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Insular

MAGANDANG ARAW NGAYON
MAGANDANG BUHAY BUKAS

2014
ANNUAL REPORT

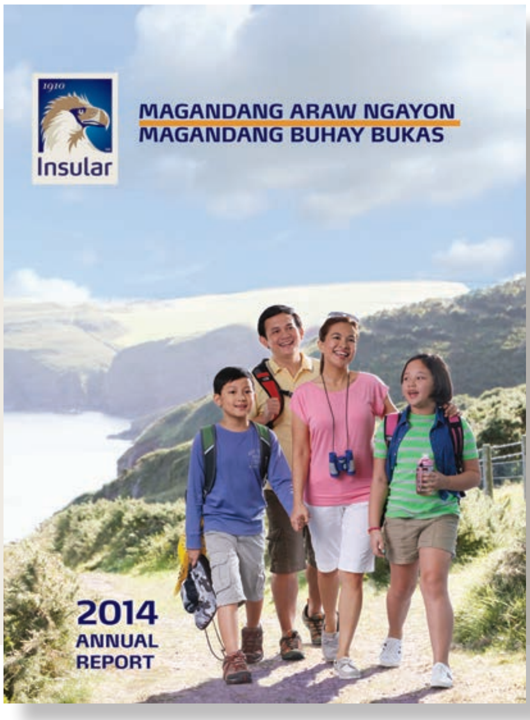
THE GOOD NEWS AT A GLANCE

Creating more value

The Insular Life group ended 2014 with a 21-percent increase in consolidated net income to ₱2.9 billion from ₱2.4 billion in 2013. Our parent company, Insular Life, contributed 83 percent of the net income, with ₱2.4 billion, 57 percent higher than ₱1.5 billion a year ago.

Roaring economy

With huge inflows coming from $26.9 billion in OFW remittances and $18.4 billion revenues from the IT-business process outsourcing industry, the economy pulled off another phenomenal performance in 2014.



Our Theme

A good life, they say, is a process, not a state of being. It is a direction, not a destination.

Preparing for a good life for you and your family means leading a life that is filled with hope, optimism, and joy. A life of purpose. And every waking day is a chance to create a brighter future.

Our 2014 Annual Report theme, *Magandang Araw Ngayon, Magandang Buhay Bukas*, conveys Insular Life's firm belief that a bright future is within reach for those who strive to change the direction of their life towards the one they dream for themselves and their family.

By planning ahead and preparing towards the quality of life we dream of — our *magandang buhay bukas* — we turn each new day from a blank canvass into the best life that we possibly can.

About the Report

Content

This Insular Life 2014 Annual Report gives an update on the progress and priorities set out in our previous report in 2013. It contains data and information on various aspects of our business and operations. Our intention is to provide a holistic view of our financial, operational, social responsibility, and governance performance.

Audience

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

Reporting Cycle and Boundary

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

Data Collection and Validation

In order to obtain the relevant data for this report, consultations were made with our business units on the financial, social, and operational topics that they deem most relevant to our business as an insurance company. Meanwhile, we engaged the services of SGV & Co. to audit our financial reports for the parent company, Insular Life, and the consolidated report of the Insular Group of Companies. Data are validated and processed by our Public Relations Staff. We have developed a basic reporting protocol and defined the requests for specific data in our collection tool to align the understanding of what data are required from our offices.

Reporting Criteria

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

Feedback

We welcome feedback from our stakeholders to improve our reporting process. Please email the Public Relations Staff at *mdsantos@insular.com.ph*. For other information, please contact:

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INSIDE THIS REPORT

NUMBERS THAT MATTER

At Insular Life, we believe that what matters to you matters to us.

We know that getting better means making sure we're listening to you. That's why we're embracing new ideas that will make your *Magandang Araw* experience better, every day. In 2014, we made sure that the goals we pursue translated into results that matter to you.

₱2,948,955,622
Consolidated net income

₱25,752,749,480
Net Worth *(parent company)*

₱101,354,067,615
Consolidated Assets

₱9,934,266,337
Gross Benefits and Claims
(parent company)

₱11.9 billion
Total Premium
(parent company)

6% Increase in Total Premiums

FINANCIAL HIGHLIGHTS

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

FOR THE YEAR	2014	2013 (As restated)	2012 (As restated)	2011	2010 (As restated)
Net Income per FS	2,949	2,392	3,217	2,893	2,561
Net Insurance Revenue per FS	12,784	12,342	10,444	8,701	8,376
Operating Revenue	6,846	7,003	7,645	6,860	6,800
Total Revenue *(Net Insurance Revenue + Operating Revenue)*	19,630	19,345	18,089	15,561	15,176
Assets	101,354	94,202	89,601	80,523	71,982
Cash and Cash Equivalents	7,260	5,499	4,704	3,237	2,984
Cash on hand and in banks	1,108	864	908	480	514
Short-term investment	6,152	4,635	3,796	2,757	2,470
Liabilities	78,505	72,105	66,358	59,828	54,738
Retained Earnings	20,442	18,312	17,225	14,898	12,856
Appropriated	250	250	250	250	175
Unappropriated	20,192	18,062	16,975	14,648	12,681
Members' Equity	22,849	22,097	23,243	20,695	17,245
Total Liabilities and Members' Equity	101,354	94,202	89,601	80,523	71,982

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

FOR THE YEAR	2014	2013	2012 (As restated)	2011	2010 (As restated)
Net Income per FS	2,355	1,503	2,131	2,059	1,879
Net Insurance Revenue per FS	12,584	12,121	10,188	8,452	8,092
Operating Revenue	6,196	6,049	6,383	5,965	6,049
Total Revenue per FS *(Net Insurance Revenue + Operating Revenue)*	18,779	18,170	16,571	14,417	14,141
Assets	104,393	100,108	92,941	79,923	71,853
Cash and Cash Equivalents	6,861	5,149	4,537	3,087	2,802
Cash on hand and in banks	921	709	770	382	404
Short-term investment	5,940	4,440	3,767	2,705	2,398
Liabilities	78,640	72,253	66,396	59,716	54,635
Retained Earnings	13,449	11,900	11,125	9,801	8,589
Appropriated	250	250	250	250	175
Unappropriated	13,199	11,650	10,875	9,551	8,414
Members' Equity	25,753	27,854	26,546	20,207	17,218
Total Liabilities and Members' Equity	104,393	100,108	92,941	79,923	71,853
New Business Premiums	7,865	7,349	5,246	3,618	3,269
Total Premiums	11,928	11,277	9,354	7,569	7,262
Gross Investment Income	4,223	4,438	5,444	5,204	5,171
Legal Policy Reserves	51,058	49,554	47,491	44,843	41,442
Net Worth	25,753	27,854	26,546	20,207	17,218
Gross Benefit and Claims Paid	9,934	8,325	7,088	6,188	6,579

MESSAGE TO POLICYHOLDERS

DEAR POLICYHOLDERS,

2014 was a mixed bag of challenges and opportunities for Insular Life, as well as for the Philippine insurance industry. But as your far-sighted guardian, we faced each day's new challenge, not letting the obstacles of yesterday stop us from moving forward.

During the first half of 2014, uncertainty gripped the global markets after the US Federal Reserve tried to stimulate the ailing United States economy through a fresh round of short-term bond purchases, technically called "Quantitative Easing" or QE. The scheme again triggered fears of rising interest rates and caused a sell-off in global financial markets, including the Philippines.

The second half of the year, however, was the exact opposite: the global markets went on a rebound. Starting in June 2014, the price of oil in the global market began to slide. From almost US$115 a barrel, it took a 40-percent plunge towards December 2014, due partly to the sluggish world economy and the overproduction in the oil-producing countries. Naturally, oil-dependent economies like the Philippines emerged as winners.

With huge inflows coming from the US$26.9 billion in remittances from overseas Filipino workers and US$18.4 billion revenues from the IT-business process outsourcing industry, the Philippine economy pulled off another phenomenal performance in 2014. GDP was up 6.1 percent, making the country the fastest-growing economy in the region after China.

CONSUMER CONFIDENCE RISING

With more disposal income, lower pump prices, benign inflation, and record-low interest rates, consumer confidence started to rise and this trickled down to the retail, real estate, tourism, banking, and other sectors.

The markets' seesaw behavior is reflected in the local insurance industry's performance in 2014. According to the Insurance Commission, the country's life insurance industry posted ₱157.8 billion in total premium income in 2014, 7.8 percent lower than the ₱171 billion recorded in 2013. The weak performance was attributed to a huge drop in single-premium income and first-year premiums.

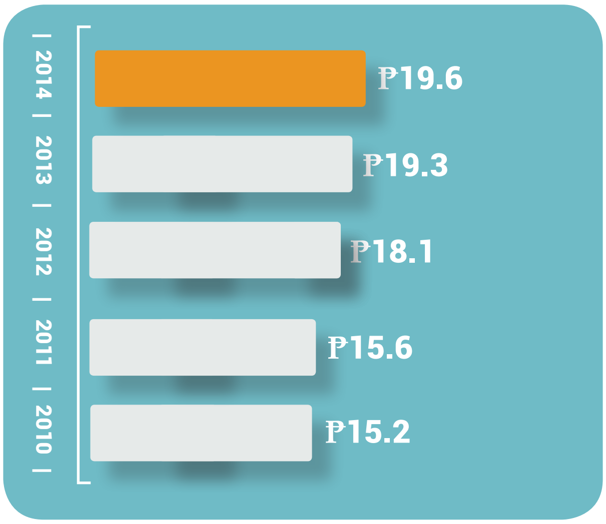
Variable Unit-Linked (VUL) insurance accounted for two-thirds of the industry's total premiums, contributing ₱107 billion versus over ₱50 billion from traditional insurance. We see the increasing popularity of VUL life insurance policies to persist as long as interest rates remain low and Filipinos' propensity for long-term assets continues to grow.

VICENTE R. AYLLÓN

Chairman of the Board and Chief Executive Officer

Consolidated Revenues

In billion pesos

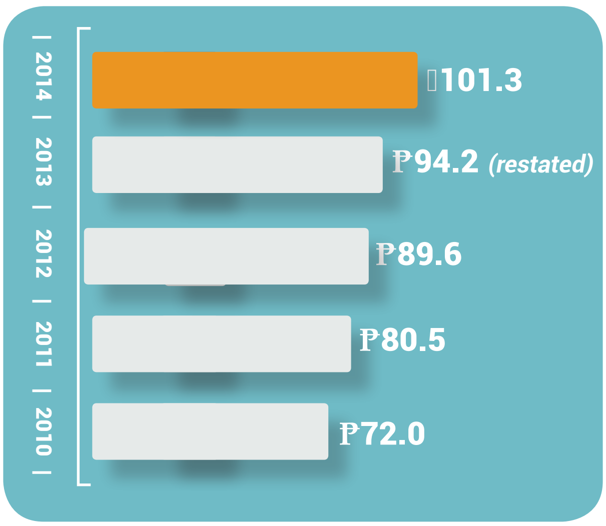


Consolidated Net Income

In billion pesos

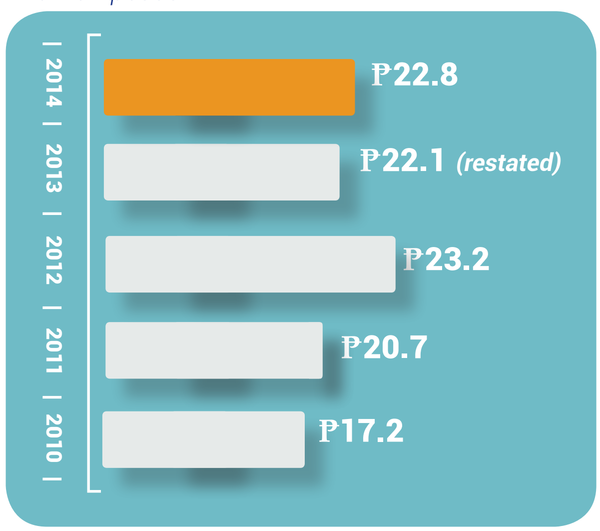
Consolidated Assets

In billion pesos



Consolidated Members' Equity

In billion pesos



MESSAGE TO POLICYHOLDERS

MAINTAINING OUR STRENGTH

Despite the market volatility, the Insular Life group ended 2014 with a 21-percent increase in consolidated net income of ₱2.9 billion, from ₱2.4 billion in 2013. Our parent company, Insular Life, contributed 83 percent of the net income, with ₱2.4 billion, 57 percent higher than ₱1.5 billion a year ago.

Our consolidated revenues stood at ₱19.6 billion from ₱19.3 billion a year ago. Of the amount, net insurance revenues contributed ₱12.8 billion, a modest 4-percent gain from the ₱12.3 billion posted in 2013, but still better than the industry's negative growth. Insular was one of only four top life insurers that posted growth in 2014. Other operating revenues such as investment income, equity in net earnings, and net realized gains amounted to ₱6.8 billion.

Total insurance benefits and operating expenses reached ₱16.4 billion, almost unchanged from the previous year, with gross benefits and claims on insurance contracts and net change in legal policy reserves accounting for the bulk of the total.

Our consolidated assets rose 8 percent to ₱101.3 billion from ₱94.2 billion, while consolidated liabilities grew 9 percent to ₱78.5 billion from ₱72.1 billion. Total members' equity expanded by 3 percent, from ₱22.1 billion to ₱22.8 billion.

Our parent company, Insular Life, posted a 7-percent growth in new business premiums to ₱7.9 billion from the 2013 level. Total premiums increased 6 percent to ₱11.9 billion while gross investment income fell 5 percent to ₱4.2 billion from ₱4.4 billion, previously.

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

Insular Health Care, Inc. (IHCI) posted a net income of ₱12.4 million and return on equity of 8 percent. Total assets, total liabilities and total equity ended at ₱292.5 million, ₱125.3 million and ₱167.2 million, respectively. Retained earnings ended at ₱68.6 million, net of the cash dividend payment of ₱4.08 million. Its list of accredited medical specialists went up to 18,453, a 17-percent increase from 15,802 in 2013.

Insular Investment Corporation (IIC), our investment banking arm, grew its net income after tax to ₱3.2 million in 2014, with gross revenues of ₱19.9 million. Total assets amounted to ₱462.5 million while stockholders' equity stood at ₱452.2 million.

HomeCredit Mutual Building & Loan Association reported cash and cash equivalents of ₱66.1 million while total assets reached ₱227.4 million. It generated total mortgage and rent-to-own receivables of ₱14.9 million from 2014 availers. The Association's total issued and outstanding Preferred "B" equity shares amounted to ₱170.6 million. It acquired 1,516 new members in 2014.

Our affiliate non-life insurance company **Mapfre Insular** reported a 257-percent growth in net income, from ₱29.8 million in 2013 to ₱106.6 million in 2014, even as it was heavily investing in systems improvement and brand marketing projects. Likewise, the Company's revenues grew 8 percent despite aggressive competition in the market.

Insular Life was one of only four top life insurers that posted growth in 2014.

MESSAGE TO POLICYHOLDERS

SPREADING POSITIVISM

We continue to provide our policyholders a range of financial opportunities by developing new and exciting investment-linked insurance products.

In 2014, as Filipinos continued to look for viable and higher-yielding investment instruments to park their hard-earned money while ensuring financial protection, Insular launched five new limited-offer products: the **I-Peso Enrich**, a peso-denominated, single-pay product that provides annual returns ranging from 4.25 percent to 5.25 percent; **I-Dollar Earnings Advantage (I-DEA)**, a structured investment-linked insurance product that allows investors to earn potential yields from equities while preserving their principal; **I-Fulfill**, a 10-pay retirement savings plan that allows you to financially prepare for your golden years; **I-Peso ProEarn**, a single-pay product that guarantees returns every year for seven years; and **I-Peso Preferred Plus**, a single-pay product that provides fixed annual returns of as much as 3.75 percent.

Riding on the economy's growth momentum, Insular Life's Variable Unit-Linked funds showed a commendable performance at yearend, with double-digit annual returns as high as 25.4 percent for the Growth Fund.

The physical makeover of our 66 offices nationwide has been completed in 2014 to align with the refreshed Insular Life brand. We also started new, and continued existing projects that would not only improve our operational efficiency, but also allow us to offer technology-based services that would give added convenience to our customers and tap the more technologically savvy sector of the market.

All these initiatives dovetailed with Insular's 2014 ***Magandang Araw*** advertising campaign, one that intends to spark a nation of positivism by doing a good deed every day and paying it forward to influence others. The campaign, carried out through a multimedia platform, hopes to accentuate the positive, encouraging Filipinos to count their blessings and to move forward to the beautiful life ahead of them.

Embodying these positive ideals and spearheading the campaign is Ms. Lea Salonga, internationally acclaimed Filipino artist, who serves as our Brand Ambassador. More than being the personality behind the Company's TV commercial and print materials, she also sang "Isang Magandang Araw," a song composed for Insular to promote our advocacy on keeping a positive mindset.

In addition, Insular also came out with an integrated branding and communication program called *Magandang Araw Movement,* which aims to catalyze a nation of positive thinkers by creating a platform where people can show how they live out and share happiness with others through acts of kindness for 365 days. The International Association of Business Communicators (IABC) Philippines recognized the program and awarded the Company a Merit trophy under the Communication Management, Advertising Campaigns category at the 2014 Philippine Quill Awards.

Insular's initiative to promote unique Filipino traditions in its 2014 corporate calendars, entitled *Mindcraft and Handicraft: Philippine Cultural Creations*, also won the IABC Philippines' nod. The calendars won an Award of Excellence under the Communication Skills, Publication Design category at the 2014 Philippine Quill Awards.

Utilizing the power of social media and online channels, we also invited known financial gurus to share life-saving financial tips at *www.savingstips.com.ph*, our official blog site; on our official Facebook page; and in print media. The articles and tips help raise public awareness on savings, investments, budgeting, financial planning, wealth management, risk protection, among others.

In addition, we partnered with *The Philippine Star* on a public relations initiative called *FutureCasting*, a 12-part personal finance education series that unfolded in print and online platforms. Launched in April 2014, the column – penned by inspirational guru Mr. Francis Kong, who was also one of The Outstanding Filipino (TOFIL) awardees in 2014 – tackled savings and investments topics. Supplementing the column series was a webisode, hosted by Mr. Kong, which could be viewed on Insular Life's YouTube channel.

While we expect the market environment to be more challenging in the years ahead, we still firmly believe that we are on the path of sustained growth.

The Public Relations Society of the Philippines recognized the program's impact and gave it a Silver Award at the 50th Anvil Awards.

With more than 100 years of expertise and knowledge on financial matters, we are able to provide Filipinos with information and advice on how to successfully plan for and achieve financial security.

MAKING EVERY WAKING DAY BETTER

As we continue to tackle bigger challenges and seize wider opportunities in the coming years, particularly as the Philippines moves closer towards the start of the ASEAN economic integration in 2015, Insular will continue to be a beacon of light that will guide our policyholders now and in the future.

While we expect the market environment to be more challenging in the years ahead – with interest rates touching new historic lows, spreads thinning, and competition for market share and talent intensifying – we still firmly believe that we are on the path of sustained growth.

As we look to more fruitful years ahead, I am very pleased to welcome Ms. Mona Lisa B. de la Cruz as Insular Life's President and COO effective May 1, 2015. Ms. de la Cruz has been with Insular Life for various management positions for 35 years.

She will take over the post of Mr. Mayo Jose B. Ongsingco, who has opted to avail of early retirement from the Company effective May 1, 2015. For the past 17 years, Mr. Ongsingco has been an exceptionally proven and highly capable leader and his passion for our Company's strategy and culture has helped solidify our financial strength and differentiate us in the marketplace.

Our gratitude also goes to Dr. Bernardo M. Villegas and Mr. Alfredo B. Paruñgao, who both served in our Board of Trustees until December 31, 2014 with immense dedication.

Our policyholders have relied on Insular Life as a sound institution to entrust with their financial security and their future. We are pleased that this trust continues today, as we further build on our reputation as the leading wholly Filipino-owned mutual life insurance company in the Philippines that puts its policyholders at the heart of its business. This will always differentiate Insular from its competitors, and this is why we have kept our dedication to our policyholders as the foundation of our long-term strength.

Dahil sa inyong pagtitiwala, ang magandang araw ngayon ay patuloy na magiging magandang buhay bukas! Mabuhay tayong lahat!

VICENTE R. AYLLÓN
CHAIRMAN OF THE BOARD
AND CHIEF EXECUTIVE OFFICER

CORPORATE GOVERNANCE

The Company's corporate governance culture permeates all aspects of operations in Insular Life. Good governance, especially the maintenance of an ethical environment, is not only the responsibility of the Board of Trustees but also of all the major players in the organization — from the officers, employees, agents, and other partners.

Guided by its core values, the Company aims to provide continued growth and long-term profitability for its stakeholders, contribute to the welfare of the society-at-large as it fulfills its commitment to high standards of good corporate governance principles and best practices.

BOARD OF TRUSTEES

The Board of Trustees is primarily responsible for charting the strategic directions of the Company and evaluating the performance of Management. It is led by its Chairman and Chief Executive Officer, Mr. Vicente R. Ayllón, whose full credentials and other significant commitments are indicated in the Board of Trustees' Credentials Section on pages 24-25 of this Annual Report.

The Board makes sure that all its members devote sufficient time in the performance of their roles. Full disclosure of any significant change in the directorships of all Trustees outside of Insular Life is required of each of them.

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

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

All the four Independent Non-Executive Trustees (Messrs. Lazaro, Librea, Paruñgao, and Dr. Villegas) are known for their expertise in finance, economics, accounting, and management. Messrs. Librea, Paruñgao and Dr. Villegas are also Certified Public Accountants (CPA).

There is no Independent Trustee who serves on more than five boards of Publicly Listed Companies (PLCs). The Independent Trustees, along with two other Non-Executive Trustees, ensure that the Board's acts and decisions are subject to independent checks and balances.

Three of the nine Trustees simultaneously hold executive positions in the Company. There is no Executive Trustee who serves on more than two Boards of PLCs.

BOARD COMMITTEES AND MEMBERS

(As of 31 December 2014)

EXECUTIVE COMMITTEE

Vicente R. Ayllón	*Chairman*
Bernardo M. Villegas	*Vice Chairman*
Ricardo G. Librea	*(Independent)*
Mayo Jose B. Ongsingco	
Alfredo B. Paruñgao	*(Independent)*

BUDGET & AUDIT COMMITTEE (BAC)

Ricardo G. Librea	*(Independent) Chairman*
Alfredo B. Paruñgao	*(Independent) Vice Chairman*
Marietta C. Gorrez	
Francisco Ed. Lim	
Bernardo M. Villegas	*(Independent)*

FINANCE & INVESTMENT COMMITTEE (FIC)

Alfredo B. Paruñgao	*(Independent) Chairman*
Bernardo M. Villegas	*(Independent)*
Delfin L. Lazaro	*(Independent)*
Francisco Ed. Lim	
Mayo Jose B. Ongsingco	

GOVERNANCE COMMITTEE (GovCom)

Francisco Ed. Lim	*Chairman*
Bernardo M. Villegas	*(Independent) Vice Chairman*
Ricardo G. Librea	*(Independent)*

PERSONNEL & COMPENSATION COMMITTEE (PerCom)

Bernardo M. Villegas	*(Independent) Chairman*
Ricardo G. Librea	*(Independent) Vice Chairman*
Mona Lisa B. de la Cruz	
Marietta C. Gorrez	
Alfredo B. Paruñgao	*(Independent)*

NOMINATIONS COMMITTEE (NomCom)

Bernardo M. Villegas	*(Independent) Chairman*
Francisco Ed. Lim	*Vice Chairman*
Mona Lisa B. de la Cruz	

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

In order for the Board to effectively perform its duties and responsibilities, it is important that a majority of Trustees attend board meetings. For 2014, the average attendance of Trustees in Regular/Special Board Meetings is 87 percent while attendance of Executive Committee members in their meetings is 89 percent. The attendance of the Trustees in their respective Board Committees is also shown in the table below.

Board Actions

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

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

Key Risks and Material Controls

The Board, upon the recommendation of Management, the Budget and Audit Committee, and the Governance Committee, approves policies and procedures for the effective management and control of risks. This ensures that the key risks involved in the business are avoided or minimized, addressed and properly managed. To help avoid or minimize risks, appropriate material control mechanisms such as operational, financial, and compliance controls are set in place together with the regular review and assessment of the Company's risk management systems. Based on the reviews performed by the internal and external auditors of the Company, the Budget and Audit Board Committee believes that the Company has adequate internal controls/risk management systems.

Board Performance Appraisal

To ensure that the Board performs its duties and responsibilities, an annual assessment of their performance is regularly conducted. This includes self-assessments on: (1) their performance as an individual Trustee, (2) on the performance of the Board as a whole, and (3) on the performance of each of their respective Committees to which they belong. The Non-executive Trustees also assessed the performance of the Chairman.

For 2014, all nine Trustees have accomplished the relevant assessment forms and have evaluated themselves, the Board, the Chairman, and the Board level Committees as 100-percent compliant with all the performance standards indicated therein. The result was reported to the Chairman of the Board and the Board as a whole. The Board approved to have the results of the assessment disclosed in the Annual Report.

BOARD OF TRUSTEES' ATTENDANCE IN MEETINGS *(January-December 2014)*

Name of Trustee	Regular/ Special Board Meetings	Executive Committee Meetings	Board Committee Meetings				
			Budget & Audit	Finance & Investment	Governance	Nominations *As of 28 May 2014*	Personnel & Compensation
Vicente R. Ayllón	13/14	7/9					
Alfredo B. Paruñgao	12/14	9/9	5/6**	7/7*		1/1	1/1
Mona Lisa B. de la Cruz	14/14						0/1
Marietta C. Gorrez	12/14		6/6				1/1
Delfin L. Lazaro	11/14			3/7			
Ricardo G. Librea	14/14	9/9	5/6*		4/5	1/1**	1/1
Francisco Ed. Lim	10/14		5/6	6/7	4/5*		
Mayo Jose B. Ongsingco	13/14	9/9		7/7		1/1*	
Bernardo M. Villegas	10/14	6/9	5/6	5/7**	4/5**		1/1
Average Attendance	**87%**	**89%**	**87%**	**80%**	**80%**	**100%**	**80%**

* *Committee Chairman*

** *Committee Vice Chairman*

CORPORATE GOVERNANCE

MANAGEMENT

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

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

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

The remuneration of the senior management personnel and executive directors, including that of the CEO, is determined by the Board upon the recommendation of the Personnel and Compensation Board Committee. For 2014, the total compensation income received by management directly employed by Insular Life with the rank of Vice President and up is ₱284,093,240.74 while the estimated total amount for 2015 is ₱298,297,902.77.

INTERNAL AND EXTERNAL AUDIT

The Company has an internal audit that reviews the Corporation's internal control system and has direct reporting line to the Board's Budget and Audit Committee and to the Chairman of the Board. An independent External Auditor's services are also availed of to ensure independent review of the Corporations' books and financial standing. The Budget Audit Board Committee (BAC) has the primary responsibility of recommending the appointment/re-appointment and removal of external auditors. For 2014, Sycip, Gorres, Velayo and Company (SGV & Co.), upon the recommendation of the Chairman of the BAC, was re-appointed as the Company's External Auditor and the audit fees provided for their services is ₱3,171,000. The Company also availed of the non-audit services of SGV & Co. and the fees for such services is ₱200,000.

EMPLOYEES

Also key to the achievement of the Company's corporate objectives are its employees. The Company believes that providing its employees with competitive compensation, trainings for skills development and opportunities for career advancement are important elements to having an efficient and productive workforce.

The Company has health, safety and welfare policies in place to sufficiently take care of its workforce. Comprehensive medical and hospitalization benefits such as group insurance, annual medical examinations, wellness updates, and other medical and health benefits are provided to all regular employees of the Company. The two main offices of Insular Life also has extensive array of medical and dental facilities with a complement of medical team who work full time for the Company.

Code of Conduct

The Company's Code of Conduct outlines the generally accepted rules of behavior and conduct for all officers and employees of the Company as they perform their respective duties and responsibilities.

The Code prescribes expected behavior in the workplace, handling/disclosure of actual or potential conflict of interest, prudent use and management of company resources, strict observance of confidentiality obligations on personal and sensitive information, and compliance to other corporate policies as part of the Company's Anti-corruption program. It complements the Manual of Corporate Governance which is the counterpart of the Code for Trustees. The Company monitors compliance with the Code of Conduct through annual declaration of commitment and compliance of each employee as part of their Personnel Performance Appraisal Form (PPAF).

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

POLICYHOLDER-MEMBERS

Being a non-stock mutual life insurance corporation, Insular Life has no stockholders. Instead, the ownership of the Corporation is vested in its Members who are its Policyholders as provided under the Company's By-Laws. In this regard, the Company ensures that each member is well informed of the Company's operations.

On account of Insular Life's structure as a non-stock mutual life insurance company, its policyholder-members receive policy dividends, if and when they are allocated, as return of their premiums paid. The amount of policy dividends allotted to the policyholder-members is determined based on the type of policy owned and using a formula approved by the Board in accordance with the Company's By-Laws.

Annual Members' Meeting (AMM)

The Company encourages all its stakeholders to attend its Annual Regular Members' Meeting held every fourth Wednesday of May, at its principal office in Insular Life Corporate Centre, Insular Life Drive, Filinvest Corporate City, Alabang, Muntinlupa City, in compliance with the Company's By-Laws. To ensure ample time for dissemination, the AMM Notice, which is in English, was uploaded in the Company's Website on 27 April 2014, or 31 days prior to the actual date of the AMM. This was also published once a week for four weeks in two newspapers of general circulation, namely *The Philippine Star* and *Pilipino Star Ngayon*, to ensure wide public reach. The said Notice includes the Agenda to be discussed in the AMM as well as the Proxy Form which may be used by members who cannot attend the AMM.

The 2014 AMM was held on 28 May 2014 at 4:15 p.m. at the Company's principal office. Eight out of the nine Trustees, one being out of the country, were in attendance and were led by the Chairman of the Board. The Chairman of the Board apprised its policyholder-members about the Company's operations and other corporate news and updates. Three Trustees were elected, in compliance with the Company's By-Laws. All feedback given by the Policyholder-members during the AMM were noted and considered.

The Corporate Secretary, who plays a significant role in supporting the Board in discharging its responsibilities, documented the AMM and a copy of the minutes is published in the Company's website. He ensures that important board papers and other related documents are provided to the Trustees and that they are informed of the Agenda of the Board Meetings three to five working days before the date of the meeting.

SUPPLIERS AND OTHER STAKEHOLDERS

The Company has clear and transparent procedures for the accreditation and selection of its suppliers. It also has clear procurement policies and procedures for suppliers' engagement as part of the Company's Anti-Corruption program.

Any Related Party Transaction (RPT) is fully disclosed to the Board and prior approval is required for those that are material in nature. The Budget and Audit Board Committee oversees the implementation of RPTs in compliance with their Committee Charter, and determines whether such transaction is in the best interest of the Company. For 2014, all RPTs have been conducted fairly and at arms' length and were reasonable under the circumstances, in compliance with the Company's Manual of Corporate Governance and By-Laws. None of these transactions is classified as financial assistance to any entity.

The Company ensures timely payment of all payables as they fall due. To date, the Company has no creditors and should there be any, they are assured that debts due them will be paid on time.

Customers and the Environment

Insular Life promotes comprehensive and efficient servicing of both internal (i.e., employees and agents) and external customers (i.e., policyholders, suppliers, etc.). The Company ensures that our human and material resources are employed efficiently at all times. The Company believes that maintaining sustainable operations across all our offices nationwide help preserve the environment, thereby, ensuring the Company's goal to minimize its carbon footprint.

CORPORATE GOVERNANCE CONFIRMATION STATEMENT

In Insular Life, we reinforce our commitment to long-term sustainable growth and expansion through a firm commitment to good corporate governance. All company policies, activities and programs are geared to protect the interest of all its stakeholders and are grounded on full compliance to the mandates of its own Manual of Corporate Governance and other best practices.

Reporting Feedback

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

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

Office Telephone No.:	+ 63 (02) 582-1818
Email:	rsdejesus@insular.com.ph

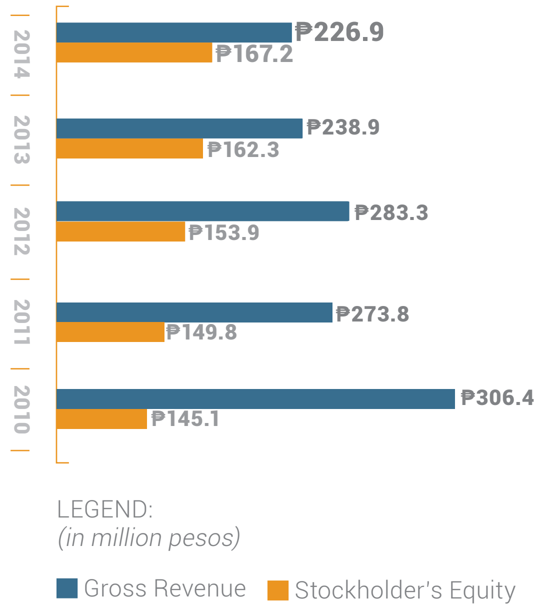
The Company ensures that all reports received will be treated with utmost confidentiality and that the identity of all those who shall make the foregoing report in good faith shall be strictly protected from any form of retaliation in compliance with the Company's Code of Conduct and applicable laws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

SUBSIDIARIES' AND AFFILIATE'S PERFORMANCE HIGHLIGHTS

Insular Health Care

Insular Health Care, Inc. (IHCI) is one of the top ten health maintenance organizations (HMOs) in the Philippines in terms of capitalization, comprehensive healthcare packages, and service delivery. IHCI offers one of the industry's most comprehensive healthcare programs in the market with the flexibility to meet specific needs of its members. To date, it has a network of 1,770 hospitals, outpatient facilities and dental clinics, and, 18,453 medical specialists, nationwide.

IHCI maintains a dynamic website with an online application, a rate calculator that computes membership fees for individual and family accounts, and payment facilities. Also available in the website are the ongoing sales promotions, Body Mass Index (BMI) calculator, monthly medical articles, and agent application facility. IHCI also utilizes Short Messaging System broadcast facility and email blast to communicate with members.

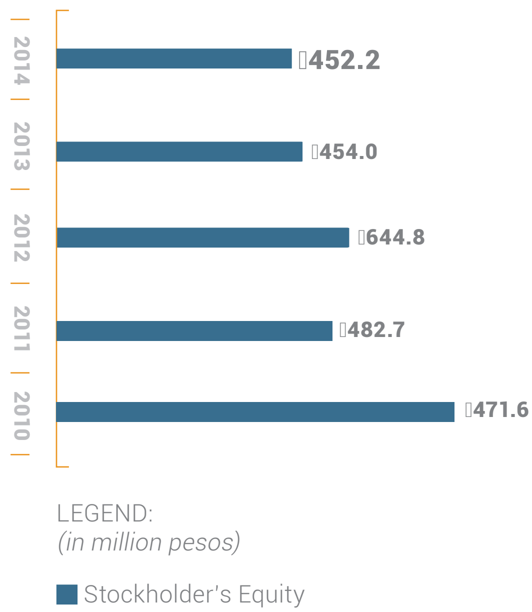


2014 HIGHLIGHTS

- Gross Revenues stood at ₱226.9 million
- Net Profit After Taxes of ₱12.4 million
- Total Assets stood at ₱292.5 million
- Total Stockholders' Equity was at ₱167.2 million
- Retained Earnings posted at ₱68.6 million
- Return on Equity stood at 8 percent

Insular Investment

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



2014 HIGHLIGHTS

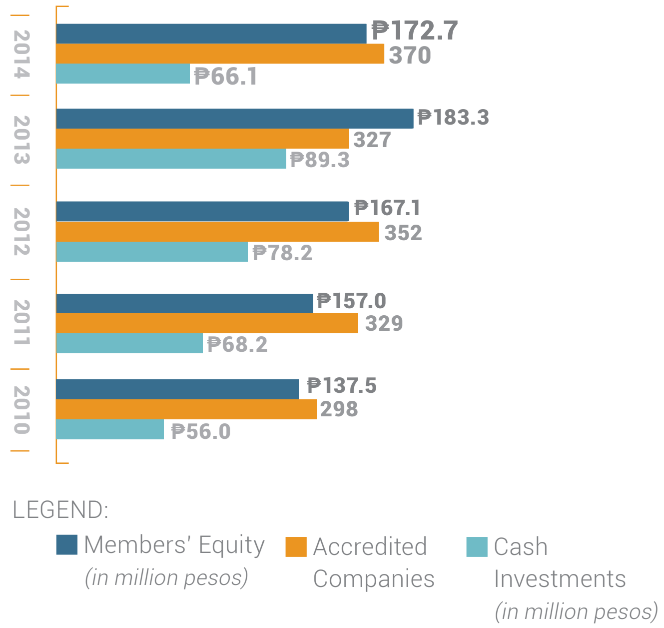
- Net Income After Tax: ₱3.2 million
- Gross Revenue: ₱19.9 million
- Total Assets: ₱462.5 million
- Stockholders' Equity: ₱452.2 million

Insular Home Credit

Home Credit Mutual Building & Loan Association, Inc. (Insular Home Credit) is a wholly owned subsidiary of Insular Life that primarily offers a disciplined savings program with a housing and cash loan component to its members. In 2014, Insular Home Credit-Cebu was able to accredit 18 companies that generated 319 membership applications worth ₱26.2 million.

2014 HIGHLIGHTS

- Cash and cash equivalents: ₱66.1 million
- Total Assets: ₱227.4 million
- Total Equity: ₱204.1 million
- Total Mortgage and Rent-to-Own receivables generated ₱14.9 million from 2014 availers
- New members: 1,516
- The Association's total issued and outstanding preferred "B" equity shares amounted to ₱170.6 million.



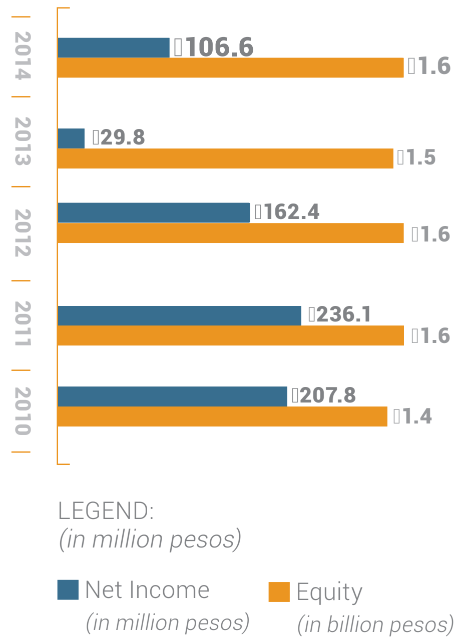
AFFILIATE

MAPFRE | INSULAR

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

2014 HIGHLIGHTS

- Net Income grew 257 percent, from ₱29.8 million in 2013 to ₱106.6 million in 2014 even as the Company was heavily investing in systems improvement and brand marketing projects.
- Revenues grew almost 8 percent despite strong competition.
- Posted total equity of ₱1.6 billion



BEING A TOP EMPLOYER

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

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

EMPLOYEE FORCE PROFILE

As of end-2014, Insular Life has a regular employee force of 765 employees, which cover those in our head office in Alabang, Muntinlupa City, as well as in our branch offices in key cities and provinces nationwide.

The ratio of male to female staff was at 1:3, of which 483 were female and 282 were male. Of the total, 20.91 percent or 160 employees occupied senior personnel positions (assistant managers and up) in 2014. The average age of our employee force in 2014 was 37 years old.

TRAINING & DEVELOPMENT PROGRAMS

In 2014, every Insular Life employee participated in training and development activities for an average of 60 hours, inclusive of general orientation, product training, and behavioral programs. This cut across all levels - from the rank and file to middle management. We use a blended approach that includes workshops, coaching, and instructor-led training sessions, all designed and conducted among target participants across all units nationwide.

The In-House Training Programs are classified as follows:

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

The Company also sends employees to external training programs that would address the technical needs of employees and updates them on specific disciplines such as Accounting, Finance, Investment, Auditing, Actuarial, Underwriting, Strategic Marketing, Information Technology/ Specialized Training, Corporate Trends/Organizational Development, Technical Training on Building/Real Property Administration and Legislation and Statutorial Guidelines affecting Operations.

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

Insular Life also extends scholarships to employees taking up courses under the Life Office Management Association (LOMA), an employee training and development association used by life insurance companies in over 70 countries worldwide. Due to its commitment to the program, Insular Life has been a consistent recipient of the Excellence in Education Awards from LOMA in the past 14 years starting in 1992.

We also developed a steady roster in the Fellow, Life Management Institute (FLMI), with 38 fellows to date. The FLMI Program has been the standard of excellence in the insurance and financial services industry in the world since 1932.

In addition, we also offer a scholarship program for employees who wish to pursue postgraduate degrees related to their job functions.

REWARDS AND RECOGNITION

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

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

INSULAR LIFE'S CONTRIBUTIONS TO THE INDUSTRY IN 2014

Insular Life encourages employees to participate in professional associations in the industry. The following are the employees who fulfilled posts in different industry associations in 2014:

NAME OF INSULAR LIFE EMPLOYEE	DESIGNATION AND ORGANIZATION
GERALDINE B. ALVAREZ	President, Association of Service Professionals in Life Service (ASPLI)
JOSEPHINE F. BONGCARAS	Board Member, Home Office Life Underwriters Association of the Philippines (HOLUAP)
ENRICO L. CORDOBA	Member, ASEAN Free Trade Agreement Committee, Philippine Life Insurance Association
MARIA TERESA L. CRUZ	Board Member and Vice President for Application Development Interest Group, IT Interaction Philippines, Inc. (ITIP)
ATTY. RENATO S. DE JESUS	Member, Bancassurance Committee, Legal & Legislative Ethics & Compliance, Philippine Life Insurance Association (PLIA)
MYLENE C. PADILLA	Member, Finance & Investment Committee, Philippine Life Insurance Association
EDGARDO G. POLISTICO	President, Life Insurance Claims Association of the Philippines (LICAP)
ANA MARIA R. SORIANO	Marketing Committee Member, Philippine Life Insurance Association
KATERINA V. SUAREZ	Secretary, Actuarial Society of the Philippines
DIANA ROSE A. TAGRA	Member, Medical Impairment Bureau Committee Philippine Life Insurance Association (PLIA)

COMMUNICATING WITH EMPLOYEES

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

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

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

EMPLOYEE INVOLVEMENT

For 2014, AGILA spearheaded two programs namely the "*Eagles Flying Higher*" and "*Eagles Connect: Living Up the Magandang Araw Culture.*"

The ***Eagles Flying Higher*** is a sequel to the previous year's ***Eagles Taking Flight*** campaign and provides employees another opportunity to experience the role of a far-sighted guardian in presenting Company products and services that will eventually help financially secure the future of the employees' relatives and friends. The program had two components, which are the *Refer A Business* and *Refer-an-Agent*.

Meanwhile, the ***Eagles Connect: Living Up the Magandang Araw Culture*** was part of the 104th Anniversary Activities that allowed the employees to connect to one another through the love languages in the *Magandang Araw* brand.

During the two-week long activity, the employees had fun in accomplishing the trivia as well as the challenges laid out on the Eagles Connect card. The activity provided the employees the opportunity to share inspiring quotes, as well as to express their appreciation and gratitude to a colleague who has done a good job or has assisted them on a task, by giving out a simple treat, such as a cup of coffee or tea, and getting to know other employees during lunch break.

EMPLOYMENT POLICIES

Insular Life promotes fair treatment of any kind and offers equal opportunities in all aspects of employment.

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

CORPORATE SOCIAL RESPONSIBILITY

For more than half a century now since it was established as one of the first corporate foundations in the country, the Insular Foundation, Inc., our corporate social responsibility arm, has been implementing programs that benefit various sectors of society.

Supporting programs on education is aligned with our vision of empowering the next generation of Filipinos to build a financially secure future. In 2014, Insular Foundation sustained its investment in education through the following initiatives:

GOLD EAGLE COLLEGE SCHOLARSHIP GRANT

The Foundation recognized seven Gold Eagle Scholars from the University of the Philippines Diliman who graduated during school year 2014-2015, of whom six graduated *magna cum laude*. These academically gifted individuals were encouraged to take up Bachelor of Science in Education at UP Diliman so they could help raise the quality of education in the country. The scholarship covers tuition, miscellaneous fee, book allowance, board and lodging, and stipend.

At the end of 2014, there were 37 Gold Eagle college scholars taking up Education and BS Mathematics at UP Diliman.

In addition to UP Diliman, the Foundation has also partnered with five other State Universities for the college scholarship grant for education students beginning school year 2015-2016. These are: Benguet State University and Aurora State College of Technology in Luzon, Bohol Island State University in the Visayas, and Central Mindanao University and Davao Oriental State College of Science and Technology in Mindanao.

These State Colleges were chosen on the basis of high passing average in the Licensure Examination for Teachers, student population size, and proximity to Insular Life offices.

Through the Insular Gold Eagle Awards, the Foundation also recognizes and rewards class valedictorians every school year from a select list of 500 public and private high schools in the Philippines. Medal recipients are automatically qualified to vie for slots of the Insular Life College Scholarship Grant at the University of the Philippines Diliman and the five State Universities that we partnered with under the program of Bachelor of Science in Education.

REBUILDING

Sustaining our contributions to the rebuilding efforts in areas devastated by typhoons, Insular Life signed a memorandum of agreement with the Department of Education and the Philippine Business for Social Progress (PBSP) in November 2014 for our donation of a three-classroom disaster resilient structure to San Fernando Central School in Tacloban City, Leyte, the province hardest hit by Super Typhoon Yolanda in 2013. The first tranche of the ₱4.7-million donation, covering 50% of the total amount, was already released to PBSP.

The Foundation also donated 1,000 sets of school supplies and bags to three schools in Bataan, one of the provinces affected by Typhoon Maring in 2013. This effort was in response to the DepEd's appeal to private institutions for school supplies and bags donations to help replace books and learning materials destroyed during the typhoon. The donated school supplies were brought to Bataan through the Alagang Kapatid Foundation of TV-5 broadcast network.

ADOPT A SCHOLAR

Insular Life's efforts in providing underprivileged children greater access to education are shared by generous employees who have been supporting scholars in grade school through their monetary donations.

Scholars are selected from the children of inmates, prison guards, employees and residents of the New Bilibid Prison in Muntinlupa City. In 2014, a total of 157 scholars in grades 4 and 6 of Itaas Elementary School received school supplies and uniforms that were donated by 88 Insular Life employees who gave ₱176,660 for the purchase of these items.

OUTREACH

Insular Foundation also embarked on various outreach activities, together with its employee volunteers and scholars.

- The first outreach activity of BS Education Scholars was successfully held on December 1, 2014, at Feria 1 Day Care Center at Barangay Old Balara in Quezon City. All nine first-year scholars actively participated in the

Supporting programs on education is aligned with our vision of empowering the next generation of Filipinos to build a financially secure future.

learning sessions with 40 day care center children.

- Insular Life employee-volunteers continued to teach values formation to the SAGIP (Sagipin Ang Galing, Isip at Pangarap ng Kabataan) children at the Gawad Kalinga Manggahan Kawayanan site in Marcelo Green, Parañaque City that will help them become responsible citizens. In 2014, we completed a total of 11 sessions, each held every third Saturday of the month.

CSR ADVOCACY

To spread our advocacy on education, Insular Foundation supported two major activities of the League of the Corporate Foundations (LCF): the CSR Expo, and the Committee on Education Forum themed "Towards Strategic CSR in Education." Through our active participation in the LCF, the umbrella organization of corporate foundations in the country, we are able to create more significant impact in local communities and in society.

In the coming years, we will continue to reach out to the underprivileged and make their continued success our business.

BOARD OF TRUSTEES

As of May 1, 2015

VICENTE R. AYLLÓN
Chairman and CEO
Chairman, Executive Committee

DELFIN L. LAZARO
Vice Chairman
Member, Executive Committee

MONA LISA B. DE LA CRUZ

RICARDO G. LIBREA
Vice Chairman, Executive Committee

MARIETTA C. GORREZ
Member, Executive Committee

FRANCISCO ED. LIM

LUIS C. LA Ó

VICTOR B. VALDEPEÑAS

Note: The nominee to fill up the vacancy in the Board of Trustees is to be elected at the 2015 Annual Members' Meeting on May 27, 2015.

VICENTE R. AYLLÓN
Chairman and CEO

- 84 years old, elected as Trustee since 27 March 1974 (Executive Trustee)
- Chairman of the Board & Chief Executive Officer of The Insular Life Assurance Company, Ltd.; Chairman of the Board & President of Insular Life Property Holdings, Inc.; Chairman of the Board of Insular Investment Corporation, Insular Health Care, Inc., Insular Life Management & Development Corporation, Home Credit Mutual Building & Loan Association, Inc. and Insular Foundation, Inc.; Vice Chairman of the Board of Mapfre Insular Insurance Corporation and Union Bank of the Philippines, a Publicly Listed Company; Director of the following Companies: Pilipinas Shell Petroleum Corporation, Shell Company of the Philippines, Ltd., and The Palms Country Club; also a Director of Rockwell Land Corporation, a Publicly Listed Company
- B.S. Commerce (1952), University of the East; Associate in Commercial Science (1950), San Juan de Letran College
- Certificate of Appreciation, Management Association of the Philippines; Plaque of Appreciation, Philippine Jaycee Senate; Certificate of Appreciation, Life Underwriters Association of the Philippines (LUAP) Annual Convention; and Plaque of Appreciation, JCI Senate Philippines
- Trainings/Seminars attended during the last three years: *East Asian Insurance Congress*, Taiwan; *Exclusive Orientation Course on Corporate Governance*, Manila; *Annual MDRT Meeting*, Canada; *Pacific Insurance Conference*, Hong Kong; *Life Insurance and Market Research Association (LIMRA) Annual Conference*, New York; *International Insurance Society (IIS) Annual Seminar*, Seoul; *East Asian Insurance Congress*, Kuala Lumpur; *Annual Million Dollar Round Table (MDRT) Meeting*, California

MONA LISA B. DE LA CRUZ
Member

- 57 years old, elected as Trustee since 27 January 2011 (Executive Trustee)
- President and Chief Operating Officer,of The Insular Life Assurance Company, Ltd.; Director/Trustee of the following subsidiary Companies: Insular Health Care, Inc., Insular Investment Corporation, Home Credit Mutual Building & Loan Association, Insular Life Assurance Company (ILAC) General Insurance Agencies, Inc., Insular Life Property Holdings, Inc., Insular Life Management & Development Corporation (ILMADECO), Insular Foundation, Inc., Insular Life Employees' Retirement Fund; Director of Union Bank of the Philippines, a Publicly Listed Company, Pilipinas Shell Petroleum Corporation and Mapfre Insular Insurance Corporation; Fellow of Actuarial Society of the Philippines; Associate of Society of Actuaries, U.S.A.; and Member of International Actuarial Association
- Master of Science in Mathematics, major in Actuarial Science (1979), University of Michigan; Bachelor of Science in Statistics (1978), Cum laude, University of the Philippines
- Trainings/Seminars attended during the last three years: *Management Association of the Philippines Economic Briefing*, Manila; *Joint AIM-MBC-Management Association of the Philippines General Members Meeting*, Manila; *MAP-National Security Committee's Learning Session*, Manila; *Management Association of the Philippines (MAP) – Chief Executive Officer (CEO) Forum*, Manila; *Life Office Management Association (LOMA) Life Insurance and Market Research Association (LIMRA) – Strategic Issues Conference*, Taiwan; *Mapfre Re International Forum*, Spain; *Michigan Ross School of Business: The Senior Executive Program*, Hong Kong; *Raffles Leadership Centre: Strategic Negotiator Program*, Singapore

DELFIN L. LAZARO
Vice Chairman

- 69 years old, elected as Trustee since 28 November 2002 (Independent Trustee)
- Chairman of the Board of Atlas Fertilizer and Chemicals, Inc., AYC Holdings Ltd. and Philwater Holdings Company, Inc.; Chairman and President of AYC Holdings Ltd.; Vice Chairman of the Board and President of Asiacom Philippines, Inc.; Managing Director of Lazaro, Bernardo, Tiu and Associates, Inc.; Director of the following Companies: La Farge Republic, Inc., Probe Productions, Inc., Ayala International Holdings, Ltd., Bestfull Holdings Ltd., and Empire Insurance Company; Director of the following Publicly Listed Companies: Ayala Corporation, Ayala Land, Inc., Globe Telecommunications, Inc., Integrated Microelectronics, Inc. and Manila Water Company, Inc.
- Master in Business Administration (1971), With Distinction, Harvard Graduate School of Business; B.S. Metallurgical Engineering (1967), University of the Philippines
- Trainings/Seminars attended during the last three years: Orientation on Corporate Governance, Manila

RICARDO G. LIBREA
Member

- 75 years old, elected as Trustee since 28 July 2005 (Independent Trustee)
- Director of Insular Investment Corporation; Member of the Management Association of the Philippines
- Certified Public Accountant; B.S. Business Administration (1957), University of the East

MARIETTA C. GORREZ
Member

- 61 years old, elected as Trustee since 27 January 2011 (Non-Executive Trustee)
- Director of the following Companies: Insular Health Care, Inc., Foundation for Professional Training, Inc. and Alliance for the Family Foundation of the Philippines, Inc.; Former Senior Vice President of The Insular Life Assurance Company, Ltd.; Former Head of the following Groups of The Insular Life Assurance Company, Ltd.: Business Support Group, Sales Operations Group, Corporate Operations Group, and Administrative Operations Group; Former President of Insular Life Assurance Company (ILAC) General Insurance Agencies, Inc.; Former Director and Treasurer of Insular Investment Corporation; Former Director of Insular Life Management & Development Corporation, Insular Life Property Holdings, Inc., and Home Credit Mutual Building & Loan Association, Inc.; and Former Member of the Board of

Trustees of Insular Life Employees' Retirement Fund and Insular Foundation, Inc.

- Professionally Trained Life/Executive Coach & Member, International Coach Federation; Registered Financial Consultant, International Association of Registered Financial Consultants; Fellow, Life Management Institute, Life Office Management Association (LOMA); Master in Business Economics (Candidate), University of Asia & the Pacific; Graduate Top Management Program, Asian Institute of Management; Master in Business Administration (1978), De La Salle University; Bachelor of Science in Mathematics (1974), University of Santo Tomas
- Trainings/Seminars attended during the last three years: *BDO Economic Briefing*, Manila; *Benchmark Consulting: Accelerated Coach Training Program*, Manila; *International Association of Registered Financial Consultants Philippines Inc. Annual Forum on Wealth Management & Digital Age*, Manila; *Citibank Wealth Management Seminar on 'Global Market Outlook'*, Manila; *BDO/Odyssey Seminar on Unit Investment Trust Fund*, Manila; *International Association of Registered Financial Consultants Forum on Implosion or Prosperity*, Manila

FRANCISCO ED. LIM
Member

- 60 years old, elected as Trustee since 27 January 2011 (Non-Executive Trustee)
- Insular Life Budget and Audit Committee member
- Senior Partner and Member, Special Committee and Executive Committee of the Angara Concepcion Regala & Cruz Law Offices (ACCRALAW); Independent Director, Energy Development Corporation; Independent Director, Producers Savings Bank Corporation; Independent Director, Rural Bank of Cainta, Inc.; President, Shareholders' Association of the Philippines (SharePHIL); Trustee of CIBI Foundation, Inc.; Fellow, Institute of Corporate Directors; Co-Chairperson, Sub-Committee of the Philippine Supreme Court on E-Commerce Law; Member, Philippine Supreme Court Sub-Committee on Commercial Courts; Professorial Lecturer at the Philippine Judicial Academy; Law Professor at the School of Law, Ateneo de Manila University and Graduate School of Law San Beda College; Philippine Contributor to the Compliance Complete (Thomson Reuters International online publication); Columnist, (Point of Law) Philippine Daily Inquirer; Member, Financial Executive Institute of the Philippines; Member, Management Association of the Philippines; Member, Integrated Bar of the Philippines; Member, Philippine Bar Association; Member, New York State Bar Association; Member, American Bar Association; Former President & CEO of the Philippine Stock Exchange, Inc., and Securities Clearing Corporation of the Philippines; Former Chairman of the Philippine Stock Exchange Foundation, Inc. and Capital Market Development Center, Inc.; Former Director of The Philippine Stock Exchange, Inc., Securities Clearing Corporation of the Philippines, and Philippine Dealing & Exchange Corporation; Former Member of the Board of Trustees of Securities Investors Protection Fund; and Former Member of the Capital Market Development Council.
- Master of Laws (1987), University of Pennsylvania, USA; Bachelor of Laws (1981), Second Honors, Ateneo de Manila University; Bachelor of Philosophy (1975), Magna Cum Laude, University of Sto. Tomas; Bachelor of Arts (1975), Cum Laude, University of Sto. Tomas
- Recipient, Punong Gabay Award from the Philippine Council of Deans and Educators (PCDEB); Professorial Chair in Commercial Law from the Philippine Supreme Court, Philippine Judicial Academy and the Metrobank Foundation, Inc.; Certificate of Commendation, The Supreme Court of the Philippines; Outstanding Alumnus, San Jacinto Seminary and San Jacinto Seminary Alumni Association; Certificate of Appreciation, and Capital Market Institute of the Philippines
- Trainings/Seminars attended during the last three years: *Seminar on Corporate Governance*, Manila; *Corporate Governance Workshop* Manila; *Seminar on Anti-Money Laundering Act of 2001,as amended and BSP Circular 706*, Manila; *Corporate Governance Orientation Program-Professional Directors Program*, Manila

LUIS C. LA Ó
Member

- 67 years old, elected as Trustee since 22 January 2015 (Non-Executive Trustee)
- Chairman of the Board, Mapfre Insular Insurance Corporation
- Master in Business Management, De La Salle University (1973); General Insurance Course, College of Insurance, Chartered Institute of London, U.K. (1971); Bachelor of Science in Management, Ateneo de Manila University (1968)

VICTOR B. VALDEPEÑAS
Member

- 61 years old, elected as Trustee since 22 January 2015 (Non-Executive Trustee)
- President and COO of Union Bank of the Philippines, A Publicly Listed Company; Chairman of the Board and President, Union Currency Brokers, Inc. Director of the following Companies: Union Bank of the Philippines, A Publicly Listed Company, University of the Philippines Alumni Association (UPAA) and Philippine Economic Society
- Member of the following professional/civic organizations: Money Market Association of the Philippines; Foreign Exchange Association of the Philippines, Management Association of the Philippines; Philippine Economic Society; Philippine Chamber of Commerce and Industry; Bankers Association of the Philippines
- Doctor in Philosophy (Candidate) in Economics (1972) - U.P. Wisconsin Fellow Scholar, University Of the Philippines; Master of Arts in Economics, (1969) - U.P. Wisconsin Fellow Scholar, University of the Philippines, Bachelor of Science in Economics (1966), University of the Philippines
- Trainings/Seminars attended during the last three years: *Exclusive Orientation on Corporate Governance*, Manila; *Macquarie ASEAN Conference & Corporate Days*, Singapore: *Asia FICC Conference*, Singapore; *Citibank Asia Pacific Investors' Conference*, Hong Kong; *Union Bank Offsite Annual Board Planning*, Manila; *Leaders Learning Circle: On Storytelling for Transformational Leadership*, Manila; *Citibank Investors Conference*, Manila; Punongbayan & Araullo Banking Forum: A new world of regulation and interpretation, Manila; Leaders Learning Circle – Leadership Challenge: Co-Creating the Compelling Future, Manila; Leaders Learning Circle – On Extreme Leadership and New World of Work, Manila; Leaders Learning Circle – The Philippine Economy: Reaching the Tipping Point and Driving Growth through Cross-Selling, Manila; Annual Asia Pacific Investor Conference, Hong Kong; Citibank Investors Conference, Manila; Leaders Learning Circle: Enterprise Risk Management, Manila; Institute of Corporate Directors 9th Annual Dinner, Manila

Credentials as of May 1, 2015

MANAGEMENT

As of May 1, 2015

VICENTE R. AYLLÓN
Chairman
and Chief Executive Officer

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

JESUS ALFONSO G. HOFILEÑA
Senior Executive Vice President
Sales and Marketing Group

SENIOR VICE PRESIDENTS

RAMON M. CABRERA
Agency Management

MA. EDITA C. ELICAÑO
Chief Actuary
Actuarial Division

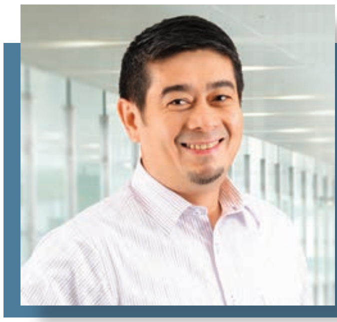
FIRST VICE PRESIDENTS

Myrna A. Alcantara
Allied Marketing Channels Division

Ronnie B. Alcantara
Seconded as concurrent President of Insular Investment Corporation and of Home Credit Mutual Building and Loan Association, Inc.

Maria Teresa L. Cruz
Information Services Division

Renato S. De Jesus
Corporate Secretary
Legal and Corporate Services Division



John Jesus O. Lim
Metro Manila Sales Division

Mundece L. Lu
Visayas-Mindanao Sales Division

Seraline L. Manguni
Seconded as President of Insular Health Care, Inc.

Susana G. Nicolas
Human Resources Division

Jocelyn B. Reyes
Policyholders Services Division

Amelita F. Tamayo
Marketing and Agency Support Division

MANAGEMENT

VICE PRESIDENTS

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

SENIOR ASSISTANT VICE PRESIDENTS

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

ASSISTANT VICE PRESIDENTS

Iris S. Aman
Rene P. Asuncion
Henry G. Balangatan II
Ma. Agnes E. Bautista
Analyn S. Benito
Florfida L. Buitre
Hilario C. Delos Santos
Adrian Joseph R. Fernandez
Maria Ida C. Himan
Gwendolyn D. Kelley
Bettina G. Lumaban
Ma. Editha B. Mendiola
Sancer T. Pertez
Tricci Rose A. Sadian
Paulita A. Sioson
Ruth R. Velasco
Jesito V. Villamor

Internal Auditor
** *Treasurer*

STATEMENT OF MANAGEMENT'S

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **The Insular Life Assurance Co., Ltd. and Subsidiaries** is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2014 and 2013, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

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

Mayo Jose B. Ongsingco
President and Chief Operating Officer
(until April 30, 2015)

Mona Lisa B. de la Cruz
Treasurer
(until April 30, 2015)

Signed this 26th day of March 2015

INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of The Insular Life Assurance Company, Ltd., which comprise the balance sheets as at December 31, 2014 and 2013, and the statements of income, statements of comprehensive income, statements of changes in members' equity, and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements presents fairly, in all material respects, the financial position of the The Insular Life Assurance Company, Ltd., and Subsidiaries as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Djole S. Garcia

Djole S. Garcia
Partner
CPA Certificate No. 0097907
SEC Accreditation No. 1285-A (Group A),
February 25, 2013, valid until February 24, 2016
Tax Identification No. 201-960-347
BIR Accreditation No. 08-001998-102-2013,
January 28, 2013, valid until January 27, 2016
PTR No. 4751285, January 05, 2015, Makati City

March 26, 2015

CONSOLIDATED BALANCE SHEETS

	December 31		January 1
		2013	2013
	2014	(As restated)	(As restated)
ASSETS			
Cash and Cash Equivalents (Note 4)	**₱7,259,622,277**	₱5,498,530,341	₱4,704,477,963
Short-term Investments	**24,494,902**	111,000,000	–
Insurance Receivables (Note 5)	**185,881,108**	226,048,650	228,431,255
Financial Assets (Note 6):			
Fair value through profit or loss	**21,223,575,172**	14,522,610,219	10,294,305,823
Available-for-sale	**14,005,139,125**	15,698,318,513	14,880,854,907
Held-to-maturity	**24,895,191,198**	23,364,283,696	20,053,654,073
Loans and receivables	**16,095,190,178**	17,784,192,791	21,615,060,581
Investments in Associates (Note 7)	**8,398,989,408**	7,183,418,789	7,443,472,779
Investment Properties (Note 8)	**8,491,800,111**	9,077,775,054	9,048,780,236
Property and Equipment (Note 9)	**318,620,249**	324,201,952	409,969,670
Retirement Benefits Asset (Note 24)	**244,901,186**	278,722,120	280,313,921
Deferred Income Tax Assets - net (Note 25)	**4,842,327**	3,507,155	4,242,578
Other Assets (Note 10)	**205,820,374**	129,377,661	59,570,814
TOTAL ASSETS	**₱101,354,067,615**	₱94,201,986,941	₱89,023,134,600
LIABILITIES AND MEMBERS' EQUITY			
Liabilities			
Legal policy reserves (Note 11)	**₱51,057,595,852**	₱49,554,299,948	₱47,490,940,166
Derivative liability (Note 12)	**8,732,243**	8,338,735	–
Other insurance liabilities (Note 13)	**24,821,081,153**	19,817,886,387	16,373,005,140
Accrued expenses and other liabilities (Note 14)	**1,809,654,436**	1,532,421,154	1,501,973,074
Retirement benefits liability (Note 24)	**5,261,089**	4,889,520	2,458,238
Deferred income tax liabilities - net (Note 25)	**802,322,923**	1,187,033,954	989,355,593
Total Liabilities	**78,504,647,696**	72,104,869,698	66,357,732,211
Members' Equity			
Equity attributable to Parent Company			
Reserve for fluctuation in available-for-sale financial assets:			
Attributable to the Group (Note 6):			
Equity securities	**2,022,766,928**	4,091,718,166	4,459,179,025
Debt securities	**244,091,784**	180,801,969	682,639,607
Attributable to associates (Notes 7)	**(497,878,057)**	(1,180,338,426)	337,306,611
	1,768,980,655	3,092,181,709	5,479,125,243
Cumulative re-measurement gains (losses) on defined benefit plan:			
Attributable to the Group (Note 24)	**110,463,697**	111,459,548	86,353,361
Attributable to associates (Note 7)	**49,513,348**	99,011,435	(11,099,985)
	159,977,045	210,470,983	75,253,376
Premium on deemed disposal of investment in an associate (Note 7)	**304,954,486**	304,954,486	304,954,486
Share in surplus reserves of a subsidiary	**3,226,537**	3,226,537	3,226,537
Retained earnings (Notes 15 and 33):			
Appropriated	**250,000,000**	250,000,000	250,000,000
Unappropriated	**20,191,704,044**	18,061,750,296	16,397,646,687
Equity attributable to Parent Company	**22,678,842,767**	21,922,584,011	22,510,206,329
Equity attributable to Non-controlling Interests (Note 28)	**170,577,152**	174,533,232	155,196,060
Total Members' Equity	**22,849,419,919**	22,097,117,243	22,665,402,389
TOTAL LIABILITIES AND MEMBERS' EQUITY	**₱101,354,067,615**	₱94,201,986,941	₱89,023,134,600

See accompanying Notes to Consolidated Financial Statements in the enclosed CD.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31	
	2014	2013
REVENUE		
Insurance Revenue (Note 16)		
Gross earned premiums on insurance contracts	**₱12,951,616,633**	₱12,506,591,518
Reinsurers’ share of premiums on insurance contracts	**(167,463,463)**	(164,730,504)
Net Insurance Revenue	**12,784,153,170**	12,341,861,014
Operating Revenue		
Investment income (Note 17)	**3,811,891,819**	3,910,240,230
Equity in net earnings of associates (Note 7)	**1,045,826,960**	1,459,105,176
Rental income (Notes 8 and 27)	**411,665,996**	432,767,223
Net realized gains - net (Note 18)	**1,184,847,308**	654,309,748
Foreign exchange gain - net	**7,191,525**	293,295,705
Other income (Note 29)	**384,225,984**	253,752,837
Total Operating Revenue	**6,845,649,592**	7,003,470,919
Total Revenue	**19,629,802,762**	19,345,331,933
INSURANCE BENEFITS AND OPERATING EXPENSES		
Insurance Benefits Expenses (Note 19)		
Gross benefits and claims on insurance contracts	**11,904,732,850**	11,136,989,633
Reinsurers’ share of benefits and claims on insurance contracts	**(45,167,562)**	(13,389,936)
Net change in:		
Legal policy reserves	**1,509,490,348**	2,072,613,626
Reinsurers’ share in legal policy reserves	**(6,194,444)**	(9,253,844)
Net Insurance Benefits Expenses	**13,362,861,192**	13,186,959,479
Operating Expenses		
General insurance expenses (Note 20)	**1,725,026,322**	2,039,451,518
Commissions and other acquisition expenses	**1,083,625,356**	900,220,134
Investment expenses (Note 21)	**248,586,744**	194,671,797
Other losses (Note 22)	**9,046,193**	64,941,046
Total Operating Expenses	**3,066,284,615**	3,199,284,495
Total Insurance Benefits and Operating Expenses	**16,429,145,807**	16,386,243,974
INCOME BEFORE INCOME TAX	**3,200,656,955**	2,959,087,959
PROVISION FOR INCOME TAX (Note 25)	**251,701,333**	566,661,907
NET INCOME	**2,948,955,622**	2,392,426,052
ATTRIBUTABLE TO:		
Parent Company	**2,948,957,779**	2,392,425,200
Non-controlling Interest	**(2,157)**	852
NET INCOME	**₱2,948,955,622**	₱2,392,426,052

See accompanying Notes to Consolidated Financial Statements in the enclosed CD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2014	2013
NET INCOME	**₱2,948,955,622**	₱2,392,426,052
OTHER COMPREHENSIVE INCOME		
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:		
Decrease in value of available-for-sale equity securities (Note 6)	**(1,922,472,483)**	(616,525,664)
Consequential deferred income tax impact (Note 6)	**245,716,943**	(1,068,173)
Valuation loss (gain) realized through profit or loss		
Loss (gain) on sale (Note 6)	**(400,780,175)**	185,606,332
Impairment loss (Notes 6 and 22)	**8,584,477**	64,526,646
	(2,068,951,238)	(367,460,859)
Increase (decrease) in value of available-for-sale debt securities (Notes 6 and 28)	**123,269,358**	(888,990,745)
Consequential deferred income tax impact (Note 6)	**242,189**	1,600,622
Valuation loss (gain) realized through profit or loss (Note 6)	**(60,222,350)**	385,551,609
	63,289,197	(501,838,514)
Increase (decrease) in value of available-for-sale equity securities attributable to associates (Notes 6 and 7)	**682,460,369**	(1,517,645,037)
	(1,323,201,672)	(2,386,944,410)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:		
Re-measurement gains (losses) on defined benefit pension plan (Note 24)	**(1,595,301)**	36,170,592
Consequential deferred income tax impact (Note 24)	**600,465**	(11,064,690)
	(994,836)	25,105,902
Re-measurement gains (losses) on defined benefit pension plan attributable to associates (Note 7)	**(49,498,087)**	110,111,420
	(50,492,923)	135,217,322
TOTAL OTHER LOSSES	**(1,373,694,595)**	(2,251,727,088)
TOTAL COMPREHENSIVE INCOME	**₱1,575,261,027**	₱140,698,964
ATTRIBUTABLE TO:		
Parent Company	**1,575,262,787**	140,699,273
Non-controlling Interest (Note 28)	**(1,760)**	(309)
TOTAL COMPREHENSIVE INCOME	**₱1,575,261,027**	₱140,698,964

See accompanying Notes to Consolidated Financial Statements in the enclosed CD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱3,200,656,955**	₱2,959,087,959
Adjustments for:		
Interest income (Note 17)	**(3,344,872,719)**	(3,463,046,966)
Net change in legal policy reserves (Note 19)	**1,503,295,904**	2,063,359,782
Equity in net earnings of associates (Note 7)	**(1,045,826,960)**	(1,459,105,176)
Net realized gain on disposals of (Note 18):		
Investment properties	**(726,407,921)**	(1,607,063)
Available-for-sale financial assets	**(458,131,750)**	(634,604,955)
Property and equipment	**–**	(15,662,296)
Interest expense (Note 19)	**362,334,622**	442,371,142
Dividend income (Note 17)	**(311,412,544)**	(396,042,428)
Depreciation and amortization of:		
Investment properties (Note 8)	**151,881,125**	144,212,413
Property and equipment and computer software (Notes 9 and 10)	**93,133,211**	80,820,934
Dividends to members (Note 19)	**60,977,250**	67,367,000
Retirement benefit expense (Notes 23 and 24)	**38,582,616**	42,433,618
Foreign exchange gain - net	**(7,191,525)**	(293,295,705)
Net provision (reversal) of impairment loss on:		
Available-for-sale equity securities (Notes 6 and 22)	**8,584,477**	64,526,646
Investment properties (Notes 8 and 22)	**416,116**	(234,668)
Derivative loss (Note 12)	**393,508**	8,338,735
Realized gain on repossession of properties (Note 18)	**(307,637)**	(2,435,434)
Operating loss before working capital changes	**(473,895,272)**	(393,516,462)
Changes in operating assets and liabilities:		
Net decrease (increase) in:		
Loans and receivables	**332,097,429**	(193,535,902)
Short term investment	**86,505,098**	(111,000,000)
Insurance receivables	**40,167,542**	2,382,605
Other assets	**(34,576,467)**	2,307,063
Net increase (decrease) in:		
Other insurance liabilities	**4,996,537,043**	4,323,152,178
Accrued expenses and other liabilities	**243,261,998**	(27,893,596)
Net cash generated from operations	**5,190,097,371**	3,601,895,886
Contribution to the plan asset (Note 24)	**(5,985,414)**	(2,239,944)
Income taxes paid	**(609,059,465)**	(371,418,673)
Net cash generated from operating activities	**4,575,052,492**	3,228,237,269

(Forward)

	Years Ended December 31	
	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in financial asset at fair value through profit or loss	**(₱6,678,725,917)**	(₱4,033,259,420)
Interest income received	**3,305,212,218**	3,198,856,308
Collections of loans and receivables	**2,125,915,588**	6,596,893,247
Additional investments in:		
Held-to-maturity financial assets (Note 6)	**(2,630,000,000)**	(5,777,576,072)
Available-for-sale financial assets (Note 6)	**(2,050,356,333)**	(4,706,443,264)
Property and equipment and computer software (Notes 9 and 10)	**(130,524,056)**	(180,161,519)
Investment properties (Note 8)	**(81,512,053)**	(132,851,780)
Investment in associates (Note 7)	**–**	(80,131,835)
Proceeds from disposals and/or maturities of:		
Available-for-sale financial assets (Note 6)	**1,934,467,285**	3,631,747,128
Held-to-maturity financial assets (Note 6)	**1,113,532,430**	2,579,798,218
Investment properties (Notes 8 and 18)	**1,242,505,313**	72,803,733
Property and equipment (Notes 9 and 18)	**506,302**	23,867,731
Dividends received	**774,631,167**	787,799,812
Releases of loans and receivables	**(500,000,000)**	(2,900,395,719)
Net cash used in investing activities	**(1,574,348,056)**	(919,053,432)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of dividends to members	**(873,323,558)**	(1,092,097,798)
Interest paid to members (Note 19)	**(362,334,622)**	(442,371,142)
Redemption of preferred shares (Note 28)	**(87,095,477)**	(80,330,243)
Issuances of preferred shares (Note 28)	**83,141,157**	99,667,724
Net cash used in financing activities	**(1,239,612,500)**	(1,515,131,459)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,761,091,936**	794,052,378
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**5,498,530,341**	4,704,477,963
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱7,259,622,277**	₱5,498,530,341

See accompanying Notes to Consolidated Financial Statements in the enclosed CD.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Equity Attributable to Parent Company											
	Reserve for Fluctuation in Available-for-Sale Financial Assets			Cumulative Re-measurement Gains (Losses) on Defined Benefit Plan								
	Attributable to Parent Company											
	Equity Securities (Note 6)	Debt Securities (Note 6)	Attributable to Associates (Note 7)	Attributable to the Group (Note 24)	Attributable to the Associates (Note 7)	Premium on Deemed Disposal of Investment in an Associate (Note 7)	Share in Surplus Reserves of Subsidiary	Retained Earnings (Notes 15 and 33) Appropriated	Retained Earnings (Notes 15 and 33) Unappropriated	Total	Equity Attributable to Non-controlling Interest (Note 28)	Total
BALANCES AT JANUARY 1, 2013 As previously reported	**₱4,459,179,025**	**₱682,639,607**	**₱337,306,611**	**₱86,353,361**	**(₱11,099,985)**	**₱304,954,486**	**₱3,226,537**	**₱250,000,000**	**₱16,975,115,687**	**₱23,087,675,329**	**₱155,196,060**	**₱23,242,871,389**
Retrospective restatement (Note 7)	–	–	–	–	–	–	–	–	(577,469,000)	(577,469,000)	–	(577,469,000)
BALANCES AT JANUARY 1, 2013 As restated	**₱4,459,179,025**	**₱682,639,607**	**₱337,306,611**	**₱86,353,361**	**(₱11,099,985)**	**₱304,954,486**	**₱3,226,537**	**₱250,000,000**	**₱16,397,646,687**	**₱22,510,206,329**	**₱155,196,060**	**₱22,665,402,389**
Total comprehensive income (loss)	(367,460,859)	(501,837,638)	(1,517,645,037)	25,106,187	110,111,420	–	–	–	2,392,425,200	140,699,273	(309)	140,698,964
Net increase in preferred shares during the year (Note 28)	–	–	–	–	–	–	–	–	–	–	19,337,481	19,337,481
Dividends to members (Note 15)	–	–	–	–	–	–	–	–	(728,321,591)	(728,321,591)	–	(728,321,591)
BALANCES AT DECEMBER 31, 2013 As restated	**₱4,091,718,166**	**₱180,801,969**	**(₱1,180,338,426)**	**₱111,459,548**	**₱99,011,435**	**₱304,954,486**	**₱3,226,537**	**₱250,000,000**	**₱18,061,750,296**	**₱21,922,584,011**	**₱174,533,232**	**₱22,097,117,243**
BALANCES AT DECEMBER 31, 2013 As previously reported	**₱4,091,718,166**	**₱180,801,969**	**(₱1,180,338,426)**	**₱111,459,548**	**₱99,011,435**	**₱304,954,486**	**₱3,226,537**	**₱250,000,000**	**₱18,639,219,296**	**₱22,500,053,011**	**₱174,533,232**	**₱22,674,586,243**
Retrospective restatement (Note 7)	–	–	–	–	–	–	–	–	(577,469,000)	(577,469,000)	–	(577,469,000)
BALANCES AT DECEMBER 31, 2013 As restated	**₱4,091,718,166**	**₱180,801,969**	**(₱1,180,338,426)**	**₱111,459,548**	**₱99,011,435**	**₱304,954,486**	**₱3,226,537**	**₱250,000,000**	**₱18,061,750,296**	**₱21,922,584,011**	**₱174,533,232**	**₱22,097,117,243**
Total comprehensive income	(2,068,951,238)	63,289,815	682,460,369	(995,851)	(49,498,087)	–	–	–	2,948,957,779	1,575,262,787	(1,760)	1,575,261,027
Net decrease in preferred shares during the year (Note 28)	–	–	–	–	–	–	–	–	–	–	(3,954,320)	(3,954,320)
Dividends to members (Notes 15 and 28)	–	–	–	–	–	–	–	–	(819,004,031)	(819,004,031)	–	(819,004,031)
BALANCES AT DECEMBER 31, 2014	**₱2,022,766,928**	**₱244,091,784**	**(₱497,878,057)**	**₱110,463,697**	**₱49,513,348**	**₱304,954,486**	**₱3,226,537**	**₱250,000,000**	**₱20,191,704,044**	**₱22,678,842,767**	**₱170,577,152**	**₱22,849,419,919**

See accompanying Notes to Consolidated Financial Statements in the enclosed CD.

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

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

1.1 Corporate Information

The Insular Life Assurance Company, Ltd. (the "Parent Company"), a mutual life insurance company primarily engaged in the life insurance business, was incorporated in the and registered with the Philippine Securities and Exchange Commission (SEC) on November 25, 1910. On November 12, 2010, the SEC approved the extension of its corporate term for another 50 years or until November 26, 2060.

The registered business address of the Parent Company is Level 30 Insular Life Corporate Centre, Insular Life Drive, Filinvest Corporate City, Alabang, Muntinlupa City.

The Parent Company and its subsidiaries (collectively referred to as "the Group") are primarily engaged in the business of life insurance, healthcare, lending, and investment management (Note 28).

1.2 Authorization for Issuance of the Consolidated Financial Statements

The consolidated financial statements of the Group were approved and authorized for issuance by the Board of Trustees (BOT) on March 26, 2015.

2. Summary of Significant Accounting and Financial Reporting Policies

2.1 Statement of Compliance

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

2.2 Basis of Preparation

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

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional consolidated balance sheet at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the consolidated financial statements. An additional consolidated balance sheet as at January 1, 2013 is presented in these consolidated financial statements due to retrospective restatement of an accounting policy (Note 7).

2.3 <u>Changes in Accounting Policies</u>

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS, Philippine Accounting Standards (PAS), and amendment to existing Philippine Interpretation based on International Financial Reporting Interpretation Committee (IFRIC) interpretations effective as of January 1, 2014:

2.3.1 *Investment Entities* (Amendments to PFRS 10, PFRS 12, and PAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments must be applied retrospectively, subject to certain transition relief. These amendments do not have significant impact to the Group.

2.3.2 PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Liabilities* (Amendments)

The amendments clarify the meaning of “currently has a legally enforceable right to offset” and the criterion for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. The amendments have no significant impact on the Group’s consolidated financial position or performance.

2.3.3 PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)

These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The application of these amendments has no material impact on the disclosures in the Group’s consolidated financial statements.

2.3.4 PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no significant impact on the Group.

2.3.5 Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* consistent with the requirements of IFRIC 21 in prior years.

2.3.6 *Annual Improvements to PFRSs (2010-2012 cycle)*

In the 2010-2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement.*

The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no significant impact on the Group's consolidated financial statements.

2.3.7 *Annual Improvements to PFRSs (2011-2013 cycle)*

In the 2011-2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, First-time Adoption of Philippine Financial Reporting Standards-First-time Adoption of PFRS. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Group as it is not a first-time PFRS adopter.

2.4 New Accounting Standards, Interpretations, and Amendments to Existing Standards Subsequent to December 31, 2014

The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these changes in PFRS to have a significant impact on the consolidated financial statements. The relevant disclosures will be included in the notes to the consolidated financial statements when these become effective.

2.4.1 *Effective in 2015*

(a) PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)

PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Group.

(b) *Annual Improvements to PFRSs (2010-2012 cycle)*

The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have material impact on the Group. They include:

i. PFRS 2, *Share-based Payment - Definition of Vesting Condition*

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;

- A performance target may relate to the operations or activities of an entity, or those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during vesting period, the service condition is not satisfied.

ii. PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Group shall consider this amendment for future business combinations.

iii. PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are "similar."

- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

iv. PAS 16, *Property, Plant and Equipment,* and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*

The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

v. PAS 24, *Related Party Disclosures - Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

(c) *Annual Improvements to PFRSs (2011-2013 cycle)*
The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. These are enumerated on the next page.

i. PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regading the scope exception within PFRS 3:
- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

ii. PFRS 13, *Fair Value Measurement - Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.

iii. PAS 40, *Investment Property*
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property and equipment).

2.4.2 *Effective in 2016*

(a) PAS 16, *Property, Plant and Equipment,* and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant, and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have significant impact to the Group.

(b) PAS 16, *Property, Plant and Equipment,* and PAS 41, *Agriculture - Bearer Plants* (Amendments)
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, Accounting for Government Grants and Disclosure of Government Assistance, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as it does not have any bearer plants.

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

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures, and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These ammendments are not relevant to the Group's consolidated financial statements.

(d) PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016. These amendments are not expected to have significant impact on the Group's consolidated financial statement.

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

The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have significant impact to the Group.

(f) PFRS 14, *Regulatory Deferral Accounts*

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. As the Group is an existing PFRS preparer, this standard would not apply.

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

i. PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*

The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

ii. PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

iii. PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Statements*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

iv. PAS 19, *Employee Benefits - regional market issue regarding discount rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

v. PAS 34, *Interim Financial Reporting - disclosure of information "elsewhere in the interim financial report"*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

2.4.3 *Effective in 2018*

(a) PFRS 9, *Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7, and PAS 39* (2013 version)
PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

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

(b) PFRS 9, *Financial Instruments* (2014 or final version)
In July 2014, the final version of PFRS 9, *Financial Instruments,* was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement,* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

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

2.4.4 *Not yet Adopted by FRSC*

(a) IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

2.5 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its associates as at December 31, 2014 and 2013. Specifically, the Group controls an investee if and only if it has:

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

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

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

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

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

	Percentage of Ownership	
	2014	2013
Insular Investment Corporation (IIC)	100.00	100.00
• IITC Properties, Inc. (IPI)	100.00*	100.00*
• Insular Property Ventures, Inc. (IPVI)	100.00*	100.00*
Insular Health Care, Incorporated (I-Care)	100.00	100.00
Insular Life Management and Development Corporation (ILMADECO)	100.00	100.00
• ILAC General Insurance Agency, Inc. (ILACGA)	100.00**	100.00**
Insular Life Property Holdings, Inc. (ILPHI)	100.00	100.00
Home Credit Mutual Building & Loan Association, Inc. (Home Credit)	99.96	99.96

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

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

The financial statements of the subsidiaries are prepared for the same reporting years as the Group, except for ILMADECO which was presented as at and for the years ended March 31, 2014 and 2013, using consistent accounting principles and policies.

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

2.6 <u>Non-controlling Interest</u>

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

2.7 Fair Value Measurement

The Group measures its financial assets at FVPL and AFS at fair value at each reporting date. Also, the fair values of held-to-maturity (HTM) securities and other financial liabilities measured at amortized cost, and investment properties carried at cost are disclosed in Notes 30 and 31.

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

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

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

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

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

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

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

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

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

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

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

2.8 Cash and Cash Equivalents

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

2.9 Short-term Investments

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

2.10 Financial Instruments

Financial instruments within the scope of PAS 39 are recognized in the consolidated balance sheets when the Group becomes a party to the contractual provisions of the instrument.

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

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

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

2.10.1 *Financial Assets*

(a) *Financial Assets at FVPL*

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

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

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

i. 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;

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

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

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

As of December 31, 2014 and 2013, the Group's financial assets at FVPL amounting to ₱17,259,141,343 and ₱12,355,073,689 as of December 31, 2014 and 2013, respectively, are designated at FVPL by management at initial recognition (Note 6). These financial assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis in accordance with a documented investment strategy. The Group manages these financial assets in accordance with the investment strategy and valuation provisions of the Variable Unit-Linked (VUL) insurance contracts. Likewise, this is consistent with the valuation basis of the reserve for policies held by the policyholders. These financial assets consist primarily of quoted government and corporate debt securities with fixed interest rates, quoted equity securities, and structured notes.

The Group also has investments in quoted preferred equity shares amounting to ₱3,964,433,829 and ₱2,167,536,530 as of December 31, 2014 and 2013, respectively, which are designated as at FVPL (Note 6). These preferred securities contain embedded derivatives that significantly modify the cash flow that it would have to be separately recorded.

(b) *HTM Financial Assets*
HTM financial assets are nonderivative financial assets that are quoted in the market, with fixed or determinable payments and fixed maturity which the Group has the positive intention and ability to hold to maturity. Financial assets intended to be held for an undefirned period are not included in this classification. HTM financial assets are subsequently measured at amortized cost. The amortized cost is computed as the

amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums and discounts. Gains and losses are recognized in the consolidated statements of income when the financial assets are derecognized, impaired, or amortized.

As of December 31, 2014 and 2013, the Group's HTM financial assets consist of quoted government and corporate debt securities with fixed interest rates (Note 6).

(c) *Loans and Receivables*

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

As of December 31, 2014 and 2013, the Group's loans and receivables consist of cash and cash equivalents, short-term investments, term loans, policy loans, accounts receivable, interest receivable, housing loans, mortgage loans, net interest in joint venture accounted for under PAS 39, car financing loans, finance leases, stock loans, due from agents, and other receivables (Notes 4 and 6).

(d) *AFS Financial Assets*

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

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

The effective yield component of AFS debt securities, as well as, the impact of restatement on foreign currency-denominated AFS debt securities is reported in the consolidated statements of income. Interest earned on holding AFS financial assets are reported as interest income using the effective interest method. Dividends earned on holding AFS financial assets are recognized in the consolidated statements of income as investment income when the right to receive payment has been established. Unrealized gains and losses arising from changes in fair market value of AFS financial assets are reported in OCI until the financial asset is derecognized or as the financial asset is determined to be impaired.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as realized gain in the consolidated statements of income.

As of December 31, 2014 and 2013, 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).

2.10.2 *Financial liabilities*

Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. Other financial liabilities are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market.

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

As of December 31, 2014 and 2013, the Group's other financial liabilities consist of accrued expenses and other liabilities excluding taxes and other payable to the government (Note 14).

The Group does not have financial liabilities at FVPL as of December 31, 2014 and 2013.

2.10.3 *Derivative financial instruments*

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

As of December 31, 2014, the Group has cross-currency swaps (CCS) wherein derivative liability amounted to ₱8,732,243 and ₱8,338,735 in 2014 and 2013, respectively (Note 12).

2.10.4 *Embedded derivatives*

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

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

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

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

As of December 31, 2014 and 2013, the Group has no embedded derivatives requiring bifurcation.

2.10.5 *Day 1 gain or loss*

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (Day 1 gain or loss) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the Day 1 amount.

2.10.6 *Offsetting of financial instruments*

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

2.11 Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

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

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

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

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

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

2.12 Derecognition of Financial Instruments

2.12.1 *Financial assets*

A financial asset is derecognized when:

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

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

2.12.2 *Financial liabilities*

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

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

2.13 <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.

2.13.1 *Financial assets carried at amortized cost*

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Group about loss events such as but not limited to significant financial difficulty of the counter-party, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy, or other financial re-organization.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics such as customer type, payment history, past due status and term, and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

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

2.13.2 *AFS financial assets*

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

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

In case of equity securities classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the financial assets below its cost or where other objective evidence of impairment exists. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of income, is removed from OCI and recognized in the consolidated statements of income.

Impairment losses on equity securities are not reversed through the consolidated statements of income. Increases in fair value after impairment and reversals of impairment losses on equity instruments are recognized directly in OCI.

2.13.3 *Financial assets carried at cost*

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

2.14 Investments in Associates

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

The balance sheet dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances. The Group adjusts the equity and profit or loss of the associates, as applicable, for any significant difference in accounting policies for like transaction and similar circumstances (Note 7).

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

	Percentage of Ownership	
	2014	2013
PPI Prime Ventures, Inc. (PPVI)	**30.00**	30.00
Mapfre Insular Insurance Corporation (MIIC)	**25.00**	25.00
Union Bank of the Philippines (UBP)	**16.20**	16.20

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

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

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

2.15 Investment Properties

Investment properties consist of land, buildings, and improvements owned by the Group that are primarily leased to others or held for capital appreciation or both. Investment properties are stated at cost, including transaction costs, less accumulated depreciation and amortization and any impairment in value. Investment properties outstanding as of January 1, 2004 were stated at deemed cost based on their fair value as of that date. Depreciation of depreciable investment properties is computed on a straight-line method over the estimated useful life of the properties (i.e., 40 years for buildings and 10 years for building improvements).

Investment properties are derecognized when they have been disposed, permanently withdrawn from use, or when no future economic benefit is expected from their disposal. Any gain or loss on the disposal of an investment property is recognized in the consolidated statements of income in the year of disposal.

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

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

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

2.16 Property and Equipment

Property and equipment, including predominantly owner-occupied properties, except for land, are stated at cost, net of accumulated depreciation and amortization and any impairment in value. Land is stated at cost less any impairment in value.

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

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

The EUL of property and equipment of the Group follows:

	Years
Buildings	40
Furniture, fixtures and equipment	3-10
Transportation equipment	2-6
Electronic and data processing equipment	2-5

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

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

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

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

2.17 Computer Software

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

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

2.18 Impairment of Nonfinancial Assets

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

The Group assesses only when there are indicators that a nonfinancial asset may be impaired. If any such indication exists, or when annual impairment testing for a nonfinancial asset is required, the Group makes an estimate of the asset's recoverable amount.

A nonfinancial asset's recoverable amount, except for land, is the higher of a nonfinancial asset or CGU's fair value less costs to sell and its value-in-use, and is determined for an individual asset, unless the nonfinancial asset does not generate cash inflows that are largely independent of those from other assets or groups of nonfinancial assets. Land's recoverable amount is the appraised value or net selling price, which may be obtained from its sale in an arm's length transaction, less costs to sell. Where the carrying amount of a nonfinancial asset (or CGU) exceeds its recoverable amount, the nonfinancial asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the nonfinancial asset.

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

2.19 Retained Earnings

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

2.20 Insurance Contracts

2.20.1 *Product classification*

(a) Insurance and Investment Contracts

Insurance contracts are those contracts where the Group has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk by comparing benefits payable on occurrence of insured event with benefits payable on non-occurrence of insured event at inception. Insurance contracts can also transfer financial risk.

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

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

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

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

(b) VUL Insurance Contracts

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

The liability for the investment portion of VUL insurance contracts is increased by additional deposits and changes in unit prices and is decreased by policy administration fees, fund charges, mortality and surrender charges, and any withdrawals. As of the balance sheet date, this liability is computed on the basis of the number of units allocated to the policyholders multiplied by the unit price of the underlying investment funds. The fund assets and liabilities are separately administered by, under Separate Funds by the Parent Company's trustee, a third party multinational bank accredited by the BSP. The fund assets are designated as financial assets at FVPL and are valued on a basis consistent with the measurement basis in the consolidated balance sheets. The fund liabilities are included in "Members' deposits and other funds on deposit" under "Other insurance liabilities" account in the consolidated balance sheets.

(c) Options and Guarantees

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

2.20.2 *Recognition and measurement*

(a) Premiums

Premiums are recognized as revenue when they become due from the policyholders which, for single premium business, is the date from which the policy is effective. Due premiums which remain unpaid within the statutory defined limit are recognized on a net basis.

(b) Reinsurance Assets

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

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

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

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

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

(c) Legal Policy Reserves

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

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

Any deficiency in the statutory liability is booked as an expense to bring the balance of the liability to the fair valued liability.

Generally, the statutory liability is still higher than fair valued liability due to the maximum 6% interest rate for statutory valuation as specified in the Insurance Code and the Group's projected earnings of more than 6%. In addition, the Group still maintains a portfolio of policies which have statutory reserves valued at 3.5% to 5%.

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

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

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

(d) Benefits and Claims

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

(e) Incurred but Not Reported (IBNR) Claims

IBNR claims are based on the estimated ultimate cost of unreported claims incurred but not settled at the balance sheet date, together with related claims handling costs. These costs pertain to estimates of the Group’s obligations to the policyholders on which the Group has not yet received notification. Delays can be experienced in the notification and settlement of obligations; therefore, the ultimate cost of which cannot be known with certainty at the balance sheet date. The Group develops estimates for IBNR taking into considerations the Group's prior experience.

(f) Reserve for Dividends to Members

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

2.21 Operating Revenue

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

The following specific recognition criteria must also be met before revenue is recognized:

2.21.1 *Interest income*

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

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

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

2.21.2 *Dividend income*

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

2.21.3 *Rental income*

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

2.21.4 *Service income*

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

2.21.5 *Underwriting and arrangement fees*

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

2.21.6 *Trading gains and losses*

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

2.21.7 *Membership fees*

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

2.21.8 *Management Fees*

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

2.22 <u>Operating Expenses</u>

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

2.23 <u>Pension Benefits Costs</u>

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

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

Pension benefit costs comprise the following:

- Service cost; and
- Net interest on the net defined benefit liability or asset.

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

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

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

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

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

2.24 Operating Leases

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

2.25 Foreign Currency-Denominated Transactions and Translations

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

2.26 Income Tax

2.26.1 *Final tax*

Final tax on interest and dividend income is presented in the consolidated statements of income at the time interest and dividends are earned.

2.26.2 *Current income tax*

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

2.26.3 *Deferred income tax*

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

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

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

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

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

Unrecognized deferred income tax assets are re-assessed at each balance sheet date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow all or part of the deferred income tax assets to be recovered. Deferred income tax assets and liabilities are offset if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2.27 Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statements of income, net of any reimbursement.

2.28 Contingencies

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

2.29 Events After the Balance Sheet Date

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

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

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

3.1 Judgments

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

3.1.1 *Product classification*

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

3.1.2 *Classification of financial instruments*

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

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

The classification of the Group's financial instruments by categories is shown in Note 30.

3.1.3 *Determination of existence of significant influence*

The Group's 16.20% equity investment in UBP as of December 31, 2014 and 2013 is classified as an associate as the Group has established that it has significant influence over UBP through active participation in the working committees of UBP of the representatives of the Group's BOT (Note 7).

3.1.4 *Evaluation of joint control*

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

3.1.5 *Evaluation of control*

The Parent Company owns a number of subsidiaries. PFRS 10 requires an entity to reassess whether it has control over an investee. Management assessed that it has control over its subsidiaries (i.e., as listed in Note 2 under "Basis of consolidation") as it is exposed, or has rights, to variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiaries (Note 28).

3.1.6 *Distinction between property and equipment and investment properties*

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

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

There were no reclassification of investment properties to property and equipment in 2014 and 2013. The total cost of property and equipment reclassified to investment properties amounted to ₱600,000 and ₱125,603,712 in 2014 and 2013, respectively (Notes 8 and 9).

3.1.7 *Classification of leases*

(a) Group as lessor

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

(b) Group as lessee

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

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

3.1.8 *Distinction between debt and equity instrument*

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

As of December 31, 2014 and 2013, preferred shares classified as financial liability amounted to ₱2,228,043 and ₱7,772,912, respectively (Note 14), while preferred shares classified as equity amounted to ₱170,558,522 and ₱174,512,842, respectively (Note 28).

3.2 <u>Estimates</u>

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

3.2.1 *Determination of fair values of unquoted AFS equity securities*

The Group has unquoted AFS equity securities whose fair value is determined using the following pricing models (as applicable):

- Price to book value (PBV) ratio;
- Discounted cash flow (DCF) valuation; or
- Adjusted net asset method.

The use of a different pricing model and assumptions could produce materially different estimates of fair values. The carrying value of the unquoted AFS equity securities referred to above amounted to ₱1,916,163,944 and ₱5,131,080,787 as of December 31, 2014 and 2013, respectively (Note 31). Discussion of each method used by the Group to value its unquoted AFS equity securities is disclosed in Note 31.

3.2.2 *Impairment of AFS debt securities, HTM financial assets and loans and receivables*

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

The carrying value of the Group's loans and receivables, excluding cash and cash equivalents, amounted to ₱16,095,190,178 and ₱17,784,192,791 as of December 31, 2014 and 2013, respectively (Note 6). Allowance for impairment on loans and receivables amounted to ₱39,376,889 and ₱72,113,785 as of December 31, 2014 and 2013, respectively (Note 6).

The carrying value of the Group's AFS debt securities amounted to ₱5,290,393,871 and ₱5,276,936,484 as of December 31, 2014 and 2013, respectively (Note 6); while the carrying value of the Group's HTM financial assets amounted to ₱24,895,191,198 and ₱23,364,283,696 as of December 31, 2014 and 2013, respectively (Note 6). In 2014 and 2013, the Group did not recognize any impairment loss on AFS debt securities and HTM financial assets.

3.2.3 *Impairment of AFS equity securities*

The Group determines AFS equity securities as impaired when there has been a significant or prolonged decline in the fair value of the financial assets below its cost or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgment. The Group treats "significant" generally as 20% or more of the original cost of investment and "prolonged" as greater than 12 months.

The carrying value of the Group's AFS equity securities amounted to ₱8,714,745,254 and ₱10,421,382,029 as of December 31, 2014 and 2013, respectively (Note 6).

3.2.4 *Determination of Fair Values of Investment Properties*

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

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

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

(a) *Land*

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

(b) *Building and Improvements*

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

(c) *Other factors*

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

There have been no changes in the valuation technique used by the external appraisers in determining the fair values of investment properties. The total fair value of investment properties amounted to ₱11,295,868,293 and ₱11,816,112,138 as of December 31, 2014 anf 2013, respectively (Note 8).

3.2.5 *Estimation of useful lives of depreciable nonfinancial assets*

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

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

The carrying value of depreciable investment properties, property and equipment, and computer software, net of accumulated depreciation and amortization, amounted to ₱3,100,548,423 (Note 8), ₱296,998,497 (Note 9), and ₱128,742,618 (Note 10), respectively, as of December 31, 2014 and ₱3,179,109,974 (Note 8), ₱301,980,204 (Note 9), and ₱86,876,372 (Note 10), respectively, as of December 31, 2013.

3.2.6 *Impairment of nonfinancial assets*

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

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

As described in the accounting policy, the Group estimates the recoverable amount as the higher of the fair value less cost to sell and value-in-use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect the nonfinancial assets.

The carrying value of the Group's nonfinancial assets amounted to ₱17,415,230,142 and ₱16,714,773,456 as of December 31, 2014 and 2013, respectively (Notes 7, 8, 9, and 10).

3.2.7 *Adequacy of legal policy reserves*

In determining legal policy reserves, statutory reserves are compared with the fair valued liability described under Note 32. For the statutory reserves, estimates are made as to the expected number of deaths, illness, or injury for each of the years in which the Group is exposed to risk. These estimates are based on standard mortality and morbidity tables as required by the Code. The estimated number of deaths, illness, or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficiency of reserves, which in return is monitored against current and future premiums.

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

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

The carrying value of legal policy reserves amounted to ₱51,057,595,852 and ₱49,554,299,948 as of December 31, 2014 and 2013, respectively (Note 11).

3.2.8 *Estimation of IBNR claims*

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

Total IBNR claims included under "Claims pending settlement" within "Other insurance liabilities" in the balance sheet amounted to ₱71,056,852 and ₱54,515,656, as of December 31, 2014 and 2013, respectively (Note 13).

3.2.9 *Estimation of retirement benefits cost*

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

Net retirement benefits asset amounted to ₱244,901,186 and ₱278,722,120 as of December 31, 2014 and 2013, respectively (Note 24). Net retirement benefits liability amounted ₱5,261,089 and ₱4,889,520 as of December 31, 2014 and 2013, resepectively (Note 24).

3.2.10 *Realizability of deferred income tax assets*

The carrying amount of deferred income tax assets recognized is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. However, if there is no assurance that the Group will generate sufficient future taxable profits to allow all or part of deferred income tax assets to be utilized, the assets are not recognized in the books.

The Group did not recognize deferred income tax assets on NOLCO and excess of MCIT over RCIT, totaling ₱2,440,288,526 in 2014 and ₱3,202,530,920 in 2013 (Note 25).

3.2.11 *Estimation of reserve for dividends to members*

Dividends charged against retained earnings represent savings on mortality and favorable investment yields which are determined based on actual investment income and mortality experience over several years. Investment income and mortality are long-term factors such that savings on these are better measured over a number of years rather than on a single year basis.

Any difference between the amount set up as reserve for dividends for the year as against the dividends actually paid is charged against retained earnings. Management believes that this dividend sourcing policy more appropriately matches the dividends with its proper source and is more logical and rational. The charging of a portion of the dividends against retained earnings and operations in proportion to the dividends sourced from savings on investment income and mortality as compared to that sourced from savings on loadings is approved by the IC. The carrying amount of the provision for dividends to members charged to retained earnings amounted to ₱805,384,275 and ₱728,321,591 in 2014 and 2013, respectively (Note 15).

3.2.12 *Contingencies*

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

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

4. **Cash and Cash Equivalents**

	2014	2013
Cash on hand	**₱428,984**	₱741,018
Cash in banks (Note 26)	**1,107,231,732**	862,763,827
Cash equivalents in commercial banks (Note 26)	**6,151,961,561**	4,635,025,496
	₱7,259,622,277	₱5,498,530,341

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

5. **Insurance Receivables**

	2014	2013
Due premiums	**₱185,497,080**	₱214,289,423
Reinsurance assets	**384,028**	11,759,227
	₱185,881,108	₱226,048,650

6. **Financial Assets**

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

	2014	2013
Financial assets at FVPL	**₱21,223,575,172**	₱14,522,610,219
AFS financial assets	**14,005,139,125**	15,698,318,513
HTM financial assets	**24,895,191,198**	23,364,283,696
Loans and receivables	**16,095,190,178**	17,784,192,791
	₱76,219,095,673	₱71,369,405,219

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

6.1 Financial Assets at FVPL

	2014	2013
Equity securities - quoted	**₱3,964,433,829**	₱2,167,536,530
Under separate fund:		
Traditional VULs:		
Cash and cash equivalents	**1,918,115,581**	1,396,952,643
Quoted equity securities	**9,762,857,565**	6,535,314,916
Quoted debt securities:		
Government:		
Local currency	**1,048,681,834**	844,153,449
Foreign currency	**1,012,097,699**	815,569,068

(Forward)

	2014	2013
Corporate:		
Local currency	**₱228,724,590**	₱221,445,172
Foreign currency	**120,774,918**	115,943,813
Other receivables	**44,949,346**	64,767,411
Other payables	**(60,564,673)**	(19,638,428)
Structured VULs:		
Local currency	**1,041,505,575**	622,589,528
Foreign currency	**2,141,998,908**	1,757,976,117
	₱21,223,575,172	₱14,522,610,219

Quoted equity security represents preferred shares listed in the stock exchange. Fair value gain (loss) on these equity securities amounted to (₱16,386,567) and ₱74,907,092 in 2014 and 2013, respectively.

Fair value gain (loss) from financial assets at FVPL under separate funds (i.e. inclusive of the fair value gains and losses attributable to the Group and the policyholders) amounted to ₱2,082,736,929 and (₱278,422,279) in 2014 and 2013, respectively.

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.

The financial asset at FVPL under separate fund comprised the following:

Traditional VULs

Cash and cash equivalent

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

Equity security - quoted

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

Government debt securities

Interest ranges of government debt securities under FVPL are 1.63% to 8.00% and 4.00% to 10.63% for peso and dollar bonds, respectively for both 2014 and 2013.

Corporate debt securities

Corporate debt securities include bonds issued by reputable counterparties. Interest ranges of corporate debt securities under FVPL are 6.10% to 8.64% and 4.25% to 7.25% for peso and dollar bonds, respectively for both 2014 and 2013.

Other receivables

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

Other payables

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

Structured VULs

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

6.2 AFS Financial Assets

	2014	2013
Equity securities:		
Quoted	**₱6,776,932,749**	₱5,266,852,681
Unquoted	**1,937,812,505**	5,154,529,348
	8,714,745,254	10,421,382,029
Debt securities:		
Quoted:		
Government:		
Local currency	**3,626,209,750**	3,563,921,745
Foreign currency	**972,035,960**	911,376,505
Corporate:		
Local currency	**660,187,755**	728,675,091
Foreign currency	**31,960,406**	31,605,535
Unquoted - corporate	**–**	41,357,608
	5,290,393,871	5,276,936,484
	₱14,005,139,125	₱15,698,318,513

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

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

	2014	2013
Equity securities:		
Attributable to the Group:		
Beginning balance	**₱4,091,718,166**	₱4,459,179,025
Decrease in value of AFS equity securities net of tax	**(1,676,755,540)**	(617,593,837)
Valuation losses (gains) realized through profit or loss:		
Loss (gain) on sale	**(400,780,175)**	185,606,332
Impairment loss (Note 22)	**8,584,477**	64,526,646
Ending balance	**2,022,766,928**	4,091,718,166
Attributable to associates:		
Beginning balance	**(1,180,338,426)**	337,306,611
Increase (decrease) in value of AFS equity securities attributable to associates (Note 7)	**682,460,369**	(1,517,645,037)
Ending balance	**(497,878,057)**	(1,180,338,426)
	₱1,524,888,871	₱2,911,379,740
Debt securities:		
Beginning balance	**₱180,801,969**	₱682,639,607
Increase (decrease) in value of AFS debt securities net of tax	**123,512,165**	(887,389,247)
Valuation losses (gains) realized through profit or loss	**(60,222,350)**	385,551,609
Ending balance	**₱244,091,784**	₱180,801,969

HTM Financial Assets

	2014		2013	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Government:				
Local currency	**₱15,433,695,199**	**₱19,951,839,339**	₱15,762,433,251	₱20,491,626,173
Foreign currency	**1,063,606,835**	**1,139,891,076**	1,693,654,305	1,834,083,986
Corporate:				
Local currency	**8,154,556,207**	**8,048,828,958**	5,666,769,690	5,840,910,414
Foreign currency	**243,332,957**	**249,775,648**	241,426,450	239,074,078
	₱24,895,191,198	**₱29,390,335,021**	₱23,364,283,696	₱28,405,694,651

Loans and Receivables

	2014	2013
Term loans	**₱8,803,917,941**	₱10,429,833,529
Policy loans	**5,526,585,804**	5,673,565,963
Accounts receivable	**858,940,395**	644,903,866
Interest receivable	**466,437,954**	551,130,352
Housing loans	**159,738,546**	180,242,535
Mortgage loans	**73,204,793**	71,787,884
Net interest in joint venture accounted for under PAS 39	**47,004,109**	62,695,412
Car financing loans	**41,939,549**	47,143,160
Finance leases	**38,998,329**	35,497,333
Stock loans	**22,608,094**	24,762,870
Due from agents	**15,697,877**	21,405,839
Others	**79,493,676**	113,337,833
	16,134,567,067	17,856,306,576
Less allowance for impairment loss on	**39,376,889**	72,113,785
	₱16,095,190,178	₱17,784,192,791

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

- Term loans pertain to investments in fixed-rate loans of corporate borrowers with terms ranging from 1 to 12 years in 2014 and 5 to 12 years in 2013. Interest rates range from 4.59% to 10.35% and 2.25% to 10.35% in 2014 and 2013, respectively.
`

- Policy loans pertain to loans granted to policyholders. The loan is issued with the cash surrender value of the policyholder's insurance policy as collateral. Interest rates on policy loans range from 6% to 10% in both 2014 and 2013.

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

- Interest receivable pertains to accrued interest arising from investments in debt securities, cash equivalents, term loans, mortgage loans, housing loans, and other receivables with interest rates ranging from 0.30% to 13.75% and 0.01% to 13.75% in 2014 and 2013, respectively.

- Housing loans pertain to long-term loans granted to employees at an annual interest of 8% payable semi-annually with terms ranging from 5 to 20 years.

- Mortgage loans pertain to housing loans granted to third parties and former employees with terms ranging from 2 to 15 years. Interest rates on these loans range from 6.65% to 10.50% for both 2014 and 2013.

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

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

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

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

  PBI started its operations on the Project in February 2004. On March 25, 2009, PBI sought the intervention of Delfin Hermanos, Inc. (DHI), in cooperation with Bahayang Pag-asa, Inc. (BPI) to take over PBI. With the takeover, DHI has the full authority and power to utilize PBI's properties and titles as collaterals to any loan that DHI may secure from financial institutions. DHI shall take over the management and development of PBI properties; and shall undertake the exclusive marketing and sale of the projects through its marketing arm.

  The development of the project has not been completed and the joint venture has no income yet in 2014 and 2013. IPVI and IPI have no share of any capital commitment as of December 31, 2014 and 2013.

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

  Prior to adoption of PFRS 11, the Group accounted for its interest in joint venture using the equity method of accounting. Based on the Group's evaluation, the Group assessed that it has no joint control over the above arrangement. As such, the Group reclassified in 2013 its interest in the arrangement, net of related advances from the joint venture in accordance with the criteria set forth in PAS 32, from "Other assets" account in the consolidated balance sheets and accounted for the net interest in the arrangement in accordance with PAS 39.

- Car financing loans pertain to car loans granted to employees at an annual interest of 6% payable semi-annually and with terms ranging from 5 to 7 years.

- Finance leases pertain to real estate mortgages which are collectible over a period of 5 to 25 years at an annual interest of 10.25% to 11.75% in 2014 and over a period of 5 to 20 years at an annual interest of 18% in 2013.

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

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

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

	2014	2013
Housing loans	**₱184,578,198**	₱188,237,391
Less unamortized deferred interest income	**24,839,652**	7,994,856
	159,738,546	180,242,535
Car financing loans	**46,003,790**	47,143,160
Less unamortized deferred interest income	**4,064,241**	–
	41,939,549	47,143,160
	₱201,678,095	₱227,385,695

The amortization of deferred interest income amounting to ₱3,589,043 and ₱2,700,271 in 2014 and 2013, respectively, is recognized as part of interest on loans and receivables included under "Investment income" in the statements of income (Note 17).

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

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

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

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

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

	2014				
			AFS		
	FVPL	HTM	Equity Securities	Debt Securities	Total
Beginning balances	**₱14,522,610,219**	**₱23,364,283,696**	**₱10,421,382,029**	**₱5,276,936,484**	**₱53,585,212,428**
Acquisitions	**6,284,214,901**	**2,630,000,000**	**1,137,995,557**	**912,360,776**	**10,964,571,234**
Disposals/maturities	**(1,649,600,310)**	**(1,113,532,430)**	**(922,087,204)**	**(1,012,380,081)**	**(4,697,600,025)**
Fair value gain (loss)	**2,066,350,362**	**–**	**(1,913,960,651)**	**120,356,051**	**272,745,762**
Foreign exchange adjustments	**–**	**14,749,503**	**–**	**4,174,270**	**18,923,773**
Impairment loss (Note 22)	**–**	**–**	**(8,584,477)**	**–**	**(8,584,477)**
Discount (premium) amortization - net	**–**	**(309,571)**	**–**	**(11,053,629)**	**(11,363,200)**
Ending balances	**₱21,223,575,172**	**₱24,895,191,198**	**₱8,714,745,254**	**₱5,290,393,871**	**₱60,123,905,495**

	2013				
			AFS		
	FVPL	HTM	Equity Securities	Debt Securities	Total
Beginning balances	₱10,294,305,823	₱20,053,654,073	₱10,715,417,389	₱4,165,437,518	₱45,228,814,803
Acquisitions	6,687,872,670	5,777,576,072	1,498,643,685	3,207,799,579	17,171,892,006
Disposals/maturities	(2,256,053,087)	(2,579,798,218)	(1,527,243,599)	(2,190,772,659)	(8,553,867,563)
Fair value gain (loss)	(203,515,187)	–	(200,908,800)	40,497,189	(363,926,798)
Foreign exchange adjustments	–	(401,810,018)	–	(23,460,178)	(425,270,196)
Impairment loss (Note 22)	–	–	(64,526,646)	–	(64,526,646)
Discount (premium) amortization - net	–	514,661,787	–	77,435,035	592,096,822
Ending balances	₱14,522,610,219	₱23,364,283,696	₱10,421,382,029	₱5,276,936,484	₱53,585,212,428

As of December 31, 2014 and 2013, government securities under HTM financial assets totaling ₱62,500,000 are deposited with the IC as security for the benefit of policyholders and creditors of the Group in accordance with the provision of the Code.

Reclassification from AFS Financial Assets to HTM Financial Assets

On September 15, 2008, the Group reclassified AFS debt securities with amortized cost amounting to ₱283,501,557 to HTM financial assets. At the date of reclassification, fair market value of the debt securities amounted to ₱343,106,120 which became the new amortized cost of HTM financial assets as of reclassification date. The difference of fair value and amortized cost as of date of reclassification amounting to ₱59,604,563 was taken directly to equity and is to be amortized until maturity. The Group expects to recover interests from the debt securities at an effective interest of 10.41%.

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

There were no reclassifications made in 2014 and 2013.

As of December 31, 2014 and 2013, the carrying values of the debt securities reclassified in 2010 and 2008 had the debt securities not been reclassified to HTM financial assets are as follows:

	2014	2013
Beginning balance	**₱401,435,199**	₱426,663,075
Fair value loss	**(11,231,611)**	(17,039,304)
Amortization	**(5,503,796)**	(7,941,854)
Maturities	**(2,732,430)**	(246,718)
Ending balance	**₱381,967,362**	₱401,435,199

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

	2014	2013
Beginning balance	**₱323,027,252**	₱331,215,824
Amortization	**(5,503,796)**	(7,941,854)
Maturities	**(2,732,430)**	(246,718)
Ending balance	**₱314,791,026**	₱323,027,252

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

	2014	2013
Beginning balance	**₱49,495,496**	₱51,846,251
Amortization	**(2,605,086)**	(2,350,755)
Ending balance	**₱46,890,410**	₱49,495,496

7. Investments in Associates

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

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

The movement of the investments in associates follows:

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

(Forward)

	December 31, 2014			
	PPVI	**MIIC**	**UBP**	**Total**
Premium on deemed disposal of investment in an associate	**₱–**	**₱–**	**₱304,954,486**	**₱304,954,486**
	₱3,711,438	**₱475,263,499**	**₱7,920,014,471**	**₱8,398,989,408**

	December 31, 2013 (As restated)			
	PPVI	MIIC	UBP	Total
Acquisition cost				
Beginning balance	₱4,500,000	₱224,848,654	₱1,426,061,601	₱1,655,410,255
Additions	–	–	80,131,835	80,131,835
	4,500,000	224,848,654	1,506,193,436	1,735,542,090
Accumulated equity in net earnings				
Beginning balance, as previously reported	2,810,264	216,622,369	5,514,937,779	5,734,370,412
Retrospective restatement	–	–	(577,469,000)	(577,469,000)
Beginning balance, as restated	2,810,264	216,622,369	4,937,468,779	5,156,901,412
Equity in net earnings (losses) for the year	(3,299,119)	7,453,844	1,454,950,451	1,459,105,176
Dividends received	–	(30,000,000)	(361,757,384)	(391,757,384)
Ending balance	(488,855)	194,076,213	6,030,661,846	6,224,249,204
Equity in reserve for fluctuation in AFS				
Beginning balance	–	36,083,965	301,222,646	337,306,611
Share in net movement of reserve for fluctuation in AFS financial assets of the associates during the year (Note 6)	–	(12,281,335)	(1,505,363,702)	(1,517,645,037)
Ending balance	–	23,802,630	(1,204,141,056)	(1,180,338,426)
Equity in reserve for re-measurement gains (losses) in defined benefit pension plan				
Beginning balance	–	5,313,339	(16,413,324)	(11,099,985)
Share in net movement of reserve for re-measurement gains on defined benefit plan	–	3,472,430	106,638,990	110,111,420
Ending balance	–	8,785,769	90,225,666	99,011,435
Premium on deemed disposal of investment in an associate	–	–	304,954,486	304,954,486
	₱4,011,145	₱451,513,266	₱6,727,894,378	₱7,183,418,789

	Janury 1, 2013 (As restated)			
	PPVI	MIIC	UBP	Total
Acquisition cost				
Beginning balance	₱4,500,000	₱224,848,654	₱1,426,061,601	₱1,655,410,255
Accumulated equity in net earnings				
Beginning balance, as previously reported	2,476,124	219,763,776	4,594,584,357	4,816,824,257
Retrospective restatement	–	–	(577,469,000)	(577,469,000)
Beginning balance, as restated	2,476,124	219,763,776	4,017,115,357	4,239,355,257
Equity in net earnings (losses) for the year	334,140	40,608,593	1,225,749,479	1,266,692,212
Dividends received	–	(43,750,000)	(305,396,057)	(349,146,057)
Ending balance	2,810,264	216,622,369	4,937,468,779	5,156,901,412
Equity in reserve for fluctuation in AFS				
Beginning balance	–	27,062,974	406,425,653	433,488,627
Share in net movement of reserve for fluctuation in AFS financial assets of the associates during the year	–	9,020,991	(105,203,007)	(96,182,016)
Ending balance	–	36,083,965	301,222,646	337,306,611

(Forward)

	Janury 1, 2013 (As restated)			
	PPVI	MIIC	UBP	Total
Equity in reserve for re-measurement gains (losses) in defined benefit pension plan				
Beginning balance	₱–	₱–	₱–	₱–
Share in net movement of reserve for re-measurement gains (losses) on defined benefit plan	–	5,313,339	(16,413,324)	(11,099,985)
Ending balance	–	5,313,339	(16,413,324)	(11,099,985)
Premium on deemed disposal of investment in an associate	–	–	304,954,486	304,954,486
	₱7,310,264	₱482,868,327	₱6,953,294,188	₱7,443,472,779

The shares of stock of UBP are traded in the local stock market. The fair value of the Group's interest in the equity securities of UBP amounted to ₱11,428,401,225 (i.e., ₱66.60 per share) and ₱13,093,418,200 (i.e., ₱125.90 per share) as of December 31, 2014 and 2013, respectively.

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

In 2014, the Group recognized retrospective restatement of its accumulated equity in net earnings of UBP due to re-alignment of accounting policy on investment properties. The investment properties are valued at cost and at fair value by the Group and UBP (in its financial statements), respectively. The effects of the foregoing on the consolidated financial statements are as follows:

	Consolidated Balance Sheet as of		
	December 31	December 31	January 1
	2014	2013	2013
Decrease in:			
Investments in Associates	₱667,215,000	₱577,469,000	₱577,469,000
Retained Earnings	667,215,000	577,469,000	577,469,000

	Consolidated Profit and Loss for years ended December 31	
	2014	2013
Decrease in equity in net earnings of associates	₱89,746,000	₱–

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

Financial position

	December 31, 2014		
	PPVI	**MIIC**	**UBP**
Cash and cash equivalent	**₱125,641**	**₱536,137,614**	**₱6,667,885,000**
Short term investments	**28,134,618**	**–**	**–**

(Forward)

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

	December 31, 2013		
	PPVI	MIIC	UBP
Cash and cash equivalent	₱487,423	₱234,719,056	₱5,196,965,000
Short term investments	28,862,129	–	–
Fair value through profit or loss	–	–	1,482,015,000
AFS financial assets	–	1,700,113,694	95,492,928,000
Loans and receivables	31,435,012	692,775,897	258,569,338,000
Investment properties	–	17,020,784	13,198,635,000
Property plant and equipment	–	190,147,303	2,950,675,000
Other assets	–	2,450,128,116	20,604,606,000
Accounts payable		(182,634,746)	–
Deferred tax liability	–	(25,865,091)	–
Other liabilities	(3,010,496)	(3,578,125,891)	(352,503,094,000)
Equity	₱57,774,068	₱1,498,279,122	₱44,992,068,000

	January 1, 2013		
	PPVI	MIIC	UBP
Cash and cash equivalent	₱321,070	₱286,502,753	₱4,242,361,000
Short term investments	74,813,360	–	–
Fair value through profit or loss	–	–	397,477,000
AFS financial assets	–	1,570,370,003	88,558,276,000
Loans and receivables	74,571	731,041,366	155,669,735,000
Investment properties	–	23,259,233	11,555,076,000
Property plant and equipment	–	160,738,391	3,105,790,000
Other assets	–	1,428,768,433	16,393,063,000
Accounts payable	(48,301,977)	(175,442,987)	–
Deferred tax liability	–	(32,880,422)	–
Other liabilities	(2,539,478)	(2,368,927,403)	(232,583,704,000)
Equity	₱24,367,546	₱1,623,429,367	₱47,338,074,000

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

Financial performance

	December 31, 2014		
	PPVI	**MIIC**	**UBP**
Revenue	**₱263,431**	**₱1,418,790,935**	**₱14,955,022,000**
Direct costs	–	**(542,189,879)**	**(4,314,642,000)**
Operating expenses	**(1,209,767)**	**(1,069,015,279)**	**(9,810,941,000)**

(Forward)

	December 31, 2014		
	PPVI	**MIIC**	**UBP**
Other income	**₱–**	**₱317,910,326**	**₱8,156,846,000**
Impairment Losses	–	–	**(300,637,000)**
Profit before tax	**(946,336)**	**125,496,103**	**8,685,648,000**
Income tax expense	**(52,686)**	**(18,931,842)**	**(1,838,881,000)**
Net profit (loss) for the year	**(₱999,022)**	**₱106,564,261**	**₱6,846,767,000**
Group's share in the net profit (loss) of the associate	**(₱299,707)**	**₱26,641,065**	**₱1,109,485,602**

	December 31, 2013		
	PPVI	MIIC	UBP
Revenue	₱934,600	₱1,467,264,743	₱13,305,784,000
Direct costs	(10,572,874)	(711,666,819)	(4,396,150,000)
Operating expenses	(1,171,865)	(982,337,397)	(10,456,399,000)
Other income	–	265,099,063	12,618,659,000
Impairment Losses	–	–	(1,044,882,000)
Profit before tax	(10,810,139)	38,359,590	10,027,012,000
Income tax expense	(186,920)	(8,544,215)	(997,953,000)
Net profit for the year	(₱10,997,059)	₱29,815,375	₱9,029,059,000
Group's share in the net profit (loss) of the associate*	(₱3,299,119)	₱7,453,844	₱1,454,950,451

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

	January 1, 2013		
	PPVI	MIIC	UBP
Revenue	₱2,909,363	₱1,343,974,618	₱10,867,867,000
Direct costs	(536,466)	(486,312,351)	(3,556,225,000)
Operating expenses	(781,754)	(930,143,090)	(8,640,810,000)
Other income	–	279,777,481	10,830,857,000
Impairment Losses	–	–	(1,559,839,000)
Profit before tax	1,591,143	207,296,658	7,941,850,000
Income tax expense	(477,343)	(44,862,291)	(335,216,000)
Net profit for the year	₱1,113,800	(₱162,434,367)	₱7,606,634,000
Group's share in the net profit of the associate*	₱334,140	₱40,608,593	₱1,225,749,479

The associates have no contingent liabilities or capital commitments as of December 31, 2014 and 2013. PPVI and MIIC are not subject to restrictions (i.e., whether through legal, contractual, or discretionary restrictions) as to the use or transfer of their assets within the Group or settlement of liabilities as of December 31, 2014 and 2013.

BSP, UBP's lead regulator, sets and monitors the capital requirements of UBP. In implementing current capital requirements, the BSP requires UBP to maintain a minimum capital amount and a prescribed ratio of qualifying capital to risk-weighted assets, known as the "capital adequacy ratio." Risk-weighted assets is the aggregate value of assets weighted by credit risk, market risk, and operational risk, based on BSP-prescribed formula provided under its circulars. These, among others, may impose restrictions as to the use or transfer of assets within the Group or the settlement of liabilities as of December 31, 2014 and 2013.

8. **Investment Properties**

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

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

	2013		
	Land	Buildings and Improvements	Total
Costs			
Beginning balances	₱6,048,264,752	₱3,941,921,280	₱9,990,186,032
Additions	6,617,300	126,234,480	132,851,780
Reclassifications (Note 9)	52,447,000	73,156,712	125,603,712
Disposals	(52,985,581)	(17,168,475)	(70,154,056)
Ending balances	6,054,343,471	4,124,143,997	10,178,487,468
Accumulated Depreciation and Impairment Loss			
Beginning balances	155,837,005	785,568,791	941,405,796
Depreciation and amortization (Note 20)	–	144,212,413	144,212,413
Reclassifications (Note 9)	–	16,721,693	16,721,693
Impairment loss (Note 22)	279,200	135,200	414,400
Reversal of impairment loss	(437,814)	(211,254)	(649,068)
Disposals	–	(1,392,820)	(1,392,820)
Ending balances	155,678,391	945,034,023	1,100,712,414
Net Book Values	₱5,898,665,080	₱3,179,109,974	₱9,077,775,054

As allowed under PFRS 1, *First-time Adoption of International Financial Reporting Standards,* the Group used the fair value of the investment properties as of January 1, 2004 as deemed cost. The amount by which the fair value exceeds the carrying value of the investment properties was added to the carrying value of the property with a corresponding credit to retained earnings.

As of December 31, 2014 and 2013, the balance of retained earnings includes the remaining balance of the deemed cost adjustment amounting to ₱3,981,724,520 and ₱4,447,281,836, respectively, related to certain investment properties which arose when the Group transitioned to PFRS in 2005. This amount has yet to be absorbed through additional depreciation in profit or loss in the case of depreciable assets and through sale in the case of land.

The total fair value of the investment properties amounted to ₱11,295,868,293 and ₱11,816,112,138 as of December 31, 2014 and 2013, respectively, based on various independent appraisers' valuation and the Group's in-house valuation (roughly 1% of the total investment properties).

The fair value of the investment properties as of December 31, 2014 and 2013 approximates and represents the highest and best use of the properties as of the said dates except for a property with a carrying value of ₱203,054,000 in both 2014 and 2013, and fair values of ₱330,688,000 and ₱319,085,000 in 2014 and 2013, respectively. This property is currently held for an undetermined future use.

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

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

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

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

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

The Group enters into operating leases for all its investment properties (Note 27). Following are the rental income earned from, as well as, direct and indirect operating expenses incurred for the investment properties:

	2014	2013
Rental income (Note 27)	**₱411,665,996**	₱432,767,223
Direct operating expenses (Note 21)	**196,782,381**	178,686,755
Indirect operating expenses (Note 21)	**48,449,531**	14,424,357

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

9. Property and Equipment

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

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

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

The cost of fully depreciated property and equipment that are still in use in the Group's operations amounted to ₱164,438,138 and ₱381,559,106 as of December 31, 2014 and 2013, respectively.

10. Other Assets

	2014	2013
Computer software	**₱128,742,618**	86,876,372
Prepaid employee loan benefit	**48,710,488**	14,811,608
Value added input tax	**4,704,503**	6,784,287
Others	**23,662,765**	20,905,394
	₱205,820,374	₱129,377,661

Computer Software

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

	2014	2013
Cost		
Beginning balance	**₱349,237,474**	₱264,844,658
Additions	**73,176,920**	84,392,816
Retirements/disposals	**(216,819,521)**	–
Ending balance	**205,594,873**	349,237,474
Accumulated Amortization		
Beginning balance	**262,361,102**	245,989,135
Amortization (Note 20)	**31,310,674**	16,371,967
Retirements/disposals	**(216,819,521)**	–
Ending balance	**76,852,255**	262,361,102
Net Book Value	**₱128,742,618**	₱86,876,372

Others

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

11. Legal Policy Reserves

Details of legal policy reserves are as follows:

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

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

Movement of aggregate reserves is as follows:

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

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

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

12. Derivative liability

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

In the event the issuer of the underlying bond defaults on its obligation, the transaction will be pre-terminated at prevailing market rates.

Derivative liability amounted to ₱8,732,243 and ₱8,338,735 as of the year ended December 31, 2014 and 2013, respectively. Derivative loss amounted to ₱393,508 and ₱8,338,735 for the year ended December 31, 2014 and 2013, respectively.

13. **Other Insurance Liabilities**

	2014	2013
Members' deposits and other funds on deposit	**₱22,548,201,628**	₱17,747,021,967
Claims pending settlement	**1,343,930,085**	1,135,257,257
Reserve for dividends to members	**928,949,440**	935,607,163
	₱24,821,081,153	₱19,817,886,387

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

14. **Accrued Expenses and Other Liabilities**

	2014	2013
Accrued employee benefits	**₱674,927,766**	₱634,439,380
Accounts payable	**592,008,931**	560,777,224
Taxes payable	**189,260,058**	48,727,527
Remittances not yet allocated	**164,421,651**	63,712,160
General expenses due and accrued	**77,655,448**	98,666,806
Commissions payable	**65,917,521**	74,112,324
Preferred shares of Home Credit owned by its members	**2,228,043**	7,772,912
Others	**43,235,018**	44,212,821
	₱1,809,654,436	₱1,532,421,154

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

- Accrued employee benefits pertain to various unpaid short term employee benefits such as, vacation leave, sick leave, service awards, and other benefits offered by the Group to its employees.
- Accounts payable pertain to amounts due to contractors and suppliers.
- Preferred shares of Home Credit owned by its members pertain to Preferred Serial B shares which are reclassified as redeemable preferred capital contributions. Accordingly, dividend payments on these shares are presented as interest expense in the consolidated statements of income. Holders of Preferred Serial B shares have priority in the availment of housing loans and are entitled to obtain mortgage loan and interest discounts.
- Remittances not yet allocated pertain to new business deposits with pending underwriting requirements and collections from policyholders unapplied to their corresponding receivable set-up as of balance sheet date.

15. **Dividend Declaration**

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

On March 13, 2014, the Executive Committee approved the set-up of provision for dividends to members for the year ended December 31, 2013 applicable to dividends to be paid out for the period January 1, 2014 to December 31, 2014.

Breakdown of the dividend provision follows:

	2014	2013
Chargeable to retained earnings	**₱861,522,750**	₱861,833,000
Chargeable to income (Note 19)	**60,977,250**	67,367,000
	₱922,500,000	₱929,200,000

Dividends to members charged against retained earnings follow:

	2014	2013
Dividends declared during the year	**₱861,522,750**	₱861,833,000
Excess of dividends declared in prior year against actual amount paid	**(56,138,475)**	(133,511,409)
	₱805,384,275	₱728,321,591

16. **Insurance Revenue**

	2014	2013
Life insurance contracts	**₱6,639,289,082**	₱6,345,007,706
VUL insurance contracts	**5,914,743,258**	5,761,388,812
Accident and health contracts	**397,584,293**	400,195,000
Gross earned premiums on insurance contracts	**12,951,616,633**	12,506,591,518
Reinsurers' share of premiums on insurance contracts	**(167,463,463)**	(164,730,504)
Net insurance revenue	**₱12,784,153,170**	₱12,341,861,014

17. **Investment Income**

	2014	2013
Interest income on:		
HTM financial assets	**₱1,747,528,418**	₱1,650,631,627
Loans and receivables	**1,345,938,235**	1,571,195,605
AFS financial assets	**247,402,403**	236,344,405
Others	**4,003,663**	4,875,329
	3,344,872,719	3,463,046,966
Dividend income	**311,412,544**	396,042,428
Net trading and realized gains from financial at FVPL	**155,606,556**	51,150,836
Total investment income	**₱3,811,891,819**	₱3,910,240,230

18. Net Realized Gains - net

	2014	2013
Disposals of:		
Investment properties	**₱726,407,921**	₱1,607,063
AFS financial assets	**458,131,750**	634,604,955
Property and equipment	**–**	15,662,296
Repossession of properties	**307,637**	2,435,434
	₱1,184,847,308	₱654,309,748

19. Insurance Benefits Expenses

	2014	2013
VUL funds allocation	**₱5,115,686,974**	₱5,223,288,890
Maturities	**3,223,823,222**	2,418,453,704
Surrenders	**1,184,500,287**	922,768,279
Death and hospitalization benefits	**1,115,687,800**	1,090,306,858
Payments on supplementary contracts	**589,572,070**	602,260,961
Interest expense	**362,334,622**	442,371,142
Increase in reserve for supplementary contracts	**186,644,836**	365,064,245
Dividends paid to members (Note 15)	**60,977,250**	67,367,000
Others	**65,505,789**	5,108,554
Total gross benefits and claims on insurance contracts	**11,904,732,850**	11,136,989,633
Reinsurers' share of benefits and claims on insurance contracts	**(45,167,562)**	(13,389,936)
Net change in:		
Legal policy reserves	**1,509,490,348**	2,072,613,626
Reinsurers' share in legal policy reserves	**(6,194,444)**	(9,253,844)
	₱13,362,861,192	₱13,186,959,479

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

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

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

20. **General Insurance Expenses**

	2014	2013
Personnel (Notes 23 and 24)	**₱968,213,059**	₱1,120,209,971
Depreciation and amortization (Notes 8, 9, and 10)	**245,014,336**	225,033,347
Marketing, advertising, and promotion	**192,079,762**	215,954,949
Outside services	**74,419,884**	138,060,713
Transportation and communication	**53,662,819**	57,629,242
Repairs and maintenance	**43,961,203**	34,897,149
Rent (Note 27)	**17,511,595**	11,982,648
Printing and supplies	**17,162,221**	19,761,253
Training	**13,352,606**	25,230,072
Utilities	**11,374,995**	11,526,111
Others	**88,273,842**	179,166,063
	₱1,725,026,322	₱2,039,451,518

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

21. **Investment Expenses**

	2014	2013
Real estate expenses (Note 8)	**₱245,231,912**	₱193,111,112
Investment management expenses	**3,354,832**	1,560,685
	₱248,586,744	₱194,671,797

22. **Other Losses**

	2014	2013
Impairment loss on:		
AFS equity securities (Note 6)	**₱8,584,477**	₱64,526,646
Investment properties (Note 8)	**461,716**	414,400
	₱9,046,193	₱64,941,046

The recoverable amount of the above investment properties amounted to ₱2,327,600 and ₱1,922,800 as of December 31, 2014 and 2013, respectively.

23. **Personnel Expenses**

	2014	2013
Salaries and bonuses	**₱816,831,684**	₱971,742,790
Employee benefits	**112,798,759**	106,033,563
Retirement and other employee benefits (Note 24)	**38,582,616**	42,433,618
	₱968,213,059	₱1,120,209,971

24. **Retirement Benefits**

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

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

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

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

The latest actuarial valuation of the defined benefit plans of the the Parent Company, I-Care, and Home Credit was as of December 31, 2014. The latest actuarial valuation of the defined benefit plans of IIC was as of December 31, 2013.

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

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

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

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

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

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

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

The net retirement benefits asset as of December 31, 2014 and 2013 amounted to ₱244,901,186 and ₱278,722,120, respectively. The net retirement liability as of December 31, 2014 and 2013 amounted to ₱5,261,089 and ₱4,889,520, respectively.

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

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

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

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

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

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

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

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

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

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

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

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

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

	2014	2013
Loans and receivable:		
Cash and cash equivalents	**7%**	25%
Receivables	**12%**	11%
	19%	36%
Equity securities:		
Food, beverage, and tobacco	**8%**	0%
Telecommunications	**7%**	7%
Holding organization	**0%**	7%
Others	**2%**	2%
	17%	16%
Debt securities:		
Government debt securities	**50%**	34%
Investment grade	**14%**	14%
	64%	48%
Fair value of plan assets	**100%**	100%

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

	2014		
	Subsidiaries		
	IIC	**I-Care**	**Home Credit**
Cash and cash equivalents	**85.91%**	**97.40%**	**59.05%**
Investments in debt and equity securities	**14.09%**	**2.20%**	**40.95%**
Receivables	**–**	**0.40%**	**–**
	100.00%	**100.00%**	**100.00%**

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

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

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

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

	2014			
	Parent	**Subsidiaries**		
	Company	**IIC**	**I-Care**	**Home Credit**
Discount rate*	**5.14%**	**4.54%**	**4.97%**	**4.39%**
Future salary increases	**5.00%**	**4.00%**	**4.00%**	**4.00%**
Mortality rate	**1994 GAM****	**1994 GAM****	**1994 GAM****	**1994 GAM****
Disability rate	**1952 Disability Study, Period 2, Benefit 5**	**1952 Disability Study, Period 2, Benefit 5**	**1952 Disability Study, Period 2, Benefit 5**	**1952 Disability Study, Period 2, Benefit 5**

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

** Based on PDEX PDST-R2 using various tenors as of December 29, 2014 and December 27, 2013, respectively.*
***Group Annuity Mortality*

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

December 31, 2014:

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

December 31, 2013:

	Parent	Subsidiaries		
	Company	IIC	I-Care	Home Credit
Discount rate:				
Increase of 1%	(₱38,243,400)	(₱27,050)	(₱214,669)	(₱1,081,247)
Decrease of 1%	45,446,000	27,050	2,114,669	1,081,247
Salary increase rate:				
Increase of 1%	82,221,300	26,922	2,115,330	1,074,388
Decrease of 1%	(69,019,900)	(26,922)	(2,115,330)	(1,074,388)

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

Shown below is the maturity analysis of the undiscounted benefit payments as of: December 31, 2014:

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

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

December 31, 2013:

	Parent Company		
	Normal Retirement	Other Than Normal Retirement	Total
Less than 1 year	₱5,666,098	₱30,785,531	₱36,451,629
More than 1 year to 5 years	82,261,783	138,479,706	220,741,489
More than 5 years to 10 years	255,810,729	196,821,791	452,632,520
More than 10 years	2,658,997,068	735,889,621	3,394,886,689

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

The Group does not expect to contribute to its defined benefit plan in 2015.

25. Income Taxes

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

	2014	2013
Current:		
Final tax	**₱376,073,659**	₱363,238,808
RCIT	**2,042,336**	3,447,781
MCIT	**24,114,220**	415,788
	402,230,215	367,102,377
Deferred	**(150,528,882)**	199,559,530
	₱251,701,333	₱566,661,907

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

Deferred Income Tax Assets - Net

	2014	2013
Deferred income tax assets - tax effects of:		
Allowance for impairment on loans and receivables	**₱1,572,424**	₱1,421,426
Retirement and other long-term employee benefits payable	**1,415,445**	631,231
Unamortized past service cost contributions	**962,004**	544,266
Accrued expenses not yet deductible	**892,454**	914,889
Unrealized foreign exchange loss	**–**	17,387
Total deferred income tax assets	**4,842,327**	3,529,199
Deferred income tax liability - tax effect of unrealized gain on AFS financial assets	**–**	(22,044)
Net deferred income tax assets	**₱4,842,327**	₱3,507,155

Deferred Income Tax Liabilities - Net

	2014	2013
Deferred income tax assets - tax effects of:		
Accrued expenses not yet deductible	**₱266,153,397**	₱239,576,982
Unrealized foreign exchange loss	**224,573,373**	168,142,779
Unamortized past service cost contributions	**19,833,069**	28,816,254
Allowance for impairment on loans and receivables	**9,327,518**	19,258,213
Impairment of investment properties and property and equipment	**6,843,543**	6,843,543
NOLCO	**–**	100,020,110
Total deferred income tax assets	**526,730,900**	562,657,881
Deferred income tax liabilities - tax effects of:		
Revaluation increment in investment properties	**(1,194,517,356)**	(1,334,184,551)
Retirement benefits asset	**(73,470,356)**	(83,616,636)
Reserve for fluctuation in AFS financial assets	**(47,842,562)**	(282,396,739)
Accrued rent income	**(13,063,946)**	(20,077,115)
Unrealized gain on trading debt securities	**(156,212)**	–
Unrealized foreign exchange gain	**(3,391)**	(29,416,794)
Total deferred income tax liabilities	**(1,329,053,823)**	(1,749,691,835)
Net deferred income tax liabilities	**(₱802,322,923)**	(₱1,187,033,954)

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

	2014	2013
NOLCO	**₱2,411,248,876**	₱3,196,467,442
Excess of MCIT over RCIT	**29,039,650**	6,063,478

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

Year Incurred	Expiration	January 1, 2014	Incurred	Applied	Expired	December 31, 2014
2011	2014	₱1,129,459,419	₱–	(₱141,961,662)	(₱981,453,032)	₱6,044,725
2012	2015	712,035,589	–	–	–	712,035,589
2013	2016	1,688,372,801	–	–	–	1,688,372,801
2014	2017	–	4,795,761	–	–	4,795,761
		₱3,529,867,809	₱4,795,761	(₱141,961,662)	(₱981,453,032)	₱2,411,248,876

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

Year Incurred	Expiration	January 1, 2014	Incurred	Applied	Expired	December 31, 2014
2011	2014	₱463	₱–		(₱463)	₱–
2012	2015	5,633,410	–	–	–	5,633,410
2013	2016	429,605	–	–	–	429,605
2014	2017	–	22,976,635	–	–	22,976,635
		₱6,063,478	₱22,976,635	₱–	(₱463)	₱29,039,650

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

	2014	2013
Provision for income tax at statutory income tax rates	**₱961,711,722**	₱890,229,424
Adjustments for:		
Equity in net earnings of an associate	**(313,748,088)**	(437,731,553)
Interests and dividends subjected to final tax at a lower rate	**(274,718,661)**	(273,882,186)
Gain on sale of investments in AFS financial assets - net	**(137,439,525)**	(190,399,640)
Movement in NOLCO and excess of MCIT over RCIT with no deferred tax set up and derecognition of deferred tax on NOLCO	**86,010,130**	564,541,444
Nontaxable income	**(78,728,270)**	(5,333,813)
Nondeductible expenses	**11,248,203**	5,073,946
Dividend and other income exempt from income tax	**(5,209,521)**	(5,193,725)
Impairment losses on properties and AFS financial assets	**2,575,343**	19,358,010
Provision for income tax	**₱251,701,333**	₱566,661,907

26. Related Party Transactions

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

Transactions with related parties consist mainly of:

a. Lease of office spaces, cash advances, dividends, and loans. The balances as of and for the years ended December 31, 2014 and 2013 are as follows:

			Outstanding balance			
Category	Year	Amount of transactions during the year	Due from	Due to	Cash and investment accounts	Terms and condition
Subsidiaries*						
Common overhead	**2014**	**₱24,532,706**	**₱–**	₱–	₱–	
	2013	11,569,444	–	–	–	
Rentals	**2014**	**9,816,106**	**376,392**	–	–	One to three-year lease contract; 30-day; noninterest-bearing; settled in cash; unsecured, unguaranteed, no impairment
	2013	9,370,359	105,538	–	–	

(Forward)

Category	Year	Amount of transactions during the year	Outstanding balance: Due from	Due to	Cash and investment accounts	Terms and condition
Dividends	**2014**	**₱4,180,000**	**₱–**	₱–	₱–	
	2013	205,300,000	–	–	–	
Insurance revenue	**2014**	**2,338,022**	**–**	–	**–**	30-day; noninterest-bearing, unsecured; unguaranteed; settled in cash; no impairment
	2013	1,298,006	82,997	–	–	
Associates						
MIIC						
Dividend income	**2014**	**5,625,000**	**5,625,000**	**–**	**–**	noninterest-bearing; settled in cash; unguaranteed; unsecured; no impairment
	2013	30,000,000	–	–	–	
Rental income	**2014**	**6,793,135**	**–**	**332,451**	**–**	30-day; noninterest-bearing; unsecured; unguaranteed; settled in cash
	2013	6,896,952	–	–	–	
Rental deposits	**2014**	**145,712**	**7,438**	–	**–**	noninterest-bearing, unsecured; unguaranteed; no impairment; settled in cash
	2013	143,380	–	–	–	
UBP						
Dividend income	**2014**	**457,593,623**	**–**	**–**	**–**	
	2013	361,757,743	–	–	–	
Interest Income	**2014**	**35,890,481**	**1,836,458**	**–**	**–**	noninterest-bearing; settled in cash; unguaranteed; unsecured, no impairment
	2013	31,968,758	–	–	–	
Saving and Current Accounts	**2014**	**2,205,581,691**	**–**	**–**	**2,948,896,517**	interest-bearing, unguaranteed; unsecured; unrestricted
	2013	(455,403,320)	–	–	743,314,826	
HTM financial assets	**2014**	**300,000,000**	**–**	**–**	**300,000,000**	at 5.375% interest payable quarterly, 11-year note, unguaranteed; unsecured; no impairment
	2013	–	–	–	–	
Sale of investment properties	**2014**	**22,848,000**	**–**	**–**	–	
	2013	–	–	–	–	
Retirement Plan						
Advances	**2014**	**71,946,813**	**–**	**–**	**–**	
	2013	36,381,825	–	–	–	
Total	**2014**		**₱7,845,288**	**₱332,451**	**₱3,248,896,517**	
Total	2013		₱188,535	₱–	₱743,314,826	

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

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

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

	2014	2013
Savings and current accounts (Note 4)	**₱572,429,150**	₱369,895,444
Special savings accounts (Note 4)	**2,376,467,367**	373,419,382
	₱2,948,896,517	₱743,314,826

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

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

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

	2014	2013
Salaries and other short-term employee benefits	**₱297,778,966**	₱344,788,131
Post-employment and other long term benefits	**24,501,059**	28,044,217
	₱322,280,025	₱372,832,348

27. Lease Commitments

The Group has entered into noncancelable leases with terms ranging between one month and 15 years, both as lessee and as lessor. Most leases include a clause to enable upward revision of the rental charge on an annual basis based on stipulation.

a. Operating lease commitments - the Group as lessee

The future minimum rentals payable under noncancelable operating leases follows:

	2014	2013
Within one year	**₱13,934,147**	₱13,556,119
After one year but not more than five years	**18,463,042**	20,601,922
More than five years	**–**	360,034
	₱32,397,189	₱34,518,075

Rent expense recognized in 2014 and 2013 amounted to ₱17,511,595 and ₱11,982,648, respectively (Note 20).

b. Operating lease commitments - the Group as lessor

The future minimum rentals receivable under noncancelable operating leases follows:

	2014	2013
Within one year	**₱218,978,262**	₱291,757,402
After one year but not more than five years	**183,867,245**	398,111,324
More than five years	**–**	80,804,214
	₱402,845,507	₱770,672,940

Rent income recognized in 2014 and 2013 amounted to ₱411,665,996 and ₱432,767,223, respectively (Note 8).

28. Group Information and Non-controlling Interest

The Group comprises the Parent Company and its subsidiaries and associates. Among the Group's subsidiaries, IIC and ILMADECO are intermediate parents of their respective subsidiaries. IPI and IPVI are wholly-owned subsidiaries of IIC; while, ILACGA is a wholly-owned subsidiary of ILMADECO.

The Parent Company's subsidiaries are all incorporated and based in Philippines (i.e., principal place of business). The Parent Company's subsidiaries are engaged in the following activities:

	Date of Incorporation	Nature of Business
IIC	September 5, 1989	Investment banking in the areas of corporate finance, money market, and securities underwriting
• IPI	May 31, 1994	Development and sale of real estate
• IPVI	May 31, 1994	*-do-*
I-Care	October 14, 1991	Provision of medical and managed care services and facilities to its members
ILMADECO	March 9, 1987	Holding organization of ILACGA
• ILAC-GA	November 11, 2003	Provision of nonlife general insurance
ILPHI	March 23, 1988	Development and sale of real estate
Home Credit	April 1, 1932	Accumulation of savings of its stockholders and members and lending of funds to them under a housing program

For the relevant corporate information of the Group's associates, refer to Note 7.

The Parent Company is subject to statutory regulations on capital requirements (Note 33). The Parent Company submits annual financial statements to the IC to determine adequacy of the Parent Company's investments. IC classifies assets according to admitted and non-admitted assets for the purpose of calculating financial ratios that the Parent Company is required to maintain. These, among others, may pose restrictions as to the use or transfer of assets within the Group, as well as, the settlement of liabilities as of December 31, 2014 and 2013.

The Parent Company is not subject (i.e., under guarantyship, suretyship, or other similar arrangements) to any contingent liability, or capital or purchase commitments as of December 31, 2014 and 2013.

The subsidiaries have no contingent liabilities (other than disclosed in Note 35) or capital commitments as of December 31, 2014 and 2013 and are not subject to restrictions (i.e., whether through legal, contractual, or discretionary restrictions) as to the use or transfer of their assets within the Group, or settlement of liabilities.

While IIC is subject to the minimum capital requirements imposed by SEC, the compliance with the said regulation does not pose significant restrictions as the use or transfer of assets within the Group or the settlement of liabilities as of December 31, 2014 and 2013.

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

	2014	2013
Preferred shareholders' interest:		
Beginning balance	**₱174,512,842**	₱155,175,361
Issuances during the year	**83,141,157**	99,667,724
Redemption during the year	**(87,095,477)**	(80,330,243)
	170,558,522	174,512,842
Common shareholders' interest:		
Beginning balance	**20,390**	20,699
Share in the total comprehensive income during the year	**(1,760)**	(309)
	18,630	20,390
	₱170,577,152	₱174,533,232

Home Credit's preferred stocks consist of Serial Preferred "A" shares, Serial Preferred "A-1" shares, Serial Preferred "B" shares and Serial Preferred "C" shares.

Serial Preferred A shares and Serial Preferred A-1 shares are entitled to cumulative dividend per annum at the rate of not more than 20% payable quarterly before any dividends are paid to the common shares, but shall not participate in any further dividends declared by Home Credit.

Prior to 2008, all Serial Preferred B shares are redeemable at any time at the option of the holders. Under PAS 32, the redeemable preferred shares qualify as a financial liability and are included as part of "Accrued expenses and other liabilities" account in the consolidated balance sheets.

In 2008, Home Credit amended the features of the Serial Preferred B shares to provide that the right to redeem for the preferred shares were at the discretion of Home Credit. With the foregoing change, the preferred shares subscribed subsequently qualify as equity instruments under PAS 32 and are included as part of "Equity attributable to non-controlling interest" in the consolidated balance sheets.

The following are the features of Home Credit's Serial Preferred B shares:

a. Has a par value of 200 per share;
b. Payable in installments over a period of not more than 7 years, subject to forfeiture if in arrears for more than six months and when approved by the BOD;
c. Non-voting except in cases outlined by the Corporation Code of the Philippines;
d. Non-transferable except for Home Credit;
e. Redeemable at the option of Home Credit; and
f. Entitled to cumulative dividends as determined and approved by the BOD.

In 2013, the preferred shareholders' interest was classified as "Equity attributable to controlling non-interest." Accordingly, the preferred shareholders' interest in the Group's December 31, 2013 consolidated financial statements was also reclassified from current under "Accrued expenses and other liabilities" to "Equity attributable to non-controlling interest." Dividends on these fully paid-up shares for the past two years totaled ₱13,619,756.

The summarized financial information, before intercompany eliminations, of Home Credit as of and for the years ended December 31, 2014, 2013, and 2012 follows:

Financial position	**As of December 31, 2014**	As of December 31, 2013	As of December 31, 2012
Cash and cash equivalents	**₱66,181,071**	₱82,616,239	₱78,178,305
Loans and receivables	**111,077,095**	110,400,059	104,523,577
Available-for-sale investments	**27,716,901**	29,633,570	24,320,241
Property and equipment	**3,785,186**	4,194,024	3,864,326
Investment properties	**16,984,332**	22,845,709	28,487,394
Other assets	**1,664,077**	1,522,715	1,363,949
Total assets	**227,408,662**	251,212,316	240,737,792
Accounts payable and accrued expenses	**21,016,923**	21,908,793	25,850,696
Redeemable preferred capital contributions	**2,228,043**	7,772,912	11,921,781
Total liabilities	**23,244,966**	29,681,705	37,772,477
Total equity	**₱204,163,696**	₱221,530,611	₱202,965,315
Attributable to the Group	**₱33,586,544**	₱46,997,379	₱47,769,255
Attributable to NCI	**₱170,577,152**	₱174,533,232	₱155,196,060

Financial performance	**Years Ended December 31**		
	2014	2013	2012
Interest income	**₱14,877,772**	₱16,657,567	₱19,308,847
Interest expense	**(1,104,619)**	(993,892)	(1,870,612)
Net interest income	**13,773,153**	15,663,675	17,438,235
Service fees	**8,205,526**	14,255,594	13,910,362
Miscellaneous income	**6,338,053**	9,928,231	8,851,063
Total operating income	**28,316,732**	39,847,500	40,199,660
Operating Expenses	**(33,708,357)**	(37,717,622)	(37,653,173)
Net income (loss)*	**(5,391,625)**	2,129,878	2,546,487
Other comprehensive income (loss)	**989,577**	(2,902,063)	(1,943,839)
Total comprehensive income (loss)	**(₱4,402,048)**	(₱772,185)	₱602,648
Attributable to the Group	**(₱4,400,288)**	(₱771,876)	₱602,479
Attributable to NCI	**(₱1,760)**	(₱309)	₱169

**Pursuant to RA No. 8763, otherwise known as the "Home Guarantee Corporation Act of 2000," Home Credit is exempt from all national taxes.*

Cash flows	**Years Ended December 31**		
	2014	2013	2012
Cash provided by (used in) operating activities	**(₱6,578,803)**	(₱11,113,185)	₱6,924,237
Cash provided by (used in) investing activities	**8,653,369**	362,507	(7,103,267)
Cash provided by (used in) financing activities	**(18,509,736)**	15,188,612	10,112,864
Net increase (decrease) in cash and cash equivalents	**(₱16,435,170)**	₱4,437,934	₱9,933,834

29. Other Income

Other income includes management fees, recovery on policy account adjustments, amendment fee, cancellation fee, handling fee, guarantee fee, and reinsurance fee.

30. Financial Instruments

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

	2014		2013	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS				
Financial Assets at FVPL				
Equity securities - quoted	**₱3,964,433,829**	**₱3,964,433,829**	₱2,167,536,530	₱2,167,536,530
Under separate fund:				
Traditional VULs:				
Quoted equity securities	**9,762,857,565**	**9,762,857,565**	6,535,314,916	6,535,314,916
Quoted debt securities:				
Government:				
Local currency	**1,048,681,834**	**1,048,681,834**	844,153,449	844,153,449
Foreign currency	**1,012,097,699**	**1,012,097,699**	815,569,068	815,569,068
Corporate:				
Local currency	**228,724,590**	**228,724,590**	221,445,172	221,445,172
Foreign currency	**120,774,918**	**120,774,918**	115,943,813	115,943,813
Structured VULs*:				
Local currency	**1,041,505,575**	**1,041,505,575**	622,589,528	622,589,528
Foreign currency	**2,141,998,908**	**2,141,998,908**	1,757,976,117	1,757,976,117
	19,321,074,918	**19,321,074,918**	13,080,528,593	13,080,528,593
AFS Financial Assets				
Equity securities:				
Quoted	**6,776,932,749**	**6,776,932,749**	5,266,852,681	5,266,852,681
Unquoted**	**1,937,812,505**	**1,937,812,505**	5,154,529,348	5,154,529,348
Debt securities:				
Quoted:				
Government:				
Local currency	**3,626,209,750**	**3,626,209,750**	3,563,921,745	3,563,921,745
Foreign currency	**972,035,960**	**972,035,960**	911,376,505	911,376,505
Corporate:				
Local currency	**660,187,755**	**660,187,755**	728,675,091	728,675,091
Foreign currency	**31,960,406**	**31,960,406**	31,605,535	31,605,535
Unquoted - corporate	**–**	**–**	41,357,608	41,357,608
	14,005,139,125	**14,005,139,125**	15,698,318,513	15,698,318,513
HTM Financial Assets				
Government:				
Local currency	**15,433,695,199**	**19,951,839,339**	15,762,433,251	20,491,626,173
Foreign currency	**1,063,606,835**	**1,139,891,076**	1,693,654,305	1,834,083,986
Corporate:				
Local currency	**8,154,556,207**	**8,048,828,958**	5,666,769,690	5,840,910,414
Foreign currency	**243,332,957**	**249,775,648**	241,426,450	239,074,078
	24,895,191,198	**29,390,335,021**	23,364,283,696	28,405,694,651
Loans and Receivables				
Term loans	**8,803,917,941**	**10,170,109,379**	10,429,833,529	12,032,221,100
Housing loans	**159,738,546**	**214,445,118**	180,242,535	238,045,065
Car financing loans	**41,939,549**	**42,522,830**	47,143,160	79,048,691
	9,005,596,036	**10,427,077,327**	10,657,219,224	12,349,314,856
TOTAL FINANCIAL ASSETS	**₱67,227,001,277**	**₱73,143,626,391**	₱62,800,350,026	₱69,533,856,613

(Forward)

	2014		2013	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL LIABILITIES				
Insurance Liabilities				
Legal policy reserves	**₱51,057,595,852**	**₱38,750,620,685**	₱49,554,299,948	₱41,042,878,553
Derivative Financial Instrument:				
Derivative liability	**8,732,243**	**8,732,243**	8,338,735	8,338,735
TOTAL FINANCIAL LIABILITIES	**₱51,066,328,095**	**₱38,759,352,928**	₱49,562,638,683	₱41,051,217,288

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

***Includes club and other equity shares carried at cost amounting to ₱21,648,561 and ₱23,448,561 as of December 31, 2014 and 2013, respectively.*

The following are short term in nature; hence, the carrying value approximates the fair value:

- Cash and cash equivalents;
- Short term investments;
- Insurance receivable;
- Loans and receivable under "Financial assets" account including:
  - Policy loans;
  - Accounts receivable;
  - Interest receivable;
  - Net interest in joint venture accounted for under PAS 39;
  - Mortgage loans;
  - Finance lease;
  - Stocks loans;
  - Due from agents; and
  - Other receivables;
- Other insurance liabilities; and
- Accrued expenses and other liabilities excluding taxes and other payable to the government.

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

Equity securities
The fair values of equity securities are based on quoted prices. Fair values of unquoted equity securities were valued using valuation techniques.

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

Structured VULs
The structured VULs can be decomposed into bond components and option components. The fair value of structured notes has been computed by counterparties using present value calculations and option pricing models, as applicable. The valuation requires management to make certain assumptions about the model inputs particularly the credit spread of the Issuer.

Term loans
The fair values of term loans are estimated using the discounted cash flow technique that makes use of market rates and credit spreads. Market rates ranged from 2.55% to 4.08% in 2014 and 0.18% to 4.24% in 2013.

Housing and car financing loans
The fair values of housing and car financing loans are estimated using the discounted cash flow technique that makes use of market rates ranging from 9% to 11% in 2014 and 5% to 10% in 2013. Credit risk is minimal for such types of secured lending instruments.

Legal policy reserves
The carrying amounts of legal policy reserves reflect the statutory reserves.

Derivative liability
The fair value of the CCS is determined through a valuation model that incorporates various observable market inputs including interest rate curves and foreign exchange rates prevailing at financial reporting date.

31. Fair Value Measurement

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

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

Level 1 - quoted (unadjusted) prices in active markets for identical assets and liabilities;
Level 2 - other techniques for which all inputs which have a significant effect on the recorded fair value; or
Level 3 - techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

The following tables show analysis of financial instruments at fair value by level of the fair value hierarchy as of December 31:

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS MEASURED AT FAIR VALUE				
Financial Assets at FVPL				
Equity securities - quoted	**₱3,964,433,829**	**₱–**	**₱–**	**₱3,964,433,829**
Under separate fund*:				
Traditional VULs:				
Quoted equity securities	**9,762,857,565**	**–**	**–**	**9,762,857,565**
Quoted debt securities:				
Government:				
Local currency	**1,048,681,834**	**–**	**–**	**1,048,681,834**
Foreign currency	**1,012,097,699**	**–**	**–**	**1,012,097,699**
Corporate:				
Local currency	**228,724,590**	**–**	**–**	**228,724,590**
Foreign currency	**120,774,918**	**–**	**–**	**120,774,918**
Structured VULs**:				
Local currency	**–**	**–**	**1,041,505,575**	**1,041,505,575**
Foreign currency	**–**	**–**	**2,141,998,908**	**2,141,998,908**
	16,137,570,435	**–**	**3,183,504,483**	**19,321,074,918**
AFS Financial Assets				
Equity securities:				
Quoted	**6,776,932,749**	**–**	**–**	**6,776,932,749**
Unquoted	**–**	**–**	**1,916,163,944**	**1,916,163,944**
Debt securities:				
Quoted:				
Government:				
Local currency	**3,612,466,350**	**13,743,400**	**–**	**3,626,209,750**
Foreign currency	**972,035,960**	**–**	**–**	**972,035,960**

(Forward)

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Corporate:				
Local currency	**₱660,187,755**	**₱–**	**₱–**	**₱660,187,755**
Foreign currency	**31,960,406**	**–**	**–**	**31,960,406**
	12,053,583,220	**13,743,400**	**1,916,163,944**	**13,983,490,564**
FINANCIAL ASSETS MEASURED AT FAIR VALUE				
HTM Financial Assets:				
Government:				
Local currency	**3,901,053,054**	**16,050,786,285**	**–**	**19,951,839,339**
Foreign currency	**1,139,891,076**	**–**	**–**	**1,139,891,076**
Corporate:				
Local currency	**8,048,828,958**	**–**	**–**	**8,048,828,958**
Foreign currency	**249,775,648**	**–**	**–**	**249,775,648**
	13,339,548,736	**16,050,786,285**	**–**	**29,390,335,021**
Loans and receivable:				
Term loans	**–**	**–**	**10,170,109,379**	**10,170,109,379**
Housing loans	**–**	**214,445,118**	**–**	**214,445,118**
Car financing loans	**–**	**42,522,830**	**–**	**42,522,830**
	–	**256,967,948**	**10,170,109,379**	**10,427,077,327**
TOTAL FINANCIAL ASSETS	**₱41,530,702,391**	**₱16,321,497,633**	**₱15,269,777,806**	**₱73,121,977,830**
FINANCIAL LIABILITIES				
Derivative Financial Instrument:				
Derivative liability	**₱–**	**₱8,732,243**	**₱–**	**₱8,732,243**

**Excluding cash and cash equivalents, other receivables, and other payables.*
***Corresponding liabilities that are equivalent to the fair value of these assets.*

	2013			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS FOR WHICH FAIR VALUE IS DISCLOSED				
Financial Assets at FVPL				
Equity securities - quoted	₱2,167,536,530	₱–	₱–	₱2,167,536,530
Under separate fund*:				
Traditional VULs:				
Quoted equity securities	6,535,314,916	–	–	6,535,314,916
Quoted debt securities:				
Government:				
Local currency	844,153,449	–	–	844,153,449
Foreign currency	815,569,068	–	–	815,569,068
Corporate:				
Local currency	221,445,172	–	–	221,445,172
Foreign currency	115,943,813	–	–	115,943,813
Structured VULs**:				
Local currency	–	–	622,589,528	622,589,528
Foreign currency	–	–	1,757,976,117	1,757,976,117
	10,699,962,948	–	2,380,565,645	13,080,528,593
AFS Financial Assets				
Equity securities:				
Quoted	5,266,852,681	–	–	5,266,852,681
Unquoted	–	489,918,300	4,641,162,487	5,131,080,787

(Forward)

	2013			
	Level 1	Level 2	Level 3	Total
Debt securities:				
Quoted:				
Government:				
Local currency	₱3,563,921,745	₱–	₱–	₱3,563,921,745
Foreign currency	911,376,505	–	–	911,376,505
Corporate:				
Local currency	728,675,091	–	–	728,675,091
Foreign currency	31,605,535	–	–	31,605,535
Unquoted - corporate	–	41,357,608	–	41,357,608
	10,502,431,557	531,275,908	4,641,162,487	15,674,869,952
FINANCIAL ASSETS FOR WHICH FAIR VALUE IS DISCLOSED				
HTM Financial Assets:				
Government:				
Local currency	20,491,626,173	–	–	20,491,626,173
Foreign currency	1,834,083,986	–	–	1,834,083,986
Corporate:				
Local currency	5,840,910,414	–	–	5,840,910,414
Foreign currency	239,074,078	–	–	239,074,078
	28,405,694,651	–	–	28,405,694,651
Loans and Receivables				
Term loans	–	–	12,032,221,100	12,032,221,100
Housing loans	–	238,045,065	–	238,045,065
Car financing loans	–	79,048,691	–	79,048,691
	–	317,093,756	12,032,221,100	12,349,314,856
TOTAL FINANCIAL ASSETS	₱49,608,089,156	₱848,369,664	₱19,053,949,232	₱69,510,408,052
FINANCIAL LIABILITIES				
Derivative Financial Instrument:				
Derivative liability	₱–	₱8,338,735	₱–	₱8,338,735

**Excluding cash and cash equivalents, other receivables, and other payables.*
***With corresponding liabilities that are equivalent to the fair value of these assets.*

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

	2014	2013
AFS financial assets:		
Beginning balance	**₱4,641,162,487**	₱4,970,879,086
Acquisition	**209,820,000**	147,320,000
Fair value gain (loss) recognized through OCI	**(3,424,736,843)**	12,881,701
Transfer from (to) Level 2 fair value hierarchy	**489,918,300**	(489,918,300)
Ending balance	**₱1,916,163,944**	₱4,641,162,487

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

	2014	2013
USD		
Beginning balance	**₱1,757,976,117**	₱1,175,219,137
Additions	**328,123,000**	471,197,009
Fair value gain	**39,490,830**	91,924,550
Foreign exchange adjustments	**16,408,961**	19,635,421
Ending balance	**₱2,141,998,908**	₱1,757,976,117

(Forward)

	2014	2013
Peso		
Beginning balance	**₱622,589,528**	₱656,110,748
Additions	**455,000,000**	–
Fair value loss	**(36,083,953)**	(33,521,220)
Ending balance	**1,041,505,575**	622,589,528
Total	**₱3,183,504,483**	₱2,380,565,645

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

	2014	2013
Investment in a petroleum company	**₱1,071,616,341**	₱4,484,405,783
Investment in a healthcare company	**720,469,623**	489,918,300
Investment in a holding company	**124,077,980**	156,756,704
	₱1,916,163,944	₱5,131,080,787

31.1 *Investment in a petroleum company*

The Group has investments in a petroleum company's (the "investee-petroleum company") shares of stock classified as AFS which is not quoted in the market. The investee-petroleum company's shares are marked to market using a valuation technique based on estimated PBV Ratio.

The following assumptions were used to determine the fair value of the investee-petroleum company's shares of stock as of December 31, 2014 and 2013:

(a) For stocks not traded in any exchange, the approximate fair value of the investee-petroleum company can be determined using relative valuation tools and the price performance of peer corporation;

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

(c) Among the peer listed corporations of the investee-petroleum company, a local petroleum company (the "peer petroleum company") is considered the nearest company that the investee-petroleum company can be compared to as follows:

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

  ii Information about other peer corporations in the region is not comparable since the market and the structure of the entities are different from the investee-petroleum company;

(d) The price used for the PBV Ratio computation of the investee-petroleum company is the closing price of the peer petroleum company amounting to ₱10.58 per share and ₱13.84 per share in 2014 and 2013, respectively; and

(e) The PBV multiple of the investee-petroleum company is 1.5951x and 2.1555x in 2014 and 2013, respectively.

The analysis of market value of the investee-petroleum company's shares in the next page is performed for reasonably possible movements in price of the peer petroleum company's shares of stock with all other variables held constant, showing the impact on statements of changes in members' equity.

	Significant unobservable input	Level at year-end	Sensitivity of the input to fair value
2014	**Closing price**	**₱10.58**	**0.5% increase (decrease) in the closing price per share of the peer petroleum company would result in the increase (decrease) in fair value by ₱5,358,082.**
2013	Closing price	₱13.84	0.5% increase (decrease) in the closing price per share of the peer petroleum company would result in the increase (decrease) in fair value by ₱22,422,051.

Set out below is the sensitivity analysis of the movement in unobservable inputs used in the valuation, with all other variables held constant, showing the impact on OCI as of December 31:

	Significant unobservable input	Level at year-end	Sensitivity of the input to fair value
2014	**Book value per share**	**₱6.6327**	**₱0.1067 increase or decrease in the book value per share of peer petroleum company would result in the decrease or increase in fair value by ₱16,960,785 and ₱17,575,222, respectively.**
2013	Book value per share	₱6.4208	₱0.1067 increase or decrease in the book value per share of peer petroleum company would result in the decrease or increase in fair value by ₱73,279,465 and ₱75,755,289, respectively.

Investment in a healthcare company

The Group has investments in a healthcare company's (the "investee-healthcare company") shares of stock which are not quoted in the market as of December 31, 2014 and 2013. The investee-healthcare company was valued using discounted cashflow (DCF) valuation model in 2014 and recent transaction price in 2013. Management assessed that the change in valuation technique in 2014 is appropriate as there was no recent transaction in 2014.

In 2014, DCF valuation model was employed using the following assumptions:

(a) Weighted average cost of capital (WACC) of the investee-healthcare company was used in determining the present value of the free cash flows (FCF);

(b) The terminal value was calculated using FCF from the last year of the 10-year projection period capitalized into perpetuity using the Gordon growth model based on a growth rate of 4%;

(c) Normalization adjustments were made in the FCF of the last year of the projection period for purposes of computing the terminal value;

(d) A marketability discount factor of 15% was used considering that the investee-healthcare company's shares are not liquid; and

(e) A minority discount factor of 15% was used given that the Group is only a minority shareholder in the investee-healthcare company.

The analysis of the fair market value as of December 31, 2014 of the investee-healthcare company's shares below is performed for the reasonably possible movements in significant unobservable inputs, with all other variables held constant, showing the impact on OCI:

Significant unobservable input	Level at year end	Sensitivity of the input to fair value
WACC	**10.20%**	**0.25% increase or decrease in the WACC of the investee healthcare company would result in the decrease or increase in fair value by ₱16,437,632 and ₱17,806,392.**
FCF growth rate	**4.00%**	**0.25% increase (decrease) in the growth rate of the investee healthcare company would result in the increase (decrease) in fair value by ₱983,758.**
Marketability discount factor	**15.00%**	**0.25% increase (decrease) in the discount factor of the investee healthcare company would result in the decrease (increase) in fair value by ₱2,566,271.**
Minority discount factor	**15.00%**	**0.25% increase (decrease) in the discount factor of the investee healthcare company would result in the decrease (increase) in fair value by ₱2,566,271.**

In 2013, a third party investor sold its minority interest in the investee-healthcare company at ₱5,900 per share. The fair value of the Group's investment in the common shares of the investee-healthcare company as of December 31, 2013 was determined based on this recent market transaction of the same instrument among independent, knowledgeable, able, and willing parties and was determined as an exit price applicable to the Group given that the relevant liquidity and minority discounts must be identical for both the Group and the third party under current market conditions.

31.2 *Investment in a holding company*

The Group's investment in a holding company (the "investee-holding company") was valued using adjusted net asset method both in 2014 and 2013 since majority of its assets are carried at fair value.

The analysis of the fair market value of the investee-holding company's shares below is performed for the reasonably possible movement in the unobservable inputs used in the valuation with all other variables held constant, showing the impact on OCI:

	Significant unobservable input	Level at year-end	Sensitivity of the input to fair value
2014	**Book value per share**	**₱4,940**	**13.85% increase (decrease) in the book value per share of the investee holding company would result in the decrease (increase) in fair value by ₱17,186,853.**

(Forward)

	Significant unobservable input	Level at year-end	Sensitivity of the input to fair value
2013	Book value per share	₱6,241	25.15% increase (decrease) in the book value per share of the investee holding company would result in the decrease (increase) in fair value by ₱39,420,637.

31.3 <u>*Other investments in unquoted debt securities*</u>

Other investments in unquoted debt securities are determined using valuation techniques with inputs and assumptions that are based on market observable data and conditions, and reflect appropriate risk adjustments that market participants would make for credit and liquidity risks existing at the end of each of the reporting period. The fair values of the securities totaling ₱41,357,608 as of December 31, 2013 (nil in 2014) is the net present value of the estimated future cash flows discounted at the spot bid rates.

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

The structured VULs can be decomposed into bond components and options components. The fair value of structured notes has been computed by counterparties using present value calculations and option pricing models, as applicable. The valuation requires management to make certain assumptions about the model inputs particularly the credit spread of the Issuer. The model also used certain market observable inputs including credit default swap (CDS) of the ROP, USD interest rate swap rates (IRS) (for the USD-denominated issuances) and USD/Peso CCS rates (for the Peso-denominated issuances). The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of the fair value of structured notes.

The analysis of the fair market value of the structured notes as of December 31 is performed for the reasonable possible movement in the significant inputs other than quoted prices included within Level 1 with all other variables held constant, showing the impact to profit and loss follows:

	Significant unobservable input other than quoted prices within Level 1	**Range yearend Range**	**Sensitivity of the input to fair value**
2014	**ROP CDS level (1 - 7 years)**	**93 basis points**	**50 basis points increase or decrease in ROP CDS would result in the decrease and increase in market value of the note by ₱23,997,474 and ₱24,723,129, respectively.**
	USD IRS (1 - 7 years)	**63-202 basis points**	**50 basis points increase or decrease in USD IRS would result in the decrease and increase in market value of the note by ₱29,282,302, and ₱30,147,044, respectively.**
	PHP IRS (1 - 7 years)	**108-310 basis**	**50 basis points increase or decrease in PHP IRS would result in the decrease and increase in market value of the note by ₱21,536,018 and ₱22,183,207.**

(Forward)

	Significant unobservable input other than quoted prices within Level 1	**Range level at year end**	**Sensitivity of the input to fair value**
2013	ROP CDS level (2-10 years)	42-177 basis points	A 50 basis points increase (decrease) in ROP CDS would result in the decrease (increase) in fair value of the note by ₱31,754,221.
	USD IRS (1-10 years)	50-300 basis points	A 50 basis points increase (decrease) in USD IRS would result in the decrease (increase) in fair value of the note by ₱40,860,979.
	PHP IRS (3-6 years)	235-335 basis points	A 50 basis points increase (decrease) in PHP IRS would result in the decrease (increase) in fair value of the note by ₱16,273,177.

Note: The Sensitivity is only applied to the bond portion of the structured notes. Further, results of the sensitivity do not reflect stressed scenarios due to non-linearity characteristics of the product.

The analysis of the fair market value of the structured notes as of December 31 is performed for the reasonable possible movement in the significant unobservable inputs with all other variables held constant, showing the impact on profit or loss and equity follows:

USD-denominated notes

	Significant unobservable input	**Range level at yearend**	**Sensitivity of the input to fair value**
2014	**Bank CDS level (1-7 years)**	**8-109 basis points**	**50 basis points increase or decrease in ROP CDS would result in the decrease and increase in market value of the note by ₱29,282,302 and ₱30,147,044, respectively.**
2013	Bank CDS level (1-6 years)	25-123 basis points	A 50 basis points increase (decrease) in CDS would result in the decrease (increase) in fair value of the note by ₱19,616,283.
	Bank CDS level (10 years)	126 basis points	A 50 basis points increase (decrease) in CDS would result in the decrease (increase) in fair value of the note by ₱21,244,697.

Note: The Sensitivity is only applied to the bond portion of the structured notes. Further, results of the sensitivity do not reflect stressed scenarios due to non-linearity characteristics of the product.

Peso-denominated notes

	Significant unobservable input	**Range level at yearend**	**Sensitivity of the input to fair value**
2014	**Bank CDS level (1-7 years)**	**10-70 basis points**	**A 50 basis points increase (decrease) in CDS would result in the decrease (increase) in fair value of the note by ₱21,536,018 ₱22,183,207, respectively.**

(Forward)

	Significant unobservable input	Range level at yearend	Sensitivity of the input to fair value
2013	Bank CDS level (3-6 years)	43-97 basis points	A 50 basis points increase (decrease) in CDS would result in the decrease (increase) in fair value of the note by ₱16,273,177.

Note: The Sensitivity is only applied to the bond portion of the structured notes. Further, results of the sensitivity do not reflect stressed scenarios due to non-linearity characteristics of the product.

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

The Bank CDS level is based on the closest available CDS maturity of the counterparty matched to the remaining maturity of the structured notes. Further, the Bank CDS is a proxy for the funding cost of the counterparty which is considered as a significant unobservable input.

The above estimates are based on assumptions that, if altered, can change the analysis expressed herein. This shall not constitute a representation or warranty as to future performance of the structured notes. Further, past performance is not indicative of future results.

32. Insurance and Financial Risk Management

The 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.

32.1 Regulatory Framework

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

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

32.2 Insurance Risk

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

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

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

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

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

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

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

(a) the use and maintenance of management information systems that provide up to date, accurate, and reliable data on risk exposure at any point in time;
(b) actuarial models based on past experience and statistical techniques aid in pricing decisions and monitoring claims patterns;
(c) guidelines are issued for concluding insurance contracts and assuming insurance pro-active claims handling procedures are followed to investigate and adjust claims, thereby preventing settlement of dubious or fraudulent claims;
(d) reinsurance is used to limit the Group's exposure to large claims by placing risk with reinsurers providing high security;
(e) 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
(f) the mix of insurance assets is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the expected pattern of claim payments with the maturity dates of assets.

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

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

	2014	2013
Whole Life		
Gross	**₱96,148,825,372**	₱94,773,094,841
Net	**85,041,860,880**	84,054,510,323
Endowment		
Gross	**24,298,823,775**	24,063,611,599
Net	**22,394,032,123**	22,891,040,174
Term Insurance		
Gross	**11,691,244,084**	12,574,960,701
Net	**11,422,429,281**	12,265,630,996
Group Insurance		
Gross	**73,863,076,234**	82,351,644,857
Net	**49,150,922,930**	60,534,966,278
Variable Life		
Gross	**28,310,152,044**	17,531,062,286
Net	**24,868,222,001**	15,077,992,640
Total		
Gross	**₱234,312,121,509**	₱231,294,374,284
Net	**₱192,877,467,215**	₱194,824,140,411

32.3 Life Insurance Contracts

32.3.1 *Assumptions*

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

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

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

32.3.2 *Terms*

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

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

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

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

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

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

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

ii. the assumptions used for the LAT which reflect best estimate assumptions.

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

i. Mortality and morbidity rates

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

ii. Discount rates

Discount rates relate to the time value of money. For fair valued liabilities, the discount rate is set to be equal to the investment return. For statutory liability, discount rate ranges from 3% to 6%. The IC does not allow a discount rate of more than 6%. An increase in discount rate would result in decrease in liability that needs to be set up to meet obligations to policyholders.

iii. Investment return

The weighted average rate of return is derived based on a model portfolio that is assumed to back the liabilities, consistent with the long term asset allocation strategy. An increase in investment return would lead to increase in investment income, thus increasing profits for stakeholders. The net investment return is the base discount rate assumption used for the LAT runs (i.e., 5.869% and 6.179% for 2014 and 2013, respectively).

iv. Expenses

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

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

32.4 Reinsurance Contracts

32.4.1 *Terms and assumptions*

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

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

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

32.4.2 *Sensitivities*

Sensitivity testing on the LAT model was done to determine net changes in legal policy reserves that would arise due to changes in parameters such as mortality, expenses, investment income, and discount rate. The scenarios tested involved increasing/decreasing one parameter while retaining the others constant at the original base run for the LAT. The resulting values for the discounted cash flows per scenario were then tabulated and compared to the value for the base run. The tabulation of results below showing percentage change of the value for each scenario from the value for the base run would give an idea of the sensitivity of the discounted cash flow to changes in the various items driving profit for the Group. Note that only changes that result in values bigger than the statutory reserves held would necessitate additional liabilities and that would result in a reduction in profit for the Group. None of the tabulated results below would have resulted in additional liability set up over and above the statutory reserves held by the Group. The LAT results per base run scenario show present value of net cash flows amounting to (₱38,750,620,685) and (₱41,042,878,553) as of December 31, 2014 and 2013, respectively. The analysis below is performed for a reasonable possible movement in key assumptions with all other assumptions held constant on the consolidated statements of income and members' equity.

Based on the scenarios tested for 2014 and 2013, the resulting values are lower than the statutory reserves as presented below:

	December 31, 2014	December 31, 2013
Scenario	**% Change from Base Run**	% Change from Base
Base Run	**0.00%**	0.00%
Mortality + 5%	**0.67%**	0.61%
Investment Return + 1%	**-0.75%**	-0.76%
Discount Rate - 1%	**14.68%**	14.13%
Expense + 10%	**3.16%**	2.52%
Lapse + 5%	**0.13%**	0.07%

32.5 Financial Risk

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

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

The Group has guidelines and procedures on fixed and equity investments. On fixed investments, the Group has to place its investment portfolio in negotiable instruments that will give high-yield, low-risks return without sacrificing the IC and the Group's requirements. The IC requirements state that the investment in fixed instruments shall only come from financial institutions or corporate entities with acceptable ratings from PhilRatings, or at least the rank is within the top 15, in case of banks. Meanwhile, investment in negotiable instruments involving reserve and surplus investments shall follow the guidelines set by the Code (Note 33). On equity investments, the Group has to place its investment portfolio in equity market that will give high-yield, low-risks return taking into account the IC and Group's requirements.

32.5.1 *Credit Risk*

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

i. Reinsurers in respect of unpaid claims;
ii. Reinsurers in respect of claims already paid;
iii. Financial assets at FVPL;
iv. HTM financial assets;
v. Loans and receivables;
vi. AFS financial assets; and
vii. Counterparty bank default on CCS agreement.

The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved by the Division Heads. Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract.

Reinsurance is placed with high rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews.

At each year-end, management performs assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertain a suitable allowance for impairment of reinsurance assets.

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

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

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

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

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

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

The maximum credit exposure of the financial assets of the Group is equal to their carrying value except for the following financial assets with collaterals (e.g., equity value, real estate), the financial effects of which are as follows:

	2014	2013
Housing loans	**₱172,109,558**	₱177,231,666
Mortgage loans	**56,267,107**	66,620,145
Finance leases	**38,998,329**	35,497,334
Stock loans	**20,126,203**	22,791,718
	₱287,501,197	₱302,140,863

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

Collaterals obtained by the Group are investment properties upon default on mortgage loans and housing loans. The fair value of the collaterals obtained where the Group has the right by contract or custom to sell the assets amounted to ₱366,640,118 and ₱416,890,113 for housing loans and mortgage loans as of December 31, 2014 and 2013, respectively.

32.5.2 *Risk Concentrations of the Maximum Exposure to Credit Risk*

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

The following table presents the Group's concentration of credit risk in the Group's debt securities portfolio by industrial distribution as percentage of total debt securities:

	2014	2013
Property	**23%**	25%
Holding firms	**22%**	13%
Financial institutions	**16%**	12%
Electricity, energy, power, and water	**13%**	15%
Telecommunications	**11%**	11%
Tollways operation and maintenance	**11%**	10%
Food, beverage and tobacco	**2%**	3%
Media	**0%**	4%
Others	**2%**	7%
Total	**100%**	100%

The Group did not have any significant concentration of credit risk with a single counterparty or group of counterparties, and geographical segments as of December 31, 2014 and 2013.

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

	2014			
	Neither past due nor impaired			
	Investment Grade	**Non-Investment Grade**	**Past Due or Impaired**	**Total**
Insurance Receivables				
Due premiums	**₱185,497,080**	**₱–**	**₱–**	**₱185,497,080**
Reinsurance assets	–	**384,028**	–	**384,028**
	185,497,080	**384,028**	–	**185,881,108**
Financial Assets at FVPL				
Equity securities - quoted	**3,964,433,829**	–	–	**3,964,433,829**
Under separate fund:				
Traditional VULs:				
Cash and cash equivalents	**1,918,115,581**	–	–	**1,918,115,581**
Quoted equity securities	**9,762,857,565**	–	–	**9,762,857,565**
Quoted debt securities:				
Government:				
Local currency	**1,048,681,834**	–	–	**1,048,681,834**
Foreign currency	**1,012,097,699**	–	–	**1,012,097,699**
Corporate:				
Local currency	**228,724,590**	–	–	**228,724,590**
Foreign currency	**120,774,918**	–	–	**120,774,918**
Other receivables	**44,949,346**	–	–	**44,949,346**
Structured VULs:				
Local currency	**1,041,505,575**	–	–	**1,041,505,575**
Foreign currency	**2,141,998,908**	–	–	**2,141,998,908**
	21,284,139,845	–	–	**21,284,139,845**

(Forward)

	2014			
	Neither past due nor impaired			
	Investment Grade	**Non-Investment Grade**	**Past Due or Impaired**	**Total**
AFS Financial Assets				
Equity securities:				
Quoted	**₱6,776,932,749**	**₱–**	**₱–**	**₱6,776,932,749**
Unquoted	**1,937,612,505**	**200,000**	**–**	**1,937,812,505**
Debt securities:				
Quoted:				
Government:				
Local currency	**3,626,209,750**	**–**	**–**	**3,626,209,750**
Foreign currency	**972,035,960**	**–**	**–**	**972,035,960**
Corporate:		**–**		
Local currency	**660,187,755**	**–**	**–**	**660,187,755**
Foreign currency	**31,960,406**	**–**	**–**	**31,960,406**
	14,004,939,125	**200,000**	**–**	**14,005,139,125**
HTM Financial Assets:				
Government:				
Local currency	**15,433,695,199**	**–**	**–**	**15,433,695,199**
Foreign currency	**1,063,606,835**	**–**	**–**	**1,063,606,835**
Corporate:				
Local currency	**8,154,556,207**	**–**	**–**	**8,154,556,207**
Foreign currency	**243,332,957**	**–**	**–**	**243,332,957**
	24,895,191,198	**–**	**–**	**24,895,191,198**
Loans and Receivables				
Cash and cash equivalents*	**7,259,193,293**	**–**	**–**	**7,259,193,293**
Short term investment	**24,494,902**	**–**	**–**	**24,494,902**
	7,283,688,195	**–**	**–**	**7,283,688,195**
Term loans	**8,803,917,941**	**–**	**–**	**8,803,917,941**
Policy loans	**5,526,585,804**	**–**	**–**	**5,526,585,804**
Accounts receivable	**10,445,802**	**804,684,527**	**43,810,066**	**858,940,395**
Interest receivable	**466,437,954**	**–**	**–**	**466,437,954**
Housing loans	**159,738,546**	**–**	**–**	**159,738,546**
Mortgage loans	**48,508,092**	**4,359,304**	**20,337,397**	**73,204,793**
Net interest in joint venture for under PAS 39	**47,004,109**	**–**	**–**	**47,004,109**
Car financing loans	**41,939,549**	**–**	**–**	**41,939,549**
Finance leases	**19,778,382**	**4,436,103**	**14,783,844**	**38,998,329**
Stock loans	**16,435,303**	**2,353,498**	**3,819,293**	**22,608,094**
Due from agents	**–**	**5,049,778**	**10,648,099**	**15,697,877**
Others	**1,309,071**	**69,942,186**	**8,242,419**	**79,493,676**
	15,142,100,553	**890,825,396**	**101,641,118**	**16,134,567,067**
	₱82,795,555,996	**₱891,409,424**	**₱101,641,118**	**₱83,788,606,538**

**Excluding cash on hand amounting to ₱428,984 as of December 31, 2014.*

	2013			
	Neither past due nor impaired			
	Investment Grade	Non-Investment Grade	Past Due or Impaired	Total
Insurance Receivables				
Due premiums	₱214,289,423	₱–	₱–	₱214,289,423
Reinsurance assets	–	11,759,227	–	11,759,227
	214,289,423	11,759,227	–	226,048,650
Financial Assets at FVPL				
Equity securities - quoted	2,167,536,530	–	–	2,167,536,530
Under separate fund:				
Traditional VULs:				
Cash and cash equivalents	1,396,952,643	–	–	1,396,952,643
(Forward)				

	2013			
	Neither past due nor impaired			
	Investment Grade	Non-Investment Grade	Past Due or Impaired	Total
Quoted equity securities	₱6,535,314,916	₱–	₱–	₱6,535,314,916
Quoted debt securities:				
Government:				
Local currency	844,153,449	–	–	844,153,449
Foreign currency	815,569,068	–	–	815,569,068
Corporate:				
Local currency	221,445,172	–	–	221,445,172
Foreign currency	115,943,813	–	–	115,943,813
Other receivables	64,767,411	–	–	64,767,411
Structured VULs:				
Local currency	622,589,528	–	–	622,589,528
Foreign currency	1,757,976,117	–	–	1,757,976,117
	14,542,248,647	–	–	14,542,248,647
AFS Financial Assets				
Equity securities:				
Quoted	5,266,852,681	–	–	5,266,852,681
Unquoted	5,154,329,348	200,000	–	5,154,529,348
Debt securities:				
Quoted:				
Government:				
Local currency	3,563,921,745	–	–	3,563,921,745
Foreign currency	911,376,505	–	–	911,376,505
Corporate:				
Local currency	728,675,091	–	–	728,675,091
Foreign currency	31,605,535	–	–	31,605,535
Unquoted - corporate	41,357,608	–	–	41,357,608
	15,698,118,513	200,000	–	15,698,318,513
HTM Financial Assets:				
Government:				
Local currency	15,762,433,251	–	–	15,762,433,251
Foreign currency	1,693,654,305	–	–	1,693,654,305
Corporate:				
Local currency	5,666,769,690	–	–	5,666,769,690
Foreign currency	241,426,450	–	–	241,426,450
	23,364,283,696	–	–	23,364,283,696
Loans and Receivables				
Cash and cash equivalents*	5,497,789,323	–	–	5,497,789,323
Short term investment	111,000,000	–	–	111,000,000
	5,608,789,323	–	–	5,608,789,323
Term loans	10,429,833,529	–	–	10,429,833,529
Policy loans	5,673,565,963	–	–	5,673,565,963
Accounts receivable	10,824,137	566,657,990	67,421,739	644,903,866
Interest receivable	551,130,352	–	–	551,130,352
Housing loans	180,242,535	–	–	180,242,535
Mortgage loans	36,562,524	12,749,760	22,475,600	71,787,884
Net interest in joint venture for under PAS 39	62,695,412	–	–	62,695,412
Car financing loans	47,143,160	–	–	47,143,160
Finance leases	7,522,991	16,618,486	11,355,856	35,497,333
Stock loans	13,764,397	6,805,271	4,193,202	24,762,870
Due from agents	–	5,582,613	15,823,226	21,405,839
Others	8,755,390	95,489,966	9,092,477	113,337,833
	17,022,040,390	703,904,086	130,362,100	17,856,306,576
	22,630,829,713	703,904,086	130,362,100	23,465,095,899
	₱76,449,769,992	₱715,863,313	₱130,362,100	₱77,295,995,405

**Excluding cash on hand amounting to ₱741,018 as of December 31, 2013.*

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

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

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

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

	2013					
	Past due but not impaired				Past due and Impaired	
	< 30 days	31 to 60 days	> 60 days	Total		Total
Loans and receivables:						
Accounts receivable	₱4,799,519	₱3,055,909	₱12,062,278	₱19,917,706	₱47,504,033	₱67,421,739
Mortgage loans	12,021,821	2,450,685	6,725,476	21,197,982	1,277,618	22,475,600
Finance Leases	4,733,259	2,004,449	3,953,763	10,691,471	664,385	11,355,856
Stock loans	1,772,596	685,343	116,793	2,574,732	1,618,470	4,193,202
Due from agents	–	–	–	–	15,823,226	15,823,226
Others	3,479,866	277,214	109,344	3,866,424	5,226,053	9,092,477
	₱26,807,061	₱8,473,600	₱22,967,654	₱58,248,315	₱72,113,785	₱130,362,100

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

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

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

Liquidity Risk
Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may

result from either the inability to sell financial assets quickly at their fair values, or failing on repayment of a contractual obligation, or insurance liability falling due for payment earlier than expected or inability to generate cash inflows as anticipated.

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

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

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

	2014				
	Up to a year	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
Financial assets:					
Cash and cash equivalents	**₱7,259,622,277**	**₱–**	**₱–**	**₱–**	**₱7,259,622,277**
Insurance Receivables	**185,881,108**	**–**	**–**	**–**	**185,881,108**
Financial assets at FVPL	**16,929,342,548**	**873,649,358**	**1,055,384,672**	**3,499,364,223**	**22,357,740,801**
AFS financial assets	**20,383,910,495**	**628,672,898**	**1,317,236,632**	**5,815,939,640**	**28,145,759,665**
HTM financial assets	**2,451,497,136**	**4,144,591,592**	**3,343,207,601**	**32,461,450,615**	**42,400,746,944**
Loans and receivables	**8,058,949,054**	**1,157,697,967**	**2,224,187,773**	**11,952,520,846**	**23,393,355,640**
Total financial assets	**55,269,202,618**	**6,804,611,815**	**7,940,016,678**	**53,729,275,324**	**123,743,106,435**
Legal policy reserves	**6,244,196,454**	**2,445,216,657**	**4,151,665,958**	**38,216,516,783**	**51,057,595,852**
Derivative liability	**8,732,243**	**–**	**–**	**–**	**8,732,243**
Other insurance liabilities:					
Members' deposits and other funds on deposit*	**15,036,304,212**	**517,628,566**	**738,760,810**	**6,208,117,407**	**22,500,810,995**
Claims pending settlement	**1,343,930,085**	**–**	**–**	**–**	**1,343,930,085**
Reserve for dividends to members	**928,949,440**	**–**	**–**	**–**	**928,949,440**
	17,309,183,737	**517,628,566**	**738,760,810**	**6,208,117,407**	**24,773,690,520**
Other financial liabilities:					
Accrued expenses and other liabilities:					
Accrued employee benefits	**4,972,216**	**561,300,000**	**–**	**108,655,550**	**674,927,766**
Accounts payable	**470,654,221**	**121,354,710**	**–**	**–**	**592,008,931**
General expenses due and accrued	**47,746,939**	**29,908,509**	**–**	**–**	**77,655,448**
Commissions payable	**65,917,521**	**–**	**–**	**–**	**65,917,521**
Preferred shares of Home Credit owned by its members	**2,228,043**	**–**	**–**	**–**	**2,228,043**
Others	**14,341,978**	**41,148**	**–**	**28,851,893**	**43,235,019**
	605,860,918	**712,604,367**	**–**	**137,507,443**	**1,455,972,728**
Total financial liabilities	**24,167,973,352**	**3,675,449,590**	**4,890,426,768**	**44,562,141,633**	**77,295,991,343**
Liquidity position	**₱31,101,229,266**	**₱3,129,162,225**	**₱3,049,589,910**	**₱9,167,133,691**	**₱46,447,115,092**

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

	2013				
	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Financial assets:					
Cash and cash equivalents	₱5,498,530,341	₱–	₱–	₱–	₱5,498,530,341
Insurance receivables	226,048,650	–	–	–	226,048,650
Financial assets at FVPL	9,749,426,508	1,704,520,571	886,453,989	2,182,209,151	14,522,610,219
AFS financial assets	1,833,229,882	610,990,244	1,918,982,000	13,848,904,352	18,212,106,478
HTM financial assets	15,239,649,428	1,358,958,077	523,021,545	4,650,133,370	21,771,762,420
Loans and receivables	2,252,120,311	5,497,313,780	3,250,905,722	34,163,277,772	45,163,617,585
Total financial assets	34,799,005,120	9,171,782,672	6,579,363,256	54,844,524,645	105,394,675,693
Legal policy reserves	6,864,575,939	2,545,462,868	2,397,607,459	37,746,653,682	49,554,299,948
Derivative Liability	8,338,735	–	–	–	8,338,735
Other insurance liabilities:					
Members' deposits and other funds on deposit	10,019,250,216	1,481,573,529	251,234,101	5,951,487,268	17,703,545,114

(Forward)

	2013				
	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Reserve for dividends to members	₱935,607,163	₱–	₱–	₱–	₱935,607,163
Claims pending settlement	1,135,257,257	–	–	–	1,135,257,257
	12,090,114,636	1,481,573,529	251,234,101	5,951,487,268	19,774,409,534
Other financial liabilities:					
Accrued expenses and other liabilities:					
Accrued employee benefits	5,226,580	524,300,000	–	104,912,800	634,439,380
Accounts payable	459,390,928	101,386,296	–	–	560,777,224
General expenses due and accrued	98,666,806	–	–	–	98,666,806
Commissions payable	74,112,324	–	–	–	74,112,324
Preferred shares of Home Credit owned by its members	7,772,912	–	–	–	7,772,912
Others	39,356,745	1,782,605	1,173,805	1,899,666	44,212,821
	684,526,295	627,468,901	1,173,805	106,812,466	1,419,981,467
Total financial liabilities	19,647,555,605	4,654,505,298	2,650,015,365	43,804,953,416	70,757,029,684
Liquidity position	₱15,151,449,515	₱4,517,277,374	₱3,929,347,891	₱11,039,571,229	₱34,637,646,009

**Excluding unearned membership fees of I-Care amounting to ₱43,476,853.*

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

32.3.4 *Market Risk*

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

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

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

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

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

32.3.5 *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:

2014

		Maturity						
Fixed Rate Instruments	**Effective Interest Rate**	**In 1 year or less**	**More than 1 year but not more than 2 years**	**More than 2 years but not more than 3 years**	**More than 3 years but not more than 4 years**	**More than 4 years but not more than 5 years**	**More than 5 years**	**Total**
Financial assets at FVPL - debt securities								
Government:								
Local currency	**2%-8%**	**₱–**	**₱228,259,060**	**₱–**	**₱–**	**₱117,084,853**	**₱703,337,921**	**₱1,048,681,834**
Foreign currency	**4%-11%**	**4,550,041**	**68,669,088**	**46,971,662**	**–**	**103,264,530**	**788,642,378**	**1,012,097,699**
Corporate:								
Local currency	**6%-9%**	**127,880,100**	**–**	**–**	**–**	**–**	**100,844,490**	**228,724,590**
Foreign currency	**4%-7%**	**–**	**–**	**–**	**–**	**42,728,095**	**78,046,823**	**120,774,918**
Structured VULs:								
Local currency	**2%-4%**	**–**	**322,790,000**	**–**	**–**	**309,763,575**	**408,952,000**	**1,041,505,575**
Foreign currency	**1%-4%**	**1,062,832,805**	**–**	**–**	**–**	**248,883,665**	**830,282,438**	**2,141,998,908**
AFS debt securities:								
Quoted:								
Government:								
Local currency	**4%-8%**	**16,842,266**	**42,563,382**	**–**	**–**	**1,070,995,169**	**2,495,808,933**	**3,626,209,750**
Foreign currency	**6%-10%**	**–**	**106,993,516**	**–**	**–**	**–**	**865,042,444**	**972,035,960**
Corporate :								
Local currency	**5%-8%**	**–**	**–**	**105,974,863**	**–**	**–**	**554,212,893**	**660,187,756**
Foreign currency	**7%**	**–**	**–**	**–**	**–**	**31,960,406**	**–**	**31,960,406**
		₱1,212,105,212	**₱769,275,046**	**₱152,946,525**	**₱–**	**₱1,924,680,293**	**₱6,825,170,320**	**₱10,884,177,396**

2013

		Maturity						
Fixed Rate Instruments	Effective Interest Rate	In 1 year or less	More than 1 year but not more than 2 years	More than 2 years but not more than 3 years	More than 3 years but not more than 4 years	More than 4 years but not more than 5 years	More than 5 years	Total
Financial assets at FVPL - debt securities								
Government:								
Local currency	3%-8%	₱51,639,700	₱–	₱–	₱50,000,000	₱32,597,805	₱709,915,944	₱844,153,449
Foreign currency	4%-7%	13,368,703	4,868,396	51,779,618	16,315,616	–	729,236,735	815,569,068
Corporate:								
Local currency	7%-10%	70,363,948	151,081,224	–	–	–	–	221,445,172
Foreign currency	4%-11%	–	–	–	–	–	115,943,813	115,943,813
Structured VULs:								
Local currency	7%-10%	–	–	318,045,000	–	–	304,544,528	622,589,528
Foreign currency	4%-11%	–	1,046,448,292	–	–	–	711,527,825	1,757,976,117
AFS debt securities:								
Quoted:								
Government:								
Local currency	4%-9%	–	–	781,990,057	56,651,513	43,381,347	2,681,898,828	3,563,921,745
Foreign currency	6%-10%	22,243,642	–	–	–	–	889,132,863	911,376,505
Corporate :								
Local currency	5%-9%	20,256,146	–	–	110,702,162	–	639,074,391	770,032,699
Foreign currency	7%	–	–	–	–	–	31,605,535	31,605,535
		₱177,872,139	₱1,202,397,912	₱1,151,814,675	₱233,669,291	₱75,979,152	₱6,812,880,462	₱9,654,613,631

The following table provides the sensitivity analysis of the fair value of traditional VULs and AFS debt securities and the related impact to profit before tax and equity due to changes in interest rates as of December 31:

		Changes in variable	**Effect on income before tax**	**Effect on equity**
2014	**USD**	**+ 25 basis points**	**(₱1,587,172)**	**(₱23,872,448)**
	PHP	**+ 25 basis points**	**–**	**(77,686,096)**
	USD	**- 25 basis points**	**1,928,859**	**29,124,198**
	PHP	**- 25 basis points**	**–**	**79,828,196**
2013	USD	+ 25 basis points	(1,809,546)	95,110,605
	PHP	+ 25 basis points	–	(654,888,841)
	USD	- 25 basis points	2,025,991	152,952,347
	PHP	- 25 basis points	–	(538,108,416)

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

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

The following table provides the sensitivity analysis of the fair value of the CCS and its effect on income before income tax due to changes in interest rates as of December 31:

	CCS Leg	Change in variable	Effect on income before tax
2014	**Peso Interest Rate**	**Increase by 25 basis points**	**(₱831,135)**
	Peso Interest Rate	**Decrease by 25 basis points**	**(781,240)**
	USD Interest Rate	**Increase by 25 basis points**	**(779,193)**
	USD Interest Rate	**Decrease by 25 basis points**	**(833,189)**
2013	Peso Interest Rate	Increase by 25 basis points	3,014,791
	Peso Interest Rate	Decrease by 25 basis points	3,060,232
	USD Interest Rate	Increase by 25 basis points	3,192,269
	USD Interest Rate	Decrease by 25 basis points	(3,240,577)

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

32.3.6 *Equity Price Risk*

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

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

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

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

	Change in PSEi index	Effect on Income Before tax	Effect on Equity
2014	**Increase by 0.5%**	**₱8,874,582**	**₱68,369,983**
	Decrease by 0.5%	**(8,874,582)**	**(68,369,983)**
2013	Increase by 0.5%	35,139,738	90,064,463
	Decrease by 0.5%	(35,139,738)	(90,064,463)

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

32.3.7 *Risk Concentrations of the Maximum Exposure to Equity Price Risk*

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

The following table presents the Group's concentration of equity price risk in the Group's equity portfolio by industrial distribution as percentage of total equity securities:

	2014	2013
Financial institutions	**38%**	58%
Electricity, energy, power and water	**17%**	12%
Holding firms	**13%**	14%
Food, beverage and tobacco	**12%**	5%
Property	**5%**	5%
Telecommunications	**5%**	2%
Others	**10%**	4%
Total	**100%**	100%

32.3.8 *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:

	2014		2013	
	United States Dollar Value	**Peso Equivalent**	United States Dollar Value	Peso Equivalent
Assets				
Cash and cash equivalent	**$3,654,232**	**₱163,040,869**	$32,377,830	₱1,438,028,942
Financial assets at FVPL	**85,858,254**	**3,830,737,719**	68,343,839	3,035,423,265
AFS financial assets	**22,517,103**	**1,004,645,585**	21,231,640	942,982,059
HTM financial assets	**29,292,417**	**1,306,939,769**	43,569,162	1,935,080,761
	$141,322,006	**₱6,305,363,942**	$165,522,471	₱7,351,515,027
Liability				
Derivative liability	**$195,716**	**₱8,732,243**	$187,750	₱8,338,735
Legal policy reserves	**20,766,409**	**926,537,545**	50,931,078	2,262,052,898
	$20,962,125	**₱935,269,788**	$51,118,828	₱2,270,391,633

The foregoing United States Dollar amounts have been restated to their Peso equivalents using the exchange rate of ₱44.617 and ₱44.414 to US$1, as recommended by IC, as of December 31, 2014 and 2013, respectively. Net foreign exchange gain amounted to ₱7,191,525 and ₱293,295,705 in 2014 and 2013, respectively.

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

	Change in USD - Peso exchange	Effect on income before tax
2014	**Increase by 0.48%**	**₱16,343,549**
	Decrease by 0.48%	**(16,343,549)**
2013	Increase by 1.22%	117,892,165
	Decrease by 1.22%	(117,892,165)

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

The following table provides the sensitivity analysis of the fair value of the CCS and its effect on income before income tax, and equity due to changes in foreign currency rates as of December 31:

	Changes in variable	Effect on income before tax	Effect on equity
2014	**Increase by 0.48%**	**(₱1,070,808)**	**(₱749,566)**
	Decrease by 0.48%	**1,070,808**	**749,566**
2013	Increase by 1.22%	(3,054,083)	(2,137,858)
	Decrease by 1.22%	3,054,083	2,137,858

33 Capital Management and Regulatory Requirements

33.1 Capital Management Framework

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

The Group considers its total retained earnings amounting to ₱20,441,704,044 and ₱18,311,750,296 as of December 31, 2014 and 2013, respectively, as its capital.

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

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

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

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

	2014	2013
Property and equipment - net	**₱171,555,742**	₱168,571,629
Accounts receivable and other assets	**907,329,398**	627,704,512
	₱1,078,885,140	₱796,276,141

In 2013 audit, IC computed Company's Capital and Networth Requirement amounting to ₱250,000,000 and ₱24,930,912,411, respectively.

33.1.1 *Fixed Capitalization Requirements*

Department of Finance Order (DO) No. 27-06 provides for the capitalization requirements for life, nonlife, and reinsurance companies on a staggered basis for the years ended December 31, 2006 up to 2011. Depending on the level of the foreign ownership in the insurance company, the minimum statutory net worth and minimum paid-up capital requirements vary. The statutory net worth shall include the company’s paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the IC. The minimum paid-up capital is pegged at 50% of the minimum statutory net worth.

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

On June 1, 2012, the Department of Finance issued DO No. 15-2012 which provides for minimum paid up capital requirements of all insurance and professional reinsurance companies to supplement the requirements of DO No. 27-06 after December 31, 2012. Under the said DO, the increase in minimum paid up capital requirements is on a staggered basis for the years December 31, 2012 up to 2020. The DO also allows all existing insurance and professional reinsurance companies a one-time one-year deferral in the compliance to minimum paid up capital requirements provided it has met the RBC hurdle rate based on the schedule set out in the said DO.

The table below shows the amount of minimum paid-up capital and the schedule of compliance per DO No. 15-2012.

Paid-up capital	Compliance Date
₱250,000,000	On or before December 31, 2012 *(Pursuant 27-06 and IMC No. 10-2006)*
400,000,000	On or before December 31, 2014
600,000,000	On or before December 31, 2016
800,000,000	On or before December 31, 2018
1,000,000,000	On or before December 31, 2020

On November 22, 2012, the IC issued an advisory to all insurance and reinsurance companies doing business in the Philippines regarding the implementation of DO No. 27-06. According to the advisory, the minimum paid-up capital for December 31, 2012 must at least be equal to the amount previously scheduled for December 31, 2011 per DO 27-06.

On December 11, 2012, DO No. 15-2012 was issued with a temporary restraining order. Accordingly, the minimum paid-up capital requirement would be ₱250,000,000 by the end of 2012 as advised by the IC.

On August 15, 2013, the President of the Philippines approved the RA No. 10607 to be known as the "New Insurance Code" which provides the new capitalization requirements of all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required net worth and the schedule of compliance per New Insurance Code:

Networth	Compliance Date
₱250,000,000	June 30, 2013
550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

As of December 31, 2012, a stock insurance company is required to have a minimum paid-up capital of ₱250,000,000, while non-stock insurance companies, as in the case of the Parent Company, are required to have a minimum cash asset of ₱250,000,000. However, with the passing of RA No. 10607, the requirement of minimum paid-up capital for stock insurance companies has been changed to a required minimum net worth of ₱250,000,000 as of December 31, 2014 and 2013.

However, Article 194 of RA No. 10607 provides that if an insurance company is organized as a non-stock mutual company, in lieu of such net worth, it must have available total members equity in an amount to be determined by the IC above all liabilities for losses reported; expenses, taxes, legal reserve, and reinsurance of all outstanding risks, and the contributed surplus fund equal to the amounts required of stock corporations. At the moment, however, the IC has not issued any regulation relating to the required total members' equity of a non-stock mutual life insurance companies as in the case of the Parent Company.

As of December 31, 2014 and 2013, the Parent Company's members' equity is ₱25,752,749,480 and ₱27,854,480,655, respectively.

33.1.2 *Unimpaired capital requirement*

Article 194 of RA 10607 provides that the minimum paid-up capital and net worth requirement must remain unimpaired for the continuance of the license. The Commissioner of the IC may require the adoption of the risk-based capital approach and other internationally accepted forms of capital framework. Pursuant to the existing implementing rules and regulations, the Company has complied with the unimpaired capital requirement.

33.1.3 *RBC requirements*

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

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

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

	2014	2013
Net worth	**₱25,415,713,747**	₱27,445,379,215
Aggregate RBC requirement	**13,057,135,402**	13,114,780,668
RBC Ratio	**195%**	209%

The final amount of the RBC ratio can be determined only after the accounts of the Group has been examined by the IC specifically as to admitted and nonadmitted assets as defined under the same Code. Based on the results of 2013 audit of IC, the Group's RBC ratio as of December 31, 2013 was equivalent to 158% (i.e., with net worth and aggregate RBC requirement amounting to ₱25,184,712,999 and ₱15,920,535,855, respectively), which is compliant with the required RBC ratio set forth by the Code.

33.2 Compliance Framework

IMC No.10-2006 integrated the compliance standards for the fixed capitalization and risk-based capital framework.

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

34. **Maturity Analysis of Assets and Liabilities**

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered, settled, or reversed as of December 31:

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

	2013		
	Within 12 months	Over 12 months	Total
ASSETS			
Cash and Cash Equivalents	₱5,498,530,341	₱–	₱5,498,530,341
Short term investment	111,000,000	–	111,000,000
Insurance Receivables	226,048,650	–	226,048,650
Financial Assets:			
Fair value through profit or loss	12,142,044,574	2,380,565,645	14,522,610,219
Available-for-sale	95,519,794	15,602,798,719	15,698,318,513
Held-to-maturity	1,104,916,092	22,259,367,604	23,364,283,696
Loans and receivables	43,898,025	17,740,294,766	17,784,192,791
Investments in Associates	–	7,183,418,789	7,183,418,789
Investment Properties	–	9,077,775,054	9,077,775,054

(Forward)

	2013		
	Within 12 months	Over 12 months	Total
Property and Equipment	–	324,201,952	324,201,952
Retirement Benefits Asset	–	278,722,120	278,722,120
Deferred Income Tax Assets - net	–	3,507,155	3,507,155
Other Assets	27,687,165	101,690,496	129,377,661
TOTAL ASSETS	₱19,249,644,641	₱74,952,342,300	₱94,201,986,941
LIABILITIES			
Legal policy reserves	6,864,575,939	42,689,724,009	49,554,299,948
Derivative liability	8,338,735	–	8,338,735
Other insurance liabilities	12,133,591,489	7,684,294,898	19,817,886,387
Accrued expenses and other liabilities	800,696,949	731,724,205	1,532,421,154
Retirement benefits liability	–	4,889,520	4,889,520
Deferred income tax liabilities - net	–	1,187,033,954	1,187,033,954
TOTAL LIABILITIES	₱19,807,203,112	₱52,297,666,586	₱72,104,869,698

35. Other Matters

35.1 On July 15, 2005, the Parent Company filed separate Petitions for Review with the Court of Tax Appeals (CTA), to contest the assessment by the Bureau of Internal Revenue (BIR) for deficiency documentary stamp taxes (DST) for calendar years 2001 and 2002. The CTA, in separate Decisions dated August 12, 2008 and April 21, 2009, granted the Petitions for Review and decided in favor of the Parent Company. It declared the Formal Letter of Demand and Assessment Notices for deficiency DST for 2001 and 2002 cancelled and withdrawn. BIR's Motions for Reconsideration seeking to reverse the CTA Decisions were both denied. Subsequently, the CTA En Banc upheld both CTA decisions and denied BIR's Motions for Reconsideration. In 2011 and 2010, BIR appealed to the Supreme Court.

Both cases were finally resolved by the Supreme Court last August 2013 and July 2014. It was held that Insular Life is not liable to pay the deficiency DST for 2001 and 2002. The rulings have attained finality with the issuance of the Entries of Judgment, and the BIR's issuance of the Certificate of No Tax Liability last October 2014.

35.2 IIC entered into certain prearranged transactions involving a series of mutual sale and purchase transactions of treasury bills with two financial institutions in 1994. The transactions led to a case filed against IIC that involves a complaint for specific performance and sum of money amounting to ₱90.0 million. As counterclaims, IIC seeks the award of ₱21.1 million.

The main case was dismissed on August 28, 2008 for failure of the other party to file a Pre-trial Brief within the prescribed period. IIC was allowed to present evidence on its counterclaims on September 9, 2008. The other party filed a motion for reconsideration which the court denied on January 26, 2009. It then appealed the case to the Court of Appeals on March 2, 2009.

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

There were other treasury bills amounting to ₱119.6 million (included in the "Other receivables" account under "Loans and receivables" in the balance sheet) bought and paid for, but remain undelivered to IIC by a financial institution also involved in the prearranged transactions. On March 25, 1995, IIC filed a case with the Makati Regional Trial Court (Makati RTC) for the recovery of the ₱119.6 million undelivered treasury bills. On June 16, 2003, the Makati RTC rendered a decision allowing IIC to claim for ₱119.6 million (plus accrued interest), net of counterclaims awarded to a co-respondent. At various dates after the Makati RTC decision, all the parties, including IIC, filed their respective appeals before the CA. On June 8, 2008, the CA set aside for lack of basis the Makati RTC's decision allowing IIC to claim for the ₱119.6 million, including accrued interest. IIC questioned the said CA decision through a Petition for Review filed with the Supreme Court (the "SC").

On April 25, 2012, the SC rendered a decision in favor of the IIC ordering the financial institution to pay P136.8 million with interest at the rate of 6% per annum from March 21, 1995 until full payment. On the other hand, the SC ordered IIC to pay the financial institution ₱17.2 million with legal interest at the rate of 6% per annum from June 10, 1994 until full payment. Any amount not paid upon the finality of the decision shall be subject to interest at the increased rate of 12% percent per annum reckoned from the date of finality of the decision until full payment thereof. The financial institution filed a motion for reconsideration on the SC's decision on April 25, 2012. On July 16, 2012, the SC issued a Resolution denying with finality the motion for reconsideration filed by the financial institution. On September 25, 2012, the SC issued the Entry of Judgment, which certifies the April 25, 2012 decision to be final and executory in the Book of Entries of Judgments.

On February 11, 2013, the Company's legal counsel issued a motion for issuance of writ of execution to enforce the decision against the financial institution. On April 19, 2013, the judgment award was fully settled in the total amount of ₱289.1 million. On the other hand, IIC settled in full its obligation to the other financial institution in the amount of ₱38.3 million, on April 5, 2013.

THE INSULAR LIFE ASSURANCE COMPANY, LTD.

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(As of of May 1, 2015)

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Ricardo G. Librea
Vice Chairman

Delfin L. Lazaro

Marietta C. Gorrez

Note: The nominee to fill up the vacancy in the Executive Committee will be elected on May 27, 2015.

OFFICERS
(As of May 1, 2015)

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

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

Senior Executive Vice President
Jesus Alfonso G. Hofileña

Senior Vice Presidents
Ramon M. Cabrera
Ma. Edita C. Elicaño

First Vice Presidents
Myrna A. Alcantara
Ronnie B. Alcantara [1]
Maria Teresa L. Cruz
Renato S. De Jesus
John Jesus O. Lim
Mundece L. Lu
Seraline L. Manguni [2]
Susana G. Nicolas
Jocelyn B. Reyes
Amelita F. Tamayo

Vice Presidents
Geraldine B. Alvarez
Maria Rosa Aurora D. Cacanando [3]
Hector A. Caunan
Enrico L. Cordoba
Carmen G. Duque
Alijeffty C. Gonzales
Carlito V. Lucas
Vera Victoria C. Morales
Mylene C. Padilla [4]
Henry A. Pagulayan
Katerina V. Suarez
Eleanor G. Tañada

Senior Assistant Vice Presidents
Reynaldo R. Aldaba
Alan Joseph S. Amador
Arnaldo I. Aquino
Johanna C. Coronado
Corazon S. Cruz
Lorenzo Luis Liborio B. Gallardo II
Laarni F. Garraton [5]
Jose A. Padilla
Geraldine G. Pascual
William S. Racadio
Cesar Y. Salera
Ana Maria R. Soriano
Diana Rose A. Tagra

Assistant Vice Presidents
Iris S. Aman
Rene P. Asuncion
Henry G. Balangatan II
Ma. Agnes E. Bautista
Analyn S. Benito
Florfida L. Buitre
Hilario C. Delos Santos
Adrian Joseph R. Fernandez
Maria Ida C. Himan
Gwendolyn D. Kelley
Bettina G. Lumaban
Ma. Editha B. Mendiola
Sancer T. Pertez
Tricci Rose A. Sadian
Paulita A. Sioson
Ruth R. Velasco
Jesito V. Villamor

[1] *Seconded as concurrent President of Insular Investment Corporation and of Home Credit Mutual Building and Loan Association, Inc.*
[2] *Seconded as President of Insular Health Care, Inc.*
[3] *Auditor (Internal)*
[4] *Treasurer*
[5] *Seconded as Chief Financial Officer and Head of Administration Operations, Insular Health Care, Inc.*

DIRECTORY OF REGIONAL OFFICES

Metro North Regional Office
G/F Crispina Bldg.
1589 Quezon Ave.
Barangay West Triangle, 1104 Quezon City
Tel. No.: (02) 426-9734
Fax No.: (02) 926-1355

Metro Central Regional Office
3/F Insular Life Bldg.
6781 Ayala Avenue, 1226 Makati City
Tel. No.: (02) 878-1818 ext. 5616, 5618

Metro East Regional Office
2/F Doña Josefa Bldg.
8002 Aurora Blvd. cor. 15th Avenue
Cubao, 1109 Quezon City
Telefax No.: (02) 441-6761

Metro South Regional Office
17/F Insular Life Corporate Centre
Insular Life Drive, Filinvest Corporate City
Alabang, 1781 Muntinlupa City
Tel. No.: (02) 582-1818 ext. 1864, 5604
Fax No.: (02) 771-1665

North East Luzon Regional Office
2/F Insular Life Bldg.
Maharlika Highway, Villasis
Santiago City, 3311 Isabela
Tel. No.: (078) 305-2991
Fax No.: (078) 682-7278

North West Luzon Regional Office
2/F Insular Life Bldg.
Arellano St., Dagupan City, 2400 Pangasinan
Tel. No.: (075) 522-2176

East Central Luzon Regional Office
2/F Insular Life Bldg.
Rizal St., Matadero
Cabanatuan City, 3100 Nueva Ecija
Tel. No.: (044) 463-7713, 464-1930
Telefax No.: (044) 463-7711

West Central Luzon Regional Office
2/F Insular Life Bldg., McArthur Highway
Brgy. Dolores, City of San Fernando
2000 Pampanga
Tel. No.: (045) 961-7798

East Tagalog Regional Office
2/F Insular Life Bldg.
No. 61 Rizal Ave.
San Pablo City, 4000 Laguna
Tel. No.: (049) 562-7391, 562-4587
Telefax No.: (049) 562-0644

West Tagalog Regional Office
2/F Sayoc-Abella Bldg.
Aguinaldo Highway cor. Tamsui Ave.
Imus, 4103 Cavite
Telefax No.: (046) 502-0151, 471-3380

Bicol Regional Office
G/F Insular Life Bldg.
Rizal cor. Camia Sts.
Legazpi City, 4500 Albay
Tel. No.: (052) 480-5295, 480-5932
Telefax No.: (052) 480-5294

Central East Visayas Regional Office
2/F Insular Life Cebu Business Centre
Mindanao Ave. cor. Biliran Road
Cebu Business Park, Cebu City, 6000 Cebu
Tel. No.: (032) 230-1818 ext. 5803 and 5805
Telefax No.: (032) 266-1721

West Visayas Regional Office
2/F Insular Life Bldg.
Galo cor. Lacson Sts.
Bacolod City, 6100 Negros Occidental
Tel. No.: (034) 434-1058
Telefax No.: (034) 435-0085

North Mindanao Regional Office
3/F Insular Life Bldg.
Don Apolinar Velez cor. Uldarico Akut Sts.
Cagayan de Oro City, 9000 Misamis Oriental
Tel. No.: (08822) 722-576
Telefax No.: (088) 856-4452

South Mindanao Regional Office
M/F Insular Life Bldg.
C.M. Recto Ave., Davao City
8000 Davao del Sur
Tel. No.: (082) 300-8003
Telefax No.: (082) 221-1083

West Mindanao Regional Office
2/F Insular Life Bldg.
Don Anselmo Bernad Ave.
cor. Jose Abad Santos St., Ozamis City
7200 Misamis Occidental
Tel. No.: (088) 521-3275, 521-1475
Telefax No.: (088) 521-3275

THE INSULAR GROUP OF COMPANIES

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

Subsidiaries

Insular Investment Corporation
Investment banking

IIC Subsidiaries:

Insular Property Ventures, Inc.
Residential/ Commercial development

IIC Properties, Inc.
Residential/ Commercial development

Insular Health Care, Inc.
Health/ HMO

ILAC General Insurance Agency, Inc.
General agency

Insular Life Property Holdings, Inc.
Real estate

Insular Life Management and Development Corporation
Management services

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

Affiliates

Mapfre Insular Insurance Corporation
Non-life insurance underwriting

Union Bank of the Philippines
Universal banking

PPI Prime Venture, Inc.
Real estate

Social Commitment

Insular Foundation, Inc.

ABOUT INSULAR

Insular Life was established on November 25, 1910 as the first Filipino-owned life insurance company. It has a long tradition of steadfast commitment to its policyholders, demonstrated by its more than 100 years of continuous service to the Filipino people. Today, it is the largest Filipino life insurance company, with offices in almost all the key cities in the country. Insular Life provides financial solutions through its various products – from whole life, endowment, limited-pay, to pension and unit-linked investment funds – designed to allow individuals to take control over their families' financial security.

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

MISSION STATEMENT

We are Insular, the pioneering and largest Filipino life insurance company.

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

We enable our professional, customer-oriented employee and agency force to render service of the highest quality.

We are experts in our core business, and we operate with excellence at all times to optimize stakeholder value.

We continuously pursue strategic opportunities, and achieve sustained growth through dynamic marketing, prudent investments, and exceptional service.

Insular

The Insular Life Assurance Company, Ltd.
Insular Life Corporate Centre
Insular Life Drive, Filinvest Corporate City
Alabang, 1781 Muntinlupa City, Philippines

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Website	: www.insularlife.com.ph
Facebook	: www.facebook.com/InsularLifePH
Twitter	: @InsularEagle
Blog	: www.savingstips.com.ph
Instagram	: @Insular_Life
YouTube	: www.youtube.com/Insularlifecomph