change, the preferred shares subscribed subsequently qualify as equity instruments under PAS 32 and are included as part of "Equity attributable to non-controlling interest" in the consolidated balance sheets.

The following are the features of Home Credit's Serial Preferred B shares:

a. Has a par value of ₱200 per share;
b. Payable in installments over a period of not more than 7 years, subject to forfeiture if in arrears for more than six months and when approved by the BOD;
c. Non-voting except in cases outlined by the Corporation Code of the Philippines;
d. Non-transferable except for Home Credit;
e. Redeemable at the option of Home Credit; and
f. Entitled to cumulative dividends as determined and approved by the BOD.

In 2013, the preferred shareholders' interest was classified as "Equity attributable to non-controlling interest." Accordingly, the preferred shareholders' interest in the Group's December 31, 2012 consolidated financial statements was also reclassified from current liability under "Accrued expenses and other liabilities" to "Equity attributable to non-controlling interest."

The summarized and restated financial information, before intercompany eliminations, of Home Credit as of and for the years ended December 31, 2013, 2012, and 2011 follows:

*Financial position*

| | **As of December 31, 2013** | As of December 31, 2012 | As of December 31, 2011 |
|---|---|---|---|
| Cash and cash equivalents | **₱82,616,239** | ₱78,178,305 | ₱68,244,471 |
| Loans and receivables | **110,400,059** | 104,523,577 | 119,550,852 |
| Available-for-sale investments | **29,633,570** | 24,320,241 | 10,743,289 |
| Property and equipment | **4,194,024** | 3,864,326 | 3,956,028 |
| Investment properties | **22,845,709** | 28,487,394 | 31,734,020 |
| Other assets | **1,522,715** | 1,363,949 | 2,060,417 |
| **Total assets** | **251,212,316** | 240,737,792 | 236,289,077 |
| Accounts payable and accrued expenses | **21,908,791** | 25,850,696 | 27,508,286 |
| Redeemable preferred capital contributions | **7,772,912** | 11,921,781 | 23,253,484 |
| **Total liabilities** | **29,681,703** | 37,772,477 | 50,761,770 |
| **Total equity** | **₱221,530,613** | ₱202,965,315 | ₱185,527,307 |
| Attributable to the Group | **₱46,996,270** | ₱47,768,144 | ₱51,774,139 |
| Attributable to non-controlling interest | **174,534,343** | 155,197,171 | 133,753,168 |

*Financial performance*

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2013** | 2012 | 2011 |
| Interest income | **₱16,657,567** | ₱19,308,847 | ₱19,604,498 |
| Interest expense | **(993,892)** | (1,870,612) | (2,308,050) |
| **Net interest income** | **15,663,675** | 17,438,235 | 17,296,448 |
| Service fees | **14,255,594** | 13,910,363 | 15,705,778 |
| Miscellaneous Income | **8,271,139** | 8,851,063 | 7,545,199 |
| **Total operating income** | **38,190,408** | 40,199,661 | 40,547,425 |
| Operating Expenses | **(36,060,530)** | (37,653,173) | (37,200,695) |
| **Net income*** | **2,129,878** | 2,546,488 | 3,346,730 |
| **Other comprehensive income (loss)** | **(2,902,063)** | (1,943,839) | 1,242,460 |
| **Total comprehensive income (loss)** | **(₱772,185)** | ₱602,649 | ₱4,589,190 |
| Attributable to the Group | **(₱771,876)** | ₱602,480 | ₱4,587,354 |
| Attributable to non-controlling interest | **(309)** | 169 | 1,836 |

**Pursuant to RA No. 8763, otherwise known as the "Home Guarantee Corporation Act of 2000," Home Credit is exempt from all national taxes.*

*Cash flows*

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2013** | 2012 | 2011 |
| Cash provided by (used in) operating activities | **(₱11,113,185)** | ₱6,924,237 | ₱1,643,049 |
| Cash used in investing activities | **362,507** | (7,103,267) | (2,841,838) |
| Cash provided by financing activities | **15,188,612** | 10,112,864 | 13,437,697 |
| **Net increase in cash and cash equivalents** | **₱4,437,934** | ₱9,933,834 | ₱12,238,908 |

## 30. Note to Consolidated Statements of Cash Flows

Noncash activities of the Group pertain to the reclassification of property and equipment to investment properties amounting to ₱108,822,019 (net of accumulated depreciation of ₱16,721,693) and ₱3,342,000 in 2013 and 2012, respectively, and reclassification of investment properties to property and equipment amounting to ₱21,104,913 (net of accumulated depreciation of ₱18,453,023) in 2012 (nil in 2013).

## 31. Financial Instruments

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **FINANCIAL ASSETS** | | | | |
| **Financial Assets at FVPL** | | | | |
| Equity securities - quoted | **₱2,167,536,530** | **₱2,167,536,530** | ₱1,491,664,437 | ₱1,491,664,437 |
| Under separate fund: | | | | |
| Traditional VULs: | | | | |
| Quoted equity securities | **6,535,314,916** | **6,535,314,916** | 4,158,980,050 | 4,158,980,050 |
| Quoted debt securities: | | | | |
| Government: | | | | |
| Local currency | **844,153,449** | **844,153,449** | 530,062,506 | 530,062,506 |
| Foreign currency | **815,569,068** | **815,569,068** | 745,507,806 | 745,507,806 |
| Corporate: | | | | |
| Local currency | **221,445,172** | **221,445,172** | 419,495,105 | 419,495,105 |
| Foreign currency | **115,943,813** | **115,943,813** | 81,363,361 | 81,363,361 |
| Structured VULs*: | | | | |
| Local currency | **622,589,528** | **622,589,528** | 656,110,748 | 656,110,748 |
| Foreign currency | **1,757,976,117** | **1,757,976,117** | 1,175,219,137 | 1,175,219,137 |
| | **13,080,528,593** | **13,080,528,593** | 9,258,403,150 | 9,258,403,150 |
| **AFS Financial Assets** | | | | |
| Equity securities: | | | | |
| Quoted | **5,266,852,681** | **5,266,852,681** | 5,660,911,056 | 5,660,911,056 |
| Unquoted** | **5,154,529,348** | **5,154,529,348** | 5,054,506,333 | 5,054,506,333 |
| Debt securities: | | | | |
| Quoted: | | | | |
| Government: | | | | |
| Local currency | **3,563,921,745** | **3,563,921,745** | 2,985,749,001 | 2,985,749,001 |
| Foreign currency | **911,376,505** | **911,376,505** | 974,816,705 | 974,816,705 |
| Corporate: | | | | |
| Local currency | **728,675,091** | **728,675,091** | 129,819,759 | 129,819,759 |

(Forward)

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| Foreign currency | **₱31,605,535** | **₱31,605,535** | ₱31,767,682 | ₱31,767,682 |
| Unquoted - corporate | **41,357,608** | **41,357,608** | 43,284,371 | 43,284,371 |
| | **15,698,318,513** | **15,698,318,513** | 14,880,854,907 | 14,880,854,907 |
| **HTM Financial Assets** | | | | |
| Government: | | | | |
| Local currency | **15,762,433,251** | **20,491,626,173** | 15,722,031,096 | 20,128,097,445 |
| Foreign currency | **1,693,654,305** | **1,834,083,986** | 2,771,497,990 | 2,996,528,279 |
| Corporate: | | | | |
| Local currency | **5,666,769,690** | **5,840,910,414** | 1,537,674,174 | 1,681,570,828 |
| Foreign currency | **241,426,450** | **239,074,078** | 22,450,813 | 24,588,683 |
| | **23,364,283,696** | **28,405,694,651** | 20,053,654,073 | 24,830,785,235 |
| **Loans and Receivables** | | | | |
| Term loans | **10,429,833,529** | **12,032,221,100** | 14,101,025,603 | 16,531,869,488 |
| Housing loans | **180,242,535** | **238,045,065** | 165,196,948 | 200,028,205 |
| Car financing loans | **47,143,160** | **79,048,691** | 48,542,732 | 79,078,410 |
| | **10,657,219,224** | **12,349,314,856** | 14,314,765,283 | 16,810,976,103 |
| **TOTAL FINANCIAL ASSETS** | **₱62,800,350,026** | **₱69,533,856,613** | ₱58,507,677,413 | ₱65,781,019,395 |
| **FINANCIAL LIABILITIES** | | | | |
| **Insurance Liabilities** | | | | |
| Legal policy reserves | **₱49,554,299,948** | **₱49,554,299,948** | ₱47,490,940,166 | ₱47,490,940,166 |
| **Derivative Financial Instrument:** | | | | |
| Derivative liability | **8,338,735** | **8,338,735** | – | – |
| **TOTAL FINANCIAL LIABILITIES** | **₱49,562,638,683** | **₱49,562,638,683** | ₱47,490,940,166 | ₱47,490,940,166 |

**Corresponding liabilities that are equivalent to the fair value of these assets.*
***Includes club and other equity shares carried at cost amounting to ₱23,448,561 and ₱83,627,247 as of December 31, 2013 and 2012, respectively.*

The following are short term in nature; hence, the carrying value approximates the fair value:

- Cash and cash equivalents;
- Short term investments;
- Insurance receivable;
- Loans and receivable under "Financial assets" account including:
  - Policy loans;
  - Accounts receivable;
  - Interest receivable;
  - Net interest in joint venture accounted for under PAS 39;
  - Mortgage loans;
  - Finance lease;
  - Stocks loans;
  - Due from agents; and
  - Other receivables;
- Other insurance liabilities; and
- Accrued expenses and other liabilities excluding taxes and other payable to the government.

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

*Equity securities*
The fair values of equity securities are based on quoted prices. Fair values of unquoted equity securities were valued using valuation techniques.

*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 flow technique that makes use of market rates.

*Structured VULs*
The structured VULs can be decomposed into bond components and option components. The fair value of structured notes has been computed by counterparties using present value calculations and option pricing models, as applicable. The valuation requires management to make certain assumptions about the model inputs particularly the credit spread of the Issuer.

*Term loans*
The fair values of term loans are estimated using the discounted cash flow technique that makes use of market rates and credit spreads. Market rates ranged from 0.18% to 4.24% in 2013 and 2012.

*Housing and car financing loans*
The fair values of housing and car financing loans are estimated using the discounted cash flow technique that makes use of market rates ranging from 5% to 10% in 2013 and 6% to 12% in 2012. Credit risk is minimal for such types of secured lending instruments.

*Legal policy reserves and other insurance liabilities*
The carrying amounts of legal policy reserves reflect the statutory reserves.

*Derivative Liability*
The fair value of the cross currency swap is determined through a valuation model that incorporates various observable market inputs including interest rate curves and foreign exchange rates prevailing at financial reporting date.

## 32. Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The 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; or
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 at fair value by level of the fair value hierarchy as of December 31:

| | 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **FINANCIAL ASSETS MEASURED AT FAIR VALUE** | | | | |
| **Financial Assets at FVPL** | | | | |
| Equity securities - quoted | ₱2,167,536,530 | ₱– | ₱– | ₱2,167,536,530 |
| Under separate fund*: | | | | |
| Traditional VULs: | | | | |
| Quoted equity securities | 6,535,314,916 | – | – | 6,535,314,916 |
| Quoted debt securities: | | | | |
| Government: | | | | |
| Local currency | 844,153,449 | – | – | 844,153,449 |
| Foreign currency | 815,569,068 | – | – | 815,569,068 |
| Corporate: | | | | |
| Local currency | 221,445,172 | – | – | 221,445,172 |
| Foreign currency | 115,943,813 | – | – | 115,943,813 |
| Structured VULs**: | | | | |
| Local currency | – | – | 622,589,528 | 622,589,528 |
| Foreign currency | – | – | 1,757,976,117 | 1,757,976,117 |
| | 10,699,962,948 | – | 2,380,565,645 | 13,080,528,593 |
| **AFS Financial Assets** | | | | |
| Equity securities: | | | | |
| Quoted | 5,266,852,681 | – | – | 5,266,852,681 |
| Unquoted | – | 489,918,300 | 4,641,162,487 | 5,131,080,787 |
| Debt securities: | | | | |
| Quoted: | | | | |
| Government: | | | | |
| Local currency | 3,563,921,745 | – | – | 3,563,921,745 |
| Foreign currency | 911,376,505 | – | – | 911,376,505 |
| Corporate: | | | | |
| Local currency | 728,675,091 | – | – | 728,675,091 |
| Foreign currency | 31,605,535 | – | – | 31,605,535 |
| Unquoted - corporate | – | 41,357,608 | – | 41,357,608 |
| | 10,502,431,557 | 531,275,908 | 4,641,162,487 | 15,674,869,952 |
| **FINANCIAL ASSETS FOR WHICH FAIR VALUE IS DISCLOSED** | | | | |
| **HTM Financial Assets**: | | | | |
| Government: | | | | |
| Local currency | 20,491,626,173 | – | – | 20,491,626,173 |
| Foreign currency | 1,834,083,986 | – | – | 1,834,083,986 |
| Corporate: | | | | |
| Local currency | 5,840,910,414 | – | – | 5,840,910,414 |
| Foreign currency | 239,074,078 | – | – | 239,074,078 |
| | 28,405,694,651 | – | – | 28,405,694,651 |

(Forward)

| | 2013 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Loans and receivable**: | | | | |
| Term loans | **₱–** | **₱–** | **₱12,032,221,100** | **₱12,032,221,100** |
| Housing loans | **–** | **238,045,065** | **–** | **238,045,065** |
| Car financing loans | **–** | **79,048,691** | **–** | **79,048,691** |
| | **–** | **317,093,756** | **12,032,221,100** | **12,349,314,856** |
| **TOTAL FINANCIAL ASSETS** | **₱49,608,089,156** | **₱848,369,664** | **₱19,053,949,232** | **₱69,510,408,052** |
| | | | | |
| **FINANCIAL LIABILITIES** | | | | |
| **Derivative Financial Instrument:** | | | | |
| Derivative liability | **₱–** | **₱8,338,735** | **₱–** | **₱8,338,735** |

**Excluding cash and cash equivalents, other receivables, and other payables.*
***Corresponding liabilities that are equivalent to the fair value of these assets.*

| | 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **FINANCIAL ASSETS MEASURED AT FAIR VALUE** | | | | |
| **Financial Assets at FVPL** | | | | |
| Equity securities - quoted | ₱1,491,664,437 | ₱– | ₱– | ₱1,491,664,437 |
| Under separate fund*: | | | | |
| Traditional VULs: | | | | |
| Quoted equity securities | 4,158,980,050 | – | – | 4,158,980,050 |
| Quoted debt securities: | | | | |
| Government: | | | | |
| Local currency | 530,062,506 | – | – | 530,062,506 |
| Foreign currency | 745,507,806 | – | – | 745,507,806 |
| Corporate: | | | | |
| Local currency | 419,495,105 | – | – | 419,495,105 |
| Foreign currency | 81,363,361 | – | – | 81,363,361 |
| Structured VULs**: | | | | |
| Local currency | – | – | 656,110,748 | 656,110,748 |
| Foreign currency | – | – | 1,175,219,137 | 1,175,219,137 |
| | 7,427,073,265 | – | 1,831,329,885 | 9,258,403,150 |
| **AFS Financial Assets** | | | | |
| Equity securities: | | | | |
| Quoted | 5,660,911,056 | – | – | 5,660,911,056 |
| Unquoted | – | – | 4,970,879,086 | 4,970,879,086 |
| Debt securities: | | | | |
| Quoted: | | | | |
| Government: | | | | |
| Local currency | 2,985,749,001 | – | – | 2,985,749,001 |
| Foreign currency | 974,816,705 | – | – | 974,816,705 |
| Corporate: | | | | |
| Local currency | 129,819,759 | – | – | 129,819,759 |
| Foreign currency | 31,767,682 | – | – | 31,767,682 |
| Unquoted - corporate | – | 43,284,371 | – | 43,284,371 |
| | 9,783,064,203 | 43,284,371 | 4,970,879,086 | 14,797,227,660 |

(Forward)

| | 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **FINANCIAL ASSETS FOR WHICH FAIR VALUE IS DISCLOSED** | | | | |
| **HTM Financial Assets**: | | | | |
| Government: | | | | |
| Local currency | ₱20,128,097,445 | ₱– | ₱– | ₱20,128,097,445 |
| Foreign currency | 2,996,528,279 | – | – | 2,996,528,279 |
| Corporate: | | | | |
| Local currency | 1,681,570,828 | – | – | 1,681,570,828 |
| Foreign currency | 24,588,683 | – | – | 24,588,683 |
| | 24,830,785,235 | – | – | 24,830,785,235 |
| **Loans and Receivables** | | | | |
| Term loans | – | – | 16,531,869,488 | 16,531,869,488 |
| Housing loans | – | 200,028,205 | – | 200,028,205 |
| Car financing loans | – | 79,078,410 | – | 79,078,410 |
| | – | 279,106,615 | 16,531,869,488 | 16,810,976,103 |
| **TOTAL FINANCIAL ASSETS** | ₱42,040,922,703 | ₱322,390,986 | ₱23,334,078,459 | ₱65,697,392,148 |

**Excluding cash and cash equivalents, other receivables, and other payables.*
***Corresponding liabilities that are equivalent to the fair value of these assets.*

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:

| | **2013** | 2012 |
|---|---|---|
| AFS financial assets: | | |
| Beginning balance | **₱4,970,879,086** | ₱6,053,894,209 |
| Acquisition | **147,320,000** | – |
| Fair value gain (loss) recognized through OCI | **12,881,701** | (1,083,015,123) |
| Transfer to Level 2 fair value hierarchy | **(489,918,300)** | – |
| Ending balance | **₱4,641,162,487** | ₱4,970,879,086 |

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

| | **2013** | 2012 |
|---|---|---|
| **USD** | | |
| Beginning balance | **₱1,175,219,137** | ₱922,405,995 |
| Additions | **471,197,009** | 242,311,750 |
| Fair value gain (loss) | **111,559,971** | 10,501,392 |
| Ending balance | **1,757,976,117** | 1,175,219,137 |
| **Peso** | | |
| Beginning balance | **656,110,748** | 304,752,500 |
| Additions | **–** | 375,471,000 |
| Fair value gain (loss) | **(33,521,220)** | (24,112,752) |
| Ending balance | **622,589,528** | 656,110,748 |
| Total | **₱2,380,565,645** | ₱1,831,329,885 |

The estimated fair market values of the Group's unquoted equity shares accounted for as AFS financial assets follow:

| | **2013** | 2012 |
|---|---|---|
| Investment in a petroleum company | **₱4,484,405,783** | ₱4,421,651,374 |
| Investment in a healthcare company | **489,918,300** | 393,018,307 |
| Investment in a holding company | **156,756,704** | 156,209,405 |
| | **₱5,131,080,787** | ₱4,970,879,086 |

*Investment in a petroleum company*
The Group has investments in a petroleum company's (the "investee-petroleum company") shares of stock classified as AFS which is not quoted in the market. The investee-petroleum company's shares are marked to market using a valuation technique based on estimated PBV Ratio.

The following assumptions were used to determine the fair value of the investee-petroleum company's shares of stock as of December 31, 2013 and 2012:

- For stocks not traded in any exchange, the approximate fair value of the investee-petroleum company can be determined using relative valuation tools and the price performance of peer corporation;
- The PBV Ratio is a regular valuation tool used to compare a peer corporation;
- Among the peer listed corporations of the investee-petroleum company, a local petroleum company (the "peer petroleum company") is considered the nearest company that the investee-petroleum company can be compared to as follows:
  a. The peer petroleum company is listed and operates in the Philippines;
  b. Information about other peer corporations in the region is not comparable since the market and the structure of the entities are different from the investee-petroleum company;
- The price used for the PBV Ratio computation of the investee-petroleum company is the closing price of the peer petroleum company amounting to ₱13.84 per share and ₱10.40 per share in 2013 and 2012, respectively; and
- The PBV multiple of the investee-petroleum company is 2.1555x and 1.5753x in 2013 and 2012, respectively.

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

| | Significant observable input | Level at yearend | Sensitivity of the input to fair value |
|---|---|---|---|
| **2013** | **Closing price** | **₱13.84** | **0.5% increase (decrease) in the closing price per share of the peer petroleum company would result in the increase (decrease) in fair value by ₱22,422,051.** |
| 2012 | Closing price | ₱10.40 | 0.5% increase (decrease) in the closing price per share of the peer petroleum company would result in the increase (decrease) in fair value by ₱22,108,257. |

Set out below is the sensitivity analysis of the movement in unobservable inputs used in the valuation, with all other variables held constant, showing the impact on OCI as of December 31:

| | Significant unobservable input | Level at yearend | Sensitivity of the input to fair value |
|---|---|---|---|
| **2013** | **Book value per share** | **₱6.4208** | **₱0.1067 increase or decrease in the book value per share of peer petroleum company would result in the decrease or increase in fair value by ₱73,279,465 and ₱75,755,289, respectively.** |
| 2012 | Book value per share | ₱6.6019 | ₱0.1067 increase or decrease in the book value per share of peer petroleum company would result in the decrease or increase in fair value by ₱70,303,608 and ₱72,612,669, respectively. |

*Investment in a healthcare company*
The Group has investments in a healthcare company's (the "investee-healthcare company") shares of stock which are not quoted in the market as of December 31, 2013 and 2012.

The investee-healthcare company was valued using the most recent transaction price in 2013 and DCF valuation model in 2012. Management assessed that the change in valuation technique is appropriate as the valuation method in 2013 involved less estimates and judgments than DCF valuation model.

In 2013, a third party investor sold its minority interest in the investee-healthcare company at ₱5,900 per share. The fair value of the Group's investment in the common shares of the investee-healthcare company as of December 31, 2013 was determined based on this recent market transaction of the same instrument among independent, knowledgeable, able, and willing parties and was determined as an exit price applicable to the Group given that the relevant liquidity and minority discounts must be identical for both the Group and the third party under current market conditions.

In 2012, DCF valuation model was employed using the following assumptions:

- Weighted average cost of capital (WACC) of the investee-healthcare company was used in determining the present value of the free cash flows (FCF);
- The terminal value was calculated using FCF from the last year of the 10-year projection period capitalized into perpetuity using the Gordon growth model based on a growth rate of 3%;

- Normalization adjustments were made in the FCF of the last year of the projection period for purposes of computing the terminal value;
- A marketability discount factor of 15% was used considering that the investee-healthcare company's shares are not liquid; and
- A minority discount factor of 15% was used given that the Group is only a minority shareholder in the investee-hospital.

The analysis of the fair market value as of December 31, 2012 of the investee-healthcare company's shares below is performed for the reasonably possible movements in significant unobservable inputs, with all other variables held constant, showing the impact on OCI:

| Significant unobservable input | Level at yearend | Sensitivity of the input to fair value |
|---|---|---|
| WACC | 9.74% | 0.25% increase or decrease in the WACC of the investee healthcare company would result in the decrease (increase) in fair value by ₱10,510,058 and ₱10,755,555. |
| FCF growth rate | 3.00% | 0.25% increase (decrease) in the growth rate of the investee healthcare company would result in the increase (decrease) in fair value by ₱1,000,989. |
| Marketability discount factor | 15.00% | 0.25% increase (decrease) in the discount factor of the investee healthcare company would result in the decrease (increase) in fair value by ₱1,403,637. |
| Minority discount factor | 15.00% | 0.25% increase (decrease) in the discount factor of the investee healthcare company would result in the decrease (increase) in fair value by ₱1,403,637. |

*Investment in a holding company*
The Group's investment in a holding company (the "investee-holding company") was valued using adjusted net asset method both in 2013 and 2012 since majority of its assets are carried at fair value.

The analysis of the fair market value of the investee-holding company's shares below is performed for the reasonably possible movement in the unobservable inputs used in the valuation with all other variables held constant, showing the impact on OCI:

| | Significant unobservable input | Level at yearend | Sensitivity of the input to fair value |
|---|---|---|---|
| **2013** | **Book value per share** | **₱6,241** | **25.15% increase (decrease) in the book value per share of the investee holding company would result in the decrease (increase) in fair value by ₱39,420,637.** |
| 2012 | Book value per share | ₱6,219 | 11.09% increase (decrease) in the book value per share of the investee holding company would result in the decrease (increase) in fair value by ₱17,327,863. |

*Other investments in unquoted debt securities*
Other investments in unquoted debt securities are determined using valuation techniques with inputs and assumptions that are based on market observable data and conditions, and reflect appropriate risk adjustments that market participants would make for credit and liquidity risks existing at the end of each of the reporting period. The fair values of the securities totaling ₱41,357,608 and ₱43,284,371 is the net present value of the estimated future cash flows discounted at the spot bid rates applicable as of December 31, 2013 and 2012 respectively.

*Structured VULs*
The structured VULs can be decomposed into bond components and options components. The fair value of structured notes has been computed by counterparties using present value calculations and option pricing models, as applicable. The valuation requires management to make certain assumptions about the model inputs particularly the credit spread of the Issuer. The model also used certain market observable inputs including credit default swap (CDS) of the ROP, USD interest rate swap rates (for the USD-denominated issuances) and USD/Peso CCS rates (for the Peso-denominated issuances). The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of the fair value of structured notes.

The analysis of the fair market value of the structured notes as of December 31 is performed for the reasonable possible movement in the significant inputs other than quoted prices included within Level 1 with all other variables held constant, showing the impact to profit and loss is presented in the next page.

| | Significant unobservable input other than quoted prices within Level 1 | Range level at yearend | Sensitivity of the input to fair value |
|---|---|---|---|
| **2013** | **ROP CDS level (2-10 years)** | **42-177 basis points** | **A 50 basis points increase (decrease) in ROP CDS would result in the decrease (increase) in fair value of the note by ₱31,754,221.** |
| | **USD IRS (1-10 years)** | **50-300 basis points** | **A 50 basis points increase (decrease) in USD IRS would result in the decrease (increase) in fair value of the note by ₱40,860,979.** |
| | **PHP IRS (3-6 years)** | **235-335 basis points** | **A 50 basis points increase (decrease) in PHP IRS would result in the decrease (increase) in fair value of the note by ₱16,273,177.** |
| 2012 | ROP CDS level (3 years) | 50 basis points | A 50 basis points increase (decrease) in ROP CDS would result in the decrease (increase) in fair value of the note by ₱9,903,587. |
| | USD IRS (3-7 years) | 50-130 basis points | A 50 basis points increase (decrease) in USD IRS would result in the decrease (increase) in fair value of the note by ₱21,059,772. |
| | PHP IRS (4-7 years) | 142-182 basis points | A 50 basis points increase (decrease) in PHP IRS would result in the decrease (increase) in fair value of the note by ₱18,509,120. |

*Note: The Sensitivity is only applied to the bond portion of the structured notes. Further, results of the sensitivity do not reflect stressed scenarios due to non-linearity characteristics of the product.*

The analysis of the fair market value of the structured notes as of December 31 is performed for the reasonable possible movement in the significant unobservable inputs with all other variables held constant, showing the impact on profit or loss and equity follows:

*USD-denominated notes*

| | Significant unobservable input | Range level at yearend | Sensitivity of the input to fair value |
|---|---|---|---|
| **2013** | **Bank CDS level (1-6 years)** | **25-123 basis points** | **A 50 basis points increase (decrease) in CDS would result in the decrease (increase) in fair value of the note by ₱19,616,283.** |
| | **Bank CDS level (10 years)** | **126 basis points** | **A 50 basis points increase (decrease) in CDS would result in the decrease (increase) in fair value of the note by ₱21,244,697.** |
| 2012 | Bank CDS level (4-7 years) | 67-145 basis points | A 50 basis points increase (decrease) in CDS would result in the decrease (increase) in fair value of the note by ₱21,059,772. |

*Note: The Sensitivity is only applied to the bond portion of the structured notes. Further, results of the sensitivity do not reflect stressed scenarios due to non-linearity characteristics of the product.*

*Peso-denominated notes*

| | Significant unobservable input | Range level at yearend | Sensitivity of the input to fair value |
|---|---|---|---|
| **2013** | **Bank CDS level (3-6 years)** | **43-97 basis points** | **A 50 basis points increase (decrease) in CDS would result in the decrease (increase) in fair value of the note by ₱16,273,177.** |
| 2012 | Bank CDS level (4-7 years) | 93-119 basis points | A 50 basis points increase (decrease) in CDS would result in the decrease (increase) in fair value of the note by ₱18,509,120. |

*Note: The Sensitivity is only applied to the bond portion of the structured notes. Further, results of the sensitivity do not reflect stressed scenarios due to non-linearity characteristics of the product.*

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

The Bank CDS level is based on the closest available CDS maturity of the counterparty matched to the remaining maturity of the structured notes. Further, the Bank CDS is a proxy for the funding cost of the counterparty which is considered as a significant unobservable input.

The above estimates are based on assumptions that, if altered, can change the analysis expressed herein. This shall not constitute a representation or warranty as to future performance of the structured notes. Further, past performance is not indicative of future results.

## 33. 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 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 leading 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; and
- 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 primarily 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, thus 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, refuse to pay premiums, or 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:

| | 2013 | 2012 |
|---|---|---|
| **Whole Life** | | |
| Gross | **₱94,773,094,841** | ₱94,261,969,998 |
| Net | **84,054,510,323** | 83,881,723,003 |
| **Endowment** | | |
| Gross | **24,063,611,599** | 24,757,917,282 |
| Net | **22,891,040,174** | 24,142,480,122 |
| **Term Insurance** | | |
| Gross | **12,574,960,701** | 13,736,897,443 |
| Net | **12,265,630,996** | 13,283,232,780 |
| **Group Insurance** | | |
| Gross | **82,351,644,857** | 75,434,098,576 |
| Net | **60,534,966,278** | 52,563,339,903 |
| **Variable Life** | | |
| Gross | **17,531,062,286** | 8,567,342,717 |
| Net | **15,077,992,640** | 7,852,699,143 |
| **Total** | | |
| Gross | **₱231,294,374,284** | ₱216,758,226,016 |
| Net | **₱194,824,140,411** | ₱181,723,474,951 |

Life Insurance Contracts

*Assumptions*

Material judgment is required in determining the liabilities and in the choice of assumptions relating to insurance contracts. Assumptions used 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 forth 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 (i.e., "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 follow:

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. The net investment return is the base discount rate assumption used for the LAT runs (i.e., 6.179% and 7.069% for 2013 and 2012, respectively).

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. 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.

Neither the Group is dependent on a single reinsurer nor the operations of the Group are 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 LAT results per base run scenario show present value of future profits amounting to ₱3,345,626,344 and ₱7,128,653,115 as of December 31, 2013 and 2012, respectively.

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 2013 and 2012, the resulting values are lower than the statutory reserves as follows:

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Scenario | **% Change from Base Run** | % Change from Base Run |
| Base Run | **0.00%** | 0.00% |
| Mortality + 5% | **(7.50%)** | (3.29%) |
| Investment Return + 1% | **9.19%** | 4.24% |
| Discount Rate - 1% | **(5.83%)** | 0.15% |
| Expense + 10% | **(31.03%)** | (13.70%) |
| Lapse + 5% | **(0.84%)** | (0.92%) |

Financial Risk

The Group is exposed to financial risk through its financial assets, financial liabilities, insurance 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. 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;
- Financial assets at FVPL;
- HTM financial assets;
- Loans and receivables;
- AFS financial assets; and
- Counterparty bank default on CCS agreement.

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 maximum credit exposure of the financial assets of the Group is equal to their carrying value except for the following financial assets with collaterals (e.g., equity value, real estate), the financial effects of which are as follows:

| | **2013** | 2012 |
|---|---:|---:|
| Housing loans | **₱177,231,666** | ₱170,433,182 |
| Mortgage loans | **66,620,145** | 78,160,882 |
| Finance leases | **35,497,334** | 37,483,571 |
| Stock loans | **22,791,718** | 7,841,591 |
| | **₱302,140,863** | ₱293,919,226 |

Financial effect is the lower of the carrying value of the financial asset or the fair value of the collateral for each financial asset.

*Risk Concentrations of the Maximum Exposure to Credit Risk*
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.

The following table presents the Group's concentration of credit risk in the Group's debt securities portfolio by industrial distribution as percentage of total debt securities:

| | **2013** | 2012 |
|---|---|---|
| Property | **25%** | 8% |
| Electricity, energy, power, and water | **15%** | 13% |
| Holding firms | **13%** | 27% |
| Financial institutions | **12%** | 10% |
| Telecommunications | **11%** | 18% |
| Tollways operation and maintenance | **10%** | 10% |
| Media | **4%** | 5% |
| Food, beverage and tobacco | **3%** | 1% |
| Others | **7%** | 8% |
| Total | **100%** | 100% |

The Group did not have any significant concentration of credit risk with a single counterparty or group of counterparties, and geographical segments as of December 31, 2013 and 2012.

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

| | **2013** | | | |
|---|---|---|---|---|
| | **Neither past due nor impaired** | | | |
| | **Investment Grade** | **Non-Investment Grade** | **Past Due or Impaired** | **Total** |
| **Insurance Receivables** | | | | |
| Due premiums | **₱214,289,423** | **₱–** | **₱–** | **₱214,289,423** |
| Reinsurance assets | – | **11,759,227** | – | **11,759,227** |
| | **214,289,423** | **11,759,227** | – | **226,048,650** |
| **Financial Assets at FVPL** | | | | |
| Equity securities - quoted | **2,167,536,530** | – | – | **2,167,536,530** |
| Under separate fund: | | | | |
| Traditional VULs: | | | | |
| Cash and cash equivalents | **1,396,952,643** | – | – | **1,396,952,643** |
| Quoted equity securities | **6,535,314,916** | – | – | **6,535,314,916** |
| Quoted debt securities: | | | | |
| Government: | | | | |
| Local currency | **844,153,449** | – | – | **844,153,449** |
| Foreign currency | **815,569,068** | – | – | **815,569,068** |
| Corporate: | | | | |
| Local currency | **221,445,172** | – | – | **221,445,172** |
| Foreign currency | **115,943,813** | – | – | **115,943,813** |
| Other receivables | **64,767,411** | – | – | **64,767,411** |
| Structured VULs: | | | | |
| Local currency | **622,589,528** | – | – | **622,589,528** |
| Foreign currency | **1,757,976,117** | – | – | **1,757,976,117** |
| | **14,542,248,647** | – | – | **14,542,248,647** |

(Forward)

| | 2013 | | | |
|---|---|---|---|---|
| | Neither past due nor impaired | | | |
| | Investment Grade | Non-Investment Grade | Past Due or Impaired | Total |
| **AFS Financial Assets** | | | | |
| Equity securities: | | | | |
| Quoted | ₱5,266,852,681 | ₱– | ₱– | ₱5,266,852,681 |
| Unquoted | 5,154,329,348 | 200,000 | – | 5,154,529,348 |
| Debt securities: | | | | |
| Quoted: | | | | |
| Government: | | | | |
| Local currency | 3,563,921,745 | – | – | 3,563,921,745 |
| Foreign currency | 911,376,505 | – | – | 911,376,505 |
| Corporate: | | | | |
| Local currency | 728,675,091 | – | – | 728,675,091 |
| Foreign currency | 31,605,535 | – | – | 31,605,535 |
| Unquoted - corporate | 41,357,608 | – | – | 41,357,608 |
| | 15,698,118,513 | 200,000 | – | 15,698,318,513 |
| **HTM Financial Assets**: | | | | |
| Government: | | | | |
| Local currency | 15,762,433,251 | – | – | 15,762,433,251 |
| Foreign currency | 1,693,654,305 | – | – | 1,693,654,305 |
| Corporate: | | | | |
| Local currency | 5,666,769,690 | – | – | 5,666,769,690 |
| Foreign currency | 241,426,450 | – | – | 241,426,450 |
| | 23,364,283,696 | – | – | 23,364,283,696 |
| **Loans and Receivables** | | | | |
| Cash and cash equivalents* | 5,497,789,323 | – | – | 5,497,789,323 |
| Short term investment | 111,000,000 | – | – | 111,000,000 |
| | 5,608,789,323 | – | – | 5,608,789,323 |
| Term loans | 10,429,833,529 | – | – | 10,429,833,529 |
| Policy loans | 5,673,565,963 | – | – | 5,673,565,963 |
| Accounts receivable | 10,824,137 | 566,657,990 | 67,421,739 | 644,903,866 |
| Interest receivable | 551,130,352 | – | – | 551,130,352 |
| Housing loans | 180,242,535 | – | – | 180,242,535 |
| Mortgage loans | 36,562,524 | 12,749,760 | 22,475,600 | 71,787,884 |
| Net interest in joint venture accounted for under PAS 39 | 62,695,412 | – | – | 62,695,412 |
| Car financing loans | 47,143,160 | – | – | 47,143,160 |
| Finance leases | 7,522,991 | 16,618,486 | 11,355,856 | 35,497,333 |
| Stock loans | 13,764,397 | 6,805,271 | 4,193,202 | 24,762,870 |
| Due from agents | – | 5,582,613 | 15,823,226 | 21,405,839 |
| Others | 8,755,390 | 95,489,966 | 9,092,477 | 113,337,833 |
| | 17,022,040,390 | 703,904,086 | 130,362,100 | 17,856,306,576 |
| | 22,630,829,713 | 703,904,086 | 130,362,100 | 23,465,095,899 |
| | ₱76,449,769,992 | ₱715,863,313 | ₱130,362,100 | ₱77,295,995,405 |

**Excluding cash on hand amounting to ₱741,018 as of December 31, 2013.*

| | 2012 | | | |
|---|---|---|---|---|
| | Neither past due nor impaired | | | |
| | Investment Grade | Non-Investment Grade | Past Due or Impaired | Total |
| **Insurance Receivables** | | | | |
| Due premiums | ₱214,791,757 | ₱– | ₱– | ₱214,791,757 |
| Reinsurance assets | – | 13,639,498 | – | 13,639,498 |
| | 214,791,757 | 13,639,498 | – | 228,431,255 |
| **Financial Assets at FVPL** | | | | |
| Equity securities - quoted | 1,491,664,437 | – | – | 1,491,664,437 |
| Under separate fund: | | | | |
| Traditional VULs: | | | | |
| Cash and cash equivalents | 1,040,626,411 | – | – | 1,040,626,411 |
| Quoted equity securities | 4,158,980,050 | – | – | 4,158,980,050 |
| Quoted debt securities: | | | | |
| Government: | | | | |
| Local currency | 530,062,506 | – | – | 530,062,506 |
| Foreign currency | 745,507,806 | – | – | 745,507,806 |
| Corporate: | | | | |
| Local currency | 419,495,105 | – | – | 419,495,105 |
| Foreign currency | 81,363,361 | – | – | 81,363,361 |
| Other receivables | 42,393,784 | – | – | 42,393,784 |
| Structured VULs: | | | | |
| Local currency | 656,110,748 | – | – | 656,110,748 |
| Foreign currency | 1,175,219,137 | – | – | 1,175,219,137 |
| | 10,341,423,345 | – | – | 10,341,423,345 |
| **AFS Financial Assets** | | | | |
| Equity securities: | | | | |
| Quoted | 5,660,911,056 | – | – | 5,660,911,056 |
| Unquoted | 5,054,306,333 | 200,000 | – | 5,054,506,333 |
| Debt securities: | | | | |
| Quoted: | | | | |
| Government: | | | | |
| Local currency | 2,985,749,001 | – | – | 2,985,749,001 |
| Foreign currency | 974,816,705 | – | – | 974,816,705 |
| Corporate: | | | | |
| Local currency | 129,819,759 | – | – | 129,819,759 |
| Foreign currency | 31,767,682 | – | – | 31,767,682 |
| Unquoted - corporate | 43,284,371 | – | – | 43,284,371 |
| | 14,880,654,907 | 200,000 | – | 14,880,854,907 |
| **HTM Financial Assets**: | | | | |
| Government: | | | | |
| Local currency | 15,722,031,096 | – | – | 15,722,031,096 |
| Foreign currency | 2,771,497,990 | – | – | 2,771,497,990 |
| Corporate: | | | | |
| Local currency | 1,537,674,174 | – | – | 1,537,674,174 |
| Foreign currency | 22,450,813 | – | – | 22,450,813 |
| | 20,053,654,073 | – | – | 20,053,654,073 |
| **Loans and Receivables** | | | | |
| Cash and cash equivalents* | 4,704,223,673 | – | – | 4,704,223,673 |
| Term loans | 14,101,025,603 | – | – | 14,101,025,603 |
| Policy loans | 5,624,884,044 | – | – | 5,624,884,044 |

(Forward)

| | 2012 | | | |
|---|---|---|---|---|
| | Neither past due nor impaired | | | |
| | Investment Grade | Non-Investment Grade | Past Due or Impaired | Total |
| Accounts receivable | ₱3,146,343 | ₱342,101,900 | ₱43,830,144 | ₱389,078,387 |
| Interest receivable | 879,003,859 | – | – | 879,003,859 |
| Housing loans | 165,196,948 | – | – | 165,196,948 |
| Mortgage loans | 47,655,555 | 18,446,210 | 17,846,653 | 83,948,418 |
| Net interest in joint venture accounted for under PAS 39 | 63,378,515 | – | – | 63,378,515 |
| Car financing loans | 48,542,732 | – | – | 48,542,732 |
| Finance leases | 13,441,476 | 17,553,674 | 6,488,421 | 37,483,571 |
| Stock loans | 7,786,745 | 7,397,481 | 8,946,488 | 24,130,714 |
| Due from agents | – | 4,627,963 | 29,262,434 | 33,890,397 |
| Others | 147,362,532 | 89,158,270 | 12,144,715 | 248,665,517 |
| | 21,101,424,352 | 479,285,498 | 118,518,855 | 21,699,228,705 |
| | 25,805,648,025 | 479,285,498 | 118,518,855 | 26,403,452,378 |
| | ₱71,296,172,107 | ₱493,124,996 | ₱118,518,855 | ₱71,907,815,958 |

**Excluding cash on hand amounting to ₱254,290 as of December 31, 2012.*

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:

| | **2013** | | | | | |
|---|---|---|---|---|---|---|
| | **Past due but not impaired** | | | | **Past due and Impaired** | **Total** |
| | **< 30 days** | **31 to 60 days** | **> 60 days** | **Total** | | |
| Loans and receivables: | | | | | | |
| Accounts receivable | **₱4,799,519** | **₱3,055,909** | **₱12,062,278** | **₱19,917,706** | **₱47,504,033** | **₱67,421,739** |
| Mortgage loans | **12,021,821** | **2,450,685** | **6,725,476** | **21,197,982** | **1,277,618** | **22,475,600** |
| Finance Leases | **4,733,259** | **2,004,449** | **3,953,763** | **10,691,471** | **664,385** | **11,355,856** |
| Stock loans | **1,772,596** | **685,343** | **116,793** | **2,574,732** | **1,618,470** | **4,193,202** |
| Due from agents | **–** | **–** | **–** | **–** | **15,823,226** | **15,823,226** |
| Others | **3,479,866** | **277,214** | **109,344** | **3,866,424** | **5,226,053** | **9,092,477** |
| | **₱26,807,061** | **₱8,473,600** | **₱22,967,654** | **₱58,248,315** | **₱72,113,785** | **₱130,362,100** |

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Past due but not impaired | | | | Past due and Impaired | Total |
| | < 30 days | 31 to 60 days | > 60 days | Total | | |
| Loans and receivables: | | | | | | |
| Accounts receivable | ₱– | ₱– | ₱104,546 | ₱104,546 | ₱43,725,598 | ₱43,830,144 |
| Mortgage loans | 5,155,462 | 2,843,092 | 8,669,097 | 16,667,651 | 1,179,002 | 17,846,653 |
| Finance Leases | 3,652,451 | 515,457 | 1,746,987 | 5,914,895 | 573,526 | 6,488,421 |
| Stock loans | 2,553,376 | 2,367,713 | 974,561 | 5,895,650 | 3,050,838 | 8,946,488 |
| Due from agents | – | – | – | – | 29,262,434 | 29,262,434 |
| Others | 5,446,716 | 48,580 | 272,693 | 5,767,989 | 6,376,726 | 12,144,715 |
| | ₱16,808,005 | ₱5,774,842 | ₱11,767,884 | ₱34,350,731 | ₱84,168,124 | ₱118,518,855 |

For assets to be classified as "past due and impaired," contractual payments in arrears are more than 90 days. Allowance is recognized in the statement of income for these assets. 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, 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. 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.

*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 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 used to manage liquidity, 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:

| | 2013 | | | | |
|---|---|---|---|---|---|
| | **Up to a year** | **1-3 years** | **3-5 years** | **Over 5 years** | **Total** |
| Financial assets: | | | | | |
| Cash and cash equivalents | **₱5,498,530,341** | **₱–** | **₱–** | **₱–** | **₱5,498,530,341** |
| Insurance receivables | **226,048,650** | **–** | **–** | **–** | **226,048,650** |
| Financial assets at FVPL | **9,749,426,508** | **1,704,520,571** | **886,453,989** | **2,182,209,151** | **14,522,610,219** |
| AFS financial assets | **15,239,649,428** | **1,358,958,077** | **523,021,545** | **4,650,133,370** | **21,771,762,420** |
| HTM financial assets | **2,252,120,311** | **5,497,313,780** | **3,250,905,722** | **34,163,277,772** | **45,163,617,585** |
| Loans and receivables | **1,833,229,882** | **610,990,244** | **1,918,982,000** | **13,848,904,352** | **18,212,106,478** |
| Total financial assets | **34,799,005,120** | **9,171,782,672** | **6,579,363,256** | **54,844,524,645** | **105,394,675,693** |
| Legal policy reserves | **6,864,575,939** | **2,545,462,868** | **2,397,607,459** | **37,746,653,682** | **49,554,299,948** |
| Derivative liability | **8,338,735** | **–** | **–** | **–** | **8,338,735** |
| Other insurance liabilities: | | | | | |
| Members' deposits and other funds on deposit* | **10,019,250,216** | **1,481,573,529** | **251,234,101** | **5,951,487,268** | **17,703,545,114** |
| Reserve for dividends to members | **935,607,163** | **–** | **–** | **–** | **935,607,163** |
| Claims pending settlement | **1,135,257,257** | **–** | **–** | **–** | **1,135,257,257** |
| | **12,090,114,636** | **1,481,573,529** | **251,234,101** | **5,951,487,268** | **19,774,409,534** |
| Other financial liabilities: | | | | | |
| Accrued expenses and other liabilities: | | | | | |
| Accrued employee benefits | **5,226,580** | **524,300,000** | **–** | **104,912,800** | **634,439,380** |
| Accounts payable | **459,390,928** | **101,386,296** | **–** | **–** | **560,777,224** |
| Preferred shares of Home Credit owned by its members | **7,772,912** | **–** | **–** | **–** | **7,772,912** |
| Commissions payable | **74,112,324** | **–** | **–** | **–** | **74,112,324** |
| General expenses due and accrued | **98,666,806** | **–** | **–** | **–** | **98,666,806** |
| Others | **39,356,745** | **1,782,605** | **1,173,805** | **1,899,666** | **44,212,821** |
| | **684,526,295** | **627,468,901** | **1,173,805** | **106,812,466** | **1,419,981,467** |
| Total financial liabilities | **19,647,555,605** | **4,654,505,298** | **2,650,015,365** | **43,804,953,416** | **70,757,029,684** |
| Liquidity position | **₱15,151,449,515** | **₱4,517,277,374** | **₱3,929,347,891** | **₱11,039,571,229** | **₱34,637,646,009** |

**Excluding unearned membership fees of I-Care amounting to ₱43,476,853.*

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Up to a year | 1-3 years | 3-5 years | Over 5 years | Total |
| Financial assets: | | | | | |
| Cash and cash equivalents | ₱4,704,477,963 | ₱– | ₱– | ₱– | ₱4,704,477,963 |
| Insurance receivables | 228,431,255 | – | – | – | 228,431,255 |
| Financial assets at FVPL | 6,802,540,514 | 1,274,960,805 | 456,388,528 | 1,760,415,976 | 10,294,305,823 |
| HTM financial assets | 4,621,995,529 | 5,191,504,915 | 3,865,911,563 | 34,471,865,288 | 48,151,277,295 |
| Loans and receivables | 7,753,855,946 | 1,293,518,673 | 3,331,482,050 | 9,256,993,521 | 21,635,850,190 |
| AFS financial assets | 1,626,316,829 | 1,192,296,260 | 2,530,005,828 | 12,037,935,434 | 17,386,554,351 |

(Forward)

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Up to a year | 1-3 years | 3-5 years | Over 5 years | Total |
| Total financial assets | ₱25,737,618,036 | ₱8,952,280,653 | ₱10,183,787,969 | ₱57,527,210,219 | ₱102,400,896,877 |
| Insurance liabilities: | | | | | |
| Legal policy reserves | 5,930,879,339 | 3,001,990,914 | 2,547,660,475 | 36,010,409,438 | 47,490,940,166 |
| Other insurance liabilities: | | | | | |
| Members' deposits and other funds on deposit | 7,016,472,645 | 1,112,531,914 | 504,099,436 | 5,530,419,856 | 14,163,523,851 |
| Reserve for dividends to members | 1,228,857,601 | – | – | – | 1,228,857,601 |
| Claims pending settlement | 980,623,688 | – | – | – | 980,623,688 |
| | 9,225,953,934 | 1,112,531,914 | 504,099,436 | 5,530,419,856 | 16,373,005,140 |
| Other financial liabilities: | | | | | |
| Accrued expenses and other liabilities: | | | | | |
| Accrued employee benefits | 6,132,768 | – | 486,000,000 | 79,609,578 | 571,742,346 |
| Accounts payable | 343,355,614 | 28,464,069 | 14,330,697 | 2,378,528 | 388,528,908 |
| Preferred shares of Home Credit owned by its members | 167,097,142 | – | – | – | 167,097,142 |
| Commissions payable | 87,293,879 | – | – | – | 87,293,879 |
| General expenses due and accrued | 84,208,973 | – | – | – | 84,208,973 |
| Others | 57,957,630 | – | – | – | 57,957,630 |
| | 746,046,006 | 28,464,069 | 500,330,697 | 81,988,106 | 1,356,828,878 |
| Total financial liabilities | 15,902,879,279 | 4,142,986,897 | 3,552,090,608 | 41,622,817,400 | 65,220,774,184 |
| Liquidity position | ₱9,834,738,757 | ₱4,809,293,756 | ₱6,631,697,361 | ₱15,904,392,819 | ₱37,180,122,693 |

**Excluding unearned membership fee of I-Care amounting to ₱58,340,799.*

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.

*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:

| | | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 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 | **3%-8%** | **₱51,639,700** | **₱–** | **₱–** | **₱50,000,000** | **₱32,597,805** | **₱709,915,944** | **₱844,153,449** |
| Foreign currency | **4%-7%** | **13,368,703** | **4,868,396** | **51,779,618** | **16,315,616** | | **729,236,735** | **815,569,068** |
| Corporate: | | | | | | | | |
| Local currency | **7%-10%** | **70,363,948** | **151,081,224** | **–** | **–** | **–** | **–** | **221,445,172** |
| Foreign currency | **4%-11%** | **–** | **–** | **–** | **–** | **–** | **115,943,813** | **115,943,813** |
| Structured VULs: | | | | | | | | |
| Local currency | **7%-10%** | **–** | **–** | **318,045,000** | **–** | **–** | **304,544,528** | **622,589,528** |
| Foreign currency | **4%-11%** | **–** | **1,046,448,292** | **–** | **–** | **–** | **711,527,825** | **1,757,976,117** |
| | | **135,372,351** | **1,202,397,912** | **369,824,618** | **66,315,616** | **32,597,805** | **2,571,168,845** | **4,377,677,147** |
| AFS debt securities: | | | | | | | | |
| Quoted:- government | | | | | | | | |
| Government: | | | | | | | | |
| Local currency | **4%-9%** | **–** | **–** | **781,990,057** | **56,651,513** | **43,381,347** | **2,681,898,828** | **3,563,921,745** |
| Foreign currency | **6%-10%** | **22,243,642** | **–** | **–** | **–** | **–** | **889,132,863** | **911,376,505** |
| Corporate: | | | | | | | | |
| Local currency | **5%-9%** | **20,256,146** | **–** | **–** | **110,702,162** | **–** | **639,074,391** | **770,032,699** |
| Foreign currency | **7%** | **–** | **–** | **–** | **–** | **–** | **31,605,535** | **31,605,535** |
| | | **₱42,499,788** | **₱–** | **₱781,990,057** | **₱167,353,675** | **₱43,381,347** | **₱4,241,711,617** | **₱5,276,936,484** |

| | | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 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%-9% | ₱– | ₱52,557,155 | ₱– | ₱– | ₱50,000,000 | ₱427,505,351 | ₱530,062,506 |
| Foreign currency | 2%-11% | 16,660,022 | 13,310,865 | 4,846,033 | 30,769,683 | 5,426,346 | 674,494,857 | 745,507,806 |
| Corporate: | | | | | | | | |
| Local currency | 7%-10% | 99,333,332 | 120,565,214 | 152,096,559 | – | 47,500,000 | – | 419,495,105 |
| Foreign currency | 2%-7% | – | 38,854,535 | – | – | – | 42,508,826 | 81,363,361 |
| Structured VULs: | | | | | | | | |
| Local currency | 7%-10% | – | – | – | 322,692,500 | – | 333,418,248 | 656,110,748 |
| Foreign currency | 2%-7% | – | – | 942,730,460 | – | – | 232,488,677 | 1,175,219,137 |
| | | 115,993,354 | 225,287,769 | 1,099,673,052 | 353,462,183 | 102,926,346 | 1,710,415,959 | 3,607,758,663 |
| AFS debt securities: | | | | | | | | |
| Quoted: | | | | | | | | |
| Government: | | | | | | | | |
| Local currency | 5%-9% | – | – | – | 788,139,844 | 57,013,388 | 2,140,595,769 | 2,985,749,001 |
| Foreign currency | 7%-8% | – | 22,095,595 | – | 110,795,038 | – | 841,926,072 | 974,816,705 |
| Corporate: | | | | | | | | |
| Local currency | 8%-9% | – | 20,673,456 | – | – | 107,031,784 | 45,398,890 | 173,104,130 |
| Foreign currency | 7% | – | – | – | – | – | 31,767,682 | 31,767,682 |
| | | ₱– | ₱42,769,051 | ₱– | ₱898,934,882 | ₱164,045,172 | ₱3,059,688,413 | ₱4,165,437,518 |

The following table provides the sensitivity analysis of the fair value of traditional VULs and AFS debt securities and the related impact to profit before tax and equity due to changes in interest rates as of December 31:

| | | **Changes in variable** | **Effect on income before tax** | **Effect on equity** |
|---|---|---|---|---|
| **2013** | **USD** | **+ 25 basis points** | **(₱18,617,548)** | **₱83,345,004** |
| | **PHP** | **+ 25 basis points** | **(15,625,125)** | **(665,826,429)** |
| | **USD** | **- 25 basis points** | **20,844,438** | **166,125,260** |
| | **PHP** | **- 25 basis points** | **16,063,342** | **(526,864,076)** |
| 2012 | USD | + 25 basis points | (₱17,064,740) | (₱34,755,783) |
| | PHP | + 25 basis points | (11,381,645) | (49,973,687) |
| | USD | - 25 basis points | 18,111,218 | 40,864,318 |
| | PHP | - 25 basis points | 11,749,660 | 51,394,413 |

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.

The following table provides the sensitivity analysis of the fair value of the CCS and its effect on income before income tax due to changes in interest rates as of December 31, 2013 (nil in 2012):

| **CCS Leg** | **Change in variable** | **Effect on income before tax** |
|---|---|---|
| **Peso Interest Rate** | **Increase by 25 basis points** | **(₱3,014,791)** |
| **Peso Interest Rate** | **Decrease by 25 basis points** | **3,060,232** |
| **USD Interest Rate** | **Increase by 25 basis points** | **3,192,269** |
| **USD Interest Rate** | **Decrease by 25 basis points** | **(3,240,577)** |

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

*Equity Price Risk*
The Group's price risk exposure at year-end relates to financial assets 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 whose fair values are recorded in the consolidated statements of income and statements of changes in members' equity):

| | **Change in PSEi index** | **Effect on Income Before tax** | **Effect on Equity** |
|---|---|---|---|
| **2013** | **Increase by 0.5%** | **₱35,139,738** | **₱48,080,941** |
| | **Decrease by 0.5%** | **(35,139,738)** | **(48,080,941)** |
| 2012 | Increase by 0.5% | ₱19,349,798 | ₱55,908,314 |
| | Decrease by 0.5% | (19,349,798) | (55,908,314) |

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

*Risk Concentrations of the Maximum Exposure to Equity Price Risk*
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 following table presents the Group's concentration of equity price risk in the Group's equity portfolio by industrial distribution as percentage of total equity securities:

| | **2013** | 2012 |
|---|---|---|
| Holding firms | **30%** | 14% |
| Electricity, energy, power and water | **22%** | 12% |
| Food, beverage and tobacco | **11%** | 5% |
| Property | **9%** | 5% |
| Banks | **9%** | 58% |
| Others | **19%** | 6% |
| Total | **100%** | 100% |

*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:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **United States Dollar Value** | **Peso Equivalent** | United States Dollar Value | Peso Equivalent |
| **Assets** | | | | |
| Cash and cash equivalent | **US$32,377,830** | **₱1,438,028,942** | US$13,549,315 | ₱558,123,383 |
| Financial assets at FVPL | **68,343,839** | **3,035,423,265** | 51,956,239 | 2,140,181,397 |
| AFS financial assets | **21,231,640** | **942,982,040** | 24,436,405 | 1,006,584,387 |
| HTM financial assets | **43,569,162** | **1,935,080,755** | 67,827,462 | 2,793,948,804 |
| | **US$165,522,471** | **₱7,351,515,002** | US$157,769,421 | ₱6,498,837,971 |
| **Liability** | | | | |
| Derivative liability | **US$187,750** | **₱8,338,735** | US$– | ₱ – |
| Legal policy reserves | **50,931,078** | **2,262,052,898** | 75,744,895 | 3,120,083,715 |
| | **US$51,118,828** | **₱2,270,391,633** | US$75,744,895 | ₱3,120,083,715 |

The foregoing United States Dollar amounts have been restated to their Peso equivalents using the exchange rate of ₱44.414 and ₱41.192 to US$1, as recommended by IC, as of December 31, 2013 and 2012, respectively. Net foreign exchange gain amounted to ₱293,295,705 in 2013. Net foreign exchange loss amounted to ₱290,378,588 in 2012.

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, excluding CCS):

| | **Change in USD - Peso exchange rate** | **Effect on income before tax** |
|---|---|---|
| **2013** | **Increase by 1.22%** | **₱71,311,137** |
| | **Decrease by 1.22%** | **(71,311,137)** |
| 2012 | Increase by 0.17% | (₱7,011,584) |
| | Decrease by 0.17% | 7,011,584 |

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

The following table provides the sensitivity analysis of the fair value of the CCS and its effect on income before income tax, and equity due to changes in foreign currency rates as of December 31, 2013 (nil in 2012):

| **Change in variable** | **Effect on income before tax** | **Effect on equity** |
|---|---|---|
| **Increase by 1.22%** | **(₱3,054,083)** | **(₱2,137,858)** |
| **Decrease by 1.22%** | **3,054,083** | **2,137,858** |

## 34. 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 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 considers its total retained earnings amounting to ₱18,889,219,296 and ₱17,225,115,687 as of December 31, 2013 and 2012, respectively, as its capital.

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 one thousand of the total amount of its insurance in force for traditional plans and ₱2 per one 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 liabilities, unearned premiums, and reinsurance reserves. As of December 31, 2013 and 2012, the Group's estimated MOS based on its calculation amounted to ₱6,497,921,643 and ₱6,865,420,234, 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:

| | **2013** | 2012 |
|---|---|---|
| Property and equipment - net | **₱168,571,629** | ₱146,313,003 |
| Accounts receivable and other assets | **627,704,512** | 384,269,135 |
| | **₱796,276,141** | ₱530,582,138 |

Based on the results of 2012 audit of IC, the Group's MOS as of December 31, 2012 amounted to ₱6,774,995,090, which is compliant with the required MOS set forth by the Code.

*Fixed Capitalization Requirements*
Department of Finance Order (DO) No. 27-06 provides for 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 capital requirements vary. The statutory net worth shall include the company'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.

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, 2008, insurance companies should comply with the increase previously scheduled for December 31, 2007.

On June 1, 2012, the Department of Finance issued DO No. 15-2012 which provides for minimum paid up capital requirements of all insurance and professional reinsurance companies to supplement the requirements of DO No. 27-06 after December 31, 2012. Under the said DO, the increase in minimum paid up capital requirements is on a staggered basis for the years December 31, 2012 up to 2020. The DO also allows all existing insurance and professional reinsurance companies a one-time one-year deferral in the compliance to minimum paid up capital requirements provided it has met the RBC hurdle rate based on the schedule set out in the said DO.

The table below shows the amount of minimum paid-up capital and the schedule of compliance per DO No. 15-2012.

| **Paid-up capital** | **Compliance Date** |
|---|---|
| ₱250,000,000 | On or before December 31, 2012 *(Pursuant to DO 27-06 and IMC No. 10-2006)* |
| 400,000,000 | On or before December 31, 2014 |
| 600,000,000 | On or before December 31, 2016 |
| 800,000,000 | On or before December 31, 2018 |
| 1,000,000,000 | On or before December 31, 2020 |

On November 22, 2012, the IC issued an advisory to all insurance and reinsurance companies doing business in the Philippines regarding the implementation of DO No. 27-06. According to the advisory, the minimum paid-up capital for December 31, 2012 must at least be equal to the amount previously scheduled for December 31, 2011 per DO 27-06.

On December 11, 2012, DO No. 15-2012 was issued with a temporary restraining order. Accordingly, the minimum paid-up capital requirement would be ₱250,000,000 by the end of 2012 as advised by the IC.

On August 15, 2013, the President of the Philippines approved the RA No. 10607 to be known as the "New Insurance Code" which provides the new capitalization requirements of all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required net worth and the schedule of compliance per New Insurance Code:

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

As of December 31, 2012, a stock insurance company is required to have a minimum paid-up capital of ₱250,000,000, while non-stock insurance companies, as in the case of the Parent Company, are required to have a minimum cash asset of ₱250,000,000. However, with the passing of RA No. 10607, the requirement of minimum paid-up capital for stock insurance companies has been changed to a required minimum net worth of ₱250,000,000 as of December 31, 2013:

| | **2013** | 2012 |
|---|---|---|
| Minimum statutory net worth | **₱250,000,000** | ₱– |
| Minimum statutory cash asset | – | 250,000,000 |
| Minimum paid-up capital | – | 250,000,000 |

However, Article 194 of RA No. 10607 provides that if an insurance company is organized as a non-stock mutual company, in lieu of such net worth, it must have available total members equity in an amount to be determined by the IC above all liabilities for losses reported; expenses, taxes, legal reserve, and reinsurance of all outstanding risks, and the contributed surplus fund equal to the amounts required of stock corporations. At the moment, however, the IC has not issued any regulation relating to the required total members' equity of a non-stock mutual life insurance companies as in the case of the Parent Company.

As of December 31, 2013, the Parent Company's members' equity is ₱27,854,480,655.

*Unimpaired capital requirement*
Article 194 of RA No. 10607 provides that the minimum paid-up capital and net worth requirement must remain unimpaired for the continuance of the license. The Commissioner of the IC may require the adoption of the risk-based capital approach and other internationally accepted forms of capital framework. Pursuant to the existing implementing rules and regulations, the Company has complied with the unimpaired 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 insurance 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.

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include the Group'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:

| | **2013** | 2012 |
|---|---|---|
| Net worth | **₱27,445,379,215** | ₱27,024,627,375 |
| Aggregate RBC requirement | **13,114,780,668** | 12,875,117,994 |
| RBC Ratio | **209%** | 210% |

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. Based on the results of 2012 audit of IC, the Group's RBC ratio as of December 31, 2012 was equivalent to 210% (i.e., with net worth and aggregate RBC requirement amounting to ₱24,000,404,763 and ₱11,422,867,453, respectively), which is compliant with the required RBC ratio set forth by the Code.

Compliance Framework
IMC No.10-2006 integrated the compliance standards for the fixed capitalization and risk-based capital framework.

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

## 35. Maturity Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered, settled, or reversed as of December 31:

| | **2013** | | |
|---|---|---|---|
| | **Within 12 months** | **Over 12 months** | **Total** |
| **ASSETS** | | | |
| **Cash and Cash Equivalents** | **₱5,498,530,341** | **₱–** | **₱5,498,530,341** |
| **Short term investment** | **111,000,000** | **–** | **111,000,000** |
| **Insurance Receivables** | **226,048,650** | **–** | **226,048,650** |
| (Forward) | | | |

| | 2013 | | |
|---|---|---|---|
| | **Within 12 months** | **Over 12 months** | **Total** |
| **Financial Assets**: | | | |
| Fair value through profit or loss | **₱12,142,044,574** | **₱2,380,565,645** | **₱14,522,610,219** |
| Available-for-sale | **95,519,794** | **15,602,798,719** | **15,698,318,513** |
| Held-to-maturity | **1,104,916,092** | **22,259,367,604** | **23,364,283,696** |
| Loans and receivables | **43,898,025** | **17,740,294,766** | **17,784,192,791** |
| **Investments in Associates** | **–** | **7,760,887,789** | **7,760,887,789** |
| **Investment Properties** | **–** | **9,077,775,054** | **9,077,775,054** |
| **Property and Equipment** | **–** | **324,201,952** | **324,201,952** |
| **Retirement Benefits Asset** | **–** | **278,722,120** | **278,722,120** |
| **Deferred Income Tax Assets** - net | **–** | **3,507,155** | **3,507,155** |
| **Other Assets** | **27,687,165** | **101,690,496** | **129,377,661** |
| **TOTAL ASSETS** | **₱19,249,644,641** | **₱75,529,811,300** | **₱94,779,455,941** |
| | | | |
| **LIABILITIES** | | | |
| Legal policy reserves | **₱6,864,575,939** | **₱42,689,724,009** | **₱49,554,299,948** |
| Derivative liability | **8,338,735** | **–** | **8,338,735** |
| Other insurance liabilities | **12,133,591,489** | **7,684,294,898** | **19,817,886,387** |
| Accrued expenses and other liabilities | **800,696,949** | **731,724,205** | **1,532,421,154** |
| Retirement benefits liability | **–** | **4,889,520** | **4,889,520** |
| Deferred income tax liabilities - net | **–** | **1,187,033,954** | **1,187,033,954** |
| **TOTAL LIABILITIES** | **₱19,807,203,112** | **₱52,297,666,586** | **₱72,104,869,698** |

| | 2012 | | |
|---|---|---|---|
| | Within 12 months | Over 12 months | Total |
| **ASSETS** | | | |
| **Cash and Cash Equivalents** | ₱4,704,477,963 | ₱– | ₱4,704,477,963 |
| **Short term investment** | – | – | – |
| **Insurance Receivables** | 228,431,255 | – | 228,431,255 |
| **Financial Assets**: | | | |
| Fair value through profit or loss | 8,462,975,938 | 1,831,329,885 | 10,294,305,823 |
| Available-for-sale | 98,778,621 | 14,782,076,286 | 14,880,854,907 |
| Held-to-maturity | 2,596,790,704 | 17,456,863,369 | 20,053,654,073 |
| Loans and receivables | 299,701,466 | 21,315,359,115 | 21,615,060,581 |
| **Investments in Associates** | – | 8,020,941,779 | 8,020,941,779 |
| **Investment Properties** | – | 9,048,780,236 | 9,048,780,236 |
| **Property and Equipment** | – | 409,969,670 | 409,969,670 |
| **Retirement Benefits Asset** | – | 280,313,921 | 280,313,921 |
| **Deferred Income Tax Assets** - net | – | 4,242,578 | 4,242,578 |
| **Other Assets** | 27,045,483 | 32,525,331 | 59,570,814 |
| **TOTAL ASSETS** | ₱16,418,201,430 | ₱73,182,402,170 | ₱89,600,603,600 |
| | | | |
| **LIABILITIES** | | | |
| Legal policy reserves | ₱5,872,538,539 | ₱41,618,401,627 | ₱47,490,940,166 |
| Derivative liability | – | – | – |
| Other insurance liabilities | 9,284,294,734 | 7,088,710,406 | 16,373,005,140 |
| Accrued expenses and other liabilities | 866,837,657 | 635,135,417 | 1,501,973,074 |
| Retirement benefits liability | – | 2,458,238 | 2,458,238 |
| Deferred income tax liabilities - net | – | 989,355,593 | 989,355,593 |
| **TOTAL LIABILITIES** | ₱16,023,670,930 | ₱50,334,061,281 | ₱66,357,732,211 |

## 36. Other Matters

a. On July 15, 2005, the Parent Company filed separate Petitions for Review with the Court of Tax Appeals (CTA), to contest the assessment by the Bureau of Internal Revenue (BIR) for deficiency documentary stamp taxes (DST) for calendar years 2001 and 2002. The CTA, in separate Decisions dated August 12, 2008 and April 21, 2009, granted the Petitions for Review and decided in favor of the Parent Company. It declared the Formal Letter of Demand and Assessment Notices for deficiency DST for 2001 and 2002 cancelled and withdrawn. BIR's Motions for Reconsideration seeking to reverse the CTA Decisions were both denied. Subsequently, the CTA En Banc upheld both CTA decisions and denied BIR's Motions for Reconsideration. In 2011 and 2010, BIR appealed to the Supreme Court.

   One of the cases was finally resolved by the Supreme Court last August 2013 and held that the Parent Company is not liable to pay the deficiency DST for 2001. The other case is also expected to be favorably resolved by the second quarter of 2014. The Group's management and legal counsel maintain their belief that the Parent Company has a strong legal basis for exemption from the said tax.

   In a previous case involving the Parent 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 dated December 29, 1997 declaring the Parent Company's exemption from payment of DST and premium tax. This earlier case was cited by the Supreme Court (SC) 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. IIC 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 IIC that involves a complaint for specific performance and sum of money amounting to ₱90.0 million. As counterclaims, IIC 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. IIC 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. It then appealed the case to the CA on March 2, 2009.

   On March 23, 2012, the CA rendered a decision denying the other party's appeal. The Motion for Reconsideration filed by the other party was likewise denied by the CA on June 27, 2012. The other party appealed the CA decision to the SC. On February 11, 2013, the SC decided to reinstate the case before the Regional Trial Court (RTC) of Manila, Branch 28.

   On February 18, 2014, the pre-trial conference was held. Case is now pending at the Manila RTC, Branch 28.

   There were other treasury bills amounting to ₱119.6 million (included in the "Other receivables" account under "Loans and receivables" in the consolidated balance sheets) bought and paid for, but remain undelivered to IIC by a financial institution also involved in the prearranged transactions. On March 25, 1995, IIC filed a case with the Makati RTC for the recovery of the ₱119.6 million undelivered treasury bills. On June 16, 2003, the Makati RTC rendered a decision allowing IIC 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 IIC, 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 IIC to claim for the ₱119.6 million, including accrued interest. IIC questioned the said CA decision through a Petition for Review filed with the SC.

   On April 25, 2012, the SC rendered a decision in favor of the IIC ordering the financial institution to pay ₱136.8 million with interest at the rate of 6% per annum from March 21, 1995 until full payment. On the other hand, the SC ordered IIC to pay the financial institution ₱17.2 million with legal interest at the rate of 6% per annum from June 10, 1994 until full payment. Any amount not paid upon the finality of the decision shall be subject to interest at the increased rate of 12% percent per annum reckoned from the date of finality of the decision until full payment thereof. The financial institution filed a motion for reconsideration on the SC's decision on April 25, 2012. On July 16, 2012, the SC issued a Resolution denying with finality the motion for reconsideration filed by the financial institution. On September 25, 2012, the SC issued the Entry of Judgment, which certifies the April 25, 2012 decision to be final and executory in the Book of Entries of Judgments.

   On February 11, 2013, IIC's legal counsel issued a motion for issuance of writ of execution to enforce the decision against the financial institution. On April 19, 2013, the judgment award was fully settled in the total amount of ₱289.14 million. On the other hand, IIC settled in full its obligation to the other financial institution in the amount of ₱38.25 million, on April 5, 2013.

c. On April 19, 2012, SEC approved the amendment of IIC's article of incorporation and by-laws to remove the word "Trust" from its corporate name.

# THE INSULAR LIFE ASSURANCE COMPANY, LTD.

## BOARD OF TRUSTEES
*(As of December 31, 2013)*

Vicente R. Ayllón
**Chairman**

Alfredo B. Paruñgao
**Vice Chairman**

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Mona Lisa B. de la Cruz
Marietta C. Gorrez
Delfin L. Lazaro
Ricardo G. Librea
Francisco Ed. Lim
Mayo Jose B. Ongsingco
Bernardo M. Villegas

## EXECUTIVE COMMITTEE

Vicente R. Ayllón, *Chairman*
Bernardo M. Villegas, *Vice Chairman*
Ricardo G. Librea
Mayo Jose B. Ongsingco
Alfredo B. Paruñgao

## OFFICERS
*(As of April 14, 2014)*

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*Chairman of the Board and*
*Chief Executive Officer*

**Mayo Jose B. Ongsingco**
*President and*
*Chief Operating Officer*

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Mona Lisa B. de la Cruz
Jesus Alfonso G. Hofileña

### SENIOR VICE PRESIDENTS
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Ma. Edita C. Elicaño

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Ronnie B. Alcantara[1]
Maria Teresa L. Cruz
Renato S. De Jesus
John Jesus O. Lim
Seraline L. Manguni [2]
Susana G. Nicolas
Jocelyn B. Reyes
Amelita F. Tamayo

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Vera Victoria V. Morales
Mylene C. Padilla
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Corazon S. Cruz
Lorenzo Luis Liborio B. Gallardo II
Laarni F. Garraton[3]
Esperanza A. Gregorio
Jose A. Padilla
Geraldine G. Pascual
William S. Racadio
Cesar Y. Salera
Ana Maria R. Soriano
Katerina V. Suarez
Diana Rose A. Tagra

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Rene P. Asuncion
Henry G. Balangatan II
Florfida L. Buitre
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Hilario C. Delos Santos
Maria Ida C. Himan
Bettina G. Lumaban
Michael L. Manalastas
Ma. Editha B. Mendiola
Tricci Rose A. Sadian
Paulita A. Sioson
Ruth R. Velasco
Jesito V. Villamor

[1] Seconded as concurrent President of Insular Investment Corporation and of Home Credit Mutual Building and Loan Association, Inc.
[2] Seconded as President of Insular Health Care, Inc.
[3] Seconded as Chief Financial Officer and Head of Administration Operations, Insular Health Care, Inc.

# DIRECTORY OF REGIONAL OFFICES

**Metro North Regional Office**
G/F Crispina Bldg.
1589 Quezon Ave., 1104 Quezon City
Tel No. (02) 426-9734
Fax No. (02) 926-1355

**Metro Central Regional Office**
3/F Insular Life Bldg.
6781 Ayala Avenue, 1226 Makati City
Tel No. (02) 878-1818 ext. 5616, 5618
Fax No. (02) 822-4763

**Metro East Regional Office**
2/F Dona Josefa Bldg.
8002 Aurora Blvd. cor. 15th Avenue
Cubao, 1109 Quezon City
Telefax No. (02) 441-6761

**Metro South Regional Office**
17/F Insular Life Corporate Centre
Insular Life Drive, Filinvest Corporate City
Alabang, 1781 Muntinlupa City
Tel No. (02) 582-1818 ext. 1864, 5604
Fax No. (02) 771-1665

**North East Luzon Regional Office**
2/F Insular Life Bldg.
Maharlika Highway
Villasis, Santiago City, 3311 Isabela
Tel No. (078) 305-0592
Fax No. (078) 682-7278

**North West Luzon Regional Office**
2/F Insular Life Bldg.
Arellano St., Dagupan City, 2400 Pangasinan
Tel No. (075) 522-2176
Fax No. (075) 522-0224

**East Central Luzon Regional Office**
2/F Insular Life Bldg.
Rizal St., Matadero
Cabanatuan City, 3100 Nueva Ecija
Tel. No. (044) 463-7713, 464-1930
Telefax No. (044) 463-7711

**West Central Luzon Regional Office**
2/F Insular Life Bldg., McArthur Highway
Brgy. Dolores City of San Fernando
2000 Pampanga
Tel No. (045) 961-7798

**South Luzon Regional Office**
2/F Insular Life Bldg.
No. 61 Rizal Ave.
San Pablo City, 4000 Laguna
Tel No. (049) 562-7391, 562-4587
Fax No. (049) 562-0644

**Bicol Regional Office**
G/F Insular Life Bldg.
Rizal cor. Camia Sts.
Legazpi City, 4500 Albay
Tel. No. (052) 480-5295
Telefax No. (052) 480-5294

**Central East Visayas Regional Office**
2/F Insular Life Cebu Business Centre
Mindanao Ave. cor. Biliran Road
Cebu Business Park, Cebu City, 6000 Cebu
Tel No. (032) 230-1818 ext. 5803 and 5805
Telefax. (032) 266-1721

**West Visayas Regional Office**
2/F Insular Life Bldg.
Galo cor. Lacson Sts.
Bacolod City, 6100 Negros Occidental
Tel No. (034) 434-1058
Telefax No. (034) 435-0085

**North Mindanao Regional Office**
3/F Insular Life Bldg.
Don Apolinar Velez cor. Uldarico Akut Sts.
Cagayan de Oro City, 9000 Misamis Oriental
Tel No. (08822) 722-576
Telefax No. (088) 856-4452

**South Mindanao Regional Office**
M/F Insular Life Bldg.
C.M. Recto Ave., Davao City
8000 Davao del Sur
Tel. No. (082) 300-8003
Telefax No. (082) 221-1083

**West Mindanao Regional Office**
2/F Insular Life Bldg.
Don Anselmo Bernad Ave.
cor. Jose Abad Santos St., Ozamis City
Tel. No. (088) 521-3275, 521-1475
Telefax No. (088) 521-3275

# THE INSULAR GROUP OF COMPANIES

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

**Subsidiaries**

**Insular Investment Corporation**
Investment banking

**IIC Subsidiaries:**

***Insular Property Ventures, Inc.***
Residential/ Commercial development

***IIC Properties, Inc.***
Residential/ Commercial development

**Insular Health Care, Inc.**
Health/ HMO

**ILAC General Insurance Agency, Inc.**
General agency

**Insular Life Property Holdings, Inc.**
Real estate

**Insular Life Management and Development Corporation**
Management services

**Home Credit Mutual Building & Loan Association, Inc.**
Mutual building and loan association

**Affiliates**

**Mapfre Insular Insurance Corporation**
Non-life insurance underwriting

**Union Bank of the Philippines**
Universal banking

**PPI Prime Venture, Inc.**
Real estate

**Social Commitment**

**Insular Foundation, Inc.**

## ABOUT INSULAR LIFE

Insular Life was established on November 25, 1910 as the first Filipino-owned life insurance company. It has a long tradition of steadfast commitment to its policyholders, demonstrated by its more than 100 years of continuous service to the Filipino people. Today, it is the largest Filipino life insurance company with offices in almost all the key cities in the country. Insular Life provides financial solutions through its various products – from whole life, endowment, limited-pay, to pension and unit-linked investment funds – designed to allow individuals to take control over their families' financial security.

Insular has subsidiaries offering allied financial services – Insular Health Care, Inc., Insular Investment Corporation, Home Credit Mutual Building and Loan Association, and Mapfre Insular Insurance Corporation.

## MISSION STATEMENT

We are Insular, the pioneering and largest Filipino life insurance company.

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

We enable our professional, customer-oriented employee and agency force to render service of the highest quality.

We are experts in our core business, and we operate with excellence at all times to optimize stakeholder value.

We continuously pursue strategic opportunities, and achieve sustained growth through dynamic marketing, prudent investments, and exceptional service.

# REACH

We are all part of a great circle of affirmation.

We reach within ourselves to claim the promise of our past, to help us realize our hopes for our future.

We extend our hand out to empower others around us and affirm their uniqueness and potential – and by so doing, we uplift ourselves as well. Life, after all, becomes more meaningful when we reach out to give of ourselves.

Truly, Insular Life believes in the power of reach. Our reach is deep and varied, and the lives we touch are changed for the better, even as the very act of enabling others to secure their tomorrows influences our Company to strive higher.

Through every life stage, Insular Life reaches in deep and reaches out far and wide.

1910 Insular

**The Insular Life Assurance Company, Ltd.**
Insular Life Corporate Centre
Insular Life Drive, Filinvest Corporate City
Alabang, 1781 Muntinlupa City, Philippines
Tel. No.: (632) 582-1818
Fax No.: (632) 771-1717
Email: headofc@insular.com.ph
Website: www.insularlife.com.ph
Facebook: http://www.facebook.com/InsularLifePH
Twitter: @InsularEagle
Blog: www.savingstips.com.ph
Instagram: @Insular_Life
YouTube: http://www.youtube.com/Insularlifecomph