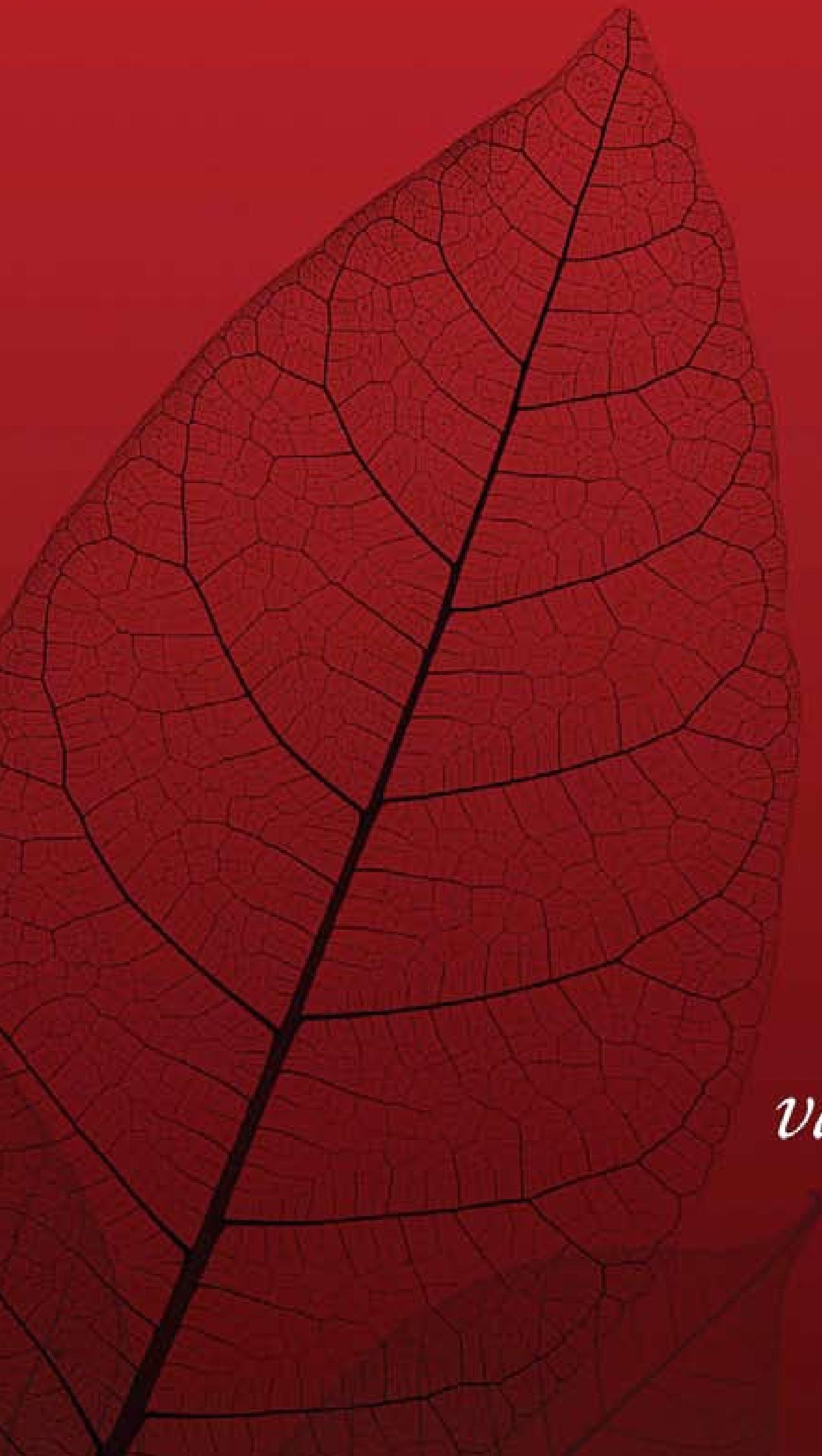
THE INSULAR LIFE ASSURANCE COMPANY, LTD.

imprints

2008 ANNUAL REPORT



Living and leaving values for a better life

Mission Statement

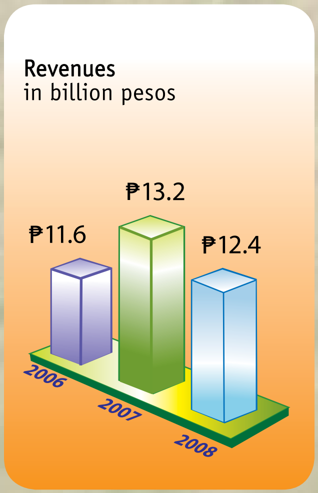
Insular Life is the Filipino insurance provider of choice. We are a major player in financial services, offering a full range of high-value products and services.

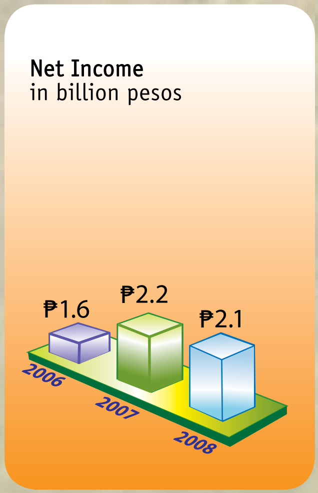
We enable and empower our employee force to render service of the highest quality to our customers, maintain a professional and customer-oriented agency force, and support our government in the task of nation-building.

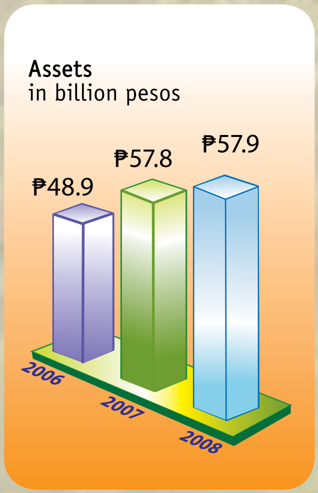
We maximize the value of our resources for our stakeholders by pursuing strategic opportunities with our chosen business partners, and by achieving sustained growth through dynamic and innovative marketing, prudent investments, and advanced support systems.

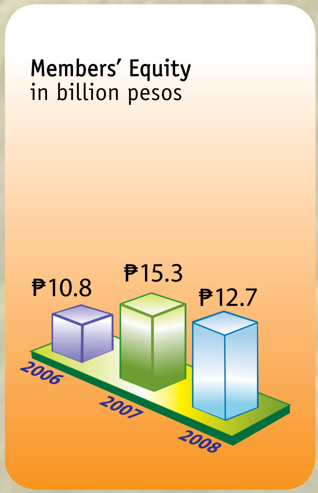
We are guided by our corporate values of Commitment to Excellence, Integrity in Work, Respect for the Individual, and Upliftment of the Filipino.

Consolidated Financial Highlights









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Message to Policyholders

Dear Policyholder:

After nearly a century of ensuring the financial security of generations of Filipinos, Insular Life continues to be a bedrock of stability. Even in the aftermath of the financial meltdown in the West and the ensuing global economic slowdown, our company has survived a big test of resiliency posed by external shocks beyond our control.

Certainly, no one has emerged unscathed from the turmoil of 2008. But Insular Life has only become stronger, and more resolute in attaining our goal of becoming the financial services provider of choice. Thus, we did not let the global financial turmoil deter us from pursuing our goals. 2008 was actually a very busy year for us — we strengthened our position by way of improving our product portfolio, making strategic investments, developing stronger client servicing initiatives, and remaining an active corporate citizen.

The challenges we faced allowed us to underscore our corporate principles and reaffirm our core values — things that should never be sacrificed even in the toughest of economic conditions.

The resilience shown by the Philippine economy in 2008 allowed Insular Life to continue its steady path to growth, a significant feat amid so much uncertainty. What's remarkable is that we were still able to find a number of opportunities and transform them to continue making positive imprints for our various stakeholders.

How the economy fared

The meltdown in Wall Street pushed much of the world on the brink of recession. But in the case of the Philippines, economic growth only slowed down in 2008, with gross domestic product at 4.6%, although slower than the record growth achieved in 2007. The country's growth pace, nonetheless, defied expectations of a more pronounced slowdown amid fears of a prolonged recession elsewhere.

Private and public spending as well as capital formation grew in excess of 4%, keeping the economy afloat despite flat export revenues and slightly lower imports. Growth also occurred across the three broad sectors of the economy — agriculture, industry, and services — again exceeding most expectations.

Remittances from overseas Filipino workers (OFWs) continued to grow at double digits, reaching a record $16.4 billion. Steady dollar inflows kept consumption buoyant, despite the spikes in inflation early in 2008 because of rising food prices, and oil price shocks. Inflation, though, was subdued in the last quarter, settling at 9.3% for the year.

While the real economy was largely spared, the financial markets were bearish. Fortunately, OFW money softened the peso's freefall in 2008 amid widespread volatility.

Risk aversion hit hardest on the Philippine Stock Exchange, with values declining at levels not seen since the 1997 Asian financial crisis due to heavy foreign selling.

The Philippine government, a major issuer of global bonds, remained active in the debt market, securing $1.5 billion in foreign funding as well as nearly ₱430 billion in funds from the domestic market by selling more Treasury bills.

With the able stewardship of local financial regulators, the country's financial system grew healthier as total resources went up by 10% to ₱7.3 trillion. Non-performing loans have returned to pre-1997 crisis levels, due to steady loan portfolio growth and the successful disposition of acquired assets.

Because of the volatile environment, the downtrend in interest rates that started in 2007 was reversed in 2008. The benchmark 91-day Treasury bill, for instance, peaked at 6.122% in December from a low of 3.673% in January. This presented an opening for us to strategically position our investments.

Earning good returns

The good news is we continued to earn healthy profits despite the turbulent financial markets. Net income after taxes reached almost ₱2.1 billion on a consolidated basis, a reflection of the profitable business models of Insular Life and its subsidiaries. The parent company alone managed to increase profits by 3% to ₱1.9 billion.

Consolidated assets also inched up to ₱57.9 billion in 2008 from ₱57.8 billion the previous year with the increased investments in some financial assets in a year that saw the global financial sector making unprecedented writedowns. Consolidated liabilities however rose to ₱45.2 billion, up by 6% from 2007 level of ₱42.5 billion due to the increase in legal policy reserves set up for group insurance, short-term paying plans and Dollar Earner investment plans.

Gross earned premiums, though, went down by nearly a fifth to ₱7.2 billion, on a consolidated basis, as the financial troubles of western economies reached our shores. Nevertheless, we made significant gains in our investment operations (₱4.2 billion), and rentals (₱237 million). These bright spots tamed the decline in the Group's total revenues to just 6%, at ₱12.4 billion.

Total policyholders' benefits, claims, changes in insurance contract liabilities, and other operating expenses amounted to ₱10.3 billion, slightly lower than the previous year's ₱10.9 billion. Dividends to individual life insurance policyholders reached ₱1.0 billion from ₱970 million in 2007. By year-end 2008, total life insurance business-in-force reached ₱209.2 billion from ₱201.5 billion in 2007.

Total members' equity amounted to ₱12.7 billion nearly 17% lower than the previous year mainly due to the decrease in market values of the company's quoted and unquoted equity securities.

Making strategic investments

With the financial markets in turmoil in 2008, parent company, Insular Life, made it a point to execute investment decisions even more carefully, bearing in mind the great responsibility of managing prudently funds entrusted to us by our policyholders.

We continued to earn outstanding yields from our diversified portfolio of investments, reaping the fruits of years of making wise decisions while others fell by the wayside because of excessive risk-taking. Consolidated investment income rose by 23% to ₱5.4 billion, the bulk of which came from interest and dividend income.

Insular Life has become a major financing source for the country's blue chips. Taking advantage of the uptrend in interest rates, we extended ₱3.0 billion in term loans last year to conglomerates involved in property development, malls, and manufacturing; a major broadcaster and a leader in the telecom sector, and two infrastructure sector heavyweights. This brought our lending portfolio to ₱8.8 billion.

Bond investments grew slightly to ₱16.1 billion. Despite depressed markets worldwide, we made modest gains in equities through tenders and smart trading. The dip in stock prices even allowed us to stagger our investments. But the bulk of our ₱1.0 billion in new equity holdings are in preferred shares of top conglomerates, assuring us of recurring income at attractive yields, a strategic move considering the down market.

The so-called bear market highlights the virtues of our innovative Wealth Series products, allowing clients to choose between four funds — peso fixed income, dollar fixed income, peso balanced fund, and peso equity fund — to preserve or create wealth during turbulent times.

Parent company financial performance

Parent company, Insular Life, surpassed its 2007 net income by a 3% margin to reach ₱1.9 billion by year-end 2008. Considering the market volatility under which we operated in 2008, any improvement in the bottom line is considered a major accomplishment. We were able to sustain the growth momentum of our operations, and maintained a healthy mix of diversified investment portfolio that allowed us to comfortably address our cash flow requirements and investment income targets.

Total revenues slowed down to ₱11.9 billion, from ₱12.5 billion in the previous year, mainly due to lower premium income. Insular Life gross earned premiums on insurance contracts reached ₱6.9 billion, 20% lower than the ₱8.7 billion in 2007. Premiums from new business of investment-linked life insurance products were below the previous year's level mainly due to the widespread anxieties in these types of products caused by the financial crisis that took its toll locally. The steady premium contribution from traditional life insurance and group insurance products, however, helped buoy up premium income to respectable levels.

Total policy benefits paid amounted to ₱4.3 billion, 29 % lower than 2007 level of ₱6.1 billion. Total expenses, including benefits, claims, changes in insurance contract liabilities, general insurance expenses, commissions, and investment expenses amounted to ₱9.9 billion from ₱10.6 billion in 2007. Members' equity amounted to ₱10.3 billion, 31% lower than the ₱15.0 billion in 2007 due to the significant decline in market values of the company's quoted and unquoted equity securities.

Total assets amounted to ₱55.4 billion, a 4% decrease from the 2007 level of ₱57.5 billion.

Subsidiaries and Affiliate

Our subsidiaries and affiliate likewise unearthed opportunities amidst the volatile economic conditions, as shown by improved financial results for 2008.

Insular Life Health Care, Inc. (I-Care) matched the previous year's revenues by recording ₱271 million in revenues, despite the difficult business climate. The HMO's net profit reached ₱9.5 million.

Insular Investment and Trust Corporation (IITC) posted a 26% increase in revenues at ₱47 million. IITC continues to be in strong financial standing with stockholders' equity reaching ₱458 million, and assets of ₱472 million. The company was one of the lead underwriters in the perpetual preferred share offering of two major conglomerates, co-managed the issuance of fixed-rate corporate notes by one of the leading power companies, and co-arranged the fixed-rate corporate notes facility of a Filipino-led multinational port operator.

HomeCredit Mutual Building and Loan Association shored up its total membership base to 13,458 with new members coming from the country's largest business process outsourcing companies, logistics and distribution firms, and manufacturers. This is largely due to the success of the HomeFund Plus equity build up plan and Cash Agad personal loans programs.

Affiliate Mapfre Insular Insurance Corporation posted a 16% growth in gross premiums written amounting to ₱1.4 billion. The company achieved positive growth in key result areas, leading to a 20% increase in after-tax profit to ₱160 million. Mapfre Insular is ranked among the top five in the industry in terms of earned premiums, investment income, and net income.

Developing new products, providing top-notch service

The global crisis, in fact, presented an excellent opportunity for the company to offer its wealth products to clients seeking insurance protection as well as investment returns attuned to their risk profiles.

We are proud of having launched innovative offerings that multinational competitors cannot equal — the *Twin Dollar Earner (3 and 5)* enabled our agents to offer high net worth clients with high liquidity to invest in Insular Life.

In the area of customer servicing, the cornerstone of our every touchpoint with the customer is the *"Magandang Araw, Insular!"* experience, a customer care program which reflects the friendship and warmth that only a Filipino can provide. The *Magandang Araw, Insular!* program aims to create a full circle of delightful experience for our customer throughout the lifetime of his policy with us. We developed new dimensions to this program to include the *Suki* Diary, an online logbook which captures the history of all transactions made by each customer.

Corporate developments

A testament to our continued confidence on the Philippine economy is the construction of our new Cebu hub. In 2008, the company broke ground for the soon-to-rise Insular Life Cebu Business Centre, which will open in time for the company's centennial in 2010. Located at the thriving Ayala Cebu Business Park, the 12-story corporate hub with a gross area of 19,500 square meters was designed by J.T. Mañosa & Associates.

In partnership with the Philippine Stock Exchange and Globaltronics, Insular Life unveiled the country's first ever electronic stock ticker on the company's historic building at the corner of Ayala Avenue and Paseo de Roxas. The 30 x 5 feet LED electronic billboard system, the first and longest curved LED display in Southeast Asia, brings the stock market closer to ordinary Filipinos, and provides news and information on business and the economy.

For the second time, Insular Life bagged the Philippine Gold Quill award for its anniversary magazine, ***PURSUITS: Of Inspiring Lives and the Filipino***

Dream. Earlier, it won a Merit Award under the Communication Skills Division, Publications Category of the yearly Gold Quill award given by the International Association of Business Communicators (IABC)/ Philippines to the best communications programs and materials in business. PURSUITS assembled some of the country's best communications professionals to highlight stories that celebrate the Filipino excelling and finding fulfilment in whatever path he or she chooses to take, in a unique celebration of Insular Life's almost a century of service to the nation.

Giving back

Corporate citizenship is an integral part of the corporation's mission, as it forms part of our company's core value of uplifting the lives of Filipinos. The Insular Life Foundation has chosen to invest in education where the multiplier effect, we believe, is higher. By educating our people, we not only help solve poverty and lift standards of living, we also contribute to the national manpower pool, a critical economic resource. Thus, we strengthened the existing Literacy Campaign programs for basic, secondary and tertiary education, and revived the former flagship program of the Foundation, the Insular Life Gold Eagle Award.

We again partnered with the JCI Senate Philippines for the 2008 The Outstanding Filipino or TOFIL Awards. Now on its 21st year, TOFIL awarded five more Filipinos to the prestigious TOFIL roster: Antonio S. Abacan, Jr. (Banking), Sister Mary Placid Lorna C. Abejo, OSB (Music), Rustica C. Carpio, Ph.D. (Culture and Arts), Rafael D. Guerrero III, Ph.D. (Science and Technology), and Federico M. Macaranas, Ph.D. (Economics).

What lies ahead

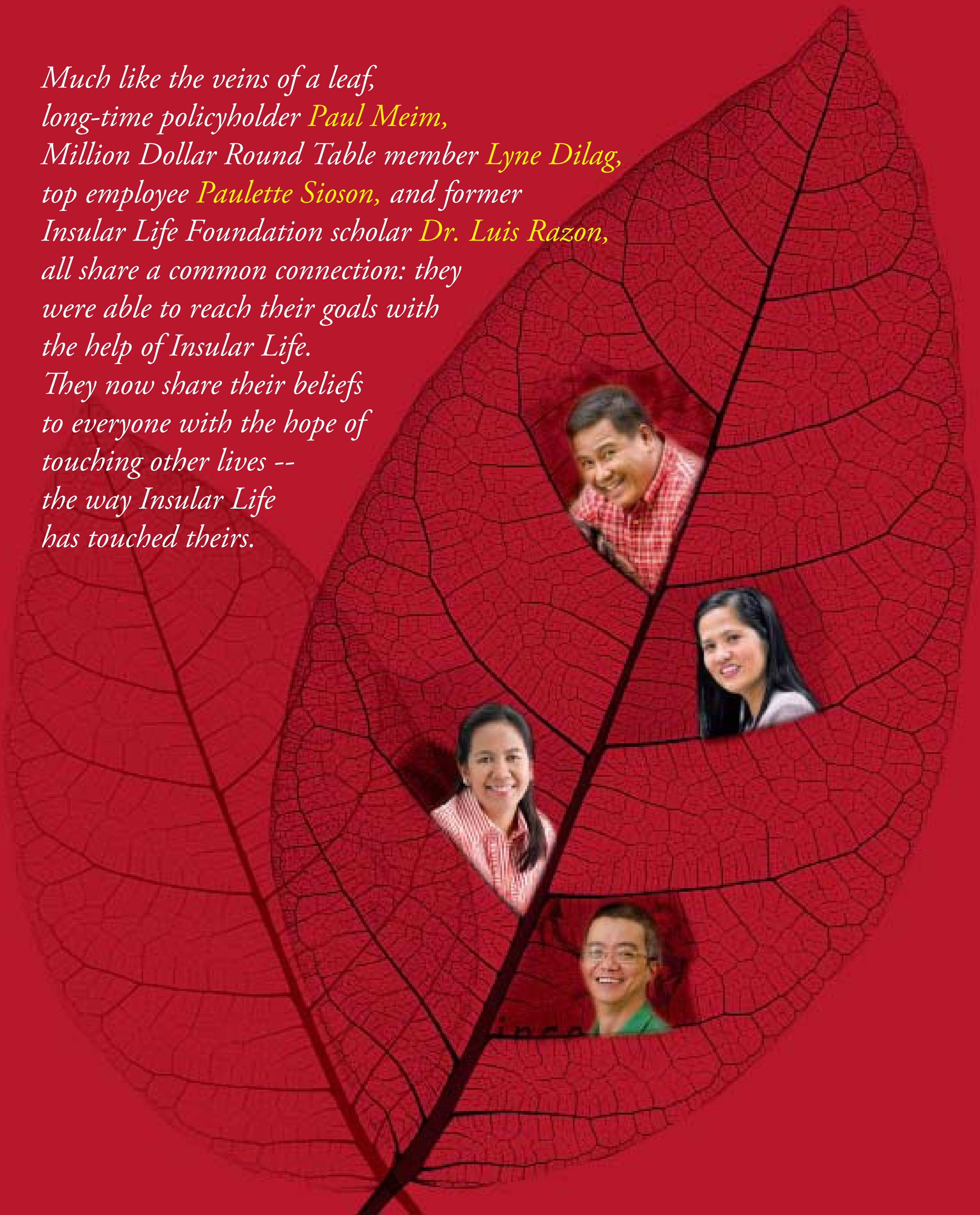
All these achievements is the result of the collective effort of the management team, employees, and agency force, whose dedication and commitment to the mission and vision of the company remains steadfast. We thank our Board of Trustees for helping us chart the direction of the company especially during this perilous times. We thank you, our policyholders, for your continued trust and confidence in us. We assure you that we will continue to make wise and prudent investment decisions and safeguard your investments to ensure your financial security. We will continue to improve on our products to make them even more relevant to the emerging needs of Filipino individuals, families, and businesses. As a truly Filipino provider of comprehensive financial services, we will prevail, and become the Filipino voice of authority in financial security.

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

Mayo Jose B. Ongsingco
President and Chief Operating Officer

Intersecting Lives

Much like the veins of a leaf,
long-time policyholder Paul Meim,
Million Dollar Round Table member Lyne Dilag,
top employee Paulette Sioson, and former
Insular Life Foundation scholar Dr. Luis Razon,
all share a common connection: they
were able to reach their goals with
the help of Insular Life.
They now share their beliefs
to everyone with the hope of
touching other lives --
the way Insular Life
has touched theirs.



Keeping the Faith

Whatever the circumstances, long-time Insular Life policyholder Paul Meim—who recently survived a harrowing plane incident—is confident that both his convictions and his coverage will see him and his loved ones through.

(L-R) John Paul Niño, Paul, Regina Therese, Mary Rose, and Christianna Erica

Prior to Northwest Airlines Flight 2's landing at the Narita Airport in Tokyo on February 20, 2009, Paul Niño L. Meim and his very pregnant wife Mary Rose were among the passengers who faced uncertainty as the plane experienced three intense air-pockets that brought its passengers flying to the roof before landing. There were about 50 injured in that flight.

However, unlike some of the other passengers who were panicking, Paul, Mary, and the future Joseph Patrick (who was born later on St. Patrick's Day) were among those who prayed and remained calm. Perhaps it was because Paul had always been assured—that whatever happens happens. His family shares this conviction among other things such as surrendering everything completely to the Lord and the assurance that even if they are gone, life continues for those they love.

"But of course I was worried because my wife was with me and she was pregnant," Paul says. "I kept thinking, 'Lord, *kawawa naman ang baby namin*'. He will not even experience life. And what about my three other kids? Who will take care of them?"

The plane, with God's grace, landed safely and Paul got to tell his story—a story of how, just like any parent, Paul only wants the best for his children. Blessed with four wonderful tots, a loving wife, and a job that allows him to be secure financially, Paul has the humility of a man who is a firm believer in the capability of a strong insurance plan.

His mother bought him an Insular Life *Life Anticipated Mutual Plan* or LAMP in 1981 and, at his young age, Paul didn't quite understand yet the importance of an insurance policy. Nonetheless, the idea of being secured has been impressed on him by his family which eventually led him to buy an Insular Life *Diamond Jubilee* plan for himself in 1996.

It was only when his brother passed away due to a hereditary liver cancer in England six years ago that Paul truly appreciated what a policy can do to change lives.

"It felt truly gratifying that my brother cared for me," says Paul. "Being a recipient of his Insular Life policy not only helped me but the family that I am currently taking care of. It has affected my life very significantly. It has helped me begin my life as a family man."

"It has also helped the life of others," he continues. "A portion of what I received was donated to put up a college scholarship fund that will grant college scholarships for life. I put the scholarship in my brother's name, in the course that he took, in the private Catholic university he studied in."

To say that Paul is an insurance agent's dream client would be an understatement. He has made sure that his wife and children are also insured.

"My children are policy holders of other insurance companies," Pauls says. "They were given to them as gifts by my relatives, in-laws, sisters, etc. where they start the plan for the first year and I eventually continue it for them."

But then again, Paul isn't the type to be easily fooled by just any agent who's simply looking to meet a quota. According to him, he would rather talk to an agent who he knows personally because if that wasn't the case, he'd feel that he would be too biased against the agent who is there just to make a sale.

The agent Paul chose was a family friend of his because "the agent was trustworthy and knew when I was no longer willing to listen and stopped when I was not attentive and irritable already."

Bonding time.
Paul goofs around with daughter Christianna Erica and with son John Paul Niño

Spreading the warmth of the Magandang Araw touch

At Insular Life, we want to keep our clients extra-special. Thus we introduced the *Magandang Araw Insular!* customer experience reflecting the friendship and warmth of the Filipino.

The idea is to create a full circle of customer experience — starting with policy delivery leading to birthday and Christmas greetings, to the Extra Special Policyholder (ESP) loyalty programs and finally, the delivery of the Insular Life commitment. ESP members are entitled to a prestige card, which they can use for discounts and special offers from our merchant-partners.

We also launched the *Suki* Diary, a front-end application for servicing staff. The *Suki* Diary is an important logbook containing customer records which the servicing staff can access to browse old customer "touch points" and review how these contact points were processed.

The newest feature of the *Suki* Diary is the Welcome Call Tab which allows the recording of Welcome Calls by the call center staff of the Policyholders Services Division.

"Most of my applications were done extensively," Paul says. "I had long questionnaires to answer and medical tests to undergo and a lot of computations had to be done."

Since then, Paul has enjoyed the benefits of his *Diamond Jubilee* plan. The life policy addressed Paul's needs—that there was something substantial that his beneficiaries will receive in the event that he passes away prematurely. Paul says that the plan is worth every peso that he has invested in.

"As a *Diamond Jubilee* policyholder, I also get a free annual medical check-up," he says. "I feel that Insular really does care for me and my family's future. What I like about the company is that, how I am to my children, is exactly how Insular Life is to me. *Talagang gagawin ang lahat.*"

Going back to the Northwest Airlines episode, Paul offers the reason for them being calm: "On a Christian point of view, I feel that I am at the point of always being 'ready' not just because I have insurance but also because I am always in a 'state-of-grace'. So that when the time comes, I'm assured of the financial security of those that I leave behind and I am even more assured that my soul will also be with our Lord."

Text by Dexter R. Matilla / Photographs by Bobot Meru

The Anti-Nerd

So Paulette Sioson may be a math wiz who ranked highest for the Asia-Pacific region in two LOMA programs. Still, this doting aunt and closet dancing queen is a firm believer in balance—and she certainly defies the number-crunching stereotype.

WHEN Insular Life Senior Manager for Corporate Planning Paulita "Paulette" Sioson was recently declared an "introvert" by a psychological exam, it was her friends and colleagues who were up in arms. "They were all clamoring, 'Retake! Retake!'" she says with a laugh. "Nobody could believe it." After all, the ebullient Paulette can talk a mile a minute, and by her own admission, likes to speak her mind. "*Derecho ako magsalita*. I'm a very black-and-white person."

Indeed, this cum laude math major from the University of Santo Tomas and MBA degree holder from the University

of the Philippines can certainly intimidate people with her formidable mind. Last year, she was also the only student from the Asia Pacific region to top her program as an Associate in Financial Services Institute at the prestigious Life Office Management Association (LOMA), an international association of over 1,200 insurance and financial service companies based in Atlanta, Georgia that offers one of the most comprehensive professional training curricula in the field. That made her the de facto valedictorian of her batch, the only Filipina to have made such a mark. She also topped the Associate, Customer Service program, sharing the spotlight with Anret Paccimadith of Thailand.

Next, Paulette is gunning to earn the Associate, Annuity Products and Administration, also a LOMA program. "Being from Corplan, you get exposed to the different disciplines and I need to get a holistic view of the company. Insurance has evolved from being just a protection to a combined protection and investment vehicle," she explains.

Besides, Paulette admits, she has always loved studying and learning. Perhaps it helps that Insular Life encourages its employees to take up LOMA by offering to shoulder the course fees. And as a further encouragement for them to finish, employees get cash incentives when they reach the midpoint mark in their studies, and more when they complete them.

This may be part of the reason why Insular Life employees regularly get high marks. As proof, the company was awarded its 12th LOMA award of excellence during the 2008 conference in San Diego, with Paulette accepting on behalf of Insular Life.

With Insular Life taking care of the course fees, Paulette is able to save most of her salary, which she spends on books. "You can leave me in a book store for five hours, and I'll usually go home with two or three new ones." That's why the best part of her job, she says, is the fact that "the projects are always fresh, not mechanical. The research is fun, because you learn." And the hardest part? "Nothing!" she exclaims. "It's like work and play for me."

Being the eldest among three—and the only girl at that—Paulette grew up helping her mother while her father worked as an OFW in the United Arabs Emirates. "*Katuwang ako ni* Mommy. At an early age, I learned to be responsible. As early as grade school, my Mom and I had a joint account in case she can't go to the bank and I had to do the withdrawal. She also oriented me where all the important documents were, such as property titles, receipts, transcript of records, etc. I also felt that all of my Dad's work would be wasted if I did not do well and made good (in my studies)."

It helps that Paulette, who has been with Insular Life for almost six years now, feels that the sense of family in her place of work is very much like what she experiences at home. "My Mom has always supported me, and she's a firm believer in education. It's the same thing here—they gave me the breaks, and they appreciate what I do. Plus, we have so many other things, like sports fests and dance workshops. I actually learned that I can play badminton, and *marunong din pala akong kumembot!*"

The *kembot* is important, because it's Paulette's goal to be much more than just a number cruncher. "I believe in balance. It's nice when people know that you're this way, but don't realize that you can be that way, too. I want people to expect me to excel, but realize that there are unexpected things about me, too."

Among those revelations is that this doting aunt, fondly called "Tati" by the young nephew and niece she shamelessly spoils, is very fond of children. In fact, the 37-year-old Paulette declares, if she's not married by the time she hits 40, she plans to adopt a child. "I'm not a lot of things, but I do know in my heart that I would make an excellent mother," she declares.

With regards to the *kembot*, Paulette isn't shy about joining free public retro dance sessions at the nearby Alabang Town Center, just to get a cardiovascular workout. She also loves the beach, and is enamored with everything Italian, from the food to the ***Godfather*** movies. "That's what they asked me when I was interviewed for my job—what do I want to do? And I said, I want to go to Italy!" Paulette is toying around with the idea of using her future endowment—from an Insular Life plan, of course—to someday fund the trip.

Then, there's this learning junkie's newfound environmentalism, brought about by watching Al Gore's award-winning documentary ***An Inconvenient Truth***. "I was really affected by that film," Paulette says. "Now I'm trying to do small things—I don't use plastic bags, I don't ask for receipts, and I've been using my mug when I buy coffee."

On the professional front, Paulette wants to make her own mark in her chosen field, in much the same way that her highly-respected superior, Insular Life Chairman and CEO Vicente Ayllón, has helped build up the industry. "Like Mr. Ayllón, I'd like to make my own contribution, although I still don't know where and how. I hope I get the opportunity." But while motherhood will have to wait, Paulette is making one dream a reality soon. She recently took out a company housing loan, and is set to begin building on a lot in Santa Rosa, Laguna, a mere 18 km. from her office. It's a big investment, but Paulette confidently shifts back to—oops—nerd mode. "I've already planned out how I'm making the payments. I've got it on a worksheet, with everything factored in." If only all "nerds" could be this much fun.

Text by Alya B. Honasan / Photographs by Bobot Meru

Sioson accepts Insular Life's 12th LOMA award for Excellence in Education from LOMA Vice President for Education and Training Kathy Miligan, FLMI, ACS

Outgoing LOMA president and CEO Thomas P. Donaldson congratulates Sioson for being a top AFSI designee

Sioson (first row, 2nd from right) together with the other top LOMA students

In pursuit of the gold standard

Our people are our lifeblood, and we have not wavered in making the necessary investments to create a top-notch talent pool. In 2008, Insular Life conducted 250 training programs and created an Agency Development Office to focus on recruiting leaders and agents. 2008 also welcomed three new members to the Million Dollar Round Table, bringing the total to 48. We also had 28 qualifiers in the General Agency & Managers Association or GAMA.

The company itself received recognition from its peers. On our 98th year of unbroken service to the Filipino, we received the 12th award of excellence from LOMA or the Life Office Management Association, the international association of over 1,200 insurance and financial services companies operating in more than 80 countries.

Among LOMA's various courses is the Fellow, Life Management Institute or FLMI, which is its main program. At present, Insular Life has a total of 29 FLMI designation-holders.


A Series of

Fortunate Events

How a series of fortunate events—from her first sale as an industrious teenager, to her membership in Insular Life's elite Million Dollar Round Table group—helped top life insurance agent Lyne Dilag make her mark in a job she is passionate about.

Who would have thought that a 17-year-old Lyne Leva Dilag would be able to sell a life insurance policy while manning her family's *sari-sari store*? Certainly not Lyne. At the time, she had just finished a basic training course on life insurance and was simply sharing everything she learned to a customer who was enjoying his bottle of softdrink.

"I shared with him that at first, I thought that you had to die before you benefit from your insurance," Lyne said. "But obsolete *na pala yung* way of thinking *na 'yun*. There's a lot that a life insurance can do for a person."

After she had sealed the deal with the customer, Lyne immediately felt that she was meant to be in the life insurance business. She then took the licensure exam to be an insurance agent and on her first take, she passed it.

At that time, Lyne was working as a secretary for a drapery company. She was soon then pirated by a unit manager from Insular Life and her journey in the life insurance business started. In the beginning, she was only interested in the commission she earned.

"I was young and I was not thinking of my career at the time," Lyne says. *"Pang-gimik lang ng barkada."*

And according to Lyne, if an agent thinks that way, he or she won't last for three years.

Sure enough, it was exactly what happened to Lyne, and she decided to become inactive. A few years later, she was studying law at the Far Eastern University while working in the Senate of the Philippines. It was during this time when her husband Sonny asked her about the idea of getting a life insurance plan.

"I'm so in love with Insular Life that I told my husband to get only from them," Lyne says.

She then inquired for a plan at Insular Life and while doing so, she was asked by former colleague, Becky Santos, if she wanted to rejoin the company.

Lyne, who had just lost her mother at the time, gave it some thought. She remembered how their memorial agent went above and beyond to take care of everything for them. This made her realize that she, as a life insurance agent, could do the same thing for others if she went back.

So she eventually reactivated her license in 1994, albeit part-time as she still kept her job at the Senate. This time around, however, her outlook on the business has changed since she was already married and she understood further the importance of selling life insurance.

A series of events then occurred that only strengthened her belief. One such event was when Lyne saw one of the security guards at the Senate and she "heard" that little voice inside her—her guardian angel—telling her to sell an insurance policy to the guy.

"But *naunahan ako ng* ego *ko,*" Lyne says. "I did not approach him to tell him about life insurance *kasi* I thought *baka isipin niya, nira-raketan ko lang siya.*"

The security guard died of heart attack a few months later. It was shocking, to say the very least, for Lyne and her office mates because he never had any history of ailments and was, in fact, in top-form shape. Lyne, who volunteered to be the security guard's surviving officer, soon found out that he was the family's bread-winner. Worse, his wife has a kidney ailment, his eldest child was about to graduate, while the other children were very young.

"I carried that feeling of guilt for a long time because I didn't do my job," Lyne says. "Had I listened to my 'guardian angel', the security guard would have probably been able to buy a plan and he would have been able to leave something to his loved ones."

Lyne says that she has learned her lesson because of that incident.

"I don't care whether you want to buy or not, but I'll tell you all about insurance," Lyne said with conviction.

Soon after, she had a chance encounter with one of her husband's work associates, who was a ship chief mate working at that time as a consultant in her husband's company. Lyne asked why he hasn't started a family yet and the chief mate answered that he could not because he did not have money since most of his pay supported his family.

I- Excel: Partnering with parents to give youngsters top-notch education

Insular Life made waves in 2008 with the launch of its newest insurance savings program for education, I-EXCEL, designed to ease parents' incessant worries over the rising cost of education.

As a responsive plan, I-EXCEL provides college education benefits that increase 15% annually to cover tuition hikes and inflation. A unique feature is the Supplemental Educational Allowance, which can cover expenses for theses, practicum, and projects. The plan's Protection Cash Benefit can be used by the graduate to buy insurance coverage as he begins his career.

Moreover, the product makes sure children continue their elementary and high school education should anything happen to the payor, by incorporating life insurance protection features such as Waiver of Premium and the Contingent Education Fund. To uphold academic excellence, cash incentives will be given to those who graduate with honors.

"I told him that he's one step away from being captain of the ship," Lyne said. "And if he became a captain, if something happens to him, the ship would be in trouble."

Lyne may have been speaking metaphorically at the time but she was able to convince the chief mate to buy a plan. This was a feat considering that according to his family, he didn't even believe in insurance. But it proved heaven-sent. Seven months later, the chief mate died in a car accident. Before his death, the chief mate had left ₱100,000 with Lyne and Sonny and told them to invest the money for him.

"I did not know to whom I should give the money so my husband and I decided to go to the chief mate's family in Dipolog," Lyne said. "I needed to know who to give the money to. I found out that members of his family were also suffering from different ailments. His father was suffering from kidney problems, his eldest sister has leukaemia while a younger brother was plagued with chemical imbalance. To top it all, the mother, who was the only healthy one, had no job. So we left them the money. I became more passionate because the saying that 'so someone would go on living' got embedded in me." The life insurance benefit was used to buy a farm lot and machinery to replace the lost income of the breadwinner.

It was this same compassion that allowed Lyne to be a part of the exclusive Million Dollar Round Table group. During a seminar in 1997, Lyne was among a group of agents who were asked if they wanted to be part of the MDRT. There were those who raised their hands but not Lyne as she wasn't sure she could do it.

"I was just earning ₱300,000 in commission a year during that time," Lyne said. "To be part of MDRT, you have to make around ₱1,200,000."

After some encouragement, she set her sights on being a MDRT member and by early 1998, she resigned from Senate and went full time in Insular Life. At the end of the year, her dedication paid off as she became a National Prestige Club member and qualified for the MDRT. She and Sonny went to New Orleans for the MDRT convention and Lyne recalls the shock she felt when she arrived.

"I was thinking that it would be a serious kind of convention," Lyne said. "But it was like attending a Born Again group. The approach was holistic. There were discussions for professional and personal growth, about health, and money management. The energy and attitude of everybody was overwhelming and I couldn't help but aspire to be one of them."

Lyne would go on to become a regular qualifier of the MDRT group and she has been financially-stable since. And though she believes that a person can't have everything, at least in her case, she has everything she could ever need.

"I have a very good husband, beautiful and talented children, I have my work, great friends around me, and a community service that I love most," Lyne says. "I really thank the Lord for giving me everything."

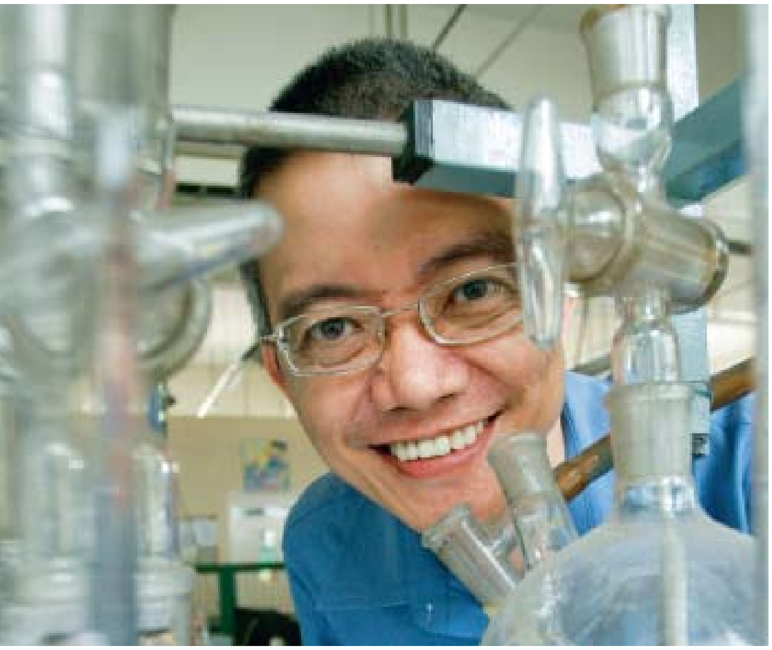
Text by Dexter R. Matilla / Photographs by Bobot Meru

A Message of Hope

At seven o' clock in the morning, Dr. Luis Razon is already on his way to the office, carrying with him two, sometimes three bags filled with papers and documents that he needs for the day. For unknowledgeable eyes, he would seem like a run-of-the-mill college professor; but eyes that do know would see him as one of the top chemical engineers in the country today.

While he would not admit to it openly because he is not one to sing his own praises, his work and achievements from his many years of research and teaching undoubtedly says it all. Specializing in chemical reactors and new product development, Dr. Razon was able to set his footprint in the field of chemical engineering not just in the Philippines but also in the Southeast Asian region. And he is not quite done with leaving footprints just yet.

However, tracing his footsteps back, things would not have turned out the way it did for Dr. Razon. He distinctly remembers wanting to study Chemical Engineering in De La Salle University, not just because all his older siblings are there, but also because he knows the program offering is good. As a top student, he naturally aced the exam, but he didn't



quite know that in his application, he was supposed to check the "yes" box in the financial assistance section in order to get a scholarship grant. At the time, the tuition fee would prove much too difficult for his father—who was working as a medical sales representative in Davao—if he doesn't apply for any scholarship.

It was when he had almost given up hope to study in La Salle that a telegram came saying that he had been chosen as an Insular Life Education Foundation (ILEF) Gold Eagle scholar.

"It was a message of hope. The telegram arrived in 1975. Martial law was just two and a half years old. Friends had gone up into the hills. People were being thrown into the stockade for saying well-meaning jokes like *'Sa ikauunlad ng bayan, bisikleta ang kailangan!'* There was a curfew. Yet, here was the Foundation saying, 'There is hope. There is a future and we are proving it by investing in you.'"

Dr. Razon shares that the scholarship from Insular Life set him towards the path that led him to where he is now. And he knows that he has much to be thankful for. Not only was he able to pursue his passion for chemical engineering because of the scholarship, he also gained new friends through the annual picnics together with the other scholars. It also brought him in touch with then IL Gold Eagle scholarship administrator, Carlos Avenir, who he considers as his mentor.

"He was always very accessible and jolly. He would always be there when we had some concerns about our scholarship. Always reliable, never flustered. For us, he was the face and voice of Insular Life," he remembers.

Beyond the scholarship

Armed with his B.S. Chemical Engineering degree, Dr. Razon braved graduate school in the University of Notre Dame at Indiana, U.S.A where he was able to get another scholarship grant.

Top (L-R) Annette and Manette Razon; seated (L-R) Sam and Dr. Luiz Razon

At this point he asked himself: "Were it not for the Insular Life scholarship, would I have gotten this grant to get a Ph.D.?" He found the answer to his own question, not from anyone else, but from within himself: "I would like to believe that there is a guiding link somehow."

And indeed, there is. Looking back at his experience in getting the scholarship, Dr. Razon believes that his most important realization is the enormous impact that a simple act can have. "In my case, getting the scholarship not only had a financial impact. It boosted my self-confidence and improved the financial outlook for our entire family. What's more, the scholarship was given unconditionally, no requirements before or after the grant," he says. "For that, I am very grateful."

Dr. Razon's young family knows very well how his education, with the help of ILEF (re-christened the Insular Life Foundation, Inc. or ILF), brought him to where he is right now.

"I tell my kids that it is very important to keep their grades high and to always maximize their learning experiences. If my grades weren't high, then ILEF might never have taken notice and I would never have been granted a scholarship. And it's not necessarily just grades; it's what you learn in the course of your schooling. Grades are empty unless one has really learned something," he shares.

His children, Maria Anna Teresa (Annette) and Patricia Angela Marie (Sam), seem to take this to heart. Both girls, who are only a year apart in age, are consistent honor students at De La Salle Zobel. “In the coming school year, Annette will be the Sophomore level representative. She is a member of Youth for Christ (YFC), too.” Sam, on the other hand, “was the chair for the Grade School Student Judicial Board, which is kind of the combined Comelec and Judiciary of the Student Council for SY 2008-2009.” Both are also members of the DLSZ basketball team.

Much like ILF, Dr. Razon wants to impart to his children a legacy of good education, and to pass on to them the benefits that he and his wife Manette, an advertising account executive, received through their education.

“What we wish for our children is that they have happy, stable lives. (To) have a good family and be financially comfortable, not necessarily rich. I hope that they can dream their own dreams and fulfill them as productive and respected members of society.”

Full circle

In 1982, the Insular Life Gold Eagle program was discontinued to re-focus on other education needs at that time. Dr. Razon was upset when he learned about this. He knew that the program had helped hundreds of students to not only fulfill their goals but to excel. Indeed, 138 scholars were able to complete the scholarship program, and among them, 11 graduated *summa cum laude,* 21 *magna cum laude* (among them Dr. Razon), and 33 *cum laude*.

Still,“nothing can be forever and everything must come to pass,” Dr. Razon says. “The wonderful thing about this temporal world is that while things may indeed come to pass, even its passing is not necessarily forever.”

And perhaps fittingly enough, the young man who mourned the end of the scholarship program was chosen to speak on behalf of his fellow scholars during the formal re-launch of the IL Gold Eagle Award on November 2008. “And so we welcome the new IL Gold Eagle Award. And, indeed, it is a worthy successor to the previous program.”

Laying the groundwork for the future

In 2008, Insular Life Foundation (ILF) revived its popular and pioneering program, the Insular Life Gold Eagle Award. This is a nationwide program that recognizes top high school graduates and provides scholarship grants to ten B.S. Education students every school year.

Under the program, valedictorians of the graduating batch of the top 1,000 public and private high schools will receive an Insular Life Gold Eagle medal. Moreover, the Foundation’s focus in B.S. Education is its bid that these future educators would be instrumental in molding the Filipino youth into drivers of our nation’s growth. As such, the top ten students from the program’s partner schools would be given the chance to vie for the full scholarship grant at the University of the Philippines in Diliman.

The Foundation will welcome its newest batch of IL Gold Eagle scholars on the first semester of SY 2009-2010.

According to Insular Life Chairman of the Board and Chief Executive Officer Vicente Ayllón, reviving the scholarship aims to “increase the number of catalysts of change, for this is the kind of persons we hope our future scholars will become.”

The new scholarship will focus on the education of future teachers to address the problem of deteriorating quality of competent teachers, especially in basic education. Under the revived program, all honorees of the top 1,000 public and private schools automatically qualify to vie for the ten B.S. Education scholarship slots given by ILF’s partner university, University of the Philippines-Diliman. The grant covers tuition, miscellaneous fees, book allowance, board and lodging, and stipend.

In welcoming the new scholarship program also with a sense of hope, Dr. Razon wishes to impart to the new and upcoming scholars one of the important things he learned along the way towards the achievement of his goals—to always remember the footprints they’ve made, not just in their own lives, but also in the lives of the people they’ve met along the way.

“I do hope that the new scholars continually look back and realize that the scholarship that they get is not merely financial assistance. It is a vote of confidence. While there may not be any legal obligations attached, they still should look forward and try to pay it forward. It is the best way they can give back to ILF for the (chance) given to them,” he concludes.

Text by Anne Nerissa C. Alina; Additional text by Michelle D. Santos / Photographs by Bobot Meru

Subsidiaries and Affiliate

INSULAR LIFE HEALTH CARE, INC.

Insular Life Health Care, Inc. or I-Care, one of the country's top health maintenance organizations, recorded ₱271.4 million in revenues in 2008, closely matching 2007 sales amid the difficult business climate. Profits reached ₱9.5 million. I-Care ended the year with assets of ₱275.6 million and equity of ₱171.1 million among the highly capitalized in the HMO industry.

In 2008, I-Care focused on enhancing healthcare programs, including the introduction of latest treatment modes. To ensure uninterrupted customer service, I-Care also beefed up its 24/7 call-center facilities.

I-Care is accredited in over 500 hospitals, medical clinics, dental clinics and reference laboratories all over the country. The list of medical specialists on its roster went up to over 7,500. I-Care has a first-class, fully equipped clinic in its Makati head office and a mobile clinic used extensively by members. I-Care maintains five provincial offices nationwide — in Cebu, Bacolod, Davao, Baguio, and Pampanga.

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

INSULAR INVESTMENT & TRUST CORPORATION

Insular Investment & Trust Corporation's (IITC) revenues grew to ₱47.2 million in 2008 despite the financial turmoil and continued volatility in the capital markets. IITC is a licensed investment house with a trust license, its stockholders' equity stands at ₱458 million as of year-end.

IITC participated in four major deals in the Philippine capital markets. In the corporate debt market, IITC co-managed the issuance of a ₱3.89 billion fixed-rate corporate note by one of the leading power companies in the country and co-arranged a similar fixed-rate corporate note facility of a Filipino-led multinational port operator with total issue size of ₱855 million. In the equity capital markets, IITC was an underwriter in the perpetual preferred share offerings of two major conglomerates, that raised a total of ₱10.3 billion.

Affiliate

HOMECREDIT MUTUAL BUILDING AND LOAN ASSOCIATION

The success of programs such as the HomeFund Plus equity build-up plan and Cash Agad personal loans increased Homecredit's profits to ₱3 million in 2008 from ₱2.5 million in 2007. Aside from achieving sales targets for the two programs, effective cost management contributed to the increase in net income of the company's savings and home lending unit.

A total of 2,399 new members joined HomeCredit for the year, many of whom came from the country's largest business process outsourcing companies, logistics and distribution firms, and manufacturers. This boosted HomeCredit's total membership base to 13,458.

HomeCredit's main business remains to be contract savings, or periodic and regular accumulation of funds tied-up with mortgage loans. Related businesses revolve around savings protection schemes, home development programs, and the expansion of financial sources for mortgage loans. Total loan portfolio stood at ₱145 million, broken down as follows: ₱54 million in rent-to-own schemes, ₱53 million in mortgages, ₱35 million in stock loans, and ₱3 million in other receivables. The company paid a total of ₱21 million representing total contributions plus earnings of 416 members.

To expand its market reach and customer base, HomeCredit forged auto debit arrangements with the three biggest banks in the country. Four companies joined the HomeCredit savings program using the auto debit facility, opening a market to a combined population of 20,000 regular and directly hired employees.

On the OFW front, HomeCredit started tapping seafarers and maritime workers who earn substantial salaries but are often unable to save. Four maritime manning agencies have integrated HomeCredit's Individual Savings Program into regular Pre-Departure Orientation Seminars for outgoing seafarers.

MAPFRE INSULAR INSURANCE CORPORATION

One of the country's top non-life insurers, Mapfre Insular Insurance Corporation achieved positive growth in all key result areas. Total gross premiums written for 2008 was at ₱1.4 billion leading to a 20% growth in after-tax profit of ₱160 million. Total assets of the company was at ₱2.5 billion and total equity at ₱1.2 billion.

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

Now a billion-peso multinational, Mapfre Insular marks its 75th anniversary in 2009, looking back with pride to its humble beginnings as a small, pre-war company founded by prominent Filipino entrepreneurs.

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

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

Corporate Governance

Longevity and sustained growth are key indicators of the success of a corporation, and good corporate governance is an indispensable factor to achieving these goals. As Insular Life celebrates its 98th year, its Management continues to embark on programs and activities that, apart from advancing the economic interest of the stakeholders, promotes and upholds the principles of sound corporate governance - fairness, accountability and transparency.

The Board and its Role

The Board's thrust is to direct the annual performance objectives and long-term strategic business plans of the Company. It ensures that these plans are effectively implemented and that the Company's objectives are successfully realized without, however, disregarding the value of risk management, corporate controls and legal compliance.

Through effective monitoring and diligent guidance, the Board continues to oversee the Company's performance on a fully informed basis by mandating accurate, complete and timely reports of relevant areas of the Company's operations.

Board Profile

The nine-member Board of Trustees is composed of the Chairman, the Vice Chairman and seven Trustees. While the Code of the Corporate Governance Principles and Leading Practices issued by the Insurance Commission requires only that at least two members of the Board of Trustees should be independent directors, the Company boasts of six independent, non-executive directors. The various Board committees helped in closely monitoring and overseeing the different aspects of the Company's operations and in reporting the progress of these operations to the Board on a regular basis. These committees include: the Executive Committee, Nominations Committee, Governance Committee, Budget and Audit Committee, Finance and Investment Committee, and Personnel and Compensation Committee.

Individual Trustees are leaders and professionals in their respective fields, selected for their integrity and independence of mind. All affiliations of the Trustees are disclosed and reviewed to fully ensure no conflicts of interest exist and that the affiliation may not impair or adversely affect any director's independence.

The Board holds regular monthly meetings, without prejudice to calling a special meeting if necessary. At each meeting, the Management provides information, references and details of each agenda to all members of the Board for consideration. During the meeting, each agenda is comprehensively, openly and actively discussed among the Trustees so that they can fulfill their duties to the best of their ability.

In 2008, all of the Trustees attended more than 50% of board meetings held, three Trustees had 100% attendance while two trustees had 92% attendance in these meetings.

Compliance Awareness

As part of the Company's objective to increase the consciousness of all the members of the employee force about the importance of compliance and good corporate governance, the Company celebrated the very first Compliance Awareness Week from June 2 to 6, 2008. Various activities were conducted during the week-long celebration to highlight the role and responsibility of each employee in effective corporate governance. The aim was to develop their commitment and discipline towards the ethical and principled performance of their functions. Compliance programs have likewise been launched to provide the employees with the necessary tools and facilities in ensuring compliance with regulatory requirements.

VARIOUS BOARD COMMITTEES AND MEMBERS

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

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

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

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

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

NOMINATIONS COMMITTEE
Edilberto B. Bravo, *Chairman*
Antonio H. Ozaeta, *Vice Chairman*
Bernardo M. Villegas

Board of Trustees

Vicente R. Ayllón
Chairman of the Board

Edilberto B. Bravo
Vice Chairman

Mayo Jose B. Ongsingco
President and Chief Operating Officer

Board of Trustees

Antonio H. Ozaeta
Member

Alfredo B. Paruñgao
Member

Bernardo M. Villegas
Member

Cesar C. Cruz
Member

Delfin L. Lazaro
Member

Ricardo G. Librea
Member

Management

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

Mayo Jose B. Ongsingco
President
and Chief Operating Officer

Senior Vice Presidents

Jesus Alfonso G. Hofileña
Executive Vice President

(L-R) **Marietta C. Gorrez, Wilfredo M. Llanto, and Mona Lisa B. De La Cruz**

MANAGEMENT

Management

First Vice Presidents

(L-R) Ma. Edita C. Elicaño and Ronnie B. Alcantara

Vice Presidents

(L-R) Renato S. De Jesus, Mylene C. Padilla, Maria Teresa L. Cruz, Maria Rosa Aurora D. Cacanando, Carlito V. Lucas, Myrna A. Alcantara, Geraldine B. Alvarez, Carmen G. Duque, and Ramon M. Cabrera

MANAGEMENT
MANAGEMENT
MANAGEMENT

Management

Vice Presidents

(L-R) Seraline L. Manguni, Henry A. Pagulayan, Eleanor G. Tañada, Susana G. Nicolas, Christopher C. Cary Casipit, Amelita F. Tamayo, John Jesus O. Lim, and Jocelyn B. Reyes

Not in photo: Maria Antonia E. Lim

Senior Assistant Vice Presidents

(L-R) Rico T. Bautista, William S. Racadio, Engeline T. Ureta, Enrico L. Cordoba, Laarni F. Garraton, Corazon S. Cruz, Roderick L. Canlas, and Esperanza A. Gregorio

Not in photo: Katerina V. Suarez

MANAGEMENT
MANAGEMENT
MANAGEMENT

Management

Assistant Vice Presidents

(L-R) Jose A. Padilla, Cesar Y. Salera, Hilario C. Delos Santos, Vera Victoria C. Morales, Ma. Sandra J. Bustos, and Reynaldo R. Aldaba

(L-R) Lorenzo Luis Liborio B. Gallardo II, Rene P. Asuncion, Florfida L. Buitre, Ana Maria R. Soriano, Michael L. Manalastas, and Arnaldo I. Aquino

Not in photo: Regina Karla E. Fernandez

MANAGEMENT
MANAGEMENT
MANAGEMENT

Statements of Management's Responsibility for Financial Statements

The management of The Insular Life Assurance Company, Ltd. is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2008 and 2007. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality. In this regard, management maintains necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized.

The Board of Trustees reviews the consolidated financial statements before such statements are approved and submitted to the members of the Company and its Subsidiaries.

SyCip, Gorres, Velayo & Co., the independent auditors duly appointed by the members, have examined the consolidated financial statements of the Company and its Subsidiaries in accordance with generally accepted auditing standards, and have expressed their opinion on the fairness of presentation upon completion of such examination in the attached report to the members.

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

MAYO JOSE B. ONGSINGCO
President and Chief Operating Officer

WILFREDO M. LLANTO
Chief Finance Officer
Head, Finance & Investment Group

Independent Auditors' Report

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

We have audited the accompanying financial statements of The Insular Life Assurance Company, Ltd. (a domestic mutual life insurance company) and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2008 and 2007, and the consolidated statements of income, consolidated statements of changes in members' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Insular Life Assurance Company, Ltd. and Subsidiaries as of December 31, 2008 and 2007, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-A
Tax Identification No. 012-082-670
PTR No. 1566409, January 5, 2009, Makati City

March 26, 2009

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

CONSOLIDATED BALANCE SHEETS

	December 31	
	2008	2007
ASSETS		
Cash and cash equivalents (Note 4)	**₱2,152,007,205**	₱2,806,354,535
Insurance receivables (Note 5)	**229,346,040**	238,588,695
Financial assets (Note 6):		
Fair value through profit or loss	**2,674,801,718**	3,409,264,048
Available-for-sale	**10,372,196,050**	13,619,325,811
Held-to-maturity	**13,585,596,569**	11,751,882,774
Loans and receivables - net	**14,690,701,528**	11,473,843,606
Investments in associates (Note 7)	**4,626,999,714**	4,653,262,636
Investment properties - net (Note 8)	**8,633,950,084**	8,756,029,330
Property and equipment - net (Note 9)	**277,554,358**	272,499,603
Noncurrent assets held for sale - net (Note 10)	**385,273,443**	466,787,444
Retirement benefits asset - net (Note 24)	**–**	9,356,531
Deferred income tax assets - net (Note 25)	**38,126,206**	43,302,142
Other assets - net (Note 11)	**255,945,148**	294,498,402
TOTAL ASSETS	**₱57,922,498,063**	₱57,794,995,557
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Legal policy reserves (Note 12)	**₱34,328,093,587**	₱30,693,387,512
Other insurance liabilities (Note 13)	**8,804,075,604**	9,082,717,747
Accrued expenses and other liabilities (Note 14)	**964,890,512**	953,053,362
Retirement benefits liability - net (Note 24)	**33,995,907**	6,048,568
Deferred income tax liabilities - net (Note 25)	**1,041,293,425**	1,794,821,383
Total Liabilities	**45,172,349,035**	42,530,028,572
Members' Equity		
Equity attributable to Parent Company		
Reserve for fluctuation in available-for-sale financial assets (Note 6):		
Attributable to the Group:		
Equity securities	**2,544,320,620**	6,255,503,384
Debt securities	**140,017,036**	255,602,734
Attributable to associates (Note 7)	**(138,472,065)**	62,433,748
	2,545,865,591	6,573,539,866
Revaluation increment in investment properties (Note 8)	**3,173,684,404**	2,959,222,276
Premium on deemed disposal of investment in an associate (Note 7)	**304,954,486**	304,954,486
Share in surplus reserves of a subsidiary	**2,793,019**	2,793,019
Retained earnings (Notes 15 and 31):		
Appropriated	**100,000,000**	75,000,000
Unappropriated	**6,622,829,999**	5,346,725,142
	12,750,127,499	15,262,234,789
Equity attributable to minority interests	**21,529**	2,732,196
Total Members' Equity	**12,750,149,028**	15,264,966,985
TOTAL LIABILITIES AND MEMBERS' EQUITY	**₱57,922,498,063**	₱57,794,995,557

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31	
	2008	2007
REVENUE		
Insurance Revenue (Note 16)		
Gross earned premiums on insurance contracts	**₱7,152,093,476**	₱8,926,846,628
Reinsurers' share of premiums on insurance contracts	**(142,783,475)**	(144,981,369)
Net Insurance Revenue	**7,009,310,001**	8,781,865,259
Operating Revenue		
Investment income (Note 17)	**4,180,341,084**	3,284,691,618
Foreign exchange gain - net (Note 6)	**512,997,348**	–
Equity in net earnings of associates (Note 7)	**383,409,537**	499,001,854
Rental income (Notes 8 and 28)	**236,848,133**	232,839,329
Net realized gains (Note 18)	**2,019,311**	323,812,643
Other income	**106,860,864**	75,461,931
Total Operating Revenue	**5,422,476,277**	4,415,807,375
Total Revenue	**12,431,786,278**	13,197,672,634
INSURANCE BENEFITS AND OPERATING EXPENSES		
Insurance Benefits Expenses (Note 19)		
Gross benefits and claims paid on insurance contracts	**4,466,523,605**	6,229,222,832
Net change in legal policy reserves	**3,634,706,075**	1,995,696,543
Reinsurers' share of benefits and claims paid on insurance contracts	**(32,341,172)**	(2,833,890)
Net Insurance Benefits Expenses	**8,068,888,508**	8,222,085,485
Operating Expenses		
General insurance expenses (Note 20)	**1,291,020,610**	1,248,527,731
Commissions and other acquisition expenses	**502,018,722**	623,240,330
Investment expenses (Note 21)	**163,852,634**	168,767,085
Foreign exchange loss - net (Note 6)	**–**	640,341,314
Other losses - net (Note 22)	**248,665,181**	21,937,865
Total Operating Expenses	**2,205,557,147**	2,702,814,325
Total Insurance Benefits and Operating Expenses	**10,274,445,655**	10,924,899,810
INCOME BEFORE INCOME TAX	**2,157,340,623**	2,272,772,824
PROVISION FOR INCOME TAX (Note 25)	**60,522,330**	58,640,371
NET INCOME	**₱2,096,818,293**	₱2,214,132,453
ATTRIBUTABLE TO:		
Parent Company	**₱2,096,817,023**	₱2,214,131,438
Minority interests	**1,270**	1,015
NET INCOME	**₱2,096,818,293**	₱2,214,132,453

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Reserve for Fluctuation in Available-for-Sale Financial Assets			Revaluation Increment in Investment Properties (Note 8)
	Attributable to the Group			
	Equity Securities	Debt Securities	Attributable to Associates	
BALANCES AT DECEMBER 31, 2006	**₱3,539,280,832**	**₱366,297,791**	**₱16,674,687**	**₱2,985,734,504**
Transfer of revaluation increment of investment properties sold- net of tax effect	–	–	–	(28,105,952)
Transfer of revaluation increment in investment properties absorbed through depreciation – net of tax effect	–	–	–	(8,243,359)
Premium on deemed disposal of investment in an associate	–	–	–	–
Decrease in reserves of a subsidiary (Notes 6 and 7)	–	–	45,759,061	–
Appropriation of retained earnings for the required minimum paid-up capital (Note 31)	–	–	–	–
Dividends to members (Note 15)	–	–	–	–
Total income and expenses for the year (Note 6):				
Valuation gains taken to equity - net of tax effect	2,788,406,352	71,319,540	–	9,837,083
Valuation gains realized through profit or loss	(72,183,800)	(182,014,597)	–	–
Net income for the year	–	–	–	–
	2,716,222,552	(110,695,057)	–	9,837,083
BALANCES AT DECEMBER 31, 2007	**6,255,503,384**	**255,602,734**	**62,433,748**	**2,959,222,276**
Transfer of revaluation increment of investment properties sold – net of tax effect	–	–	–	(7,074,506)
Transfer of revaluation increment in investment properties absorbed through depreciation - net of tax effect	–	–	–	(6,008,312)
Decrease in reserves of a subsidiary	–	–	(200,905,813)	–
Appropriation of retained earnings for the required minimum paid-up capital (Note 31)	–	–	–	–
Dividends to members (Note 15)	–	–	–	–
Liquidation of Insular Plus Properties Development Corporation (Note 2)	–	–	–	–
Total income and expenses for the year (Note 6):				
Valuation gains (losses) taken to equity - net of tax effect	(3,925,850,592)	(115,129,107)	–	874,393
Valuation loss realized through profit or loss	214,667,828	–	–	–
Effect of change in tax rate (Note 25)	–	(456,591)	–	226,670,553
Net income for the year	–	–	–	–
	(3,711,182,764)	(115,585,698)	–	227,544,946
BALANCES AT DECEMBER 31, 2008	**₱2,544,320,620**	**₱140,017,036**	**(₱138,472,065)**	**₱3,173,684,404**

See accompanying Notes to Consolidated Financial Statements.

	Equity Attributable to Parent Company						
	Premium on Deemed Disposal of Investment in an Associate (Note 7)	Share in Surplus Reserves of Subsidiary	Appropriated	Unappropriated	Total	Equity Attributable to Minority Interests	Total
	₱–	**₱2,793,019**	**₱50,000,000**	**₱3,871,551,996**	**₱10,832,332,829**	**₱2,731,181**	**₱10,835,064,010**
	–	–	–	28,105,952	–	–	–
	–	–	–	8,243,359	–	–	–
	304,954,486	–	–	–	304,954,486	–	304,954,486
	–	–	–	–	45,759,061	–	45,759,061
	–	–	25,000,000	(25,000,000)	–	–	–
	–	–	–	(750,307,603)	(750,307,603)	–	(750,307,603)
	–	–	–	–	2,869,562,975	–	2,869,562,975
	–	–	–	–	(254,198,397)	–	(254,198,397)
	–	–	–	2,214,131,438	2,214,131,438	1,015	2,214,132,453
	–	–	–	2,214,131,438	4,829,496,016	1,015	4,829,497,031
	304,954,486	**2,793,019**	**75,000,000**	**5,346,725,142**	**15,262,234,789**	**2,732,196**	**15,264,966,985**
	–	–	–	7,074,506	–	–	–
	–	–	–	6,008,312	–	–	–
	–	–	–	–	(200,905,813)	–	(200,905,813)
	–	–	25,000,000	(25,000,000)	–	–	–
	–	–	–	(809,638,165)	(809,638,165)	–	(809,638,165)
	–	–	–	843,181	843,181	(2,711,937)	(1,868,756)
	–	–	–	–	(4,040,105,306)	–	(4,040,105,306)
	–	–	–	–	214,667,828	–	214,667,828
	–	–	–	–	226,213,962	–	226,213,962
	–	–	–	2,096,817,023	2,096,817,023	1,270	2,096,818,293
	–	–	–	2,096,817,023	(1,502,406,493)	1,270	(1,502,405,223)
	₱304,954,486	**₱2,793,019**	**₱100,000,000**	**₱6,622,829,999**	**₱12,750,127,499**	**₱21,529**	**₱12,750,149,028**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱2,157,340,623	₱2,272,772,824
Adjustments for:		
Net change in legal policy reserves (Note 19)	3,634,706,075	1,995,696,543
Interest income (Note 17)	(2,792,131,599)	(2,605,978,603)
Loss from (income on) VUL funds (Note 17)	70,440,128	(33,848,664)
Dividend income (Note 17)	(1,458,649,613)	(644,864,351)
Equity in net earnings of associates (Note 7)	(383,409,537)	(499,001,854)
Interest expense (Note 19)	337,725,220	340,500,380
Foreign exchange loss (gain) - net (Note 6)	(512,997,348)	640,341,314
Dividends to members (Note 15)	231,966,000	220,122,000
Net realized loss (gain) on disposals of (Note 18):		
Available-for-sale financial assets	(18,644,062)	(254,198,397)
Noncurrent assets held for sale	14,662,892	(42,662,361)
Investment properties	1,580,582	(11,285,421)
Property and equipment	(592,134)	(715,810)
Realized loss (gain) on foreclosed properties (Note 18)	973,411	(14,950,654)
Depreciation and amortization of:		
Investment properties (Note 8)	114,012,326	122,866,159
Property and equipment and computer software (Notes 9 and 11)	55,111,358	59,530,035
Impairment loss on:		
Available-for-sale equity securities (Note 6)	233,311,890	–
Investment properties (Note 8)	2,443,055	10,887,627
Noncurrent assets held for sale (Note 10)	7,588,304	28,543,269
Operating income before working capital changes	1,695,437,571	1,583,754,036
Net decrease (increase) in:		
Insurance receivables (Note 5)	9,242,655	12,840,589
Loans and receivables (Note 6)	(190,666,105)	(145,404,517)
Retirement benefits asset - net (Note 24)	9,356,531	26,041,419
Net increase (decrease) in:		
Other insurance liabilities (Note 13)	(334,550,000)	2,247,182,886
Accrued expenses and other liabilities (Note 14)	12,002,827	62,612,154
Retirement benefits liability - net (Note 24)	27,947,335	2,777,316
Net cash generated from operations	1,228,770,814	3,789,803,883
Income taxes paid (Note 25)	(238,087,695)	(248,252,567)
Net cash generated from operating activities	990,683,119	3,541,551,316

(Forward)

	Years Ended December 31	
	2008	2007
CASH FLOWS FROM INVESTING ACTIVITIES		
Releases of loans and receivables	**(₱3,010,228,826)**	(₱2,786,759,168)
Collections of loans and receivables	**330,561,253**	2,078,313,470
Additional investments in:		
Financial assets at fair value through profit or loss - net (Note 6)	**–**	(2,107,090,497)
Held-to-maturity financial assets (Note 6)	**(1,590,867,971)**	(997,599,933)
Available-for-sale financial assets (Note 6)	**(2,236,027,281)**	(2,112,326,307)
Investment properties (Note 8)	**(75,670,956)**	(66,782,366)
Property and equipment and computer software (Notes 9 and 11)	**(54,550,836)**	(50,265,310)
Noncurrent assets held for sale (Note 10)	**–**	(2,379,775)
Proceeds from disposals and/or maturities of:		
Financial assets at fair value through profit or loss - net (Note 6)	**673,578,168**	–
Held-to-maturity financial assets (Note 6)	**590,597,997**	263,220,810
Available-for-sale financial assets	**816,318,121**	1,165,493,000
Investment properties	**74,154,770**	108,889,520
Property and equipment	**1,802,824**	3,141,319
Noncurrent assets held for sale	**56,813,094**	62,300,299
Interest income received	**2,605,874,666**	2,657,551,024
Dividends received	**1,458,649,613**	644,864,351
Net decrease in other assets (Note 11)	**36,894,299**	48,166,539
Net cash used in investing activities	**(322,101,065)**	(1,091,263,024)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of dividends to members	**(985,204,164)**	(911,529,603)
Interest paid to members (Note 19)	**(337,725,220)**	(340,500,380)
Cash used in financing activities	**(1,322,929,384)**	(1,252,029,983)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(654,347,330)**	1,198,258,309
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,806,354,535**	1,608,096,226
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱2,152,007,205**	₱2,806,354,535

See accompanying Notes to Consolidated Financial Statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Authorization for Issuance of the Financial Statements
The consolidated financial statements of the Group were authorized for issuance by the Board of Trustees (BOT) on March 26, 2009.

2. Summary of Significant Accounting and Financial Reporting Policies

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

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

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations which became effective on January 1, 2008 and amendments to existing Philippine Accounting Standards (PAS) which became effective on July 1, 2008.

- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*
- Philippine Interpretation IFRIC 14, PAS 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction*
- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement* and, PFRS 7, *Financial Instruments: Disclosures - Reclassification of Financial Assets*

Adoption of these changes in PFRS did not have any significant effect to the Group except for amendments to PAS 39 (Note 6).

New Accounting Standards, Interpretations, and Amendments to
Existing Standards Effective Subsequent to December 31, 2008
The Group will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have a significant impact on the consolidated financial statements.

Effective in 2009

PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
The amended PFRS 1 allows an entity, in its consolidated financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: (a) cost determined in accordance with PAS 27; (b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or (c) previous carrying amount (as determined under previous generally accepted accounting principles) of the investment at the date of transition to PFRS.

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

PFRS 8, *Operating Segments*
PFRS 8 will replace PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the balance sheet and statement of income and the Group will provide explanations and reconciliations of the differences. This standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements with a securities commission or similar party.

Amendments to PAS 1, *Presentation of Financial Statements*
These amendments introduce a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with 'other comprehensive income'. Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. These amendments also prescribe additional requirements in the presentation of the balance sheet and members' equity as well as additional disclosures to be included in the financial statements. The Group is still to evaluate whether to present one statement or two linked statements.

PAS 23, *Borrowing Costs*
The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements of this standard, the Group will adopt this as a prospective change in accounting policy. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
These amendments prescribe changes in respect of the holding companies' consolidated financial statements including: (a) the deletion of 'cost method', making the distinction between pre-acquisition and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in profit or loss. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.

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

Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expired.

Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
This Interpretation provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of a net investment; where within the group, the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

Improvements to PFRS

In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

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

PAS 1, *Presentation of Financial Statements*
- Assets and liabilities classified as held-for-trading are not automatically classified as current in the balance sheet.

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

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

- Deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

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

PAS 23, *Borrowing Costs*
- Revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e., components of the interest expense calculated using the effective interest rate method.

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

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

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

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

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

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

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

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

Effective in 2010

Revised PFRS 3, *Business Combinations,* and PAS 27, *Consolidated and Separate financial statements*
The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised PAS 27 requires, among others, that: (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as 'minority interests'), even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be re-measured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 and PAS 27 must be applied prospectively and will affect future acquisitions and transactions with noncontrolling interests.

Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible hedged items*
Amendment to PAS 39 addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

Effective in 2012

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

Basis of Consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiaries as of December 31, 2008 and 2007. The financial statements of the subsidiaries are prepared for the same reporting years as the Company, except for Insular Life Management and Development Corp. (ILMADECO) which was presented as of and for the years ended March 31, 2008 and 2007, using consistent accounting principles. Following are the Company's subsidiaries and the corresponding percentages of ownership as of December 31, 2008 and 2007:

	Percentage of Ownership	
	2008	**2007**
Insular Investment and Trust Corporation (IITC)	**100.00**	100.00
IITC Properties, Inc. (IPI)	**100.00***	100.00*
Insular Property Ventures, Inc. (IPVI)	**100.00***	100.00*
Insular Plus Properties Development Corporation (IPPDC)	**–****	100.00*
Insular Life Health Care Incorporated (I-Care)	**100.00**	100.00
ILMADECO	**100.00**	100.00
ILAC General Insurance Agency, Inc.	**100.00*****	100.00***
Insular Life Property Holdings, Inc.	**100.00**	100.00
Home Credit Mutual Building & Loan Association, Inc. (Home Credit)	**99.96**	99.96

* *Represents the Company's ownership through IITC*
** *IPPDC was liquidated on May 19, 2008*
*** *Represents the Company's ownership through ILMADECO*

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

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

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

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

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

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

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

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

Financial Assets

a. Financial Assets at FVPL

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the financial assets or recognizing gains or losses on them on a different basis;
- the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or
- the financial asset contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

As of December 31, 2008 and 2007, the Group's financial assets that have been designated as at FVPL consist primarily of quoted government and corporate debt securities with fixed interest rates and quoted equity securities which are separately administered under Insular Life Wealth Series Funds (the Separate Funds) (Note 6).

b. HTM Financial Assets

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

As of December 31, 2008 and 2007, the Group's HTM financial assets consist of quoted government and corporate debt securities with fixed interest rates (Note 6).

c. Loans and Receivables

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

As of December 31, 2008 and 2007, the Group's loans and receivables consist of cash and cash equivalents, term loans, policy loans, interest receivable, mortgage loans, accounts receivable, housing loans, finance leases, due from agents, car financing loans, stock loans and other receivables (Note 6).

d. AFS Financial Assets

AFS financial assets are those which are designated as such or do not qualify to be classified as designated as at FVPL, HTM or loans and receivables. Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. AFS financial assets are subsequently measured at fair market value. When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity securities, these financial assets are carried at cost, less any allowance for impairment losses. The effective yield component of AFS debt securities as well as the impact of restatement on foreign currency-denominated AFS debt securities is reported in the consolidated statement of income. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS investments are recognized in the consolidated statement of income as investment income when the right of the payment has been established. Unrealized gains and losses arising from changes in fair market value of AFS financial assets are reported as a separate component in the members' equity section of the consolidated balance sheet 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 the members' equity is recognized as realized gain in the consolidated statement of income.

As of December 31, 2008 and 2007, the Group's AFS financial assets consist of quoted and unquoted government and corporate debt securities with fixed interest rates and quoted and unquoted equity securities (Note 6).

Financial Liabilities

The Group's financial liabilities consist only of other 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 subsequently measured at amortized cost using the effective interest rate method. The amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the consolidated statement of income when the financial liabilities are derecognized, impaired or amortized.

As of December 31, 2008 and 2007, the Group's other financial liabilities consist of accrued expenses and other liabilities (Note 14).

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

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

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

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

As of December 31, 2008 and 2007, the Group has no embedded derivatives requiring bifurcation.

Determination of Fair Values
The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for financial assets and offer prices for financial liabilities at the close of business on the balance sheet date. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

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

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

Day 1 Gain or Loss
Where the transaction price in a nonactive 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 use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the Day 1 difference amount.

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

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

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

Derecognition of Financial Instruments
Financial Assets
A financial asset is derecognized when:

- the rights to receive cash flows from the financial asset has expired;
- the Group retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its right to receive cash flows from the financial asset and either: (a) has transferred substantially all the risks and rewards of the financial asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset.

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

Financial Liabilities
A financial liability is derecognized when the obligation under the financial liability is extinguished, i.e., when discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing financial liability are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

<u>Impairment of Financial Assets</u>
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

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

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

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

In case of equity securities classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the financial assets below its cost or where other objective evidence of impairment exists. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income, is removed from the members' equity and recognized in the consolidated statement of income. Impairment losses on equity securities are not reversed through the consolidated statement of income. Increases in fair value after impairment and reversals of impairment losses on equity instruments are recognized directly in the consolidated statement of changes in members' equity.

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

Investments in Associates
The investments in associates are accounted for under the equity method. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

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

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

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

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

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

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

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

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

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

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

Property and Equipment
Property and equipment, including predominantly owner-occupied properties, except for land, are stated at cost, net of accumulated depreciation and amortization and any impairment in value. The cost of an item of property and equipment comprises its purchase price and any cost attributable in bringing the asset to its intended location and working condition. Cost also includes: (a) interest and other financing charges on borrowed funds used to finance the acquisition of property and equipment to the extent incurred during the period of installation and construction; and (b) asset retirement obligation (ARO) relating to property and equipment installed/constructed on leased properties, if any.

Land is stated at cost less any impairment in value.

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

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

The EUL of property and equipment of the Group follow:

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

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

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

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising from its derecognition, calculated as the difference between the net disposal proceeds and the carrying amount of the property and equipment, is included in the consolidated statement of income in the year the property and equipment is derecognized.

Noncurrent Assets Held for Sale

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

Interest in Joint Venture

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

Computer Software

Computer software 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 and are presented as part of 'Other assets' in the consolidated balance sheet. All other costs of developing and maintaining computer software programs are recognized as expenses as incurred. These costs are amortized over the estimated useful life of five years. Subsequently, computer software is measured at cost, less any accumulated amortization and any accumulated impairment loss.

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

Impairment of Nonfinancial Assets

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

The Group assesses at each balance sheet date whether there is an indication that a nonfinancial asset may be impaired. If any such indication exists, or when annual impairment testing for a nonfinancial asset is required, the Group makes an estimate of the asset's recoverable amount. A nonfinancial asset's recoverable amount, except for land, is the higher of a nonfinancial asset or cash-generating unit's fair value less costs to sell and its value-in-use, and is determined for an individual asset, unless the nonfinancial asset does not generate cash inflows that are largely independent of those from other assets or groups of nonfinancial assets. Land's recoverable amount is the appraised value or net selling price, which may be obtained from its sale in an arm's length transaction, less costs to sell. Where the carrying amount of a nonfinancial asset (or cash generating unit) exceeds its recoverable amount, the nonfinancial asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the nonfinancial asset.

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

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

Insurance Contracts

Product Classification

a. Insurance and Investment Contracts

   Insurance contracts are those contracts where the Group has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

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

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

Insurance and investment contracts are further classified as being either with or without discretionary participation features (DPF). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the issuer; and
- contractually based on the: (a) performance of a specified pool of contracts or a specified type of contract; (b) realized and/or unrealized investment returns on a specified pool of assets held by the issuer; or (c) profit or loss of the Group, fund or other entity that issues the contract.

b. Variable Unit-Linked (VUL) Insurance Contracts

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

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

c. Options and Guarantees

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

Recognition and Measurement

a. Due Premiums

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

b. Reinsurance Assets

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

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

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

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

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

c. Premiums

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

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

A liability for contractual benefits that are expected to be incurred in the future is recorded whenever premiums are recognized. For Phase 1 of PFRS 4, *Insurance Contracts*, implementation of which is effective until 2010, the liability is determined following the guidelines in the Insurance Code (the Code). This liability is compared with a fair valued liability as described in the Liability Adequacy Test (LAT) as discussed below and as provided for in Phase 1 of the PFRS 4 implementation. Any deficiency in the statutory liability is booked as an expense to bring the balance of the liability to the fair valued liability.

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

The Group does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). Effectively, however, this option was considered in the conduct of the LAT since surrender rates are included as one of the parameters driving the cash flow projections.

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

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

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

d. Benefits and Claims

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

e. Incurred But Not Reported (IBNR)

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

f. Reserve for Dividends to Members

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

Operating Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest income

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

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

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

Dividend income

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

Rental income

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

Services income

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

Underwriting and arrangement fees

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

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

Provisions

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

Contingencies

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

Events after the Balance Sheet Date

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

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

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

Judgment

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

Product Classification

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

Classification of Financial Instruments

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

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

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

Note 29 presents the classification of the Group's financial instruments by categories.

Classification of Investment in Associate

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

Distinction Among Property and Equipment, Investment Properties and Noncurrent Assets Held for Sale

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

Estimation of Reserve for Dividends to Members

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

Reserve for dividends to members charged against retained earnings amounted to ₱809,638,165 and ₱750,307,603 as of December 31, 2008 and 2007, respectively (Note 15).

Classification of Leases
The Group has entered into property leases, where it has determined that the risks and rewards related to those properties are retained by the lessors. As such, these lease agreements are accounted for as operating leases.

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

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

The carrying value of the unquoted AFS equity securities referred to above amounted to ₱5,355,235,641 and ₱8,708,285,356 as of December 31, 2008 and 2007, respectively (Note 6).

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

The carrying value of insurance receivables amounted to ₱229,346,040 and ₱238,588,695 as of December 31, 2008 and 2007, respectively (Note 5). Based on management's assessment, insurance receivables are fairly stated; therefore, no impairment loss needs to be recognized in 2008 and 2007.

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

The carrying value of the Group's loans and receivables, excluding cash and cash equivalents, amounted to ₱14,690,701,528 and ₱11,473,843,606 as of December 31, 2008 and 2007, respectively (Note 6). Allowance for impairment on loans and receivables amounted to ₱328,367,567 and ₱318,470,999 as of December 31, 2008 and 2007, respectively (Note 6). Provision for impairment on loans and receivables amounted to ₱15,613,460 in 2008 and ₱48,949,481 in 2007 (Note 6).

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

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

The carrying value of the Group's AFS equity securities amounted to ₱7,493,726,791 and ₱10,758,706,326 as of December 31, 2008 and 2007, respectively (Note 6).

Estimation of Useful Lives of Depreciable Nonfinancial Assets
The Group's depreciable nonfinancial assets consist of investment properties, property and equipment and computer software, excluding land.

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

The carrying value of depreciable investment properties, property and equipment and computer software, net of accumulated depreciation and amortization, amounted to ₱2,813,876,309, ₱220,793,796 and ₱15,519,004, respectively, as of December 31, 2008 and ₱2,868,574,408, ₱215,739,041 and ₱15,309,202, respectively, as of December 31, 2007 (Notes 8, 9 and 11).

Impairment of Nonfinancial Assets

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

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

As described in the accounting policy, the Group estimates the recoverable amount as the higher of the net selling price and value-in-use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect the nonfinancial assets. The Group recognized impairment loss on its investment properties amounting to ₱2,443,055 and ₱10,887,627 in 2008 and 2007, respectively (Note 8).

The carrying value of the Group's nonfinancial assets amounted to ₱14,179,722,747 and ₱14,443,077,415 as of December 31, 2008 and 2007, respectively (Notes 7, 8, 9, 10 and 11).

Estimation of NRV of Noncurrent Assets Held for Sale

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

The carrying value of noncurrent assets held for sale amounted to ₱385,273,443 and ₱466,787,444 as of December 31, 2008 and 2007 (Note 10). Impairment loss on noncurrent assets held for sale amounted to ₱7,588,304 in 2008 and ₱28,543,269 in 2007 (Notes 10 and 22).

Adequacy of Legal Policy Reserves

In determining legal policy reserves, estimates are made as to the expected number of deaths, illness or injury for each of the years in which the Group is exposed to risk. These estimates are based on standard mortality and morbidity tables as required by the Code. The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficiency of reserves, which in return is monitored against current and future premiums. Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

In accordance with the provisions of the Code, estimates for future deaths, illness or injury and investment returns are determined at the inception of the contract and are used to calculate the liability over the term of the contract. The interest rate used to discount future liabilities does not exceed 6% as required by the Code. Likewise, no lapse, surrender and expense assumptions are factored in the computation of the liability.

The legal policy reserves, computed in accordance with the LAT procedure, remained lower than the statutory reserve liability for all changes in assumptions. As such, Phase 1 of PFRS 4 will have no impact in the profit or loss since the reflected liability will remain to be the statutory liability.

The carrying value of legal policy reserves amounted to ₱34,328,093,587 and ₱30,693,387,512 as of December 31, 2008 and 2007, respectively (Note 12). Net change in legal policy reserves amounted to ₱3,634,706,075 in 2008 and ₱1,995,696,543 in 2007 (Note 19).

Estimation of Claims Pending Settlement, Including Claims Incurred But Not Yet Reported (IBNR)

Estimates have to be made both for the expected ultimate cost of claims pending settlement reported at the balance sheet date and for the expected ultimate cost of IBNR. The Group develops estimates for the claims using an actuarial process that is centrally controlled. The actuarial models consider factors such as time from the date of the insured event to claim receipt and claim backlogs, as well as changes in the claims processing and settlement policies and changes in insurance industry practices.

Total claims pending settlement, included under 'Other insurance liabilities' in the consolidated balance sheets amounted to ₱553,988,472 and ₱580,892,140 as of December 31, 2008 and 2007, respectively (Note 13).

Estimation of Retirement Benefits Cost

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

Net retirement benefits liability amounted to ₱33,995,907 and ₱6,048,568 as of December 31, 2008 and 2007, respectively. Net retirement benefits asset amounted to ₱9,356,531 as of December 31, 2007 (nil in 2008). The Group's unrecognized net actuarial gains amounted to ₱411,920,236 and ₱124,852,774 as of December 31, 2008 and 2007, respectively (Note 24).

Realizability of Deferred Income Tax Assets

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. However, if there is no assurance that the Group will generate sufficient taxable profit to allow all or part of deferred income tax assets to be utilized, the assets are not recognized in the books. The amount of NOLCO and temporary differences for which no deferred income tax assets were recognized amounted to ₱282,615,278 and ₱393,093,321 as of December 31, 2008 and 2007, respectively (Note 25).

Contingencies

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

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

4. **Cash and Cash Equivalent**

	2008	2007
Cash on hand	**₱316,945**	₱264,475
Cash in banks:		
Commercial banks (Note 26)	**416,651,937**	321,189,016
Thrift bank	**165,514**	126,102
	416,817,451	321,315,118
Cash equivalents in commercial banks (Note 26)	**1,734,872,809**	2,484,774,942
	₱2,152,007,205	₱2,806,354,535

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

5. **Insurance Receivables**

	2008	2007
Due premiums	**₱221,366,891**	₱230,550,411
Reinssurance Assets	**7,979,149**	8,038,284
	₱229,346,040	₱238,588,695

6. **Financial Assets**

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

	2008	2007
Financial assets at FVPL	**₱2,674,801,718**	₱3,409,264,048
AFS financial assets	**10,372,196,050**	13,619,325,811
HTM financial assets	**13,585,596,569**	11,751,882,774
Loans and receivables - net	**14,690,701,528**	11,473,843,606
	₱41,323,295,865	₱ 40,254,316,239

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

Financial Assets at FVPL
Financial assets at FVPL as of December 31 are as follows:

	2008	2007
At Fair Value		
Cash and cash equivalents	**₱260,564,563**	₱ 410,716,336
Equity securities - quoted	**793,223,868**	1,441,129,413
Debt securities - quoted - fixed interest rates:		
Government:		
Local currency	**815,322,568**	890,820,775
Foreign currency	**179,967,523**	139,223,685
Corporate	**595,011,575**	490,367,320
Accrued interest receivable	**30,711,621**	37,006,519
	₱ 2,674,801,718	₱ 3,409,264,048

	2008	2007
At Cost and Amortized Cost		
Cash and cash equivalents	**₱260,564,563**	₱410,716,336
Equity securities - quoted	**1,564,724,697**	1,500,541,555
Debt securities - quoted fixed - interest rates:		
Government:		
Local currency	**822,631,464**	913,543,678
Foreign currency	**205,628,450**	138,385,948
Corporate	**591,907,119**	435,200,000
Accrued interest receivable	**30,711,621**	37,006,519
	₱3,476,167,914	₱3,435,394,036

Financial assets at FVPL consist of net assets which are separately administered and reported under the Separate Funds underlying the VUL insurance contracts. These financial assets are designated as at FVPL in accordance with the investment strategy and valuation provisions of the VUL insurance contracts. Likewise, this is consistent with the valuation basis of the reserve for policies held by the policyholders. Financial assets designated as at FVPL amounted to ₱2,667,270,330 and ₱3,306,635,692 as of December 31, 2008 and 2007, respectively. A subsidiary has held-for-trading financial assets at FVPL which amounted to ₱7,531,388 and ₱102,628,356 as of December 31, 2008 and 2007, respectively.

Fair value loss from financial assets designated as at FVPL presented in the separate financial statements of VUL funds amounted to ₱763,609,763 and ₱72,958,519 in 2008 and 2007, respectively. Fair value loss from held-for-trading FVPL financial assets amounted to ₱11,038,824 and ₱923,133 in 2008 and 2007, respectively.

HTM Financial Assets

HTM financial assets as of December 31 are as follows:

	2008		2007	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Debt securities - quoted:				
Government:				
Local currency	**₱8,915,975,568**	**₱8,909,718,803**	₱7,869,638,965	₱8,995,475,876
Foreign currency	**3,475,662,340**	**4,000,074,840**	2,983,909,715	3,248,232,827
Corporate:				
Local currency	**1,168,853,361**	**1,138,219,433**	875,900,193	935,292,773
Foreign currency	**25,105,300**	**31,510,433**	22,433,901	44,626,138
	₱13,585,596,569	**₱14,079,523,509**	₱11,751,882,774	₱13,223,627,614

Loans and Receivables

Loans and receivables as of December 31 are as follows:

	2008	2007
Term loans	**₱8,801,289,016**	₱6,098,934,328
Policy loans	**4,522,054,338**	4,125,994,316
Interest receivable	**660,345,735**	540,225,645
Mortgage loans	**228,180,847**	251,408,045
Accounts receivable	**220,882,805**	205,394,824
Housing loans	**160,424,451**	167,399,987
Finance leases	**54,684,191**	57,988,341
Due from agents	**125,348,199**	126,527,415
Car financing loans	**44,810,610**	47,385,478
Stock loans	**34,599,537**	43,072,696
Others	**166,449,366**	127,983,530
	15,019,069,095	11,792,314,605
Less allowance for impairment loss on loans and receivables	**328,367,567**	318,470,999
	₱14,690,701,528	₱11,473,843,606

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

- Term loans - pertain to investments in fixed-rate loans to corporate borrowers with terms ranging from 5 to 10 years.
- Policy loans - pertain to loans granted to policyholders. The loan is issued with the cash surrender value of the policyholder's insurance policy as collateral. Interest rate on policy loans ranges from 9% to 12%.
- Interest receivable - pertains to accrued interest arising from investments in debt securities with interest rates ranging from 3% to 15% in 2008 and 2007.
- Mortgage loans - pertain to housing loans granted to third parties and former employees with terms ranging from 4 to 20 years. Interest rates on these loans are higher compared to housing loans ranging from 8% to 21% in 2008 and from 9% to 21% in 2007.
- Accounts receivable - pertain to miscellaneous receivables from employees, agents, related parties and third parties.
- 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.
- Finance leases - pertain to real estate mortgages which are collectible over a period of 20 years at an annual interest of 18%.
- Due from agents - pertain to unremitted collections, advances by agents, invalid withdrawal of compensation by agents and charges for amendment/ replacement of policies.
- Car financing loans - pertain to car loans granted to employees at an annual interest of 6% payable semi-annually and with terms ranging from 5 to 7 years.
- Stock loans - pertain to short-term loans which are granted to qualified members of the programs launched by Home Credit, a subsidiary.

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

	2008	2007
Housing loans	**₱186,251,657**	₱198,181,088
Less unamortized deferred interest income	**25,827,206**	30,781,101
	₱160,424,451	₱167,399,987
Car financing loans	**₱45,452,946**	₱48,702,895
Less unamortized deferred interest income	**642,336**	1,317,417
	₱44,810,610	₱47,385,478

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

	2008	2007
Housing loans:		
Beginning balance	**₱30,781,101**	₱37,062,418
Day 1 loss recognized during the year	**635,106**	-
Amortization through profit or loss	**(5,589,001)**	(6,281,317)
Ending balance	**₱25,827,206**	₱30,781,101
Car financing loans:		
Beginning balance	**₱1,317,417**	₱2,419,116
Day 1 loss recognized during the year	**–**	3,501
Amortization through profit or loss	**(675,081)**	(1,105,200)
Ending balance	**₱642,336**	₱1,317,417

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

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

	2008			
	Accounts Receivable	**Mortgage Loans**	**Due from Agents**	**Total**
Beginning balances	**₱158,864,385**	**₱34,381,674**	**₱125,224,940**	**₱318,470,999**
Provisions for the year (Note 20)	**15,613,460**	**–**	**–**	**15,613,460**
Recoveries (Note 22)	**(236,390)**	**(4,875,481)**	**(605,021)**	**(5,716,892)**
Ending balances	**₱174,241,455**	**₱29,506,193**	**₱124,619,919**	**₱328,367,567**

	2007			
	Accounts Receivable	Mortgage Loans	Due from Agents	Total
Beginning balances	₱137,978,906	₱25,129,473	₱124,829,303	₱287,937,682
Provisions for the year (Note 20)	24,654,184	23,899,660	395,637	48,949,481
Recoveries (Note 22)	(3,768,705)	(14,647,459)	–	(18,416,164)
Ending balances	₱158,864,385	₱34,381,674	₱125,224,940	₱318,470,999

The Group did not recognize interest income on impaired loans and receivables in 2008 and 2007.

AFS Financial Assets

AFS financial assets as of December 31 are as follows:

	2008	2007
At Carrying Value		
Equity securities:		
Quoted	**₱2,138,491,148**	₱2,050,420,970
Unquoted	**5,355,235,641**	8,708,285,356
	7,493,726,789	10,758,706,326
Debt securities:		
Quoted:		
Government:		
Local currency	**2,373,555,779**	2,519,181,127
Foreign currency	**366,089,407**	207,695,983
Corporate - foreign currency	**119,753,371**	111,479,438
Unquoted - government	**19,070,704**	22,262,937
	2,878,469,261	2,860,619,485
	₱10,372,196,050	₱13,619,325,811

	2008	2007
At Cost and Amortized Cost		
Equity securities:		
Quoted	**₱2,545,288,539**	₱1,635,581,512
Unquoted	**2,070,228,481**	2,134,284,632
	4,615,517,020	3,769,866,144
Debt securities:		
Quoted:		
Government:		
Local currency	**2,267,623,824**	2,271,408,789
Foreign currency	**384,017,865**	198,671,615
Corporate - foreign currency	**127,675,525**	112,039,494
Unquoted - government	**19,070,704**	22,262,937
	2,798,387,918	2,604,382,835
	₱7,413,904,938	₱6,374,248,979

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

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

	2008	2007
Equity securities:		
Attributable to the Group:		
Beginning balance	**₱6,255,503,384**	₱3,539,280,832
Valuation gains (losses) taken directly to members' equity	**(3,925,850,592)**	2,788,406,352
Valuation losses (gains) realized through profit or loss:		
Impairment	**233,311,890**	–
Gain on sale	**(18,644,062)**	(72,183,800)
Ending balance	**2,544,320,620**	6,255,503,384
Attributable to associates:		
Beginning balance	**₱62,433,748**	₱16,674,687
Valuation gains (losses) taken directly to members' equity (Note 7)	**(200,905,813)**	45,759,061
Ending balance	**(138,472,065)**	62,433,748
	₱2,405,848,555	₱6,317,937,132
Debt securities:		
Beginning balance	**₱255,602,734**	₱366,297,791
Valuation gains (losses) taken directly to members' equity	**(115,129,107)**	71,319,540
Valuation gains realized through profit or loss	**–**	(182,014,597)
Effect of change in tax rate	**(456,591)**	–
Ending balance	**₱140,017,036**	₱255,602,734

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

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

	2007				
			AFS		
	FVPL	HTM	Equity Securities	Debt Securities	Total
Beginning balances	₱1,302,173,551	₱11,573,232,995	₱6,797,138,794	₱2,819,649,428	₱22,492,194,768
Acquisitions	2,556,943,144	997,599,933	1,375,355,829	1,609,396,007	6,539,294,913
Disposals/maturities	(563,697,408)	(263,220,810)	(202,194,649)	(1,581,525,483)	(2,610,638,350)
Fair value gains	113,844,761	–	2,788,406,352	71,319,540	2,973,570,653
Foreign exchange adjustments	–	(556,592,912)	–	(54,804,134)	(611,397,046)
Discount (premium) amortization	–	863,568	–	(3,415,873)	(2,552,305)
Ending balances	₱3,409,264,048	₱11,751,882,774	₱10,758,706,326	₱2,860,619,485	₱28,780,472,633

As of December 31, 2008 and 2007, government securities under HTM financial assets totaling ₱62,500,000 are deposited with the IC in accordance with the provision of the Code as security for the benefit of policyholders and creditors of the Group.

Reclassification from AFS financial assets to HTM financial assets
On September 15, 2008, the Group reclassified AFS debt securities with amortized cost amounting to ₱283,501,557 to HTM financial assets. 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.

Fair value gain on financial assets reclassified that would have been taken directly to equity had the debt securities not been reclassified to HTM financial assets amounted to ₱22,820,041.

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

As of December 31, 2008, the fair value and carrying value of the debt securities reclassified to HTM financial assets amounted to ₱306,947,020 and ₱342,080,035, respectively.

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

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

Fair value loss on financial assets reclassified that would have been recognized in the statement of income had the debt securities not been reclassified to HTM financial assets amounted to ₱636,749.

The effective interest rate as at the date of reclassification ranges from 6.52% to 6.83%.

As of December 31, 2008, the fair value and carrying value of the debt securities reclassified to HTM amounted to ₱60,247,413 and ₱59,976,149, respectively.

7. Investments in Associates

The movement of the investments in associates is as follows:

	2008	2007
Acquisition cost:		
Beginning balance	**₱1,653,130,255**	₱1,653,130,225
Additional investment during the year	**2,280,000**	–
Ending balance	**1,655,410,255**	1,653,130,225
Accumulated equity in net earnings:		
Beginning balance	**2,632,744,177**	2,298,792,452
Equity in net earnings for the year	**383,409,537**	499,001,854
Dividends received	**(211,046,676)**	(165,050,129)
Ending balance	**2,805,107,038**	2,632,744,177
Equity in reserve for fluctuation in AFS financial assets:		
Beginning balance	**62,433,748**	16,674,687
Share in net movement of reserve for fluctuation in AFS financial assets of the associates during the year (Note 6)	**(200,905,813)**	45,759,061
Ending balance	**(138,472,065)**	62,433,748
Premium on deemed disposal of investment in an associate	**304,954,486**	304,954,486
	₱4,626,999,714	₱4,653,262,636

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

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

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

	2008	2007
UBP		
Total assets	₱203,901,103,000	₱195,309,072,000
Total liabilities	176,884,343,000	167,895,338,000
Net income	2,068,426,000	2,978,355,000
MAPFRE		
Total assets	2,537,041,168	2,403,804,379
Total liabilities	1,341,428,767	1,227,908,836
Net income	160,094,357	133,504,144
PAMPLONA		
Total assets	₱18,928,529	₱18,700,831
Total liabilities	20,285,535	20,692,558
Net loss	(6,965,279)	(6,053,960)

8. **Investment Properties**

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

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

	2007		
	Land	Buildings and Improvements	Total
Costs:			
Beginning balances	₱6,135,011,711	₱3,856,028,199	₱9,991,039,910
Additions	37,491,954	44,241,066	81,733,020
Disposals	(10,529,900)	(853,443,258)	(863,973,158)
Reclassifications	(126,592,726)	(29,534,396)	(156,127,122)
Ending balances	6,035,381,039	3,017,291,611	9,052,672,650
Accumulated Depreciation and Impairment Loss:			
Beginning balances	₱147,926,117	₱792,176,586	₱940,102,703
Depreciation and amortization (Note 20)	–	122,866,159	122,866,159
Impairment loss	–	10,887,627	10,887,627
Disposals	–	(766,369,059)	(766,369,059)
Reclassifications	–	(10,844,110)	(10,844,110)
Ending balances	147,926,117	148,717,203	296,643,320
Net Book Values	₱5,887,454,922	₱2,868,574,408	₱8,756,029,330

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

The total fair value of the investment properties amounted to ₱8,586,463,288 as of December 31, 2008 based on the Group's in-house valuation and ₱8,756,029,330 as of December 31, 2007 based on the report of independent appraisers. The fair value represents the amount at which the assets could be exchanged between a knowledgeable and willing buyer and seller in an arm's length transaction at the date of the valuation.

The Group enters into operating leases for all its investment properties. Rental income amounted to ₱236,848,133 in 2008 and ₱232,839,329 in 2007. Operating expenses arising in respect of such investment properties amounted to ₱163,354,998 in 2008 and ₱165,957,276 in 2007 (Note 21).

In 2008, investment properties with carrying value of ₱7,035,769 and ₱127,117,125 were reclassified to property and equipment and noncurrent assets held for sale, respectively, while noncurrent assets held for sale with carrying value of ₱129,566,836 were reclassified to investment properties. In 2007, investment properties with carrying value of ₱161,618,818 were reclassified to noncurrent assets held for sale and property and equipment with carrying value of ₱16,335,806 were reclassified to investment properties.

Depreciation expense charged to income pertaining to the revaluation increment amounted to ₱9,243,555 in 2008 and ₱12,682,091 in 2007.

The cost of fully depreciated investment properties that are still in use amounted to ₱373,531,899 and ₱219,341,434 as of December 31, 2008 and 2007, respectively.

9. Property and Equipment

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

	2008					
	Land and Buildings	**Furniture Fixtures and Equipment**	**Electronic and Data Processing Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Total**
Costs:						
Beginning balances	**₱116,694,790**	**₱278,013,580**	**₱151,812,169**	**₱83,410,001**	**₱55,455,483**	**₱685,386,023**
Additions	**–**	**6,378,246**	**19,280,149**	**18,012,300**	**2,018,752**	**45,689,447**
Retirements/disposals	**–**	**(951,826)**	**(1,011,568)**	**(12,096,534)**	**–**	**(14,059,928)**
Reclassifications (Note 8)	**10,144,141**	**–**	**–**	**–**	**–**	**10,144,141**
Ending balances	**126,838,931**	**283,440,000**	**170,080,750**	**89,325,767**	**57,474,235**	**727,159,683**

	2008					
	Land and Buildings	**Furniture Fixtures and Equipment**	**Electronic and Data Processing Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Total**
Accumulated Depreciation and Amortization:						
Beginning balances	**₱23,235,232**	**₱182,156,084**	**₱111,222,135**	**₱49,210,947**	**₱47,062,022**	**₱412,886,420**
Depreciation and amortization (Note 20)	**1,635,489**	**11,751,031**	**14,587,398**	**15,431,040**	**3,054,813**	**46,459,771**
Retirements/disposals	**–**	**(832,483)**	**(1,007,030)**	**(11,009,725)**	**–**	**(12,849,238)**
Reclassifications (Note 8)	**3,108,372**	**–**	**–**	**–**	**–**	**3,108,372**
Ending balances	**27,979,093**	**193,074,632**	**124,802,503**	**53,632,262**	**50,116,835**	**449,605,325**
Net Book Values	**₱98,859,838**	**₱90,365,368**	**₱45,278,247**	**₱35,693,505**	**₱7,357,400**	**₱277,554,358**

	2007					
	Land and Buildings	Furniture Fixtures and Equipment	Electronic and Data Processing Equipment	Transportation Equipment	Leasehold Improvements	Total
Costs:						
Beginning balances	₱152,069,296	₱269,187,516	₱137,908,594	₱83,750,565	₱52,605,746	₱695,521,717
Additions	–	10,638,423	20,513,352	11,212,942	2,887,671	45,252,388
Retirements/disposals	(15,629,442)	(1,812,359)	(6,609,777)	(11,553,506)	(37,934)	(35,643,018)
Reclassifications (Note 8)	(19,745,064)	–	–	–	–	(19,745,064)
Ending balances	116,694,790	278,013,580	151,812,169	83,410,001	55,455,483	685,386,023

(Forward)

	2007					
	Land and Buildings	Furniture Fixtures and Equipment	Electronic and Data Processing Equipment	Transportation Equipment	Leasehold Improvements	Total
Accumulated Depreciation and Amortization:						
Beginning balances	35,776,737	171,593,242	104,168,996	43,710,512	43,745,217	398,994,704
Depreciation and amortization (Note 20)	6,050,171	12,308,401	13,631,316	15,181,859	3,346,736	50,518,483
Retirements/disposals	(15,182,418)	(1,745,559)	(6,578,177)	(9,681,424)	(29,931)	(33,217,509)
Reclassifications (Note 8)	(3,409,258)	–	–	–	–	(3,409,258)
Ending balances	23,235,232	182,156,084	111,222,135	49,210,947	47,062,022	412,886,420
Net Book Values	₱93,459,558	₱95,857,496	₱40,590,034	₱34,199,054	₱8,393,461	₱272,499,603

The carrying value of investment properties reclassified to property and equipment in 2008 amounted to ₱7,035,769 and from property and equipment in 2007 amounted to ₱16,335,806.

10. Noncurrent Assets Held for Sale

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

Movement in noncurrent assets held for sale is as follows:

	2008	2007
Beginning balance	**₱466,787,444**	₱350,970,058
Sold	**(71,475,986)**	(19,637,938)
Additions	**–**	2,379,775
Impairment loss (Note 22)	**(7,588,304)**	(28,543,269)
Reclassifications (Note 8)	**(2,449,711)**	161,618,818
Ending balance	**₱385,273,443**	₱466,787,444

11. Other Assets

	2008	2007
Interest in joint venture	**₱148,349,598**	₱148,349,598
Value added input tax	**44,033,212**	66,078,095
Computer software - net	**15,519,004**	15,309,202
Assets held by Mortgage Trust Pool	**–**	7,823,135
Others	**48,043,334**	56,938,372
	₱255,945,148	₱294,498,402

Interest in Joint Venture

On February 20, 2002, IPVI, IPI and Plus Builders, Inc. (PBI) entered into a contractual and unincorporated joint venture for the conversion and development of parcels of land owned by PBI located in Imus, Cavite into a residential subdivision project (the Project). The Company 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.

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

Computer Software

The movement in the carrying amount of computer software for December 31 follows:

	2008	2007
Cost:		
Beginning balance	**₱219,390,658**	₱214,377,736
Additions	**8,861,389**	5,012,922
Ending balance	**228,252,047**	219,390,658
Accumulated Amortization:		
Beginning balance	**204,081,456**	195,069,904
Amortization (Note 20)	**8,651,587**	9,011,552
Ending balance	**212,733,043**	204,081,456
Net Book Value	**₱15,519,004**	₱15,309,202

12. Legal Policy Reserves

Details of legal policy reserves are as follows:

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

	2007		
	Legal Policy Reserves	Reinsurers' Share of Liabilities	Net
Aggregate reserves for:			
Ordinary life policies	₱30,172,917,050	₱59,498,224	₱30,113,418,826
Group life policies	492,868,222	–	492,868,222
Accident and health policies	90,903,462	12,692,324	78,211,138
Unit-linked policies	8,889,326	–	8,889,326
Total	₱30,765,578,060	₱72,190,548	₱30,693,387,512

Movement of aggregate reserves is as follows:

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

	2007		
	Legal Policy Reserves	Reinsurers' Share of Liabilities	Net
Beginning balances	₱28,768,130,654	₱70,439,685	₱28,697,690,969
Premiums received	4,841,060,863	–	4,841,060,863
Liability released for payments of death, maturities, surrender benefits and claims	(627,110,616)	–	(627,110,616)
Accretion of investment income or change in unit prices	1,081,586,451	–	1,081,586,451
Fees deducted	(2,818,145,977)	1,750,863	(2,819,896,840)
Foreign exchange adjustment	(479,943,315)	–	(479,943,315)
Ending balances	₱30,765,578,060	₱72,190,548	₱30,693,387,512

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

13. Other Insurance Liabilities

Other insurance liabilities consist of:

	2008	2007
Members' deposits and other funds on deposit	**₱7,130,125,853**	₱7,438,034,703
Reserve for dividends to members	**1,119,961,279**	1,063,790,904
Claims pending settlement	**553,988,472**	580,892,140
	₱8,804,075,604	₱9,082,717,747

14. Accrued Expenses and Other Liabilities

	2008	2007
Accounts payable	**₱305,115,885**	₱297,208,645
Accrued employee benefits	**218,832,464**	207,177,543
Preferred shares of Home Credit owned by its members	**121,126,162**	120,596,800
Commissions payable	**92,318,715**	86,605,244
General expenses due and accrued	**70,009,584**	69,255,185
Remittances not yet allocated	**31,826,744**	77,555,750
Taxes payable	**21,384,457**	32,990,007
Others	**104,276,501**	61,664,188
	₱964,890,512	₱953,053,362

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

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

15. Dividend Declaration

On March 12, 2009 and March 13, 2008, the BOT approved the set up of provision for dividend to members for the years ended December 31, 2008 and 2007 applicable to dividends to be paid out for the period January 1, 2009 to December 31, 2009 and January 1, 2008 to December 31, 2008, respectively.

Breakdown of the dividend provision for the years 2008 and 2007 follows:

	2008	2007
Chargeable to retained earnings	**₱872,634,000**	₱828,078,000
Chargeable to income (Note 19)	**231,966,000**	220,122,000
	₱1,104,600,000	₱1,048,200,000

Dividends to members charged against retained earnings follow:

	2008	2007
Dividends declared during the year	**₱872,634,000**	₱828,078,000
Excess of dividends declared in prior year against actual amount paid	**(62,995,835)**	(77,770,397)
	₱809,638,165	₱750,307,603

16. Insurance Revenue

	2008	2007
Life insurance contracts	**₱6,197,834,785**	₱6,018,666,327
VUL insurance contracts	**537,859,076**	2,520,887,983
Accident and health contracts	**416,399,615**	387,292,318
Gross earned premiums on insurance contracts	**7,152,093,476**	8,926,846,628
Reinsurers' share of premiums on insurance contracts	**(142,783,475)**	(144,981,369)
Net insurance revenue	**₱7,009,310,001**	₱8,781,865,259

17. Investment Income

	2008	2007
Interest income on:		
HTM financial assets	**₱1,335,063,915**	₱1,118,349,243
Loans and receivables	**1,133,260,391**	1,175,343,201
AFS financial assets	**312,814,346**	300,134,136
Others	**10,992,947**	12,152,023
(Forward)	**₱2,792,131,599**	₱2,605,978,603

	2008	2007
Dividend income	₱1,458,649,613	₱644,864,351
Income on (loss from) VUL funds (Note 6)	(70,440,128)	33,848,664
Total investment income	₱4,180,341,084	₱3,284,691,618

18. Net Realized Gains - net

	2008	2007
AFS financial assets (Note 6)	₱18,644,062	₱254,198,397
Noncurrent assets held for sale	(14,662,892)	42,662,361
Investment properties	(1,580,582)	11,285,421
Foreclosure of properties	(973,411)	14,950,654
Property and equipment	592,134	715,810
	₱2,019,311	₱323,812,643

19. Insurance Benefits Expenses

	2008	2007
Surrenders	₱1,325,056,563	₱1,390,020,538
Death and hospitalization benefits	940,952,406	870,658,690
Increase in reserve for supplementary contracts	616,527,323	580,635,533
VUL funds allocation	472,267,285	2,329,415,539
Interest expense	337,725,220	340,500,380
Payments on supplementary contracts	282,168,831	258,354,589
Maturities	244,655,179	229,830,618
Dividends to members (Note 15)	231,966,000	220,122,000
Others	15,204,798	9,684,945
Gross benefits and claims paid on insurancecontracts	4,466,523,605	6,229,222,832
Net change in legal policy reserves	3,634,706,075	1,995,696,543
Reinsurers' share of benefits and claims paid on insurance	(32,341,172)	(2,833,890)
	₱8,068,888,508	₱8,222,085,485

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

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

	2007		
	Gross Change in Legal Policy Reserves	Reinsurers' Share of Change in Legal Policy Reserves	Net
Life insurance contracts	₱1,990,650,374	₱1,750,863	₱1,988,899,511
VUL insurance contracts	6,797,032	–	6,797,032
	₱1,997,447,406	₱1,750,863	₱1,995,696,543

20. General Insurance Expenses

	2008	2007
Personnel (Notes 23, 24 and 26)	₱657,030,128	₱588,639,612
Depreciation and amortization (Notes 8, 9 and 11)	169,123,684	182,396,194
Marketing, advertising, and promotion	69,559,162	52,553,885
Outside services	59,704,213	55,028,921
Transportation and communication	57,105,288	52,944,958
Repairs and maintenance	21,529,475	23,077,855
Rent (Note 28)	20,133,420	20,850,132
Printing and supplies	15,718,018	14,771,313
Provision for impairment on loans and receivables (Note 6)	15,613,460	48,949,481
Training	12,026,012	12,505,032
Utilities	8,522,407	8,840,057
Others	184,955,343	187,970,291
	₱1,291,020,610	₱1,248,527,731

21. Investment Expenses

	2008	2007
Real estate expenses (Note 8)	**₱163,354,998**	₱165,957,276
Investment management expenses	**497,636**	2,809,809
	₱163,852,634	₱168,767,085

22. Other Losses

	2008	2007
Impairment loss on:		
AFS equity securities (Note 6)	**₱233,311,890**	₱–
Noncurrent assets held for sale (Note 10)	**7,588,304**	28,543,269
Investment properties (Note 8)	**2,443,055**	10,887,627
	243,343,249	39,430,896
Trading losses - net	**11,038,824**	923,133
Recovery of impairment on loans and receivables (Note 6)	**(5,716,892)**	(18,416,164)
	₱248,665,181	₱21,937,865

23. Personnel Expenses

	2008	2007
Salaries and bonuses	**₱536,741,334**	₱483,038,235
Employee benefits	**79,356,296**	76,764,603
Retirement benefits cost (Note 24)	**40,932,498**	28,836,774
	₱657,030,128	₱588,639,612

24. Retirement Benefits

The Group has defined benefit plans covering substantially all employees and executives, which require contributions to be made to the retirement funds. The Company's retirement fund is administered by the BOT consisting of its key officers while that of the subsidiaries are administered by IITC. The latest actuarial valuation of the defined benefit plans was made on December 31, 2008.

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 sheet for the retirement plan:

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

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

	2007				
	Parent	Subsidiaries			
	Company	IITC	I-Care	Home Credit	Total
Current service cost	₱39,546,900	₱343,632	₱1,160,203	₱595,202	₱41,645,937
Interest cost	49,456,300	292,817	521,904	243,067	50,514,088
Expected return on plan assets	(59,738,956)	(200,495)	(349,706)	(70,645)	(60,359,802)
Amortization of net actuarial losses (gains)	(3,222,825)	(12,595)	–	271,971	(2,963,449)
	₱26,041,419	₱423,359	₱1,332,401	₱1,039,595	₱28,836,774

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

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

	2007				
	Parent	Subsidiaries			
	Company	IITC	I-Care	Home Credit	Total
Present value of defined benefit obligation	₱647,086,772	₱4,228,944	₱8,423,309	₱2,592,612	₱15,244,865
Less fair value of plan assets	780,742,615	3,946,503	4,971,619	831,637	9,749,759
	(133,655,843)	282,441	3,451,690	1,760,975	5,495,106
Unrecognized net actuarial gains (losses)	124,299,312	1,178,920	(734,188)	108,730	553,462
Retirement benefits liability (asset)	(₱9,356,531)	₱1,461,361	₱2,717,502	₱1,869,705	₱6,048,568

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

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

	2007				
	Parent	Subsidiaries			
	Company	IITC	I-Care	Home Credit	Total
Beginning balances	₱596,649,342	₱4,183,106	₱6,296,720	₱3,038,340	₱13,518,166
Current service cost	39,546,900	343,632	1,160,203	595,202	2,099,037
Interest cost	49,456,300	292,817	521,904	243,067	1,057,788
Benefits paid	(38,565,770)	–	(487,841)	(132,600)	(620,441)
Actuarial loss (gain)	–	(590,611)	932,323	(1,151,397)	(809,685)
Ending balances	₱647,086,772	₱4,228,944	₱8,423,309	₱2,592,612	₱15,244,865

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

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

	2007				
	Parent	Subsidiaries			
	Company	IITC	I-Care	Home Credit	Total
Beginning balances	₱759,569,429	₱3,341,583	₱4,371,325	₱784,949	₱8,497,857
Expected return on plan assets	59,738,956	200,495	349,706	70,645	620,846
Actual contribution	–	423,359	834,356	–	1,257,715
Benefits paid	(38,565,770)	–	(487,841)	(132,600)	(620,441)
Actuarial gain (loss)	–	(18,934)	(95,927)	108,643	(6,218)
Ending balances	₱780,742,615	₱3,946,503	₱4,971,619	₱831,637	₱9,749,759

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

	2008			
	Parent	Subsidiaries		
	Company	IITC	I-Care	Home Credit
Cash and cash equivalents	**11%**	**0.02%**	**6.0%**	**31.77%**
Instruments in debt and equity securities	**89%**	**98.55%**	**92.0%**	**49.87%**
Receivables	**–**	**1.43%**	**2.0%**	**18.36%**
	100%	**100%**	**100%**	**100%**

	2007			
	Parent	Subsidiaries		
	Company	IITC	I-Care	Home Credit
Cash and cash equivalents	19%	21%	5%	13%
Instruments in debt and equity securities	74%	70%	86%	84%
Receivables	7%	9%	9%	3%
	100%	100%	100%	100%

Actual return on plan assets is as follows:

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

	2007			
	Parent	Subsidiaries		
	Company	IITC	I-Care	Home Credit
Expected return on plan assets	₱59,738,956	₱200,495	₱349,706	₱70,645
Actuarial gain (loss) on plan assets	–	(18,934)	(95,927)	108,643
Actual return on plan assets	₱59,738,956	₱181,561	₱253,779	₱179,288

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

The Group expects to contribute ₱32,107,927 to its defined benefit plan in 2009.

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

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

	2007			
	Parent	Subsidiaries		
	Company	IITC	I-Care	Home Credit
Discount rate	8%	8%	8%	8%
Expected rate of return on plan assets	8%	6%	8%	9%
Rate of salary increases	10%	6%	10%	7%

Staff costs and other employee-related costs are as follows:

	2008	2007
Salaries and bonuses	**₱536,741,334**	₱483,038,235
Total benefit expense	**40,932,498**	28,836,774
Social security costs	**9,748,747**	8,390,442
Others	**69,607,548**	68,374,161

Amounts for the current and prior periods are as follows:

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

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

	2006			
	Parent	Subsidiaries		
	Company	IITC	I-Care	Home Credit
Present value of defined benefit obligations	₱596,649,342	₱4,183,106	₱6,296,720	₱3,038,340
Fair value of plan assets	759,569,424	3,341,583	4,371,325	(784,949)
Unfunded defined benefit obligation (net plan assets)	(162,920,087)	841,523	1,925,395	2,253,391
Experience adjustments on defined benefit obligation - loss (gain)	96,849,794	(950,045)	765,830	(75,679)
Experience adjustments on plan assets - gain (loss)	–	62,061	287,591	–

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

25. Income Taxes

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

	2008	2007
Current:		
Final tax	**₱244,180,799**	₱222,523,560
MCIT	**463,712**	23,531,416
RCIT	**1,250,771**	2,644,562
	245,895,282	248,699,538
Deferred	**(185,372,952)**	(190,059,167)
	₱60,522,330	₱58,640,371

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

Deferred Income Tax Assets - Net

	2008	2007
Tax effects of:		
Allowance for impairment on loans and receivables	**₱35,775,972**	₱39,338,867
Retirement and other long-term employee benefits payable	**1,336,524**	788,468
Accrued expenses not yet deductible	**719,340**	2,329,472
Unamortized past service cost contributions	**347,652**	439,696
Allowance for impairment of supplies	**119,410**	69,418
Unrealized loss on AFS financial assets	**–**	223,552
Unrealized foreign exchange loss	**–**	112,669
Deferred income tax assets	**38,298,898**	43,302,142
Tax effects of:		
Unrealized gain on AFS financial assets	**(92,590)**	–
Unrealized foreign exchange gain	**(80,102)**	–
Total deferred income tax liabilities	**(172,692)**	–
Net deferred income tax assets	**₱38,126,206**	₱43,302,142

Deferred Income Tax Liabilities - Net

	2008	2007
Tax effects of:		
NOLCO	**₱290,715,418**	₱–
Unrealized foreign exchange loss	**156,362,996**	315,094,683
Accrued expenses not yet deductible	**89,428,627**	87,289,848
Unamortized past service cost contributions	**63,810,440**	90,240,282
Allowance for impairment on loans and receivables	**62,402,064**	–
Retirement and other long-term employee benefits payable	**8,645,370**	–
Total deferred income tax assets	**671,364,915**	492,624,813
Tax effects of:		
Revaluation increment in investment properties	**(1,360,023,320)**	(1,593,427,380)
Reserve for fluctuation in AFS financial assets	**(336,462,302)**	(671,760,518)
Accrued rent income	**(16,172,718)**	(18,983,513)
Retirement benefits asset	**–**	(3,274,785)
Total deferred income tax liabilities	**(1,712,658,340)**	(2,287,446,196)
Net deferred income tax liabilities	**(₱1,041,293,425)**	(₱1,794,821,383)

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

	2008	2007
NOLCO	**₱257,231,241**	₱149,488,005
Allowance for impairment on loans and receivables	**–**	204,770,768
Excess of MCIT over RCIT	**25,384,037**	38,834,548
	₱282,615,278	₱393,093,321

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

Year Incurred	Expiration	Beginning Balance	Incurred	Applied	Expired	Ending Balance
2005	2008	₱6,032,362	₱–	(₱61,938)	(₱5,970,424)	₱–
2006	2009	138,412,136	–	–	–	138,412,136
2007	2010	5,043,507	–	–	–	5,043,507
2008	2011	–	1,082,772,819	–	–	1,082,772,819
		₱149,488,005	₱1,082,772,819	(₱61,938)	(₱5,970,424)	₱1,226,228,462

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

Year Incurred	Expiration	Beginning Balance	Incurred	Applied	Expired	Ending Balance
2005	2008	₱14,700,296	₱–	₱–	(₱14,700,296)	₱–
2006	2009	1,254,574	–	–	–	1,254,574
2007	2010	22,879,678	–	–	–	22,879,678
2008	2011	–	1,249,785	–	–	1,249,785
		₱38,834,548	₱1,249,785	₱–	(₱14,700,296)	₱25,384,037

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

	2008	2007
Provision for income tax at 35%	**₱755,069,218**	₱795,470,488
Adjustments for:		
Interests and dividends subjected to final tax at a lower rate	**(687,755,190)**	(381,525,074)
Equity in net earnings of an associate	**(134,193,338)**	(174,650,649)
Unrecognized deferred income tax assets without prior year set-up	**86,157,922**	–
Impairment loss - net	**85,170,137**	13,800,814
Recognition of deferred tax asset on allowance for impairment on loans and receivables	**(71,669,769)**	–
Loss from (income on) VUL	**24,654,045**	(11,847,032)
Derecognized deferred income tax assets on deductible temporary differences, NOLCO and MCIT	**(45,086,383)**	28,532,851
Nontaxable income - net	**(7,080,850)**	(4,391,687)
Nondeductible expenses	**3,872,493**	764,159
Gain on sale of investments - net	**(2,641,309)**	(66,688,381)
Unrecognized deferred income tax assets on NOLCO utilized in current year	**–**	(178,033,079)
Nondeductible interest expense	**401,969**	4,619,820
Effect of change in statutory income tax rate	**53,623,385**	32,588,141
Provision for income tax	**₱60,522,330**	₱58,640,371

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

26. Related Party Transactions

Transactions with related parties consist mainly of:

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

	2008	2007
Savings and current accounts	**₱75,335,950**	₱565,620,146
Short-term investments	**231,180,541**	265,198,909
	306,516,491	830,819,055

b. Compensation of key management personnel is summarized below:

	2008	2007
Salaries and other short term employee benefits	**₱184,695,166**	₱162,346,072
Post-employment and other long term benefits	**5,520,981**	4,830,451
	₱190,216,147	₱167,176,523

27. Trust Operations

Securities and other properties held by IITC in fiduciary or agency capacities for its customers amounting to ₱1.5 billion and ₱1.8 billion as of December 31, 2008 and 2007, respectively, are not included in the consolidated financial statements since these are not assets of the Group.

28. Lease Commitments

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

a. Operating lease commitments - the Group as lessee

The future minimum rentals payable under noncancelable operating leases follows:

	2008	2007
Within one year	**₱11,367,375**	₱12,512,921
After one year but not more than five years	**10,802,269**	15,475,065
	₱22,169,644	₱27,987,986

b. Operating lease commitments - the Group as lessor

The future minimum rentals receivable under noncancelable operating leases follows:

	2008	2007
Within one year	₱225,255,084	₱185,746,926
After one year but not more than five years	319,344,361	365,998,497
More than five years	39,553,003	36,707,936
	₱584,152,448	₱588,453,359

29. Financial Instruments

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

	2008		2007	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS				
Financial Assets at FVPL				
Cash and cash equivalents	₱260,564,563	₱260,564,563	₱410,716,336	₱410,716,336
Equity securities - quoted	793,223,868	793,223,868	1,441,129,413	1,441,129,413
Debt securities - fixed interest rates - quoted:				
Government:				
Local currency	815,322,568	815,322,568	890,820,775	890,820,775
Foreign currency	179,967,523	179,967,523	139,223,685	139,223,685
Corporate	595,011,575	595,011,575	490,367,320	490,367,320
Accrued interest receivable	30,711,621	30,711,621	37,006,519	37,006,519
	2,674,801,718	2,674,801,718	3,409,264,048	3,409,264,048
HTM Financial Assets - quoted debt securities - fixed interest rates				
Government:				
Local currency	8,915,975,568	8,909,718,803	7,869,638,965	8,995,475,876
Foreign currency	3,475,662,340	4,000,074,840	2,983,909,715	3,248,232,827
Corporate:				
Local currency	1,168,853,361	1,138,219,433	875,900,193	935,292,773
Foreign currency	25,105,300	31,510,433	22,433,901	44,626,138
	13,585,596,569	14,079,523,509	11,751,882,774	13,223,627,614
Loans and Receivables				
Cash and cash equivalents	2,152,007,205	2,152,007,205	2,806,354,535	2,806,354,535
Term loans	8,801,289,016	9,451,920,081	6,098,934,328	6,645,966,905
Policy loans	4,522,054,338	4,522,054,338	4,125,994,316	4,125,994,316
Interest receivable	660,345,735	660,345,735	540,225,645	540,225,645
Mortgage loans	198,674,654	198,674,654	217,026,371	217,026,371
Housing loans	160,424,451	191,556,196	167,399,987	213,326,780
Finance leases	54,684,191	48,634,922	57,988,341	57,380,400
Car financing loans	44,810,610	46,037,838	47,385,478	49,464,545
Accounts receivable	46,641,350	46,641,350	46,530,439	46,530,630
Stock loans	34,599,537	31,818,700	43,072,696	41,455,549
Due from agents	728,280	728,280	1,302,475	1,302,475
Others	166,449,366	167,870,814	127,983,530	124,455,196
	14,690,701,528	15,366,282,908	11,473,843,606	12,063,128,812
Total Loans and Receivables	16,842,708,733	17,518,290,113	14,280,198,141	14,869,483,347
AFS Financial Assets				
Equity securities:				
Quoted	2,138,491,148	2,138,491,148	2,050,420,970	2,050,420,970
Unquoted	5,355,235,641	5,355,235,641	8,708,285,356	9,160,002,198
Debt securities:				
Quoted:				
Government:				
Local currency	2,373,555,779	2,373,555,779	2,519,181,127	2,519,181,127
Foreign currency	366,089,407	366,089,407	207,695,983	207,695,983
Corporate	119,753,371	119,753,371	111,479,438	111,479,438
Unquoted	19,070,704	20,142,064	22,262,937	23,513,029
	10,372,196,050	10,373,267,410	13,619,325,811	14,072,292,745
TOTAL FINANCIAL ASSETS	₱43,475,303,070	₱44,645,882,750	₱43,060,670,774	₱45,574,667,754

	2008		2007	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL LIABILITIES				
Other Financial Liabilities				
Accrued Expenses and Other Liabilities:				
Accounts payable	**₱305,115,885**	**₱301,860,565**	₱297,208,645	₱295,230,355
Accrued employee benefits	**218,832,464**	**218,832,464**	207,177,543	207,177,543
Preferred shares of Home Credit owned by its members	**121,126,162**	**121,126,162**	120,596,800	120,596,800
Commissions payable	**92,318,715**	**92,318,715**	86,605,244	86,605,244
Remittances not yet allocated	**31,826,744**	**31,826,744**	77,555,750	77,555,750
General expenses due and accrued	**70,009,584**	**70,009,584**	69,255,185	69,255,185
Others	**88,368,112**	**88,368,112**	43,788,274	43,788,274
TOTAL FINANCIAL LIABILITIES	**₱927,597,666**	**₱924,342,346**	₱902,187,441	₱900,209,151

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

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

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

Equity securities
The fair values of equity securities are based on quoted prices. Fair value of unquoted equity securities were valued using pricing models which include reference to the current market value of another instrument that is substantially the same and assumptions as determined reasonable by the management at the time of valuation (Note 30). For unquoted equity securities, where fair value is not reasonably determinable, financial assets are valued at cost less impairment loss.

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

Term, housing, mortgage and car financing loans
Fair values of term, housing, mortgage and car financing loans are estimated using the discounted cash flow technique that makes use of market rates ranging from 5% to 9% in 2008 and 5% to 16% in 2007. There is also an assumption that credit risk is minimal for such types of secured lending instruments.

Other loans and receivables
The fair values of other loans and receivables are estimated using the discounted cash flow technique that makes use of risk-free interest rates adjusted by the borrower's credit risk.

Accrued expenses and other liabilities
The fair values of short-term accrued expenses and other liabilities equal their carrying values. The fair values of long-term accrued expenses and other liabilities are estimated to be the present value of the future cash flows discounted at market rates for similar types of instruments ranging from 5% to 9% in 2008 and 2007.

30. Insurance and Financial Risk Management

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

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

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

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

The operations of the Group are also subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions, e.g., capital adequacy, to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise.

Insurance Risk

The risk under an insurance contract is the possibility of occurrence of an insured event and uncertainty of the amount and timing of the resulting claim. The principal risk the Group faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. The risks associated with the life insurance contracts are underwriting risk and investment risk.

Underwriting Risk

Underwriting risk represents the exposure to loss resulting from actual policy experience adversely deviating from assumptions made in the product pricing. Underwriting risks are brought about by a combination of the following:

- Mortality risk - risk of loss arising due to policyholder death experience being different than expected.
- Morbidity risk - risk of loss arising due to policyholder health experience being different than expected.
- Occurrence risk - the possibility that the number of insured events will differ from those expected.
- Severity risk - the possibility that the cost of the events will differ from those expected.
- Development risk - the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategies and guidelines.

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

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

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

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

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

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

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

	2008	2007
Whole Life		
Gross	**₱91,430,037,634**	₱90,931,083,630
Net	**80,769,649,014**	80,675,408,682
Endowment		
Gross	**21,755,548,551**	22,339,117,987
Net	**21,000,477,921**	21,727,404,973
Term Insurance		
Gross	**13,623,922,650**	13,768,835,369
Net	**13,331,096,884**	14,007,308,079
Group Insurance		
Gross	**77,764,831,175**	62,496,456,827
Net	**62,114,702,111**	49,421,099,343
Total		
Gross	**₱204,574,340,010**	₱189,535,493,813
Net	**₱177,215,925,930**	₱165,831,221,077

Life Insurance Contracts

Assumptions

Material judgment is required in determining the liabilities and in the choice of assumptions relating to insurance contracts. Assumptions in use are based on past experience, current internal data and conditions and external market indices and benchmarks, which reflect current observable market prices and other published information. Such assumptions are determined as appropriate at inception of the contract and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations. Assumptions are subject to the provisions of the Code and guidelines set by the IC.

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

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

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

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

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

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

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

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

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

a. Mortality and morbidity rates

   Assumptions are based on standard industry and national mortality and morbidity tables, according to the type of contract written and which may be adjusted where appropriate to reflect the Group's own experiences. Assumptions are differentiated by sex, underwriting class and contract type. For life insurance policies, increased mortality rates would lead to larger number of claims and claims occurring sooner than anticipated, increasing the expenditure and reducing profits for stakeholders.

b. Discount rates

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

c. Investment return

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

d. Expenses

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

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

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

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligation to its policyholders and thus, a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Group is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any reinsurance contract.

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

The analysis below is performed for a reasonable possible movement in key assumptions with all other assumptions held constant on the consolidated statements of income and members' equity. Based on the scenarios tested for 2008 and 2007, the resulting values are lower than the statutory reserves.

Scenario	**December 31, 2008** **% Change from Base Run**	December 31, 2007 % Change from Base Run
Base Run	**0.00%**	0.00%
Mortality + 5%	**(1.95%)**	(3.41%)
Mortality – 5%	**1.98%**	–
Investment Return + 1%	**3.01%**	3.87%
Discount Rate + 1%	**0.15%**	0.49%
Expense + 10%	**(9.07%)**	(14.07%)
Lapse + 5%	**(1.43%)**	(1.11%)

Financial Risk
The Group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk that the Group is exposed to is that proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

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

Credit Risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Key areas where the Group is exposed to credit risk pertain to the amounts due from the following:

- reinsurers in respect of unpaid claims;
- reinsurers in respect of claims already paid;
- insurance contract holders; and
- insurance intermediaries

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

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

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

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

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

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

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

The Group sets the maximum amounts and limits that may be advanced to/placed with individual corporate counterparties which are set by reference to their long term ratings.

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

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

	2008	2007
Cash and cash equivalents	**₱2,151,690,260**	₱2,806,090,060
Insurance receivables:		
Due premiums	**221,366,891**	230,550,411
Reinsurance assets	**7,979,149**	8,038,284
	229,346,040	238,588,695
Financial assets at FVPL:		
Cash and cash equivalents	**260,564,563**	410,716,336
Quoted equity securities	**793,223,868**	1,441,129,413
Quoted debt securities - fixed interest rates:		
Government:		
Local currency	**815,322,568**	890,820,775
Foreign currency	**179,967,523**	139,223,685
Corporate	**595,011,575**	490,367,320
Accrued interest receivable	**30,711,621**	37,006,519
	2,674,801,718	3,409,264,048
HTM financial assets - quoted debt securities - fixed interest rates:		
Government:		
Local currency	**8,915,975,568**	7,869,638,965
Foreign currency	**3,475,662,340**	2,983,909,715
Corporate:		
Local currency	**1,168,853,361**	875,900,193
Foreign currency	**25,105,300**	22,433,901
	13,585,596,569	11,751,882,774
Loans and receivables:		
Term loans	**8,801,289,016**	6,098,934,328
Policy loans	**4,522,054,338**	4,125,994,316
Interest receivable	**660,345,735**	540,225,645
Mortgage loans	**228,180,847**	251,408,045
Accounts receivable	**220,882,805**	205,394,824
Housing loans	**160,424,451**	167,399,987
Finance leases	**54,684,191**	57,988,341
Due from agents	**125,348,199**	126,527,415
Car financing loans	**44,810,610**	47,385,478
Stock loans	**34,599,537**	43,072,696
Others	**166,449,366**	127,983,530
	15,019,069,095	11,792,314,605
AFS financial assets:		
Equity securities:		
Quoted	**2,138,491,148**	2,050,420,970
Unquoted	**5,355,235,641**	8,708,285,356
Debt securities - fixed interest rates:		
Quoted:		
Government:		
Local currency	**2,373,555,779**	2,519,181,127
Foreign currency	**366,089,407**	207,695,983
Corporate	**119,753,371**	111,479,438
Unquoted	**19,070,704**	22,262,937
	10,372,196,050	13,619,325,811
	₱44,032,699,732	₱43,617,465,993

The Group did not have any significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2008 and 2007.

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

	2008			
	Neither past due nor impaired			
	Investment Grade	Non Investment Grade- Satisfactory	Past due or Impaired	Total
Cash and cash equivalents	₱2,151,690,260	₱–	₱–	₱2,151,690,260
Insurance receivables:				
Due premiums	221,366,891	–	–	221,366,891
Reinsurance assets	–	7,979,149	–	7,979,149
	221,366,891	7,979,149	–	229,346,040
Financial assets at FVPL:				
Cash and cash equivalents	260,564,563	–	–	260,564,563
Quoted equity securities	793,223,868			793,223,868
Quoted debt securities - fixed interest rates:				
Government				
Local currency	815,322,568	–	–	815,322,568
Foreign currency	179,967,523	–	–	179,967,523
Corporate	595,011,575	–	–	595,011,575
Accrued interest receivable	30,711,621	–	–	30,711,621
	2,674,801,718	–	–	2,674,801,718
HTM financial assets - quoted - fixed interest rates:				
Government				
Local currency	8,915,975,568	–	–	8,915,975,568
Foreign currency	3,475,662,341	–	–	3,475,662,341
Corporate:				
Local currency	1,168,853,361	–	–	1,168,853,361
Foreign currency	25,105,300	–	–	25,105,300
	13,585,596,570	–	–	13,585,596,570
Loans and receivables:				
Term loans	8,801,289,016	–	–	8,801,289,016
Policy loans	4,522,054,338	–	–	4,522,054,338
Interest receivable	590,928,602	69,417,133	–	660,345,735
Mortgage loans	198,674,654	–	29,506,193	228,180,847
Accounts receivable	–	46,641,350	174,241,455	220,882,805
Housing loans	160,424,451	–	–	160,424,451
Due from agents	–	728,280	124,619,919	125,348,199
Finance leases	–	54,684,191	–	54,684,191
Car financing loans	44,810,610	–	–	44,810,610
Stock loans	–	34,599,537	–	34,599,537
Others	–	166,449,366	–	166,449,366
	14,318,181,671	372,519,857	328,367,567	15,019,069,095
AFS financial assets:				
Equity securities:				
Quoted	2,138,491,148	–	–	2,138,491,148
Unquoted	5,355,235,641	–	–	5,355,235,641
Debt securities:				
Quoted:				
Government:				
Local currency	2,373,555,779	–	–	2,373,555,779
Foreign currency	366,089,407	–	–	366,089,407
Corporate - foreign currency	119,753,371	–	–	119,753,371
Unquoted	19,070,704	–	–	19,070,704
	10,372,196,050	–	–	10,372,196,050
	₱43,323,833,160	₱380,499,006	₱328,367,567	₱44,032,699,733

	2007			
	Neither past due nor impaired			
	Investment Grade	Non Investment Grade-Satisfactory	Past due or Impaired	Total
Cash and cash equivalents	₱2,806,090,060	₱–	₱–	₱2,806,090,060
Insurance receivables:				
Due premiums	230,550,411	–	–	230,550,411
Reinsurance assets	–	8,038,284	–	8,038,284
	230,550,411	8,038,284	–	238,588,695
Financial assets at FVPL:				
Cash and cash equivalents	410,716,336	–	–	410,716,336
Quoted equity securities	1,441,129,413	–	–	1,441,129,413
Quoted debt securities - fixed interest rates:				
Government:				
Local currency	890,820,775	–	–	890,820,775
Foreign currency	139,223,685	–	–	139,223,685
Corporate	490,367,320	–	–	490,367,320
Accrued interest receivable	37,006,519	–	–	37,006,519
	3,409,264,048	–	–	3,409,264,048
HTM financial assets - quoted - fixed interest rates:				
Government:				
Local currency	7,869,638,965	–	–	7,869,638,965
Foreign currency	2,983,909,715	–	–	2,983,909,715
Corporate:				
Local currency	875,900,193	–	–	875,900,193
Foreign currency	22,433,901	–	–	22,433,901
	11,751,882,774	–	–	11,751,882,774
Loans and receivables:				
Term loans	6,098,934,328	–	–	6,098,934,328
Policy loans	4,125,994,316	–	–	4,125,994,316
Interest receivable	466,780,868	73,444,777		540,225,645
Mortgage loans	217,026,371	–	34,381,674	251,408,045
Accounts receivable	–	46,530,439	158,864,385	205,394,824
Housing loans	167,399,987	–	–	167,399,987
Due from agents		1,302,475	125,224,940	126,527,415
Finance leases	–	57,988,341	–	57,988,341
Car financing loans	47,385,478	–	–	47,385,478
Stock loans	–	43,072,696	–	43,072,696
Others	–	127,983,530	–	127,983,530
	11,123,521,348	350,322,258	318,470,999	11,792,314,605
AFS financial assets:				
Equity securities:				
Quoted	2,050,420,970	–	–	2,050,420,970
Unquoted	8,708,285,356	–	–	8,708,285,356
Debt securities:				
Quoted:				
Government:				
Local currency	2,519,181,127	–	–	2,519,181,127
Foreign currency	207,695,983	–	–	207,695,983
Corporate - foreign currency	111,479,438	–	–	111,479,438
Unquoted	22,262,937	–	–	22,262,937
	13,619,325,811	–	–	13,619,325,811
	₱42,940,634,452	₱358,360,542	₱318,470,999	₱43,617,465,993

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

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

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

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

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

	2007					
	Past due but not impaired				Past due and	
	< 30 days	31 to 60 days	>60 days	Total	Impaired	Total
Loans and receivables:						
Accounts receivable	₱3,972,792	₱116,470	₱30,691,287	₱34,780,549	₱158,864,385	₱193,644,934
Mortgage loans	–	–	–	–	34,381,674	34,381,674
Due from agents	–	–	–	–	125,224,940	125,224,940
	₱3,972,792	₱116,470	₱30,691,287	₱34,780,549	₱318,470,999	₱353,251,548

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

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

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

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

Liquidity Risk

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

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

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

The amounts disclosed in the maturity analysis of 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:

	2008				
	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Insurance liabilities:					
Legal policy reserves	**₱1,745,993,103**	**₱295,319,938**	**₱2,311,120,726**	**₱29,975,659,820**	**₱34,328,093,587**
Other insurance liabilities:					
Members' deposits and other funds on deposit	**14,733,418**	**44,706,317**	**121,537,381**	**6,949,148,737**	**7,130,125,853**
Reserve for dividends to members	**1,119,961,279**	–	–	–	**1,119,961,279**
Claims pending settlement	**553,988,472**	–	–	–	**553,988,472**
	1,688,683,169	**44,706,317**	**121,537,381**	**6,949,148,737**	**8,804,075,604**
Other financial liabilities:					
Accrued expenses and other liabilities:					
Accounts payable	**305,115,885**	–	–	–	**305,115,885**
Accrued employee benefits	**218,832,464**	–	–	–	**218,832,464**
Preferred shares of Home Credit owned by its members	–	–	–	**121,126,162**	**121,126,162**

(Forward)

	2008				
	Up to a year	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
Commissions payable	**₱92,318,715**	**₱–**	**₱–**	**₱–**	**₱92,318,715**
General expenses due and accrued	**70,009,584**	**–**	**–**	**–**	**70,009,584**
Remittances not yet allocated	**31,826,744**	**–**	**–**	**–**	**31,826,744**
Others	**88,368,112**	**–**	**–**	**–**	**88,368,112**
	₱806,471,504	**₱–**	**₱–**	**₱121,126,162**	**₱927,597,666**

	2007				
	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Insurance liabilities:					
Legal policy reserves	₱1,092,713,234	₱132,363,711	₱1,111,525,400	₱28,356,785,167	₱30,693,387,512
Other insurance liabilities:					
Members' deposits and other funds on deposit	544,597,929	25,411,227	102,842,258	6,765,183,289	7,438,034,703
Reserve for dividends to members	1,063,790,904	–	–	–	1,063,790,904
Claims pending settlement	580,892,140	–	–	–	580,892,140
	2,189,280,973	25,411,227	102,842,258	6,765,183,289	9,082,717,747
Other financial liabilities:					
Accrued expenses and other liabilities:					
Accounts payable	236,207,692	49,499,044	1,420,450	10,081,459	297,208,645
Interest payable	1,128,440	2,177,244	1,948,000	4,448,663	9,702,347
Accrued employee benefits	207,177,543	–	–	–	207,177,543
Preferred shares of Home Credit owned by its members	–	–	–	120,596,800	120,596,800
Commissions payable	86,605,244	–	–	–	86,605,244
General expenses due and accrued	69,255,185	–	–	–	69,255,185
Remittances not yet allocated	77,555,750	–	–	–	77,555,750
Others	43,788,274	–	–	–	43,788,274
	₱721,718,128	₱51,676,288	₱3,368,450	₱135,126,922	₱911,889,788

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

The amount of legal policy reserves and death claims pending settlements amounted to ₱2,246,104,039 as of December 31, 2008 expected to be paid out in 2009 and ₱1,615,466,291 as of December 31, 2007 expected to be paid out in 2008.

Market Risk

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

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

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

- a Group market risk policy sets 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

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

Fair Value Interest Rate Risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group's fixed rate investments in particular are exposed to such risk.

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

2008

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	6% - 11%	₱47,893,545	₱60,032,559	₱104,125,687	₱141,138,007	₱197,977,719	₱264,155,051	₱815,322,568
Foreign currency	7% - 11%	–	–	–	–	–	179,967,523	179,967,523
Corporate	5% - 12%		15,000,000	50,000,000	108,511,575	149,500,000	272,000,000	595,011,575
		47,893,545	75,032,559	154,125,687	249,649,582	347,477,719	716,122,574	1,590,301,666
AFS debt securities:								
Quoted:								
Government:								
Local currency	6% - 13%	38,897,861	89,892,620	121,372,490	592,751,258	177,941,904	1,352,699,646	2,373,555,779
Foreign currency	8 - 10%	–	–	–	–	–	366,089,407	366,089,407
Corporate - foreign currency	8%	–	–	–	119,753,371	–	–	119,753,371
Unquoted	3% - 5%	15,719	751,155	481,099	1,000,000	1,166,565	15,656,166	19,070,704
		₱38,913,580	₱90,643,775	₱121,853,589	₱713,504,629	₱179,108,469	₱1,734,445,219	₱2,878,469,261

2007

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	6% - 11%	₱28,193,086	₱142,201,403	₱171,137,542	₱114,830,542	₱187,663,873	₱246,794,329	₱890,820,775
Foreign currency	8% - 11%	4,182,536	–	–	–	–	135,041,149	139,223,685
Corporate	5% - 12%	10,000,000	–	15,000,000	107,500,000	108,117,320	249,750,000	490,367,320
		42,375,622	142,201,403	186,137,542	222,330,542	295,781,193	631,585,478	1,520,411,780
AFS debt securities:								
Quoted:								
Government:								
Local currency	7%-18%	14,428,158	95,713,919	95,690,485	26,650,779	548,794,444	1,737,903,342	2,519,181,127
Foreign currency	9%	–	–	–	–	–	207,695,983	207,695,983
Corporate - foreign currency	8%	–	–	–	–	111,479,438	–	111,479,438
Unquoted	3%-5%	–	31,223	1,111,265	633,219	1,000,000	19,487,230	22,262,937
		₱14,428,158	₱95,745,142	₱96,801,750	₱27,283,998	₱661,273,882	₱1,965,086,555	₱2,860,619,485

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

December 31, 2008:

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

December 31, 2007:

	Changes in variable	Effect on income before tax	Effect on equity
USD	+ 25 basis points	(₱2,553,382)	(₱3,087,461)
PHP	+ 25 basis points	(5,118,435)	(33,634,366)
USD	- 25 basis points	2,667,456	8,145,820
PHP	- 25 basis points	10,159,407	34,453,411

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

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

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

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

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

	Change in index	Effect on Income Before tax	Effect on Equity
2008	**Increase by .5%**	**₱3,725,411**	**₱5,439,069**
	Decrease by .5%	**(3,725,411)**	**(5,439,069)**
2007	Increase by .5%	₱7,306,935	₱9,274,362
	Decrease by .5%	(7,306,935)	(9,274,362)

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

The Group has investments in Pilipinas Shell Petroleum Corporation (PSPC) shares of stock which is not quoted in the market. PSPC shares are marked to market using valuation technique based on adjusted Price to Earnings (PE) Ratio in previous years. In 2008, the Group changed its valuation method to Price to Book Value (PBV) Ratio. Management believes that PE Ratio is no longer appropriate due to the general condition in the market. As a result of the change in valuation method, fair market value of PSPC shares of stock decreased by ₱3,210,592,861. Fair market value of PSPC shares amounted to ₱4,635,532,287 and ₱7,846,125,148 as of December 31, 2008 and 2007, respectively.

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

- For stocks not traded in any exchange, the approximate fair value of PSPC can be determined using relative valuation tools and the price performance of peer corporation.
- Use of the PBV as the valuation tool for the investment of the Group in PSPC shares of stock
    a. The PBV Ratio is a regular valuation tool used to compare peer corporation.
    b. Use of the PBV Ratio is expected to provide a relatively more stable and conservative valuation than PE Ratio as the latter becomes unstable when earnings of corporation nears or falls below zero.
- Among the peer listed corporations of PSPC, Petron Corporation (PCOR) is considered the nearest petroleum company that PSPC can be compared to.
    a. Petron is listed and operates in the Philippines.
    b. Information about other peer corporations in the region is not readily accessible or available.
- The price used for the PBV Ratio computation of PSPC is the weighted average price of Petron in 2008 amounting to ₱5.65 per share.
    a. The weighted average price for the year takes into account the full market performance of the stock for 2008, including the volume of shares transacted in various price levels.
    b. The weighted average price was determined using a third party system (i.e. Technistock)
- The book value per share was determined using the disclosed 2008 financial statements of PCOR and PSPC.

The analysis of market value of PSPC shares below in 2008 is performed for reasonably possible movements in price of PCOR shares of stock with all other variables held constant, showing the impact on consolidated statements of changes in members' equity:

2008		2007	
Change in variable	**Effect on equity**	Change in variable	Effect on equity
Increase by .5%	**₱23,179,295**	Increase by .5%	₱37,775,569
Decrease by .5%	**(23,179,295)**	Decrease by .5%	(40,182,651)

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:

	2008		2007	
	United States Dollar Value	**Peso Equivalent**	United States Dollar Value	Peso Equivalent
Assets				
Cash and cash equivalents	**US$45,687**	**₱2,076,021**	US$42,714	₱1,763,234
Financial assets:				
Financial assets at FVPL	**5,785,263**	**274,713,197**	4,875,560	201,853,059
HTM financial assets	**73,723,653**	**3,500,767,641**	72,073,373	2,983,909,715
AFS financial assets	**10,231,500**	**485,842,778**	7,709,365	319,175,420
	US$89,786,103	**₱4,263,399,637**	US$84,701,012	₱3,506,701,428
Liability				
Legal policy reserves	**US$67,439,054**	**₱3,202,343,498**	US$62,093,056	₱2,570,714,611

The foregoing United States Dollar amounts have been restated to their Peso equivalents using the exchange rate of ₱47.485 and ₱41.401 to US$1 as recommended by IC, except for cash and cash equivalents which have been restated using the exchange rate of ₱47.52 and ₱41.28 per Philippine Dealing and Exchange Corporation as of December 31, 2008 and 2007, respectively. Net unrealized foreign exchange gain amounted to ₱493,231,665 and ₱624,364,237 in 2008 and 2007, respectively.

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

	Change in USD - PHP exchange rate	Effect on Income Before Tax
2008	**Increase by 6.88%**	**₱72,857,832**
	Decrease by 6.88%	**(72,857,832)**
2007	Increase by 10.14%	₱22,744,034
	Decrease by 10.14%	(22,744,034)

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

31. Capital Management and Regulatory Requirements

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

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

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

The Group fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its objectives, policies and processes from the previous year.

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

The MOS shall be the excess of the value of its admitted assets (as defined under the same Code) over the amount of its liabilities, unearned premiums and reinsurance reserves. As of December 31, 2008, the Company's MOS estimated based on its calculation amounted to ₱2,997,150,000. The final amount of the MOS can be determined only after the accounts of the Company have been examined by the IC specifically as to admitted and nonadmitted assets as defined under the same Code.

As of December 31, 2008, the estimated amount of nonadmitted assets of the Group, as defined under the Code, which are included in the accompanying consolidated balance sheets, follows:

	2008	2007
Property and equipment - net	**₱122,396,259**	₱127,904,808
Accounts receivable and other assets	**197,082,042**	192,363,366
	₱319,478,301	₱320,268,174

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

As of December 31, 2008 and 2007, the required minimum statutory net worth and minimum paid-up capital for the Group, being a wholly Filipino-owned domestic insurance company amounted to the following:

	2008	2007
Minimum statutory net worth	**₱200,000,000**	₱150,000,000
Minimum paid-up capital	**100,000,000**	75,000,000

On October 26, 2006, the BOT approved the appropriation of ₱100,000,000 and ₱75,000,000 for the minimum paid-up capital required as of December 31, 2008 and 2007, respectively, and such amount as required under the foregoing DOF Order No. 27-06 dated September 1, 2006 by December 31 of each year until 2011.

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

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

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

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

	2008	2007
Net worth	**₱11,594,356,523**	₱14,760,851,569
Aggregate RBC requirement	**6,604,811,533**	7,863,005,332
RBC Ratio	**176%**	188%

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

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

Subsequent to year 2006, the fixed capitalization requirement for a given year may be suspended for insurers that may comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance Rates and the RBC Hurdle Rates from 2007 to 2011. For the review year 2008 which shall be based on the 2006 synopsis, the Industry RBC Ratio Compliance Rate is 80% and the RBC Hurdle Rate is 150%. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the year under review.

32. Other Matters

a. On July 15, 2005, the Company filed separate Petitions for Review with the Court of Tax Appeals (CTA), seeking to contest the assessments by the BIR for deficiency documentary stamp taxes (DST) for the calendar years 2001 and 2002. In September 2008, the CTA in one of the Petitions for Review, decided in favor of the Company. It granted the relief prayed for and ordered the cancellation and withdrawal of the assessment by the BIR. The BIR, however, filed a Motion for Reconsideration seeking to reverse said CTA Order. On the other hand, the Company has yet to receive the CTA's decision as regards the other Petition. Nevertheless, the Parent's Management and Legal Counsel continue to believe that it has a strong legal basis for exemption from the said tax.

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

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

c. IITC is counterparty to various claims arising from pre-arranged transactions involving treasury bills with financial institutions. In the opinion of the IITC's management and legal counsel, it merely acted as a facilitator and, therefore, should neither recognize any receivable from nor any liability to the financial institutions involved in the pre-arranged transactions. These transactions are not recorded in the books of IITC.

   However, there are other treasury bills, amounting to ₱119.6 million, bought and paid for,but remain undelivered to the IITC by a financial institution also involved in the pre-arranged transactions. On March 25, 1995, IITC filed a case with the Makati Regional Trial Court (Makati RTC) for the recovery of the ₱119.6 million undelivered treasury bills. On June 16, 2003, the Makati RTC rendered a decision allowing IITC to claim the ₱119.6 million (plus accrued interest), net of counterclaims awarded to a correspondent. At various dates after the Makati RTC decision, all the parties, including IITC, filed their respective appeals before the CA. As of report date, the case is still pending with the CA. IITC's management and legal counsel, however, believe that the case will ultimately be resolved in favor of the subsidiary.

   Pending the final outcome of the litigations and negotiations between IITC and the financial institutions involved, allowance is continuously provided to cover any probable loss from nonrealization of the receivables.

33. Notes to Consolidated Statements of Cash Flows

The principal noncash transactions of the Group under investing activities pertain to a bond exchange in 2007. Carrying value of AFS debt securities received and given up amounted to ₱872,425,529 and ₱805,256,924 in 2007, respectively (nil in 2008).

The Insular Life Assurance Company, Ltd.

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Alfredo B. Paruñgao, *Member*

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(as of April 2009)

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and Chief Executive Officer

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President and Chief Operating Officer

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

Senior Vice Presidents
Marietta C. Gorrez
Head, Business Support Group

Mona Lisa B. De La Cruz
Chief Actuary and Treasurer
Head, Administrative Operations Group

Wilfredo M. Llanto
Head, Finance & Investment Group

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Ma. Edita C. Elicaño

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John Jesus O. Lim
Maria Antonia E. Lim
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Henry A. Pagulayan
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Regina Karla E. Fernandez[4]
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Lorenzo Luis Liborio B. Gallardo II
Michael L. Manalastas
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Jose A. Padilla
Cesar Y. Salera
Ana Maria R. Soriano

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

Insular Life Group of Companies

The Insular Life Assurance Company, Ltd.

Holding Company, life insurance underwriting

Subsidiaries

Insular Investment and Trust Corporation (IITC)
Investment banking

IITC Subsidiaries:

Insular Property Ventures, Inc.
Residential/Commercial development

IITC Properties, Inc.
Residential/Commercial development

Insular Life Health Care, Incorporated
Health/HMO

Insular Life Property Holdings, Inc.
Real estate

Insular Life Management and Development Corporation
Management services

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

Affiliates

Mapfre Insular Insurance Corporation
Non-life insurance underwriting

Union Bank of the Philippines
Universal banking

Pamplona Realty, Inc.
Real estate

Social Commitment

Insular Life Foundation, Inc.

Insular Life: Insuring the Filipino Dream

HERITAGE

Insular Life was established on November 25, 1910 at a time when the Philippines was flexing its wings as an independent country. Today, as the Philippines' leading and largest Filipino life insurance company, Insular Life prides itself with its role in securing the lives of Filipinos families for close to a century. Its roster of products -- from its ordinary whole life, endowment, limited-payment, college education and insurance plans, to pension and investment plans -- not only offers the best cost-benefits ratios among insurance plans in the market. More importantly, these are designed to allow individuals to wield control over their and their family's financial security

Insular Life is anchored on four fundamental corporate values: Commitment to Excellence, Integrity in Work, Respect for the Individual, and Upliftment of the Filipino. Through years of growth and of struggle, these values have remained constant, guiding generations of Insular Life officers and employees in serving thousands of its policyholders.

Insular Life has a long tradition of steadfast commitment to its policyholders. The Company demonstrated this trait most vividly during World War II when it honored pre-war and Japanese occupation commitments regardless of its toll on the company's reserves.

As one of the pioneering life insurance companies in the Philippines, Insular Life is credited for introducing a number of groundbreaking moves in the industry. In 1953, it introduced the first school of insurance in the Philippines. The following year, it lowered its premiums — the first insurance company to do so. In 1958, Insular Life introduced what would soon be a hugely successful business line: industrial life insurance which was intended for lower-income earning Filipinos. Insular Life's most significant step, however, was its mutualization, completed in 1987, which effectively made Insular Life's policyholders part owners of the company.

INSULAR LIFE TODAY

Insular Life today is the only Filipino life insurance company among the top five industry leaders. It continues to deliver a solid performance, posting ₱2.1 billion in net income by end of 2008. A cornerstone of Insular Life's financial stability is its strong asset base which has consistently increased through the years, reaching ₱57.9 billion in 2008. Its business-in-force of ₱209.2 billion reflects a growing number of policyholders.

Insular Life transferred its headquarters at the Insular Life Corporate Centre in Filinvest, Alabang in 2001 in a symbolic step towards the fast-paced and I.T. based 21st century. Here, fully in step with the demands of the modern world but rooted in its unique heritage, Insular Life continues to design innovative and responsive products and services for Filipino families to help them realize their dreams.

SUBSIDIARIES and AFFILIATE

Beyond life insurance, Insular Life has diversified into related financial services through its subsidiaries and affiliate: Insular Life Health Care, Inc. (I-Care), Insular Investment and Trust Corporation (IITC), HomeCredit Mutual Building and Loan Association, Inc. (HomeCredit), and affiliate Mapfre Insular Insurance Corporation.

CORPORATE CITIZENSHIP

Insular Life practices responsible corporate citizenship through the Insular Life Foundation (ILF), Inc. ILF, formerly known as the Insular Life Educational Foundation (ILEF), Inc. is focused on education and on nation-building. Its current programs include the the Ateneo Principal Empowerment Program, 57-75 Campaign participation, University of the Philippines B.S. Math Scholarship, Insular Life Gold Eagle Award, Adopt-a-Scholar Program with the Muntinlupa Itaas Elementary School and Muntinlupa Business High School, Literacy Campaign consisting of Storybooks Donation and Storytelling Workshop, and Filfest Music Festival. One of its cornerstone projects is The Outstanding Filipino (TOFIL) award program in partnership with the JCI Senate Philippines. Since the program's beginning in 1988, TOFIL has recognized 99 Filipino men and women who have excelled in their profession and have contributed to the upliftment of their communities.

About the Cover

Like a leaf's midrib that nourishes the leaf and the plant itself, Insular Life gives life to the Filipinos' dreams, allowing them to seek better opportunities, and turn their dreams into realities.

Insular Life's 98 years of serving the Filipinos have created positive imprints in countless lives. Through the Company, generations of Filipino families have preserved the time-honored value of providing well for one's family, while living meaningful lives. This was possible thanks to their strong and dependable life insurance company: Insular Life.

THE INSULAR LIFE
ASSURANCE COMPANY, LTD.

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