# Moving Lives at Every Turn

2015 Annual Report

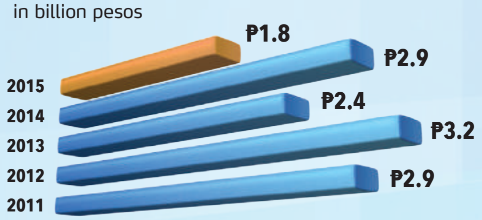
# CONSOLIDATED FINANCIAL HIGHLIGHTS

## Consolidated Assets
in billion pesos

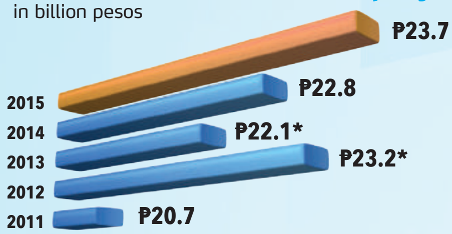

*Restated

## Consolidated Revenues
in billion pesos


## Consolidated Net Income
in billion pesos




## Consolidated Members' Equity
in billion pesos




*Restated

# ABOUT THE REPORT

### Content

This Insular Life 2015 Annual Report gives an update on the progress and priorities set out in our previous report in 2014. 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. (a mutual company); its subsidiaries, Insular Health Care, Inc., Insular Investment Corporation, and Home Credit Mutual Building & Loan Association, Inc.; and affiliate, MAPFRE INSULAR. Data were consolidated from our Insular Life Head Office, as well as from our offices and subsidiaries, nationwide.

### 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 our Public Relations Staff through: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For other information, please contact:


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# OUR THEME

We at Insular take pride in in helping ordinary Filipinos secure their future. As financial professionals, we ensure that the path to financial health is never a puzzle, but a well-thought-out plan matched with disciplined implementation over a period of time.

Indeed, Insular Life's expertise, earned over the years, has helped us to be the steady hand in strategizing a successful direction for our clients to attain their financial goals. After all, just like the cover's Rubik's Cube, there may be many moves in the game, but only an expert can help chart the course to a successful outcome.

We believe that the merit of our expertise can be measured by the number of lives we have moved – and are continuing to change. Therefore, we remain committed and inspired to grow with our policyholders, and to always be one step ahead in meeting their evolving needs and aspirations for the future.

## INSIDE THIS **REPORT**

# NUMBERS THAT MATTERS

**₱25.5 billion**
*(Parent Company)*
**Net Worth**

**New Business Premiums**
**₱8.5 billion**
*(Parent Company)*

**₱106.1 billion**
*(Consolidated)*
**Assets**

**Total Premium Income**
**₱12.8 billion**
*(Parent Company)*

**₱9.5 billion**
*(Parent Company)*
**Gross Benefits and Claims Paid**

**Business-in-Force**
**₱251.6 billion**
*(Parent Company)*

# FINANCIAL HIGHLIGHTS

## The Insular Life Assurance Company, Ltd.
## **Consolidated**
## Five-Year Financial Highlights *(In million pesos)*

| FOR THE YEAR | 2015 | 2014 | 2013 *(As restated)* | 2012 *(As restated)* | 2011 |
|---|---|---|---|---|---|
| **Net Income per FS** | 1,769 | 2,949 | 2,392 | 3,217 | 2,893 |
| **Net Insurance Revenue per FS** | 13,587 | 12,784 | 12,342 | 10,444 | 8,701 |
| **Operating Revenue** | 6,348 | 6,846 | 7,003 | 7,645 | 6,860 |
| **Total Revenue per FS** *(Net Insurance Revenue + Operating Revenue)* | 19,935 | 19,630 | 19,345 | 18,089 | 15,561 |
| **Assets** | 106,147 | 101,354 | 94,202 | 89,601 | 80,523 |
| **Cash and Cash Equivalents** | 7,108 | 7,260 | 5,499 | 4,704 | 3,237 |
| *Cash on hand and in banks* | 618 | 1,108 | 864 | 908 | 480 |
| *Cash equivalents in commercial banks* | 6,490 | 6,152 | 4,635 | 3,796 | 2,757 |
| **Liabilities** | 82,427 | 78,505 | 72,105 | 66,358 | 59,828 |
| **Retained Earnings** | 21,676 | 20,442 | 18,312 | 17,225 | 14,898 |
| *Appropriated* | 250 | 250 | 250 | 250 | 250 |
| *Unappropriated* | 21,426 | 20,192 | 18,062 | 16,975 | 14,648 |
| **Members' Equity** | 23,719 | 22,849 | 22,097 | 23,243 | 20,695 |
| **Total Liabilities and Members' Equity** | 106,147 | 101,354 | 94,202 | 89,601 | 80,523 |

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

| FOR THE YEAR | 2015 | 2014 | 2013 | 2012 *(As restated)* | 2011 |
|---|---|---|---|---|---|
| **Net Income per FS** | 1,407 | 2,355 | 1,503 | 2,131 | 2,059 |
| **Net Insurance Revenue per FS** | 13,382 | 12,584 | 12,121 | 10,188 | 8,452 |
| **Operating Revenue** | 5,943 | 6,196 | 6,049 | 6,383 | 5,965 |
| **Total Revenue per FS** *(Net Insurance Revenue + Operating Revenue)* | 19,325 | 18,779 | 18,170 | 16,571 | 14,417 |
| **Assets** | 108,029 | 104,393 | 100,108 | 92,941 | 79,923 |
| **Cash and Cash Equivalents** | 6,618 | 6,861 | 5,149 | 4,537 | 3,087 |
| *Cash on hand and in banks* | 439 | 921 | 709 | 770 | 382 |
| *Cash equivalents in commercial banks* | 6,179 | 5,940 | 4,440 | 3,767 | 2,705 |
| **Liabilities** | 82,577 | 78,640 | 72,253 | 66,396 | 59,716 |
| **Retained Earnings** | 14,340 | 13,449 | 11,900 | 11,125 | 9,801 |
| *Appropriated* | 250 | 250 | 250 | 250 | 250 |
| *Unappropriated* | 14,090 | 13,199 | 11,650 | 10,875 | 9,551 |
| **Members' Equity** | 25,452 | 25,753 | 27,854 | 26,546 | 20,207 |
| **Total Liabilities and Members' Equity** | 108,029 | 104,393 | 100,108 | 92,941 | 79,923 |
| **New Business Premiums** | 8,490 | 7,865 | 7,349 | 5,246 | 3,618 |
| **Total Premiums** | 12,765 | 11,928 | 11,277 | 9,354 | 7,569 |
| **Gross Investment Income** | 4,254 | 4,223 | 4,438 | 5,444 | 5,204 |
| **Legal Policy Reserves** | 52,677 | 51,058 | 49,554 | 47,491 | 44,843 |
| **Net Worth** | 25,452 | 25,753 | 27,854 | 26,546 | 20,207 |
| **Gross Benefits and Claims Paid** | 9,464 | 9,934 | 8,325 | 7,088 | 6,188 |

## MESSAGE OF THE CHAIRMAN EMERITUS

# Dear Policyholders,

Very few companies in the country can lay claim to having existed for more than a century. And certainly not too many people can say that they have served, cherished, and loved only one institution for more than 50 years of their life.

I joined Insular Life when I was 24 years old, back when it still had its head office in Escolta beside the Pasig River. Even then, the Company was already a respected and distinguished institution. It was inspiring to be a part of the employee force and management team, working to make Insular Life into the largest and the most enduring Filipino life insurance company. What I did not foresee was that I will be placed in the eminent position of being on the driver's seat of Insular Life's sustained growth as its Chairman and CEO.

My meaningful journey with Insular took me to many challenging rides. From the aftermath of World War II, the darkest years of Martial Law, the 1980s debt crisis, the EDSA People Power Revolution, and Super-Typhoon Yolanda — all of these hazardous happenings, I have been witness to.

To say that Insular is a survivor is to say the least. The Company not only survived, but also endured and flourished: from ₱623 million when I became President in January 1977, Insular now has an asset base of more than ₱100 billion.

Our journey to the top would have been longer and more arduous if not for the many people who also have made it their life's journey to help make life better and the future brighter for many of our countrymen.

Our Board of Trustees has made us a formidable institution through their guidance in the adherence to sound corporate governance principles.

Our senior officers, employees, and agents have generously contributed their time and talents towards our common goal of making Insular a strong, enduring, and trustworthy Company.

Our friends and partners have enabled us to magnify our contributions to local communities and society through their belief in our social mission.

And finally, our policyholders have continued to put their trust and faith in us even during the most challenging times and the most aggressive and competitive of environments.

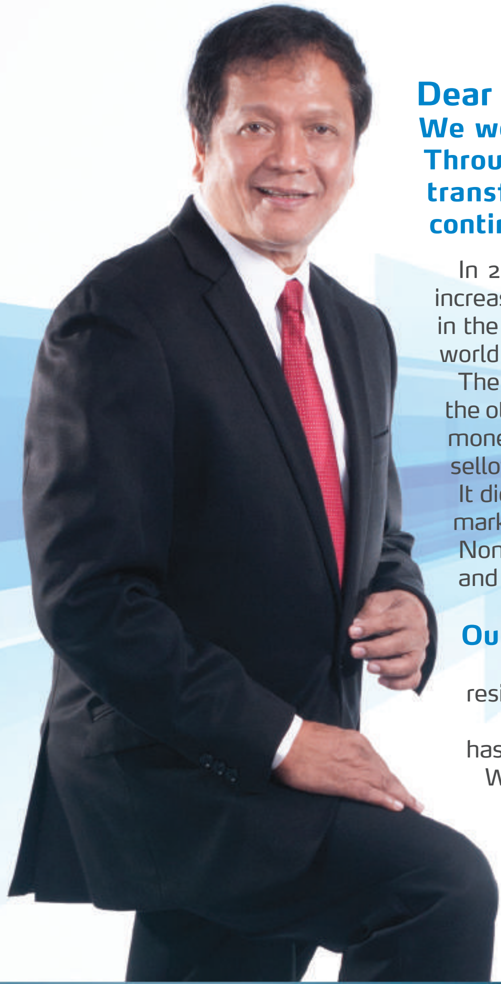
Last January 24, 2016, I began my retirement and took on the role of Chairman Emeritus to make way for the new team that will chart the future course of Insular and continue to lead it into the next century. I am passing on the torch to Trustee, Mr. Victor B. Valdepeñas, as the new Chairman of the Board of Trustees; fellow Trustee Ms. Nina D. Aguas, as the new Chief Executive Officer; and Ms. Mona Lisa B. de la Cruz remains as Insular Life's President and Chief Operating Officer.

While we have made considerable progress, there is still much to be done to deliver Insular's full potential. Growing competition — within the local industry and in the region because of the ASEAN economic integration — and increasing volatility in the global markets will continue to make our journey arduous and challenging. But I have optimism and full confidence that our new leaders will pursue our mission and vision vigorously and introduce many exciting new products and services that have now become more relevant in the insurance industry, thus making us more competitive, enabling Insular to assert and affirm its leadership position.

My deepest gratitude goes to all of you for believing and journeying with Insular all these years.

*Maraming, maraming salamat sa inyong lahat!*

**VICENTE R. AYLLÓN**
Chairman Emeritus



## REPORT OF THE CHAIRMAN OF THE BOARD

### Dear Policyholders,

**We work in an industry and an environment characterized by rapid change. Throughout Insular Life's 105-year history, our ability, not only to adapt to transformations surrounding us, but also to create business opportunities, continues to be a key to our success.**

In 2015, the global economy faced three major headwinds: lower commodity prices, a rate increase by the Federal Reserve, and slower growth in China. Currency swings and a collapse in the price of commodities drove down the value of exports and imports in every region of the world in 2015 — the worst year for world trade since the aftermath of the global financial crisis.

The slump in oil prices persisted in oil-rich economies such as Russia and the Middle East. On the other end of the spectrum, robust U.S. jobs growth prompted the Federal Reserve to tighten monetary policy for the first time since 2006, triggering dollar outflows that led to stock market selloffs from the rest of the world.

It did not help that China, the world's second- largest economy, suffered a US$5-trillion stock market rout and faced its slowest growth in 25 years, which consequently worsened labor unrest.

Nonetheless, we expect the global and domestic economies to post a strong rebound in 2016, and for increasing wealth to support the insurance sector's growth.

### Our operating environment

Amid the global headwinds in 2015, the Philippine economy once again demonstrated its resilience.

While growth slowed to 5.8 percent in GDP versus 6.7 percent a year ago, our economy has remained among the fastest in Asia, next to India, China, and Vietnam. Overseas Filipino Workers (OFWs), who sent home US$28.5 billion, and the Business Process Outsourcing (BPO) industry again boosted our growth. These combined inflows fueled consumption and spurred the demand for real estate, tourism, and other services.

Amid the global market volatility, particularly in the second half of 2015, the Philippine stock market remained robust and healthy, with an average daily turnover that inched 2 percent higher at ₱8.9 billion compared to 2014. Interest rates remained rock bottom despite the Fed rate hike.

## REPORT OF THE CHIEF EXECUTIVE OFFICER

### Dear Policyholders,

**Today is indeed an opportune time to be a part of Insular Life – a Company that is defined by a long history of financial strength and dependability, by a corporate culture that encourages high performance and commitment from employees and the agency force, and by the loyalty and trust of generations of policyholders.**

For 105 years, Insular Life has earned the trust and confidence of its hundreds of thousands of policyholders painstaking well, in good times and in bad. The hardworking men and women who came before us have achieved much to bring the company to its premier position in the industry. In the last 40 years, one man stood out as being the architect of the Insular Life of today, a man considered a pillar in the Philippine life insurance industry: Vicente R. Ayllón.

Mr. Ayllón, well-loved by employees and agents alike, led Insular Life through many significant corporate ventures. Among these were the diversification into allied financial services to create synergy in related business, branch office expansion and regional building construction across the country to widen the corporate footprint in high density areas, and most recently, huge investments in technology in support of product and service innovations, efficient business operations, and aggressive sales and marketing initiatives.

We extend our deep gratitude to Mr. Ayllón as he bequeaths to us a company that is not only fundamentally strong and stable, but whose reputation continues to be held in high esteem by the various publics it serves. We shall honor his legacy, and build on this solid foundation, so that we can accelerate our company's growth momentum amidst a business environment that is becoming more and more integrated with the regional and global economy.

As the new CEO, I see it as my duty to steer the company to consider the critical pathways towards meaningful growth and continued financial strength and significance. We cannot ignore the fact that with ASEAN integration and shifts within the insurance industry, our world is changing and we need to have an organization that is responsive and can operate and compete within the redefined playing field. We will consider the proper organization structure, work at leveraging our partnerships and alliances, reinvent ourselves to be in step with digital and financial technology (FinTech) innovations, and build and strengthen the capabilities of our people. Our policyholders must see a differentiated and bespoke customer experience.

To do this task, we will leverage on our leadership position as a Philippine, national brand, into becoming a key player, at par with regional and even international financial institutions. We will create an infrastructure that will take advantage of the latest in technology to allow us to become more agile in product development, customer service, and acquisition of

Our consumption-driven economy also boosted the local insurance industry, which is seen by the Insurance Commission posting a total premium income of ₱280 billion in 2015. The life insurance sector, in particular, is expected to replicate its record-high performance in 2013.

In recent years, new insurance players have entered the industry, lured by the brighter prospect in the multi-billion-peso sector and the Philippines' low insurance penetration rate of less than 35 percent of the country's almost 100 million population in 2014. These new entrants, which include the world's biggest insurance and financial institutions, pose greater competition in the industry. Insular Life, however, welcomes fresh competition and will continue to offer products and services that address our policy holders' rapidly evolving needs.

## Leadership changes

Amid the changing global and industry landscape, Insular Life also saw 2015 as a transformative year as we took on a significant leadership progression.

Our Board of Trustees announced the retirement of our beloved Chairman and CEO, Vicente R. Ayllón, who now transitions into a new role as Chairman Emeritus until the end of the year. He has passed on to me the baton that he has held for more than two decades, and I am deeply humbled and honored to accept the privilege of heading Insular Life's Board and serving the interest of our policyholders.

We also welcomed Mr. Luis Y. Benitez, Jr. and Mr. Jesus Alfonso G. Hofileña who became regular members of the Board of Trustees when the retirement of Mr. Ayllón and Mr. Ricardo G. Librea took effect in 2016. Mr. Benitez was a former vice chairman of Sycip, Gorres, Velayo & Co. while Mr. Hofileña has been leading Insular Life's sales and marketing group for the past seven years.

We likewise welcomed our new Chief Executive Officer, Ms. Nina D. Aguas, who brings with her 30 years of experience as a seasoned banker. Ms. Mona Lisa B. de la Cruz will continue to be our President and Chief Operating Officer.

Future-proofing our Company requires that we build a strong culture and follow a sound succession planning process. This ensures that we will be able to maintain the continuity of our strategy amid these leadership changes.

We take pride in having a solid organization that is rich in talent, skills, and dedication, which give us more optimism to build a great future based on a remarkable past. Trust that we will continually invest in our people by building upon our leadership skills to maintain and elevate our momentum. Supporting and promoting our next generation of leaders is incredibly important to us at Insular.

We will stay true to our established core principles of love of God and respect for the individual, and teamwork so that you will continue to find us a relevant and trusted institution that is able to provide you a secure and stable future.

On behalf of our Board of Trustees and our people, thank you for your patronage. It is a privilege to serve you and continue to earn your trust.

**VICTOR B. VALDEPEÑAS**
Chairman of the Board

new customers. We will take advantage of emerging distribution channels which the new markets, such as the millennials, prefer to be reached. We will aggressively pursue strategic partnerships to reach the millions of uninsured and underinsured Filipinos wherever in the world they may be. We will demand from ourselves a consistent high level of performance, from our premium base to our revenues, to address a highly competitive environment. And we will reinforce our track record in corporate governance best practices that will allow us to compete effectively in the global market place.

This is the direction that we will take from here on to propel the Company to higher levels in financial strength and corporate capabilities to serve our policyholders, our markets and agencies, our employees and management, other constituents and the country as a whole.

We take pride in our role of securing you, our valued policyholder, and your family. We remain committed to always create optimal value for you and all our stakeholders, especially at this time when opportunities for growth and expansion abound.

I view the coming years with much optimism, and I look forward to creating many more milestones ahead. On behalf of the Insular Life team, I thank you for the continued trust you have placed in us.

**NINA D. AGUAS**
Chief Executive Officer

REPORT OF THE **PRESIDENT**

# Dear Policyholders,

## My first year as President and Chief Operating Officer of Insular Life became a baptism of fire of sorts due to market uncertainties that tested our corporate resolve.

Global financial markets have been beset with volatility since the latter part of 2015 as a result of low oil prices, Greece's debt crisis, China's economic slowdown, and the US Federal Reserve's decision to raise interest rates.

On the home front, our local bourse initially welcomed 2015 with a strong rally as the Philippine Stock Exchange Index (PSEi) registered a series of record highs, peaking at 8,127.48 in April on the back of abundant foreign fund inflows. Not immune to the global market selloff, however, the PSEi closed 2015 with a 4 percent decline year on year.

These global and local developments led to a dramatic decline in investor sentiment towards all asset classes and affected the performance of our various variable unit-linked (VUL) investment funds. It also prompted many investors, who are increasingly more investment-savvy and risk-aware, to change their strategy. Many decided to park their funds in cash holdings and traditional bank deposits while waiting for the volatility to subside. Companies that were about to embark on capital-raising activities are also on a wait-and-see mode until after the May 9, 2016 national elections.

### The long haul

Sentiment may be dented but our optimism in the Philippine economy's fundamental growth is not derailed. We still see long-term opportunities driven by Filipinos' rising per capita income and purchasing power, in addition to having a young demographic profile, which could lead to sustained demand for insurance products.

Our tremendous confidence in future growth prospects also comes from the local insurance industry's performance in 2015. According to the Insurance Commission, the country's life insurance industry is expected to end 2015 on a high note, with total premiums seen to hit ₱188.53 billion —19 percent more than the level in 2014 of ₱157.83 billion.

Variable unit-linked (VUL) insurance continued to account for almost two-thirds of the total premiums, reaching ₱138.73 billion. We expect VUL life insurance policies to further grow in popularity among investors seeking refuge from the persistently low interest rates and as more Filipinos seek long-term assets.

### Our financial results

As a result of the market turbulence in 2015, the Insular Life group ended the year with a consolidated net income of ₱1.77 billion from ₱2.95 billion in 2014. The ₱1.2 billion decline in net income was primarily due to lower profit from the sale of property and equities, and lower share of the earnings of companies that Insular invested in.

Our consolidated revenues slightly increased to ₱19.93 billion from ₱19.63 billion a year ago. Of the amount, net insurance revenues contributed ₱13.59 billion, a 6-percent gain from the ₱12.78 billion posted in 2014. Other operating revenues such as investment income, equity in net earnings, net realized gains amounted to ₱6.35 billion.

Total insurance benefits and operating expenses reached ₱17.84 billion from the previous year's ₱16.43 billion, with the bulk comprised of the total benefits and claims paid to policyholders and the higher buffer set aside to pay for future claims.

Consolidated assets rose 5 percent to ₱106.15 billion from ₱101.35 billion, while consolidated liabilities grew 5 percent to ₱82.43 billion from ₱78.50 billion. Total members' equity expanded by 4 percent, from ₱22.85 billion to ₱23.72 billion.

Our parent company, Insular Life, accounted for 80 percent of the Group's net income, posting ₱1.41 billion in 2015 from ₱2.36 billion in 2014.

The Company generated ₱8.49 billion in new business premiums while total premiums increased to ₱12.77 billion from ₱11.93 billion in 2014. Gross investment income slightly rose to ₱4.25 billion from ₱4.22 billion, previously.

Total business-in-force in 2015 stood at ₱251.52 billion, with 332,825 policies. This was 7 percent higher than ₱235.40 billion in 2014 with 321,281 policies in force.

Our three subsidiaries and one affiliate, meanwhile, posted the following accomplishments:

**Insular Health Care, Inc. (IHCI)** posted a net income of ₱16.9 million in 2015 and return on equity of 10 percent. Total assets, total liabilities and total equity ended at ₱307.9 million, ₱129.9 million and ₱178.0 million, respectively. Retained earnings ended at ₱80.7 million. As of December 31, 2015, its accredited medical specialists went up by 17 percent to 21,517 from 18,453 in 2014.

**Insular Investment Corporation (IIC)**, our investment banking arm, grew its net income after tax by 419 percent to ₱16.4 million from ₱3.2 million in 2014, with gross revenues of ₱22.4 million. Total assets amounted to ₱434.8 million in 2015 from P462.5 million in 2014, due to the payment of ₱35.0 million cash dividends to Parent Company, Insular Life, while stockholders' equity stood at ₱428.0 million.

**Home Credit Mutual Building & Loan Association** accredited a total of 76 new companies, mainly from the manufacturing and BPO industries. This generated a total of 2,129 membership applications, resulting in an increase in Service Fee income by 29 percent to ₱10.0 million from ₱7.8 million in 2014. Reported cash and cash equivalents was ₱44.7 million while total assets reached ₱185.5 million. It generated total mortgage and rent-to-own receivables of ₱27.7 million from 2015 availers. The Association's total issued and outstanding Preferred "B" equity shares amounted to ₱151.6 million.

Our affiliate non-life insurance company **MAPFRE INSULAR** generated ₱2.05 billion in revenues in 2015, a slight dip from ₱2.16 billion a year ago. Its business segment, motor car insurance, rose by 11 percent year-on-year. Total assets reached ₱5.78 billion, lower than ₱5.89 billion in 2014, while total equity stood at ₱1.34 billion which was a dip from ₱1.61 billion year-on-year.

MONA LISA B. DE LA CRUZ

## Making our brand more relevant

The positive momentum that we have sustained amid the challenging environment in which we operated during the year under review is a base for more aggressive strategies in the future. Insular Life has been in existence for 105 years, and has contributed to enabling Filipino families to become financially secure. We will continually strive to become a more relevant institution to a wider segment of the population for the present and future generations.

In 2015, while Filipinos continued to grapple with the low interest rate environment and the increased market uncertainty, Insular launched five new products: the **Sure Cash 5**, a five-year-to-pay savings, investment and protection product that gives guaranteed cash allowances plus built-in life insurance protection and a lump sum cash at the end of the 15-year protection period, equivalent to 100 percent of the maturity value; **Wealth Secure Health**, a package of existing regular-pay, investment-linked plans that allows policyholders to save for future health expenses; **Wealth Assure Health**, a peso-denominated investment-linked product that offers the benefit of lower fees, thereby building up one's health fund at a faster rate; **Wealth Secure Retirement**, a peso-denominated, investment-linked insurance plan that allows policyholders to save at a relatively small amount over a continued period of time to build their retirement fund; and **Wealth Assure Retirement**, a package of existing regular-pay, investment-linked plans that maximizes returns for one's retirement egg.

We also added a new VUL fund under our **Wealth Series** products called **Select Equities Fund**, a rules-based equity fund that aims to provide long-term portfolio growth from capital appreciation by primarily investing in ten of the most liquid and well-capitalized dividend paying stocks listed on the Philippine Stock Exchange.

To further align with our refreshed Insular Life brand, we have completed the physical makeover of three more Insular offices in Masbate, Baliuag, Bulacan, and Digos, Davao del Sur. This brought to 52 the total number of offices we have renovated nationwide from 2010 to 2015, out of a total of 57 branch offices nationwide.

## Seizing opportunities in the digital age

In 2015, we marked another milestone when we migrated our core policy administration system to HP Ingenium after years of preparation and testing. With this modern system in place, we have taken a huge step forward in making our operations even more responsive, and in enhancing our market-competitiveness through top-caliber customer service, anchored on the improved automation of our processes. In addition to making our system faster, policyholders can also expect wider and more convenient options to access Insular Life's menu of services — whether over-the-counter in any of our branch offices, over the phone, or online through our customer portal, where they can even request for a policy loan or dividend withdrawal online.

To make it easier for our agents and their clients to conclude the selling process, we launched an Automated Underwriting System (AU System) in 2015. Considered a breakthrough in the life insurance industry, the AU System speeds up the underwriting process by readily providing an underwriting decision while the agent is still with the client. This way, any additional requirements that may be needed to further evaluate the application can be sourced immediately. Our financial advisers can access the AU System via the Agents' Portal and complete the policy application and underwriting process through their laptop or tablet.

We also have an ongoing campaign called CASHandog for all our policyholders to continually update their customer information upon enrolling and registering in our online customer portal, i-EAGLE. Policyholders with in-force policies get the chance to win additional accidental death insurance coverage, win cellular phones, and cash prizes through CASHandog.

We embarked on a multi-pronged digital strategy that involves engagement over a broad front of users and strengthening of our digital platform and its properties in 2015. We aimed to engage online users, particularly the millennial generation who are increasingly interested in our products. Our Direct Marketing efforts were more pronounced on the web, resulting in more inquiries and proposals.

Riding the digital wave even further, we launched the Insular Life Finance Manager mobile app to help individuals manage their monthly budget. The app allows them to track their spending and realize savings to meet their future financial goals.

We redesigned our corporate website in November 2015 to keep it current and more relevant to online users. In addition to sporting a fresh, new, youthful look, our website also comes with enhanced features: mobile responsive, more product recommendations that fit every life stage, more opportunities to get financial advice from experts, brand-new pages, a financial needs analysis calculator, and more social media sharing.

Our i-EAGLE, our web-based Customer Portal, now contains more information and easier to navigate sections, offering new ways for our policyholders to enjoy the "*Magandang Araw*" experience with Insular. Through this private and secured site, policyholders have 24/7 online access to policy information and company updates, and can perform various user activities, such as track the real-time value of their Wealth Series fund, file online requests for policy loans and dividend withdrawals, make product inquiries/research, download or read the Company's annual reports, among other things. Our Customer Care Specialists are also online to provide real-time response to policyholders' queries through our i-CHAT facility.

We are elated that our steps over the years to more efficiently engage our online users through our website

" While we recognize we still have a lot more to do, our foundation remains strong. This gives us unshakeable confidence in our ability to achieve our strategic goals over the next years. "

have resulted in a 209-percent increase in site visits since 2011, and a 129-percent growth in unique users within the same period, as well.

In addition, we further intensified our social media initiatives to reach the millennial market.

In 2015, we sustained our "*Magandang Araw*" brand campaign to create a uniquely Insular Life experience. We created the *Magandang Araw* Messenger microsite — www.magandangaraw.com.ph — to bring our TV commercials to the digital space and used digital versions of our *"Magandang Araw, Araw-Araw"* Stickynotes to spread positivity. We also shared more YouTube social videos entitled *"Magandang Araw Para Mabuhay"* to reinforce this campaign.

We continued to share engaging content and promo activities through our Facebook page, which generated 181,602 likes and through our YouTube channel which had 721 subscribers and 700,337 total views in 2015.

We also increased our visibility beyond our Facebook page by running a promotional activity on Spotify, an online music streaming service that allows you to listen to music for free from local and international record labels. To welcome our new policyholders and thank those that continue to patronize Insular Life by buying new policies, we gave away Spotify premium account gift cards that entitled our new policyholders to a free one-month premium subscription on Spotify. This move enabled us to become the first Philippine insurance brand to take advantage of this new digital medium.

## Gearing up for bigger things

In the coming years, we plan to ride the social media wave even more to reach as many Filipinos and enhance our distribution capability. We believe that digital transformation in particular will result in more fundamental changes in the insurance industry over the next decade than we have seen in the last 100 years.

We will also continue to develop new and exciting investment-linked insurance products that will open more doors for Filipinos to unlock financial opportunities that would help secure their future. We will also focus on creating the best customer experience, becoming simpler and more efficient and delivering sustainable growth.

In 2016, the Insurance Commission will enforce new requirements on insurance policy reserves and risk-based capital, and increase the minimum capital requirement for all insurers to ₱550 million. These reforms are expected to lead to industry consolidation and stronger and healthier players in the light of the ASEAN economic integration. We recognize the dramatic impact that the evolving regulatory and competitive environment and policyholders' rapidly changing needs are having on our business. Thus, we will continue to explore strategic alliances and fresh opportunities, aligned with our vision to bring the benefits of insurance to as many Filipinos.

I would like to thank the management team and all my colleagues across the Group for their determination to see this vision through. While we recognize we still have a lot more to do, our foundation remains strong. This gives us unshakeable confidence in our ability to achieve our strategic goals over the next years, despite the uncertainties with regard to the political, regulatory, economic, and competitive environment.

We belong to the most enduring and largest wholly Filipino-owned life insurance company in the Philippines. For 105 years, we have been moving lives at every turn — and this is why we believe that there is no better time than now to dream, to shine, and to seize the promise of the bright future that awaits each and every Filipino.

MONA LISA B. DE LA CRUZ
President and Chief Operating Officer

# CORPORATE GOVERNANCE

As the business landscape becomes increasingly competitive, a Company is no longer just measured for its financial soundness but also for its adherence to international corporate governance principles of Fairness, Accountability, Transparency and Ethics ("FATE"). These corporate governance principles are embodied in the Company's core values of Integrity, Excellence, Prudence, Teamwork, Respect for the Individual, and Love of God and Country. Insular Life's adherence to its core values has been the guiding beacon of the Company through various social, political and economic changes enabling it to provide continued service to generations of Filipino families for over a hundred and five years.

As the Company enters into a new era of challenges under the integrated ASEAN community, it shall continue to strengthen its Corporate Governance program and activities to reach higher levels of corporate accountability, transparency, and long term profitability for its stakeholders.

## OUR COMMITMENT TO GOOD CORPORATE GOVERNANCE

We continue to strive for long-term sustainable growth and expansion with a firm commitment to good corporate governance. With this commitment in mind, the Trustees, Officers, and employees are mandated to comply with the Manual on Corporate Governance (MCG) and the Code of Conduct. The MCG supplements the Articles of Incorporation and Company By-laws as it provides additional standards and best practices on corporate governance for the guidance of the Board. The MCG likewise incorporates the Charters of each of the Board Committees that describes the Committee's purpose and responsibilities. A rigorous annual performance assessment is conducted by the Board at the end of each year to check their compliance with the MCG. The Code of Conduct, on the other hand, outlines the generally accepted rules of behavior and conduct of all officers and employees of the Company as they perform their respective duties and responsibilities. The Company monitors compliance with the Code of Conduct through the regular audit of their functions and review of their performance through the Personnel Performance Appraisal System.

In 2015, Insular Life conducted a two-day Leadership Summit for all its officers, senior personnel and supervisors. The Summit aimed to provide them with a common understanding of the critical changes in the business environment and to align business practices and styles to adapt to the changing times. The speakers of the Summit were from various industries and tackled topics for the professional and personal growth of the Company's Leaders.

During the first quarter of 2015, the Company actively worked with the Philippine Life Insurance Association (PLIA) in discussing with the Insurance Commission (IC) the proposed refinements of ASEAN Corporate Governance Scorecard Response Form, which was intended for Publicly Listed Companies (PLCs). These proposed refinements addressed the peculiarities of the life insurance companies that are not PLCs.

## OUR STAKEHOLDERS

### Board of Trustees

The Board of Trustees ("Board") charts the direction of the Company towards the achievement of its goals. The Board makes sure that all its members devote sufficient time in the performance of their roles. Full disclosure of any significant change in the directorships of all Trustees outside of Insular Life is required of each of them.

Various Board-level Committees provide the Company with relevant advice and guidance in various strategic issues in their respective areas of concern. The Board Committees likewise help the Board in its decision-making role.

**BOARD COMMITTEES AND MEMBERS**

*(As of 31 December 2015)*

| | |
|---|---|
| **EXECUTIVE COMMITTEE** | |
| Vicente R. Ayllón | *Chairman* |
| Ricardo G. Librea | *(Independent), Vice Chairman* |
| Marietta C. Gorrez | |
| Mona Lisa B. de la Cruz | |
| Delfin L. Lazaro | (Independent) |
| **BUDGET & AUDIT COMMITTEE (BAC)** | |
| Ricardo G. Librea | *(Independent), Chairman* |
| Delfin L. Lazaro | *(Independent), Vice Chairman* |
| Nina D. Aguas* | *(Independent)* |
| Luis C. la Ó | |
| Victor B. Valdepeñas | |
| **FINANCE & INVESTMENT COMMITTEE (FIC)** | |
| Victor B. Valdepeñas | *Chairman* |
| Delfin L. Lazaro | *(Independent), Vice Chairman* |
| Nina D. Aguas* | *(Independent)* |
| Ricardo G. Librea | *(Independent)* |
| Francisco Ed. Lim | |
| **GOVERNANCE COMMITTEE (GovCom)** | |
| Francisco Ed. Lim | *Chairman* |
| Ricardo G. Librea | *(Independent), Vice Chairman* |
| Delfin L. Lazaro | *(Independent)* |
| **PERSONNEL & COMPENSATION COMMITTEE (PerCom)** | |
| Marietta C. Gorrez | *Chairman* |
| Ricardo G. Librea | *(Independent), Vice Chairman* |
| Mona Lisa B. de la Cruz | |
| Luis C. la Ó | |
| Delfin L. Lazaro | *(Independent)* |
| **NOMINATIONS COMMITTEE (NomCom)** | |
| Vicente R. Ayllón | *Chairman* |
| Delfin L. Lazaro | *Vice Chairman* |
| Ricardo G. Librea | *(Independent)* |

*Elected as Independent Trustee on 27 May 2015

## Board Composition and Diversity

The Board is composed of nine (9) Trustees who are elected for their competence, integrity, and high ethical standards. All Trustees are experts in their fields of specialization and possess all the qualifications set in the Company's By-Laws and the Manual of Corporate Governance. The Company also encourages its Trustees to attend on-going or continuous professional education programs to continually enrich their expertise and experience.

The three (3) Independent Non-Executive Trustees (Messrs. Lazaro and Librea, and Ms. Aguas) for 2015 are known for their expertise in banking and finance, accounting and business management. They are independent of management. Mr. Librea and Ms. Aguas are also Certified Public Accountants. There is no Independent Trustee serving for 2015 who occupies board seats in more than five (5) Publicly Listed Companies (PLCs). The three Independent Trustees, along with four other Non-Executive Trustees, ensure that the Board's decisions are subject to independent checks and balances. Two (2) of the nine (9) Trustees simultaneously hold executive positions in the Company. There is no Executive Trustee who serves on more than two (2) Boards of PLCs.

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

In order for the Board to effectively perform its duties and responsibilities, it is important that a majority of Trustees attend Board meetings. For 2015, the average attendance of Trustees in Regular/Special Board Meetings is ninety-six percent (96%) while average attendance of Executive Committee members in their meetings is eighty-eight percent (88%). The attendance of the Trustees in their respective Board Committees is also shown in the table below.

## Board Movements

Several movements in the Board occurred in 2015. On 22 January 2015, Mr. Luis C. la Ó and Mr. Victor B. Valdepeñas were elected as Trustees to replace Mr. Alfredo B. Paruñgao and Dr. Bernardo M. Villegas who retired on 31 December 2014 in accordance with the Board's retirement policy.

On 01 May 2015, Mr. Mayo Jose B. Ongsingco resigned as a Trustee and was replaced by Ms. Nina D. Aguas on 27 May 2015.

On 26 November 2015, Chairman of the Board and Chief Executive Officer, Mr. Vicente R. Ayllón announced that he will retire from his posts and shall pass the baton to Mr. Valdepeñas as the Chairman of the Board and to Ms. Aguas as the Chief Executive Officer effective 24 January 2016.

## Board Meetings and 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 disclosed and made available to the members of the Board and the ExCom 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. Minutes of these meetings, including relevant comments, views or dissents, are properly documented.

The Board and its Board-level Committees review and decide on significant corporate actions that have not been otherwise delegated to Management. It likewise reviews key management decisions pertaining to strategic initiatives, investments, adoption of significant Company policies, and the like. It also monitors the implementation of Company's corporate strategy and reviews the Company's vision and mission.

*A summary of the Board of Trustees' Attendance (January-December 2015) is indicated below:*

| Name of Trustee | Regular/ Special Board Meetings | Executive Committee Meetings | BOARD COMMITTEE MEETINGS | | | | |
|---|---|---|---|---|---|---|---|
| | | | Budget & Audit | Finance & Investment | Governance | Nominations*** | Personnel & Compensation |
| Vicente R. Ayllón | 10/12 | 8/9 | | | | 2/2 | |
| Nina D. Aguas*** | 8/8 | | 3/3 | 4/4 | | | |
| Mayo Jose B. Ongsingco** | 4/4 | 4/4 | | | | | |
| Mona Lisa B. de la Cruz | 12/12 | 3/4 | | | | 2/2 | 2/2 |
| Marietta C. Gorrez | 12/12 | | 4/4 | | | | 2/2 |
| Luis C. la Ó* | 12/12 | | 6/7 | | | | 2/2 |
| Delfin L. Lazaro | 11/12 | 6/8 | 2/3 | 3/4 | 3/3 | 2/2 | 2/2 |
| Ricardo G. Librea | 12/12 | 8/9 | 7/7 | 4/4 | 5/5 | 2/2 | 2/2 |
| Francisco Ed. Lim | 10/12 | | 4/4 | 3/4 | 5/5 | 2/2 | |
| Victor B. Valdepeñas* | 12/12 | | 5/7 | 4/4 | 1/1 | | |
| **Average Attendance** | **96%** | **88%** | **89%** | **90%** | **100%** | **100%** | **100%** |

*Elected on 22 January 2015
**Resigned as of 01 May 2015
***Elected on 27 May 2015

# CORPORATE GOVERNANCE

### Board Performance Appraisal

To ensure that the Board performs its duties and responsibilities, an annual assessment of their performance is regularly conducted. This includes self-assessments on (1) their performance as an individual Trustee, (2) on the performance of the Board as a whole, and (3) on the performance of each of their respective Committees to which they belong. The Non-executive Trustees also assessed the performance of the Chairman. For 2015, all nine (9) Trustees have accomplished the relevant assessment forms. The result of the assessment, along with the suggestions, was reported to the Chairman of the Board and to the Board as a whole. Suggestions for best practices as indicated by the Trustees in the assessment forms were considered by the Chairman and are to be incorporated in the corporate governance policy of the Board.

## MANAGEMENT

The responsibility of managing the day-to-day operations of Insular Life rests on the Chief Executive Officer, President, and Chief Operating Officer (COO) and other executive officers (collectively referred to as "Management") as defined in the By-Laws. Management is accountable to the Board and to other stakeholders for the Company's efficient and effective operational performance.

Management ensures compliance with the overall risk management framework of the Company in order to protect the interest of all its stakeholders. Additionally, an effective reporting line to the Board is also available so that material concerns are efficiently reported and duly acted upon.

In return, the Company provides its Management and its employees competitive compensation and benefits scheme, it also encourages continuous education and training for their professional development and overall well-being.

The remuneration of the senior management personnel and executive directors including that of the CEO is determined by the Board upon the recommendation of the Personnel and Compensation Board Committee. For 2015, the total compensation income received by management directly employed by Insular Life with the rank of Vice President and up is ₱309,685,663.22 while the estimated total amount for 2016 is ₱314,791,047.00.

## EMPLOYEES

Also key to the achievement of the Company's corporate objectives are its employees. The Company believes that providing its employees with safe and secure working environment, competitive compensation, trainings for skills development, and opportunities for career advancement are important elements to having an efficient and productive workforce. A more comprehensive discussion on the Company's efforts to safeguard the health, safety and welfare of its employees may be found on *"Being a Top Employer"*, pages 20 to 21.

## POLICYHOLDER-MEMBERS

Insular Life is the largest Filipino life insurance company. It is also the only Company that is a non-stock mutual life insurance corporation. This means that ownership of the Company is vested upon its Members who are its Policyholders ("Policyholder-members"), as provided in the Company's By-Laws.

### Dividend Policy

On account of its structure, qualified policyholder-members receive policy dividends, if and when they are allocated, as return of their premiums paid. The amount of policy dividends allotted to the qualified policyholder-members is determined based on the type of policy owned and a formula approved by the Board in accordance with the Company's By-Laws. In this regard, the Company ensures that each Policyholder-member, as our stakeholder, is well informed of the Company's operations.

### Annual Regular Members' Meeting

The Company encourages all its stakeholders, especially its Policyholder-members, to attend its Annual Regular Members' Meeting (AMM). The AMM is held every fourth Wednesday of May, at its principal office at the Insular Life Corporate Centre, Insular Life Drive, Filinvest Corporate City, Alabang, Muntinlupa City, in compliance with the Company's By-Laws.

To ensure ample time for consideration of its Policyholder-members, the 2015 AMM Notice, which is in English, was published once a week (beginning 29 April 2015) for four weeks in the *Philippine Star* and *Pilipino Star Ngayon*, to ensure wide public reach. The said Notice included the Agenda to be discussed in the AMM, as well as the Proxy Form which may be used by members who cannot attend the AMM. The Notice was also posted in the Company's website on 29 April 2015, or 28 days ahead of the AMM. The details and rationale of the Agenda, a summary of the Acts and Resolutions of the Board of Trustees and its Executive Committee, as well as the profiles of the Trustees for election/re-election, are linked in the version of the Notice available in the Company Website.

The 2015 AMM was held on 27 May 2015 at 4:15 pm at the Company's principal office. All nine (9) Trustees were in attendance and were led by the Chairman of the Board. The Chairman of the Board apprised Policyholder-members about the Company's operations and other corporate news and updates. Four (4) Trustees were elected in 2015, three (3) of whom were re-elected in compliance with the Company's By-Laws. One Trustee, Ms. Nina D. Aguas, was also elected as an Independent Trustee and to serve the unexpired term of Mr. Mayo Jose B. Ongsingco, who retired as Trustee on 01 May 2015.

All feedback given by the Policyholder-members during the AMM were duly noted and considered. A summary of the Resolutions adopted during the AMM was also posted in the Company website on 28 May 2015, a day after the AMM. The Corporate Secretary, who plays a significant role in supporting the Board in discharging its responsibilities, documented the AMM (a copy of the minutes of this meeting is also published in the Company's website). He also ensures that important board papers and other related documents are provided to the Trustees and that they are informed of the Agenda of the Board Meetings three to five working days before the date of the meeting.

## CUSTOMERS, SUPPLIERS, AND OTHER STAKEHOLDERS

Insular Life promotes comprehensive and efficient servicing of both internal (i.e. employees and agents) and external customers (i.e. Policyholders, suppliers, etc.). The Company ensures that our human and material resources are employed efficiently at all times.

### Customers and the Environment

The Company's core value "Love of God and Country" extends its concern to its customers, the environment, and to the community at large. Conscious effort is exerted to ensure minimal waste of both human and material resources in all of the Company's activities. The Company's adoption of other technological updates in various processes streamlined operations, providing greater efficiency for the employees and its customers. The Company also promotes sustainable operations across all our offices nationwide to ensure minimal wastage of non-recyclable materials. In 2015, the Company also made part of its Annual Report in CD form for greater accessibility and portability. An interactive microsite of the Annual Report is also available in the Company website, providing a more dynamic and environment-friendly experience for the customer. For other activities conducted to address customer's health, welfare and interactions with the community at large, you may read *Corporate Social Responsibility* Section on pages 22 to 23.

### Suppliers

As part of the Company's Anti-Corruption program, the Company has clear and transparent procedures for the accreditation/selection of its suppliers, dealing only with those who employ high standards and ethical practices in their business. The Company also has clear procurement policies and procedures for suppliers' engagements, ensuring timely payment of dues for timely delivery of products. This strengthens reciprocal trust and repeat business for both parties. To date, the Company has no creditors and should there be any, they are assured that debts due them will be paid on time.

In the regular course of business of the Company, certain transactions may involve officers, trustees, subsidiaries or affiliates, known as *Related Party Transactions* (RPTs). In these cases, prior full disclosure to the Board is required and for RPTs that are material in nature, Board approval must be secured.

The Budget and Audit Board Committee oversees the implementation of RPTs in compliance with their Committee Charter, and determines whether such transaction is in the best interest of the Company. In 2015, all RPTs have been conducted fairly and at arms' length and were reasonable under the circumstances, in compliance with the Company's Manual of Corporate Governance and By-Laws. None of these transactions is classified as financial assistance to any entity. The names of the related parties, nature, amount, and other significant details are disclosed in the *Notes to Consolidated Financial Statements*.

## DISCLOSURE AND TRANSPARENCY

### Key Risks and Material Controls

Insular life, like other life insurance companies, recognizes the possibility that various business risks may be encountered in the course of its operations. These could possibly be risks relating to strategic, operations, legal and regulatory compliance, reputational and financial risks. To prevent and manage these risks, the Board oversees the Company's risk management infrastructure, reviews the Company's risk appetite, and provides direction towards risk mitigation. The Board monitors and evaluates the Company's total risk management process with the regular review and assessment of the Company's risk management systems.

The Board, upon the recommendation of Management, the Budget and Audit Committee and the Governance Committee, installs appropriate material control mechanisms (such as operational, financial, and compliance controls) for accurate monitoring and effective management and control of key risks.

Based on the reviews performed by the internal and external auditors of the Company, the Budget and Audit Committee of the Board believes that the Company has adequate internal controls/risk management systems in place.

Risks in connection with business expansion or development must also be weighed carefully against potential benefits to protect the interests of all stakeholders. In instances where there would be mergers, acquisitions and/or takeover requiring Policyholder-members' approval, the Board shall appoint an independent party to evaluate the fairness of all aspects of the transaction, including its transaction price.

### Audit

The Company has an internal Audit staff which reviews the Company's internal control system and has direct reporting line to the Board's Budget and Audit Committee (BAC) and to the Chairman of the Board. An independent External Auditor's services are also availed of to ensure independent review of the Corporations' books and financial standing. The BAC has the primary responsibility of recommending the appointment/re-appointment and removal of external auditors. For 2015, Sycip, Gorres, Velayo and Company ("SGV"), upon the recommendation of the Chairman of the BAC, was re-appointed as the Company's External Auditor and the audit fees provided for their services is ₱3,171,000.00. No other services were availed of from SGV apart from their audit services.

### Reporting Feedback

The Company believes that corporate governance is a responsibility of everyone. Disclosure and transparency are not only expected of the Company, its officers, and employees but also encouraged in other stakeholders as well. In this regard, the Company provides avenues for all customers and stakeholders to provide feedback about the Company and its operations. A report may be made on satisfactory service rendered by our employees or agents or on programs or activities conducted by the Company. A report may also be made on any alleged breaches of policies or regulations, violations of law including bribery or corruption, mismanagement, as well as any form of complaints.

Any of these reports 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) 582-1818
Email: rsdejesus@insular.com.ph

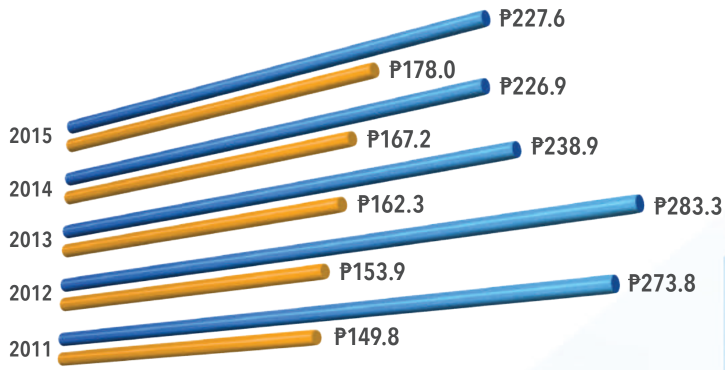
The Company ensures that all reports received will be treated with utmost confidentiality and that the identity of all those who shall make the foregoing report in good faith shall be strictly protected from any form of retaliation in compliance with the Company's Code of Conduct and applicable laws and regulations. All reports received will be promptly investigated and all possible avenues will be explored to fully address the report/complaint.

# 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. IHCI offers one of the industry's most comprehensive healthcare programs in the market with the flexibility to meet specific needs of its members. As of end of 2015, it has a network of 1,861 hospitals, outpatient facilities and dental clinics nationwide and 21,517 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. Also available in the website are the on-going sales promos, Body Mass Index (BMI) calculator, monthly medical articles and agent application facility. IHCI also utilizes Short Messaging System broadcast facility and email blast to communicate with members.




LEGEND:
*(in million pesos)*
■ Gross Revenues ■ Stockholders' Equity

### 2015 HIGHLIGHTS

- Gross Revenues stood at ₱212.8 million
- Net Profit After Taxes of ₱16.9 million
- Total Assets stood at ₱307.9 million
- Total Stockholders' Equity was at ₱178.0 million
- Retained Earnings posted at ₱80.7 million
- Return on Equity stood at 9.8 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. IIC's significant transactions include declaration of dividends amounting to ₱200 million in 2013, and ₱35 million in 2015.


LEGEND:
*(in million pesos)*
■ Stockholders' Equity

### 2015 HIGHLIGHTS

| | *(In millions)* |
|---|---|
| Net Income after Tax | ₱ 16.45 |
| Gross Revenue | ₱ 22.44 |
| Total Assets | ₱ 434.81 |
| Stockholders' Equity | ₱ 428.02 |

# Insular Home Credit

Home Credit Mutual Building & Loan Association, Inc. (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 its members.

## 2015 HIGHLIGHTS

| | |
|---|---|
| ▪ Cash and cash equivalents | ₱ 44,682,193.00 |
| ▪ Total Assets | ₱ 185,483,982.00 |
| ▪ Total Equity | ₱ 158,479,536.00 |
| ▪ Total Mortgage and Rent-To-Own | ₱ 27,700,137.93 |
| ▪ New Members | 2,129 |
| ▪ Total issued & outstanding preferred B equity shares | ₱ 151,635,442.00 |


LEGEND:
■ Members' Equity *(in million pesos)* ■ Accredited Companies ■ Cash Investments *(in million pesos)*

## Affiliate

MAPFRE | INSULAR

MAPFRE INSULAR, today, ranks among the top 10 in the non-life insurance industry in terms of earned premiums, investment income, and net income. The company is also among the highest capitalized and most solvent in the non-life insurance business in the country. The company was formed out of an alliance between MAPFRE, a leading insurance company in Spain with more than 34 million clients worldwide and business activity in more than 100 countries and Insular Life Assurance Co., Ltd., the Philippines' largest Filipino-owned insurer.

## 2015 HIGHLIGHTS

- 2015 is considered as a remarkable year for the company, when it has witnessed several major changes towards further growth and innovations. From the person at helm to the introduction of new technology and IT infrastructure. This year also marked the new site of the biggest and main branch of the company, the acquisition of a modern office located right at the heart of Makati City, in Citibank Tower.

- MAPFRE INSULAR generated ₱2.05 billion in revenues. Main business segment is in motor car insurance rose by 11 percent year-on-year.

- Total assets are marked at ₱5.8 billion while total equity is at ₱1.3 billion


LEGEND:
*(in billion pesos)*
■ Gross Premiums Written ■ Assets ■ Equity

# BEING A TOP EMPLOYER

**Working together, the people of Insular Life are united in their passion and commitment towards building a brighter future for our policyholders — ensuring that their investment continues to deliver enduring value for them and their family.**

With their skills and achievements, our employees are among Insular's foundation of success. Beyond skills and achievements, they possess pride, loyalty and motivation empowering them to make a positive difference to our stakeholders. This is the cornerstone of our human resource programs.

## EMPLOYEE FORCE PROFILE

As of end-2015, Insular Life has a regular employee force of 792 employees. This includes those in Insular's head office in Alabang, Muntinlupa City, as well as in its 57 branch offices in key cities and provinces nationwide.

The Company has 492 female and 300 male personnel, which translates to a male-to-female ratio of 1:3. Of the total 792 employees, 20.45 percent or 162, occupied senior personnel positions (assistant managers and up) in 2015. The average age of our employee force in 2015 was 36.52 years old.

## TRAINING & DEVELOPMENT PROGRAMS

In 2015, a non-executive Insular Life employee spent an average of 75 hours in in-house and external training and development programs such as courses under the Life Office Management Office (LOMA).

We use a blended approach in our internal training courses that includes workshops, coaching, and instructor-led training sessions, all designed and conducted among target participants across all units nationwide.

The In-House Training Programs are classified as follows:

1. Customer Relations/Service Series
    - For All Employee Levels
    - Addresses the need for general information and updates about the Company and its product lines.
    - The courses conducted under the series are: General Employee Orientation Course (GEOC); Fundamentals of Life Insurance Course (FLIC); and Product Orientation
2. Behavioral Program
    - For All Employee Levels
    - Addresses the "soft issues" (customer relations and work attitude) requirements of the *Magandang Araw* Service Brand.
    - The courses under the series are: Customer Care Seminar; Strengthening Personal Capability; and SHINE "Exuding the *Magandang Araw* Attitude."
3. Basic Management/Supervisory Program
    - From Supervisory to Senior Manager Level
    - Addresses the training needs of Middle Management and focuses on both introduction and application of basic management functions (planning, organizing, leading and controlling) and specific tools and techniques such as problem solving, and decision making.
    - The series included the following courses: Supervisory Management Course; Action-Centered Leadership; Coaching and Counseling Workshop; and Leadership: The Management of Change.

In 2015, employees from Alabang, Metro Manila and the Field Offices (branches) also attended a total of 170 hours of systems training. This was part of our efforts to enhance our business processes as we migrated to the Ingenium policyholder database administration system to better deliver our promise of a "*Magandang Araw*" brand of service to our customers.

Insular employees were also sent to external training programs that addressed their needs for technical knowledge, and updated them on specific disciplines such as accounting, finance, investment, auditing, actuarial, underwriting, strategic marketing, information technology/ specialized training, corporate trends/ organizational development, technical training on building/real property administration and legislation, and statutorial guidelines affecting operations.

A key focus of Insular Life's training program is the Executive Development Program (EDP) in which key Company executives are sent to attend management courses here and abroad to facilitate their advancement from being a specialist to a generalist. In 2015, our executives attended an average of 18 EDP-related training courses.

During the year, Insular Life conducted a two-day Leadership Summit for all its senior personnel and officers. The summit aimed to provide attendees with a common understanding of the critical changes in the business environment, and the need to align their management styles and practices vis-à-vis these advancements. The speakers of the summit are professionals from various business-related industries, and tackled a variety of topics such as the ASEAN integration and globalization, image building and corporate branding, team communication, behavior management, and psychographics of a millennial workforce.

Insular Life also extends scholarships 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 14 years since 1992.

We also developed a steady roster in the Fellow, Life Management Institute (FLMI), with 39 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 related to their job functions.

## 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.

## OUR CONTRIBUTIONS TO THE INDUSTRY IN 2015

Insular Life encourages employees to contribute to the development of the local insurance industry.

The following are the employees who fulfilled posts in different industry associations in 2015:

| Name | Designation and Organization |
|---|---|
| **Mona Lisa B. de la Cruz** | Investments Committee Member<br>Actuarial Society of the Philippines (ASP) |
| **Maria Edita C. Elicaño** | Professional Standards & Regulations Council Representative<br>Actuarial Society of the Philippines (ASP) |
| **Maria Teresa L. Cruz** | Board Member-Elect/ Treasurer<br>IT Interaction Philippines Inc. (ITIP) |
| **Atty. Renato S. De Jesus** | Ethics & Compliance, and Legal & Legislative Committee Member<br>Philippine Life Insurance Association (PLIA) |
| **Geraldine B. Alvarez** | Ex-Officio<br>Association of Service Professionals in Life Service (ASPLI) |
| **Mylene C. Padilla** | Finance Committee Member<br>Philippine Life Insurance Association (PLIA) |
| **Ana Maria R. Soriano** | Marketing Committee Member<br>Philippine Life Insurance Association (PLIA) |
| **Katerina V. Suarez** | Vice-President/ 2015 Convention Chairperson<br>Actuarial Society of the Philippines (ASP) |
| **Randy N. Quimbo** | Vice-President<br>Association of Service Professionals in Life Service (ASPLI) |
| **Maria Louisa T. Penuliar** | Auditor<br>Home Office Life Underwriters Association of the Philippines (HOLUAP) |
| **Isidra Josephine M. Gonzales** | Certified Digital Marketer<br>Ateneo Internet Mobile Marketing Association of the Phils. (IMMAP) |
| **Ramon M. Cabrera** | LOMA's Top Fellow in Financial Services Institute (FFSI) student<br>in the Eastern Region |

## COMMUNICATING WITH EMPLOYEES

Critical to maintaining a good two-way communication within the organization is the existence of a formal management and employee council. Our employee council, called "Ang Gabay ng Insular Life Para sa Ating Kinabukasan" or AGILA, works in partnership with Management to communicate company initiatives, and engage the participation of employees in various internal and industry-wide activities. AGILA assists in addressing work-related issues, as well as lends support to Insular Life's overall business direction.

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 digital 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 are guided by the Employee Code of Conduct, which lays down our formal policies and procedures in raising and addressing concerns in relation to any business conduct issue or malpractice.

## EMPLOYEE INVOLVEMENT

For 2015, AGILA spearheaded a program that was launched as part of the 105th anniversary celebration entitled, **Eagles Connect V2.0: The *Magandang Araw* Experience Lives On**.

The program aimed to reinforce the Company's *"Magandang Araw Positivism Campaign"* and make it alive and felt among the employees.

Anchored on the Company's positivism campaign, employee performances revolved around the *"Magandang Araw"* theme and captured the activity through photographs for three consecutive days. The program was a sequel to 2014's **Eagles Connect: Living Up the *Magandang Araw* Culture.**

## REWARDING PERFORMANCE

Being the leading Filipino life insurer in the country, Insular Life aims to be recognized as one of the best places to work. Thus, we take pride in providing a comprehensive and industry-competitive compensation and benefits package to all our employees. Moreover, we promote fair treatment and offer equal opportunities in all aspects of employment.

The Company also provides variable bonuses, which are determined by Management upon attainment of the yearly Corporate Performance Index.

Insular also offers a host of benefits, such as a housing loan that an employee can avail of within five years from employment date. Employees' long years of loyal service are also rewarded by the Company through the Service Awards that are given every five years of continuous service.

## PROMOTING HEALTH AND SAFETY

We recognize that our Company's reputation as a forward-looking guardian can only hold true if we can look after the health and welfare of our people. Thus, we have to promote a culture where health and safety is an integral part of every business decision across the organization.

We offer free annual medical examination to our regular employees. In addition, we have a Company Dentist who conduct dental check-ups for our employees and their dependents.

Recognizing the importance of a healthy and active lifestyle, Insular Life actively supports sports tournaments for employees, such as basketball, badminton and bowling. In addition, we started a Health and Wellness program, through which we have organized fitness classes such as yoga and zumba at the Head Office.

On a regular basis, we have a Company Physician who sends out a "Health Bulletin" via email to the Insular Life community. This contains Department of Health advisories and circulars on relevant health issues, as well as health tips and preventive measures.

We currently do not have a formal publication but relevant information relating to the health, safety and welfare of our employees are regularly discussed during AGILA meetings. Issues raised during these meetings are validated and communicated to Management for information and resolution. Management, through HRD, issues formal communications — i.e. policies, guidelines or circulars — addressing critical issues.

Our Building Management Office (BMO), through the supervision of the Real Property Division, also issues circulars on the regular preventive maintenance activities for our head office in ILCC Alabang, Insular Health Care Building-Makati, and Insular Life Cebu Business Centre. This ensures that our workplaces and facilities are maintained in good condition for the safety of our employees, the people we work with, and those exposed to our activities.

We also continued our support of government-led safety initiatives, such as the Metro Manila Development Authority's earthquake drill in July 2015.

## MOVING AHEAD WITH OUR PEOPLE

For Insular Life's growth strategy to work, we need our employees to believe in us. Thus, amid the toughening competition for talent in the insurance industry, we realize there are still areas where we can improve to sustain a high overall satisfaction level among our employees. As our journey to become an Employer of Choice continues, Insular Life will regard the development of human capital as the most important investment we can make for a successful future.

CORPORATE **SOCIAL RESPONSIBILITY**

# Changing lives with every encounter

Insular's corporate social responsibility arm, the Insular Foundation, Inc., works tirelessly to champion causes that will benefit generations of Filipinos to come. Ours is a multi-pronged investment in the youth's future through educational scholarship grants and financial literacy, as well as relief and rehabilitation in times of natural and man-made disasters.

**Educational assistance**

The Foundation supported a total of 64 scholars for school year 2015-2016, of which 39 are Education and Math scholars at the University of the Philippines, 15 are Education scholars from provincial state universities and colleges (SUCs); and 10 are scholars under the College Scholarship for Employee Dependents (CSED) program.

This school year, six Gold Eagle scholars graduated from UP with honors. Those who finished education courses are now gainfully employed as teachers, fulfilling the two-year service requirement under their scholarship while two of our BS Math graduates (Robert Ronquillo and Shaira Acquiat) now work at Insular's Actuarial Division.

| Name | Course / Major | Honors |
|---|---|---|
| Francine Dela Cruz | Secondary Education major in SPED | *Magna cum laude* |
| Edwin del Rosario | Secondary English | *Magna cum laude* |
| Chermaine Delos Reyes | Elementary Mathematics | *Cum laude* |
| Karl Collado | Secondary Mathematics | *Cum laude* |
| Jowella Rey | Elementary, Teaching in Early Grades | *Cum laude* |
| Nhoriel Toledo | Secondary Mathematics | *Cum laude* |

The CSED program had a total of 10 scholars for SY 2015-2016, with four graduating from the top three Philippine universities:

| Name | Course / Major | Honors |
|---|---|---|
| Melissa Andrea Aman | BS Speech Pathology, UP Manila | *Cum laude* |
| Arianna Danielle Nano | BS Psychology, Ateneo de Manila University | *Honorable mention* |
| Vince Jon Raymundo | AB Organizational Communication and BS Applied Corporate Management, De La Salle University | *Magna cum laude* |
| Rosanina Sayoc | AB Economics and BS Management of Financial Institutions, De La Salle University | *Magna cum laude* |

Three freshmen scholars from each of the partner schools — Aurora State College of Technology, Benguet State University, Bohol Island State University, Central Mindanao University, and Davao Oriental State College of Science and Technology — also became the first batch of Gold Eagle scholars from provincial SUCs.

These freshmen scholars represented the expanding reach and assistance of our scholarship program.

On June 1, 2015, the Foundation successfully conducted the 1st Gold Eagle Leadership Forum entitled "Gold Eagle Scholars: Informed. Inspired. Empowered" at the ILCC's Tanghalang Haribon. Three experienced educators – Ms. Ani Rosa Almario-David, Ms. Jolizbeth Justo, and Mr. Randy Esguerra – addressed an eager crowd of 30 past and present Math and Education scholars.

**Financial literacy**

We continue to pursue financial literary projects and initiatives that will spread positive money management values among the youth. By doing so, we are helping cement a more financially secure future for the next generation.

We partnered with the Knowledge Channel for the production of a teacher's manual and a financial literacy video that target Grade 9 students, which are expected to be completed in October 2016. Insular Life Chairman and CEO Vicente R. Ayllón and Knowledge Channel Executive Director Rina Lopez-Bautista sealed the partnership in 2015.

**Employee volunteerism**

In 2015, Insular Life employees continued to carry the torch of sharing and volunteerism, which remain a cornerstone of the Company's over 50-year-old corporate social responsibility tradition.

The Foundation strengthened its ties with Gawad Kalinga (GK) through the following outreach activities:

- Two special activities for GK kids were held — a welcome addition to the regular learning sessions of employee volunteers every third Saturday of the month at the Manggahan Kawayanan Village in Paranaque City;
- The ***Larong Pinoy* Sports Clinic** on May 15, 2015 drew 80 children composed of employee dependents and GK Sagip kids; and
- A holiday field trip to the Mind Museum in December 2015, where 16 employee volunteers accompanied 80 GK children in the fun educational trip. Children's Hour sponsored the children's museum entrance fees.

Fifty-five Insular Life employees left a mark of generosity by shelling out ₱1,035 each to sponsor 85 Grade 5 pupils of Muntinlupa Itaas Elementary School. The pooled amount was used to purchase start-up school kits, including uniforms, shoes, and school supplies, which were turned over to the beneficiaries on July 28, 2015.

**Rebuilding and rehabilitation**

A day after the second anniversary of Super-Typhoon Yolanda in November 2015, the Foundation led the blessing and turnover of the disaster-resilient school building with three classrooms at the San Fernando Central School in Tacloban, Leyte. Top Insular Life executives, agency leaders, and agents gathered for the November 9 event that served as another mark of hope among the disaster's survivors.

We also turned over ₱500,000 in cash donation for the rehabilitation of Nueva Ecija communities affected by Typhoon Lando in 2015, which brought the province one of its worst floods in history. The fund was devoted to buying 33 shelter kits worth ₱15,000 each – composed of construction materials that will kick-start the repair of damaged houses. On December 21, 2015, the shelter kits were turned over to select beneficiaries in the municipality of Laur, one of the worst hit by the recent calamity.

**Moving forward**

In 2016, we will continue to provide financial assistance to more deserving but financially disadvantaged students through our scholarship programs, at the same time that we strengthen the systems and procedures governing our scholarship grants to SUCs.

We expect the completion of our classroom building in San Jose Central Elementary School and San Jose Technical School in San Jose in Northern Samar in November 2016. Both schools were among those heavily damaged during Typhoon Nona on December 17, 2015.

While working to help build a better and more sustainable world, Insular Life will continue fostering a corporate culture that values CSR by pursuing initiatives that will help improve access to quality education, rebuild and uplift lives.

# BOARD OF TRUSTEES

*Sitting (left to right):*

**Nina D. Aguas**
Chairman, Executive Committee

**Victor B. Valdepeñas**
Chairman of the Board

**Mona Lisa B. de la Cruz**
Member, Executive Committee

*Standing (left to right):*

**Luis Y. Benitez, Jr.**

**Marietta C. Gorrez**
Member, Executive Committee

**Delfin L. Lazaro**
Vice Chairman
Member, Executive Committee

**Luis C. la Ó**

**Atty. Francisco Ed. Lim**
Vice Chairman
Executive Committee

**Jesus Alfonso G. Hofileña**

# BOARD OF TRUSTEES

(As of April 22, 2016)

**Victor B. Valdepeñas**
Chairman

**Delfin L. Lazaro**
Vice Chairman

**MEMBERS**
Nina D. Aguas
Mona Lisa B. de la Cruz
Luis C. la Ó
Marietta C. Gorrez
Francisco Ed. Lim
Luis Y. Benitez, Jr.
Jesus Alfonso G. Hofileña

**EXECUTIVE COMMITTEE**
Nina D. Aguas, Chairman
Francisco Ed. Lim, Vice Chairman
Delfin L. Lazaro
Mona Lisa B. de la Cruz
Marietta C. Gorrez

# CREDENTIALS

## MS. NINA D. AGUAS

- 63 years old, elected as Trustee since 27 May 2015 (Independent Trustee until 23 January 2016; Executive Trustee since 24 January 2016)
- Chief Executive Officer (CEO) of the Insular Life Assurance Company, Ltd; Former Director, President and CEO of the Philippine Bank of Communications (PBCOM, a Publicly Listed Company); Former Managing Director and Head of Private Banking, Asia Pacific, Australia and New Zealand Banking Group, Ltd.; Former Managing Director and Head of Retail Banking, Asia Pacific, Australia and New Zealand Banking Group, Ltd.; Former Head of the following groups and offices of Citigroup/ Citibank U.S.A: Managing Director and Head of Corporate Center Compliance, New York; Country Business Manager of Global Consumer Group, Philippines; Regional Head of Audit and Risk, Asia-Pacific; and Regional Head of Quality and Re-engineering, Asia Pacific
- Chairman of the Board of the following Insular Life Subsidiaries-Insular Health Care, Inc., Insular Investment Corporation, Home Credit Mutual Building & Loan Association, Inc., Insular Foundation, Inc.; Chairman of the Board of Directors & CEO of Insular Life Management and Development Corporation (ILMADECO); Chairman of the Board of Directors & President of Insular Life Property Holding, Inc., Director of the following Companies: MAPFRE INSULAR Insurance Corporation, Union Bank of the Philippines (a Publicly Listed Company), Pilipinas Shell Petroleum Corporation and Shell Company of the Philippines, Ltd.
- Certified Public Accountant; B.S. Commerce, Major in Accounting, University of Santo Tomas
- Trainings/Seminars/Conferences attended during the last three years: *Orientation on Corporate Governance,* Manila; *Corporate Governance Orientation Program,* Manila; Resource Speaker for the following events: *Leadership Series: Organization and Enterprise Development,* Manila; *Corporate Governance,* Manila; *Practice of Good Governance as CEO and Board of Director,* Manila; *Asia Women's Summit,* Manila; *"Journey to Change, Choice for Tomorrow", Confederation of Rural Banks,* Manila; *People Management Association of the Philippines (PMAP) Asian Integration,* Cebu; *First Pacific Leadership Academy,* Manila; *Cebu Banker's Club,* Cebu; *Igniting the Digital Revolution in Wealth Management,* Singapore; *Annual Filipina Leadership Summit,* San Francisco, USA

## MR. LUIS Y. BENITEZ, JR.

- 68 years old, elected as Trustee since 24 January 2016 (Independent Trustee)
- Former Vice Chairman, Senior Partner and Head of Audit Division, Sycip, Gorres, Velayo and Company; Independent Director of the following corporations-ISM Communications Corporation (a Publicly Listed Company) and Banco Rodriguez; Consultant, SM Investments Corporation (a Publicly Listed Company)
- Certified Public Accountant; Graduate, Pacific Rim Bankers Program, University of Washington; Masters in Business Administration, Stern School of Business, New York University; B.S. Business Administration, Major in Accounting, University of the Philippines
- Trainings/Seminars/Conferences attended during the last three years: *Orientation on Corporate Governance,* Manila; *Basic Course on Corporate Governance for Banks,* Manila

## MS. MONA LISA B. DE LA CRUZ

- 58 years old, elected as Trustee since 27 January 2011 (Executive Trustee)
- President and Chief Operating Officer of The Insular Life Assurance Company, Ltd.; Board Director 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 Property Holding, Inc., Insular Life Management and Development Corporation (ILMADECO), Insular Foundation, Inc., Insular Life Employees' Retirement Fund, MAPFRE INSULAR Insurance Corporation, Union Bank of the Philippines (a Publicly Listed Company), and Pilipinas Shell Petroleum Corporation; Fellow of Actuarial Society of the Philippines; Associate of Society of Actuaries, USA; and Member of International Actuarial Association
- Master of Science in Mathematics, major in Actuarial Science, University of Michigan; Bachelor of Science in Statistics, *cum laude*, University of the Philippines
- Trainings/Seminars/Conferences attended during the last three years: *Pacific Insurance Conference,* Manila; *Asia Pacific Economic Conference (APEC) Finance Ministers' Meeting,* Manila; *Corporate Treasury and Chief Finance Officers' (CFO) Forum,* Manila; *Management Association of the Philippines' Chief Executive Officers' (CEO) Forum,* Manila; *Makati Business Club Integrity Forum,* Manila; *Shareholders' Association of the Philippines Summit,* Manila; *Management Association of the Philippines Economic Briefing,* Manila; *Management Association of the Philippines,* Manila; *Hay Market Asia Corporate Treasury and Chief Finance Officers' (CFO) Forum,* Manila; *Euromoney Philippine Investment Forum,* Manila

## MS. MARIETTA C. GORREZ

- 62 years old, elected as Trustee since 27 January 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.
- Professional Executive/Career/Life Coach & Member, International Coach Federation; Registered Financial Consultant, Registered Estate Planner, 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, De La Salle University; Bachelor of Science in Mathematics, University of Santo Tomas
- Trainings/Seminars/Conferences attended during the last three years: *First ICF Philippines International Coaching Summit,* Manila; *BDO Economic Briefing,* Manila; *Benchmark Consulting: Accelerated Coach Training Program,* Manila; *International Association of Registered Financial Consultants Philippines Inc. Annual Forum on Wealth Management & Digital Age,* Manila; *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

## MR. JESUS ALFONSO G. HOFILEÑA

- 60 years old, elected as Trustee since 24 January 2016 (Executive Trustee)
- Senior Executive Vice President and Sales and Marketing Operations Group Head of the of The Insular Life Assurance Company, Ltd.; Trustee of the following Insular Life Subsidiaries- Insular Health Care, Inc., Home Credit Mutual Building & Association, Inc., Insular Foundation, Inc., Insular Life Property Holdings Inc., Insular Employee Retirement Fund, Insular Life Management and Development Corporation; Trustee and Chief Executive Officer of Insular Life Assurance Company (ILAC) General Insurance Agency, Inc.; and Board Member, Self Enhancement for Life Foundation
- Management Development Program, *with distinction,* Asian Institute of Management; A.B. Psychology, *summa cum laude*, Ateneo de Manila University
- Trainings/Seminars/Conferences attended during the last three years: *Pacific Insurance Conference,* Manila; *Philippine Life Insurance Congress,* Manila; *Annual Life Underwriters' Association of the* Philippines *Million Dollar Round Table (MDRT) Echoing,* Manila; *Annual General Agents and Managers Association (GAMA) Convention,* Manila; *Professional Insurance and Financial Advisers Association of the Philippines (PIFAAP) Conference,* Manila; *MDRT Annual Meeting,* Pennsylvania, USA; *MDRT Annual Meeting,* Toronto, Canada; *Life Office Management Association- Life Insurance and Market Research Association (LOMA-LIMRA) Asia Distribution Conference,* Singapore

## MR. DELFIN L. LAZARO

*Vice Chairman*

- 70 years old, elected as Trustee since 28 November 2002 (Independent Trustee)
- Chairman of the Board of Atlas Fertilizer and Chemicals, Inc., AYC Holdings Ltd. and Philwater Holdings Company, Inc.; Vice Chairman of the Board and President of Asiacom Philippines, Inc.; Director of the following Companies: Probe Productions, Inc., Ayala International Holdings, Ltd., Bestfull Holdings Ltd.; 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, *with distinction,* Harvard Graduate School of Business; B.S. Metallurgical Engineering, University of the Philippines
- Trainings/Seminars/Conferences attended during the last three years: *Orientation on Corporate Governance,* Manila

## MR. LUIS C. LA Ó

- 68 years old, elected as Trustee since 22 January 2015 (Non-Executive Trustee)
- Chairman of the Board, MAPFRE INSULAR Insurance Corporation
- Master in Business Management, De La Salle University; General Insurance Course, College of Insurance, Chartered Institute of London, U.K.; Bachelor of Science in Management, Ateneo de Manila University
- Trainings/Seminars/Conferences attended during the last three years: None

## ATTY. FRANCISCO ED. LIM

- 61 years old, elected as Trustee since 27 January 2011 (Non-Executive Trustee)
- Senior Partner and Member, Special Committee and Executive Committee of the Angara Concepcion Regala & Cruz Law Offices (ACCRALAW); Independent Director, Energy Development Corporation; Independent Director, Producers Savings Bank Corporation; Independent Director, Tower Development Bank, Inc.; President, Shareholders' Association of the Philippines (SharePHIL); Trustee of CIBI Foundation, Inc.; Fellow, Institute of Corporate Directors; Co-Chairperson, Sub-Committee of the Philippine Supreme Court on E-Commerce Law; Member, Philippine Supreme Court Sub-Committee on Commercial Courts; Professorial 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 Inquire*r; Member, Financial Executive Institute of the Philippines; Trustee of FINEX Research & Development Foundation, Inc. and the Judicial Reform Initiative, Inc.; Chairman, National Competitiveness Committee of the Management Association of the Philippines; Chairman, Judicial System Working Group of the National Competitiveness Council; Member, Integrated Bar of the Philippines; Member, Philippine Bar Association; Member, New York State Bar Association; Member, American 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
- Master of Laws, University of Pennsylvania, USA; Bachelor of Laws, Second Honors, Ateneo de Manila University; Bachelor of Philosophy, *magna cum laude,* University of Santo Tomas; Bachelor of Arts, *cum laude*, University of Santo 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/Conferences attended during the last three years: *Seminar on Completion of Corporate Governance,* Manila; *Orientation on ASEAN Corporate Governance Scorecard (ACGS),* Manila; *Seminar on Corporate Governance,* Manila; *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

## MR. VICTOR B. VALDEPEÑAS

*Chairman of the Board*

- 69 years old, elected as Trustee since 22 January 2015 (Non-Executive Trustee)
- Chairman of the Board of The Insular Life Assurance Company, Ltd. since 24 January 2016; Former President and COO of Union Bank of the Philippines (a Publicly Listed Company), Director of the following: U.P. Alumni Association, Ateneo de Tuguegarao and Goodwill Foundation
- Member of the following professional/civic organizations: Money Market Association of the Philippines; Foreign Exchange Association of the Philippines, Management Association of the Philippines; Philippine Economic Society; Philippine Chamber of Commerce and Industry; Bankers Association of the Philippines, Chairman of the International Conference of the Far East Economic Association (FAEA)
- Doctor in Philosophy (Candidate) in Economics, U.P. Wisconsin Fellow Scholar, University of the Philippines; Master of Arts in Economics, U.P. Wisconsin Fellow Scholar, University of the Philippines; Bachelor of Science in Economics, University of the Philippines
- Trainings/Seminars/Conferences attended during the last three years: *Exclusive Orientation on Corporate Governance,* Manila; *Macquarie ASEAN Conference & Corporate Days,* Singapore; *Asia FICC Conference,* Singapore*; Citibank Asia Pacific Investors' Conference,* Hong Kong; *UnionBank Offsite Annual Board Planning,* Manila; *Leaders Learning Circle: On Storytelling for Transformational Leadership,* Manila; *Citibank Investors Conference,* Manila; *Punongbayan & Araullo Banking Forum: A new world of regulation and interpretation,* Manila; *Leaders Learning Circle – Leadership Challenge: Co-Creating the Compelling Future,* Manila; *Leaders Learning Circle – On Extreme Leadership and New World of Work,* Manila; *Leaders Learning Circle – The Philippine Economy: Reaching the Tipping Point and Driving Growth through Cross-Selling,* Manila; *Annual Asia Pacific Investor Conference,* Hong Kong; *Citibank Investors Conference,* Manila; *Leaders Learning Circle: Enterprise Risk Management,* Manila; *Institute of Corporate Directors 9th Annual Dinner,* Manila

# MANAGEMENT

*as of April 1, 2016*

**Nina D. Aguas**
Chief Executive Officer

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

**Ma. Edita C. Elicaño**
Executive Vice President
Chief Actuary and
Head, Administrative
Operations Group

**Mona Lisa B. de la Cruz**
President and Chief Operating Officer

**Ramon M. Cabrera**
Senior Vice President
Chief Agency Executive

**Amelita F. Tamayo**
Senior Vice President
Chief Marketing Executive

## FIRST VICE PRESIDENTS

**Ronnie B. Alcantara**
President of Insular Investment, Inc., and of Home Credit Mutual Building and Loan Association, Inc.

**Roberto Z. Arroyo**
Seconded as President of Insular Health Care, Inc.

**Alijeffty C. Gonzales**
Head, Business Development Unit

**Jocelyn B. Reyes**
Head, Policyholders Services Division

**Susana G. Nicolas**
Head, Human Resources Division

## VICE PRESIDENTS

Geraldine B. Alvarez
Maria Rosa Aurora D. Cacanando*
Hector A. Caunan
Enrico L. Cordoba
Carmen G. Duque
Carlito V. Lucas
Vera Victoria C. Morales
Mylene C. Padilla**
Henry A. Pagulayan
Katerina V. Suarez
Eleanor G. Tañada

## SENIOR ASSISTANT VICE PRESIDENTS

Reynaldo R. Aldaba
Alan Joseph S. Amador
Arnaldo I. Aquino
Ma. Agnes E. Bautista
Johanna C. Coronado
Corazon S. Cruz
Lorenzo Luis Liborio B. Gallardo II
Laarni F. Garraton***
Jesselyn V. Ocampo
Jose A. Padilla
Geraldine G. Pascual
William S. Racadio
Cesar Y. Salera
Ana Maria R. Soriano
Diana Rose A. Tagra
Jesito V. Villamor

**Myrna A. Alcantara**
Head, Allied Marketing Channels Division

**Maria Teresa L. Cruz**
Head, Information Services Division

**Mundece L. Lu**
Head, Visayas-Mindanao Sales Division

**Renato S. De Jesus**
Corporate Secretary and Head
Legal and Corporate Affairs Division

**John Jesus O. Lim**
Head, Metro Manila Sales Division

## ASSISTANT VICE PRESIDENTS

Iris S. Aman
Rene P. Asuncion
Henry G. Balangatan II
Analyn S. Benito
Florfida L. Buitre
Edward Dionie F. Capili
Hilario C. Delos Santos
Adrian Joseph R. Fernandez
Gwendolyn D. Kelley
Ma. Editha B. Mendiola
Mark Bryan Q. Palacios
Sancer T. Pertez
Randy N. Quimbo
Tricci Rose A. Sadian
Paulita A. Sioson
Ruth R. Velasco

* *Auditor (Internal)*
** *Treasurer*
*** *Seconded as Chief Financial Officer & Head of Administration Operations Insular Health Care, Inc.*

Insular

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **The Insular Life Assurance Co., Ltd. and Subsidiaries** is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2015 and 2014, 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.

**Nina D. Aguas**
Chief Executive Officer

**Mona Lisa B. de la Cruz**
President and Chief Operating Officer

**Mylene C. Padilla**
Vice President - Finance Division
and Corporate Treasurer

Signed this 31st day of March 2016

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying consolidated financial statements of The Insular Life Assurance Company, Ltd. and Subsidiaries, which comprise the balance sheets as at December 31, 2015 and 2014, and the 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.

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*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, 2015 and 2014, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Dyole S. Garcia

Djole S. Garcia
Partner
CPA Certificate No. 0097907
SEC Accreditation No. 1285-A (Group A),
February 25, 2013, valid until April 30, 2016
Tax Identification No. 201-960-347
BIR Accreditation No. 08-001998-102-2015,
November 25, 2015, valid until November 24, 2018
PTR No. 5321641, January 04, 2016, Makati City

March 31, 2016

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

| | December 31 | |
|---|---|---|
| | **2015** | 2014 |
| **ASSETS** | | |
| **Cash and Cash Equivalents** (Note 4) | **₱7,108,300,822** | ₱7,259,622,277 |
| **Short-term Investments** | **33,368,707** | 24,494,902 |
| **Insurance Receivables** (Note 5) | **194,828,272** | 185,881,108 |
| **Financial Assets** (Note 6): | | |
| Fair value through profit or loss | **23,391,812,135** | 21,223,575,172 |
| Available-for-sale | **19,095,651,957** | 14,005,139,125 |
| Held-to-maturity | **24,011,422,748** | 24,895,191,198 |
| Loans and receivables | **15,400,243,514** | 16,095,190,178 |
| **Investments in Associates** (Note 7) | **7,976,569,117** | 8,398,989,408 |
| **Investment Properties** (Note 8) | **8,315,642,146** | 8,491,800,111 |
| **Property and Equipment** (Note 9) | **307,597,514** | 318,620,249 |
| **Retirement Benefits Asset** (Note 24) | **91,962,985** | 244,901,186 |
| **Deferred Income Tax Assets** - net (Note 25) | **10,390,931** | 4,842,327 |
| **Other Assets** (Note 10) | **208,787,825** | 205,820,374 |
| **TOTAL ASSETS** | **₱106,146,578,673** | ₱101,354,067,615 |
| | | |
| **LIABILITIES AND MEMBERS' EQUITY** | | |
| **Liabilities** | | |
| Legal policy reserves (Note 11) | **₱52,677,297,519** | ₱51,057,595,852 |
| Derivative liability (Note 12) | **25,859,311** | 8,732,243 |
| Other insurance liabilities (Note 13) | **27,157,398,207** | 24,821,081,153 |
| Accrued expenses and other liabilities (Note 14) | **1,789,478,905** | 1,809,654,436 |
| Retirement benefits liability (Note 24) | **5,387,341** | 5,261,089 |
| Deferred income tax liabilities - net (Note 25) | **771,664,550** | 802,322,923 |
| **Total Liabilities** | **82,427,085,833** | 78,504,647,696 |
| | | |
| **Members' Equity** | | |
| **Equity attributable to Parent Company** | | |
| Reserve for fluctuation in available-for-sale financial assets: | | |
| Attributable to the Group (Note 6): | | |
| Equity securities | **2,693,114,649** | 2,022,766,928 |
| Debt securities | **106,020,601** | 244,091,784 |
| Attributable to associates (Notes 7) | **(1,275,049,049)** | (497,878,057) |
| | **1,524,086,201** | 1,768,980,655 |
| Cumulative re-measurement gains on defined benefit plan: | | |
| Attributable to the Group (Note 24) | **34,644,560** | 110,463,697 |
| Attributable to associates (Note 7) | **25,172,295** | 49,513,348 |
| | **59,816,855** | 159,977,045 |
| Premium on deemed disposal of investment in an associate (Note 7) | **304,954,486** | 304,954,486 |
| Share in surplus reserves of a subsidiary | **3,226,537** | 3,226,537 |
| Retained earnings (Notes 15 and 33): | | |
| Appropriated | **250,000,000** | 250,000,000 |
| Unappropriated | **21,425,758,016** | 20,191,704,044 |
| **Equity attributable to Parent Company** | **23,567,842,095** | 22,678,842,767 |
| **Equity attributable to Non-controlling Interests** (Note 28) | **151,650,745** | 170,577,152 |
| **Total Members' Equity** | **23,719,492,840** | 22,849,419,919 |
| **TOTAL LIABILITIES AND MEMBERS' EQUITY** | **₱106,146,578,673** | ₱101,354,067,615 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 | |
|---|---|---|
| | **2015** | 2014 |
| **REVENUE** | | |
| **Insurance Revenue** (Note 16) | | |
| Gross earned premiums on insurance contracts | **₱13,762,798,954** | ₱12,951,616,633 |
| Reinsurers' share of premiums on insurance contracts | **(176,281,175)** | (167,463,463) |
| **Net Insurance Revenue** | **13,586,517,779** | 12,784,153,170 |
| **Operating Revenue** | | |
| Investment income (Note 17) | **3,899,337,003** | 3,811,891,819 |
| Equity in net earnings of associates (Note 7) | **739,446,746** | 1,045,826,960 |
| Rental income (Notes 8 and 27) | **361,535,040** | 411,665,996 |
| Net realized gains - net (Note 18) | **816,206,575** | 1,184,847,308 |
| Foreign exchange gain - net | **193,122,230** | 7,191,525 |
| Other income (Note 29) | **338,498,067** | 384,225,984 |
| **Total Operating Revenue** | **6,348,145,661** | 6,845,649,592 |
| **Total Revenue** | **19,934,663,440** | 19,629,802,762 |
| **INSURANCE BENEFITS AND OPERATING EXPENSES** | | |
| **Insurance Benefits Expenses** (Note 19) | | |
| Gross benefits and claims on insurance contracts | **12,914,586,854** | 11,904,732,850 |
| Reinsurers' share of benefits and claims on insurance contrac | **(13,411,928)** | (45,167,562) |
| Net change in: | | |
| Legal policy reserves | **1,614,603,472** | 1,509,490,348 |
| Reinsurers' share in legal policy reserves | **5,098,195** | (6,194,444) |
| **Net Insurance Benefits Expenses** | **14,520,876,593** | 13,362,861,192 |
| **Operating Expenses** | | |
| General insurance expenses (Note 20) | **1,906,304,738** | 1,725,026,322 |
| Commissions and other acquisition expenses | **1,186,954,503** | 1,083,625,356 |
| Investment expenses (Note 21) | **204,727,679** | 248,586,744 |
| Other losses (Note 22) | **24,040,743** | 9,046,193 |
| **Total Operating Expenses** | **3,322,027,663** | 3,066,284,615 |
| **Total Insurance Benefits and Operating Expenses** | **17,842,904,256** | 16,429,145,807 |
| **INCOME BEFORE INCOME TAX** | **2,091,759,184** | 3,200,656,955 |
| **PROVISION FOR INCOME TAX** (Note 25) | **322,798,130** | 251,701,333 |
| **NET INCOME** | **₱1,768,961,054** | ₱2,948,955,622 |
| **ATTRIBUTABLE TO:** | | |
| Parent Company | **₱1,768,965,104** | ₱2,948,957,779 |
| Non-controlling Interest | **(4,050)** | (2,157) |
| **NET INCOME** | **₱1,768,961,054** | ₱2,948,955,622 |

*See accompanying Notes to Consolidated Financial Statements.*

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# THE INSULAR LIFE ASSURANCE COMPANY, LTD. AND SUBSIDIARIES

**(A Domestic Mutual Life Insurance Company)**

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|---|---|---|
| | **2015** | 2014 |
| **NET INCOME** | **₱1,768,961,054** | ₱2,948,955,622 |
| **OTHER COMPREHENSIVE INCOME** | | |
| **Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:** | | |
| Increase (decrease) in value of available-for-sale equity securities (Note 6) | **926,198,450** | (1,922,472,483) |
| Consequential deferred income tax impact (Note 6) | **62,925,562** | 245,716,943 |
| Valuation loss (gain) realized through profit or loss | | |
| Gain on sale (Note 6) | **(342,707,032)** | (400,780,175) |
| Impairment loss (Notes 6 and 22) | **23,930,741** | 8,584,477 |
| | **670,347,721** | (2,068,951,238) |
| Increase (decrease) in value of available-for-sale debt securities (Notes 6 and 28) | **(85,743,107)** | 123,269,358 |
| Consequential deferred income tax impact (Note 6) | – | 242,189 |
| Valuation gain realized through profit or loss (Note 6) | **(52,327,139)** | (60,222,350) |
| | **(138,070,246)** | 63,289,197 |
| Increase (decrease) in value of available-for-sale equity securities attributable to associates (Notes 6 and 7) | **(777,170,992)** | 682,460,369 |
| | **(244,893,517)** | (1,323,201,672) |
| **Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:** | | |
| Re-measurement losses on defined benefit pension plan (Note 24) | **(108,996,770)** | (1,595,301) |
| Consequential deferred income tax impact (Note 24) | **33,177,419** | 600,465 |
| | **(75,819,351)** | (994,836) |
| Re-measurement losses on defined benefit pension plan attributable to associates (Note 7) | **(24,341,053)** | (49,498,087) |
| | **(100,160,404)** | (50,492,923) |
| **TOTAL OTHER COMPREHENSIVE LOSS** | **(345,053,921)** | (1,373,694,595) |
| **TOTAL COMPREHENSIVE INCOME** | **₱1,423,907,133** | ₱1,575,261,027 |
| **ATTRIBUTABLE TO:** | | |
| Parent Company | **1,423,910,460** | 1,575,262,787 |
| Non-controlling Interest (Note 28) | **(3,327)** | (1,760) |
| **TOTAL COMPREHENSIVE INCOME** | **₱1,423,907,133** | ₱1,575,261,027 |

*See accompanying Notes to Consolidated Financial Statements.*

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# THE INSULAR LIFE ASSURANCE COMPANY, LTD. AND SUBSIDIARIES

**(A Domestic Mutual Life Insurance Company)**

## CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

| | 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 Parent Company | | | | | | | 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 Subsidiary | Appropriated | Unappropriated | Total | Equity Attributable to Non-controlling Interest (Note 28) | Total |
| **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** | **₱18,061,750,296** | **₱21,922,584,011** | **₱174,533,232** | **₱22,097,117,243** |
| Total comprehensive income | (2,068,951,238) | 63,289,815 | 682,460,369 | (995,851) | (49,498,087) | – | - | – | 2,948,957,779 | 1,575,262,787 | (1,760) | 1,575,261,027 |
| Net decrease in preferred shares during the year (Note 28) | – | – | – | – | – | – | – | – | – | – | (3,954,320) | (3,954,320) |
| Dividends to members (Notes 15 and 28) | – | – | – | – | – | – | – | – | (819,004,031) | (819,004,031) | – | (819,004,031) |
| **BALANCES AT DECEMBER 31, 2014** | **₱2,022,766,928** | **₱244,091,784** | **(₱497,878,057)** | **₱110,463,697** | **₱49,513,348** | **₱304,954,486** | **₱3,226,537** | **₱250,000,000** | **₱20,191,704,044** | **₱22,678,842,767** | **₱170,577,152** | **₱22,849,419,919** |
| Total comprehensive income | 670,347,721 | (138,071,183) | (777,170,992) | (75,819,137) | (24,341,053) | – | – | – | 1,768,965,104 | 1,423,910,460 | (3,327) | 1,423,907,133 |
| Net decrease in preferred shares during the year (Note 28) | – | – | – | – | – | – | – | – | – | – | (18,923,080) | (18,923,080) |
| Dividends to members (Notes 15 and 28) | – | – | – | – | – | – | – | – | (534,911,132) | (534,911,132) | – | (534,911,132) |
| **BALANCES AT DECEMBER 31, 2015** | **₱2,693,114,649** | **₱106,020,601** | **(₱1,275,049,049)** | **₱34,644,560** | **₱25,172,295** | **₱304,954,486** | **₱3,226,537** | **₱250,000,000** | **₱21,425,758,016** | **₱23,567,842,095** | **₱151,650,745** | **₱23,719,492,840** |

*See accompanying Notes to Consolidated Financial Statements.*

*SGVFS016994*

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

| | Years Ended December 31 | |
|---|---|---|
| | **2015** | 2014 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **₱2,091,759,184** | ₱3,200,656,955 |
| Adjustments for: | | |
| Interest income (Note 17) | **(3,301,667,063)** | (3,344,872,719) |
| Net change in legal policy reserves (Note 19) | **1,619,701,667** | 1,503,295,904 |
| Equity in net earnings of associates (Note 7) | **(739,446,746)** | (1,045,826,960) |
| Net realized gain on disposals of (Note 18): | | |
| Investment properties | **(416,190,030)** | (726,407,921) |
| Available-for-sale financial assets | **(392,124,114)** | (458,131,750) |
| Interest expense (Note 19) | **539,033,514** | 362,334,622 |
| Dividend income (Note 17) | **(472,760,891)** | (311,412,544) |
| Depreciation and amortization of: | | |
| Investment properties (Note 8) | **147,025,190** | 151,881,125 |
| Property and equipment and computer software (Notes 9 and 10) | **97,764,140** | 93,133,211 |
| Dividends to members (Note 19) | **37,853,900** | 60,977,250 |
| Retirement benefit expense (Notes 23 and 24) | **45,267,684** | 38,582,616 |
| Foreign exchange gain - net | **(193,122,230)** | (7,191,525) |
| Net provision (reversal) of impairment loss on: | | |
| Available-for-sale equity securities (Notes 6 and 22) | **24,040,743** | 8,584,477 |
| Investment properties (Notes 8 and 22) | **(581,249)** | 416,116 |
| Derivative loss (Note 12) | **17,127,068** | 393,508 |
| Realized gain on repossession of properties (Note 18) | **(7,892,431)** | (307,637) |
| Operating loss before working capital changes | **(904,211,664)** | (473,895,272) |
| Changes in operating assets and liabilities: | | |
| Net decrease (increase) in: | | |
| Loans and receivables | **276,332,915** | 323,954,518 |
| Short term investment | **(8,873,805)** | 86,505,098 |
| Insurance receivables | **(8,947,164)** | 40,167,542 |
| Other assets | **(10,264,455)** | (34,576,467) |
| Net increase in: | | |
| Other insurance liabilities | **2,622,079,852** | 4,996,537,043 |
| Accrued expenses and other liabilities | **78,217,984** | 243,261,998 |
| Net cash generated from operations | **2,044,333,663** | 5,181,954,460 |
| Contribution to the plan asset (Note 24) | **(1,200,001)** | (5,985,414) |
| Income taxes paid | **(540,123,303)** | (609,059,465) |
| Net cash generated from operating activities | **1,503,010,359** | 4,566,909,581 |

(Forward)

| | Years Ended December 31 | |
|---|---|---|
| | **2015** | 2014 |
| **CASH FLOWS USED IN INVESTING ACTIVITIES** | | |
| Net increase in financial asset at fair value through profit or loss | **(₱2,168,236,963)** | (₱6,678,725,917) |
| Interest income received | **3,314,993,688** | 3,305,212,218 |
| Collections of loans and receivables | **587,340,393** | 2,170,934,804 |
| Additional investments in: | | |
| Held-to-maturity financial assets (Note 6) | **(22,440,046)** | (2,630,000,000) |
| Available-for-sale financial assets (Note 6) | **(6,370,191,471)** | (2,050,356,333) |
| Property and equipment and computer software (Notes 9 and 10) | **(88,489,194)** | (130,524,056) |
| Investment properties (Note 8) | **(254,541,267)** | (81,512,053) |
| Proceeds from disposals and/or maturities of: | | |
| Available-for-sale financial assets (Note 6) | **2,282,115,553** | 1,934,467,285 |
| Held-to-maturity financial assets (Note 6) | **957,997,500** | 1,113,532,430 |
| Investment properties (Notes 8 and 18) | **715,268,899** | 1,242,505,313 |
| Property and equipment (Notes 9 and 18) | **2,113,646** | 506,302 |
| Dividends received | **833,115,883** | 774,631,167 |
| Releases of loans and receivables | **(26,894,011)** | (536,876,305) |
| Net cash used in investing activities | **(237,847,390)** | (1,566,205,145) |
| **CASH FLOWS USED IN FINANCING ACTIVITIES** | | |
| Payments of dividends to members | **(858,527,830)** | (873,323,558) |
| Interest paid to members (Note 19) | **(539,033,514)** | (362,334,622) |
| Redemption of preferred shares (Note 28) | **(93,681,831)** | (87,095,477) |
| Issuances of preferred shares (Note 28) | **74,758,751** | 83,141,157 |
| Net cash used in financing activities | **(1,416,484,424)** | (1,239,612,500) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(151,321,455)** | 1,761,091,936 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **7,259,622,277** | 5,498,530,341 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **₱7,108,300,822** | ₱7,259,622,277 |

*See accompanying Notes to Consolidated Financial Statements.*

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

1.1 Corporate Information

The Insular Life Assurance Company, Ltd. (the "Parent Company"), a mutual life insurance company primarily engaged in the life insurance business, was incorporated in the 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 Level 30 Insular Life 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 (Note 28).

1.2 Authorization for Issuance of the Consolidated Financial Statements

The consolidated financial statements of the Group were approved and authorized for issuance by the Board of Trustees (BOT) on March 31, 2016.

## 2. Summary of Significant Accounting and Financial Reporting Policies

2.1 Statement of Compliance

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

2.2 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.

2.3 New Standards and Interpretations Issued and Effective as at January 1, 2015

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2015.

The nature and impact of each new standard and amendment are described below:

2.3.1 Philippine Accounting Standard (PAS) 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*

2.3.2 *Annual Improvements to PFRSs (2010 to 2012 cycle)*
These improvements are effective from July 1, 2014 and the Group has applied these amendments for the first time in the consolidated financial statements. These amendments are either not relevant or have no impact on the Group's consolidated financial statements:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition* ;
- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination* ;
- PFRS 8, *Operating Segments - Aggregation of Operating Segmentsand Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets* ;
- PAS 16, *Property, Plant and Equipment* , and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization* ; and
- PAS 24, *Related Party Disclosures - Key Management Personnel* .

2.3.3 *Annual Improvements to PFRSs (2011 to 2013 cycle)*
These improvements are effective from July 1, 2014 and the Group has applied these amendments for the first time in the consolidated financial statements. These amendments are either not relevant or have no impact on the Group's consolidated financial statements:

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements;*
- PFRS 13, *Fair Value Measurement - Portfolio Exception* ; and
- PAS 40, *Investment Property.*

2.4 Standards Issued but Not Yet Effective
The standard and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are listed below. The Group intends to adopt these standards when they become effective. Adoption of these standards and interpretations are not expected to have significant impact on the Group's consolidated financial statements.

2.4.1 *Deferred*

(a) *Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*

2.4.2 *Effective in 2016*

(a) Amendments to PAS 1, *Presentation of Financial Statements - Disclosure Initiative*
(b) Amendments to PAS 16, *Property, Plant and Equipment* , and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization*
(c) Amendments to PAS 16, *Property, Plant and Equipment* , and PAS 41, *Agriculture - Bearer Plants*

(d) Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception*

(e) Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*

(f) PFRS 14, *Regulatory Deferral Accounts*

(g) Amendments to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements*

(h) *Annual Improvements to PFRSs (2012 to 2014 cycle)*

The Annual Improvements to PFRSs (2012 to 2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:

- Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*;
- PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*;
- Amendment to PFRS 7, *Financial Instruments Disclosures- Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statement*;
- Amendment to PAS 19, *Employee Benefits - Regional Market Issue Regarding Discount Rate*; and
- Amendment to PAS 34, *Interim Financial Reporting - Disclosure of Information "Elsewhere in the Interim Financial Report*."

2.4.3 *Effective in 2018*

PFRS 9, *Financial Instruments* (2014 or final version). In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

On December 9, 2015, the International Accounting Standards Board (IASB) issued the exposure draft, Applying IFRS 9, *Financial Instruments* with IFRS 4, *Insurance Contracts* (Proposed amendments to IFRS 4). The exposure draft proposes to amend the existing IFRS 4 to allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 before the new insurance contracts standard (IFRS 4 Phase II) becomes effective.

This exposure draft therefore reflects an important step to resolve the issue of different effective dates for IFRS 9 (i.e., January 1, 2018) and IFRS 4 Phase II (still to be decided, but not before January 1, 2020).

Management is still assessing the impact of PFRS 9 in the Group's consolidated financial statements.

In addition, the IASB has issued the following new standards that have not yet adopted locally by the SEC and Financial Reporting Standards Council (FRSC). The Group is currently assessing the impact of these new standards and plans to adopt them on their required effective dates once adopted locally.

2.4.4 *Not yet Adopted by FRSC*

(a) International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers*, was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

(b) IFRS 16, *Leases*, was issued on January 13, 2016 which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations. Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases in their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

2.5 <u>Basis of Consolidation</u>

The consolidated financial statements comprise the financial statements of the Group and its associates as at December 31, 2015 and 2014. 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 | |
|---|---|---|
| | **2015** | 2014 |
| 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 Health Care, Incorporated (I-Care) | **100.00** | 100.00 |
| Insular Life Management and Development Corporation (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 other comprehensive income (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, 2015 and 2014, 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 theassets 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.

2.6 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.

2.7 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 30 and 31.

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

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

The principal or the most advantageous market must be accessible to 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 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, 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.

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

2.9 Short-term Investments
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.

2.10 Financial Instruments
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.

2.10.1 *Financial Assets*

(a) *Financial Assets at FVPL*

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

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

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

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the financial assets or recognizing gains or losses on them on a different basis;

- The financial assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or

- The financial asset contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

These financial assets are subsequently measured at fair market value. Realized and unrealized gains and losses arising from changes in fair market value of financial assets at FVPL are recognized in the consolidated 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 to receive payment has been established.

As of December 31, 2015 and 2014, the Group's financial assets at FVPL amounting to ₱19,379,195,285 and ₱17,259,141,343, 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 ₱4,012,616,850 and ₱3,964,433,829 as of December 31, 2015 and 2014, respectively, which are designated as at FVPL (Note 6).

(b) *HTM Financial Assets*

HTM financial assets are nonderivative financial assets that are quoted in the market, with fixed or determinable payments and fixed maturity which the Group has the positive intention and ability to hold to maturity. Financial assets intended to be held for an undefirned 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, 2015 and 2014, the Group's HTM financial assets consist of quoted government and corporate debt securities with fixed interest rates (Note 6).

(c) *Loans and Receivables*

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost. The amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest 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, 2015 and 2014, 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).

(d) *AFS Financial Assets*

AFS financial assets are nonderivative financial assets which are designated as such or do not qualify to be classified as designated as at FVPL, HTM, or loans and receivables. Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

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

The effective yield component of AFS debt securities, as well as, the impact of restatement on foreign currency-denominated AFS debt securities is reported in the consolidated 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 to receive 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 statements of income.

As of December 31, 2015 and 2014, the Group's AFS financial assets consist of quoted government and corporate debt securities with fixed interest rates, and quoted and unquoted equity securities (Note 6).

2.10.2 *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, 2015 and 2014, the Group's other financial liabilities consist of 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, 2015 and 2014.

2.10.3 *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, 2015 and 2014, the Group has cross-currency swaps (CCS) wherein derivative liability amounted to ₱25,859,311 and ₱8,732,243, respectively (Note 12).

2.10.4 *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, 2015 and 2014, the Group has no embedded derivatives requiring bifurcation.

2.10.5 *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.

2.10.6 *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.

2.11 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.

2.12 Derecognition of Financial Instruments

2.12.1 *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.

2.12.2 *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.

2.13 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.

2.13.1 *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.

2.13.2 *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.

2.13.3 *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.

2.14 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 adjusts the equity and profit or loss of the associates, as applicable, for any significant difference in accounting policies for like transaction and similar circumstances (Note 7).

The Group's percentages of ownership in the shares of stock of associates as of December 31 are as follows:

| | Percentage of Ownership | |
|---|---|---|
| | **2015** | 2014 |
| 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** | 16.20 |

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 adjusted for the financial impact of significant differences in accounting policies for like transactions and similar circumstances. 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).

2.15 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 (i.e., 40 years for buildings and 10 years for building improvements).

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. Investment properties are 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 or commencement of an operating lease to another party. 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.

2.16 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 the 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.

2.17 Computer Software

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.

2.18 Impairment of Nonfinancial Assets

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 statements 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.

2.19 Retained Earnings

Retained earnings represent the cumulative balance of net income, dividend distributions, and other capital adjustments. Retained earnings may be classified as unappropriated retained earnings and appropriated retained earnings. Unappropriated retained earnings represent that portion which is free and can be declared as dividends to members. Appropriated retained earnings represent that portion which is restricted and, therefore, not available for any dividend declaration.

2.20 Insurance Contracts

2.20.1 *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 by, 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 "Members' 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.

2.20.2 *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 thatthe 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.

The statutory liability is still higher than fair valued liability as the 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 income. Outflows include benefit payments (i.e., death, surrender, maturity, and survivorship), commissions, and expenses. 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 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 where the Group has not yet received notification on. Delays can be experienced in the notification and settlement of obligations; therefore, the ultimate cost of which cannot be known with certainty at the balance sheet date. The Group develops estimates for IBNR taking into considerations the Group's prior experience.

(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 and operation in proportion to the dividends sourced from savings on investment income and mortality as compared to that sourced from savings on loadings is approved by the IC.

2.21 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:

2.21.1 *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.

2.21.2 *Dividend income*

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

2.21.3 *Rental income*

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

2.21.4 *Service income*

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

2.21.5 *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.

2.21.6 *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.

2.21.7 *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

2.21.8 *Management Fees*

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

2.22 Operating Expenses

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

2.23 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; and
- Net interest on the 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.

2.24 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.

2.25 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.

2.26 Income Tax

2.26.1 *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.

2.26.2 *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.

2.26.3 *Deferred income tax*

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

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

Deferred income tax relating to items recognized directly in members' equity is recognized in the consolidated statements 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.

2.27 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.

2.28 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.

2.29 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.

3.1 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:

3.1.1 *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.

3.1.2 *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 30.

3.1.3 *Determination of existence of significant influence*

The Company's 16.20% equity investment in Union Bank of the Philippines (UBP) as of December 31, 2015 and 2014 is classified as an associate as the Parent Company has established that it has significant influence over UBP through active participation of all the representatives of the Parent Company's BOT in the working committees of UBP (Note 7).

3.1.4 *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 financier 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).

3.1.5 *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 28).

3.1.6 *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.

There were no reclassification of investment properties to property and equipment in 2015 and 2014. The total cost of property and equipment reclassified to investment properties amounted to ₱12,224,718 and ₱600,000 in 2015 and 2014, respectively (Notes 8 and 9).

3.1.7 *Classification of leases*

(a) 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.

(b) 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.

3.1.8 *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, 2014, preferred shares classified as financial liability amounted to ₱2,228,043 (nil as of December 31, 2015) (Note 14). Preferred shares classified as equity amounted to ₱151,635,442 and ₱170,558,522, as of December 31, 2015 and 2014, respectively (Note 28).

3.2 <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:

3.2.1 *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):

- Recent transaction price between market participants;
- Price to book value (PBV) ratio;

- Discounted cash flow (DCF) valuation; or
- Adjusted net asset method.

The use of a different pricing models and assumptions could produce materially different estimates of fair values. The carrying value of the unquoted AFS equity securities referred to above amounted to ₱7,009,713,692 and ₱1,916,163,944 as of December 31, 2015 and 2014, respectively (Note 31). Discussion of each method used by the Group to value its unquoted AFS equity securities is disclosed in Note 31.

3.2.2 *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 ₱15,400,243,514 and ₱16,095,190,178 as of December 31, 2015 and 2014, respectively (Note 6). Allowance for impairment on loans and receivables amounted to ₱31,433,096 and ₱39,376,889 as of December 31, 2015 and 2014, respectively (Note 6).

The carrying value of the Group's AFS debt securities amounted to ₱6,182,284,284 and ₱5,290,393,872 as of December 31, 2015 and 2014, respectively (Note 6); while the carrying value of the Group's HTM financial assets amounted to ₱24,011,422,748 and ₱24,895,191,198 as of December 31, 2015 and 2014, respectively (Note 6). In 2015 and 2014, the Group did not recognize any impairment loss on AFS debt securities and HTM financial assets.

3.2.3 *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 ₱12,913,367,673 and ₱8,714,745,253 as of December 31, 2015 and 2014, respectively (Note 6).

3.2.4 *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 presented as follows:

(a) *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.

(b) *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.

(c) *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. The total fair value of investment properties amounted to ₱12,277,434,976 and ₱11,295,868,293 as of December 31, 2015 and 2014, respectively (Note 8).

3.2.5 *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 ₱3,196,967,330 (Note 8), ₱226,621,327 (Note 9), and ₱121,445,614 (Note 10), respectively, as of December 31, 2015 and ₱3,100,548,423 (Note 8), ₱296,998,497 (Note 9), and ₱128,742,618 (Note 10), respectively, as of December 31, 2014.

3.2.6 *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 ₱16,808,596,602 and ₱17,415,230,142 as of December 31, 2015 and 2014, respectively (Notes 7, 8, 9, and 10).

3.2.7 *Adequacy of legal policy reserves*

In determining legal policy reserves, statutory reserves are compared with the fair valued liability described under Note 32. For the statutory 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.

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 fair valued liability, computed in accordance with the LAT procedure described under Note 32, remained lower than the statutory reserve liability for all changes in assumptions. As such, Phase 1 of PFRS 4 will have no impact in profit or loss since the reflected liability will remain to be the statutory liability.

The carrying value of legal policy reserves amounted to ₱52,677,297,519 and ₱51,057,595,852 as of December 31, 2015 and 2014, respectively (Note 11).

3.2.8 *Estimation of IBNR claims*

Estimates have to be made for the expected ultimate cost of IBNR. The Group develops estimates for the IBNR claims using an actuarial process that is centrally controlled. The actuarial models consider the time from the date the insured event occurred to the time the claim was filed.

Total IBNR claims included under "Claims pending settlement" within "Other insurance liabilities" in the balance sheet amounted to ₱59,431,194 and ₱71,056,852 as of December 31, 2015 and 2014, respectively (Note 13).

3.2.9 *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 ₱91,962,985 and ₱244,901,186 as of December 31, 2015 and 2014, respectively (Note 24). Net retirement benefits liability amounted ₱5,387,341 and ₱5,261,089 as of December 31, 2015 and 2014, resepectively (Note 24).

3.2.10 *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 ₱3,074,213,495 in 2015 and ₱2,435,381,387 in 2014 (Note 25).

3.2.11 *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 and operations in proportion to the dividends sourced from savings on investment income and mortality as compared to that sourced from savings on loadings is approved by the IC. The carrying amount of the provision for dividends to members charged to retained earnings amounted to ₱516,467,215 and ₱805,384,275 in 2015 and 2014, respectively (Note 15).

3.2.12 *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. Other than those disclosed in the financial statements, the Group does not believe these proceedings will have a material adverse effect on the Group's financial position.

4. **Cash and Cash Equivalents**

| | 2015 | 2014 |
|---|---|---|
| Cash on hand | **₱497,341** | ₱428,984 |
| Cash in banks (Note 26) | **617,631,971** | 1,107,231,732 |
| Cash equivalents in commercial banks (Note 26) | **6,490,171,510** | 6,151,961,561 |
| | **₱7,108,300,822** | ₱7,259,622,277 |

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.

Cash equivalents earn interest at rates ranging from 0.30% to 2.75% in 2015 and 2014.

5. **Insurance Receivables**

| | 2015 | 2014 |
|---|---|---|
| Due premiums | **₱191,911,402** | ₱185,497,080 |
| Reinsurance assets | **2,916,870** | 384,028 |
| | **₱194,828,272** | ₱185,881,108 |

Due premiums are premiums earned which remain unpaid within the statutory defined limit, and are recognized on a net basis. Reinsurance assets represent balances due from reinsurance companies, which arise from ceded reinsurance arrangements.

6. **Financial Assets**

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

| | 2015 | 2014 |
|---|---|---|
| Financial assets at FVPL | **₱23,391,812,135** | ₱21,223,575,172 |
| AFS financial assets | **19,095,651,957** | 14,005,139,125 |
| HTM financial assets | **24,011,422,748** | 24,895,191,198 |
| Loans and receivables | **15,400,243,514** | 16,095,190,178 |
| | **₱81,899,130,354** | ₱76,219,095,673 |

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

6.1 Financial Assets at FVPL

| | 2015 | 2014 |
|---|---|---|
| Equity securities - quoted | **₱4,012,616,850** | ₱3,964,433,829 |
| Under separate fund: | | |
| Traditional VULs: | | |
| Cash and cash equivalents | **1,438,736,857** | 1,918,115,581 |
| Quoted equity securities | **12,910,091,156** | 9,762,857,565 |
| Quoted debt securities: | | |
| Government: | | |
| Local currency | **1,109,100,790** | 1,048,681,834 |
| Foreign currency | **1,521,072,701** | 1,012,097,699 |

(Forward)

| | 2015 | 2014 |
|---|---|---|
| Corporate: | | |
| Local currency | **₱153,053,669** | ₱228,724,590 |
| Foreign currency | **128,636,869** | 120,774,918 |
| Other receivables | **52,750,890** | 44,949,346 |
| Other payables | **(46,663,184)** | (60,564,673) |
| Structured VULs: | | |
| Local currency | **1,000,320,732** | 1,041,505,575 |
| Foreign currency | **1,112,094,805** | 2,141,998,908 |
| | **₱23,391,812,135** | ₱21,223,575,172 |

Quoted equity security represents preferred shares listed in the stock exchange. Fair value gain (loss) on these equity securities amounted to ₱161,628,271 and (₱16,386,567) in 2015 and 2014, respectively.

Financial assets under separate funds 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 (i.e. inclusive of the fair value gains and losses attributable to the Group and the policyholders) amounted to (₱1,504,338,693) and ₱2,082,736,929 in 2015 and 2014, 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 to receive payment has been established.

*Government debt securities*

Interest ranges of government debt securities under FVPL are 1.63% to 10.63% and 1.63% to 8.00% for peso and dollar bonds, respectively, for both 2015 and 2014.

*Corporate debt securities*

Corporate debt securities include bonds issued by reputable counterparties. Interest ranges of corporate debt securities under FVPL are 4.25% to 7.25% and 6.10% to 8.64% for peso and dollar bonds, respectively, for both 2015 and 2014.

*Other receivables*

Other receivables are comprised of accrued interest income from government and corporate debt securities, and dividend receivable from quoted equity securities.

*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.

6.2 AFS Financial Assets

| | **2015** | 2014 |
|---|---|---|
| Equity securities: | | |
| Quoted | **₱5,882,205,420** | ₱6,776,932,748 |
| Unquoted | **7,031,162,253** | 1,937,812,505 |
| | **12,913,367,673** | 8,714,745,253 |
| Debt securities: | | |
| Quoted: | | |
| Government: | | |
| Local currency | **4,153,283,572** | 3,626,209,749 |
| Foreign currency | **997,540,159** | 972,035,961 |
| Corporate: | | |
| Local currency | **998,815,544** | 660,187,756 |
| Foreign currency | **32,645,009** | 31,960,406 |
| | **6,182,284,284** | 5,290,393,872 |
| | **₱19,095,651,957** | ₱14,005,139,125 |

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 reserve for fluctuation in value of AFS (attributable to the Parent Company) as of December 31 follows:

| | **2015** | 2014 |
|---|---|---|
| Equity securities: | | |
| Attributable to the Group: | | |
| Beginning balance | **₱2,022,766,928** | ₱4,091,718,166 |
| Increase (decrease) in value of AFS equity securities net, of tax | **989,124,012** | (1,676,755,540) |
| Valuation gains realized through profit or loss: | | |
| Gain on sale | **(342,707,032)** | (400,780,175) |
| Impairment loss (Note 22) | **23,930,741** | 8,584,477 |
| Ending balance | **2,693,114,649** | 2,022,766,928 |
| Attributable to associates: | | |
| Beginning balance | **(497,878,057)** | (1,180,338,426) |
| Decrease in value of AFS equity securities attributable to associates (Note 7) | **(777,170,992)** | 682,460,369 |
| Ending balance | **(1,275,049,049)** | (497,878,057) |
| | **₱1,418,065,600** | ₱1,524,888,871 |
| Debt securities: | | |
| Beginning balance | **₱244,091,784** | ₱180,801,969 |
| Increase (decrease) in value of AFS debt securities net of tax | **(85,744,044)** | 123,512,165 |
| Valuation gains realized through profit or loss | **(52,327,139)** | (60,222,350) |
| Ending balance | **₱106,020,601** | ₱244,091,784 |

6.3 HTM Financial Assets

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Amortized Cost** | **Fair Value** | Amortized Cost | Fair Value |
| Government: | | | | |
| Local currency | **₱14,931,544,158** | **₱18,013,819,276** | ₱15,433,695,199 | 19,951,839,339 |
| Foreign currency | **676,267,838** | **703,145,793** | 1,063,606,835 | 1,139,891,076 |
| Corporate: | | | | |
| Local currency | **8,145,482,907** | **8,792,827,388** | 8,154,556,207 | 8,048,828,958 |
| Foreign currency | **258,127,845** | **298,220,265** | 243,332,957 | 249,775,648 |
| | **₱24,011,422,748** | **₱27,808,012,722** | ₱24,895,191,198 | ₱29,390,335,021 |

6.4 Loans and Receivables

| | **2015** | 2014 |
|---|---|---|
| Term loans | **₱8,229,002,353** | ₱8,803,917,941 |
| Policy loans | **5,469,582,698** | 5,526,585,804 |
| Accounts receivable | **879,455,391** | 858,940,395 |
| Interest receivable | **431,994,612** | 466,437,954 |
| Housing loans | **153,032,134** | 159,738,546 |
| Mortgage loans | **71,999,484** | 73,204,793 |
| Car financing loans | **38,964,632** | 41,939,549 |
| Finance leases | **34,577,734** | 38,998,329 |
| Stock loans | **19,683,442** | 22,608,094 |
| Net interest in joint venture accounted for under PAS 39 | **18,146,965** | 47,004,109 |
| Due from agents | **10,922,178** | 15,697,877 |
| Others | **74,314,987** | 79,493,676 |
| | **15,431,676,610** | 16,134,567,067 |
| Less allowance for impairment loss | **31,433,096** | 39,376,889 |
| | **₱15,400,243,514** | ₱16,095,190,178 |

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 7 to 15 years in 2015 and 1 to 12 years in 2014. Interest rates range from 4.59% to 10.35% and 4.59% to 10.35% in 2015 and 2014, respectively.
`
- Policy loans pertain to loans granted to policyholders. The loan is issued with the cash surrender value of the policyholder's insurance policy as collateral. Interest rates on policy loans range from 6% to 10% in both 2015 and 2014.

- 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 0.30% to 13.75% in both 2015 and 2014, 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 5 to 15 years. Interest rates on these loans range from 6.65% to 10.50% for both 2015 and 2014.

- 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 since its inception. The Group has no share of any capital commitment as of December 31, 2015 and 2014.

  On June 11, 2014, the IPI and IPVI ("Assignors"), and PBI ("Assignee") executed a Deed of Assignment transferring majority of the Assignors' interest in the joint venture and the Project to the Assignee for a cash consideration of ₱85,754,247. The IPI and IPVI are entitled to 55% and 45%, respectively, of the total amount, to be settled through a 5% downpayment at the date of the agreement and equal quarterly installments for the remaining balance within two years. The IPI and IPVI recognized "Receivable from a third party" amounting to ₱34,579,779 and ₱28,115,633, respectively, upon execution of the Deed of Assignment, which is equal to the outstanding net interest in the joint venture and the Project as of December 31, 2013.

  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 in 2013 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.

- 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 25 years at an annual interest of 10.25% to 18% in 2015 and over a period of 5 to 25 years at an annual interest of 10.25% to 11.75% in 2014.
- 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, 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:

| | **2015** | 2014 |
|---|---|---|
| Housing loans | **₱177,465,235** | ₱184,578,198 |
| Less unamortized deferred interest income | **24,433,101** | 24,839,652 |
| | **153,032,134** | 159,738,546 |
| Car financing loans | **43,991,408** | 46,003,790 |
| Less unamortized deferred interest income | **5,026,776** | 4,064,241 |
| | **38,964,632** | 41,939,549 |
| | **₱191,996,766** | ₱201,678,095 |

The amortization of deferred interest income amounting to ₱4,314,021 and ₱3,589,043 in 2015 and 2014, respectively, is recognized as part of interest on loans and receivables included under "Investment income" in the statements of income (Note 17).

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

| | **2015** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Accounts Receivable** | **Mortgage Loans** | **Finance leases** | **Stock loans** | **Due from Agents** | **Others** | **Total** |
| **Beginning balances** | **₱19,530,704** | **₱1,527,854** | **₱293,970** | **₱1,646,881** | **₱10,648,099** | **₱5,729,381** | **₱39,376,889** |
| **Provisions (reversals) for the year** | **13,019** | **63,769** | **328,036** | **636,576** | **45,737** | **(316,008)** | **771,129** |
| **Write-off** | **(2,043,127)** | **–** | **–** | **–** | **(2,997,712)** | **(3,674,083)** | **(8,714,922)** |
| **Ending balances** | **₱17,500,596** | **₱1,591,623** | **₱622,006** | **₱2,283,457** | **₱7,696,124** | **₱1,739,290** | **₱31,433,096** |

| | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Accounts Receivable | Mortgage Loans | Finance leases | Stock loans | Due from Agents | Others | Total |
| Beginning balances | ₱47,504,033 | ₱1,277,618 | ₱664,385 | ₱1,618,470 | ₱15,823,226 | ₱5,226,053 | ₱72,113,785 |
| Provisions (reversals) for the year | (980,263) | 250,236 | (370,415) | 28,411 | (80,037) | 523,225 | (628,843) |
| Write-off | (26,993,066) | – | – | – | (5,095,090) | (19,897) | (32,108,053) |
| Ending balances | ₱19,530,704 | ₱1,527,854 | ₱293,970 | ₱1,646,881 | ₱10,648,099 | ₱5,729,381 | ₱39,376,889 |

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:

| | 2015 | | | | |
|---|---|---|---|---|---|
| | | | AFS | | |
| | FVPL | HTM | Equity Securities | Debt Securities | Total |
| Beginning balances | **₱21,223,575,172** | **₱24,895,191,198** | **₱8,714,745,254** | **₱5,290,393,871** | **₱60,123,905,495** |
| Acquisitions | **7,351,837,654** | **22,440,046** | **4,450,484,929** | **1,919,706,542** | **13,744,469,171** |
| Disposals/maturities | **(3,840,890,269)** | **(957,997,500)** | **(1,304,783,203)** | **(977,332,350)** | **(7,081,003,322)** |
| Fair value gain (loss) | **(1,342,710,422)** | **–** | **1,076,961,436** | **(84,008,282)** | **(349,757,268)** |
| Foreign exchange adjustments | **–** | **50,258,778** | **–** | **44,469,937** | **94,728,715** |
| Impairment loss (Note 22) | **–** | **–** | **(24,040,743)** | **–** | **(24,040,743)** |
| Discount (premium) amortization - net | **–** | **1,530,226** | **–** | **(10,945,434)** | **(9,415,208)** |
| Ending balances | **₱23,391,812,135** | **₱24,011,422,748** | **₱12,913,367,673** | **₱6,182,284,284** | **₱66,498,886,840** |

| | 2014 | | | | |
|---|---|---|---|---|---|
| | | | AFS | | |
| | FVPL | HTM | Equity Securities | Debt Securities | Total |
| Beginning balances | ₱14,522,610,219 | ₱23,364,283,696 | ₱10,421,382,029 | ₱5,276,936,484 | ₱53,585,212,428 |
| Acquisitions | 6,284,214,901 | 2,630,000,000 | 1,137,995,557 | 912,360,776 | 10,964,571,234 |
| Disposals/maturities | (1,649,600,310) | (1,113,532,430) | (922,087,204) | (1,012,380,081) | (4,697,600,025) |
| Fair value gain (loss) | 2,066,350,362 | – | (1,913,960,652) | 120,356,052 | 272,745,762 |
| Foreign exchange adjustments | – | 14,749,503 | – | 4,174,270 | 18,923,773 |
| Impairment loss (Note 22) | – | – | (8,584,477) | – | (8,584,477) |
| Discount (premium) amortization - net | – | (309,571) | – | (11,053,629) | (11,363,200) |
| Ending balances | ₱21,223,575,172 | ₱24,895,191,198 | ₱8,714,745,253 | ₱5,290,393,872 | ₱60,123,905,495 |

As of December 31, 2015 and 2014, 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 10.41%.

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 2015 and 2014.

As of December 31, 2015 and 2014, 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:

| | 2015 | 2014 |
|---|---|---|
| Beginning balance | **₱381,967,362** | ₱401,435,199 |
| Fair value loss | **(15,422,155)** | (11,231,611) |
| Amortization | **(5,958,768)** | (5,503,796) |
| Maturities | **–** | (2,732,430) |
| Ending balance | **₱360,586,439** | ₱381,967,362 |

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

| | 2015 | 2014 |
|---|---|---|
| Beginning balance | **₱314,791,026** | ₱323,027,252 |
| Amortization | **(5,958,768)** | (5,503,796) |
| Maturities | **–** | (2,732,430) |
| Ending balance | **₱308,832,258** | ₱314,791,026 |

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

| | 2015 | 2014 |
|---|---|---|
| Beginning balance | **₱46,890,410** | ₱49,495,496 |
| Amortization | **(2,887,510)** | (2,605,086) |
| Ending balance | **₱44,002,900** | ₱46,890,410 |

7. **Investments in Associates**

The principal activities and other relevant details about the Group's associates, which are incorporated and operating in Philippines, follow:

| | Date of Incorporation | Principal Activities |
|---|---|---|
| PPVI | December 9, 1975 | Development and sale of real estate |
| MIIC | September 1, 1934 | Provision of nonlife general insurance |
| UBP | August 16, 1968 | Universal commercial banking |

The movement of the investments in associates follows:

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | **PPVI** | **MIIC** | **UBP** | **Total** |
| **Acquisition cost** | | | | |
| Beginning balance | **₱4,500,000** | **₱224,848,654** | **₱1,506,193,436** | **₱1,735,542,090** |
| **Accumulated equity in net earnings** | | | | |
| Beginning balance, as restated | **(788,562)** | **215,092,278** | **6,592,553,825** | **6,806,857,541** |
| Equity in net earnings (losses) for the year | **(29,139)** | **(43,959,517)** | **783,435,402** | **739,446,746** |
| Dividends | **–** | **–** | **(360,354,992)** | **(360,354,992)** |
| Ending balance | **(817,701)** | **171,132,761** | **7,015,634,235** | **7,185,949,295** |
| **Equity in reserve for fluctuation in AFS** | | | | |
| Beginning balance | **–** | **27,821,093** | **(525,699,150)** | **(497,878,057)** |
| Share in net movement of reserve for fluctuation in AFS financial assets of the associates during the year (Note 6) | **–** | **(11,855,938)** | **(765,315,054)** | **(777,170,992)** |
| Ending balance | **–** | **15,965,155** | **(1,291,014,204)** | **(1,275,049,049)** |
| **Equity in reserve for re-measurement gains in defined benefit pension plan** | | | | |
| Beginning balance | **–** | **7,501,474** | **42,011,874** | **49,513,348** |
| Share in net movement of reserve for re-measurement losses on defined benefit plan | **–** | **(6,377,035)** | **(17,964,018)** | **(24,341,053)** |
| Ending balance | **–** | **1,124,439** | **24,047,856** | **25,172,295** |

(Forward)

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | **PPVI** | **MIIC** | **UBP** | **Total** |
| **Premium on deemed disposal of investment in an associate** | **₱–** | **₱–** | **₱304,954,486** | **₱304,954,486** |
| | **₱3,682,299** | **₱413,071,009** | **₱7,559,815,809** | **₱7,976,569,117** |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | PPVI | MIIC | UBP | Total |
| **Acquisition cost** | | | | |
| Beginning balance | 4,500,000 | 224,848,654 | 1,506,193,436 | 1,735,542,090 |
| **Accumulated equity in net earnings** | | | | |
| Beginning balance, as restated | (488,855) | 194,076,213 | 6,030,661,846 | 6,224,249,204 |
| Equity in net earnings (losses) for the year | (299,707) | 26,641,065 | 1,019,485,602 | 1,045,826,960 |
| Dividends received | – | (5,625,000) | (457,593,623) | (463,218,623) |
| Ending balance | (788,562) | 215,092,278 | 6,592,553,825 | 6,806,857,541 |
| **Equity in reserve for fluctuation in AFS** | | | | |
| Beginning balance | – | 23,802,630 | (1,204,141,056) | (1,180,338,426) |
| Share in net movement of reserve for fluctuation in AFS financial assets of the associates during the year (Note 6) | – | 4,018,463 | 678,441,906 | 682,460,369 |
| Ending balance | – | 27,821,093 | (525,699,150) | (497,878,057) |
| **Equity in reserve for re-measurement gains in defined benefit pension plan** | | | | |
| Beginning balance | – | 8,785,769 | 90,225,666 | 99,011,435 |
| Share in net movement of reserve for re-measurement losses on defined benefit plan | – | (1,284,295) | (48,213,792) | (49,498,087) |
| Ending balance | – | 7,501,474 | 42,011,874 | 49,513,348 |
| **Premium on deemed disposal of investment in an associate** | – | – | 304,954,486 | 304,954,486 |
| | ₱3,711,438 | ₱475,263,499 | ₱7,920,014,471 | ₱8,398,989,408 |

The shares of stock of UBP are traded in the local stock market. The fair value of the Group's interest in the equity securities of UBP amounted to ₱9,781,064,112 (i.e., ₱57.00 per share) and ₱11,428,401,225 (i.e., ₱66.60 per share) as of December 31, 2015 and 2014, respectively.

On April 28, 2014, UBP declared 65% stock dividends to its stockholders as of November 13, 2014. While this did not change the Group's percentage of interest in UBP, this resulted to 67,599,060 additional shares.

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 position*

| | December 31, 2015 | | |
|---|---|---|---|
| | **PPVI** | **MIIC** | **UBP** |
| Cash and cash equivalent | **₱239,299** | **₱179,977,463** | **₱6,566,176,000** |
| Short term investments | **27,585,347** | **–** | **–** |
| Fair value through profit or loss | **–** | **–** | **640,874,000** |
| AFS financial assets | **–** | **1,464,822,023** | **100,931,118,000** |
| Loans and receivables | **31,495,341** | **877,989,092** | **286,171,445,000** |
| Investment properties | **–** | **16,078,555** | **8,066,440,000** |
| Property plant and equipment | **–** | **293,116,272** | **3,306,804,000** |
| Other assets | **–** | **2,780,767,980** | **23,475,553,000** |
| Deferred tax asset | **–** | **143,841,605** | **–** |
| Accounts payable | **(44,403,582)** | **(498,683,194)** | **–** |
| Deferred tax liability | **(60,859)** | **–** | **–** |
| Other liabilities | **(2,581,212)** | **(3,913,399,696)** | **(382,167,776,000)** |
| **Equity** | **₱12,274,334** | **₱1,344,510,100** | **₱46,990,634,000** |

| | December 31, 2014 | | |
|---|---|---|---|
| | PPVI | MIIC | UBP |
| Cash and cash equivalent | ₱125,641 | ₱536,137,614 | ₱6,667,885,000 |
| Short term investments | 28,134,618 | – | – |
| Fair value through profit or loss | – | – | 3,654,897,000 |
| AFS financial assets | – | 1,397,669,567 | 76,717,416,000 |
| Loans and receivables | 31,440,815 | 1,032,640,691 | 318,298,154,000 |
| Investment properties | – | 16,585,884 | 13,260,000,000 |
| Property plant and equipment | – | 181,679,062 | 3,015,559,000 |
| Other assets | – | 2,464,464,136 | 21,391,300,000 |
| Deferred tax asset | – | 16,815,382 | – |
| Accounts payable | (44,408,882) | (232,165,548) | – |
| Deferred tax liability | – | – | – |
| Other liabilities | (2,920,728) | (3,820,546,742) | (389,845,693,000) |
| Equity | ₱12,371,464 | ₱1,593,280,046 | ₱53,159,518,000 |

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*

| | December 31, 2015 | | |
|---|---|---|---|
| | **PPVI** | **MIIC** | **UBP** |
| Revenue | **₱549,291** | **₱1,402,005,643** | **₱16,235,225,000** |
| Direct costs | **–** | **(1,280,793,073)** | **(4,239,715,000)** |
| Operating expenses | **(536,564)** | **(558,427,873)** | **(11,648,978,000)** |
| Other income | **–** | **176,794,174** | **7,299,105,000** |
| Impairment Losses | **–** | **–** | **(659,013,000)** |
| **Profit before tax** | **12,727** | **(260,421,129)** | **6,986,624,000** |
| Income tax expense | **(109,858)** | **84,583,064** | **(2,150,603,000)** |
| **Net profit (loss) for the year** | **(₱97,131)** | **(₱175,838,065)** | **₱4,836,021,000** |
| **Group's share in the net profit (loss) of the associate** | **(₱29,139)** | **(₱43,959,517)** | **₱783,435,402** |

| | December 31, 2014 | | |
|---|---|---|---|
| | PPVI | MIIC | UBP |
| Revenue | ₱263,431 | ₱1,418,790,935 | ₱14,955,022,000 |
| Direct costs | – | (542,189,879) | (4,314,642,000) |
| Operating expenses | (1,209,767) | (1,069,015,279) | (9,810,941,000) |
| Other income | – | 317,910,326 | 8,156,846,000 |
| Impairment Losses | – | – | (300,637,000) |
| **Profit before tax** | (946,336) | 125,496,103 | 8,685,648,000 |
| Income tax expense | (52,686) | (18,931,842) | (1,838,881,000) |
| **Net profit for the year** | (₱999,022) | ₱106,564,261 | ₱6,846,767,000 |
| **Group's share in the net profit (loss) of the associate*** | (₱299,707) | ₱26,641,065 | ₱1,019,485,602 |

The associates have no contingent liabilities or capital commitments as of December 31, 2015 and 2014. 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, 2015 and 2014.

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, may impose restrictions as to the use or transfer of assets within the Group or the settlement of liabilities as of December 31, 2015 and 2014.

## 8. Investment Properties

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

| | **2015** | | |
|---|---|---|---|
| | **Land** | **Buildings and Improvements** | **Total** |
| **Costs** | | | |
| Beginning balances | **₱5,546,884,479** | **₱4,179,445,875** | **₱9,726,330,354** |
| Additions | **1,320,000** | **253,221,267** | **254,541,267** |
| Reclassifications (Note 9) | **–** | **12,224,718** | **12,224,718** |
| Disposals | **(274,017,872)** | **(40,868,799)** | **(314,886,671)** |
| Ending balances | **5,274,186,607** | **4,404,023,061** | **9,678,209,668** |
| **Accumulated Depreciation and Impairment Loss** | | | |
| Beginning balances | **155,632,791** | **1,078,897,452** | **1,234,530,243** |
| Depreciation and amortization (Note 20) | **–** | **147,025,190** | **147,025,190** |
| (Forward) | | | |

| | 2015 | | |
|---|---|---|---|
| | | **Buildings and** | |
| | **Land** | **Improvements** | **Total** |
| Reclassifications (Note 9) | **₱–** | **₱5,293,571** | **₱5,293,571** |
| Reversal of impairment loss | **(121,000)** | **(460,249)** | **(581,249)** |
| Disposals | **–** | **(23,700,233)** | **(23,700,233)** |
| Ending balances | **155,511,791** | **1,207,055,731** | **1,362,567,522** |
| **Net Book Values** | **₱5,118,674,816** | **₱3,196,967,330** | **₱8,315,642,146** |

| | 2014 | | |
|---|---|---|---|
| | | Buildings and | |
| | Land | Improvements | Total |
| **Costs** | | | |
| Beginning balances | ₱6,054,343,471 | ₱4,124,143,997 | ₱10,178,487,468 |
| Additions | 902,500 | 80,609,553 | 81,512,053 |
| Reclassifications (Note 9) | 600,000 | – | 600,000 |
| Disposals | (508,961,492) | (25,307,675) | (534,269,167) |
| Ending balances | 5,546,884,479 | 4,179,445,875 | 9,726,330,354 |
| **Accumulated Depreciation and Impairment Loss** | | | |
| Beginning balances | 155,678,391 | 945,034,023 | 1,100,712,414 |
| Depreciation and amortization (Note 20) | – | 151,881,125 | 151,881,125 |
| Impairment loss (Note 22) | – | 461,716 | 461,716 |
| Reversal of impairment loss | (45,600) | – | (45,600) |
| Disposals | – | (18,479,412) | (18,479,412) |
| Ending balances | 155,632,791 | 1,078,897,452 | 1,234,530,243 |
| **Net Book Values** | ₱5,391,251,688 | ₱3,100,548,423 | ₱8,491,800,111 |

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, 2015 and 2014, the balance of retained earnings includes the remaining balance of the deemed cost adjustment amounting to ₱3,749,709,914 and ₱3,981,724,520, 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 ₱12,277,434,976 and ₱11,295,868,293 as of December 31, 2015 and 2014, respectively, based on various independent appraisers' valuation and the Group's in-house valuation (less than 1% of the total investment properties).

The fair value of the investment properties as of December 31, 2015 and 2014 approximates and represents the highest and best use of the properties as of the said dates except for a property with a carrying value of ₱203,054,000 in both 2015 and 2014, and fair values of ₱406,108,000 and ₱330,688,000 in 2015 and 2014, 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 27). Following are the rental income earned from, as well as, direct and indirect operating expenses incurred for the investment properties:

| | **2015** | 2014 |
|---|---|---|
| Rental income (Note 27) | **₱361,535,040** | ₱411,665,996 |
| Direct operating expenses (Note 21) | **171,138,293** | 196,782,381 |
| Indirect operating expenses (Note 21) | **31,029,681** | 48,449,531 |

Future minimum lease rentals receivable under noncancellable operating leases are disclosed in Note 27.

## 9. Property and Equipment

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

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Land and Buildings | Furniture Fixtures and Equipment | Electronic and Data Processing Equipment | Transportation Equipment | Leasehold Improvements | Total |
| **Costs** | | | | | | |
| Beginning balances | **₱148,962,509** | **₱214,609,720** | **₱138,723,281** | **₱98,455,731** | **₱83,549,770** | **₱684,301,011** |
| Additions | **2,223,010** | **10,831,306** | **17,212,240** | **19,185,569** | **8,199,760** | **57,651,885** |
| Retirements/disposals | **(1,818,735)** | **(5,262,419)** | **(18,146,068)** | **(34,980,046)** | **(38,650)** | **(60,245,918)** |
| Reclassifications (Note 8) | **(12,224,718)** | **–** | **–** | **–** | **–** | **(12,224,718)** |
| Ending balances | **137,142,066** | **220,178,607** | **137,789,453** | **82,661,254** | **91,710,880** | **669,482,260** |
| **Accumulated Depreciation and Amortization** | | | | | | |
| Beginning balances | **60,807,843** | **89,677,348** | **88,152,431** | **65,644,182** | **61,398,958** | **365,680,762** |
| Depreciation and amortization (Note 20) | **2,470,342** | **14,452,500** | **20,852,586** | **14,775,151** | **7,079,248** | **59,629,827** |
| Retirements/disposals | **(1,818,735)** | **(3,849,313)** | **(18,127,350)** | **(34,298,224)** | **(38,650)** | **(58,132,272)** |
| Reclassifications (Note 8) | **(5,293,571)** | **–** | **–** | **–** | **–** | **(5,293,571)** |
| Ending balances | **56,165,879** | **100,280,535** | **90,877,667** | **46,121,109** | **68,439,556** | **361,884,746** |
| **Net Book Values** | **₱80,976,187** | **₱119,898,072** | **₱46,911,786** | **₱36,540,145** | **₱23,271,324** | **₱307,597,514** |

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Land and Buildings | Furniture Fixtures and Equipment | Electronic and Data Processing Equipment | Transportation Equipment | Leasehold Improvements | Total |
| **Costs** | | | | | | |
| Beginning balances | ₱146,894,415 | ₱310,086,748 | ₱241,114,912 | ₱91,118,813 | ₱77,421,807 | ₱866,636,695 |
| Additions | 2,668,094 | 17,706,212 | 17,942,929 | 12,275,075 | 6,754,826 | 57,347,136 |
| Retirements/disposals | – | (113,183,240) | (120,334,560) | (4,938,157) | (626,863) | (239,082,820) |
| Reclassifications (Note 8) | (600,000) | – | – | – | – | (600,000) |
| Ending balances | 148,962,509 | 214,609,720 | 138,723,281 | 98,455,731 | 83,549,770 | 684,301,011 |
| **Accumulated Depreciation and Amortization** | | | | | | |
| Beginning balances | 57,550,940 | 188,876,133 | 183,848,395 | 56,377,548 | 55,781,727 | 542,434,743 |
| Depreciation and amortization (Note 20) | 3,256,903 | 13,982,255 | 24,594,910 | 13,744,375 | 6,244,094 | 61,822,537 |
| Retirements/disposals | – | (113,181,040) | (120,290,874) | (4,477,741) | (626,863) | (238,576,518) |
| Ending balances | 60,807,843 | 89,677,348 | 88,152,431 | 65,644,182 | 61,398,958 | 365,680,762 |
| **Net Book Values** | ₱88,154,666 | ₱124,932,372 | ₱50,570,850 | ₱32,811,549 | ₱22,150,812 | ₱318,620,249 |

The cost of fully depreciated property and equipment that are still in use in the Group's operations amounted to ₱150,921,381 and ₱164,438,138 as of December 31, 2015 and 2014, respectively.

## 10. Other Assets

| | **2015** | 2014 |
|---|---|---|
| Computer software | **₱121,445,614** | ₱128,742,618 |
| Prepaid employee loan benefit | **56,938,572** | 48,710,488 |
| Value added input tax | **8,846,363** | 4,704,503 |
| Others | **21,557,276** | 23,662,765 |
| | **₱208,787,825** | ₱205,820,374 |

Computer Software

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

| | **2015** | 2014 |
|---|---|---|
| **Cost** | | |
| Beginning balance | **₱205,594,873** | ₱349,237,474 |
| Additions | **30,837,309** | 73,176,920 |
| Retirements/disposals | **(71,000)** | (216,819,521) |
| Ending balance | **236,361,182** | 205,594,873 |
| **Accumulated Amortization** | | |
| Beginning balance | **76,852,255** | 262,361,102 |
| Amortization (Note 20) | **38,134,313** | 31,310,674 |
| Retirements/disposals | **(71,000)** | (216,819,521) |
| Ending balance | **114,915,568** | 76,852,255 |
| **Net Book Value** | **₱121,445,614** | ₱128,742,618 |

Others

"Others" include prepaid expenses and taxes, and other current assets.

## 11. Legal Policy Reserves

Details of legal policy reserves are as follows:

| | **2015** | | |
|---|---|---|---|
| | **Legal Policy Reserves** | **Reinsurers' Share of Liabilities** | **Net** |
| Aggregate reserves for: | | | |
| Ordinary life policies | **₱50,608,581,074** | **₱71,236,260** | **₱50,537,344,814** |
| Group life policies | **1,493,419,678** | **–** | **1,493,419,678** |
| Accident and health policies | **52,687,000** | **440,879** | **52,246,121** |
| Unit-linked policies | **604,530,267** | **10,243,361** | **594,286,906** |
| | **₱52,759,218,019** | **₱81,920,500** | **₱52,677,297,519** |

| | 2014 | | |
|---|---|---|---|
| | Legal Policy Reserves | Reinsurers' Share of Liabilities | Net |
| Aggregate reserves for: | | | |
| Ordinary life policies | ₱49,653,971,205 | ₱77,172,541 | ₱49,576,798,664 |
| Group life policies | 1,424,996,508 | – | 1,424,996,508 |
| Accident and health policies | 45,139,814 | 244,596 | 44,895,218 |
| Unit-linked policies | 20,507,020 | 9,601,558 | 10,905,462 |
| | ₱51,144,614,547 | ₱87,018,695 | ₱51,057,595,852 |

Movement of aggregate reserves is as follows:

| | 2015 | | |
|---|---|---|---|
| | **Legal Policy Reserves** | **Reinsurers' Share of Liabilities** | **Net** |
| Beginning balances | **₱51,144,614,547** | **₱87,018,695** | **₱51,057,595,852** |
| Premiums received | **3,207,921,974** | **–** | **3,207,921,974** |
| Fees deducted | **(4,401,269,974)** | **(5,098,195)** | **(4,396,171,779)** |
| Accretion of investment income or change in unit prices | **1,830,425,156** | **–** | **1,830,425,156** |
| Liability released for payments of death, maturities, surrender benefits and claims | **966,090,396** | **–** | **966,090,396** |
| Foreign exchange adjustment | **11,435,920** | **–** | **11,435,920** |
| | **₱52,759,218,019** | **₱81,920,500** | **₱52,677,297,519** |

| | 2014 | | |
|---|---|---|---|
| | Legal Policy Reserves | Reinsurers' Share of Liabilities | Net |
| Beginning balances | ₱49,635,124,199 | ₱80,824,251 | ₱49,554,299,948 |
| Premiums received | 4,398,850,187 | – | 4,398,850,187 |
| Fees deducted | (5,627,684,939) | 6,194,444 | (5,633,879,383) |
| Accretion of investment income or change in unit prices | 1,799,040,395 | – | 1,799,040,395 |
| Liability released for payments of death, maturities, surrender benefits and claims | 935,437,636 | – | 935,437,636 |
| Foreign exchange adjustment | 3,847,069 | – | 3,847,069 |
| | ₱51,144,614,547 | ₱87,018,695 | ₱51,057,595,852 |

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 local 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 amounted to ₱25,859,311 and ₱8,732,243 as of December 31, 2015 and 2014, respectively. Derivative loss amounted to ₱17,127,068 and ₱393,508 for the year ended December 31, 2015 and 2014, respectively.

13. **Other Insurance Liabilities**

| | **2015** | 2014 |
|---|---|---|
| Members' deposits and other funds on deposit | **₱24,797,492,775** | ₱22,548,201,628 |
| Claims pending settlement | **1,716,718,790** | 1,343,930,085 |
| Reserve for dividends to members | **643,186,642** | 928,949,440 |
| | **₱27,157,398,207** | ₱24,821,081,153 |

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**

| | **2015** | 2014 |
|---|---|---|
| Accrued employee benefits | **₱745,850,882** | ₱674,927,766 |
| Accounts payable | **621,787,100** | 592,008,931 |
| Remittances not yet allocated | **166,295,278** | 164,421,651 |
| General expenses due and accrued | **83,755,683** | 77,655,448 |
| Commissions payable | **71,066,949** | 65,917,521 |
| Taxes payable | **61,325,433** | 189,260,058 |
| Preferred shares of Home Credit owned by its members | **–** | 2,228,043 |
| Others | **39,397,580** | 43,235,018 |
| | **₱1,789,478,905** | ₱1,809,654,436 |

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, 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 January 28, 2016, the Executive Committee approved the set-up of provision for dividends to members for the year ended December 31, 2015 applicable to dividends to be paid out for the period January 1, 2016 to December 31, 2016.

On March 12, 2015 the Executive Committee approved the set-up of provision for dividends to members for the year ended December 31, 2014 applicable to dividends to be paid out for the period January 1, 2015 to December 31, 2015.

Breakdown of the dividend provision follows:

| | **2015** | 2014 |
|---|---|---|
| Chargeable to retained earnings | **₱598,346,100** | ₱861,522,750 |
| Chargeable to income (Note 19) | **37,853,900** | 60,977,250 |
| | **₱636,200,000** | ₱922,500,000 |

Dividends to members charged against retained earnings follow:

| | **2015** | 2014 |
|---|---|---|
| Dividends declared during the year | **₱598,346,100** | ₱861,522,750 |
| Excess of dividends declared in prior year against actual amount paid | **(81,878,885)** | (56,138,475) |
| | **₱516,467,215** | ₱805,384,275 |

## 16. Insurance Revenue

| | **2015** | 2014 |
|---|---|---|
| Life insurance contracts | **₱5,026,639,167** | ₱6,639,289,082 |
| VUL insurance contracts | **8,309,420,934** | 5,914,743,258 |
| Accident and health contracts | **426,738,853** | 397,584,293 |
| Gross earned premiums on insurance contracts | **13,762,798,954** | 12,951,616,633 |
| Reinsurers' share of premiums on insurance contracts | **(176,281,175)** | (167,463,463) |
| Net insurance revenue | **₱13,586,517,779** | ₱12,784,153,170 |

## 17. Investment Income

| | **2015** | 2014 |
|---|---|---|
| Interest income on: | | |
| HTM financial assets | **₱1,699,721,570** | ₱1,747,528,418 |
| Loans and receivables | **1,359,959,116** | 1,345,938,235 |
| AFS financial assets | **238,889,314** | 247,402,403 |
| Others | **3,097,063** | 4,003,663 |
| | **3,301,667,063** | 3,344,872,719 |
| Dividend income | **472,760,891** | 311,412,544 |
| Net trading and realized gains from financial assets at FVPL | **124,909,049** | 155,606,556 |
| Total investment income | **₱3,899,337,003** | ₱3,811,891,819 |

18. **Net Realized Gains - net**

| | **2015** | 2014 |
|---|---|---|
| Disposals of: | | |
| Investment properties | **₱416,190,030** | ₱726,407,921 |
| AFS financial assets | **392,124,114** | 458,131,750 |
| Repossession of properties | **7,892,431** | 307,637 |
| | **₱816,206,575** | ₱1,184,847,308 |

19. **Insurance Benefits Expenses**

| | **2015** | 2014 |
|---|---|---|
| VUL funds allocation | **₱6,217,511,069** | ₱5,115,686,974 |
| Maturities | **3,409,122,372** | 3,223,823,222 |
| Surrenders | **760,003,918** | 1,184,500,287 |
| Death and hospitalization benefits | **1,196,296,709** | 1,115,687,800 |
| Payments on supplementary contracts | **399,267,764** | 589,572,070 |
| Interest on policy and contract funds | **539,033,514** | 362,334,622 |
| Increase in reserve for supplementary contracts | **350,217,561** | 186,644,836 |
| Dividends paid to members (Note 15) | **37,853,900** | 60,977,250 |
| Others | **5,280,047** | 65,505,789 |
| Total gross benefits and claims on insurance contracts | **12,914,586,854** | 11,904,732,850 |
| Reinsurers' share of benefits and claims on insurance contracts | **(13,411,928)** | (45,167,562) |
| Net change in: | | |
| Legal policy reserves | **1,614,603,472** | 1,509,490,348 |
| Reinsurers' share in legal policy reserves | **5,098,195** | (6,194,444) |
| | **₱14,520,876,593** | ₱13,362,861,192 |

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

| | | **2015** | |
|---|---|---|---|
| | **Gross Change in Legal Policy Reserves** | **Reinsurers' Share of Change in Legal Policy Reserves** | **Net** |
| Life insurance contracts | **₱1,030,580,225** | **(5,739,998)** | **₱1,036,320,223** |
| VUL insurance contracts | **584,023,247** | **641,803** | **583,381,444** |
| | **₱1,614,603,472** | **(5,098,195)** | **₱1,619,701,667** |

| | | 2014 | |
|---|---|---|---|
| | Gross Change in Legal Policy Reserves | Reinsurers' Share of Change in Legal Policy Reserves | Net |
| Life insurance contracts | ₱1,523,344,296 | ₱1,611,865 | ₱1,521,732,431 |
| VUL insurance contracts | (13,853,948) | 4,582,579 | (18,436,527) |
| | ₱1,509,490,348 | ₱6,194,444 | ₱1,503,295,904 |

20. **General Insurance Expenses**

| | **2015** | 2014 |
|---|---|---|
| Personnel (Notes 23 and 24) | **₱1,101,664,544** | ₱968,213,059 |
| Depreciation and amortization (Notes 8, 9, and 10) | **244,789,330** | 245,014,335 |
| Marketing, advertising, and promotion | **160,508,979** | 192,079,762 |
| Outside services | **105,965,721** | 74,419,884 |
| Transportation and communication | **56,967,909** | 53,662,819 |
| Repairs and maintenance | **79,175,364** | 43,961,203 |
| Rent (Note 27) | **17,134,633** | 17,511,595 |
| Printing and supplies | **23,751,227** | 17,162,221 |
| Training | **21,696,299** | 13,352,606 |
| Utilities | **11,250,759** | 11,374,995 |
| Others | **83,399,973** | 88,273,843 |
| | **₱1,906,304,738** | ₱1,725,026,322 |

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

21. **Investment Expenses**

| | **2015** | 2014 |
|---|---|---|
| Real estate expenses (Note 8) | **₱202,167,974** | ₱245,231,912 |
| Investment management expenses | **2,559,705** | 3,354,832 |
| | **₱204,727,679** | ₱248,586,744 |

22. **Other Losses**

| | **2015** | 2014 |
|---|---|---|
| Impairment loss on: | | |
| AFS equity securities (Note 6) | **₱24,040,743** | ₱8,584,477 |
| Investment properties (Note 8) | **–** | 461,716 |
| | **₱24,040,743** | ₱9,046,193 |

The recoverable amount of the above investment properties amounted to ₱2,327,600 as of December 31, 2014.

23. **Personnel Expenses**

| | **2015** | 2014 |
|---|---|---|
| Salaries and bonuses | **₱925,474,503** | ₱816,831,684 |
| Employee benefits | **130,922,357** | 112,798,759 |
| Retirement and other employee benefits (Note 24) | **45,267,684** | 38,582,616 |
| | **₱1,101,664,544** | ₱968,213,059 |

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 defined benefit plans of the the Parent Company, I-Care, and Home Credit was as of December 31, 2015.

As of December 31, 2015, all qualified employees of IIC have already resigned and were paid the corresponding retirement benefits.

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:

| | **2015** | | | | |
|---|---|---|---|---|---|
| | **Parent** | **Subsidiaries** | | | |
| | **Company** | **IIC** | **I-Care** | **Home Credit** | **Total** |
| Current service cost | **₱55,058,819** | **₱–** | **₱1,817,789** | **₱684,989** | **₱2,502,778** |
| Net interest cost (income) | **(12,532,587)** | **–** | **214,676** | **23,998** | **238,674** |
| | **₱42,526,232** | **₱–** | **₱2,032,465** | **₱708,987** | **₱2,741,452** |

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Parent | Subsidiaries | | | |
| | Company | IIC | I-Care | Home Credit | Total |
| Current service cost | ₱51,582,178 | ₱46,189 | ₱1,338,095 | ₱826,907 | ₱2,211,191 |
| Net interest cost (income) | (15,386,905) | (50,701) | 104,574 | 122,279 | 176,152 |
| | ₱36,195,273 | (₱4,512) | ₱1,442,669 | ₱949,186 | ₱2,387,343 |

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

| | **2015** | | | | |
|---|---|---|---|---|---|
| | **Parent** | **Subsidiaries** | | | |
| | **Company** | **IIC** | **I-Care** | **Home Credit** | **Total** |
| Present value of defined benefit obligation | **₱934,350,472** | **₱–** | **₱21,642,563** | **₱4,327,086** | **₱25,969,649** |
| Fair value of plan assets | **1,024,894,218** | **1,076,542** | **16,255,222** | **4,669,783** | **22,001,547** |
| Retirement benefits liability (asset) | **(₱90,543,746)** | **(₱1,076,542)** | **₱5,387,341** | **(₱342,697)** | **₱3,968,102** |

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Parent | Subsidiaries | | | |
| | Company | IIC | I-Care | Home Credit | Total |
| Present value of defined benefit obligation | ₱859,976,187 | ₱870,893 | ₱21,012,174 | ₱5,417,481 | ₱27,300,548 |
| Fair value of plan assets | 1,103,800,831 | 1,947,435 | 16,294,024 | 4,874,542 | 23,116,001 |
| Retirement benefits liability (asset) | (₱243,824,644) | (₱1,076,542) | ₱4,718,150 | ₱542,939 | ₱4,184,547 |

The net retirement benefits asset as of December 31, 2015 and 2014 amounted to ₱91,962,985 and ₱244,901,186, respectively. The net retirement liability as of December 31, 2015 and 2014 amounted to ₱5,387,341 and ₱5,261,089, respectively.

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

| | **2015** | | | | |
|---|---|---|---|---|---|
| | **Parent** | **Subsidiaries** | | | |
| | **Company** | **IIC** | **I-Care** | **Home Credit** | **Total** |
| Beginning balances | **(₱119,370,824)** | **(₱30,895)** | **₱5,462,508** | **₱3,476,053** | **₱8,907,666** |
| Actuarial loss (gain) | **97,222,902** | **–** | **(963,449)** | **(1,688,456)** | **(2,651,905)** |
| Losses sustained by plan assets excluding amount included in net interest cost | **13,531,764** | **–** | **800,176** | **93,833** | **894,009** |
| Actuarial loss (gain), gross of deferred income tax consequences | **110,754,666** | **–** | **(163,273)** | **(1,594,623)** | **(1,757,896)** |
| Income tax effect | **(33,226,400)** | **–** | **48,981** | **–** | **48,981** |
| | **77,528,266** | **–** | **(114,292)** | **(1,594,623)** | **(1,708,915)** |
| | **(₱41,842,558)** | **(₱30,895)** | **₱5,348,216** | **₱1,881,430** | **₱7,198,751** |

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Parent | Subsidiaries | | | |
| | Company | IIC | I-Care | Home Credit | Total |
| Beginning balances | (₱117,680,633) | (₱62,207) | ₱2,402,546 | ₱3,882,300 | ₱6,222,639 |
| Actuarial loss (gain) | (20,975,311) | (24,750) | 3,748,773 | (605,228) | 3,118,795 |
| Losses sustained by plan assets excluding amount included in net interest cost | 18,560,753 | 69,481 | 622,602 | 198,981 | 891,064 |
| Actuarial loss (gain), gross of deferred income tax consequences | (2,414,558) | 44,731 | 4,371,375 | (406,247) | 4,009,859 |
| Income tax effect | 724,367 | (13,419) | (1,311,413) | – | (1,324,832) |
| | (1,690,191) | 31,312 | 3,059,962 | (406,247) | 2,685,027 |
| | (₱119,370,824) | (₱30,895) | ₱5,462,508 | ₱3,476,053 | ₱8,907,666 |

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

| | **2015** | | | | |
|---|---|---|---|---|---|
| | **Parent** | **Subsidiaries** | | | |
| | **Company** | **IIC** | **I-Care** | **Home Credit** | **Total** |
| Beginning balances | **(₱243,824,644)** | **(₱1,076,542)** | **₱4,718,150** | **₱542,939** | **₱4,184,547** |
| Pension benefits expense | **42,526,232** | **–** | **2,032,465** | **708,987** | **2,741,452** |
| Actual contribution | **–** | **–** | **(1,200,001)** | **–** | **(1,200,001)** |
| Re-measurements recognized in OCI | **110,754,666** | **–** | **(163,273)** | **(1,594,623)** | **(1,757,896)** |
| Ending balances | **(₱90,543,746)** | **(₱1,076,542)** | **₱5,387,341** | **(₱342,697)** | **₱3,968,102** |

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Parent | Subsidiaries | | | |
| | Company | IIC | I-Care | Home Credit | Total |
| Beginning balances | (₱277,605,359) | (₱1,116,761) | ₱2,104,106 | ₱2,785,414 | ₱3,772,759 |
| Pension benefits expense | 36,195,273 | (4,512) | 1,442,669 | 949,186 | 2,387,343 |
| Actual contribution | – | – | (3,200,000) | (2,785,414) | (5,985,414) |
| Re-measurements recognized in OCI | (2,414,558) | 44,731 | 4,371,375 | (406,247) | 4,009,859 |
| Ending balances | (₱243,824,644) | (₱1,076,542) | ₱4,718,150 | ₱542,939 | ₱4,184,547 |

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

| | **2015** | | | | |
|---|---|---|---|---|---|
| | **Parent** | **Subsidiaries** | | | |
| | **Company** | **IIC** | **I-Care** | **Home Credit** | **Total** |
| Beginning balances | **₱859,976,187** | **₱870,893** | **₱21,012,174** | **₱5,417,481** | **₱27,300,548** |
| Current service cost | **55,058,819** | **–** | **1,817,789** | **684,989** | **2,502,778** |
| Interest cost | **44,202,776** | **–** | **956,054** | **239,453** | **1,195,507** |
| Benefits paid | **(122,110,212)** | **(870,893)** | **(1,180,005)** | **(326,381)** | **(2,377,279)** |
| Actuarial loss (gain) due to: | | | | | |
| Changes in financial assumptions | **24,357,794** | **–** | **(1,465,539)** | **(1,461,784)** | **(2,927,323)** |
| Experience Adjustments | **72,865,108** | **–** | **502,090** | **(226,672)** | **275,418** |
| Ending balances | **₱934,350,472** | **₱–** | **₱21,642,563** | **₱4,327,086** | **₱25,969,649** |

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Parent | Subsidiaries | | | |
| | Company | IIC | I-Care | Home Credit | Total |
| Beginning balances | ₱860,704,354 | ₱812,564 | ₱15,449,676 | ₱8,936,342 | ₱25,198,582 |
| Current service cost | 51,582,178 | 46,189 | 1,338,095 | 826,907 | 2,211,191 |
| Interest cost | 40,611,779 | 36,890 | 767,849 | 392,305 | 1,197,044 |
| Benefits paid | (71,946,813) | – | (292,219) | (4,132,845) | (4,425,064) |
| Actuarial loss (gain) due to: | | | | | |
| Changes in financial assumptions | (4,803,100) | (24,750) | 3,468,237 | 631,706 | 4,075,193 |
| Experience Adjustments | (16,172,211) | – | 280,536 | (1,236,934) | (956,398) |
| Ending balances | ₱859,976,187 | ₱870,893 | ₱21,012,174 | ₱5,417,481 | ₱27,300,548 |

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

| | **2015** | | | | |
|---|---|---|---|---|---|
| | **Parent** | **Subsidiaries** | | | |
| | **Company** | **IIC** | **I-Care** | **Home Credit** | **Total** |
| Beginning balances | **₱1,103,800,831** | **₱1,947,435** | **₱16,294,024** | **₱4,874,542** | **₱23,116,001** |
| Interest income | **56,735,363** | **–** | **741,378** | **215,455** | **956,833** |
| Actual return (loss) excluding amount recognized in net interest cost | **(13,531,764)** | **–** | **(800,176)** | **(93,833)** | **(894,009)** |
| Actual contribution | **–** | **–** | **1,200,001** | **–** | **1,200,001** |
| Benefits paid | **(122,110,212)** | **(870,893)** | **(1,180,005)** | **(326,381)** | **(2,377,279)** |
| Ending balances | **₱1,024,894,218** | **₱1,076,542** | **₱16,255,222** | **₱4,669,783** | **₱22,001,547** |

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Parent | Subsidiaries | | | |
| | Company | IIC | I-Care | Home Credit | Total |
| Beginning balances | ₱1,138,309,713 | ₱1,929,325 | ₱13,345,570 | ₱6,150,928 | ₱21,425,823 |
| Interest income | 55,998,684 | 87,591 | 663,275 | 270,026 | 1,020,892 |
| Actual return (loss) excluding amount recognized in net interest cost | (18,560,753) | (69,481) | (622,602) | (198,981) | (891,064) |
| Actual contribution | – | – | 3,200,000 | 2,785,414 | 5,985,414 |
| Benefits paid | (71,946,813) | – | (292,219) | (4,132,845) | (4,425,064) |
| Ending balances | ₱1,103,800,831 | ₱1,947,435 | ₱16,294,024 | ₱4,874,542 | ₱23,116,001 |

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:

| | 2015 | 2014 |
|---|---|---|
| Loans and receivable: | | |
| Cash and cash equivalents | **8%** | 7% |
| Receivables | **13%** | 12% |
| | **21%** | 19% |
| Equity securities: | | |
| Food, beverage, and tobacco | **7%** | 8% |
| Telecommunications | **6%** | 7% |
| Others | **2%** | 2% |
| | **15%** | 17% |
| Debt securities: | | |
| Government debt securities | **50%** | 50% |
| Investment grade | **14%** | 14% |
| | **64%** | 64% |
| Fair value of plan assets | **100%** | 100% |

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:

| | **2015** | | |
|---|---|---|---|
| | **Subsidiaries** | | |
| | **IIC** | **I-Care** | **Home Credit** |
| Cash and cash equivalents | **86.73%** | **99.00%** | **54.75%** |
| Investments in debt and equity securities | **13.27%** | **1.00%** | **45.25%** |
| | **100.00%** | **100.00%** | **100.00%** |

| | 2014 | | |
|---|---|---|---|
| | Subsidiaries | | |
| | IIC | I-Care | Home Credit |
| Cash and cash equivalents | 85.91% | 97.40% | 59.05% |
| Investments in debt and equity securities | 14.09% | 2.20% | 40.95% |
| Receivables | 0.00% | 0.40% | 0.00% |
| | 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 (except in certain circumstances as approved by the BOT).

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

| | **2015** | | | |
|---|---|---|---|---|
| | **Parent** | **Subsidiaries** | | |
| | **Company** | **IIC** | **I-Care** | **Home Credit** |
| Discount rate* | **4.92%** | **4.54%** | **5.05%** | **4.42%** |
| Future salary increases | **5.00%** | **4.00%** | **5.00%** | **5.00%** |
| Mortality rate | **1994 GAM**** | **1994 GAM**** | **1994 GAMT**** | **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** |

| | 2014 | | | |
|---|---|---|---|---|
| | Parent | Subsidiaries | | |
| | Company | IIC | I-Care | Home Credit |
| Discount rate* | 5.14% | 4.54% | 4.97% | 4.39% |
| 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 |

** Based on PDEX PDST-R2 using various tenors as of December 29, 2015 and December 27, 2014, respectively.*

***Group Annuity Mortality*

The discount rate and salary increase rate were identified as significant actuarial assumptions. The sensitivity analysis below has been determined based on methods that extrapolate the impact in defined benefit obligation as of December 31 as a result of reasonably possible changes in each significant assumption, assuming all other assumptions were held constant:

December 31, 2015:

| | **Parent** | **Subsidiaries** | |
|---|---|---|---|
| | **Company** | **I-Care** | **Home Credit** |
| Discount rate: | | | |
| Increase of 1% | **(₱38,435,964)** | **(₱2,574,155)** | **(₱471,855)** |
| Decrease of 1% | **44,404,707** | **3,070,905** | **552,665** |
| Salary increase rate: | | | |
| Increase of 1% | **27,994,302** | **3,036,871** | **557,957** |
| Decrease of 1% | **(25,559,694)** | **(2,603,177)** | **(486,724)** |

December 31, 2014:

| | Parent | Subsidiaries | |
|---|---|---|---|
| | Company | I-Care | Home Credit |
| Discount rate: | | | |
| Increase of 1% | (₱73,181,400) | (₱2,516,806) | (₱647,352) |
| Decrease of 1% | 87,762,100 | 3,020,304 | 769,198 |
| Salary increase rate: | | | |
| Increase of 1% | 82,356,600 | 2,969,564 | 755,838 |
| Decrease of 1% | (48,724,187) | (2,531,627) | (650,092) |

Management believes that the impact of reasonably possible changes in the discount rates and future salary increases for IIC is not material to the consolidated financial statements as of December 31, 2015 and 2014.

Shown below is the maturity analysis of the undiscounted benefit payments as of:

December 31, 2015:

| | **Parent Company** | | |
|---|---|---|---|
| | **Normal Retirement** | **Other Than Normal Retirement** | **Total** |
| **Less than 1 year** | **₱4,726,267** | **₱33,355,329** | **₱38,081,596** |
| **More than 1 year to 5 years** | **102,253,403** | **148,156,784** | **250,410,187** |
| **More than 5 years to 10 years** | **370,224,201** | **206,942,199** | **577,166,400** |
| **More than 10 years** | **2,820,929,700** | **781,828,176** | **3,602,757,876** |

| | Subsidiaries | | | |
|---|---|---|---|---|
| | **IIC** | **I-Care** | **Home Credit** | **Total** |
| **Less than 1 year** | **₱–** | **₱1,061,197** | **₱154,545** | **₱1,215,742** |
| **More than 1 year to 5 years** | **–** | **6,445,049** | **618,356** | **7,063,405** |
| **More than 5 years to 10 years** | **–** | **4,542,618** | **1,793,304** | **6,335,922** |
| **More than 10 years** | **–** | **52,694,491** | **10,686,564** | **63,381,055** |

December 31, 2014:

| | Parent Company | | |
|---|---|---|---|
| | Normal Retirement | Other Than Normal Retirement | Total |
| Less than 1 year | ₱– | ₱31,240,736 | ₱31,240,736 |
| More than 1 year to 5 years | 131,076,332 | 176,942,401 | 308,018,733 |
| More than 5 years to 10 years | 342,688,564 | 199,448,340 | 542,136,904 |
| More than 10 years | 2,592,737,538 | 708,141,118 | 3,300,878,656 |

| | Subsidiaries | | | |
|---|---|---|---|---|
| | IIC | I-Care | Home Credit | Total |
| Less than 1 year | ₱870,893 | ₱968,656 | ₱135,110 | ₱1,974,659 |
| More than 1 year to 5 years | – | 8,342,417 | 650,707 | 8,993,124 |
| More than 5 years to 10 years | – | 4,295,708 | 2,576,170 | 6,871,878 |
| More than 10 years | – | 34,245,067 | 13,444,898 | 47,689,965 |

The Group expects to contribute ₱61,588,611 to its defined benefit plan in 2016.

## 25. **Income Taxes**

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

| | **2015** | 2014 |
|---|---|---|
| Current: | | |
| Final tax | **₱376,870,772** | ₱376,073,659 |
| RCIT | **12,783,652** | 2,042,336 |
| MCIT | **16,229** | 24,114,220 |
| | **389,670,653** | 402,230,215 |
| Deferred | **(66,872,523)** | (150,528,882) |
| | **₱322,798,130** | ₱251,701,333 |

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

Deferred Income Tax Assets

| | **2015** | 2014 |
|---|---|---|
| Deferred income tax assets - tax effects of: | | |
| Allowance for impairment on loans and receivables | **₱375,397** | ₱1,572,424 |
| Retirement and other long-term employee benefits payable | **1,616,202** | 1,415,445 |
| Unamortized past service cost contributions | **821,170** | 962,004 |
| Accrued expenses not yet deductible | **7,578,162** | 892,454 |
| Total deferred income tax assets | **₱10,390,931** | ₱4,842,327 |

Deferred Income Tax Liabilities - Net

| | **2015** | 2014 |
|---|---|---|
| Deferred income tax liabilities - tax effects of: | | |
| Accrued expenses not yet deductible | **₱303,101,264** | ₱266,153,397 |
| Unrealized foreign exchange loss | **168,826,608** | 224,573,373 |
| Unamortized past service cost contributions | **14,752,227** | 19,833,069 |
| Allowance for impairment on loans and receivables | **7,671,733** | 9,327,518 |
| Impairment of investment properties and property and equipment | **6,843,543** | 6,843,543 |
| Total deferred income tax assets | **501,195,375** | 526,730,900 |
| Deferred income tax liabilities - tax effects of: | | |
| Revaluation increment in investment properties | **(1,124,912,974)** | (1,194,517,356) |
| Retirement benefits asset | **(27,163,124)** | (73,470,356) |
| Reserve for fluctuation in AFS financial assets | **(110,768,124)** | (47,842,562) |
| Accrued rent income | **(9,979,863)** | (13,063,946) |
| Unrealized gain on trading debt securities | – | (156,212) |
| Unrealized foreign exchange gain | **(35,840)** | (3,391) |
| Total deferred income tax liabilities | **(1,272,859,925)** | (1,329,053,823) |
| Net deferred income tax liabilities | **(₱771,664,550)** | (₱802,322,923) |

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:

| | **2015** | 2014 |
|---|---|---|
| NOLCO | **₱3,050,821,071** | ₱2,405,204,151 |
| Excess of MCIT over RCIT | **23,392,424** | 30,177,236 |

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

| Year Incurred | Expiration | January 1, 2015 | Incurred | Applied | Expired | December 31, 2015 |
|---|---|---|---|---|---|---|
| 2012 | 2015 | ₱717,803,423 | ₱– | ₱– | (₱717,803,423) | ₱– |
| 2013 | 2016 | 1,682,604,967 | – | – | – | 1,682,604,967 |
| 2014 | 2017 | 4,795,761 | – | (263,857) | – | 4,531,904 |
| 2015 | 2018 | – | 1,363,684,200 | – | – | 1,363,684,200 |
| | | ₱2,405,204,151 | ₱1,363,684,200 | (₱263,857) | (₱717,803,423) | ₱3,050,821,071 |

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

| Year Incurred | Expiration | January 1, 2015 | Incurred | Applied | Expired | December 31, 2015 |
|---|---|---|---|---|---|---|
| 2012 | 2015 | ₱5,647,226 | ₱– | ₱– | (₱5,647,226) | ₱– |
| 2013 | 2016 | 415,789 | – | – | – | 415,789 |
| 2014 | 2017 | 24,114,221 | – | (1,137,586) | – | 22,976,635 |
| | | ₱30,177,236 | ₱– | (₱1,137,586) | (₱5,647,226) | ₱23,392,424 |

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:

| | **2015** | 2014 |
|---|---|---|
| Provision for income tax at statutory income tax rates | **₱627,527,755** | ₱960,197,087 |
| Adjustments for: | | |
| Equity in net earnings of an associate | **(221,834,024)** | (313,748,088) |
| Interests and dividends subjected to final tax at lower rate | **(323,073,181)** | (274,718,661) |
| Gain on sale of investments in AFS financial assets - net | **(117,637,234)** | (137,439,525) |
| Movement in NOLCO and excess of MCIT over RCIT with no deferred tax set up and derecognition of deferred tax on NOLCO | **409,105,260** | 86,010,130 |
| Nontaxable income | **(75,304,142)** | (77,213,635) |
| Nondeductible expenses | **22,059,006** | 11,248,203 |
| Other income exempt from income tax | **(5,224,532)** | (5,209,521) |
| Impairment losses on properties and AFS financial assets | **7,179,222** | 2,575,343 |
| Provision for income tax | **₱322,798,130** | ₱251,701,333 |

## 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, 2015 and 2014 are as follows:

| | | | Outstanding balance | | | |
|---|---|---|---|---|---|---|
| Category | Year | Amount of transactions during the year | Due from | Due to | Cash and investment accounts | Terms and condition |
| **Subsidiaries*** | | | | | | |
| Common overhead | **2015** | **₱15,611,193** | **₱5,704,561** | **₱–** | **₱–** | 30-day; noninterest-bearing; settled in cash; |
| | 2014 | 24,532,706 | – | – | – | |
| Rentals | **2015** | **8,498,715** | **282,253** | **86** | **–** | One to three-year lease contract; 30-day; noninterest-bearing; settled in cash; unsecured, unguaranteed, no impairment |
| | 2014 | 9,816,106 | 376,392 | – | – | |

(Forward)

| Category | Year | Amount of transactions during the year | Outstanding balance: Due from | Outstanding balance: Due to | Outstanding balance: Cash and investment accounts | Terms and condition |
|---|---|---|---|---|---|---|
| Dividends | **2015** | **₱47,800,000** | **₱1,000,000** | **₱–** | **₱–** | noninterest-bearing; settled in cash; unguaranteed; unsecured; no impairment |
| | 2014 | 4,180,000 | 100,000 | – | – | |
| Insurance revenue | **2015** | **2,652,488** | **–** | **–** | **–** | |
| | 2014 | 2,338,022 | – | – | – | |
| Leasehold Improvement | **2015** | **3,913,100** | **3,913,100** | **–** | **–** | 30-day; noninterest-bearing; settled in cash; unguaranteed; unsecured; no impairment |
| | 2014 | – | – | – | – | |
| **Associates** | | | | | | |
| MIIC | | | | | | |
| Dividend income | **2015** | **–** | **–** | **–** | **–** | noninterest-bearing; settled in cash; unguaranteed; unsecured; no impairment |
| | 2014 | 5,625,000 | 5,625,000 | – | – | |
| Rental income | **2015** | **5,043,709** | **152,974** | **–** | **–** | 30-day; noninterest-bearing; unsecured; unguaranteed; settled in cash |
| | 2014 | 6,793,135 | – | 332,451 | – | |
| Rental deposits | **2015** | **–** | **7,438** | **–** | **–** | noninterest-bearing; settled in cash; unguaranteed; unsecured; no impairment |
| | 2014 | 145,712 | 7,438 | – | – | |
| Insurance revenue | **2015** | **55,958,576** | **–** | **–** | **–** | |
| | 2014 | 114,453,931 | – | – | – | |
| Director's Fee | **2015** | **1,207,440** | **–** | **–** | **–** | |
| | 2014 | 2,311,314 | – | – | – | |
| UBP | | | | | | |
| Dividend income | **2015** | **360,354,994** | **–** | **–** | **–** | |
| | 2014 | 457,593,623 | – | – | – | |
| Interest income | **2015** | **22,427,346** | **1,836,458** | **–** | **–** | noninterest bearing; settled in cash; unguaranteed; unsecured, no impairment |
| | 2014 | 35,890,481 | 1,836,458 | – | – | |
| Saving and current accounts | **2015** | **(795,845,622)** | **–** | **–** | **2,153,050,894** | interest-bearing, unguaranteed; unsecured; unrestricted |
| | 2014 | 2,205,581,691 | – | – | 2,948,896,517 | |
| HTM financial assets | **2015** | **–** | **–** | **–** | **–** | at 5.375% interest payable quarterly, 11-year note, unguaranteed; unsecured; no impairment |
| | 2014 | 300,000,000 | – | – | 300,000,000 | |
| Sale of investment properties | **2015** | **–** | **–** | **–** | **–** | |
| | 2014 | 22,848,000 | – | – | – | |
| Director's Fee | **2015** | **4,828,000** | **–** | **–** | **–** | |
| | 2014 | 1,600,000 | – | – | – | |
| **Retirement Plan** | | | | | | |
| Advances | **2015** | **122,110,212** | **–** | **–** | **–** | |
| | 2014 | 71,946,813 | – | – | – | |
| **Total** | **2015** | | **₱12,896,784** | **₱86** | **₱2,153,050,894** | |
| Total | 2014 | | ₱7,945,288 | ₱332,451 | ₱3,248,896,517 | |

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

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:

| | 2015 | 2014 |
|---|---|---|
| Savings and current accounts (Note 4) | **₱291,780,173** | ₱572,429,150 |
| Special savings accounts (Note 4) | **1,861,270,721** | 2,376,467,367 |
| | **₱2,153,050,894** | ₱2,948,896,517 |

c. In November 2014, the Group availed of the subordinated notes issued by UBP. These investments, classified as HTM financial assets, earned interests amounting to ₱1,836,458.

d. In June 2014, the Group sold certain real properties to UBP at a total sales price of ₱22,848,000. The related gain on sale amounted to ₱3,792,000.

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

| | 2015 | 2014 |
|---|---|---|
| Salaries and other short-term employee benefits | **₱319,877,268** | ₱297,778,966 |
| Post-employment and other long term benefits | **26,280,406** | 24,501,059 |
| | **₱346,157,674** | ₱322,280,025 |

## 27. 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:

| | 2015 | 2014 |
|---|---|---|
| Within one year | **₱13,394,538** | ₱13,934,147 |
| After one year but not more than five years | **27,050,879** | 18,463,042 |
| | **₱40,445,417** | ₱32,397,189 |

Rent expense recognized in 2015 and 2014 amounted to ₱17,134,633 and ₱17,511,595, respectively (Note 20).

b. Operating lease commitments - the Group as lessor

The future minimum rentals receivable under noncancelable operating leases follows:

| | 2015 | 2014 |
|---|---|---|
| Within one year | **₱206,969,086** | ₱218,978,262 |
| After one year but not more than five years | **176,959,169** | 183,867,245 |
| | **₱383,928,255** | ₱402,845,507 |

Rent income recognized in 2015 and 2014 amounted to ₱361,535,040 and ₱411,665,996, respectively (Note 8).

28. **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 (i.e., principal place of business). The Parent Company's subsidiaries are engaged in the following activities:

| | Date of Incorporation | Nature of Business |
|---|---|---|
| Subsidiaries: | | |
| IIC | September 5, 1989 | Investment banking in the areas of corporate finance, money market, and securities underwriting |
| • IPI | May 31, 1994 | Development and sale of real estate |
| • IPVI | May 31, 1994 | *-do-* |
| I-Care | October 14, 2991 | Provision of medical and managed care services and facilities to its members |
| ILMADECO | 1987 | Holding organization of ILACGA |
| • ILACGA | November 11, 2003 | Provision of nonlife general insurance |
| ILPHI | March 23, 1998 | Development and sale of real estate |
| Home Credit | April 1, 1932 | 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 33). 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, 2015 and 2014.

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, 2015 and 2014.

The subsidiaries have no contingent liabilities (other than disclosed in Note 35) or capital commitments as of December 31, 2015 and 2014 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, 2015 and 2014.

The Group's non-controlling interest as of December 31 pertains to the preferred and common shareholders of Home Credit as follows:

| | **2015** | 2014 |
|---|---|---|
| Preferred shareholders' interest: | | |
| Beginning balance | **₱170,558,522** | ₱174,512,842 |
| Issuances during the year | **74,758,751** | 83,141,157 |
| Redemption during the year | **(93,681,831)** | (87,095,477) |
| | **151,635,442** | 170,558,522 |
| Common shareholders' interest: | | |
| Beginning balance | **18,630** | 20,390 |
| Share in the total comprehensive income during the year | **(3,327)** | (1,760) |
| | **15,303** | 18,630 |
| | **₱151,650,745** | ₱170,577,152 |

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.

Dividends declared to the preferred shareholders of Home credit amounted to ₱18,443,917 and ₱13,619,756 in 2015 and 2014, respectively.

The summarized financial information, before intercompany eliminations, of Home Credit as of and for the years ended December 31, 2015, 2014, and 2013 follows:

| *Financial position* | **As of December 31, 2015** | As of December 31, 2014 | As of December 31, 2013 |
|---|---|---|---|
| Cash and cash equivalents | **₱44,682,193** | ₱66,181,071 | ₱82,616,239 |
| Loans and receivables | **100,903,156** | 111,077,095 | 110,400,059 |
| Available-for-sale investments | **23,820,642** | 27,716,901 | 29,633,570 |
| Property and equipment | **3,541,857** | 3,785,186 | 4,194,024 |
| Investment properties | **10,467,342** | 16,984,332 | 22,845,709 |
| Other assets | **2,411,490** | 1,664,077 | 1,522,715 |
| **Total assets** | **185,826,680** | 227,408,662 | 251,212,316 |
| Accounts payable and accrued expenses | **27004385** | 21,016,923 | 21,908,793 |
| Redeemable preferred capital contributions | **–** | 2,228,043 | 7,772,912 |
| **Total liabilities** | **27,004,385** | 23,244,966 | 29,681,705 |
| **Total equity** | **₱158,822,295** | ₱204,163,696 | ₱221,530,611 |
| Attributable to the Group | **₱7,171,550** | ₱33,586,544 | ₱46,997,379 |
| Attributable to NCI | **₱151,650,745** | ₱170,577,152 | ₱174,533,232 |

| *Financial performance* | **Years Ended December 31** | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| Interest income | **₱13,259,767** | ₱14,877,772 | ₱16,657,567 |
| Interest expense | **(378,547)** | (1,104,619) | (993,892) |
| **Net interest income** | **12,881,220** | 13,773,153 | 15,663,675 |
| Service fees | **10,321,980** | 8,205,526 | 14,255,594 |
| Miscellaneous Income | **5,903,732** | 6,338,053 | 9,928,231 |
| **Total operating income** | **29,106,932** | 28,316,732 | 39,847,500 |
| Operating Expenses | **(39,232,407)** | (33,708,357) | (37,717,622) |
| **Net income*** | **(10,125,475)** | (5,391,625) | 2,129,878 |
| **Other comprehensive income (loss)** | **1,808,366** | 989,577 | (2,902,063) |
| **Total comprehensive loss** | **(₱8,317,109)** | (₱4,402,048) | (₱772,185) |
| Attributable to the Group | **(₱8,313,782)** | (₱4,400,288) | (₱771,876) |
| Attributable to NCI | **(₱3,327)** | (₱1,760) | (₱309) |

**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** | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| Cash provided by (used in) operating activities | **₱5,271,233** | (₱6,578,803) | (₱11,113,185) |
| Cash provided by investing activities | **12,824,920** | 8,653,369 | 362,507 |
| Cash provided by (used in) financing activities | **(39,595,031)** | (18,509,736) | 15,188,612 |
| **Net increase in cash and cash equivalents** | **(₱21,498,878)** | (₱16,435,170) | ₱4,437,934 |

## 29. Other Income

Other income includes management fees, amendment fees, cancellation fees, handling fees, guarantee fees, and reinsurance fees.

## 30. Financial Instruments

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

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **FINANCIAL ASSETS** | | | | |
| **Financial Assets at FVPL** | | | | |
| Equity securities - quoted | **₱4,012,616,850** | **₱4,012,616,850** | ₱3,964,433,829 | ₱3,964,433,829 |
| Under separate fund: | | | | |
| Traditional VULs: | | | | |
| Quoted equity securities | **12,910,091,156** | **12,910,091,156** | 9,762,857,565 | 9,762,857,565 |
| Quoted debt securities: | | | | |
| Government: | | | | |
| Local currency | **1,109,100,790** | **1,109,100,790** | 1,048,681,834 | 1,048,681,834 |
| Foreign currency | **1,521,072,701** | **1,521,072,701** | 1,012,097,699 | 1,012,097,699 |
| Corporate: | | | | |
| Local currency | **153,053,669** | **153,053,669** | 228,724,590 | 228,724,590 |
| Foreign currency | **128,636,869** | **128,636,869** | 120,774,918 | 120,774,918 |
| Structured VULs*: | | | | |
| Local currency | **1,000,320,732** | **1,000,320,732** | 1,041,505,575 | 1,041,505,575 |
| Foreign currency | **1,112,094,805** | **1,112,094,805** | 2,141,998,908 | 2,141,998,908 |
| | **21,946,987,572** | **21,946,987,572** | 19,321,074,918 | 19,321,074,918 |
| **AFS Financial Assets** | | | | |
| Equity securities: | | | | |
| Quoted | **5,882,205,420** | **5,882,205,420** | 6,776,932,748 | 6,776,932,748 |
| Unquoted** | **7,031,162,253** | **7,031,162,253** | 1,937,812,505 | 1,937,812,505 |
| Debt securities: | | | | |
| Quoted: | | | | |
| Government: | | | | |
| Local currency | **4,153,283,572** | **4,153,283,572** | 3,626,209,749 | 3,626,209,749 |
| Foreign currency | **997,540,159** | **997,540,159** | 972,035,961 | 972,035,961 |
| Corporate: | | | | |
| Local currency | **998,815,544** | **998,815,544** | 660,187,756 | 660,187,756 |
| Foreign currency | **32,645,009** | **32,645,009** | 31,960,406 | 31,960,406 |
| | **19,095,651,957** | **19,095,651,957** | 14,005,139,125 | 14,005,139,125 |
| **HTM Financial Assets** | | | | |
| Government: | | | | |
| Local currency | **14,931,544,158** | **18,013,819,276** | 15,433,695,199 | 19,951,839,339 |
| Foreign currency | **676,267,838** | **703,145,793** | 1,063,606,835 | 1,139,891,076 |
| Corporate: | | | | |
| Local currency | **8,145,482,907** | **8,792,827,388** | 8,154,556,207 | 8,048,828,958 |
| Foreign currency | **258,127,845** | **298,220,265** | 243,332,957 | 249,775,648 |
| | **24,011,422,748** | **27,808,012,722** | 24,895,191,198 | 29,390,335,021 |
| **Loans and Receivables** | | | | |
| Term loans | **8,229,002,353** | **9,118,386,105** | 8,803,917,941 | 10,170,109,379 |
| Housing loans | **153,032,134** | **159,163,607** | 159,738,546 | 214,445,118 |
| Car financing loans | **38,964,632** | **39,539,242** | 41,939,549 | 42,522,830 |
| | **8,420,999,119** | **9,317,088,954** | 9,005,596,036 | 10,427,077,327 |
| **TOTAL FINANCIAL ASSETS** | **₱73,475,061,396** | **₱78,167,741,205** | ₱67,227,001,277 | ₱73,143,626,391 |

(Forward)

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **FINANCIAL LIABILITIES** | | | | |
| **Insurance Liabilities** | | | | |
| Legal policy reserves | **₱52,677,297,519** | **₱40,996,461,065** | ₱51,057,595,852 | ₱38,750,620,685 |
| **Derivative Financial Instrument:** | | | | |
| Derivative liability | **25,859,311** | **25,859,311** | 8,732,243 | 8,732,243 |
| **TOTAL FINANCIAL LIABILITIES** | **₱52,703,156,830** | **₱41,022,320,376** | ₱51,066,328,095 | ₱38,759,352,928 |

**With corresponding liabilities that are equivalent to the fair value of these assets.*

***Includes club and other equity shares carried at cost.*

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:
  - 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 2.81% to 4.55% and 2.55% to 4.08% in 2015 and 2014, respectively.

*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 12% to 15% in 2015 and 9% to 11% in 2014. 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 CCS 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.

## 31. 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 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:

| | 2015 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **FINANCIAL ASSETS MEASURED AT FAIR VALUE** | | | | |
| **Financial Assets at FVPL** | | | | |
| Equity securities - quoted | **₱4,012,616,850** | **₱–** | **₱–** | **₱4,012,616,850** |
| Under separate fund*: | | | | |
| Traditional VULs: | | | | |
| Quoted equity securities | **12,910,091,156** | **–** | **–** | **12,910,091,156** |
| Quoted debt securities: | | | | |
| Government: | | | | |
| Local currency | **1,109,100,790** | **–** | **–** | **1,109,100,790** |
| Foreign currency | **1,521,072,701** | **–** | **–** | **1,521,072,701** |
| Corporate: | | | | |
| Local currency | **153,053,669** | **–** | **–** | **153,053,669** |
| Foreign currency | **128,636,869** | **–** | **–** | **128,636,869** |
| Structured VULs**: | | | | |
| Local currency | **–** | **–** | **1,000,320,732** | **1,000,320,732** |
| Foreign currency | **–** | **–** | **1,112,094,805** | **1,112,094,805** |
| | **19,834,572,035** | **–** | **2,112,415,537** | **21,946,987,572** |
| **AFS Financial Assets** | | | | |
| Equity securities: | | | | |
| Quoted | **5,882,205,420** | **–** | **–** | **5,882,205,420** |
| Unquoted*** | **–** | **6,201,580,900** | **808,132,792** | **7,009,713,692** |
| Debt securities: | | | | |
| Quoted: | | | | |
| Government: | | | | |
| Local currency | **4,115,598,746** | **37,684,826** | **–** | **4,153,283,572** |
| Foreign currency | **997,540,159** | **–** | **–** | **997,540,159** |

(Forward)

| | 2015 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Corporate: | | | | |
| Local currency | **₱998,815,544** | **₱–** | **₱–** | **₱998,815,544** |
| Foreign currency | **32,645,009** | **–** | **–** | **32,645,009** |
| | **₱12,026,804,878** | **₱6,239,265,726** | **₱808,132,792** | **₱19,074,203,396** |
| **FINANCIAL ASSETS FOR WHICH FAIR VALUE IS DISCLOSED** | | | | |
| **HTM Financial Assets**: | | | | |
| Government: | | | | |
| Local currency | **2,329,257,582** | **15,684,561,694** | **–** | **18,013,819,276** |
| Foreign currency | **703,145,793** | **–** | **–** | **703,145,793** |
| Corporate: | | | | |
| Local currency | **8,792,827,388** | **–** | **–** | **8,792,827,388** |
| Foreign currency | **298,220,265** | **–** | **–** | **298,220,265** |
| | **12,123,451,028** | **15,684,561,694** | **–** | **27,808,012,722** |
| **Loans and receivable**: | | | | |
| Term loans | **–** | **–** | **9,118,386,105** | **9,118,386,105** |
| Housing loans | **–** | **159,163,607** | **–** | **159,163,607** |
| Car financing loans | **–** | **39,539,242** | **–** | **39,539,242** |
| | **–** | **198,702,849** | **9,118,386,105** | **9,317,088,954** |
| **TOTAL FINANCIAL ASSETS** | **₱43,984,827,941** | **₱22,122,530,269** | **₱12,038,934,434** | **₱78,146,292,644** |
| | | | | |
| **FINANCIAL LIABILITIES** | | | | |
| **Derivative Financial Instrument:** | | | | |
| Derivative liability | **₱–** | **₱25,859,311** | **₱–** | **₱25,859,311** |

**Excluding cash and cash equivalents, other receivables, and other payables.*
***With corresponding liabilities that are equivalent to the fair value of these assets.*
****Excluding club and other equity shares carried at cost.*

| | 2014 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **FINANCIAL ASSETS MEASURED AT FAIR VALUE** | | | | |
| **Financial Assets at FVPL** | | | | |
| Equity securities - quoted | ₱3,964,433,829 | ₱– | ₱– | ₱3,964,433,829 |
| Under separate fund*: | | | | |
| Traditional VULs: | | | | |
| Quoted equity securities | 9,762,857,565 | – | – | 9,762,857,565 |
| Quoted debt securities: | | | | |
| Government: | | | | |
| Local currency | 1,048,681,834 | – | – | 1,048,681,834 |
| Foreign currency | 1,012,097,699 | – | – | 1,012,097,699 |
| Corporate: | | | | |
| Local currency | 228,724,590 | – | – | 228,724,590 |
| Foreign currency | 120,774,918 | – | – | 120,774,918 |
| Structured VULs**: | | | | |
| Local currency | – | – | 1,041,505,575 | 1,041,505,575 |
| Foreign currency | – | – | 2,141,998,908 | 2,141,998,908 |
| | 16,137,570,435 | – | 3,183,504,483 | 19,321,074,918 |
| **AFS Financial Assets** | | | | |
| Equity securities: | | | | |
| Quoted | 6,776,932,748 | – | – | 6,776,932,748 |
| Unquoted*** | – | – | 1,916,163,944 | 1,916,163,944 |

(Forward)

| | 2014 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Debt securities: | | | | |
| Quoted: | | | | |
| Government: | | | | |
| Local currency | ₱3,585,135,477 | ₱41,074,272 | ₱– | ₱3,626,209,749 |
| Foreign currency | 972,035,961 | – | – | 972,035,961 |
| Corporate: | | | | |
| Local currency | 660,187,756 | – | – | 660,187,756 |
| Foreign currency | 31,960,406 | – | – | 31,960,406 |
| | 12,026,252,348 | 41,074,272 | 1,916,163,944 | 13,983,490,564 |
| **FINANCIAL ASSETS FOR WHICH FAIR VALUE IS DISCLOSED** | | | | |
| **HTM Financial Assets**: | | | | |
| Government: | | | | |
| Local currency | 3,901,053,054 | 16,050,786,285 | – | 19,951,839,339 |
| Foreign currency | 1,139,891,076 | – | – | 1,139,891,076 |
| Corporate: | | | | |
| Local currency | 8,048,828,958 | – | – | 8,048,828,958 |
| Foreign currency | 249,775,648 | – | – | 249,775,648 |
| | 13,339,548,736 | 16,050,786,285 | – | 29,390,335,021 |
| **Loans and Receivables** | | | | |
| Term loans | – | – | 10,170,109,379 | 10,170,109,379 |
| Housing loans | – | 214,445,118 | – | 214,445,118 |
| Car financing loans | – | 42,522,830 | – | 42,522,830 |
| | – | 256,967,948 | 10,170,109,379 | 10,427,077,327 |
| **TOTAL FINANCIAL ASSETS** | ₱41,503,371,519 | ₱16,348,828,505 | ₱15,269,777,806 | ₱73,121,977,830 |
| **FINANCIAL LIABILITIES** | | | | |
| **Derivative Financial Instrument:** | | | | |
| Derivative liability | ₱– | ₱8,732,243 | ₱– | ₱8,732,243 |

**Excluding cash and cash equivalents, other receivables, and other payables.*
***With corresponding liabilities that are equivalent to the fair value of these assets.*
****Excluding club and other equity shares carried at cost.*

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:

| | **2015** | 2014 |
|---|---|---|
| AFS financial assets: | | |
| Beginning balance | **₱1,916,163,944** | ₱4,641,162,487 |
| Acquisition | **3,507,524,060** | 209,820,000 |
| Fair value gain (loss) recognized through OCI | **1,586,025,688** | (3,424,736,843) |
| Transfer from (to) Level 2 fair value hierarchy | **(6,201,580,900)** | 489,918,300 |
| Ending balance | **₱808,132,792** | ₱1,916,163,944 |

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

| | **2015** | 2014 |
|---|---|---|
| **USD** | | |
| Beginning balance | **₱2,141,998,908** | ₱1,757,976,117 |
| Additions (maturities) | **(1,163,902,295)** | 328,123,000 |
| Fair value gain | **10,996,102** | 39,490,831 |
| Foreign exchange adjustments | **123,002,090** | 16,408,960 |
| Ending balance | **₱1,112,094,805** | ₱2,141,998,908 |

(Forward)

| | 2015 | 2014 |
|---|---|---|
| **Peso** | | |
| Beginning balance | **₱1,041,505,575** | ₱622,589,528 |
| Additions | **–** | 455,000,000 |
| Fair value loss | **(41,184,843)** | (36,083,953) |
| Ending balance | **1,000,320,732** | 1,041,505,575 |
| Total | **₱2,112,415,537** | ₱3,183,504,483 |

The estimated fair market values of the Group's unquoted equity shares accounted for as AFS financial assets follow:

| | 2015 | 2014 |
|---|---|---|
| Investment in a petroleum company | **₱6,201,580,900** | ₱1,071,616,341 |
| Investment in a healthcare company | **775,402,453** | 720,469,623 |
| Investment in a holding company | **32,730,339** | 124,077,980 |
| | **₱7,009,713,692** | ₱1,916,163,944 |

31.1 *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 as of December 31, 2015 and 2014.

In 2015, the investee-petroleum company conducted a stock rights offering to fund its various expansion projects. A third party advisor valued the rights at ₱20.00 per share. As a restatement to the reasonableness of the pricing, another independent advisor issued a fairness opinion on the valuation.

The fair value of the Group's investment in the common shares of the investee-petroleum company as of December 31, 2015 was determined based on this recent market transaction of the same instrument between independent, knowledgeable, able, and willing parties. The valuation was determined as an exit price applicable to the Group under current market conditions.

In 2014, the following assumptions were used to determine the fair value of these shares of stock using PBV ratio:

(a) 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;

(b) The PBV Ratio is a regular valuation tool used to compare a peer corporation;

(c) 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:

   i. The peer petroleum company is listed and operates in the Philippines; and

   ii. 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;

(d) The price used for the PBV Ratio computation of the investee-petroleum company is the bid price of the peer petroleum company amounting to ₱10.58 per share in 2014; and

(e) The PBV multiple of the investee-petroleum company is 1.5951x in 2014.

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 unobservable input | Level at year-end | Sensitivity of the input to fair value |
|---|---|---|---|
| 2014 | Bid price | ₱10.58 | 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 ₱5,358,082. |

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 year-end | Sensitivity of the input to fair value |
|---|---|---|---|
| 2014 | Book value per share | ₱6.6327 | ₱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 ₱16,960,785 and ₱17,515,222, respectively. |

31.2 *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, 2015 and 2014. The investee-healthcare company was valued using discounted cashflow (DCF) valuation model in 2015 and 2014. Management assessed that the valuation technique used is appropriate as there was no recent transaction in 2015 and 2014.

The following assumptions were used to determine the fair value of the investee-healthcare company's shares in 2015 and 2014:

(a) Weighted average cost of capital (WACC) of the investee-healthcare company was used in determining the present value of the free cash flows (FCF);
(b) 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 5.4% in 2015 and 4% in 2014;
(c) Normalization adjustments were made in the FCF of the last year of the projection period for purposes of computing the terminal value;
(d) A marketability discount factor of 20% in 2015 and 15% in 2014 were used considering that the the investee-healthcare company's shares are not liquid; and
(e) A minority discount factor of 10.0% in 2015 and 15% in 2014 were used given that the Company is only a minority shareholder in the the investee-healthcare company.

The analysis of the fair market value as of December 31, 2015 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 year end | Sensitivity of the input to fair value |
|---|---|---|---|
| **2015** | **WACC** | **11.50%** | **0.25% increase or decrease in the WACC of the investee healthcare company would result in the decrease or increase in fair value by ₱18,753,784 and ₱20,366,718, respectively.** |
| | **FCF growth rate** | **5.40%** | **0.25% increase or decrease in the perpetuity growth rate of the investee healthcare company's FCF would result in the increase or decrease in fair value by ₱12,750,098 and ₱11,747,041 respectively.** |
| | **Marketability discount factor** | **20.00%** | **0.25% increase (decrease) in the marketability discount factor of the investee healthcare company would result in the decrease (increase) in fair value by ₱2,423,133.** |
| | **Minority discount factor** | **10.00%** | **0.25% increase (decrease) in the minority discount factor of the investee healthcare company would result in the decrease (increase) in fair value by ₱2,153,991.** |
| 2014 | WACC | 10.20% | 0.25% increase or decrease in the WACC of the investee healthcare company would result in the decrease or increase in fair value by ₱16,437,632 and ₱17,806,392, respectively. |
| | FCF growth rate | 4.00% | 0.25% increase or decrease in the perpetuity growth rate of the investee healthcare company's FCF would result in the increase or decrease in fair value by ₱983,758. |
| | Marketability discount factor | 15.00% | 0.25% increase (decrease) in the marketability discount factor of the investee healthcare company would result in the decrease (increase) in fair value by ₱2,566,2871. |
| | Minority discount factor | 15.00% | 0.25% increase (decrease) in the minority discount factor of the investee healthcare company would result in the decrease (increase) in fair value by ₱2,566,2871. |

31.3 <u>*Investment in a holding company*</u>

The Group's investment in a holding company (the "investee-holding company") was valued using adjusted net asset method both in 2015 and 2014 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 year-end | Sensitivity of the input to fair value |
|---|---|---|---|
| **2015** | **Book value per share** | **₱1,303** | **4.99% increase (decrease) in the book value per share of the investee holding company would result in the decrease (increase) in fair value by ₱1,633,550.** |
| 2014 | Book value per share | ₱4,940 | 13.85% increase (decrease) in the book value per share of the investee holding company would result in the decrease (increase) in fair value by ₱17,186,853. |

31.4 <u>*Structured VULs*</u>

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 (IRS) (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 follows:

| | **Significant unobservable input other than quoted prices within Level 1** | **Range yearend** | **Range yearend** | **Sensitivity of the input to fair value** |
|---|---|---|---|---|
| **2015** | **ROP CDS level (1yr-7yrs)** | **108 basis points** | | **50 basis points increase or decrease in ROP CDS would result in the decrease and increase in market value of the note by ₱21,344,867 and ₱22,044,327, respectively.** |
| | **USD IRS (1yr-7yrs)** | **141-195 basis points** | | **50 basis points increase or decrease in USD IRS would result in the decrease and increase in market value of the note by ₱25,804,008 and ₱26,602,087, respectively.** |
| | **PHP IRS (1yr-7yrs)** | **265-370 basis points** | | **50 basis points increase or decrease in PHP IRS would result in the decrease and increase in market value of the note by ₱17,163,957 and ₱17,608,086,** |
| 2014 | ROP CDS level (1yr-7yrs) | 93 basis points | | 50 basis points increase or decrease in ROP CDS would result in the decrease and increase in market value of the note by ₱23,997,474 and ₱24,723,129, respectively. |
| | USD IRS (1yr-7yrs) | 63-202 basis points | | 50 basis points increase or decrease in USD IRS would result in the decrease and increase in market value of the note by ₱29,282,302 and ₱30,147,044, respectively. |
| | PHP IRS (1yr-7yrs) | 108-310 basis points | | 50 basis points increase or decrease in PHP IRS would result in the decrease and increase in market value of the note by ₱21,536,018 and ₱22,183,207, repectively. |

*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 |
|---|---|---|---|
| **2015** | **Bank CDS level (3-8 years)** | **62-133 basis points** | **50 basis points increase or decrease in ROP CDS would result in the decrease and increase in market value of the note by ₱25,804,008 and ₱26,602,087, respectively.** |
| 2014 | Bank CDS level (1-7 years) | 8-109 basis points | 50 basis points increase or decrease in ROP CDS would result in the decrease and increase in market value of the note by ₱29,282,302 and ₱30,147,044, respectively. |

*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 |
|---|---|---|---|
| **2015** | **Bank CDS level (1-7 years)** | **10-67 basis points** | **A 50 basis points increase (decrease) in CDS would result in the decrease (increase) in fair value of the note by ₱17,163,957 and ₱17,608,086, respectively.** |
| 2014 | Bank CDS level (1-7 years) | 10-70 basis points | A 50 basis points increase (decrease) in CDS would result in the decrease (increase) in fair value of the note by ₱21,536,018 and ₱22,183,207, respectively. |

*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.

32. **Insurance and Financial Risk Management**

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.

32.1 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.

32.2 Insurance Risk

The risk under an insurance contract is the possibility of occurrence of an insured event 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.

32.2.1 *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:

(a) Mortality risk - risk of loss arising due to policyholder death experience being different than expected; and
(b) Morbidity risk - risk of loss arising due to policyholder health experience being different than expected.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by 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:

(a) 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;
(b) actuarial models based on past experience and statistical techniques aid in pricing decisions and monitoring claims patterns;
(c) guidelines are issued for concluding insurance contracts and assuming insurance risks;
(d) pro-active claims handling procedures are followed to investigate and adjust claims, thereby preventing settlement of dubious or fraudulent claims;
(e) reinsurance is used to limit the Group's exposure to large claims by placing risk with reinsurers providing high security;
(f) 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
(g) 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:

| | **2015** | 2014 |
|---|---|---|
| **Whole Life** | | |
| Gross | **₱95,156,210,988** | ₱96,148,825,372 |
| Net | **84,391,104,680** | 85,041,860,880 |
| **Endowment** | | |
| Gross | **26,149,167,894** | 24,298,823,775 |
| Net | **24,134,499,893** | 22,394,032,123 |
| **Term Insurance** | | |
| Gross | **10,558,890,778** | 11,691,244,084 |
| Net | **10,242,284,665** | 11,422,429,281 |
| (Forward) | | |

| | **2015** | 2014 |
|---|---|---|
| **Group Insurance** | | |
| Gross | **₱70,449,288,190** | ₱73,863,076,234 |
| Net | **42,602,047,473** | 49,150,922,930 |
| **Variable Life** | | |
| Gross | **48,137,882,505** | 28,310,152,044 |
| Net | **41,571,658,097** | 24,868,222,001 |
| **Total** | | |
| Gross | **₱250,451,440,355** | ₱234,312,121,509 |
| Net | **₱202,941,594,808** | ₱192,877,467,215 |

32.2.2 *Life Insurance Contracts*

a. *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 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.

b. *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:

i. the assumptions used in statutory reserve computations which were submitted to the IC when the product was approved, which are generally conservative; and

ii. 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:

i. 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.

ii. 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.

iii. 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., 6.120% and 5.869% for 2015 and 2014, respectively).

iv. 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.

32.2.3 *Reinsurance Contracts*

a. *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.

b. *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 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 net cash flows amounting to (₱40,996,461,065) and (₱38,750,620,685) as of December 31, 2015 and 2014, 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 2015 and 2014, the resulting values are lower than the statutory reserves as presented below:

| | **December 31, 2015** | December 31, 2014 |
|---|---|---|
| Scenario | **% Change from Base Run** | % Change from Base Run |
| Base Run | **0.00%** | 0.00% |
| Mortality + 5% | **-0.67%** | 0.67% |
| Investment Return + 1% | **-1.96%** | -0.75% |
| Discount Rate - 1% | **13.77%** | 14.68% |
| Expense + 10% | **0.78%** | 3.16% |
| Lapse + 5% | **-1.11%** | 0.13% |

32.3 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 Group's requirements.

32.3.1 *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:

i. Reinsurers in respect of unpaid claims;
ii. Reinsurers in respect of claims already paid;
iii. Financial assets at FVPL;
iv. HTM financial assets;
v. Loans and receivables;
vi. AFS financial assets; and
vii. 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:

| | **2015** | 2014 |
|---|---|---|
| Housing loans | **₱168,798,688** | ₱172,109,558 |
| Mortgage loans | **99,634,845** | 56,267,107 |
| Finance leases | **37,098,163** | 38,998,329 |
| Stock loans | **14,257,549** | 20,126,203 |
| | **₱319,789,245** | ₱287,501,197 |

Financial effect is the lower of the carrying value of the financial asset or the fair value of the collateral for each financial asset.

Collaterals obtained by the Group are investment properties upon default on mortgage loans and housing loans. The fair value of the collaterals obtained where the Group has the right by contract or custom to sell the assets amounted to ₱394,803,614 and ₱366,640,118 for housing loans and mortgage loans as of December 31, 2015 and 2014, respectively.

*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:

| | **2015** | 2014 |
|---|---|---|
| Property | **26%** | 23% |
| Holding firms | **22%** | 22% |
| Electricity, energy, power, and water | **17%** | 13% |
| Financial institutions | **12%** | 16% |
| Telecommunications | **11%** | 11% |
| Tollways operation and maintenance | **9%** | 11% |
| Food, beverage and tobacco | **2%** | 2% |
| Others | **1%** | 2% |
| 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, 2015 and 2014.

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

| | **2015** | | | |
|---|---|---|---|---|
| | **Neither past due nor impaired** | | | |
| | **Investment Grade** | **Non-Investment Grade** | **Past Due or Impaired** | **Total** |
| **Insurance Receivables** | | | | |
| Due premiums | **₱191,911,402** | **₱–** | **₱–** | **₱191,911,402** |
| Reinsurance assets | – | **2,916,870** | – | **2,916,870** |
| | **191,911,402** | **2,916,870** | – | **194,828,272** |
| **Financial Assets at FVPL** | | | | |
| Equity securities - quoted | **4,012,616,850** | – | – | **4,012,616,850** |
| Under separate fund: | | | | |
| Traditional VULs: | | | | |
| Cash and cash equivalents | **1,438,736,857** | – | – | **1,438,736,857** |
| Quoted equity securities | **12,910,091,156** | – | – | **12,910,091,156** |
| Quoted debt securities: | | | | |
| Government: | | | | |
| Local currency | **1,109,100,790** | – | – | **1,109,100,790** |
| Foreign currency | **1,521,072,701** | – | – | **1,521,072,701** |
| Corporate: | | | | |
| Local currency | **153,053,669** | – | – | **153,053,669** |
| Foreign currency | **128,636,869** | – | – | **128,636,869** |
| Other receivables | **52,750,890** | – | – | **52,750,890** |
| Structured VULs: | | | | |
| Local currency | **1,000,320,732** | – | – | **1,000,320,732** |
| Foreign currency | **1,112,094,805** | – | – | **1,112,094,805** |
| | **23,438,475,319** | – | – | **23,438,475,319** |

(Forward)

| | 2015 | | | |
|---|---|---|---|---|
| | Neither past due nor impaired | | | |
| | **Investment Grade** | **Non-Investment Grade** | **Past Due or Impaired** | **Total** |
| **AFS** | | | | |
| Equity securities: | | | | |
| Quoted | **₱5,882,205,420** | **₱–** | **₱–** | **₱5,882,205,420** |
| Unquoted | **7,031,162,253** | **–** | **–** | **7,031,162,253** |
| Debt securities: | | | | |
| Quoted: | | | | |
| Government: | | | | |
| Local currency | **4,153,283,572** | **–** | **–** | **4,153,283,572** |
| Foreign currency | **997,540,159** | **–** | **–** | **997,540,159** |
| Corporate: | | **–** | | |
| Local currency | **998,815,544** | **–** | **–** | **998,815,544** |
| Foreign currency | **32,645,009** | **–** | **–** | **32,645,009** |
| | **19,095,651,957** | **–** | **–** | **19,095,651,957** |
| **HTM Financial Assets**: | | | | |
| Government: | | | | |
| Local currency | **14,931,544,158** | **–** | **–** | **14,931,544,158** |
| Foreign currency | **676,267,838** | **–** | **–** | **676,267,838** |
| Corporate: | | | | |
| Local currency | **8,145,482,907** | **–** | **–** | **8,145,482,907** |
| Foreign currency | **258,127,845** | **–** | **–** | **258,127,845** |
| | **24,011,422,748** | **–** | **–** | **24,011,422,748** |
| **Loans and Receivables** | | | | |
| Cash and cash equivalents* | **7,107,803,481** | **–** | **–** | **7,107,803,481** |
| Short term investment | **33,368,707** | **–** | **–** | **33,368,707** |
| | **7,141,172,188** | **–** | **–** | **7,141,172,188** |
| Term loans | **8,229,002,353** | **–** | **–** | **8,229,002,353** |
| Policy loans | **5,469,582,698** | **–** | **–** | **5,469,582,698** |
| Accounts receivable | **3,829,307** | **842,387,053** | **33,239,031** | **879,455,391** |
| Interest receivable | **431,994,612** | **–** | **–** | **431,994,612** |
| Housing loans | **153,032,134** | **–** | **–** | **153,032,134** |
| Mortgage loans | **50,642,410** | **5,298,388** | **16,058,686** | **71,999,484** |
| Net interest in joint venture for under PAS 39 | **18,146,965** | **–** | **–** | **18,146,965** |
| Car financing loans | **38,964,632** | **–** | **–** | **38,964,632** |
| Finance leases | **18,198,595** | **4,081,772** | **12,297,367** | **34,577,734** |
| Stock loans | **12,442,615** | **1,781,754** | **5,459,073** | **19,683,442** |
| Due from agents | **–** | **3,226,054** | **7,696,124** | **10,922,178** |
| Others | **1,181,774** | **67,797,585** | **5,335,628** | **74,314,987** |
| | **14,427,018,095** | **924,572,606** | **80,085,909** | **15,431,676,610** |
| | **₱88,305,651,709** | **₱927,489,476** | **₱80,085,909** | **₱89,313,227,094** |

**Excluding cash on hand as of December 31, 2015.*

| | 2014 | | | |
|---|---|---|---|---|
| | Neither past due nor impaired | | | |
| | Investment Grade | Non-Investment Grade | Past Due or Impaired | Total |
| **Insurance Receivables** | | | | |
| Due premiums | ₱185,497,080 | ₱– | ₱– | ₱185,497,080 |
| Reinsurance assets | – | 384,028 | – | 384,028 |
| | 185,497,080 | 384,028 | – | 185,881,108 |
| **Financial Assets at FVPL** | | | | |
| Equity securities - quoted | 3,964,433,829 | – | – | 3,964,433,829 |
| Under separate fund: | | | | |
| Traditional VULs: | | | | |
| Cash and cash equivalents | 1,918,115,581 | – | – | 1,918,115,581 |
| (Forward) | | | | |

| | 2014 | | | |
|---|---|---|---|---|
| | Neither past due nor impaired | | | |
| | Investment Grade | Non-Investment Grade | Past Due or Impaired | Total |
| Quoted equity securities | ₱9,762,857,565 | ₱– | ₱– | ₱9,762,857,565 |
| Quoted debt securities: | | | | |
| Government: | | | | |
| Local currency | 1,048,681,834 | – | – | 1,048,681,834 |
| Foreign currency | 1,012,097,699 | – | – | 1,012,097,699 |
| Corporate: | | | | |
| Local currency | 228,724,590 | – | – | 228,724,590 |
| Foreign currency | 120,774,918 | – | – | 120,774,918 |
| Other receivables | 44,949,346 | – | – | 44,949,346 |
| Structured VULs: | | | | |
| Local currency | 1,041,505,575 | – | – | 1,041,505,575 |
| Foreign currency | 2,141,998,908 | – | – | 2,141,998,908 |
| | 21,284,139,845 | – | – | 21,284,139,845 |
| **AFS Financial Assets** | | | | |
| Equity securities: | | | | |
| Quoted | 6,776,932,748 | – | – | 6,776,932,748 |
| Unquoted | 1,937,612,505 | 200,000 | – | 1,937,812,505 |
| Debt securities: | | | | |
| Quoted: | | | | |
| Government: | | | | |
| Local currency | 3,626,209,749 | – | – | 3,626,209,749 |
| Foreign currency | 972,035,961 | – | – | 972,035,961 |
| Corporate: | | | | |
| Local currency | 660,187,756 | – | – | 660,187,756 |
| Foreign currency | 31,960,406 | – | – | 31,960,406 |
| | 14,004,939,125 | 200,000 | - | 14,005,139,125 |
| **HTM Financial Assets**: | | | | |
| Government: | | | | |
| Local currency | 15,433,695,199 | – | – | 15,433,695,199 |
| Foreign currency | 1,063,606,835 | – | – | 1,063,606,835 |
| Corporate: | | | | |
| Local currency | 8,154,556,207 | – | – | 8,154,556,207 |
| Foreign currency | 243,332,957 | – | – | 243,332,957 |
| | 24,895,191,198 | – | – | 24,895,191,198 |
| **Loans and Receivables** | | | | |
| Cash and cash equivalents* | 7,259,193,293 | – | – | 7,259,193,293 |
| Short term investment | 24,494,902 | – | – | 24,494,902 |
| | 7,283,688,195 | - | - | 7,283,688,195 |
| Term loans | 8,803,917,941 | – | – | 8,803,917,941 |
| Policy loans | 5,526,585,804 | – | – | 5,526,585,804 |
| Accounts receivable | 10,445,802 | 804,684,527 | 43,810,066 | 858,940,395 |
| Interest receivable | 466,437,954 | – | – | 466,437,954 |
| Housing loans | 159,738,546 | – | – | 159,738,546 |
| Mortgage loans | 48,508,092 | 4,359,304 | 20,337,397 | 73,204,793 |
| Net interest in joint venture for under PAS 39 | 47,004,109 | – | – | 47,004,109 |
| Car financing loans | 41,939,549 | – | – | 41,939,549 |
| Finance leases | 19,778,382 | 4,436,103 | 14,783,844 | 38,998,329 |
| Stock loans | 16,435,303 | 2,353,498 | 3,819,293 | 22,608,094 |
| Due from agents | - | 5,049,778 | 10,648,099 | 15,697,877 |
| Others | 1,309,071 | 69,942,186 | 8,242,419 | 79,493,676 |
| | 15,142,100,553 | 890,825,396 | 101,641,118 | 16,134,567,067 |
| | 22,425,788,748 | 890,825,396 | 101,641,118 | 23,418,255,262 |
| | ₱82,795,555,996 | ₱891,409,424 | ₱101,641,118 | ₱83,788,606,538 |

**Excluding cash on hand as of December 31, 2014.*

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

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

| | **2015** | | | | | |
|---|---|---|---|---|---|---|
| | **Past due but not impaired** | | | | **Past due and** | |
| | **< 30 days** | **31 to 60 days** | **> 60 days** | **Total** | **Impaired** | **Total** |
| Loans and receivables: | | | | | | |
| Accounts receivable | **₱4,975,869** | **₱1,700,014** | **₱9,062,552** | **₱15,738,435** | **₱17,500,596** | **₱33,239,031** |
| Mortgage loans | **3,577,900** | **3,205,411** | **7,683,752** | **14,467,063** | **1,591,623** | **16,058,686** |
| Finance Leases | **6,847,065** | **2,199,463** | **2,628,833** | **11,675,361** | **622,006** | **12,297,367** |
| Stock loans | **1,483,599** | **1,124,275** | **567,742** | **3,175,616** | **2,283,457** | **5,459,073** |
| Due from agents | **–** | **–** | **–** | **–** | **7,696,124** | **7,696,124** |
| Others | **3,046,829** | **268,049** | **281,460** | **3,596,338** | **1,739,290** | **5,335,628** |
| | **₱19,931,262** | **₱8,497,212** | **₱20,224,339** | **₱48,652,813** | **₱31,433,096** | **₱80,085,909** |

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Past due but not impaired | | | | Past due and | |
| | < 30 days | 31 to 60 days | > 60 days | Total | Impaired | Total |
| Loans and receivables: | | | | | | |
| Accounts receivable | ₱8,475,909 | ₱2,640,185 | ₱13,163,268 | ₱24,279,362 | ₱19,530,704 | ₱43,810,066 |
| Mortgage loans | 3,671,249 | 6,710,697 | 8,427,597 | 18,809,543 | 1,527,854 | 20,337,397 |
| Finance Leases | 7,552,828 | 2,998,270 | 3,938,776 | 14,489,874 | 293,970 | 14,783,844 |
| Stock loans | 1,160,414 | 794,715 | 217,283 | 2,172,412 | 1,646,881 | 3,819,293 |
| Due from agents | - | - | - | - | 10,648,099 | 10,648,099 |
| Others | 2,000,700 | 119,914 | 392,424 | 2,513,038 | 5,729,381 | 8,242,419 |
| | ₱22,861,100 | ₱13,263,781 | ₱26,139,348 | ₱62,264,229 | ₱39,376,889 | ₱101,641,118 |

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.

32.3.2 *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:

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Up to a year | 1-3 years | 3-5 years | Over 5 years | Total |
| **Financial assets:** | | | | | |
| Cash and cash equivalents | **₱7,108,300,822** | **₱–** | **₱–** | **₱–** | **₱7,108,300,822** |
| Short term investments | **33,379,256** | **–** | **–** | **–** | **₱33,379,256** |
| Insurance receivables | **194,828,272** | **–** | **–** | **–** | **194,828,272** |
| Financial assets at FVPL | **19,079,426,196** | **302,691,932** | **1,409,657,858** | **4,197,771,567** | **24,989,547,553** |
| AFS financial assets | **23,127,342,295** | **663,064,674** | **1,592,495,976** | **7,490,528,570** | **32,873,431,515** |
| HTM financial assets | **2,878,052,910** | **3,560,368,803** | **6,725,003,742** | **32,653,524,448** | **45,816,949,903** |
| Loans and receivables | **1,697,761,255** | **1,118,184,576** | **2,223,308,236** | **10,403,088,975** | **15,442,343,042** |
| Total financial assets | **54,119,091,006** | **5,644,309,985** | **11,950,465,812** | **54,744,913,560** | **126,458,780,363** |
| Legal policy reserves | **7,056,057,627** | **2,313,876,413** | **4,940,941,682** | **38,366,421,797** | **52,677,297,519** |
| Derivative liability | **25,859,311** | **–** | **–** | **–** | **25,859,311** |
| Other insurance liabilities: | | | | | |
| Members' deposits and other funds on deposit* | **17,147,651,570** | **535,671,093** | **789,821,508** | **6,277,262,690** | **24,750,406,861** |
| Reserve for dividends to members | **643,186,642** | **–** | **–** | **–** | **643,186,642** |
| Claims pending settlement | **1,716,718,790** | **–** | **–** | **–** | **1,716,718,790** |
| | **19,507,557,002** | **535,671,093** | **789,821,508** | **6,277,262,690** | **27,110,312,293** |
| Other financial liabilities: | | | | | |
| Accrued expenses and other liabilities: | | | | | |
| Accrued employee benefits | **604,243,073** | **–** | **–** | **141,607,809** | **745,850,882** |
| Accounts payable | **602,278,749** | **22,139,565** | **–** | **–** | **624,418,314** |
| General expenses due and accrued | **52,731,700** | **30,278,361** | **–** | **–** | **83,010,061** |
| Commissions payable | **71,066,949** | **–** | **–** | **–** | **71,066,949** |
| Others | **9,077,592** | **1,054,508** | **1,260,110** | **28,005,370** | **39,397,580** |
| | **1,339,398,063** | **53,472,434** | **1,260,110** | **169,613,179** | **1,563,743,786** |
| Total financial liabilities | **27,928,872,003** | **2,903,019,940** | **5,732,023,300** | **44,813,297,666** | **81,377,212,909** |
| Liquidity position | **₱26,190,219,003** | **₱2,741,290,045** | **₱6,218,442,512** | **₱9,931,615,894** | **₱45,081,567,454** |

**Excluding unearned membership fees of I-Care amounting to ₱47,085,914*

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Up to a year | 1-3 years | 3-5 years | Over 5 years | Total |
| Financial assets: | | | | | |
| Cash and cash equivalents | ₱7,259,622,277 | ₱– | ₱– | ₱– | ₱7,259,622,277 |
| Short term investments | 24,547,240 | – | – | – | 24,547,240 |
| Insurance receivables | 185,881,108 | – | – | – | 185,881,108 |
| Financial assets at FVPL | 16,929,342,548 | 873,649,358 | 1,055,384,672 | 3,499,364,223 | 22,357,740,801 |
| AFS financial assets | 20,383,910,495 | 628,672,898 | 1,317,236,632 | 5,815,939,640 | 28,145,759,665 |
| HTM financial assets | 2,451,497,136 | 4,144,591,592 | 3,343,207,601 | 32,461,450,615 | 42,400,746,944 |
| Loans and receivables | 8,058,949,054 | 1,157,697,967 | 2,224,187,773 | 11,952,520,846 | 23,393,355,640 |
| Total financial assets | 55,293,749,858 | 6,804,611,815 | 7,940,016,678 | 53,729,275,324 | 123,767,653,675 |
| Legal policy reserves | 6,244,196,454 | 2,445,216,657 | 4,151,665,958 | 38,216,516,783 | 51,057,595,852 |
| Derivative Liability | 8,732,243 | – | – | – | 8,732,243 |
| Other insurance liabilities: | | | | | |
| Members' deposits and other funds on deposit | 15,036,304,212 | 517,628,566 | 738,760,810 | 6,208,117,407 | 22,500,810,995 |

(Forward)

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Up to a year | 1-3 years | 3-5 years | Over 5 years | Total |
| Reserve for dividends to members | ₱928,949,440 | ₱– | ₱– | ₱– | ₱928,949,440 |
| Claims pending settlement | 1,343,930,085 | – | – | – | 1,343,930,085 |
| | 17,309,183,737 | 517,628,566 | 738,760,810 | 6,208,117,407 | 24,773,690,520 |
| Other financial liabilities: | | | | | |
| Accrued expenses and other liabilities: | | | | | |
| Accrued employee benefits | 4,972,216 | 561,300,000 | – | 108,655,550 | 674,927,766 |
| Accounts payable | 470,654,221 | 121,354,710 | – | – | 592,008,931 |
| General expenses due and accrued | 47,746,939 | 29,908,509 | – | – | 77,655,448 |
| Commissions payable | 65,917,521 | – | – | – | 65,917,521 |
| Preferred shares of Home Credit owned by its members | 2,228,043 | – | – | – | 2,228,043 |
| Others | 14,341,978 | 41,148 | – | 28,851,892 | 43,235,018 |
| | 605,860,918 | 712,604,367 | – | 137,507,442 | 1,455,972,727 |
| Total financial liabilities | 24,167,973,352 | 3,675,449,590 | 4,890,426,768 | 44,562,141,632 | 77,295,991,342 |
| Liquidity position | ₱31,125,776,506 | ₱3,129,162,225 | ₱3,049,589,910 | ₱9,167,133,692 | ₱46,471,662,333 |

**Excluding unearned membership fees of I-Care amounting to ₱47,390,633*

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.

32.3.3 *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:

i. 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;

ii. 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

iii. 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.

a. *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:

**2015**

| Fixed Rate Instruments | Effective Interest Rate | Maturity: In 1 year or less | More than 1 year but not more than 2 years | More than 2 years but not more than 3 years | More than 3 years but not more than 4 years | More than 4 years but not more than 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|---|---|
| **Financial assets at FVPL - debt securities** | | | | | | | | |
| **Government:** | | | | | | | | |
| **Local currency** | **2%-8%** | **₱129,633,782** | **₱–** | **₱–** | **₱133,983,818** | **₱33,576,768** | **₱811,906,422** | **₱1,109,100,790** |
| **Foreign currency** | **4%-11%** | **67,690,568** | **46,210,841** | **–** | **104,203,325** | **71,808,160** | **1,231,159,807** | **1,521,072,701** |
| **Corporate:** | | | | | | | | |
| **Local currency** | **6%** | **50,000,000** | **–** | **–** | **–** | **–** | **103,053,669** | **153,053,669** |
| **Foreign currency** | **4% - 7%** | **–** | **–** | **–** | **43,642,888** | **46,877,816** | **38,116,165** | **128,636,869** |
| **Structured VULs:** | | | | | | | | |
| **Local currency** | **2% - 4%** | **314,080,000** | **–** | **–** | **286,371,732** | **–** | **399,869,000** | **1,000,320,732** |
| **Foreign currency** | **1% - 4%** | **–** | **–** | **–** | **260,409,382** | **131,861,986** | **719,823,437** | **1,112,094,805** |
| **AFS debt securities:** | | | | | | | | |
| **Quoted:- government** | | | | | | | | |
| **Government:** | | | | | | | | |
| **Local currency** | **4%-8%** | **12,091,879** | **30,764,542** | **–** | **1,052,473,314** | **–** | **3,057,953,837** | **4,153,283,572** |
| **Foreign currency** | **6%-10%** | **105,583,659** | **–** | **–** | **–** | **–** | **891,956,500** | **997,540,159** |
| **Corporate :** | | | | | | | | |
| **Local currency** | **5%-8%** | **–** | **104,634,373** | **–** | **–** | **–** | **894,181,171** | **998,815,544** |
| **Foreign currency** | **7%** | **–** | **–** | **–** | **32,645,009** | **–** | **–** | **32,645,009** |
| | | **₱679,079,888** | **₱181,609,756** | **₱–** | **₱1,913,729,468** | **₱284,124,730** | **₱8,148,020,008** | **₱11,206,563,850** |

2014

| Fixed Rate Instruments | Effective Interest Rate | Maturity: In 1 year or less | More than 1 year but not more than 2 years | More than 2 years but not more than 3 years | More than 3 years but not more than 4 years | More than 4 years but not more than 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|---|---|
| Financial assets at FVPL - debt securities | | | | | | | | |
| Government: | | | | | | | | |
| Local currency | 2%-8% | ₱– | ₱228,259,060 | ₱– | ₱– | ₱117,084,853 | ₱703,337,921 | ₱1,048,681,834 |
| Foreign currency | 4%-11% | 4,550,041 | 68,669,088 | 46,971,662 | - | 103,264,530 | 788,642,378 | 1,012,097,699 |
| Corporate: | | | | | | | | |
| Local currency | 6%-9% | 127,880,100 | - | - | - | - | 100,844,490 | 228,724,590 |
| Foreign currency | 4%-7% | - | - | - | - | 42,728,095 | 78,046,823 | 120,774,918 |
| Structured VULs: | | | | | | | | |
| Local currency | 2% -4% | - | 322,790,000 | - | - | 309,763,575 | 408,952,000 | 1,041,505,575 |
| Foreign currency | 1% -4% | 1,062,832,805 | - | - | - | 248,883,665 | 830,282,438 | 2,141,998,908 |
| AFS debt securities: | | | | | | | | |
| Quoted:- government | | | | | | | | |
| Government: | | | | | | | | |
| Local currency | 4%-8% | 16,842,265 | 42,563,382 | - | - | 1,070,995,169 | 2,495,808,933 | 3,626,209,749 |
| Foreign currency | 6%-10% | - | 106,993,516 | - | - | - | 865,042,445 | 972,035,961 |
| Corporate : | 0% | - | - | - | - | - | - | |
| Local currency | 5%-8% | - | - | 105,974,863 | - | - | 554,212,893 | 660,187,756 |
| Foreign currency | 7% | - | - | - | - | 31,960,406 | - | 31,960,406 |
| | | ₱1,212,105,211 | ₱769,275,046 | ₱152,946,525 | ₱– | ₱1,924,680,293 | ₱6,825,170,321 | ₱10,884,177,396 |

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 |
|---|---|---|---|---|
| **2015** | **USD** | **+ 25 basis points** | **(₱2,381,812)** | **(₱25,445,582)** |
| | **PHP** | **+ 25 basis points** | **–** | **(98,155,290)** |
| | **USD** | **- 25 basis points** | **2,547,275** | **27,085,350** |
| | **PHP** | **- 25 basis points** | **–** | **101,308,083** |
| 2014 | USD | + 25 basis points | (₱1,587,172) | (₱23,872,448) |
| | PHP | + 25 basis points | – | (77,686,096) |
| | USD | - 25 basis points | 1,928,859 | 29,124,198 |
| | PHP | - 25 basis points | – | 79,828,196 |

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:

| CCS Leg | Change in variable | Effect on income before tax |
|---|---|---|
| **December 31, 2015:** | | |
| **Peso Interest Rate** | **Increase by 25 basis points** | **(₱145,037)** |
| **Peso Interest Rate** | **Decrease by 25 basis points** | **184,439** |
| **USD Interest Rate** | **Increase by 25 basis points** | **187,434** |
| **USD Interest Rate** | **Decrease by 25 basis points** | **(142,038)** |
| December 31, 2014: | | |
| Peso Interest Rate | Increase by 25 basis points | (₱831,135) |
| Peso Interest Rate | Decrease by 25 basis points | 781,240 |
| USD Interest Rate | Increase by 25 basis points | 779,193 |
| USD Interest Rate | Decrease by 25 basis points | (833,189) |

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

b. *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 |
|---|---|---|---|
| **2015** | **Increase by 0.5%** | **₱8,525,625** | **₱54,170,509** |
| | **Decrease by 0.5%** | **(8,525,625)** | **(54,170,509)** |
| 2014 | Increase by 0.5% | 8,874,582 | 68,369,983 |
| | Decrease by 0.5% | (8,874,582) | (68,369,983) |

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:

| | **2015** | 2014 |
|---|---|---|
| Financial institutions | **32%** | 38% |
| Electricity, energy, power and water | **26%** | 17% |
| Holding firms | **12%** | 13% |
| Food, beverage and tobacco | **10%** | 12% |
| Property | **8%** | 5% |
| Telecommunications | **5%** | 5% |
| Others | **7%** | 10% |
| Total | **100%** | 100% |

c. *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:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **United States Dollar Value** | **Peso Equivalent** | United States Dollar Value | Peso Equivalent |
| **Assets** | | | | |
| Cash and cash equivalent | **$25,926,935** | **₱1,222,869,825** | $22,641,453 | ₱1,010,193,713 |
| Financial assets at FVPL | **66,918,018** | **3,156,255,250** | 85,858,254 | 3,830,737,719 |
| AFS financial assets | **21,857,184** | **1,030,915,918** | 22,517,103 | 1,004,645,585 |
| HTM financial assets | **19,810,789** | **934,395,684** | 29,292,417 | 1,306,939,769 |
| | **$134,512,926** | **₱6,344,436,677** | $160,309,227 | ₱7,152,516,786 |
| **Liability** | | | | |
| Derivative liability | **$548,262** | **₱25,859,311** | $195,716 | ₱8,732,243 |
| Legal policy reserves | **4,486,434** | **211,607,146** | 20,766,409 | 926,537,545 |
| | **$5,034,696** | **₱237,466,457** | $20,962,125 | ₱935,269,788 |

The foregoing United States Dollar amounts have been restated to their Peso equivalents using the exchange rate of ₱47.166 and ₱44.617 to US$1, as recommended by IC, as of December 31, 2015 and 2014, respectively. Net foreign exchange gain amounted to ₱193,122,230 and ₱7,191,525 in 2015 and 2014, respectively.

The analysis on the next page 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 | Effect on income before tax |
|---|---|---|
| **2015** | **Increase by 1.53%** | **₱50,253,963** |
| | **Decrease by 1.53%** | **(50,253,963)** |
| 2014 | Increase by 0.48% | 16,343,549 |
| | Decrease by 0.48% | (16,343,549) |

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:

| Changes in variable | Effect on income before tax | Effect on equity |
|---|---|---|
| **December 31, 2015:** | | |
| **Increase by 1.53%** | **(₱3,608,199)** | **(₱2,525,739)** |
| **Decrease by 1.53%** | **3,608,199** | **2,525,739** |
| December 31, 2014: | | |
| Increase by 0.48% | (1,070,808) | (749,566) |
| Decrease by 0.48% | 1,070,808 | 749,566 |

## 33. Capital Management and Regulatory Requirements

### 33.1 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 ₱21,675,758,016 and ₱20,441,704,044 as of December 31, 2015 and 2014, 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 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.

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

| | 2015 | 2014 |
|---|---:|---:|
| Property and equipment - net | **₱166,986,553** | ₱171,555,742 |
| Accounts receivable and other assets | **940,340,716** | 907,329,398 |
| | **₱1,107,327,269** | ₱1,078,885,140 |

In 2014 audit, IC computed Company's Capital and Networth Requirement amounting to ₱250,000,000 and ₱25,367,732,569, respectively.

33.1.1 *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 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, 2015 and 2014.

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, 2015 and 2014, the Parent Company’s members’ equity is ₱25,452,286,551 and ₱25,752,749,480, respectively.

33.1.2 *Unimpaired capital requirement*

Article 194 of RA 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.

33.1.3 *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:

| | **2015** | 2014 |
|---|---|---|
| Net worth | **₱23,573,788,849** | ₱25,415,713,747 |
| Aggregate RBC requirement | **12,936,550,417** | 13,057,135,402 |
| RBC Ratio | **182%** | 195% |

The final amount of the RBC ratio can be determined only after the accounts of the Group has been examined by the IC specifically as to admitted and nonadmitted assets as defined under the same Code. Based on the results of 2014 audit of IC, the Group's RBC ratio as of December 31, 2014 was equivalent to 217% (i.e., with net worth and aggregate RBC requirement amounting to ₱25,617,732,569 and ₱11,811,300,506, respectively), which is compliant with the required RBC ratio set forth by the Code.

33.2 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.

33.3 Financial Reporting Framework (FRF)

In 2015, IC issued Circular Letter No. 2015-29, *Financial Reporting Framework under Section 189 of the amended Insurance Code (RA No. 10607)* . Whereas, the FRF will adopt the economic valuation of assets and liabilities based on internationally accepted accounting, actuarial and insurance core principles.

The new regulatory requirements shall take effect after a transition period, the purpose of which is to allow the industry to assess the collective impact of implementing FRF, Reserving and RBC2-QIS simultaneously. This will allow the IC an opportunity to engage the industry in a meaningful dialogue and obtain feedback prior to the full implementation date on June 30, 2016. The transition period shall encompass three (3) parallel runs as follows:

- As of December 31, 2014;
- As of June 30, 2015; and
- As of December 31, 2015.

The Company complied with the submission of the FRF reports for December 31, 2014 and June 30, 2015 on October 29, 2015 and February 29, 2016, respectively.

IC has released Circular 2014-42A on the Valuation Standards for Life Insurance Policy Reserves which provides a change in the basis of valuation of the life insurance policy reserves from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV) which now considers other assumptions such as morbidity, lapse and/or persistency, expenses, non-guaranteed benefits and margin for adverse deviation.

IC decided to treat the change in the basis of valuation as a change in accounting policy and shall be retrospectively applied. Since the full implementation of Financial Reporting Framework (FRF) and Reserving will be on June 30, 2016, there will be no impact on the 2015 financial statements.

Based on the June 30, 2015 FRF template submitted last February 29, 2016, there is a potential increase on the aggregate life insurance policy reserves, decreasing the net worth of the Company. Even with the decline in net worth following the new valuation, the Company is still in excess of the minimum net worth requirement of ₱550.00 million for December 31, 2016.

## 33. 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:

| | 2015 | | |
|---|---|---|---|
| | **Within 12 months** | **Over 12 months** | **Total** |
| **ASSETS** | | | |
| **Cash and Cash Equivalents** | **₱7,108,300,822** | **₱–** | **₱7,108,300,822** |
| **Short term investment** | **33,368,707** | **–** | **33,368,707** |
| **Insurance Receivables** | **194,828,272** | **–** | **194,828,272** |
| **Financial Assets**: | | | |
| Fair value through profit or loss | **18,928,936,918** | **4,462,875,217** | **23,391,812,135** |
| Available-for-sale | **13,026,618,273** | **6,069,033,684** | **19,095,651,957** |
| Held-to-maturity | **1,210,743,526** | **22,800,679,222** | **24,011,422,748** |
| Loans and receivables | **1,682,502,408** | **13,717,741,106** | **15,400,243,514** |
| **Investments in Associates** | **–** | **7,976,569,117** | **7,976,569,117** |
| **Investment Properties** | **–** | **8,315,642,146** | **8,315,642,146** |
| **Property and Equipment** | **–** | **307,597,514** | **307,597,514** |
| **Retirement Benefits Asset** | **1,419,240** | **90,543,745** | **91,962,985** |
| **Deferred Income Tax Assets** - net | **–** | **10,390,931** | **10,390,931** |
| **Other Assets** | **3,607,112** | **205,180,713** | **208,787,825** |
| **TOTAL ASSETS** | **₱42,190,325,278** | **₱63,956,253,395** | **₱106,146,578,673** |

| | 2015 | | |
|---|---|---|---|
| | **Within 12 months** | **Over 12 months** | **Total** |
| **LIABILITIES** | | | |
| Legal policy reserves | **₱7,056,057,627** | **₱45,621,239,892** | **₱52,677,297,519** |
| Derivative liability | **25,859,311** | **–** | **25,859,311** |
| Other insurance liabilities | **19,554,642,915** | **7,602,755,292** | **27,157,398,207** |
| Accrued expenses and other liabilities | **1,413,390,146** | **376,088,759** | **1,789,478,905** |
| Retirement benefits liability | **–** | **5,387,341** | **5,387,341** |
| Defer | **105,689** | **771,558,861** | **771,664,550** |
| **TOTAL LIABILITIES** | **₱28,050,055,688** | **₱54,377,030,145** | **₱82,427,085,833** |

| | 2014 | | |
|---|---|---|---|
| | Within 12 months | Over 12 months | Total |
| ASSETS | | | |
| Cash and Cash Equivalents | ₱7,259,622,277 | ₱– | ₱7,259,622,277 |
| Short term investment | 24,494,902 | – | 24,494,902 |
| Insurance Receivables | 185,881,108 | – | 185,881,108 |
| Financial Assets: | | | |
| Fair value through profit or loss | 17,046,577,376 | 4,176,997,796 | 21,223,575,172 |
| Available-for-sale | 8,699,447,466 | 5,305,691,659 | 14,005,139,125 |
| Held-to-maturity | 1,232,599,867 | 23,662,591,331 | 24,895,191,198 |
| Loans and receivables | 1,674,946,433 | 14,420,243,745 | 16,095,190,178 |
| Investments in Associates | – | 8,398,989,408 | 8,398,989,408 |
| Investment Properties | – | 8,491,800,111 | 8,491,800,111 |
| Property and Equipment | – | 318,620,249 | 318,620,249 |
| Retirement Benefits Asset | 1,076,542 | 243,824,644 | 244,901,186 |
| Deferred Income Tax Assets - net | – | 4,842,327 | 4,842,327 |
| Other | 27,520,887 | 178,299,487 | 205,820,374 |
| TOTAL ASSETS | ₱36,152,166,858 | ₱65,201,900,757 | ₱101,354,067,615 |
| | | | |
| LIABILITIES | | | |
| Legal policy reserves | ₱6,244,196,454 | ₱44,813,399,398 | ₱51,057,595,852 |
| Derivative liability | 8,732,243 | – | 8,732,243 |
| Other insurance liabilities | 17,356,574,371 | 7,464,506,782 | 24,821,081,153 |
| Accrued expenses and other liabilities | 854,812,423 | 954,842,013 | 1,809,654,436 |
| Retirement benefits liability | 4,718,150 | 542,939 | 5,261,089 |
| Defer | – | 802,322,923 | 802,322,923 |
| TOTAL LIABILITIES | ₱24,469,033,641 | ₱54,035,614,055 | ₱78,504,647,696 |

## 35. Other Matters

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 Court of Appeals on March 2, 2009.

On March 23, 2012, the Court of Appeals rendered a decision denying the other party's appeal. The Motion for Reconsideration filed by the other party was likewise denied by the Court of Appeals on June 27, 2012. The other party appealed the Court of Appeals decision to the Supreme Court. Last February 11, 2013, the Supreme Court decided to reinstate the case before the Regional Trial Court (RTC) of Manila, Branch 28.

As of February 24, 2016, the case is still pending at the RTC Manila, Branch 28.

There were other treasury bills amounting to ₱119.6 million (included in the "Other receivables" account under "Loans and receivables" in the balance sheet) 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 Regional Trial Court (Makati RTC) for the recovery of the ₱119.6 million undelivered treasury bills. On June 16, 2003, the Makati RTC rendered a decision allowing 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 Supreme Court (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, the Company's legal counsel issued a motion for issuance of writ of execution to enforce the decision against the financial institution. On April 19, 2014, the judgment award was fully settled in the total amount of ₱289.1 million. On the other hand, IIC settled in full its obligation to the other financial institution in the amount of ₱38.3 million, on April 5, 2013.

**THE INSULAR LIFE ASSURANCE CO., LTD. AND SUBSIDIARIES**

**SUPPLEMENTARY SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS**

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015 | | Adopted | Not Early Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements** Conceptual Framework Phase A: Objectives and qualitative characteristics | | ✓ | | |
| **PFRSs Practice Statement Management Commentary** | | | | ✓ |
| **Philippine Financial Reporting Standards** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | ✓ | | |
| | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | ✓ | | |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | ✓ |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Government Loans | | | ✓ |
| | Amendments to PFRS 1: Borrowing Costs | | | ✓ |
| | Amendments to PFRS 1: Meaning of Effective PFRS | ✓ | | |
| **PFRS 2** | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| **PFRS 3 (Revised)** | Business Combinations | | | ✓ |
| **PFRS 4** | Insurance Contracts | ✓ | | |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015 | | Adopted | Not Early Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | | ✓ | |
| **PFRS 8** | Operating Segments | | | ✓ |
| **PFRS 9** | Financial Instruments (2010 version) | | ✓ | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures | | ✓ | |
| | Financial Instruments - Hedge Accounting and Amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version) | | ✓ | |
| | Financial Instruments (2014 or final version) | | ✓ | |
| **PFRS 10** | Consolidated Financial Statements | ✓ | | |
| | Amendments to PFRS 10: Investment Entities | ✓ | | |
| | Amendments to PFRS 10, Consolidated Financial Statements - Sale or Contribution of Assets between an investor and its Associate or Joint Venture | | | ✓ |
| **PFRS 11** | Joint Arrangements | ✓ | | |
| | Amendments to PFRS 11, Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations | ✓ | | |
| **PFRS 12** | Disclosure of Interests in Other Entities | ✓ | | |
| | Amendments to PFRS 12: Investment Entities | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015 | | Adopted | Not Early Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 13** | Fair Value Measurement | ✓ | | |
| | Amendments to PFRS 13: Short-term Receivables and Payables | ✓ | | |
| **PFRS 14** | Regulatory Deferral Accounts | | ✓ | |
| **IFRS 15** | Revenue from Contracts with Customers | | ✓ | |
| **IFRS 16** | Leases | | ✓ | |
| **Philippine Accounting Standards** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |
| | Amendment to PAS 1: Capital Disclosures | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| | Amendments to PAS 1: Clarification of the Requirements for Comparative Presentation | ✓ | | |
| **PAS 2** | Inventories | | | ✓ |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| **PAS 10** | Events after the Reporting Period | ✓ | | |
| **PAS 11** | Construction Contracts | | | ✓ |
| **PAS 12** | Income Taxes | ✓ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | ✓ | | |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| | Amendments to PAS 16, Clarification of Acceptable Methods of Depreciation and Amortization | | | ✓ |
| | Amendments to PAS 16, Property, Plant and Equipment, Bearer Plant | | | ✓ |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19 (Revised)** | Employee Benefits | ✓ | | |
| | Amendments to PAS 19, Defined Benefit Plans: Employee Contributions | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2015 | | Adopted | Not Early Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | | | ✓ |
| **PAS 23 (Revised)** | Borrowing Costs | | | ✓ |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| **PAS 27** | Consolidated and Separate Financial Statements | ✓ | | |
| **PAS 27 (Amended)** | Separate Financial Statements | ✓ | | |
| | Amendments to PAS 27: Investment Entities | ✓ | | |
| | Amendments to PAS 27, Separate Financial Statements - Equity Method in Separate Financial Statements | | ✓ | |
| **PAS 28** | Investments in Associates | ✓ | | |
| **PAS 28 (Amended)** | Investments in Associates and Joint Ventures | ✓ | | |
| | Amendments to PAS 28, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between and Investor and its Associate or Joint Venture | | | ✓ |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| | Amendments to PAS 28, Investment Entities: Applying the Consolidation Exception | | | ✓ |
| **PAS 32** | Financial Instruments: Disclosure and Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendment to PAS 32: Classification of Rights Issues | | | ✓ |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015 | | Adopted | Not Early Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 33** | Earnings per Share | | | ✓ |
| **PAS 34** | Interim Financial Reporting | | | ✓ |
| **PAS 36** | Impairment of Assets | ✓ | | |
| | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets | ✓ | | |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | ✓ | | |
| | Amendments to PAS 16 and PAS 41: Bearer Plants | | | ✓ |
| **PAS 39** | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | ✓ |
| | Amendments to PAS 39: The Fair Value Option | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| **PAS 39** | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives | | | ✓ |
| | Amendment to PAS 39: Eligible Hedged Items | | | ✓ |
| | Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting | | | ✓ |
| **PAS 40** | Investment Property | ✓ | | |
| **PAS 41** | Agriculture | | | ✓ |
| | Amendments to PAS 16 and PAS 41: Bearer Plants | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015 | | Adopted | Not Early Adopted | Not Applicable |
|---|---|---|---|---|
| **Philippine Interpretations** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| **IFRIC 4** | Determining Whether an Arrangement Contains a Lease | ✓ | | |
| **IFRIC 5** | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| **IFRIC 6** | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ✓ |
| **IFRIC 7** | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **IFRIC 8** | Scope of PFRS 2 | | | ✓ |
| **IFRIC 9** | Reassessment of Embedded Derivatives | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives | | | ✓ |
| **IFRIC 10** | Interim Financial Reporting and Impairment | | | ✓ |
| **IFRIC 11** | PFRS 2 - Group and Treasury Share Transactions | | | ✓ |
| **IFRIC 12** | Service Concession Arrangements | | | ✓ |
| **IFRIC 13** | Customer Loyalty Programmes | | | ✓ |
| **IFRIC 14** | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✓ |
| | Amendments to Philippine Interpretations IFRIC 14, Prepayments of a Minimum Funding Requirement | | | ✓ |
| **IFRIC 15** | Agreements for the Construction of Real Estate | | | ✓ |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners | | | ✓ |
| **IFRIC 18** | Transfers of Assets from Customers | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015 | | Adopted | Not Early Adopted | Not Applicable |
|---|---|---|---|---|
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| **IFRIC 21** | Levies | | | ✓ |
| **SIC-7** | Introduction of the Euro | | | ✓ |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| **SIC-12** | Consolidation - Special Purpose Entities | | | ✓ |
| | Amendment to SIC | | | ✓ |
| **SIC-13** | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | | | ✓ |
| **SIC-15** | Operating Leases - Incentives | | | ✓ |
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | ✓ | | |
| **SIC-29** | Service Concession Arrangements: Disclosures | | | ✓ |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services | | | ✓ |
| **SIC-32** | Intangible Assets - Web Site Costs | | | ✓ |

# 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

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 key cities in the country. Insular Life provides financial solutions through its various products – from whole life, endowment, limited-pay, to pension, college education, group, and unit investment-linked plans – designed to allow individuals to take control of their family's financial security.

Insular Life has subsidiaries offering allied financial services – Insular Health Care, Inc., Insular Investment Corporation, Home Credit Mutual Building and Loan Association, Inc., 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.

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