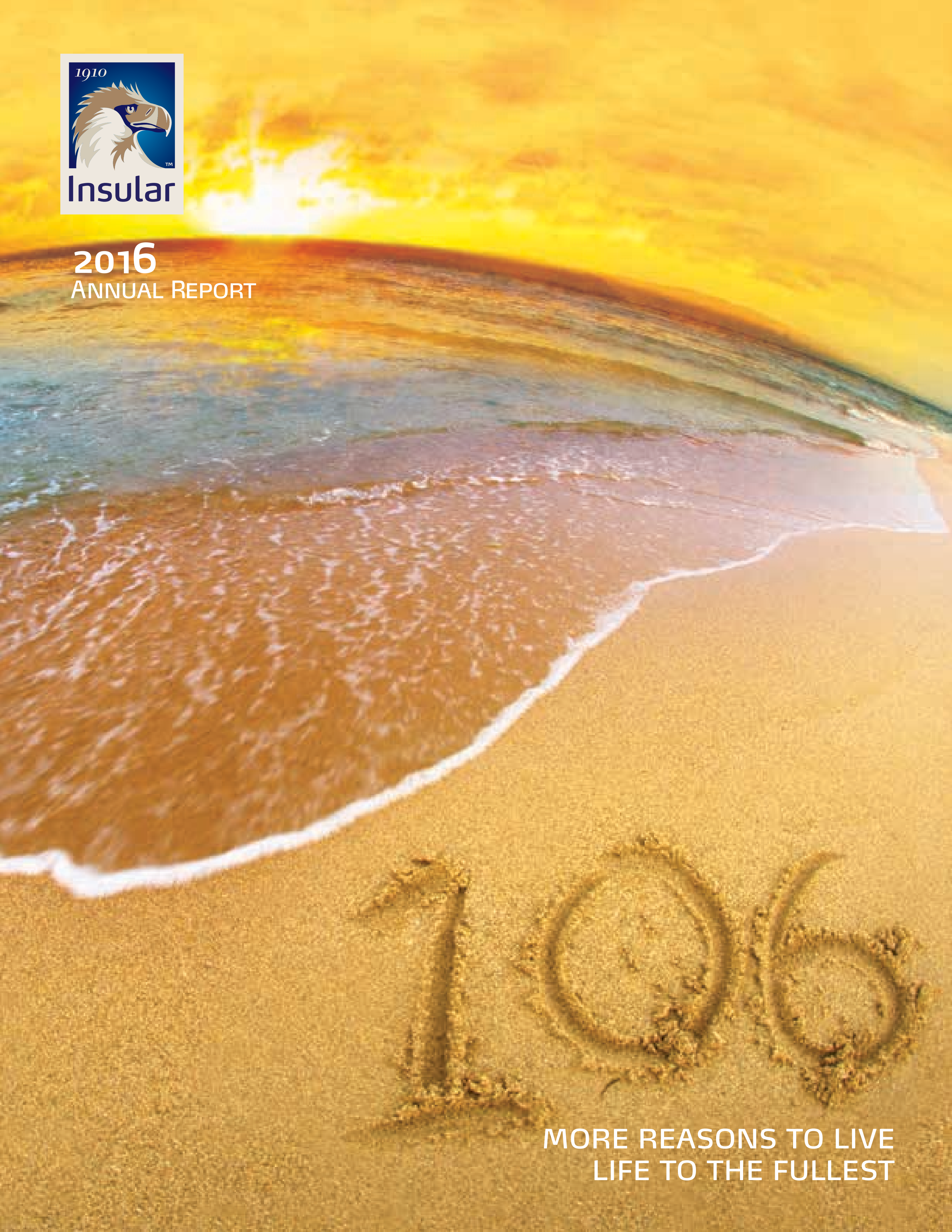
1910 Insular

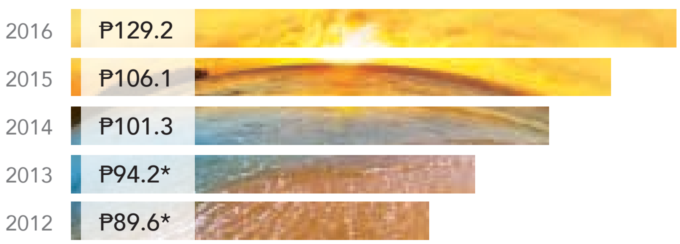
2016 ANNUAL REPORT



MORE REASONS TO LIVE
LIFE TO THE FULLEST

CONSOLIDATED FINANCIAL HIGHLIGHTS (In billion pesos)

Consolidated Assets

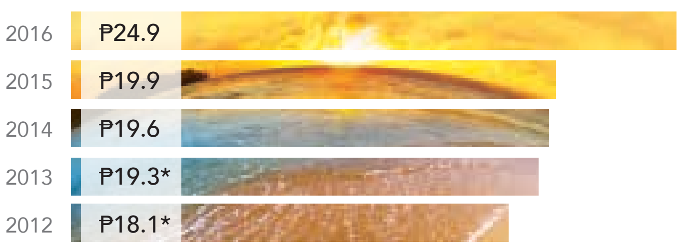


*Restated

Consolidated Net Income

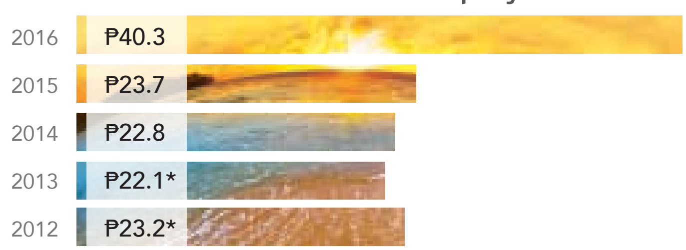
*Restated

Consolidated Revenues



*Restated

Consolidated Members' Equity



*Restated

ABOUT THE REPORT

CONTENT

This Insular Group 2016 Annual Report gives an update on the progress and priorities set out in our previous report in 2015. It contains data and information on various aspects of our business and operations. Our intention is to provide a holistic view of our financial, operational, social responsibility, and governance performance.

AUDIENCE

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

REPORTING CYCLE AND BOUNDARY

This report comes out annually and covers the performances of The Insular Life Group of Companies which is comprised of parent company, The Insular Life Assurance Company, Ltd. (a mutual company); its subsidiaries, Insular Health Care, Inc., Insular Investment Corporation, and Home Credit Mutual Building & Loan Association, Inc.; and its 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 Ms. Michelle D. Santos / Public Relations Staff at mdsantos@insular.com.ph. For other information, please contact:

ATTY. RENATO S. DE JESUS
Senior Vice President
Chief Legal Officer, Compliance Officer and Corporate Secretary
Legal & Corporate Services Division
Filinvest Corporate City
Alabang, Muntinlupa City, 1781
Philippines
rsdejesus@insular.com.ph

MS. ANA MARIA R. SORIANO
Senior Assistant Vice President
Public Relations Staff
Insular Life Corporate Centre
Insular Life Drive,
Filinvest Corporate City
Philippines
arsoriano@insular.com.ph

OUR THEME

106 More Reasons to Live Life to the Fullest plays on Insular Life's track record of 106 years, a feat unequalled in the industry. The image of a never-ending horizon conveys the message of continuity and sustainability, an important factor in selecting one's partner in life.

The horizon also represents the Company's new brand promise of a far-sighted vision and a commitment to look out for its customers' needs at every life stage and to help them plan ahead for an assured and financially secure future.

Concept, design and layout by Studio 5 Design, Inc. • Photography by Ed Nicart III • Cover photo taken at Agutayan Island, Cagayan de Oro

Inside this Report

Numbers that Matter

₱43.9 Billion
NET WORTH (PARENT COMPANY)

₱7.8 Billion
NEW BUSINESS PREMIUM (PARENT COMPANY)

₱133 Billion
ASSETS (PARENT COMPANY)

₱7.9 Billion
GROSS BENEFITS AND CLAIMS PAID (PARENT COMPANY)

₱56.3 Billion
LEGAL POLICY RESERVES (PARENT COMPANY)

₱267.3 Billion

BUSINESS-IN-FORCE
(PARENT COMPANY)

22

TOTAL NUMBER OF INSULAR LIFE
BUILDINGS NATIONWIDE

53

TOTAL NUMBER OF INSULAR LIFE
BRANCH OFFICES NATIONWIDE
(AS OF END APRIL 2017)

37 years old

AVERAGE AGE OF INSULAR LIFE EMPLOYEES

68% (529 of 771)

PERCENTAGE OF INSULAR LIFE EMPLOYEES
40 YEARS AND BELOW

91%

PERCENTAGE OF LOMA TAKERS WHO PASSED

15 years

NUMBER OF YEARS THAT INSULAR LIFE
HAS BEEN A RECIPIENT OF THE LOMA
EXCELLENCE IN EDUCATION AWARD

THE INSULAR LIFE ASSURANCE CO., LTD.

CONSOLIDATED FIVE-YEAR FINANCIAL HIGHLIGHTS (In million pesos)

FOR THE YEAR	2016	2015	2014	2013 (As restated)	2012 (As restated)
Net Income per FS	**4,933**	1,769	2,949	2,392	3,217
Net Insurance Revenue per FS	**12,929**	13,587	12,784	12,342	10,444
Operating Revenue	**11,978**	6,348	6,846	7,003	7,645
Total Revenue per FS *(Net Insurance Revenue + Operating Revenue)*	**24,907**	19,935	19,630	19,345	18,089
Assets	**129,245**	106,147	101,354	94,202	89,601
Cash and Cash Equivalents	**7,865**	7,108	7,260	5,499	4,704
Cash on hand and in banks	***549***	*584*	*1,108*	*864*	*908*
Cash equivalents in commercial banks	***7,315***	*6,524*	*6,152*	*4,635*	*3,796*
Liabilities	**88,991**	82,427	78,505	72,105	66,358
Retained Earnings	**26,600**	21,676	20,442	18,312	17,225
Appropriated	***550***	*250*	*250*	*250*	*250*
Unappropriated	***26,050***	*21,426*	*20,192*	*18,062*	*16,975*
Members' Equity	**40,254**	23,719	22,849	22,097	23,243
Total Liabilities and Members' Equity	**129,245**	106,147	101,354	94,202	89,601

THE INSULAR LIFE ASSURANCE CO., LTD.

PARENT COMPANY FIVE-YEAR FINANCIAL HIGHLIGHTS (In million pesos)

FOR THE YEAR	2016	2015	2014	2013	2012 (As restated)
Net Income per FS	**3,684**	1,407	2,355	1,503	2,131
Net Insurance Revenue per FS	**12,660**	13,382	12,584	12,121	10,188
Operating Revenue	**10,699**	5,943	6,196	6,049	6,383
Total Revenue per FS *(Net Insurance Revenue + Operating Revenue)*	**23,359**	19,325	18,779	18,170	16,571
Assets	**132,975**	108,029	104,393	100,108	92,941
Cash and Cash Equivalents	**7,256**	6,618	6,861	5,149	4,537
Cash on hand and in banks	***327***	*439*	*921*	*709*	*770*
Cash equivalents in commercial banks	***6,929***	*6,179*	*5,940*	*4,440*	*3,767*
Liabilities	**89,102**	82,577	78,640	72,253	66,396
Retained Earnings	**18,024**	14,340	13,449	11,900	11,125
Appropriated	***550***	*250*	*250*	*250*	*250*
Unappropriated	***17,474***	*14,090*	*13,199*	*11,650*	*10,875*
Members' Equity	**43,873**	25,452	25,753	27,854	26,546
Total Liabilities and Members' Equity	**132,975**	108,029	104,393	100,108	92,941
New Business Premiums	**7,786**	8,490	7,865	7,349	5,246
Total Premiums	**12,479**	12,765	11,928	11,277	9,354
Gross Investment Income	**4,606**	4,254	4,223	4,438	5,444
Legal Policy Reserves	**56,317**	52,677	51,058	49,554	47,491
Net Worth	**43,873**	25,452	25,753	27,854	26,546
Gross Benefits and Claims Paid	**7,949**	9,464	9,934	8,325	7,088

A Game Changer

Dear Valued Policyholders:

Producing good results under favorable conditions is always welcome, but is also expected. Managing to post strong results in times of uncertainty, on the other hand, is proof of a successful business strategy and years of experience.

Amid the challenges in the global economy and here at home, your Board of Trustees is again pleased to report another year of good results for the Insular Group. We posted ₱4.9 billion in consolidated net income in 2016, 172 percent higher than the ₱1.8 billion in 2015. Our consolidated total revenues grew by 25 percent to ₱25 billion on the back of higher gains from the sale of equities and properties, investment income and earnings of associates.

"Your Board has worked closely with the senior management team, as well as our regulators, to ensure we remain on the leading edge of key industry developments."

In comparison, the local insurance industry recorded flat growth of 0.29 percent in terms of total premium income in 2016, with the life sector posting a decline while non-life players posted a significant expansion, according to the Insurance Commission (IC).

The investments we have made in recent years are starting to pay off, and we expect these will continue to grow. Of particular note are the investments we made in upgrading our core technology platform to better respond to policyholders' needs as they choose to manage their finances in new and different ways.

Such changes bring new and different risks as well. Your Board has worked closely with the senior management team, as well as our regulators, to ensure we remain on the leading edge of these developments. We have made significant investments in risk management and compliance that make us stronger and more resilient.

In 2016, we bared our plan to demutualize as one of the possible strategies to optimize Insular Life's future growth and success, and to ensure the long-term interest of our policyholders. Demutualization will transform us into a publicly traded stock company owned by shareholders who may or may not be policyholders. However, after a year of careful study, we have decided to defer our plan, pending enough evidence to support a change in our corporate structure.

In the meantime, another strategic initiative that we were pursuing alongside demutualization is almost complete. In 2016, we started exploring bancassurance as a channel to further expand our reach across to more policyholders. Finally, in early 2017, we entered into a bancassurance distribution agreement with Union Bank of the Philippines, one of the Philippines' leading universal banks, and its subsidiary City Savings Bank. We expect bancassurance to complement our agency distribution channel and produce stronger results in the years ahead.

All of these building blocks rest on a deeper foundation: the trust that Insular Life has earned from its policyholders, employees, and other stakeholders. This trust emboldens us to introduce high-impact digital strategies in pursuit of a differentiated customer experience, efficiency and quality earnings growth.

Our pledge to uphold your trust is also the impetus that drives us to ensure the best leadership for the Insular Group. Thus, as we have reported during the 30th Annual Regular Members' Meeting, there have been several changes in our Board. On 24 January 2016, Mr. Victor B. Valdepeñas was elected as Chairman of the Board, following Mr. Vicente R. Ayllón's retirement, and Ms. Nina D. Aguas, who was previously an Independent Trustee, became the Company's first female CEO.

In August 2016, I succeeded Mr. Valdepeñas as Chairman of the Board. My two predecessors have left huge shoes to fill, particularly Mr. Ayllón who completed his term as Chairman Emeritus in end-2016.

I will continue to look to both of these men with inspiration and respect.

At the same time, we also welcomed Mr. Nico Jose S. Nolledo, who was elected as an Independent Trustee: the youngest-ever to sit in our Board.

2016 has been a year of transition for Insular Life, during which changes have taken place to position your Company for the long haul. But the coming year will be an equally important one for all of us as we continue to differentiate Insular Life in terms of customer experience.

On behalf of the Board, I would like to thank our dedicated Management team and Board members for working tirelessly to ensure Insular's sustained success.

I look forward to continuing this journey together in 2017 and beyond.

Luis C. la Ó
Chairman of the Board
April 2017

Defying the Odds

Q & A WITH MS. NINA D. AGUAS

2016 has been a politically charged and volatile year for many around the world, particularly in the United States, China, Japan, and countries in Europe. The Philippines was not totally spared from the global headwinds because of its own market challenges, as well as the political uncertainty from the May 2016 presidential elections.

Ms. Nina D. Aguas, whose term as Insular Life CEO just turned a year old in January 2017, shares how the Company managed to post a stellar performance and managed to demonstrate once again its resilience in the face of uncertainty.

How would you describe Insular's performance in 2016? What are the main drivers of growth?

Our Insular Life Group earned a record-breaking net income of ₱4.9 billion, ₱3.1 billion or 172 percent increase compared to ₱1.8 billion in 2015. Our consolidated revenues reached ₱25 billion, up by ₱5 billion or 25 percent from the ₱20 billion in the previous year. The increase in revenues was due to higher gains from sale of equities and properties, investment income and earnings of our associates. Consolidated total assets went up to ₱129 billion, ₱23 billion or 22 percent more than ₱106 billion a year ago. Consolidated net worth amounted to ₱40.3 billion, up by ₱16.6 billion or 70 percent from ₱23.7 billion in 2015.

While Insular Life posted monthly increases in new business premium production for eight consecutive months and also increased its renewal premiums, we were not shielded from the volatile market conditions that caused a sharp drop in single premiums. As a result, our total premium income was slightly down by ₱380 million or 3 percent to ₱12.3 billion, reflective of the industry decline of 3 percent.

Still, I believe Insular Life's overall performance in 2016 was exemplary. We attribute this achievement to the robust revenues from insurance and investment, and from higher capital gains on the sale of shares of stocks and properties. The increase in members' equity can be attributed to the gains in the market value of our equity holdings and our higher net income.

What factors in the external and internal environment contributed to your performance?

On the financial front, we had to make certain decisions in the light of regulatory initiatives on Risk-Based Capital (RBC). We saw an opportunity to realign our assets towards income generation to further strengthen our RBC position. The successful initial public offering of one of our major equity holdings also had a significant and positive impact on the value of our investments.

On the sales side: a slower-than-usual market response at the beginning of 2016 had the biggest impact on our business production. Notwithstanding this slow pace, Insular Life's equity funds that support our investment-linked insurance products were the best-performing funds in 2016 and have consistently outperformed the Philippine Stock Exchange Index.

What fresh opportunities for growth did you see and seized in 2016?

Insular Life marked its 106th year of existence in 2016. We continue to transform and find ways to design and offer relevant products and services to help secure the financial future of every Filipino. This is consistent with our advocacy to provide a *"Magandang buhay bukas"* to our countrymen.

In terms of opportunities, we forged strategic partnerships as an avenue for growth and expansion in reach and capability. In the fourth quarter of 2016, we entered into a bancassurance relationship with one of the leading banks in the country: Union Bank of the Philippines (UnionBank). After besting four other major foreign players in the country, we successfully signed a Distribution Agreement with UnionBank in January 2017.

Digital technology is another arena that we see as a game changer for the insurance business, and presents new possibilities for consumers to do pre-purchase research and engage with companies. We want to better understand the needs and preferences of our customers by leveraging social media and big data analytics as we serve and maintain the trust of our policyholders.

Towards this end, we sought to further expand our traditional, as well as allied, distribution channels and leveraged on technology by developing a best-in-class automated underwriting system. This would not only enable our sales force to be more productive, it will also benefit our policyholders in terms of faster and simpler processing and approval of their insurance applications.

2016 was your first year as CEO of Insular Life. How would you describe the challenges, especially of running a Filipino-owned institution that is over a century old? Where do you want to take Insular Life in the next 3-5 years?

Inheriting a 106-year old company from a predecessor who has been at the helm for decades presents its own unique set of challenges, as well as opportunities. We have always been an all-Filipino institution competing in an industry dominated by foreign insurance providers, some of which are among the best in the world. Competition is good and healthy. This inspires us to continue working hard to remain top of mind with our customers. Among others, the challenge we face is keeping the institution relevant and connected with our existing policyholders, as well as reaching out and providing a compelling proposition to future generations of policyholders.

As a newcomer to the industry, I realized how the whole concept of insurance and assurance has been underappreciated. Many Filipinos establish a banking relationship for savings and investments as their first financial relationship, and believe it ends there. Many do not yet appreciate that life insurance is a primary and essential risk protection instrument, as well as a long-term investment vehicle.

As with banking, where I spent over 30 years, life insurance is a fiduciary responsibility and accountability. It is also a much more involved people business. In my view, we need to transform and consistently deliver excellence in customer experience, as well as leverage digital and social media, to connect and communicate with our customers, our partners and our marketplace at large. We should strive to talk to them more often.

In terms of distribution, we have a limited bandwidth; our agency force is far from being the largest in the industry, although it performs competitively with other agency-led companies in terms of production and productivity. Even as we continue to strengthen our traditional agency channel, we also strive to find additional channels to reach out to more clients. Likewise, we need to find ways to lead and articulate a strategy for a respected 106-year old institution through the digital revolution where innovation and disruption is called for to enhance our product and service offerings.

How did you arrive at the decision to go into bancassurance?

Historically, Insular's business model has been built on its strong, resilient agency franchise. In recent years, however, both in the country and overseas, other sales channels have emerged and have been performing significantly, notably bancassurance distribution. Increasingly, customers want to have more options on how they want to interact with their potential insurer. They will do so via a channel of their choosing. We need to continue developing multi-channel distribution capabilities, including bancassurance, in order to remain competitive and to help secure the long-term future of the Company.

How will Insular benefit from its bancassurance partnership with a technology-driven bank like UnionBank?

We were in search of a bancassurance partner that shares our values. We have a long tradition of steadfast commitment to our policyholders. Insular Life is a trusted and respected company in an industry dominated by foreign players.

Through this bancassurance partnerhip, we will benefit from UnionBank's group network of over 300 branches and offices with more than six million customers. It opens up a new distribution channel to complement our agency franchise and provides a new revenue stream for both our institutions.

As with any partnership, there is no greater feeling than that of finding the right bancassurance partner, and together, providing products and services which impact Filipino families and communities in a profound way.

Bancassurance provides for bilateral benefits to both parties. For UnionBank, the agreement makes it possible to complete its product suite that ultimately helps customers elevate their lives and fulfill their dreams. Together, we will continue to create value for the stakeholders of our two great companies and assert leadership in our respective industries.

#UnionForLife: *Insular and UnionBank Partnership*

With a growing economic pie that is racing the world's developed economies, the Philippines is considered a fertile spot for financial instruments. And with interest rates still relatively low, banks find themselves competing against other financial institutions that offer investment-linked instruments with higher yields than those gained from traditional savings accounts.

In this age of collaboration, however, these institutions realize that the mantra, "If you can't beat them, join them" makes more business sense. So as not to compete for a share of their customers' wallet, they instead partner for mutual gain.

And this is where "bancassurance" comes in.

Bancassurance refers to the selling of insurance policies within bank branches. Under Republic Act 10607 or the amended Insurance Code, banks are no longer required to have a 5 percent equity in insurance companies to enter into a bancassurance deal. Any lender can enter the bancassurance business as long as the bank complies with the requirements of the Insurance Commission and the Bangko Sentral ng Pilipinas.

In 2016, homegrown insurance giant Insular Life started exploring a bancassurance partner, and finally entered into a bancassurance agreement with Aboitiz-led Union Bank of the Philippines (UnionBank) in early 2017.

UnionBank and its wholly owned subsidiary, City Savings Bank, will distribute and sell Insular Life products through its network of over 300 branches and offices nationwide with more than six million customers.

"Bancassurance opens up a new distribution channel to complement our agency franchise and provides a new revenue stream for both our institutions," said Nina D. Aguas, Insular Life's Chief Executive Officer.

UnionBank President and Chief Operating Officer Edwin R. Bautista said of the partnership, "At the end of each day, we UnionBankers always ask ourselves whether we served our customers in a way that helped them elevate their lives and fulfill their dreams. Before this partnership with Insular Life, I was always hesitant to answer "yes" convincingly, as I thought we missed an important and basic component – insurance. I am delighted that we are finally completing our product suite, and even more thrilled that we are signing with a company that has a long history of being our partner. We see this partnership enduring for decades."

"As with any partnership, there is no greater feeling than that of finding the right bancassurance partner. For

In the 2016 Annual Members' Meeting, you reported on a possible change in corporate structure and demutualization was one of the options that Insular might pursue. Has the Board and Management already arrived at a decision on demutualization?

Demutualization remains in the agenda. We have done extensive consultation and research on this, including the experiences of insurers in other countries, and after much deliberation and consideration, the Board of Trustees has decided to defer the undertaking to a later date. We will revisit this once we see a compelling need to change our corporate structure within a changing business environment, and of course, always taking into consideration what is best for our policyholders.

What growth opportunities do you see for Insular in 2017, and how will this impact your policyholders?

2017 and beyond will continue to be challenging given the many external developments, both here and abroad, that are still unfolding and will surely influence this "new normal" space that we operate in. Transformation and allowing ourselves to be disrupted would be critical. We need to keep our focus on the strategic priorities that we laid out for ourselves.

Subsequently, all initiatives are directed towards providing customer excellence by putting their perspective first in our decisions and operational capability. With even greater resolve we recognize the changing dynamics of customer engagement and their new expectations.

What is your outlook – both for the global and local economies, as well as the Philippine insurance sector – this 2017?

I do not have a crystal ball nor will I attempt to forecast the future. We all read, watch and hear from most likely the same sources. This said, I view 2017 with continued optimism. There is so much going for the Philippine economy: the government's serious infrastructure development programs, as well as consumption spending fueled by OFW remittances and BPOs contributing decent growth to our GDP.

We cannot be distracted by short-term events; instead, we need to keep our focus on our key stakeholders and deliver on our commitments to them. Planning forward and seeking opportunities in these hard-to-predict times drive one to create a really strong company, keeping true to our values and culture, constantly seeking ways to transform and innovate, and yes, look after our people. It is only by pursuing all these relentlessly that we stay a relevant and respected institution way beyond our 106 years.

Because Insular is the "Most Trusted Brand" in the life insurance industry, a distinction we carry proud and tall, it is incumbent on all of us to secure the organization's future decades from now. The attributes of trustworthiness and credibility, quality, value, understanding customer needs, innovation, and social responsibility are intangible but powerful measures that we will continue to pursue and live by.

us in Insular Life, that's UnionBank. We were in search of a bancassurance partner who shares our values. We have a long tradition of steadfast commitment to our policy holders, a respected Filipino company in a Philippine industry dominated by foreigners. UnionBank is also a proud Filipino company, recognized internationally, as among the best-in-class in global league tables," Aguas explained.

While both institutions have been long-time partners, with Insular Life owning an equity stake in UnionBank, the 106-year old insurer still had to go through a tedious bidding process to seal the deal.

To win UnionBank's heart, Insular Life bested four major foreign players setting their sights on the lucrative partnership. The fact that both Insular Life and UnionBank are 100 percent Filipino-owned is no pure coincidence.

"We have a 106-year track record in the Philippines and UnionBank has been serving the local market for nearly half a century now. We both know the kind of products and services that will benefit and impact the lives of Filipino families and communities in a profound way," Ms. Aguas said.

Aside from corporate pedigree, Insular also share the universal bank's pioneering spirit when it comes to service innovation. In 2016, the local insurer introduced a game-changer in the Philippine insurance industry when it launched the Automated Underwriting (AU) system. Under the setup, an Insular Life financial advisor can underwrite a customer as soon as the latter decides on a product. This enables the insurer to quickly render an underwriting decision in the process.

"While many foreign companies already have a system for underwriting submissions, they don't have a system that renders automated decision like ours. So it was also having an IT edge that clinched us the bancassurance partnership, in addition to the unique business model that we proposed," Ms. Mona Lisa B. de la Cruz, Insular Life President and Chief Operating Officer, added.

Mr. Omar T. Cruz, former president of a bancassurance business joint venture, and former Philippine National Treasurer, was appointed Insular Life Senior Executive Vice President tasked with leading the bancassurance operations.

With bancassurance, Insular Life will be able to reach out to more Filipinos and help the country improve its insurance penetration rate, now the lowest in the ASEAN region at less than 2 percent of GDP. It will also enable the Company to fulfill its corporate mission: 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.

Building for the Future

Q & A WITH MS. MONA LISA B. DE LA CRUZ

The Philippines' insurance sector is on the threshold of a dramatic transformation. With opportunities from the ASEAN integration and from the increasing use of digital technology, as well as emerging risks from market volatility, cyber crime, fraud or corporate liability, the Insurance Commission has been laying down reforms to strengthen the sector.

Ms. Mona Lisa B. de la Cruz, Insular Life President and Chief Operating Officer, talks about how the Company continues to make significant progress amid the changing landscape, and how it is future-proofing the business.

How did the local insurance sector fare in 2016?

The year 2016 was filled with uncertainty. Everywhere — from "Brexit" and China's economic slowdown, to the surprising outcome of the U.S. presidential election as well as ours — there were just too many political and policy uncertainties, enough to send businesses and investors on a rollercoaster ride. Naturally, these jitters made people hold back on major investments, including insurance.

In the Philippines' case, this was quite pronounced towards the May presidential election, not knowing the winning candidate early on, and how his administration will lead to drastic policy changes. This political anxiety somewhat ebbed when the President-elect made a pronouncement that he will continue and maintain the economic policies of his predecessor.

As a result of the market uncertainty, the local insurance sector did not grow as much in terms of premiums. The latest data from the Insurance Commission (IC) show flattish growth in total premiums for 2016, on the back of a decline in the premium production of the life sector. The value of total premiums grew by 0.29 percent to ₱231.9 billion versus ₱231.2 billion in 2015. Total life premiums fell by 3.04 percent to ₱182.8 billion from ₱188.5 billion, year-on-year. The decline was slightly offset by the increase in the non-life sector, with total net premiums of ₱41.6 billion, or 16.24 percent higher than ₱35.8 billion in 2015.

How did Insular manage to have positive financial results despite the political and economic headwinds in 2016?

In a year filled with uncertainty, we performed extremely well. Parent company Insular Life generated net income of ₱3.7 billion, up from ₱1.4 billion in 2015. We also posted ₱23.4 billion in revenues, an increase of 21 percent. Contributing heavily to the Company's very good performance are the significant growth in investment income particularly dividends from equity investments, and realized gains. During the year, the Company booked gains of ₱3.3 billion from the sale of stocks and ₱1.9 billion from the sale of properties.

Parent company's assets grew 23 percent, from ₱108 billion to ₱133 billion, for the same period in review. We had a net worth of ₱43.9 billion, a 72 percent improvement from the 2015 level.

Total business-in-force in 2016 stood at ₱267.3 billion, with 334,996 policies. This represented a 6 percent growth from the previous year's ₱251.5 billion, with 321,281 policies in force.

The stock markets around the world were on a wild ride, primarily because of the U.S. Federal Reserve rate hike. How did Insular Life's Wealth Series unit-linked funds survive this turbulence?

Insular manages nine funds under the Wealth Series portfolio, and their combined fund value as of 31 December 2016 was ₱21.2 billion. Despite the fact that the Philippine composite index declined by 1.6 percent year-on-year, our Equity Fund, Growth Fund, and Balanced Fund still managed to emerge as the best-performing funds in their category for 2016.

Our peso-denominated funds outperformed the market in general. Through it all, most investors of Insular Life's variable unit- linked (VUL) funds held on and were rewarded by very decent returns. Among these funds, the Growth Fund posted the highest return at 4.04 percent, followed by the Equity Fund at 3.21 percent. The Balanced Fund, a mixed basket of equity and fixed-income assets, also delivered a respectable return of 2.64 percent.

The commendable performance of these funds is really good news to our VUL policyholders.

What new products did you launch in 2016?

We consider 2016 as an "opportunistic" year for new investments. Thus, in addition to our six open-end variable funds, we launched three new variable unit-linked (VUL) funds: the Guardian Fund and the Peso and Dollar Money Market Funds. We also launched a new Variable Returns Asset (VRA) product package, the First Million Fund.

Other new products launched in 2016 were Wealth Protect, Payor Riders for Death and Disability (PR and PRWPD), and Waiver of Premium Rider (WPD) for VUL products.

More than delivering returns, these VUL products provide insurance protection, such that whatever happens, a policyholder's family is still protected from the risk of income loss.

What would you consider as a company milestone in 2016?

While we made great strides since embarking on our *"Magandang Araw"* service brand, we continue to improve on our service delivery to serve our customers even better.

In 2016, we started taking our customer journey farther by offering an "omni channel" world of customer experience. This means providing as many customer touch points as possible, deepening our understanding of our customers, as well as being more responsive to their needs. By focusing on ways to enhance customer experience, we also improve on our operational efficiency.

To improve new business efficiency and to attract a more tech-savvy sales force, we took the lead in utilizing technology to speed up the insurance policy application process. In November 2016, we launched the first integrated web-based proposal, sales illustration, and Automated Underwriting (AU) system in the Philippines. This can be accessed through our online agent portal.

Under the new AU system, the application process and the delivery of the new policy are much faster. We were able to cut the waiting period, from the previous two to three days, to as short as a few minutes. Underwriting decisions are immediately given, and ratings are reflected in the proposals. This, and having a single customer view, enable us to better serve our clients by offering products that are more suited to their profiles and needs at much faster delivery times.

We are also excited about the launch of our e-commerce platform that will introduce a new distribution line for Insular Life. This platform is well-suited to the new generation of customers who are comfortable with end-to-end processes done online.

Insular Life recently entered into a bancassurance partnership with Union Bank of the Philippines. How will this help you reach more customers?

Bancassurance is increasingly becoming a key growth area for banks across the region. This partnership will enable Insular to cross-sell our insurance products within the premises of UnionBank or any of its network of over 300 branches and offices to more than six million customers.

Bancassurance will strengthen our agency force and enable us to reach more customers. We hope to double our production as a result.

The local insurance market is still in a very nascent growth stage. Insurance penetration – or the ratio of insurance premium to Gross Domestic Product (GDP) – at less than 2 percent of the country's GDP in 2016, is among the lowest in the region, according to the ASEAN Insurance Council (AIC) and the Insurance Commission of the Philippines. Given this situation, the expansion of our distribution capabilities through our partnership with UnionBank will enable us to help more Filipinos get the insurance protection they need.

For an institution that is already 106 years old, how do you remain relevant to the millennial generation?

Some Asian markets already have an ageing population and, as a result, are experiencing economic slowdown. The Philippines is in a different stage: it is just beginning to reap the so-called "demographic dividend" with a bigger chunk of Filipinos making money as part of the workforce, against the number of young and old dependents.

This is why we at Insular Life want to invest in the future of our millennial customers. We know that millennials do not stay in the YOLO ("You Only Live Once") phase forever. Eventually, they transition to concern themselves with the more serious aspects of life, a phase that millennials have dubbed 'adulting'. Part of this adulting phase is realizing the need to save for their future and become more conscious about reaching their financial goals.

In order to deepen our relationship with our young policyholders, we have come up with products and services that are more relevant to their adulting needs, such as the First Million Fund. We have also been able to attract a growing number of millennial agents who are at their adulting phase, stepping into the grown-up world. These agents more easily relate to our younger policyholders who are also digital natives like them.

By engaging our millennial market in social media, our *"Magandang Araw"* brand campaign has now become a social movement: our young policyholders actively share how they choose positivity every day, and how it creates a ripple effect on the lives of people around them.

"This kind of terrain, however, is no uncharted territory for a 106-year old institution like ours. Insular Life has a proven track record in adapting to rapidly evolving markets. As long as our culture remains customer-centric, innovative, and technology-driven, and we continue to remain true to our purpose, we are confident that we can sustainably drive growth, bolster efficiency, improve customer experience, and head off emerging competition."

What would be the biggest challenges for Insular Life and the insurance industry in 2017 and the coming years?

Many industry players actually spent a great deal of time in 2016 preparing for a slew of new regulations. There were a lot of policy discussions on the adoption of international standards for capital and for insurance policy reserves.

The Insurance Commission (IC), through Republic Act 10607 or the new Insurance Code, mandated that all existing insurance companies must increase their minimum net worth from ₱250 million to ₱550 million by December 31, 2016.

As a mutual company, Insular Life's capital is based on net worth, which at ₱43.9 billion as of end-2016 is more than enough to comply with the minimum capitalization requirement.

Another challenge for many industry players is the new framework on Risk-Based Capital (RBC). This provides for the minimum amount of capital that an insurance company must have based on the risk it undertakes. This strengthens a company's ability to withstand the volatilities in its environment.

The new RBC requirement and the minimum capital requirement are concerns for many smaller industry players. Nevertheless, these are needed to bring the local insurance industry at par with its counterparts in neighboring countries.

The regulatory environment in which we operate is constantly changing, and our customer demographic is changing as well. In 2017, we will have to be nimble to confront a marketplace that is undergoing dramatic transformation than perhaps ever before.

We also have to anticipate potential challenges, for example, interest spikes from current historic lows. These hurdles, along with slowing global economies, could make it difficult for many insurers to generate the returns they need to attract and retain clients profitably.

This kind of terrain, however, is no uncharted territory for a 106-year old institution like ours. Insular Life has a proven track record in adapting to rapidly evolving markets. As long as our culture remains customer-centric, innovative, and technology-driven, and we continue to remain true to our purpose, we are confident we can sustainably drive growth, bolster efficiency, improve customer experience, and head off emerging competition.

Steadfast Commitment

In its 106 years of doing business, Insular Life has ingrained corporate governance principles and practices in all of its strategic initiatives and business affairs. Amid stricter regulatory environment, rapidly evolving technology, and increased industry competition, the Company remains steadfast in its commitment to good governance in all levels of its organization.

CORPORATE GOVERNANCE CONFIRMATION STATEMENT

The Company adopts internationally recognized corporate governance best practices to serve its stakeholders' interests. It complies with local laws, rules and regulations which include the Insurance Commission's (IC) Corporate Governance Principles and Leading Practices, and other related guidelines. These principles and practices are reflected in the Company's Manual on Corporate Governance (MCG) and Code of Conduct. The MCG, the Company's Articles of Incorporation, and its By-Laws provide guidance to the Board of Trustees and its Committees in performing their duties and responsibilities in an effective and ethical manner. The Company's Code of Conduct prescribes the conduct of Insular Life professionals as they observe and embody its core values to promote a culture of good corporate governance. The Company monitors compliance with these guidelines through regular audit and annual review of performance. These policies demonstrate that the Company is in full compliance with the mandates of corporate governance.

BOARD OF TRUSTEES

The Board sets the tone in fulfilling the Company's commitment to protect the interests of its Stakeholders as it carries out its fiduciary duties.

The Board steers the Company towards its goals. It monitors the implementation of corporate strategy and reviews its vision and mission statements. The Board delegates the day-to-day management of the Company to the Chief Executive Officer (CEO), the President and Chief Operating Officer (COO), and to other members of Senior Management. However, the Board retains oversight and monitoring functions. It also determines and approves the remuneration of Management and Executive Trustees, including that of the CEO. Compensation received by key management personnel is disclosed in the "Notes to the Financial Statements" section of this report.

BOARD COMPOSITION AND DIVERSITY

The composition of the Board of Trustees takes into account the following criteria:

1) a member of the Company
2) a Filipino citizen
3) a resident of the Philippines
4) with qualifications that are aligned with the strategic directions of the Company
5) none of the prescribed disqualifications, all of which are in accordance with the Company's By-Laws.

Apart from these qualifications, the selection of a Trustee is not restricted to age, race, gender or religious belief.

In selecting a Trustee, the Company adheres to the provisions of its By-Laws and Manual of Corporate Governance that cover the following:

- Announcement of acceptance of nominations for the position of a Trustee as published in newspapers of general circulation;
- Submission by the Nominations Committee (NomCom) of the Board of the names of the Nominees and their written acceptance of the nominations; and
- Election during the Annual Members' Meeting.

The NomCom undertakes the process of identifying the qualities that must be possessed by a candidate which must be aligned with the Company's strategic directions. In addition, they ensure that all the Trustees possess relevant competence and experience for the Board and Board Committee membership.

The Company uses professional search firms and other external sources when looking for qualified candidates for the Board, if necessary.

The nine (9) members, led by the non-executive Chairman, Mr. Luis C. la Ó, were elected for their competence and unquestionable integrity. All Trustees are experts in their respective fields and possess all the qualifications set in the Company's By-Laws and MCG.

To ensure efficient and effective decision making, all Trustees are required to devote time and attention necessary in the performance of their roles, including sufficient time to be familiar with the Company's business, in accordance with the MCG.

In 2016, the Board had an equal mix of Executive, Non-Executive, and Independent Trustees, thereby ensuring a balanced structure and diversity of perspectives during Board meetings. A third of the Board is also composed of women. None of the Independent Trustees occupy board seats in more than five (5) publicly listed companies (PLCs) and there is also no Executive Trustee who sits in more than two (2) boards of PLCs. Full disclosure of any significant change in the directorships or other significant commitments outside of Insular Life is required from each of them.

The Company has three (3) Independent, Non-Executive Trustees, namely: Messrs. Luis Y. Benitez Jr., Delfin L. Lazaro, and Nico Jose S. Nolledo. They are known for their expertise in accounting and audit, banking, finance, management and information and communications technology. Mr. Benitez is a Certified Public Accountant and has previously occupied an executive role in one of the leading audit firms in the country. Mr. Lazaro is a business executive with a distinctive career that spans decades in the public and private sectors. Mr. Nolledo is a leader in transformative techno-preneurship. They are all independent of management.

The Company complies with the Insurance Commission's Circular Letter 2014-49 dated 11 December 2014 that provides for the maximum term limit of Independent Directors/Trustees.

BOARD ORIENTATION AND CONTINUING EDUCATION

The Chairman of the Board provides for an adequate Board orientation and continuing education process, both for new and incumbent Trustees, in accordance with the MCG. All new Trustees are oriented on the Company's structure, business, legal and regulatory environment, and corporate governance practices. They are also apprised of vital corporate documents and relevant policies that define their duties and responsibilities as a Trustee. The in-house orientation is conducted by the Chairman of the Board, the Chief Executive Officer, the President and Chief Operating Officer, and the Corporate Secretary.

The Company encourages its Trustees to attend ongoing or continuous professional education programs to enrich their expertise and experience. It seeks new avenues to further improve its corporate governance framework beyond the legal and regulatory requirements to protect the interest of all stakeholders. All Trustees have attended a corporate governance orientation in compliance with the Insurance Commission's Fit and Proper requirement.

The Company held a corporate governance seminar entitled "Corporate Governance and Risk Management" for its Board and Management on 31 March 2016, with no less than Insurance Commission Deputy Commissioner Vida T. Chiong giving the opening statement and providing an overview of the current regulatory environment, as well as the future directions of the Commission. The resource speakers, Ms. Rebecca G. Sarmenta and Mr. Leonardo J. Matignas, Jr. of Sycip, Gorrez, Velayo and Company (SGV & Co.), provided the attendees with regulatory and enterprise risk management updates.

BOARD MOVEMENTS

To ensure continuity in business operations and a seamless transition in case of changes in the membership of its Board and Senior Management, the Company has a succession planning policy as provided in the By-Laws and in the MCG.

CHAIRMAN OF THE BOARD

Mr. Luis C. la Ó, who replaced Mr. Victor B. Valdepeñas as Chairman of the Board of Trustees upon the latter's resignation on 31 July 2016, has extensive experience as Director/Trustee and as a member of senior management in life, non-life insurance, and reinsurance companies. As a Non-Executive Trustee, he exercises the functions of his office independently from management and is free from any interest, any business or other relationships that could interfere with his independent judgment. His roles and responsibilities as Chairman of the Board are stated in the MCG. His credentials are also indicated in the Credentials Section of this Report.

TABLE OF BOARD COMMITTEE MEMBERSHIP
(as of 31 December 2016)

Name of Committee	Chairman	Vice Chairman	Member/s
Executive Committee	Nina D. Aguas	Francisco Ed. Lim	Mona Lisa B. de la Cruz Delfin L. Lazaro (Independent) Luis C. la Ó
Audit and Risk Management	Luis Y. Benitez, Jr. (Independent)	Delfin L. Lazaro (Independent)	Nina D. Aguas (Non-Voting) Francisco Ed. Lim Nico Jose S. Nolledo (Independent)
Finance, Budget and Investment	Luis C. la Ó	Nina D. Aguas	Luis Y. Benitez, Jr. (Independent) Francisco Ed. Lim Jesus Alfonso G. Hofileña
Governance	Francisco Ed. Lim	Luis Y. Benitez, Jr. (Independent)	Delfin L. Lazaro (Independent)
Information Technology	Nico Jose S. Nolledo (Independent)	Mona Lisa B. de la Cruz	Jesus Alfonso G. Hofileña
Nominations	Marietta C. Gorrez	Delfin L. Lazaro (Independent)	Luis Y. Benitez, Jr. (Independent)
Personnel and Compensation	Luis C. la Ó	Mona Lisa B. de la Cruz	Luis Y. Benitez, Jr. (Independent) Marietta C. Gorrez Delfin L. Lazaro (Independent)

BOARD COMMITTEES

There are seven (7) Board-level Committees that provide relevant advice and guidance to the Board on various matters relating to their respective areas of specialization. These are the Executive Committee, Audit and Risk Management Committee (ARMC), Finance, Budget and Investment Committee (FBIC), Governance Committee, Information Technology Committee, Nominations Committee, and Personnel and Compensation Committee. The functions, authority, and responsibilities of each Committee are laid down in their respective Charters, which are annexed to the MCG.

TABLE OF BOARD ATTENDANCE
from January - December 2016

Trustees	Regular/ Special Board Meetings	Committee Meetings						
		Executive	Audit and Risk Management	Finance, Budget and Investment	Governance	Information Technology*	Nominations	Personnel and Compensation
Executive Trustees								
Vicente R. Ayllòn *(Resigned as Trustee and Chairman of the Board on 24 January)*	1/1	2/2						
Nina D. Aguas	15/16	7/7[c]	5/7	4/5[v]			1/1	
Mona Lisa B. de la Cruz	16/16	7/9				1/1[v]		7/7[v]
Jesus Alfonso G. Hofileña *(Trustee since 24 January)*	15/15			2/2		1/1		
Non-Executive Trustees								
Marietta C. Gorrez	16/16	7/7					2/2[c]	7/7
Luis C. la Ó (Chairman of the Board since 01 August)	16/16[c]	2/2	3/5				1/1	7/7[c]
Francisco Ed. Lim	15/16	6/7[v]	2/2	4/5	5/5[c]			
Victor B. Valdepeñas *(Chairman of the Board from 24 January until 31 July)*	9/10		4/5	3/3				
Non-Executive, Independent Trustees								
Ricardo G. Librea *(Resigned as Trustee on 24 January)*	1/1	2/2			1/1			
Luis Y. Benitez, Jr. *(Trustee since 24 January)*	14/15		7/7[c]	4/5	4/4[v]		1/1	6/7
Delfin L. Lazaro	12/16	4/9	4/7[v]	3/5[c]	5/5		1/1	5/7
Nico Jose S. Nolledo *(Trustee since 01 August)*	3/3		0/0			1/1[c]		

Legend:
[c] *Committee Chairman*
[v] *Committee Vice Chairman*
* *The IT Committee was formed only on 24 November 2016*

TABLE OF REMUNERATION OF NON-EXECUTIVE AND INDEPENDENT TRUSTEES
(For Attendance in Board and Board Committee Meetings from January – December 2016)

Name of Trustee	Total Amount of Per Diem Paid (in PHP)
NON-EXECUTIVE TRUSTEES	
Marietta C. Gorrez	870,000.00
Luis C. la Ó (Chairman of the Board since 01 August 2016)	990,000.00
Francisco Ed. Lim	900,000.00
Victor B. Valdepeñas (Chairman of the Board from 24 January until 31 July 2016)	690,000.00
SUB-TOTAL	3,450,000.00
NON-EXECUTIVE, INDEPENDENT TRUSTEES	
Luis Y. Benitez, Jr. (Trustee since 24 January 2016)	990,000.00
Ricardo G. Librea (Resigned as Trustee on 24 January 2016)	120,000.00
Delfin L. Lazaro	960,000.00
Nico Jose S. Nolledo (Trustee since 01 August 2016)	120,000.00
SUB-TOTAL	2,190,000.00
GRAND TOTAL	5,640,000.00

* Executive Trustees namely Vicente R. Ayllòn (Resigned as Trustee, Chairman of the Board and CEO on 24 January 2016), Nina D. Aguas, Mona Lisa B. de la Cruz and Jesus Alfonso G. Hofileña (Trustee since 24 January 2016) do not receive remuneration for their attendance in Board and Board Committee Meetings

BOARD ATTENDANCE

The Board meets regularly in accordance with the schedule that was set at the end of the preceding year. It may call on special meetings outside of this schedule. Board Committees also meet regularly in accordance with their Charters.

The composition and attendance of the Trustees in their respective Board Committees are shown in the Table of Board Attendance.

Annual Board Performance Assessment

A regular annual assessment of Board performance is conducted to evaluate how Trustees exercise their functions as an individual member of the Board, as a member of the Board Committee, and as a Board, to consider improvements in areas of management and good corporate governance. The Non-Executive Trustees also assessed the performance of the Chairman of the Board. The criteria used in these assessments relate to a Trustee's knowledge of the Company's vision, mission, objectives and structure, and of the performance of his/her duties and responsibilities. They were also requested to give their opinions and suggestions on areas for improvement.

The Personnel and Compensation Committee reviews and evaluates the performance and appropriate compensation of the CEO, President and COO, and other senior management. The results of the evaluation are submitted to the Board for their approval.

In 2016, the results of the Board performance assessments indicated that all Trustees have fully complied with all the performance indicators. There was no significant Related Party Transactions or any Conflict of Interest involving any of the Trustees in the preceding year. The foregoing results of Board Performance assessment was reported to the Board. The Board noted the report and considered possible areas of improvement. It also approved the disclosure of the results in the Annual Report.

MANAGEMENT

Management implements the business strategy towards the attainment of corporate objectives and handles the day-to-day operations of the business, keeping in mind the interests of its stakeholders.

Management ensures that the objectives of the Company are clearly cascaded and communicated to all members of the organization. It sees to it that all the necessary equipment, tools, and other resources are made available in the accomplishment of Company plans and programs. It also ensures that its manpower resources are properly trained, motivated, and inspired to carry out their functions effectively and efficiently. An Executive Development Program is also in place to encourage continuous professional and leadership skills development and prepare key executives to assume higher responsibilities.

Key Risks and Material Controls

Insular Life recognizes the possibility that various business risks may be encountered in the course of its operations. These could be risks relating to strategic, operations, legal and regulatory compliance, reputational and financial risks. To prevent and manage these risks, the Board oversees the Company's risk management infrastructure, reviews the Company's risk appetite, and provides direction towards risk mitigation. The Board monitors and evaluates the Company's total risk management process with the regular review and assessment of the Company's risk management systems. The Board, upon the recommendation of various Board Committees and Management, installs appropriate material control mechanisms (such as operational, financial, and compliance controls) for accurate monitoring and effective management and control of key risks. These controls are regularly audited to check their effectiveness and reliability.

Based on the reviews performed by the internal and external auditors of the Company submitted to the Audit and Risk Management Committee (ARMC), the ARMC believes that the Company has adequate internal controls/risk management systems in place.

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

POLICYHOLDER-MEMBERS

Insular Life is the largest, non-stock Filipino mutual life insurance company in the Philippines. Ownership of the Company is vested upon its Members who are its Policyholders (Policyholder-Members), pursuant to the Company's By-Laws.

Annual Regular Members' Meeting

The Annual Regular Members' Meeting (AMM) is held every fourth Wednesday of May at the Company's principal office in Insular Life Corporate Centre, Insular Life Drive, Filinvest Corporate City, Alabang, Muntinlupa City.

The Notice of the AMM was published in English, weekly for four weeks, beginning 27 April 2016 in a major broadsheet *(The Philippine Star)* and in a tabloid *(Pilipino Star Ngayon)*, in compliance with the Company's By-Laws. The Notice was also posted in the Company's website on 27 April 2016, or twenty-eight (28) days ahead of the AMM. The *Details and Rationale of the Agenda, Summary of the Acts and Resolutions of the Board of Trustees and its Executive Committee for the previous year*, as well as the *Profiles of the Trustees for Election/Re-election*, were included in the Notice available in the Company website. The Notice included the Agenda to be taken up in the AMM, as well as the Proxy Form for use by members who cannot personally attend the AMM.

The AMM was held on 25 May 2016 at 4:15 pm at the Company's principal office. Registration period started at 9:00 a.m. until 4:15 p.m. All nine (9) members of the Board of Trustees were in attendance during the AMM which was presided over by then Chairman of the Board, Mr. Victor B. Valdepeñas. Along with CEO Ms. Nina D. Aguas and President and COO Ms. Mona Lisa B. de la Cruz, he apprised Policyholder-members about the Company's operations and other corporate news and updates. Their reports and other corporate information and news are included in the 2015 Annual Report furnished to the attendees. The Annual Report was also made publicly available in the Company website in PDF format and in microsite version.

All agenda items as published in the Notice were taken up during the meeting and upon proper motion were approved. Voting by the members for the election of Trustees was done through an electronic system for the counting and validation of the votes cast. Voting on other matters was done through *viva voce.*

Voting results for all resolutions (including approving, dissenting, or abstaining votes) were made known once the motion was moved and carried. A summary of all Resolutions adopted during the AMM was also posted in the Company website on 26 May 2016, a day after the AMM.

Members who attended the meeting can openly raise questions or concerns during the AMM. All feedback given were duly noted and considered. These feedback and other proceedings were documented by the Corporate Secretary. A copy of the latest Minutes of the AMM was published in the Company's website while all Minutes of Board Meetings and the AMM are with the Office of the Corporate Secretary. This is part of his duties in supporting the Board when discharging its responsibilities. He ensures that important Board papers and other related documents are promptly provided to the Trustees and that they are informed of the Agenda of the Board Meetings five working days before the date of the meeting.

Updates on Operations

The Company regularly publishes updates on the Company's operations in its website, various print media, publications and through various portals (Customer Portal and Agent Portal) to apprise stakeholders and the public. These updates include corporate awards, product launches, projects, and advocacies and others news. In 2016, these updates were published in the Company website at least once a month.

Dividend Policy

As Insular Life is a non-stock mutual life insurance corporation, its qualified policyholders receive policy dividends as return of their premiums paid. The Company allocates and pays policy dividends, as and when they are declared, and in such amounts as approved by the Board of Trustees. The amount of policy dividends is determined on the basis of a three-factor formula which calculates the Company's performance *vis-a-vis* assumptions on investment income, mortality, and expense loading, taking into consideration regulatory requirements and the Company's capital and future operating needs. Policy dividend calculations are done on an annual basis.

EMPLOYEES

The Company upholds the belief that its people is one of its most valuable resources for the attainment of its growth and development. As such, the Company has health, safety and welfare policies in place to maintain our employees' good health and well-being. The Company also continuously studies and proposes improvements in the employee benefits for their and their family's welfare. A more detailed discussion on these are in the "Being a Top Employer" Section in this Report.

CUSTOMERS AND THE COMMUNITY

As a reputable and enduring Company, Insular Life has served and changed the lives of millions of customers, not only through its core business, but also through its many philanthropic activities. Through its corporate social responsibility arm, Insular Foundation, Inc., the Company has extended various assistance in the form of educational scholarships or grants, financial literacy programs, and rebuilding and rehabilitation programs for disaster-stricken communities. These projects are geared towards long-term sustainable development for the benefit of various generations of Filipinos and to the community at large. Specific activities conducted to address customers' health and welfare and interactions with the communities where it operates are disclosed in the Corporate Social Responsibility Section of this Report.

THE ENVIRONMENT

The Company continues to promote sustainable operations across all our offices nationwide to minimize its carbon footprint. Its Automated Underwriting (AU) System, a paperless underwriting decision system, paved the way for the Company to sell its insurance products through an E-Commerce platform. These advanced technological tools allow an environmentally compatible procedure while providing a seamless customer experience. The AU System and E-Commerce platform are supplemented by the Company's online Customer and Agent Portals. These technological advancements provide considerable benefits: from widening of distribution channels and shortening the sales cycle, to increasing business administrative efficiency and promoting green operations.

SUPPLIERS

As part of its anti-corruption measures, the Company has clear and transparent procedures for the accreditation/selection of its suppliers and will only deal with those who pass the accreditation/selection procedures. Suppliers are required to submit or update their accreditation documents to the Company annually. Only accredited or pre-selected suppliers participate in the Company's bidding activities. Suppliers' expenditures are subject to a pre-payment monitoring checklist.

The Company also has a policy in place to deal with gifts, entertainment expenses, and conflict of interest. All these strengthen reciprocal trust and repeat business for both parties.

To date, the Company has no creditors and should there be any, they are assured of timely repayment of debts. The *Creditor's Rights* statement of Insular Life is published in its website.

In the regular course of business of the Company, certain transactions may involve Officers, Trustees, Subsidiaries or Affiliates as parties to the transaction, known as Related Party Transactions (RPTs). In these cases, prior full disclosure to the Board is required. In cases where RPTs are material in nature, Board approval must also be secured. The ARMC oversees the implementation of material RPTs and determines whether such transaction is in the best interest of the Company. They ensure that all RPTs have been conducted fairly and at arms' length, in compliance with the Company's Manual of Corporate Governance and By-Laws. Of the approved RPTs, none of the transactions may be classified as financial assistance to any entity. The names of the related parties, nature, amount, and other significant details are disclosed in the Notes to Consolidated Financial Statements.

AUDIT

The Company has an Internal Audit Staff which reviews the Company's internal control system and has direct reporting line to the Board's ARMC and to the Chairman of the Board. The Audit staff is headed by First Vice President, Ms. Maria Rosa Aurora D. Cacanando. She functionally reports to the ARMC and administratively to the Chief Executive Officer, Ms. Nina D. Aguas. Both Ms. Aguas and Ms. Cacanando are Certified Public Accountants.

The Company availed itself of the services of an independent External Auditor to ensure independent review of the Corporation's financial statements. The Audit & Risk Management Committee (ARMC) is primarily responsible for recommending the appointment/re-appointment and removal of external auditors. During the 2016 AMM, SGV & Co. was re-appointed as the Company's External Auditor based on the recommendation of Mr. Luis Y. Benitez, Jr. as the Chairman of the ARMC (formerly called the Budget and Audit Committee). The audit fees for its services amounted to ₱3,171,000 while non-audit fees amounted to ₱1,942,328.

REPORTING FEEDBACK OR CONCERNS

The Company provides an avenue for providing feedback about the organization, its people and its operations. To ensure that good corporate governance policies and procedures are implemented and observed, the Code of Conduct mandates that those who report to the Company in good faith of a suspected violation of law (including bribery or corruption, fraud) or breach of Company policy is protected from any form of retaliation. Reports or concerns from stakeholders or the public may be addressed to the Company's Compliance Officer, Atty. Renato S. de Jesus through the following contact information:

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

All reports received will be treated with utmost confidentiality and will be promptly investigated, with all possible avenues explored to fully address the report/complaint.

"In its 106 years of doing business, Insular Life has ingrained corporate governance principles and practices in all of its strategic initiatives and business affairs."

INSULAR HEALTH CARE, INC.

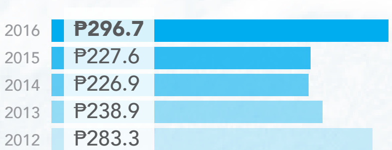
Insular Health Care, Inc. (IHCI) is one of the top ten health maintenance organizations (HMOs) in the Philippines in terms of capitalization, comprehensive healthcare packages and service delivery. IHCI offers one of the industry's most comprehensive healthcare programs with the flexibility to meet the specific needs of its members. As of end of 2016, it maintains a network of 2,910 hospitals, outpatient facilities and dental clinics, and a roster of 24,406 medical specialists nationwide.

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

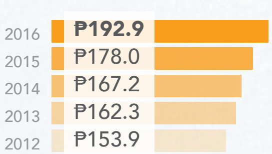
IHCI recently launched its mobile application called Insular Health Care Mobile Assistant or IMA. With IMA, members have online access to their membership data, the updated list of doctors and hospitals/clinics (via a search engine), and regular health bulletins and membership updates through their smart mobile phones (Android and iOS). It also launched Insular Health Care Web Assist or IWA. Together with IMA, IWA enables the hospital staff to verify the status of each and every IHCI member online, minimizing the need for calls to the call center and thus providing faster and more efficient status verification. IHCI's new membership ID with QR code capability is a convenient way of accessing the membership data, with IHCI equipping select hospitals with the QR code reader, with more accredited hospitals to be equipped in the near future.

2016 HIGHLIGHTS

- Gross Revenues stood at **₱296.7 million**
- Net Profit After Taxes of **₱37.5 million**
- Total Assets stood at **₱371.2 million**
- Total Stockholders' Equity was at **₱192.9 million**
- Retained Earnings posted at **₱96.2 million**
- Return on Equity stood at **20 percent**



Gross Revenues (in million pesos)



Stockholders' Equity (in million pesos)

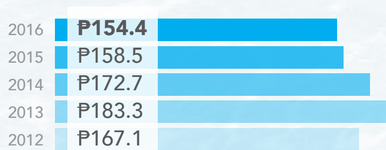
HOME CREDIT MUTUAL BUILDING AND LOAN ASSOCIATION, INC.

Home Credit Mutual Building & Loan Association, Inc. (Insular Home Credit) is a wholly-owned subsidiary of Insular Life that primarily assists its members in availing affordable and low cost housing. In addition Insular Home Credit offers a high yielding disciplined savings program for its members with the additional benefit of quick access to multi - purpose cash loans.

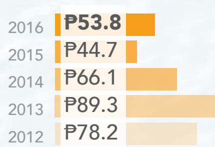
In 2016, Insular Home Credit committed itself to being socially significant in the community via its partnership with developers of affordable and socialized housing. They are a growing lender in this market having surpassed the prior four (4) years of mortgage volume in one (1) year.

2016 HIGHLIGHTS

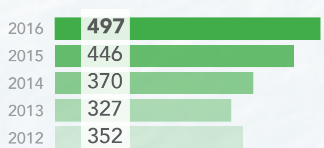
- Cash and cash equivalents: **₱53.77 million**
- Total Assets: **₱215.58 million**
- Total Equity: **₱147.12 million**
- Total Mortgage and Rent-To-Own: **₱100.40 million**
- New Members **1,876**
- Total issued & outstanding preferred B equity shares: **₱154.39 million**



Members' Equity (in million pesos)



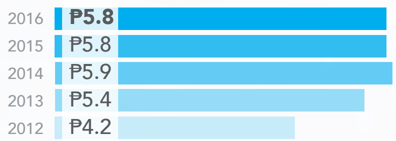
Cash Investments (in million pesos)



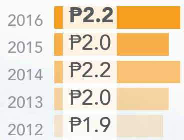
Accredited Companies

MAPFRE INSULAR

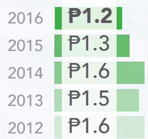
MAPFRE INSULAR, today, ranks among the top 10 in the non-life insurance industry in terms of earned premiums, investment income, and net income. The company is also among the highest capitalized and most solvent in the non-life insurance business in the country. The company was formed out of an alliance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



Assets (in billion pesos)



Gross Premium Written (in billion pesos)



Equity (in billion pesos)

HIGHLIGHTS OF COMPANY'S PERFORMANCE IN 2016

The Company started 2016 with a sense of grit as it entered the second year of the massive transformation that MAPFRE INSULAR took in 2015. The plan was quite straightforward: MAFPRE INSULAR wanted sustainable growth and its formula for attaining this is to follow the hallmarks of solvency, integrity, innovation, and exceptional service that are standard in the global MAPFRE Group.

But like many worthwhile changes, this brand of transformation required fortitude because, as the Company predicted early on, success will be paved with sacrifices. Investments must be made in technologies and people. In the same vein, the company had to turn its back on risky practices such as unrealistic competition, never mind the tempting easy gains, because these endanger not just the business but the welfare of customers.

Despite this decision, however, MAPFRE INSULAR managed to post modest increase in sales, logging in ₱2.184 billion in gross premiums written in 2016, which is about 7 percent higher than 2015. Assets moved nearly sideways as the Company recorded ₱5.83 billion in assets as of end of 2016.

Being a Top Employer

Insular Life employees are united in their passion and commitment towards building a brighter future for our policyholders — ensuring that their investment continues to deliver enduring value for them and their family.

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

EMPLOYEE FORCE PROFILE

As of end-2016, Insular Life has a regular employee force of 771 employees. This includes those in Insular's head office in Alabang, Muntinlupa City, as well as in its 53 branch offices in key cities and provinces nationwide. The Company has 475 female and 296 male personnel, which translates to a male-to-female ratio of 1:3. Of the total 771 employees, 20.23 percent or 156, occupied senior personnel positions (assistant managers and up) in 2016. The average age of our employee force in 2016 was 36.52 years old.

TRAINING & DEVELOPMENT PROGRAMS

In 2016, a non-executive Insular Life employee spent an average of 75 hours in in-house and external training and development programs such as courses under the Life Office Management Office (LOMA).

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

The In-House Training Programs are classified as follows:

1. Customer Relations/Service Series
   - For All Employee Levels
   - Addresses the need for general information and updates about the Company and its product lines
   - The courses conducted under the series are: General Employee Orientation Course (GEOC); Fundamentals of Life Insurance Course (FLIC); and Product Orientations
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

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

A key focus of Insular Life's training program is the Executive Development Program (EDP) in which key Company executives are sent to attend management courses here and abroad to facilitate their advancement from being a specialist to a generalist. In 2016, our executives attended an average of 18 EDP-related training courses.

In December, Insular Life conducted a two-day Leaders' Symposium entitled, "Leading Change: Swift Shift to Success." The symposium aimed to prepare the Total Management Team for the directions and challenges of business in the coming years. The event was headlined by a sought-after international speaker and senior executive coach, Mr. Roger Collantes. Members of Insular Life's middle management and its officers attended the two-day event.

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 15 years since 1992.

We also developed a steady roster in the Fellow, Life Management Institute (FLMI), with 39 Fellows to date. The FLMI Program has been the standard of excellence in the insurance and financial services industry in the world since 1932.

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

REWARDS AND RECOGNITION

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

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

INSULAR LIFE'S CONTRIBUTIONS TO THE INDUSTRY IN 2016

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

Name of Insular Life Employee	Designation and Organization
1. Ma. Edita C. Elicaño	Member Professional Standards & Review Council Actuarial Society of the Philippines (ASP)
2.Atty. Renato S. De Jesus	Chairman National Director for Peer Assistance & Welfare Integrated Bar of the Philippines (IBP) Member Ethics & Compliance Committee Philippine Life Insurance Association, Inc. (PLIA)
3. Mylene C. Padilla	Member Finance Committee Philippine Life Insurance Association, Inc. (PLIA)
4. Katerina V. Suarez	President Actuarial Society of the Philippines (ASP)
5. Dr. Eleanor G. Tañada	Board Member Philippine Society of Insurance Medicine (PSIM)
6. Jesselyn V. Ocampo	Secretary Actuarial Society of the Philippines (ASP)
7. Atty. Cesar Y. Salera	Member Legal & Legislation Committee Philippine Life Insurance Association, Inc. (PLIA)
8. Amelita F. Tamayo	Member Marketing Committee Philippine Life Insurance Association, Inc. (PLIA)
9. Ana Maria R. Soriano	Member Education Committee League of Corporate Foundations
10. Diana Rose A. Tagra	Member MIB Committee Philippine Life Insurance Association, Inc. (PLIA)
11. Randy N. Quimbo	President Association of Service Professionals in Life Insurance (ASPLI)
12. Dr. Vilma A. Gorgonia	Treasurer Philippine Society of Insurance Medicine (PSIM)
13. Engr. Gerald B. Kim	Member Disaster Risk Reduction & Management Team Philippine Life Insurance Association, Inc. (PLIA)
14. Arman C. Duran	Auditor Life Insurance Claims Association of the Philippines (LICAP)
15. Ma. Louisa T. Penuliar	Secretary Home Office Life Underwriters Association of the Philippines (HOLUAP)

Name of Insular Life Employee	Designation Earned
1. Enrico L. Cordoba	Certified in Enterprise Risk Governance (CERG) issued by the Enterprise Risk Management Academy (ERMA).
2. Lizanne B. Yang	Certified Information Systems Auditor (CISA) The CISA certification was issued by the Information Systems Audit and Control Association

REWARDING PERFORMANCE AND LOYALTY

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

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

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

Under the Company's Retirement Plan, Insular Life provides 150% of basic salary per year of service upon the employee's optional retirement (at least 50 years old and 20 years of service) or normal retirement (at age 65 and at least 20 years of service). Likewise, the Company provides retirement token in the form of a luxury wrist watch to its qualified retirees.

PROMOTING HEALTH AND SAFETY

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

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

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

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

Relevant information relating to the health, safety and welfare of our employees are regularly discussed during AGILA meetings. Issues raised during these meetings are validated and communicated to Management for information and resolution. Management, through HRD, issues formal communications — i.e. policies, guidelines or circulars — addressing critical issues.

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

MOVING AHEAD WITH OUR PEOPLE

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

Building a Legacy

Insular Life is more than a business. We are a company with heart and soul. We care about young Filipinos who are the nation's builders, investing in their future through educational scholarship grants and financial literacy programs. We also reach out to those in need by providing relief and rehabilitation during natural and man-made disasters.

Through our corporate social responsibility arm, Insular Foundation, Inc., we are able to share our success with local communities and magnify our efforts through our highly engaged teams of employee volunteers.

INVESTING IN ACHIEVERS

In 2016, we sustained our educational programs to create the next generation of Filipino achievers. The Foundation supported a total of 75 scholars for school year 2016-2017, 40 of whom were enrolled in education and math courses at the University of the Philippines, 23 in education courses in provincial state universities and colleges (SUCs), and 12 under the College Scholarship for Employee Dependents (CSED) program.

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

The CSED program produced one graduate, Adrian Joseph Lance M. Lim, a BS Commerce major in Marketing Management, now working at Insular's Corporate Account Division.

Eight freshmen scholars from each of our partner schools — Benguet State University, Bohol Island State University, and Central Mindanao University — comprised the second batch of Gold Eagle scholars from provincial SUCs. However, there were no new scholars from our other partner institutions, the Aurora State College of Technology and the Davao Oriental State College of Science and Technology due to the implementation of K to 12.

MAKING QUALITY EDUCATION WORK

We believe that raising financial literacy is as important as providing access to education if we were to build a stronger nation. People armed with financial knowledge and healthy personal finances contribute to economic growth and society's wellbeing.

Through our financial literary projects and initiatives, we spread positive money management values among the youth. Doing so also helps us secure the financial future of the next generation.

A partnership that we started with the Knowledge Channel in 2015 continued to bear fruit. In 2016, Insular Life and the country's first and only educational channel jointly launched a teacher's manual and a financial literacy video for grade 9 students. The ***Estudyantipid Financial Literacy*** Video Episode for High School Araling Panlipunan was launched in Pitogo High School in Makati City on September 30, 2016.

The 20-minute video tackled topics on the macroeconomics of earning, savings, and consumption. Its storyline focuses on three high school friends who think up ways to earn money and along the way stumbled on the importance of life insurance as an avenue to protect one's family's livelihood, as well as the various means to save and grow money.

Name	Course / Major	Honors
Shaira Acquiat	Bachelor of Science Major in Mathematics	*Cum laude*
Jessica Macanas	Bachelor of Science Major in Mathematics	*Magna cum laude*
Romhela Apostol	Secondary Education, SPED minor in Health Education	*Cum laude*
Pristine Cammayo	Elementary Education, SPED	*Magna cum laude*
Laarni Ledesma	Elementary, Teaching in Early Grades	*Summa Cum laude*
Nyle Lumitao	Elementary Education, Communication Arts-English	*Cum laude*

The video is accompanied by instructional materials for teachers to guide them on the money concepts for classroom discussions. Starring actors Jairus Aquino, Sharlene San Pedro, Joaquin Reyes, and Dea Chua, the ***Estudyantipid*** video airs nationwide on Knowledge Channel through cable, satellite, and digital terrestrial system (DTT), and are made available to students and teachers in Knowledge Channel-connected public schools and cable- or DTT-serviced homes. It was integrated in the 2nd semester SY 2016-2017 Araling Palipunan lessons of grade 9 students, and will become part of the regular educational tools for the said grade level. Another episode of ***Estudyantipid*** will be completed by June 2017 and launched shortly afterwards.

GIVING AND GETTING INVOLVED

We at Insular take great pride in having employees who generously share their talent, time, and compassion with others. Our employees amplify the impact of our CSR initiatives by serving as volunteers in local communities or giving to charitable causes and nonprofits. Insular embraces their enthusiasm to help make a difference.

Below are just a few of the many ways we are able to make a positive impact in society through our highly engaged employee volunteers:

- Insular Foundation sustained its ties with nonprofit anti-poverty movement Gawad Kalinga (GK) with the continued value-formation sessions conducted by our employee-volunteers for the children at the Manggahan-Kawayanan Village in Parañaque City.

- Eighty SAGIP kids of GK-Manggahan were treated to a Christmas party on December 17, 2016. Seventeen employee-volunteers organized the free movie screening sponsored by Insular Foundation and which was held at the Insular Life cafeteria. The kids enjoyed plenty of treats: from the various food booths on-site to the Christmas loot bags and presents they brought home.

- Employee-volunteers successfully conducted an outreach activity at the Hospicio de San Jose on April 30, 2016. They raised cash donations from Insular Life employees which were used to purchase healthy food, sacks of rice, and toiletries for 55 abandoned and neglected elderlies at the hospice.

- Seventy-nine scholars from Muntinlupa Itaas Elementary School (MIES) in the National Bilibid Prison Complex in Muntinlupa City will graduate from grade school in March 2017. School year 2016-2017 was the last year of our Adopt-A-Scholar program in which our employee volunteers provided school supplies, a set of uniform, and a school bag to their adopted scholars.

In addition, several Insular Life officers and employees raised more donations to benefit the school's Special Education Department, and the top three scholars for SY 2015-2016.

The Foundation gave a cash donation to MIES in support of the Department of Education's Brigada Eskwela Program. The amount enabled the repair and refurbishment of classrooms in preparation for the school opening last June 2016.

OTHER FINANCIAL ASSISTANCE

Television sets for the PMA

To support the education of our future officers in the Armed Forces of the Philippines, Insular Foundation and the World Financial Marketing Alliance, Inc. donated television sets to the Philippine Military Academy (PMA).

St. Ignatius Loyola Movie Block Screening

Insular sponsored the block screening of "Ignacio de Loyola," a full-length independent feature film about St. Ignatius of Loyola, founder of the Society of Jesus. Proceeds were donated to Jesuits Communications and retired Jesuit priests in need of care and assistance.

Caritas Manila

Through Caritas Manila, the charity arm of the Archdiocese of Manila, Insular Foundation provided rebuilding assistance to those affected by Typhoon Ferdie (Meranti) in Batanes in September 2016. The disaster affected 2,850 families and damaged numerous homes in the northernmost province of the country.

Rebuilding Efforts

Through the Philippine Business for Social Progress (PBSP), we donated 10 shelter kits and 100 sphere food packs for relief and rehabilitation efforts for the victims of Typhoon *Lawin*.

Moving forward

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

We also look forward to the completion of our classroom building in San Jose Central Elementary School and San Jose Technical School in San Jose, Northern Samar, where construction began last December 2016. Both schools were among those heavily damaged during Typhoon Nona on December 17, 2015.

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

Opposite page:
Insular Life's top executives pose with Insular Foundation scholars during the Presentation of Scholars Lunch.

To Give and Not Count the Cost

Insular employees are able to share their time, talent and treasure through Insular Foundation's partnership with the Gawad Kalinga community. Aside from building hope in those they touch, these employee-volunteers – who are mostly millennials – also prove that compassion and social awareness are strongly rooted and thriving among Insular Life's Far-Sighted Guardians.

We asked eight of our most active employee volunteers to share their GK experiences.

What made you volunteer for the GK program?

Nicolo Lorenzo T. Cervantes, 28 years old, Public Relations Staff / Archives. Looking back when I was a kid, I always appreciated the work done by volunteers for similar programs to GK SAGIP, or even the catechists in our Sunday school. As a graduate of a state university, I also felt that I should take opportunities to render service to communities in need of similar programs. For the most part, I started volunteering for GK because I felt I had a personal responsibility to try to give back whatever skills I gained when I was younger.

Adrian C. Cailao, 30 years old, Corporate Planning Staff. I have always wanted to do this kind of volunteer work as a means of giving back to the community. I used to join outreach activities when I was in college.

Juan Paolo A. Llantero, 21 years old, Policyholders Services Division. Volunteering for an outreach program like GK gave me the chance to try something that I don't experience every day — perhaps, a chance to help and have an impact on someone else's life.

Gimelson Y. Plaza, 24 years old, Policyholders Services Division. It is a great way to express and share your talents and to show care for others, like kids.

Gester E. Camalig, 28 years old, Information Services Department. I joined the GK program because it offers vital help to people and communities in need, and support for worthwhile causes. Volunteering is good for the mind and body, and brings fun and fulfillment to my life.

Michelle Anne B. Casibang, 24 years old, Public Relations Staff / Insular Foundation, Inc.. I have done outreach activities in the past. However, those activities were already pre-planned and, so, I only needed to show up. With this program, I am able to be part of a team that could make a bigger difference. Instead of just being present, I have the chance to be proactive.

Rachel M. Fernandez, 27 years old, Marketing and Agency Support Services Division. Volunteering takes me out of my daily life. It is my passion to help other people. It feels good inside that I am giving unconditionally, and satisfying that I am able to help people. I have a soft heart, especially for kids, the elderly, and those in need.

Daniela Rose H. Abuel, 23 years old, Policyholders Services Division. The reason why I volunteer is to de-stress after a week of work. I also want to give back to the community while developing my social skills, and, at the same time, to gain new experience. Being a volunteer gives me the satisfaction that I was able to play a role in, and get to see how my contribution has made a positive impact in the lives of the children of GK Manggahan-Kawayanan.

What's the most fulfilling aspect of being a volunteer?

Nico: The most satisfying aspect to me is seeing the kids grow up and start to become responsible on their own. At the end of the day, it's really about them and how they grow into the world. I'd like to believe that we had a part in their development as young men and women, cognizant of their talents that can be put to good use.

Adri: It's the warm welcome of our beneficiaries every volunteer session. The GK kids make us feel fulfilled in this kind of activity. This warmth gives us excitement to conduct more volunteer sessions.

Every session is a new opportunity for sharing what we have and what we can to others. It is also an avenue for us volunteers to help the community in nation building, by imparting what is right to young minds. Every session offers new learnings and appreciation of the things that we have: a new unique experience. This keeps our passion for volunteering burning.

Paolo: Being a volunteer gives me a sense of satisfaction. It really warms my heart to see the kids having fun playing and learning and with the thought that someday, those kids will apply everything they've learned.

Gester: The most fulfilling aspect of being a volunteer is that it provides a sense of purpose.

Mitzie: The laughter and smile of the kids, their warm welcome and thanks. The fact that they are always willing to help out. When you realize that you made a difference, even in the littlest way. The fact that all the hard work has paid off. The payoff is often not concrete, but it's there nonetheless. These make everything worthwhile.

Rachel: At the end of the day, even though you are tired, it will bring a smile to your face. You will be able to say to yourself, "I did well today. I helped someone. I made them smile."

Dani: I've been with Insular Foundation for more than a year. In this time, I have developed my self-confidence and self-esteem. I am also able to further improve these skills in every volunteering activity we have during our monthly sessions. More than that, working as part of a team outside your ordinary work routine allows you to connect with your colleagues in a fun and meaningful way.

Could you name one activity that made a lasting impact on you and briefly tell us why?

Nico: During the Christmas party in December, I read a letter from one of the GK kids that thanked the volunteers for playing and becoming friends with them. Those were things that never occurred to me. Volunteering is actual work, but I really do believe that the kids appreciate the time and activities we share with them. And apparently, it includes the heart we put in our efforts as well.

Insular Foundation celebrated its 4th anniversary with an outreach activity at the Hospicio de San Jose. Insular Life volunteers (in blue and white), as well as kids from GK Manggahan-Kawayan joined forces to liven up the morning and give gifts to 55 abandoned elderlies at the institution.

Adri: It was the visit to the elderlies of Hospicio de San Jose during the Foundation's anniversary in April 2016. After the event, when we were assisting the elders to their quarters, one of them gave me a handcrafted rosary bracelet as a sign of appreciation and said, *"Salamat sa inyo. Mag-iingat kayo."* That moment reminds me of the selflessness of the elder, that even though she does not have much, she still managed to share something with others.

Paolo: My first time to attend a GK program was during the anniversary celebration at Hospicio de San Jose. What struck me the most was seeing the elderly people living the simplest lives possible. Some of them still remember their lives before they stayed there. From them, I realized that our time is so limited that we have to make every moment count.

Gimel: Not the specific activity but the topic for the month of March 2017: "Respect." I realized that kids learn how to respect other people not only from their parents, but also from us, the volunteers.

Gester: One activity that made a lasting impact to me was the Hospicio De San Jose outreach. The stories of the elders were very heartfelt. They used to be like us. They are parents and grandparents but they found themselves with another family inside the institution. To conquer their sadness, they always find ways to be happy. They sing, dance, and talk just like everything is all right. I admire their strength and fortitude; in spite of their conditions, they choose to be happy.

Mitzie: The Hospicio de San Jose outreach program really solidified that there are people out there with far worst problems. It was refreshing to see the kids interact with the elderly residents. It goes to show that, even if there was a generation gap, it did not hinder anyone from enjoying and contributing to the encounter. The kids are not well off nor do they have a big capacity to provide too much. However, this did not stop them from going the extra mile. They all helped out, joined in the activities, and even performed a special number for the elderlies. This goes to show that people really have a big heart.

Rachel : Our 4th year anniversary where we spent it in Hospicio de San Jose with the GK Kids was impactful. I was worried at first because the kids may hurt the feelings of the elderly residents: they are quiet sensitive to what people say and kids often cannot control what they say. I also feared that the children might be too energetic. I was proven wrong. The kids were very careful and empathetic. Seeing that made me feel that we did well. The lessons we were teaching the kids in our Saturday sessions were showcased during the event.

How has volunteerism changed your perspective in life?

Nico: To say that volunteering has made me more patient and forgiving is an understatement.

Adri: It opened my perspective that we have to be more compassionate with each other. We have to be concerned about our fellowmen and to not stop helping and lending a hand even through small acts of goodness. Volunteerism showed me that if there's a will (to help others and to share your blessings), there really is a way.

Paolo: I am always a fan of hope. Hope that someday something will be meaningful and will have an impact on the largest group of people possible. Those kids have every chance in the world to become what they want to be. And as a volunteer, somehow I have the responsibility in contributing to that.

Gimel: I thought it was going to be hard for me to deal with vigorous kids especially since it was my first time to participate in a volunteerism activity that is focused on children. During the sessions, however, I discovered that I was having a great time interacting with them. I also learned a lot from them about good communication, respect, unity and many other things.

Gester: Volunteerism helped shape my heart, mind and soul. That is, seeing a completely new way of life helped me develop a more well-rounded perspective of the world. Witnessing the struggles of others also helped me realign my priorities and gain a more positive outlook in life.

Mitzie: There's always someone out there who needs help. It is up to us if we want to do anything about it. We cannot tackle all the world's problems at once. But, whatever that we can do, we should do it wholeheartedly and with no regrets. Volunteering is about all giving back. What a volunteer gets in return is the warmth and happiness from the beneficiary/ies.

Rachel: It made me, in a way, optimistic. I changed from being self-centered to finding my passion in helping others. It made me realize that, no matter how difficult life is, there is still something I can give.

How has volunteerism affected your perspective on your work and career?

Nico: Volunteering has made me more persistent and diligent in my work. This is important to me personally as I work in the Archives. I am reminded that what I am doing is as much about the future as it is about the past.

Adri : Volunteerism made me grateful to our Company for this opportunity to participate. Insular management is also very supportive of the activities that we do in Insular Foundation.

Paolo: I met a lot of new faces at work because of being a volunteer. It also made me conscious about my actions, in work and life, because I know the kids look at me as a role model. So I try to be the 'Kuya' that they can emulate.

Gimel : Volunteerism gave me a new perspective in work and in my career. For example, our GK children can think really fast! They could come up with a presentation in just 15 minutes! They are using their broad minds to create ideas and properly coordinate with each other. So I think, how could those little children do those things? As a young professional, it challenges me to be the same and apply their flexibility, creativity, cooperation and speed in my work!

Gester: Because of volunteerism, I gained leadership skills, explored and learned things beyond my horizon, and accepted challenges.

Mitzie: I learned that patience is a big thing in everything a person does. There are different types of people whom we deal with each day. Adapting to the situation is crucial in order to accomplish a task.

Rachel: Volunteerism strengthened my self-confidence. It boosted my level of understanding for my co-workers and consequently, strengthened our team work.

Why should we volunteer?

Adri: A little compassion can go a long way. If we can and we are able, let us share it with those with less and those who are not capable. No matter how small, if everyone contributes, our combined small acts will have a huge impact.

Paolo: Being a volunteer will not take your time. Instead, it will give you the time to have a different kind of happiness and perspective on your life.

Gester: Professionally, we can share a skill and gain a skill as well, just like leadership and commitment. Personally, we can get to know a community; feel satisfaction from accomplishing things; learn something new; be challenged; and make new friends.

Mitzie: Volunteering gives a different kind of fulfillment. It will make you feel proud, and accomplished. It may not seem like it at first but a person's time can make a difference.

Dani: I volunteer because I can, and if you could do something to help, then you should. That's my mantra in volunteering and what's what keeps me going.

A Legacy that Lasts a Lifetime

Not all heroes wear capes, carry cool gadgets, or don eccentric personalities. To girls like 15-year-old Angel Berry M. Maleriado from Cagayan de Oro, heroes can simply be known as "Dad".

On what would otherwise have been an ordinary day on February 19, 2013, Angel's father, Michael Angelo Alfred, was on his way to his parents' house when he witnessed a couple of teenagers being robbed on the street. Mr. Maleriado approached the scene and tried to stop the man in his tracks. The robber pulled out a gun and suddenly shot him. He was immediately rushed to the hospital but was pronounced dead on arrival.

"I was only 10 years old when it happened. I remember my aunt saying, 'Stay strong,' but I was too young for the words to sink in," says Angel, currently a grade 9 student at Xavier University Junior High School Ateneo de Cagayan.

TRANSITIONING

The tragic situation and even the words of comfort proved too heavy for Angel's young mind to bear. After all, she was only beginning to discover her love for sports, ride a bicycle, and learn to play with younger sister Halle May who usually bonded more with their Dad.

She was also only just beginning to enjoy her time with her Dad at that time. "We watched movies and made fun of other people together," Angel recalls with a chuckle. "We had the same taste in music. I love going on road trips with him because of the music in the car. Dad would tap the steering wheel, and I'd be shouting out the lyrics," Angel relates.

Sports became Angel's edge over her sister in their playful contest for Dad's affections. He loved sports, too, and she was the athletic type who took taekwondo and swimming lessons. They also had typical father-and-child talks late at night, where he teased her about crushes but took her side during petty misunderstandings with Mom.

Her father managed their family business that entailed frequent travels to neighboring Surigao City so he managed to stay with his family only once a month. Her mother took care of the kids while running a *sari-sari* store that sold rice and general merchandise. Every year, their parents would take their two daughters to vacations in Bantayan Island in Cebu, Siargao Island, and other sunny destinations.

Death has a way of changing things, however. She remembers that after her Dad's untimely passing, her mother, Lemia, shut down the small store because of its sheer proximity to the site of the incident. Angel recounts that although she and her sister did not see their mother, they knew that she cried every night in bed, not only due to the loss, but because she feared what lies ahead for the three of them without her husband around.

FAR-SIGHTED GUARDIAN

Flashback to 2002, a few days after Michael Angelo and Lemia's wedding: the couple was introduced by a family friend to life insurance. Shortly after the occasion, Angel's father bought individual life insurance policies for him and his wife, not mindful of the added strain on the family budget.

"Mom did not know insurance at the time. But my Dad's friend, Tito Marlon Panganiban, had been our angel all along for bring Dad to this path," Angel shares.

She thought of her parents as frugal, financially firm, and determined. They satisfied some of their children's wants, but they prioritized needs and investments. "We knew there was a limit to what could be given to us."

When it came to financial discipline, their parents taught Angel and Halle three things: prioritize useful and necessary things, be responsible in handling money, and save up for the future. "They taught us to be responsible in handling money. When we're given money, we're given power. So we have to take responsibility especially since it came from my parents' hard work," Angel explains.

Shortly after her husband's passing, Lemia was reminded by an in-law about their Insular Life policy. So accompanied by relatives and her agent, she filed for a death claim. The widow found out that her husband already took care of the family's needs that she no longer needed to reopen her small store or seek employment. She could be a full-time mom without worrying about the family's finances.

There were minor debts and obligations to be fulfilled, Angel recalls, but there was the insurance as well as uncles and aunts who willingly lent a hand.

"Proceeds from the life insurance allowed us to stay together as a family. My sister and I still continue studying in the same school, doing our Kumon lessons. I'd like to think that we soldiered on pretty well," Angel says.

THE LOVE LEGACY

If Angel had one wish, it would be spending her 18th birthday with her Dad around. Amid the occasional sadness, she is eyeing a promising future ahead. She is determined to be good in school, finish with flying colors, and become a responsible adult to make her Dad proud and to repay her Mom's kindness and hard work.

For now, she relishes the fact that she can go on learning taekwondo while her 13-year-old sister can keep taking Bridge classes. With their Mom, they continue to lead a secure life — thanks to her loving Dad whose life insurance policy symbolized a love that went beyond living itself.

"More than money, it's love," says the daughter of a hero who strives for her own *Magandang Buhay Bukas*.

> *"Life insurance is not a burden; it's a treasure that will never vanish in case a loved one goes away."*

Opposite page: Angel Berry M. Maleriado, daughter of Insular Life policyholder Michael Angel Alfred Maleriado

This page: Angel with her mom, Lemia, and younger sister, Halle May.

Expecting the Unexpected

2016 was no ordinary year. Even the most savvy investor could not help but feel queasy with the many swings in the global economy, and the varying ups and downs in the capital markets.

As early as January, news about China's economic meltdown, slumping oil prices, and depreciating currencies has already jolted the financial markets. Uncertainty over the outcome of the presidential elections here and abroad also made investors sit on the sidelines.

As investors rushed to find safer havens, the "Brexit" vote came and shocked many investors who had been confident that the United Kingdom would stay in the European Union. The sharp market swings were then followed by the surprise election of real estate mogul Donald Trump as America's next president, which triggered a U.S. bonds selloff. And just when investors thought the roller-coaster ride was about to break for a stop, the US Federal Reserve raised interest rates and announced it expected three more increases in 2017, derailing altogether the road for a much-hoped reprieve in the coming year.

STEADY COURSE

2016 just happened to be the Year of the Monkey in the Chinese lunar calendar, and aptly so. The market volatility threw a monkey wrench into investing plans, and even investors with steady nerves ended up with twitchy palms.

It is this kind of market environment, however, that separates the men from the boys, so to speak. In the case of insurance companies, discipline, experience, and agility matter a lot.

Traditionally, insurers are considered to be bastions of security; they hold conservative assets such as fixed-income securities and corporate bonds. They survive on premiums, and thrive on float. By making wise investment decisions, they are able to generate suitable returns for the long term that would benefit their policyholders.

If 2016 held an important lesson for insurers and investors, however, it is that the ability to survive the volatility is just as important as making the right investment.

"We are really more into fundamental investing based on value and growth. As a life insurance company, our policies are long term, and that's something we need to match. Our thrust ever since has been conservative," said Vera Victoria C. Morales, first vice-president and head of the Investment Management Division (IMD) of Insular Life. For decades now, this conservatism has enabled the 106-year-old company to ride out bouts of volatilities and profit from staying the course.

The IMD ensures optimum yields for the Company's traditional investment portfolio, as well as recurring income and revenue stream. The Division also manages the various variable funds under the Insular Wealth Series of Funds, and develops investment-linked products in collaboration with other business units of the Company.

To be effective in its role, the IMD performs disciplined investment risk management to guide its investment decisions. It also ensures that its backroom operations remain strong to maintain the efficient delivery of all administrative requirements.

OUTPERFORMING THE MARKETS

In 2016, Insular's investment mettle was again put to the test. With the Company's total traditional investment portfolio under its management growing by almost 30 percent to ₱92.3 billion from 2015 of ₱71.1 billion, with fixed income assets comprising 56 percent of the portfolio, IMD has indeed shown that knowing the markets pays.

Its traditional investment portfolio — comprised of money market, term loans, bonds, mortgage loans, and stock investments —generated ₱7.2 billion in gross income (inclusive of realized gains), an increase of almost 89 percent over the previous year.

This is also reflected in the strong performance of Insular's Wealth Series funds. Among the seven funds the Company manages, the Growth Fund posted the highest return at 4.04 percent, followed by the Equity Fund at 3.21 percent. The Balanced Fund, a mixed exposure of equity and fixed-income assets, also delivered a respectable return of 2.64 percent. As of end-2016, the total value of the VUL funds has reached ₱21.2 billion.

"The peso funds outperformed the market in general," said Ms. Morales. The performance of these funds benefited policyholders of Insular Life's Wealth Builder, Variable Returns Asset, Wealth Assure and Wealth Secure, including its packages of Wealth Secure Education, Wealth Secure Prime and Wealth Assure Education.

"Through it all, most investors of Insular Life's variable unit linked (VUL) funds held on and were rewarded by very decent returns." Insular Life's VUL products provide life insurance protection while building up for future family expenditures related to education, retirement and estate planning.

MAKING THE MOVE

Asked if the Company has an investing "secret" for its stellar performance in 2016, Alan Joseph S. Amador, vice president at Insular Life's IMD, said: "We did not do anything special. When the market went up, we took profits and shifted the proceeds to money market positions. When the market went down, we cost-averaged by buying back into our core positions."

For equities, choosing underlying investments with care is one of the biggest challenges. "We choose an investment based on its fundamentals, growth, and value; we basically juggle the three. So whatever opportunity is available, we seize it. But the stock's liquidity is equally important as it reflects market interest in the company. If a company has good fundamentals but lacks liquidity (i.e., hardly traded), then we might just end up holding a sizeable investment without anyone willing to take it from our hands. For managers that are always monitoring the market, it's quite easy to see which stocks to pick because the pool of companies that are liquid is small. Since we go long, we just focus on these stocks," said Mr. Amador.

For bond investments, "we are generally exposed to Republic of the Philippines credit and bonds issued by prime rated local corporations. For an actively traded fund, bonds with ready entry and exit levels are the most preferred as prices of these securities are most of the time reflective of the market. A deep capital market is key to have more liquid fixed income securities trade in the market," added Ruth R. Velasco, senior assistant vice president of Insular Life.

Having the means to employ one's investing strategy is another guideline that fund managers must bear in mind. "The trick is having a plan and to have the patience and discipline to execute that strategy. Make sure that you have the funds to deploy when the time comes to enter the market," said Mr. Amador. "It helps that we have a steady stream of new investors who provide the fresh flows, and we have to credit our sales team for this," added Ms. Morales.

Investors must also listen closely to the market and be quick and nimble.

"Before the local elections, there was some selling pressure, but we stayed on where we invested and did not join the bandwagon. Uncertainties always happen during elections — you don't know who's going to win. So true enough, after the elections, the Philippines' economic fundamentals remained strong, and there was market recovery after. The noise came afterwards from external events, so we took the opportunity to rebalance some of our positions. So when the market went down, we were not as affected. That's why we were able to post decent returns," said Ms. Velasco.

Another fundamental rule that the IMD experts keep to heart is not getting easily distracted by short-term incidents or events; rather, to focus on the merits of the investment. "If we believe that a company can ride out the storm, we buy its stock so we don't veer away from our philosophy of investing in long-term value," said Mr. Amador.

"For fixed income, we focus on local and global factors that affect movements in interest rates. As financial markets have become more interrelated, developments outside of the Philippines have greatly influenced the level of onshore interest rates," said Ms. Velasco.

It helps to stay the course and keep abreast of developments here and abroad, particularly nowadays when "there are so many uncertainties causing volatilities in the market which provide opportunities to fund managers like us," said Ms. Morales.

Whenever uncertainty grips the markets, the best course is to stay vigilant. "Clients now monitor their fund's performance, and compare them not just among VULs, but against mutual funds and UITFs. For 2017, investors have so many things to watch out for: one is the interest rate movement. For bonds, the magnitude of the U.S. Federal Reserve rate hikes will dictate the movement of local interest rates," said Ms. Velasco.

"The equities market will also look at interest rates; when rates go higher, there would be a shift of fund flows from equities to bonds and this could create ripple effects on specific sectors as well," said Mr. Amador. "The process of investing is really long term. If you are only looking at price movements, that's speculating."

Which brings home the point that when it comes to nurturing one's hard-earned money, the smart move is to leave the investing to the experts.

"When you do your own investing, you always have the tendency to panic. It's difficult to keep your emotions in check when you are dealing with your personal money. So we keep telling investors that it is better to leave the fund management to our team because we have already developed the discipline to stay the course and focus on our objectives," said Ms. Morales. "For our VUL funds, the insurance wrapper is a further safeguard because our policyholders know that the life insurance on their policy is intact even when the markets are down," she added.

And with over a decade of successful track record in fund management, Insular's IMD surely knows how to get to the path to profitability without guesswork.

*Upper left: (L-R): SAVP and Fixed Income Desk Head **Ruth R. Velasco**, FVP and IMD Head **Vera Victoria C. Morales**, and VP and Equities Desk Head **Alan Joseph S. Amador***

This page: The Investment Management Division team

Delivering More Value through Real Estate

The prime spot where Ayala Avenue intersects with Paseo de Roxas at the heart of Makati City is set to witness the rebirth of a historic icon this year.

After nearly two years since groundbreaking, the 14-storey Insular Life Makati Building is set to reopen 20,779 square meters of premium leasable area. The iconic building was one of the first high-rise structures in the 1960s and has served as silent witness to more than 50 years of evolution of the country's premier financial hub in the 1960s.

The much-awaited completion of the historical landmark's redevelopment is good news, not only to Insular Life, but to policyholders as well. And one of those brimming with much excitement is Hector Caunan, Vice President and Head of Real Property Division at Insular Life.

"We plan to lease out 100 percent of the Insular Life Makati Building by the end of 2017, with a projected 300 percent increase in leasing rates from pre-renovation prices, to be at par with industry standards. We expect to earn around ₱270 million once the building is 100 percent occupied by next year. But even with its current 30 percent occupancy rate as of March 2017 due pre-commitment lease negotiations, we already expect to earn ₱57 million this year," Mr. Caunan said.

SETTING THE BAR HIGH

If the Insular Life Makati Building is any reflection of its 106-year old owner, it is the fact that it is being reinvented as a modern and environmentally sustainable structure that also pays homage to its half-a-century heritage.

Aiming to be Gold LEED-certified by the U.S. Green Building Council, the new building features a high-ceiling, semi-grand lobby, brand-new air-conditioning system, generators, elevators and lobby escalators, a 300-seater ballroom/multi-purpose hall on the 12th floor, and a new five-storey, 142-slot parking building at the back. It will also be home to the state-of-the-art iLearn Academy on the mezzanine floor.

In a first-of-its-kind engagement in the country, Insular Life harnessed the combined expertise and network of Colliers International and KMC-Savills to bring the renovated main building to target leasing clients. The country's leading universal banks, a newly opened Canadian fast food chain, alongside other high-value business processing outsourcing (BPO) firms and multinational corporations are just some of the prestigious entities poised to occupy the redeveloped space.

RIDING THE WAVE

If Insular Life's bottom line is to hit escape velocity in 2017, expect the Real Property Division (RPD) to serve as its rocket fuel. In addition to leasing out space in the new IL

Makati building, the Division is also managing all Insular Life buildings, lands, and real estate assets from north to south to reap more value for the Company, and ultimately, for its policyholders.

Mr. Caunan said Insular currently has 22 buildings nationwide, all strategically located in every major city in the Philippines. RPD ensures the proper maintenance of these workplaces and facilities, not only to provide a productive work environment for Insular's employees, but also to better serve its policyholders and other people it transacts with.

In 2016, RPD sold off ₱2.8 billion worth of properties, the highest ever, for which Insular Life gained ₱1.8 billion. On the leasing front, RPD contributed ₱345.2 million in revenues. It also successfully reduced its repair and maintenance costs by as much as 19 percent, with its ₱60-million investment in brand-new and energy-efficient air-conditioning units already translating to ₱26.8 million in annual savings for ILCC Alabang alone.

During the year, RPD also aligned Insular's rental rates with industry standards, with an average increase of 15 percent, while putting in place structures and amenities comparable with Grade-A buildings in Alabang, Muntinlupa City, and the Makati Central Business District (CBD) that command much higher rental costs.

RPD was also instrumental in concretizing the "*Magandang Araw*" customer service experience by refreshing the external and interior look of all Insular Life buildings starting in 2010. The project was completed in two years, and today, Insular Life policyholders, employees, and guests will feel the same warmth and aura of home in whatever Insular Life office they visit.

BUILDING FOR THE FUTURE

In 2017 and the coming years, RPD expects to surpass its stellar performance in real property leasing and management in 2016, mainly due to the reopening of the new Insular Life Makati building.

It is also eyeing the acquisition of new properties in the Bay City area and in thriving cities outside of the metropolis, namely, in Cebu, Davao, Iloilo, Bacolod, and other Visayas and Mindanao cities. Business and IT-BPO activities are in the pink of health in these cities, and RPD plans to ride the wave to deliver the best value to Insular's policyholders.

"We are future-proofing the Company. Our role as a far-sighted guardian is to enhance and safeguard policyholders' hard-earned money through real property investments. That's why we are investing in real estate for the long haul," Mr. Caunan said.

"We are future-proofing the Company to enhance and safeguard our policyholders' hard earned money through real property investments. That's why we are investing in real estate for the long haul."

Upper left: ***Hector A. Caunan,*** *VP and Head of Real Property Division*

This page: The Real Property Division team

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From left to right:

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(As of December 31, 2016)

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Mona Lisa B. de la Cruz
Marietta C. Gorrez

CREDENTIALS

NINA D. AGUAS (Filipino)

Ms. Aguas is the Chief Executive Officer (CEO) of The Insular Life Assurance Co., Ltd. since 24 January 2016. She first joined Insular Life as an Independent Trustee on 27 May 2015. She is also the Chairman of the Executive Committee of the Insular Life Board of Trustees and is Chairman of the Board of the following Insular Life subsidiaries: Insular Health Care, Inc., Insular Investment Corporation, Home Credit Mutual Building & Loan Association, Inc., and Insular Foundation, Inc. She also serves as the Chairman of the Board & CEO of Insular Life Management and Development Corporation (ILMADECO), and Chairman of the Board & President of Insular Life Property Holdings, Inc. Apart from these roles, she is also a Director of the following companies: Union Bank of the Philippines (a Publicly Listed Company), Pilipinas Shell Petroleum Corporation (a Publicly Listed Company) and Shell Company of the Philippines, Ltd. She was a former Director, President and CEO of the Philippine Bank of Communications (PBCOM). She was also a former Director of MAPFRE INSULAR. Before that, she was a Managing Director and Head of Private Bank - Asia Pacific and Managing Director and Retail Banking Head- Asia Pacific of the Australia and New Zealand (ANZ) Banking Group, Ltd. (ANZ Group). She also held various key positions in the Citibank Group of Companies and its affiliate companies for over twenty five years. Ms. Aguas received her Bachelor of Science degree in Commerce, major in Accounting, from the University of Santo Tomas. She is a Certified Public Accountant. She is a 2013 Global FWN 1*00 Most Influential Women Leaders in the World™* awardee. In 2016, she attended the following seminars/conferences: *16th Asia CEO Insurance Summit* in Hong Kong, *Seminar on Corporate Governance and Risk Management* in Manila and *Corporate Governance Seminar* in Manila. She is 64 years old.

LUIS Y. BENITEZ, JR. (Filipino)

Mr. Benitez is an Independent Trustee of The Insular Life Assurance Co., Ltd. since 24 January 2016. He is also an Independent director of ISM Communications Corporation (Publicly Listed Company) and Banco Rodriguez. He was a former Vice Chairman, Senior Partner and Head of Audit Division of Sycip, Gorres, Velayo and Company (SGV and Co). He received his Bachelor of Science degree in Business Administration, major in Accounting from the University of the Philippines. He earned his Master's degree in Business Administration from the Stern School of Business of New York University. He is also a graduate of the Pacific Rim Bankers Program of University of Washington. He is a Certified Public Accountant. In 2016, he attended the *Seminar on Corporate Governance and Risk Management* in Manila. He is 69 years old.

MONA LISA B. DE LA CRUZ (Filipino)

Ms. de la Cruz is the President and Chief Operating Officer of The Insular Life Assurance Co., Ltd. She is an Executive Trustee of Insular Life since 27 January 2011. Concurrently, she is a Director of Insular Health Care, Inc., Insular Investment Corporation, Home Credit Mutual Building & Loan Association, ILAC General Insurance Agency, Inc., Insular Life Property Holdings, Inc., Insular Life Management and Development Corporation (ILMADECO), Insular Life Employees' Retirement Fund, MAPFRE INSULAR Insurance Corporation, Union Bank of the Philippines (a Publicly Listed Company) and Pilipinas Shell Petroleum Corporation (a Publicly Listed Company). She is also a Trustee of Insular Foundation, Inc. She is a Fellow of Actuarial Society of the Philippines and Associate of Society of Actuaries (USA). She earned her Bachelor of Science degree in Statistics *(cum laude)* from the University of the Philippines. She finished her Master of Science degree in Mathematics, major in Actuarial Science, from University of Michigan. She is a 2016 Global FWN *100 Most Influential Women Leaders in the World™* awardee. In 2016, she attended various seminars and conferences, namely: ING's Economic Briefing in Manila; MAPFRE INSULAR's *Second Kabayan Convention* in Manila; Bangko Sentral ng Pilipinas' Interest Rate Corridor (IRC) System Briefing in Manila; Shell *Powering Progress Together Asia 2016* in Manila; Corporate Governance and Risk Management Seminar in Manila; Investment Briefing in Manila; Maybank-ATRKE 2016 Midyear/Post-Election Briefing in Manila; Union Bank University-Board of Directors 21st Leaders' Learning Circle, Manila; 6th Asia Life Insurance Summit in Singapore; Presidential Meeting with Business Leaders "Sulong Pilipinas" in Davao; SharePhil Summit in Manila; Financial Times-First Metro Philippines Investment Summit in Manila; Filipina Women's Network (FWN) *13th Filipina Leadership Global Summit* in Cebu; Actuarial Society of the Philippines' (ASP) 57th Annual Convention in Bataan; and Corporate Governance Seminar in Manila. She also attended ASP and MAP General Membership Meetings. She is 59 years old.

MARIETTA C. GORREZ (Filipino)

Ms. Gorrez is a Non-Executive Trustee of The Insular Life Assurance Co., Ltd. since 27 January 2011. She is also a Director of the following Companies: Insular Health Care, Inc., Foundation for Professional Training, Inc. and Alliance for the Family Foundation of the Philippines, Inc. She was a former Senior Vice President of Insular Life and headed the following Groups: Business Support Group, Sales Operations Group, Corporate Operations Group and Administrative Operations Group. She was also a former President of ILAC General Insurance Agency, Inc. She served as Director and Treasurer of Insular Investment Corporation and previously held Directorships of Insular Life Management & Development Corporation (ILMADECO), Insular Life Property Holdings, Inc., Insular Life Employees' Retirement Fund and Home Credit Mutual Building & Loan Association, Inc. She was also a former Trustee and Insular Foundation, Inc. She is a Professional Executive/Career/Life Coach & Member of International Coach Federation and Vice President of International Coach Federation-Philippines Chapter. She is a Registered Financial Consultant and Registered Estate Planner of the International Association of Registered Financial Consultants (IARFC). She is a Fellow of Life Management Institute of Life Office Management Association (LOMA). She obtained her Bachelor of Science degree in Mathematics from the University of Santo Tomas. She holds a Master's degree in Business Administration from De La Salle University and is a candidate for Master's degree in Business Economics from University of Asia & the Pacific. She is also a graduate of Top Management Program of the Asian Institute of Management. In 2016, she attended Measuring Integrated Brand Effectiveness Seminar in Manila and Understanding the Economy Seminar in Manila. She is 63 years old.

JESUS ALFONSO G. HOFILEÑA (Filipino)

Mr. Hofileña is a Senior Executive Vice President and Sales and Marketing Group Head of The Insular Life Assurance Co., Ltd. He is an Executive Trustee since 24 January 2016. He sits as a Director of the following Insular Life subsidiaries: Insular Health Care, Inc., Home Credit Mutual Building & Association, Inc., Insular Life Property Holdings Inc. and Insular Life Management and Development Corporation (ILMADECO). He is a Trustee of Insular Foundation, Inc., Insular Employee Retirement Fund and Self Enhancement for Life Foundation. He is a Trustee, President and Chief Executive Officer of Insular ILAC General Insurance Agency, Inc. He obtained his Bachelor of Arts degree in Psychology *(summa cum laude)* from the Ateneo de Manila University. He is also a graduate of the Management Development Program (*with distinction*) of the Asian Institute of Management. In 2016, he attended the followings seminars and conferences: Corporate Governance and Risk Management Seminar in Manila, *Sharephil Summit* in Manila, *14th Management Association of the Philippines International CEO Conference* in Manila, and *Asian Life Insurance Executives Seminar (ALIES) Convention* in Seoul. He is 61 years old.

DELFIN L. LAZARO (Filipino)

Mr. Lazaro is an Independent Trustee of The Insular Life Assurance Co., Ltd. since 28 November 2002. He is a Director of the following Publicly Listed Companies of the Ayala Group of Companies: Ayala Corporation, Inc., Ayala Land, Inc., Globe Telecommunications, Inc., Integrated Microelectronics, Inc., and Manila Water Company, Inc. He also holds directorships and management positions in other non-listed subsidiaries of the Ayala Group. He also sits as a Director and Officer of various family–owned Corporations. He received his Bachelor of Science degree in Metallurgical Engineering from the University of the Philippines. He obtained his Master's degree in Business Administration *(with distinction)* from Harvard Graduate School of Business. In 2016, Mr. Lazaro attended a seminar on Corporate Governance and Risk Management in Manila. He is 71 years old.

LUIS C. LA Ó (Filipino)

Mr. la Ó currently sits as a Non-Executive Chairman of the Board of The Insular Life Assurance Co., Ltd. Before he became the Chairman of Insular Life, he first joined as a Non-Executive Trustee on 22 January 2015. He was a former Chairman of the Board of Directors of MAPFRE INSULAR Insurance Corporation. He previously occupied the following roles: Regional Vice President for Asia of the MAPFRE Group- Spain, President of Provident Insurance Corporation of the Soriano Group and Senior Vice President of Universal Reinsurance Corporation of the Ayala Group. He obtained his Bachelor of Science degree in Management at Ateneo de Manila University. He completed his Master's degree in Business Management from De La Salle University. He also finished a course on General Insurance from the College of Insurance, Chartered Institute of London, United Kingdom. In 2016, Mr. la Ó attended a seminar on Corporate Governance and Risk Management in Manila. He is 69 years old.

FRANCISCO ED. LIM (Filipino)

Atty. Lim is a Non-Executive Trustee of The Insular Life Assurance Co., Ltd. since 27 January 2011. He is currently a Senior Partner and member of the Special Committee and Executive Committee of the Angara Concepcion Regala & Cruz Law (ACCRALAW) Offices. He is also the President of Shareholders' Association of the Philippines (SharePHIL). He is an Independent Director of the following companies: Energy Development Corporation (a Publicly Listed Company), Producers Savings Bank Corporation and Tower Development Bank, Inc. aside from his directorships, he is a Trustee of CIBI Foundation, Inc., FINEX Research & Development Foundation, Inc., and the Judicial Reform Initiative, Inc. Atty. Lim sits as the Chairman of Committees of the following Associations: National Competitiveness Committee of the Management Association of the Philippines, Judicial System Working Group of the National Competitiveness Council. He is a Co-Chairperson of the Sub-Committee of the Philippine Supreme Court on E-Commerce Law and member of the Philippine Supreme Court Sub-Committee on Commercial Courts. He is a Professorial Lecturer at the Philippine Judicial Academy and a Law Professor at the School of Law, Ateneo de Manila University and at the Graduate School of Law of San Beda College. He is a Philippine Contributor to the Compliance Complete (Thomson Reuters International online publication) and a Columnist (Point of Law) in *Philippine Daily Inquirer*. He was a former President and Chief Executive Officer of the Philippine Stock Exchange, Inc., and Securities Clearing Corporation of the Philippines. He previously served as a Chairman of the Philippine Stock Exchange Foundation, Inc. and Capital Market Development Center, Inc. He was also a former Director of The Philippine Stock Exchange, Inc., Securities Clearing Corporation of the Philippines, and Philippine Dealing & Exchange Corporation. He also previously served as a Trustee of Securities Investors Protection Fund. Atty. Lim was also a former member of the Capital Market Development Council. He is a Fellow of the Institute of Corporate Directors and a member of the Financial Executive Institute of the Philippines. He earned his Bachelor of Arts (*cum laude*) and Bachelor of Philosophy (*magna cum laude*) degrees from University of Santo Tomas. He finished his Bachelor of Laws *(Second Honors)* degree from the Ateneo de Manila University. He then graduated with Master of Laws from the University of Pennsylvania, USA. He is currently a member of the Integrated Bar of the Philippines, Philippine Bar Association, New York State Bar Association and the American Bar Association. He has received numerous awards and accolades during in his professional career. Among his most recent awards are: Commended External Counsel of the Year 2016 by In-House Community Counsels; *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.; *Advocacy Management and Shareholder Rights Advocacy Awards* from BizNewsAsia; Certificate of Commendation from the Supreme Court of the Philippines; Outstanding Alumnus, San Jacinto Seminary and San Jacinto Seminary Alumni Association and Certificate of Appreciation from Capital Market Institute of the Philippines. In 2016, he attended Introduction to Fraud Awareness Seminar in Manila. He is 62 years old.

NICO JOSE S. NOLLEDO (Filipino)

Mr. Nolledo is an Independent Trustee of The Insular Life Assurance Co., Ltd. since 01 August 2016. He is the Chairman and CEO of Xurpas (Philippines). He is also a Chairman of Eden Holdings (Singapore). He is a member of the Entrepreneurs' Organization (EO) - Philippine Chapter. He is the Founder and CEO of PinoyExchange. He currently sits as a Director of the following companies: Xurpas Inc. (a Publicly Listed Company), Eden Holdings (Singapore) and *Rappler* Philippines. He is an awardee of the following prestigious titles: 2015 Ernst and Young (EY) *Entrepreneur of the Year, 2015 The Outstanding Young Men* (TOYM) and *Endeavor Entrepreneur*. He received his Bachelor of Science degree in Management from the Ateneo de Manila University. In 2016, he attended the following seminars: 16th EY World Entrepreneur Of The Year™ Award and Forum in Monaco, Rappler #ThinkPH 2016 in Manila, Stanford - Endeavor Innovation & Growth in San Francisco, USA, Startup Weekend: QC @ ADMU 2016 in Manila, Endeavor Investor Network Trek Singapore in Singapore, Internet and Mobile Marketing Association of the Philippines (IMMAP) Digital Congress in Manila, Entrepreneurs' Organization Lunch Around Learn Around in Singapore, 8th International IT-BPM Summit, Manila and Horasis Asia Meeting 2016 in Bangkok. He is 40 years old.

MANAGEMENT TEAM

As of April 2017

From left to right:
Jesus Alfonso G. Hofileña, *Senior Executive Vice President and Head of Sales and Marketing Group*
Mona Lisa B. de la Cruz, *President and Chief Operating Officer*
Nina D. Aguas, *Chief Executive Officer*
Ma. Edita C. Elicaño, Executive Vice President, *Chief Actuary and Head of Administrative Operations Group*
Omar T. Cruz, Senior Executive Vice President, *Chief Bancassurance Executive and Head of Bancassurance Operations Group*

SENIOR VICE PRESIDENTS

As of April 2017

Ramon M. Cabrera

Chief Agency Executive and Head of Agency Management

Maria Teresa L. Cruz

Head of Information Services Division

Renato S. De Jesus

Compliance Officer, Corporate Secretary and Head of Legal and Corporate Services Division

Amelita F. Tamayo

Chief Marketing Officer and Head of Marketing and Agency Support Division

FIRST VICE PRESIDENTS

As of April 2017

Myrna A. Alcantara

Head of Bancassurance Sales

Roberto Z. Arroyo

Seconded as President of Insular Health Care, Inc.

Enrico L. Cordoba

Chief Risk Officer and Head of Corporate Planning Staff

Melvin J. Esteban

Learning and Development Officer

Alijeffty C. Gonzales

Head of Business Development Unit

John Jesus O. Lim

Head of Territory 1 (SMG) and of Metro Manila Sales Division

FIRST VICE PRESIDENTS

As of April 2017

Mundece L. Lu

Head of Territory 2 (SMG) and of Visayas and Mindanao Sales Division

Carlito V. Lucas

Head of Group Marketing Division

Vera Victoria C. Morales

Head of Investment Management Division

Mylene C. Padilla

Corporate Treasurer and Head of Finance Division

Jocelyn B. Reyes

Head of Policyholders Services Division

Katerina V. Suarez

Head of Actuarial Division

Not in photos:

Maria Rosa Aurora D. Cacanando, *Head of Audit Staff (Internal Audit)*
Percival Cirilo S. Flores, *Head of Business Analytics and Strategy Management*

VICE PRESIDENTS

Geraldine B. Alvarez
Alan Joseph S. Amador
Hector A. Caunan
Florian C. De Leon
Henry A. Pagulayan
Diana Rose A. Tagra
Eleanor G. Tanada, M.D.

SENIOR ASSISTANT VICE PRESIDENTS

Reynaldo R. Aldaba
Arnaldo I. Aquino
Johanna C. Coronado
Corazon S. Cruz
Peter Paul E. Esporlas
Ma. Carmela D. Francisco
Lorenzo Luis Liborio B. Gallardo II
Laarni F. Garraton *
Gwendolyn D. Kelley
Jesselyn V. Ocampo
Jose A. Padilla
Geraldine G. Pascual
Tricci Rose A. Sadian
Ana Maria R. Soriano
Ruth R. Velasco
Jesito V. Villamor

ASSISTANT VICE PRESIDENTS

Iris S. Aman
Rene P. Asuncion
Henry G. Balangatan II
Analyn S. Benito
Charito A. Brillo
Edward Dionie F. Capili
Pompeyo Nicholas E. Catindig
Johanna B. De Jesus
Hilario C. Delos Santos
Jannette P. Domingo
Maria Celina H. Espinosa
Isidra Josephine M. Gonzales
Ma. Editha B. Mendiola
Mark Bryan Q. Palacios
Sancer T. Pertez
Randy N. Quimbo
Herson S. Resurreccion
Maria Ritchie M. Reyes
Maria Rowena M. Rodriguez
Paulita A. Sioson

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

THE INSULAR LIFE ASSURANCE CO., LTD.

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 including the schedules attached therein, for years ended December 31, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as Management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Trustees is responsible for overseeing the Company's financial reporting process.

The Board of Trustees reviews and approves the financial statements including the schedules attached therein, and submits the same to the members.

SyCip Gorres Velayo & Co., the independent auditor appointed by the members, has audited 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 audit.

Nina D. Aguas
Chief Executive Officer

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

Mylene C. Padilla
First Vice President – Finance Division
and Corporate Treasurer

Signed this 23rd day of March 2017

THE INSULAR LIFE ASSURANCE CO., LTD.

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of The Insular Life Assurance Company, Ltd. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report for the year ended December 31, 2016 is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

SYCIP GORRES VELAYO & CO.

Djole S. Garcia
Partner
CPA Certificate No. 0097907
SEC Accreditation No. 1285-AR-1 (Group A),
May 12, 2016, valid until May 12, 2019
Tax Identification No. 201-960-347
BIR Accreditation No. 08-001998-102-2015,
November 25, 2015, valid until November 24, 2018
PTR No. 5908702, January 3, 2017, Makati City
March 23, 2017

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

CONSOLIDATED BALANCE SHEETS

	December 31	
	2016	2015
ASSETS		
Cash and Cash Equivalents (Note 4)	**₱7,864,611,077**	₱7,108,300,822
Short-term Investments	**–**	33,368,707
Insurance Receivables (Note 5)	**170,303,275**	194,828,272
Financial Assets (Note 6):		
Fair value through profit or loss	**27,022,555,883**	23,391,812,135
Available-for-sale	**38,365,111,789**	19,095,651,957
Held-to-maturity	**22,508,340,753**	24,011,422,748
Loans and receivables	**15,590,030,880**	15,400,243,514
Investments in Associates (Note 7)	**9,117,892,365**	7,976,569,117
Investment Properties (Note 8)	**8,117,694,965**	8,315,642,146
Property and Equipment (Note 9)	**285,888,862**	307,597,514
Retirement Benefits Asset (Note 24)	**1,076,542**	91,962,985
Deferred Income Tax Assets - net (Note 25)	**13,211,014**	10,390,931
Other Assets (Note 10)	**188,632,339**	208,787,825
TOTAL ASSETS	**₱129,245,349,744**	₱106,146,578,673
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Legal policy reserves (Note 11)	**₱56,316,933,902**	₱52,677,297,519
Derivative liability (Note 12)	**34,807,709**	25,859,311
Other insurance liabilities (Note 13)	**30,399,799,941**	27,157,398,207
Accrued expenses and other liabilities (Note 14)	**1,482,309,198**	1,789,478,905
Retirement benefits liability (Note 24)	**288,880,645**	5,387,341
Deferred income tax liabilities - net (Note 25)	**468,407,779**	771,664,550
Total Liabilities	**88,991,139,174**	82,427,085,833
Members' Equity		
Equity attributable to Parent Company		
Reserve for fluctuation in available-for-sale financial assets:		
Attributable to the Group (Note 6):		
Equity securities	**15,143,705,534**	2,693,114,649
Debt securities	**(408,022,516)**	106,020,601
Attributable to associates (Notes 7)	**(1,325,628,658)**	(1,275,049,049)
	13,410,054,360	1,524,086,201
Cumulative re-measurement gains (losses) on defined benefit plan:		
Attributable to the Group (Note 24)	**(187,205,885)**	34,644,560
Attributable to associates (Note 7)	**(31,352,232)**	25,172,295
	(218,558,117)	59,816,855
Premium on deemed disposal of investment in an associate (Note 7)	**304,954,486**	304,954,486
Share in surplus reserves of a subsidiary	**3,226,537**	3,226,537
Retained earnings (Notes 15 and 33):		
Appropriated	**550,000,000**	250,000,000
Unappropriated	**26,050,131,447**	21,425,758,016
Equity attributable to Parent Company	**40,099,808,713**	23,567,842,095
Equity attributable to Non-controlling Interests (Note 28)	**154,401,857**	151,650,745
Total Members' Equity	**40,254,210,570**	23,719,492,840
TOTAL LIABILITIES AND MEMBERS' EQUITY	**₱129,245,349,744**	₱106,146,578,673

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31	
	2016	2015
REVENUE		
Insurance Revenue (Note 16)		
Gross earned premiums on insurance contracts	**₱13,138,576,490**	₱13,762,798,954
Reinsurers' share of premiums on insurance contracts	**(209,543,054)**	(176,281,175)
Net Insurance Revenue	**12,929,033,436**	13,586,517,779
Operating Revenue		
Investment income (Note 17)	**4,356,615,979**	3,899,337,003
Equity in net earnings of associates (Note 7)	**1,505,823,807**	739,446,746
Rental income (Notes 8 and 27)	**336,690,470**	361,535,040
Net realized gains (Note 18)	**5,215,694,021**	816,206,575
Foreign exchange gain - net	**180,964,172**	193,122,230
Other income (Note 29)	**382,032,363**	338,498,067
Total Operating Revenue	**11,977,820,812**	6,348,145,661
Total Revenue	**24,906,854,248**	19,934,663,440
INSURANCE BENEFITS AND OPERATING EXPENSES		
Insurance Benefits Expenses (Note 19)		
Gross benefits and claims on insurance contracts	**12,423,698,659**	12,914,586,854
Reinsurers' share of benefits and claims on insurance contracts	**(89,513,715)**	(13,411,928)
Net change in:		
Legal policy reserves	**3,646,273,968**	1,614,603,472
Reinsurers' share in legal policy reserves	**(6,637,585)**	5,098,195
Net Insurance Benefits Expenses	**15,973,821,327**	14,520,876,593
Operating Expenses		
General insurance expenses (Note 20)	**1,973,299,407**	1,906,304,738
Commissions and other acquisition expenses	**1,211,580,719**	1,186,954,503
Investment expenses (Note 21)	**315,285,040**	204,727,679
Other losses (Note 22)	**169,790,742**	24,040,743
Total Operating Expenses	**3,669,955,908**	3,322,027,663
Total Insurance Benefits and Operating Expenses	**19,643,777,235**	17,842,904,256
INCOME BEFORE INCOME TAX	**5,263,077,013**	2,091,759,184
PROVISION FOR INCOME TAX (Note 25)	**330,004,007**	322,798,130
NET INCOME	**₱4,933,073,006**	₱1,768,961,054
ATTRIBUTABLE TO:		
Parent Company	**₱4,933,074,833**	₱1,768,965,104
Non-controlling Interest	**(1,827)**	(4,050)
NET INCOME	**₱4,933,073,006**	₱1,768,961,054

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
NET INCOME	**₱4,933,073,006**	₱1,768,961,054
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:		
Increase in value of available-for-sale equity securities (Note 6)	**15,511,384,608**	926,198,450
Movement in deferred income tax	**85,560,874**	62,925,562
	15,596,945,482	989,124,012
Valuation loss (gain) realized through profit or loss		
Gain on sale (Note 6)	**(3,315,951,339)**	(342,707,032)
Impairment loss (Notes 6 and 22)	**169,596,742**	23,930,741
	(3,146,354,597)	(318,776,291)
Decrease in value of available-for-sale debt securities (Notes 6 and 28)	**(509,653,637)**	(85,743,107)
Consequential deferred income tax impact (Note 6)	**–**	–
	(509,653,637)	(85,743,107)
Valuation gain realized through profit or loss (Note 6)	**(4,389,561)**	(52,327,139)
Decrease in value of available-for-sale equity securities attributable to associates (Notes 6 and 7)	**(50,579,609)**	(777,170,992)
	11,885,968,078	(244,893,517)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Re-measurement losses on defined benefit pension plan (Note 24)	**(316,653,346)**	(108,996,770)
Consequential deferred income tax impact (Note 24)	**94,802,644**	33,177,419
	(221,850,702)	(75,819,351)
Re-measurement losses on defined benefit pension plan attributable to associates (Note 7)	**(56,524,527)**	(24,341,053)
	(278,375,229)	(100,160,404)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**11,607,592,849**	(345,053,921)
TOTAL COMPREHENSIVE INCOME	**₱16,540,665,855**	₱1,423,907,133
ATTRIBUTABLE TO:		
Parent Company	**₱16,540,668,020**	₱1,423,910,460
Non-controlling Interest (Note 28)	**(2,165)**	(3,327)
TOTAL COMPREHENSIVE INCOME	**₱16,540,665,855**	₱1,423,907,133

See accompanying Notes to Consolidated Financial Statements.

THE INSULAR LIFE ASSURANCE COMPANY, LTD. AND SUBSIDIARIES

(A DOMESTIC MUTUAL LIFE INSURANCE COMPANY)

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Equity Attributable to Group 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 the Associates (Note 7)	Attributable to the Parent (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 DECEMBER 31, 2014	**₱2,022,766,928**	**₱244,091,784**	**(₱497,878,057)**	**₱110,463,697**	**₱49,513,348**	**₱304,954,486**	**₱3,226,537**	**₱250,000,000**	**₱20,191,704,044**	**₱22,678,842,767**	**₱170,577,152**	**₱22,849,419,919**
Total comprehensive income (loss)	670,347,721	(138,071,183)	(777,170,992)	(75,819,137)	(24,341,053)	–	–	–	1,768,965,104	1,423,910,460	(3,327)	1,423,907,133
Net decrease in preferred shares during the year (Note 28)	–	–	–	–	–	–	–	–	–	–	(18,923,080)	(18,923,080)
Dividends to members (Notes 15 and 28)	–	–	–	–	–	–	–	–	(534,911,132)	(534,911,132)	–	(534,911,132)
BALANCES AT DECEMBER 31, 2015	**₱2,693,114,649**	**₱106,020,601**	**(₱1,275,049,049)**	**₱34,644,560**	**₱25,172,295**	**₱304,954,486**	**₱3,226,537**	**₱250,000,000**	**₱21,425,758,016**	**₱23,567,842,095**	**₱151,650,745**	**₱23,719,492,840**
Total comprehensive income (loss)	12,450,590,885	(514,043,117)	(50,579,609)	(221,850,445)	(56,524,527)	–	–	–	4,933,074,833	16,540,668,020	(2,165)	16,540,665,855
Additional appropriation	–	–	–	–	–	–	–	300,000,000	(300,000,000)	–	–	–
Net decrease in preferred shares during the year (Note 28)	–	–	–	–	–	–	–	–	–	–	2,753,277	2,753,277
Dividends to members (Notes 15 and 28)	–	–	–	–	–	–	–	–	(8,701,402)	(8,701,402)	–	(8,701,402)
BALANCES AT DECEMBER 31, 2016	**₱15,143,705,534**	**(₱408,022,516)**	**(₱1,325,628,658)**	**(₱187,205,885)**	**(₱31,352,232)**	**₱304,954,486**	**₱3,226,537**	**₱550,000,000**	**₱26,050,131,447**	**₱40,099,808,713**	**₱154,401,857**	**₱40,254,210,570**

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱5,263,077,013**	₱2,091,759,184
Adjustments for:		
Interest income (Note 17)	**(3,282,040,575)**	(3,301,667,063)
Net trading loss (gain) from financial assets and liablities at fair value through profit or loss (Note 12 and 17)	**(114,942,924)**	1,359,837,490
Net change in legal policy reserves (Note 19)	**3,639,636,383**	1,619,701,667
Equity in net earnings of associates (Note 7)	**(1,505,823,807)**	(739,446,746)
Net realized gain on disposals of (Note 18):		
Investment properties	**(1,897,026,830)**	(416,190,030)
Available-for-sale financial assets	**(3,317,131,670)**	(392,124,114)
Interest expense (Note 19)	**365,211,927**	539,033,514
Dividend income (Note 17)	**(1,003,914,339)**	(472,760,891)
Depreciation and amortization of:		
Investment properties (Note 8)	**158,047,333**	147,025,190
Property and equipment and computer software (Notes 9 and 10)	**101,795,529**	97,764,140
Dividends to members (Note 19)	**42,713,860**	37,853,900
Retirement benefit expense (Notes 23 and 24)	**62,726,400**	45,267,684
Foreign exchange gain - net	**(224,944,967)**	(193,626,889)
Net provision (reversal) of impairment loss on:		
Available-for-sale equity securities (Notes 6 and 22)	**169,596,742**	24,040,743
Investment properties (Notes 8 and 22)	**194,000**	(581,249)
Realized gain on repossession of properties (Note 18)	**(1,190,852)**	(7,892,431)
Operating gain (loss) before working capital changes	**(1,544,016,777)**	437,994,099
Changes in operating assets and liabilities:		
Net decrease (increase) in:		
Loans and receivables	**(142,782,557)**	276,332,915
Short term investment	**33,368,707**	(8,873,805)
Insurance receivables	**24,524,997**	(8,947,164)
Other assets	**(16,977,446)**	(10,264,455)
Net increase (decrease) in:		
Other insurance liabilities	**3,654,305,001**	2,622,079,852
Accrued expenses and other liabilities	**(235,171,862)**	78,217,984
Net cash from operations	**1,773,250,063**	3,386,539,426
Contribution to the plan asset (Note 24)	**(5,000,000)**	(1,200,001)
Income taxes paid	**(1,005,682,697)**	(540,123,303)
Net cash from operating activities	**762,567,366**	2,845,216,122

(Forward)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Net increase in financial asset at fair value through profit or loss	**(₱3,506,852,426)**	(₱3,510,947,385)
Interest income received	**3,252,548,863**	3,314,993,688
Collections of loans and receivables	**–**	587,340,393
Additional investments in:		
Available-for-sale financial assets (Note 6)	**(9,252,167,008)**	(6,370,191,471)
Investment properties (Note 8)	**(590,664,917)**	(254,541,267)
Property and equipment and computer software (Notes 9 and 10)	**(46,385,436)**	(88,489,194)
Held-to-maturity financial assets (Note 6)	**(7,978,058)**	(22,440,046)
Proceeds from disposals and/or maturities of:		
Investment properties (Notes 8 and 18)	**2,528,588,447**	715,268,899
Available-for-sale financial assets (Note 6)	**5,592,206,871**	2,282,115,553
Held-to-maturity financial assets (Note 6)	**1,541,845,355**	957,997,500
Property and equipment (Notes 9 and 18)	**3,086,822**	2,113,646
Dividends received	**1,261,310,762**	833,115,883
Releases of loans and receivables	**–**	(26,894,011)
Net cash from (used in) investing activities	**775,539,275**	(1,580,557,812)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Payments of dividends to members	**(463,318,529)**	(858,527,830)
Interest paid to members (Note 19)	**(365,211,927)**	(539,033,514)
Redemption of preferred shares (Note 28)	**(74,315,168)**	(93,681,831)
Issuances of preferred shares (Note 28)	**77,068,445**	74,758,751
Net cash used in financing activities	**(825,777,179)**	(1,416,484,424)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**712,329,462**	(151,826,114)
NET FOREIGN EXCHANGE GAINS	**43,980,793**	504,659
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**7,108,300,822**	7,259,622,277
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱7,864,611,077**	₱7,108,300,822

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1.1 Corporate Information

The Insular Life Assurance Company, Ltd. (the "Parent Company"), a mutual life insurance company primarily engaged in the life insurance business, was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on November 25, 1910. The Company will be celebrating its 107th year anniversary on November 25, 2017. On November 12, 2010, the SEC approved the amendment of the Company's Article of Incorporation to extend its corporate term for another 50 years or until November 26. 2060.

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

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

1.2 Authorization for Issuance of the Consolidated Financial Statements

The consolidated financial statements of the Group were approved and authorized for issuance by the Board of Trustees (BOT) on March 23, 2017.

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 (PFRSs).

2.2 Basis of Preparation

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

2.3 New Standards and Interpretations Issued and Effective as at January 1, 2016

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2016.

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

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

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

(c) PFRS 14, *Regulatory Deferral Accounts*

(d) Amendments to PAS 1, *Presentation of Financial Statements* - Disclosure Initiative

(e) Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets* - Clarification of Acceptable Methods of Depreciation and Amortization

(f) Amendments to PAS 16, *Property, Plant and Equipment* and PAS 41, *Agriculture* - Bearer Plants

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

(h) *Annual Improvements to PFRSs* (2012-2014 cycle)
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* - Changes in Methods of Disposal
- PFRS 7, *Financial Instruments: Disclosures* - Servicing Contracts
- PFRS 7, *Financial Instruments: Disclosures* - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements
- PAS 19, *Employee Benefits* - Regional Market Issue regarding Discount Rate
- PAS 34, *Interim Financial Reporting* - Disclosure of Information 'Elsewhere in the Interim Financial Report'

2.4 Standards Issued but Not Yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Group intends to adopt the following pronouncements when they become effective.

(a) *Effective beginning on or after January 1, 2017*
- Amendment to PFRS 12, *Disclosure of Interest in Other Entities* - Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014-2016 Cycle)
- Amendments to PAS 7, *Statement of Cash Flows* - Disclosure Initiative
- Amendments to PAS 12, *Income Taxes* - Recognition of Deferred Tax Assets for Unrealized Losses

(b) *Effective beginning on or after January 1, 2018*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures* - Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property* - Transfers of Investment Property
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to PFRS 2, *Share-based Payment* - Classification and Measurement of Share-based Payment Transactions

- PFRS 15, *Revenue from Contracts with Customers*

- Amendments to PFRS 4*, Insurance Contracts* - Applying PFRS 9*, Financial Instruments,* with PFRS 4

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

  The Company is assessing which approach it will use and the potential impact of the chosen approach in its financial statements.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, F*inancial 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 providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting and on the amount of its credit losses. The Group is currently assessing the impact of adopting this standard.

(c) *Effective beginning on or after January 1, 2019*

- PFRS 16, *Leases*

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases.* Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Company is currently assessing the impact of adopting PFRS 16.

(d) *Deferred effectivity*

- Amendments to 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

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2016 on the Group's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the financial statements when these amendments are adopted.

2.5 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its associates as at December 31, 2016 and 2015. 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	
	2016	2015
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, 2016 and 2015, using consistent accounting principles and policies.

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

2.6 Non-controlling Interest

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

2.7 Fair Value Measurement

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

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

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

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

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

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

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

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

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

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

At each reporting date, management analyzes the movements in the values of assets and liabilities which are required to be remeasured or reassessed 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 iin the previous page.

2.8 Cash and Cash Equivalents

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

2.9 Short-term Investments

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

2.10 Financial Instruments

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

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

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

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

2.10.1 *Financial Assets*

(a) *Financial Assets at FVPL*

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

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

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

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

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

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

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

As of December 31, 2016 and 2015, the Group's financial assets at FVPL presented in the separate financial statements of VUL funds amounting to ₱23,027,768,573 and ₱19,379,195,285, 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 ₱3,994,787,310 and ₱4,012,616,850 as of December 31, 2016 and 2015, respectively, which are designated as at FVPL (Note 6).

(b) *HTM Financial Assets*

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

As of December 31, 2016 and 2015, 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 non-derivative 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, 2016 and 2015, the Group's loans and receivables consist of 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 6).

(d) *AFS Financial Assets*

AFS financial assets are non-derivative 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, 2016 and 2015, the Group's AFS financial assets consist of quoted government and corporate debt securities with fixed interest rates, and quoted and unquoted equity securities (Note 6).

2.10.2 *Financial liabilities*

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

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

As of December 31, 2016 and 2015, the Group's other financial liabilities consist of accrued expenses and other liabilities excluding taxes and other payable to the government (Note 14).

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 remeasured 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, 2016 and 2015, the Group has cross-currency swaps (CCS) wherein derivative liability amounted to ₱34,807,709 and ₱25,859,311, 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 non-financial 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, 2016 and 2015, 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 <u>Classification of Financial Instruments Between Debt and Equity</u>

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.

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

2.12 Derecognition of Financial Instruments

2.12.1 *Financial assets*

A financial asset is derecognized when:

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

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

2.12.2 *Financial liabilities*

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

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

2.13 Impairment of Financial Assets

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

2.13.1 *Financial assets carried at amortized cost*

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

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

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

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

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

2.13.2 *AFS financial assets*

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

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

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

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

2.13.3 *Financial assets carried at cost*

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

2.14 Investments in Associates

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

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

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

	Percentage of Ownership	
	2016	2015
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 for the Parent and 19 to 38 years for Home credit).

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 Non-financial 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 non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for a non-financial asset is required, the Group makes an estimate of the asset's recoverable amount.

A non-financial 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 non-financial asset does not generate cash inflows that are largely independent of those from other assets or groups of non-financial 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 non-financial asset (or CGU) exceeds its recoverable amount, the non-financial 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 non-financial 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 non-financial asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the non-financial 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 Bangko Sentral ng Pilipinas (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 that the Group may not receive all amounts due to it under the terms of the contract and that this can be measured reliably. If such evidence exists, impairment loss is recognized in the consolidated statements of income.

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

(c) Legal Policy Reserves

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

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

Any deficiency in the statutory liability is booked as an expense to bring the balance of the liability to the fair valued liability. For this year, the fair valued liability under the base scenario results to ₱2.797 billion higher than the statutory liability. This has then been reflected as additional reserve setup.

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

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

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

(d) Benefits and Claims

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

(e) Incurred but Not Reported (IBNR) Claims

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

(f) Reserve for Dividends to Members

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

2.21 Operating Revenue

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

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

2.21.1 *Interest income*

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

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

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

2.21.2 *Dividend income*

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

2.21.3 *Rental income*

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

2.21.4 *Service income*

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

2.21.5 *Underwriting and arrangement fees*

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

2.21.6 *Trading gains and losses*

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

2.21.7 *Membership fees*

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

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

2.23 Pension Benefits Costs

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

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

Pension benefit costs comprise the following:

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

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

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

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

2.27 Provisions

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

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

2.28 Contingencies

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

2.29 Events After the Balance Sheet Date

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

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

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

3.1 Judgments

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

3.1.1 *Product classification*

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

3.1.2 *Classification of financial instruments*

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

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

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

3.1.3 *Determination of existence of significant influence*

The Company's 16.20% equity investment in Union Bank of the Philippines (UBP) as of December 31, 2016 and 2015 is classified as an associate as the Parent Company has established that it has significant influence over UBP through active participation of all the representatives of the Parent Company's BOT in the working committees of UBP (Note 7).

3.1.4 *Evaluation of joint control*

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

3.1.5 *Evaluation of control*

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

3.1.6 *Distinction between property and equipment and investment properties*

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

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

The total cost of property and equipment reclassified to investment properties amounted to ₱12,224,718 in 2015, (nil in 2016) (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, 2016, preferred shares classified as equity amounted to ₱154,388,719 and ₱151,635,442, as of December 31, 2016 and 2015, respectively (Note 28).

3.2 Estimates

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

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

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

- Recent transaction price between market participants;
- Price to book value (PBV) ratio;
- Discounted cash flow (DCF) valuation; or
- Adjusted net asset method.

The use of a different pricing models and assumptions could produce materially different estimates of fair values. The carrying value of the unquoted AFS equity securities referred to above amounted to ₱440,203,158 and ₱7,009,713,692 as of December 31, 2016 and 2015, respectively (Note 31). Discussion of each method used by the Group to value its unquoted AFS equity securities is disclosed in Note 31.

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

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

The carrying value of the Group's loans and receivables, excluding cash and cash equivalents, amounted to ₱15,590,030,880 and ₱15,400,243,514 as of December 31, 2016 and 2015, respectively (Note 6). Allowance for impairment on loans and receivables amounted to ₱23,846,515 and ₱31,433,096 as of December 31, 2016 and 2015, respectively (Note 6).

The carrying value of the Group's AFS debt securities amounted to ₱14,173,854,450 and ₱6,182,284,284 as of December 31, 2016 and 2015, respectively (Note 6); while the carrying value of the Group's HTM financial assets amounted to ₱22,508,340,753 and ₱24,011,422,748 as of December 31, 2016 and 2015, respectively (Note 6). In 2016 and 2015, 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 30% or more of the original cost of investment and "prolonged" as greater than 24 months.

The carrying value of the Group's AFS equity securities amounted to ₱24,191,257,339 and ₱12,913,367,673 as of December 31, 2016 and 2015, 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 market data 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 ₱11,119,723,182 and ₱12,277,434,976 as of December 31, 2016 and 2015, respectively (Note 8).

3.2.5 *Estimation of useful lives of depreciable non-financial assets*

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

The Group estimates the useful lives of depreciable non-financial 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 ₱3,625,330,449 (Note 8), ₱207,121,085 (Note 9), and ₱84,657,351 (Note 10), respectively, as of December 31, 2016 and ₱3,196,967,330 (Note 8), ₱226,621,327 (Note 9), and ₱121,445,614 (Note 10), respectively, as of December 31, 2015.

3.2.6 *Impairment of non-financial assets*

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

Impairment assessment of non-financial assets includes considering certain indications such as, significant changes in asset usage, significant decline in assets' 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 non-financial assets.

The carrying value of the Group's nonfinancial assets amounted to ₱17,710,108,531 and ₱16,808,596,602 as of December 31, 2016 and 2015, 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, higher than the statutory reserve liability. The difference has been reflected as additional reserve setup

The carrying value of legal policy reserves amounted to ₱56,316,933,902 and ₱52,677,297,519 as of December 31, 2016 and 2015, 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 ₱76,443,289 and ₱67,433,190 as of December 31, 2016 and 2015, respectively (Note 13).

3.2.9 *Estimation of retirement benefits cost*

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

Net retirement benefits asset amounted to ₱1,076,542 and ₱91,962,985 as of December 31, 2016 and 2015, respectively (Note 24). Net retirement benefits liability amounted ₱288,880,645 and ₱5,387,341 as of December 31, 2016 and 2015, resepectively (Note 24).

3.2.10 *Realizability of deferred income tax assets*

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

The Group did not recognize deferred income tax assets on NOLCO and excess of MCIT over RCIT, totaling ₱3,311,963,843 in 2016 and ₱3,101,305,366 in 2015 (Note 25).

3.2.11 *Estimation of reserve for dividends to members*

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

Any difference between the amount set up as reserve for dividends for the year as against the dividends actually paid is charged against retained earnings. Management believes that this dividend sourcing policy more appropriately matches the dividends with its proper source and is more logical and rational. The charging of a portion of the dividends against retained earnings and operations in proportion to the dividends sourced from savings on investment income and mortality as compared to that sourced from savings on loadings is approved by the IC. The carrying amount of the provision for dividends to members charged to retained earnings amounted to ₱516,467,215 as of December 31, 2015 (nil as of December 31, 2016), 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**

	2016	2015
Cash on hand	**₱396,757**	₱497,342
Cash in banks	**548,909,948**	583,303,894
Cash equivalents in commercial banks	**7,315,304,372**	6,524,499,586
	₱7,864,611,077	₱7,108,300,822

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

Cash equivalents earn interest at rates ranging from 0.30% to 2.75% in 2016 and 2015.

5. **Insurance Receivables**

	2016	2015
Due premiums	**₱165,150,543**	₱191,911,402
Reinsurance assets	**5,152,732**	2,916,870
	₱170,303,275	₱194,828,272

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

6. **Financial Assets**

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

	2016	2015
Financial assets at FVPL	**₱27,022,555,883**	₱23,391,812,135
AFS financial assets	**38,365,111,789**	19,095,651,957
HTM financial assets	**22,508,340,753**	24,011,422,748
Loans and receivables	**15,590,030,880**	15,400,243,514
	₱103,486,039,305	₱81,899,130,354

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

6.1 Financial Assets at FVPL

	2016	2015
Equity securities - quoted	**₱3,994,787,310**	₱4,012,616,850
Under separate fund:		
Traditional VULs:		
Cash and cash equivalents	**2,981,555,219**	1,438,736,857
Quoted equity securities	**14,073,469,362**	12,910,091,156
Quoted debt securities:		
Government:		
Local currency	**1,320,969,283**	1,109,100,790
Foreign currency	**2,557,421,911**	1,521,072,701

(Forward)

Financial Assets

	2016	2015
Corporate:		
Local currency	**₱112,074,589**	₱153,053,669
Foreign currency	**135,770,611**	128,636,870
Other receivables	**87,953,997**	52,750,889
Other payables	**(103,395,730)**	(46,663,184)
Structured VULs:		
Local currency	**667,239,570**	1,000,320,732
Foreign currency	**1,194,709,761**	1,112,094,805
	₱27,022,555,883	₱23,391,812,135

Quoted equity security represents preferred shares listed in the stock exchange. Fair value gain (loss) on these equity securities amounted to (₱17,829,540) and ₱161,628,271 in 2016 and 2015, respectively.

Financial assets under separate funds are designated as at FVPL in accordance with the investment strategy and valuation provisions of the VUL insurance contracts. Likewise, this is consistent with the valuation basis of the reserve for policies held by the policyholders.

Fair value gain (loss) from financial assets at FVPL under separate funds (i.e. inclusive of the fair value gains and losses attributable to the Group and the policyholders) amounted to ₱141,720,862 and (₱1,504,338,693) in 2016 and 2015, respectively. These financial assets are designated as 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 securities

Equity securities under separate fund are all 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

In 2016, interest rate ranges of government debt securities under FVPL are 2.13% to 8.00% and 3.70% to 10.63% for peso and dollar bonds, respectively. In 2015, interest rate ranges of these securities are 1.63% to 8.13% and 4.00% to 10.63% for peso and dollar bonds, respectively.

Corporate debt securities

Corporate debt securities include bonds issued by reputable counterparties. In 2016, interest rate for peso corporate debt securities under FVPL is 6.10% (5.88% to 6.10% range in 2015). Interest range for dollar bonds is 4.25% to 7.25% for both in 2016 and 2015.

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 are comprised of custodial fee, fund administration fee, professional fees, and taxes that remain unpaid as of year ended.

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

	2016	2015
Equity securities:		
Quoted	**₱23,747,346,679**	₱5,882,205,420
Unquoted	**443,910,660**	7,031,162,253
	24,191,257,339	12,913,367,673
Debt securities:		
Quoted:		
Government:		
Local currency	**8,371,444,010**	4,153,283,572
Foreign currency	**937,455,298**	997,540,159
Corporate:		
Local currency	**4,831,787,154**	998,815,544
Foreign currency	**33,167,988**	32,645,009
	14,173,854,450	6,182,284,284
	₱38,365,111,789	₱19,095,651,957

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 as of December 31 follows:

	2016	2015
Equity securities:		
Attributable to the Group:		
Beginning balance	**₱2,693,114,649**	₱2,022,766,928
Increase in value of AFS equity securities, net of tax	**15,596,945,482**	989,124,012
Valuation losses (gains) realized through profit or loss:		
Gain on sale	**(3,315,951,339)**	(342,707,032)
Impairment loss (Note 22)	**169,596,742**	23,930,741
Ending balance	**15,143,705,534**	2,693,114,649
Attributable to associates:		
Beginning balance	**(1,275,049,049)**	(497,878,057)
Decrease in value of AFS equity securities attributable to associates - net of tax (Note 7)	**(50,579,609)**	(777,170,992)
Ending balance	**(1,325,628,658)**	(1,275,049,049)
	₱13,818,076,876	₱1,418,065,600
Debt securities:		
Beginning balance	**₱106,020,601**	₱244,091,784
Decrease in value of AFS debt securities	**(509,653,556)**	(85,744,044)
Valuation gains realized through profit or loss	**(4,389,561)**	(52,327,139)
Ending balance	**(₱408,022,516)**	₱106,020,601

6.3 HTM Financial Assets

	2016		2015	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Government:				
Local currency	**₱14,380,214,568**	**₱17,833,553,615**	₱14,931,544,158	18,013,819,276
Foreign currency	**16,114,009**	**23,066,373**	676,267,838	703,145,793
Corporate:				
Local currency	**7,838,411,277**	**8,036,127,923**	8,145,482,907	8,792,827,388
Foreign currency	**273,600,899**	**282,294,854**	258,127,845	298,220,265
	₱22,508,340,753	**₱26,175,042,765**	₱24,011,422,748	₱27,808,012,722

6.4 Loans and Receivables

	2016	2015
Term loans	**₱7,910,880,882**	₱8,229,002,353
Policy loans	**5,424,707,120**	5,469,582,698
Accounts receivable	**1,161,738,200**	879,455,391
Interest receivable	**478,999,419**	431,994,611
Housing loans	**143,732,522**	153,032,134
Mortgage loans	**88,023,874**	71,999,484
Car financing loans	**37,157,110**	38,964,631
Finance leases	**32,822,951**	37,720,170
Stock loans	**24,473,625**	16,541,007
Net interest in joint venture accounted for under PAS 39	**–**	18,146,965
Due from agents	**7,841,709**	10,922,178
Others	**303,499,983**	74,314,988
	15,613,877,395	15,431,676,610
Less allowance for impairment loss	**23,846,515**	31,433,096
	₱15,590,030,880	₱15,400,243,514

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 2 to 15 years in 2016, and 7 to 15 years in 2015. Interest rates range from 3.00% to 10.35% and 2.25% to 10.35% in 2016 and 2015, 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 2016 and 2015.

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

- Interest receivable pertains to accrued interest arising from investments in debt securities, cash equivalents, term loans, mortgage loans, housing loans, and other receivables with interest rates ranging from 0.30% to 13.75% in both 2016 and 2015, respectively.

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

- Mortgage loans pertain to housing loans granted to third parties and former employees with terms ranging from 5 to 15 years for both 2016 and 2015. Interest rates on these loans range from 6.65% to 10.50% for both 2016 and 2015.

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

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

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

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

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

  The development of the project has not been completed and the joint venture has no income since its inception. The Group has no share of any capital commitment as of December 31, 2016 and 2015.

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

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

- Car financing loans pertain to car loans granted to employees at an annual interest of 6% payable semi-monthly 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 7% to 18% in 2016, and over a period of 5 to 25 years at an annual interest of 10.25% to 18% in 2015.

- 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:

	2016	2015
Housing loans	**₱167,074,532**	₱177,465,235
Less unamortized deferred interest income	**23,342,010**	24,433,101
	143,732,522	153,032,134
Car financing loans	**43,138,280**	43,991,408
Less unamortized deferred interest income	**5,981,170**	5,026,777
	37,157,110	38,964,631
	₱180,889,632	₱191,996,765

The amortization of deferred interest income amounting to ₱4,644,138 and ₱4,314,021 in 2016 and 2015, 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:

	2016						
	Accounts Receivable	**Mortgage Loans**	**Finance Leases**	**Stock Loans**	**Due from Agents**	**Others**	**Total**
Beginning balances	**₱17,500,596**	**₱1,591,623**	**₱622,006**	**₱2,283,457**	**₱7,696,124**	**₱1,739,290**	**₱31,433,096**
Provisions (reversals) for the year	**(2,881,552)**	**(982,152)**	**(269,392)**	**555,452**	**232,770**	**415,822**	**(2,929,052)**
Write-off	**(79,691)**	**–**	**–**	**–**	**(3,576,259)**	**(1,001,579)**	**(4,657,529)**
Ending balances	**₱14,539,353**	**₱609,471**	**₱352,614**	**₱2,838,909**	**₱4,352,635**	**₱1,153,533**	**₱23,846,515**

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

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

Financial Assets

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

	2016				
			AFS		
	FVPL	**HTM**	**Equity Securities**	**Debt Securities**	**Total**
Beginning balances	**₱23,391,812,135**	**₱24,011,422,748**	**₱12,913,367,673**	**₱6,182,284,284**	**₱66,498,886,840**
Acquisitions	**6,706,586,592**	**7,978,058**	**691,558,919**	**8,560,608,089**	**15,966,731,658**
Disposals/maturities	**(3,199,734,166)**	**(1,541,845,355)**	**(5,013,080,637)**	**(579,126,234)**	**(10,333,786,392)**
Fair value gain (loss)	**123,891,322**	**–**	**15,769,008,126**	**(50,579,609)**	**15,842,319,839**
Foreign exchange adjustments	**–**	**28,298,036**	**–**	**80,668,292**	**108,966,328**
Impairment loss (Note 22)	**–**	**–**	**(169,596,742)**	**–**	**(169,596,742)**
Discount (premium) amortization - net	**–**	**2,487,266**	**–**	**(20,000,372)**	**(17,513,106)**
Ending balances	**₱27,022,555,883**	**₱22,508,340,753**	**₱24,191,257,339**	**₱14,173,854,450**	**₱87,896,008,425**

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

As of December 31, 2016, government securities under HTM financial assets totaling ₱75,000,000 (₱62,500,000 as of December 31, 2015) 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 2016 and 2015.

As of December 31, 2016 and 2015, 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:

	2016	2015
Beginning balance	**₱360,586,439**	₱381,967,362
Fair value loss	**(14,931,589)**	(15,422,155)
Amortization	**(6,454,047)**	(5,958,768)
Ending balance	**₱339,200,803**	₱360,586,439

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

	2016	2015
Beginning balance	**₱308,832,258**	₱314,791,026
Amortization	**(6,454,047)**	(5,958,768)
Ending balance	**₱302,378,211**	₱308,832,258

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

	2016	2015
Beginning balance	**₱44,002,900**	₱46,890,410
Amortization	**(3,209,230)**	(2,887,510)
Ending balance	**₱40,793,670**	₱44,002,900

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, 2016			
	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	**(817,701)**	**171,132,761**	**7,015,634,235**	**7,185,949,295**
Equity in net earnings (losses) for the year	**(118,018)**	**(40,039,727)**	**1,545,981,552**	**1,505,823,807**
Dividends			**(257,396,423)**	**(257,396,423)**
Ending balance	**(935,719)**	**131,093,034**	**8,304,219,364**	**8,434,376,679**
Equity in reserve for fluctuation in AFS				
Beginning balance	–	**15,965,155**	**(1,291,014,204)**	**(1,275,049,049)**
Share in net movement of reserve for fluctuation in AFS financial assets of the associates during the year (Note 6)	–	**(6,388,601)**	**(44,191,008)**	**(50,579,609)**
Ending balance	–	**9,576,554**	**(1,335,205,212)**	**(1,325,628,658)**
Equity in reserve for re-measurement gains in defined benefit pension plan				
Beginning balance	–	**1,124,439**	**24,047,856**	**25,172,295**
Share in net movement of reserve for re-measurement losses on defined benefit plan	–	**3,306,123**	**(59,830,650)**	**(56,524,527)**
Ending balance	–	**4,430,562**	**(35,782,794)**	**(31,352,232)**

(Forward)

	December 31, 2016			
	PPVI	**MIIC**	**UBP**	**Total**
Premium on deemed disposal of investment in an associate	**₱–**	**₱–**	**₱304,954,486**	**₱304,954,486**
	₱3,564,281	**₱369,948,804**	**₱8,744,379,280**	**₱9,117,892,365**

	December 31, 2015			
	PPVI	MIIC	UBP	Total
Acquisition cost				
Beginning balance	₱4,500,000	₱224,848,654	₱1,506,193,436	₱1,735,542,090
Accumulated equity in net earnings				
Beginning balance,	(788,562)	215,092,278	6,592,553,825	6,806,857,541
Equity in net earnings (losses) for the year	(29,139)	(43,959,517)	783,435,402	739,446,746
Dividends received	–	–	(360,354,992)	(360,354,992)
Ending balance	(817,701)	171,132,761	7,015,634,235	7,185,949,295
Equity in reserve for fluctuation in AFS				
Beginning balance	–	27,821,093	(525,699,150)	(497,878,057)
Share in net movement of reserve for fluctuation in AFS financial assets of the associates during the year (Note 6)	–	(11,855,938)	(765,315,054)	(777,170,992)
Ending balance	–	15,965,155	(1,291,014,204)	(1,275,049,049)
Equity in reserve for re-measurement gains in defined benefit pension plan				
Beginning balance	–	7,501,474	42,011,874	49,513,348
Share in net movement of reserve for re-measurement losses on defined benefit plan	–	(6,377,035)	(17,964,018)	(24,341,053)
Ending balance	–	1,124,439	24,047,856	25,172,295
Premium on deemed disposal of investment in an associate	–	–	304,954,486	304,954,486
	₱3,682,299	₱413,071,009	₱7,559,815,809	₱7,976,569,117

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 ₱12,801,182,154 (i.e., ₱74.60 per share) and ₱9,781,064,112 (i.e., ₱57.00 per share) as of December 31, 2016 and 2015, respectively.

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

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

Investments in Associates

Financial position

	December 31, 2016		
	PPVI	**MIIC**	**UBP**
Cash and cash equivalent	**₱608,105**	**₱172,368,327**	**₱6,021,358,000**
Short term investments	**26,730,652**	–	–
Fair value through profit or loss	–	–	**91,722,000**
AFS financial assets	–	**1,477,135,351**	**112,928,160,000**
Loans and receivables	**31,481,494**	**704,991,534**	**358,325,415,000**
Investment properties	–	**15,716,192**	**7,592,431,000**
Property plant and equipment	–	**246,505,744**	**3,523,273,000**
Other assets	–	**2,967,651,383**	**22,736,065,000**
Deferred tax asset	–	**220,514,387**	–
Accounts payable	**(44,403,582)**	**(439,018,231)**	–
Other liabilities	**(2,535,728)**	**(4,193,843,409)**	**(456,845,054,000)**
Equity	**₱11,880,941**	**₱1,172,021,278**	**₱54,373,370,000**

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

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, 2016		
	PPVI	**MIIC**	**UBP**
Revenue	**₱557,155**	**₱1,596,526,182**	**₱20,105,820,000**
Direct costs	–	**(1,176,671,976)**	**(5,274,441,000)**
Operating expenses	**(839,117)**	**(769,331,360)**	**(12,030,651,000)**
Other income	–	**126,961,050**	**10,246,075,000**
Impairment Losses	–	–	**(1,594,120,000)**
Profit before tax	**(281,962)**	**(222,516,104)**	**11,452,683,000**
Income tax expense	**(111,431)**	**62,357,197**	**(1,909,587,000)**
Net profit (loss) for the year	**(₱393,393)**	**(₱160,158,907)**	**₱9,543,096,000**
Group's share in the net profit (loss) of the associate	**(₱118,018)**	**(₱40,039,727)**	**₱1,545,981,552**

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

The associates have no contingent liabilities or capital commitments as of December 31, 2016 and 2015. 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, 2016 and 2015.

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, 2016 and 2015.

8. Investment Properties

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

	2016		
	Land	**Buildings and Improvements**	**Total**
Costs			
Beginning balances	**₱5,274,186,607**	**₱4,404,023,061**	**₱9,678,209,668**
Additions	**2,800,000**	**587,864,917**	**590,664,917**
Disposals	**(629,110,300)**	**(1,711,000)**	**(630,821,300)**
Ending balances	**4,647,876,307**	**4,990,176,978**	**9,638,053,285**
Accumulated Depreciation and Impairment Loss			
Beginning balances	**155,511,791**	**1,207,055,731**	**1,362,567,522**
Depreciation and amortization (Note 20)	–	**158,047,333**	**158,047,333**
Impairment loss (Note 22)	–	**194,000**	**194,000**
Disposals	–	**(450,535)**	**(450,535)**
Ending balances	**155,511,791**	**1,364,846,529**	**1,520,358,320**
Net Book Values	**₱4,492,364,516**	**₱3,625,330,449**	**₱8,117,694,965**

Investment Properties

	2015		
	Land	Buildings and Improvements	Total
Costs			
Beginning balances	₱5,546,884,479	₱4,179,445,875	₱9,726,330,354
Additions	1,320,000	253,221,267	254,541,267
Reclassifications (Note 9)	–	12,224,718	12,224,718
Disposals	(274,017,872)	(40,868,799)	(314,886,671)
Ending balances	5,274,186,607	4,404,023,061	9,678,209,668
Accumulated Depreciation and Impairment Loss			
Beginning balances	155,632,791	1,078,897,452	1,234,530,243
Depreciation and amortization (Note 20)	–	147,025,190	147,025,190
Reclassifications (Note 9)	–	5,293,571	5,293,571
Reversal of impairment loss	(121,000)	(460,249)	(581,249)
Disposals	–	(23,700,233)	(23,700,233)
Ending balances	155,511,791	1,207,055,731	1,362,567,522
Net Book Values	₱5,118,674,816	₱3,196,967,330	₱8,315,642,146

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, 2016 and 2015, the balance of retained earnings includes the remaining balance of the deemed cost adjustment amounting to ₱3,442,850,563 and ₱3,749,709,914, respectively, related to certain investment properties which arose when the Group transitioned to PFRSs 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 ₱11,119,723,182 and ₱12,277,434,976 as of December 31, 2016 and 2015, respectively, based on various independent appraisers' valuation and the Group's in-house valuation (less than 1% of the total investment properties).

The fair value of the investment properties as of December 31, 2016 and 2015 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 and ₱406,108,000 in 2015, respectively (nil in 2016). This property was sold in 2016.

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	Market data 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

Market data approach is a comparative approach that considers the sales of similar or substitute assets and other related market data. In general, an asset being valued is compared with similar items that have been transacted in the market or that are listed or offered for sale, with appropriate adjustment to reflect different properties or characteristics. Market data considered in the valuation includes location of the properties, size, shape and characteristics of the lot, desirability in the market and present and prospective use.

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.

Highest and best use is defined as the most probable use of a property, which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued.

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:

	2016	2015
Rental income (Note 27)	**₱336,690,470**	₱361,535,040
Direct operating expenses (Note 21)	**135,383,840**	171,138,293
Indirect operating expenses (Note 21)	**93,254,734**	31,029,681

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:

	2016					
	Land and Buildings	**Furniture Fixtures and Equipment**	**Electronic and Data Processing Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Total**
Costs						
Beginning balances	**₱137,142,066**	**₱220,178,607**	**₱137,789,453**	**₱82,661,254**	**₱91,710,880**	**₱669,482,260**
Additions	**327,730**	**10,220,325**	**16,739,392**	**14,916,474**	**1,853,460**	**44,057,381**
Retirements/disposals	**–**	**(4,388,783)**	**(11,930,319)**	**(10,981,791)**	**(1,215,760)**	**(28,516,653)**
Ending balances	**137,469,796**	**226,010,149**	**142,598,526**	**86,595,937**	**92,348,580**	**685,022,988**
Accumulated Depreciation and Amortization						
Beginning balances	**56,165,879**	**100,280,535**	**90,877,667**	**46,121,109**	**68,439,556**	**361,884,746**
Depreciation and amortization (Note 20)	**2,536,140**	**14,955,231**	**21,835,585**	**16,034,199**	**7,318,056**	**62,679,211**
Retirements/disposals	**–**	**(4,218,316)**	**(11,879,527)**	**(8,535,488)**	**(796,500)**	**(25,429,831)**
Ending balances	**58,702,019**	**111,017,450**	**100,833,725**	**53,619,820**	**74,961,112**	**399,134,126**
Net Book Values	**₱78,767,777**	**₱114,992,699**	**₱41,764,801**	**₱32,976,117**	**₱17,387,468**	**₱285,888,862**

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

The cost of fully depreciated property and equipment that are still in use in the Group's operations amounted to ₱180,199,379 and ₱150,921,381 as of December 31, 2016 and 2015, respectively.

10. **Other Assets**

	2016	2015
Computer software	**₱84,657,351**	₱121,445,614
Prepaid employee loan benefit	**56,019,965**	56,938,572
Value added input tax	**21,554,906**	8,846,363
Others	**26,400,117**	21,557,276
	₱188,632,339	₱208,787,825

Computer Software

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

	2016	2015
Cost		
Beginning balance	**₱236,361,183**	₱205,594,873
Additions	**2,328,055**	30,837,309
Retirements/disposals	**–**	(71,000)
Ending balance	**238,689,238**	236,361,182
Accumulated Amortization		
Beginning balance	**114,915,569**	76,852,255
Amortization (Note 20)	**39,116,318**	38,134,313
Retirements/disposals	**–**	(71,000)
Ending balance	**154,031,887**	114,915,568
Net Book Value	**₱84,657,351**	₱121,445,614

Others

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

11. **Legal Policy Reserves**

Details of legal policy reserves are as follows:

		2016	
	Legal Policy Reserves	**Reinsurers' Share of Liabilities**	**Net**
Aggregate reserves for:			
Ordinary life policies	**₱53,999,096,255**	**₱72,839,547**	**₱53,926,256,708**
Group life policies	**1,662,061,080**	**–**	**1,662,061,080**
Accident and health policies	**36,821,379**	**692,529**	**36,128,850**
Unit-linked policies	**707,513,273**	**15,026,009**	**692,487,264**
	₱56,405,491,987	**₱88,558,085**	**₱56,316,933,902**

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

Movement of aggregate reserves is as follows:

	2016		
	Legal Policy Reserves	**Reinsurers' Share of Liabilities**	**Net**
Beginning balances	**₱52,759,218,019**	**₱81,920,500**	**₱52,677,297,519**
Premiums received	**3,101,131,933**		**3,101,131,933**
Fees deducted	**(1,826,916,726)**	**6,637,585**	**(1,833,554,311)**
Accretion of investment income or			–
change in unit prices	**1,892,887,661**		**1,892,887,661**
Liability released for payments			–
of death, maturities, surrender			–
benefits and claims	**477,983,387**		**477,983,387**
Foreign exchange adjustment	**1,187,713**		**1,187,713**
	₱56,405,491,987	**₱88,558,085**	**₱56,316,933,902**

	2015		
	Legal Policy Reserves	Reinsurers' Share of Liabilities	Net
Beginning balances	₱51,144,614,547	₱87,018,694	₱51,057,595,853
Premiums received	3,207,921,974	–	3,207,921,974
Fees deducted	(4,401,269,974)	(5,098,194)	(4,396,171,780)
Accretion of investment income or change in unit prices	1,830,425,156	–	1,830,425,156
Liability released for payments of death, maturities, surrender benefits and claims	966,090,396	–	966,090,396
Foreign exchange adjustment	11,435,920	–	11,435,920
	₱52,759,218,019	₱81,920,500	₱52,677,297,519

As discussed under Note 2, legal policy reserves reflect the higher of the fair valued liability and statutory reserves. For these year, the fair valued liability is higher than the statutory liability. The process of determining te fair valued liablity is 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 ₱34,807,709 and ₱25,859,311 as of the year ended December 31, 2016 and 2015, respectively. Derivative loss amounted to ₱8,948,398 and ₱17,127,068 for the year ended December 31, 2016 and 2015, respectively (Note 17).

13. Other Insurance Liabilities

	2016	2015
Members' deposits and other funds on deposit	**₱28,308,775,507**	₱24,797,492,775
Claims pending settlement	**1,859,741,059**	1,716,718,790
Reserve for dividends to members	**231,283,375**	643,186,642
	₱30,399,799,941	₱27,157,398,207

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

	2016	2015
Accounts payable	**₱660,221,117**	₱624,877,506
Accrued employee benefits	**489,551,831**	745,850,882
Commissions payable	**88,050,296**	71,066,949
Remittances not yet allocated	**85,203,674**	166,295,278
Taxes payable	**61,242,921**	59,644,249
General expenses due and accrued	**61,053,700**	83,812,766
Others	**36,985,659**	37,931,275
	₱1,482,309,198	**₱1,789,478,905**

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.
- 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 and Appropriation

Dividend Declaration

On March 23, 2017, the Board of Trustees approved the set-up of provision for dividends to members for the year ended December 31, 2016 applicable to dividends to be paid out for the period January 1, 2017 to December 31, 2017.

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

Breakdown of the dividend provision follows:

	2016	2015
Chargeable to retained earnings	**₱180,586,140**	₱598,346,100
Chargeable to income (Note 19)	**42,713,860**	37,853,900
	₱223,300,000	₱636,200,000

Dividends to members charged against retained earnings follow:

	2016	2015
Dividends declared during the year	**₱180,586,140**	₱598,346,100
Excess of dividends declared in prior year against actual amount paid	**(180,586,140)**	(81,878,885)
	₱–	₱516,467,215

Appropriation

On November 24, 2016, the Board of Trustees appropriated ₱300,000,000 out of its retained earnings as of December 31, 2016, in compliance with increased net worth, as required under the Insurance Code.

16. Insurance Revenue

	2016	2015
Life insurance contracts	**₱4,235,992,203**	₱5,026,639,167
VUL insurance contracts	**8,439,947,243**	8,309,420,934
Accident and health contracts	**462,637,044**	426,738,853
Gross earned premiums on insurance contracts	**13,138,576,490**	13,762,798,954
Reinsurers' share of premiums on insurance contracts	**(209,543,054)**	(176,281,175)
Net insurance revenue	**₱12,929,033,436**	₱13,586,517,779

17. Investment Income

	2016	2015
Interest income on:		
HTM financial assets	**₱1,651,923,907**	₱1,699,721,570
Loans and receivables	**1,236,894,462**	1,359,959,116
AFS financial assets	**391,347,852**	238,889,314
Others	**1,874,354**	3,097,063
	3,282,040,575	3,301,667,063
Dividend income	**1,003,914,339**	472,760,891
Net trading and realized gains from financial assets at FVPL	**70,661,065**	124,909,049
Total investment income	**₱4,356,615,979**	₱3,899,337,003

18. Net Realized Gains

	2016	2015
Net realized gains		
Disposal of AFS financial assets	**₱3,317,476,339**	₱392,124,114
Disposals of investment properties	**1,897,026,830**	416,190,030
Foreclosure of properties	**1,190,852**	7,847,000
Repossession of properties	–	45,431
	₱5,215,694,021	₱816,206,575

19. Insurance Benefits Expenses

	2016	2015
VUL funds allocation	**₱6,810,474,180**	₱6,217,511,069
Maturities	**2,899,578,617**	3,409,122,372
Death and hospitalization benefits	**1,206,393,748**	1,196,296,709
Surrenders	**689,263,895**	760,003,918
Interest on policy and contract funds	**365,211,927**	539,033,514
Payments on supplementary contracts	**298,885,565**	399,267,764
Increase in reserve for supplementary contracts	**108,964,147**	350,217,561
Dividends paid to members (Note 15)	**42,713,860**	37,853,900
Others	**2,212,720**	5,280,047
Total gross benefits and claims on insurance contracts	**12,423,698,659**	12,914,586,854
Reinsurers' share of benefits and claims on insurance contracts	**(89,513,715)**	(13,411,928)
Net change in:		
Legal policy reserves	**3,646,273,968**	1,614,603,472
Reinsurers' share in legal policy reserves	**(6,637,585)**	5,098,195
	₱15,973,821,327	₱14,520,876,593

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

		2016	
	Gross Change in Legal Policy Reserves	**Reinsurers' Share of Change in Legal Policy Reserves**	**Net**
Life insurance contracts	**₱3,543,290,962**	**₱1,854,937**	**₱3,541,436,025**
VUL insurance contracts	**102,983,006**	**4,782,648**	**98,200,358**
	₱3,646,273,968	**₱6,637,585**	**₱3,639,636,383**

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

20. General Insurance Expenses

	2016	2015
Personnel (Notes 23 and 24)	**₱1,024,477,620**	₱1,145,668,808
Depreciation and amortization (Notes 8, 9, and 10)	**259,842,862**	244,789,330
Outside services	**255,117,966**	79,108,238
Marketing, advertising, and promotion	**160,856,589**	148,527,299
Transportation and communication	**52,903,907**	57,295,405
Solicitation and conservation expenses	**46,095,968**	18,485,303
Repairs and maintenance	**40,813,203**	52,046,033
Rent (Note 27)	**22,804,824**	21,699,506
Printing and supplies	**21,557,108**	20,587,707
Training	**17,061,252**	13,373,308
Utilities	**11,394,816**	12,628,469
Others	**60,373,292**	92,095,331
	₱1,973,299,407	₱1,906,304,738

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

21. Investment Expenses

	2016	2015
Real estate expenses (Note 8)	**₱228,638,574**	₱202,167,974
Investment management expenses	**86,646,466**	2,559,705
	₱315,285,040	₱204,727,679

22. Other Losses

	2016	2015
Impairment loss on:		
AFS equity securities (Note 6)	**₱169,596,742**	₱24,040,743
Investment properties (Note 8)	**194,000**	–
	₱169,790,742	₱24,040,743

23. Personnel Expenses

	2016	2015
Salaries and bonuses	**₱802,186,009**	₱963,477,229
Employee benefits	**159,565,211**	136,923,896
Retirement and other employee benefits (Note 24)	**62,726,400**	45,267,684
	₱1,024,477,620	₱1,145,668,808

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, 2016.

As of December 31, 2016, all qualified employees of IIC have already resigned and were paid the corresponding retirement benefits.

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

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

	2016				
	Parent	**Subsidiaries**			
	Company	**IIC**	**I-Care**	**Home Credit**	**Total**
Current service cost	**₱64,645,016**	**₱–**	**₱1,780,628**	**₱499,829**	**₱2,280,457**
Net interest cost (income)	**(4,454,752)**	**–**	**272,060**	**(16,381)**	**255,679**
	₱60,190,264	**₱–**	**₱2,052,688**	**₱483,448**	**₱2,536,136**

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

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

	2016				
	Parent	**Subsidiaries**			
	Company	**IIC**	**I-Care**	**Home Credit**	**Total**
Present value of defined benefit obligation	**₱1,175,711,773**	**₱–**	**₱23,674,502**	**₱3,772,675**	**₱27,447,177**
Fair value of plan assets	**890,095,619**	**1,076,542**	**21,195,294**	**2,987,392**	**25,259,228**
Retirement benefits liability (asset)	**₱285,616,154**	**(₱1,076,542)**	**₱2,479,208**	**₱785,283**	**₱2,187,949**

Retirement Benefits

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

The net retirement benefits asset as of December 31, 2016 and 2015 amounted to ₱1,076,542 and ₱91,962,985, respectively. The net retirement liability as of December 31, 2016 and 2015 amounted to ₱288,880,645 and ₱5,387,341, respectively.

The cumulative amount of remeasurement losses (gains) recognized as OCI as of December 31 follows:

	2016				
	Parent	**Subsidiaries**			
	Company	**IIC**	**I-Care**	**Home Credit**	**Total**
Beginning balances	**(₱41,842,558)**	**(₱30,895)**	**₱5,348,216**	**₱1,881,430**	**₱7,198,751**
Actuarial loss	**275,100,321**	**–**	**446,370**	**494,864**	**941,234**
Losses sustained by plan assets excluding amount included in net interest cost	**40,869,315**	**–**	**(407,190)**	**149,669**	**(257,521)**
Actuarial loss (gain), gross of deferred income tax consequences	**315,969,636**	**–**	**39,180**	**644,533**	**683,713**
Income tax effect	**(94,790,891)**	**–**	**(11,753)**		**(11,753)**
	221,178,745	**–**	**27,427**	**644,533**	**671,960**
	₱179,336,187	**(₱30,895)**	**₱5,375,643**	**₱2,525,963**	**₱7,870,711**

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

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

	2016				
	Parent	**Subsidiaries**			
	Company	**IIC**	**I-Care**	**Home Credit**	**Total**
Beginning balances	**(₱90,543,746)**	**(₱1,076,542)**	**₱5,387,341**	**(₱342,697)**	**₱3,968,102**
Pension benefits expense	**60,190,264**	**–**	**2,052,688**	**483,449**	**2,536,137**
Actual contribution	**–**	**–**	**(5,000,000)**	**–**	**(5,000,000)**
Re-measurements recognized in OCI	**315,969,636**	**–**	**39,179**	**644,531**	**683,710**
Ending balances	**₱285,616,154**	**(₱1,076,542)**	**₱2,479,208**	**₱785,283**	**₱2,187,949**

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

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

	2016				
	Parent	**Subsidiaries**			
	Company	**IIC**	**I-Care**	**Home Credit**	**Total**
Beginning balances	**₱934,350,472**	**₱–**	**₱21,642,563**	**₱4,327,086**	**₱25,969,649**
Current service cost	**64,645,016**	**–**	**1,780,628**	**499,829**	**2,280,457**
Interest cost	**46,681,208**	**–**	**1,092,950**	**206,835**	**1,299,785**
Benefits paid	**(145,065,244)**	**–**	**(1,288,009)**	**(1,755,939)**	**(3,043,948)**
Actuarial loss (gain) due to:					
Changes in financial assumptio	**(39,812,934)**	**–**	**(299,931)**	**(162,998)**	**(462,929)**
Demographic adjustments	**(10,715,022)**	**–**	**–**	**–**	**–**
Experience Adjustments	**325,628,277**	**–**	**746,301**	**657,862**	**1,404,163**
Ending balances	**₱1,175,711,773**	**₱–**	**₱23,674,502**	**₱3,772,675**	**₱27,447,177**

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

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

	2016				
	Parent	**Subsidiaries**			
	Company	**IIC**	**I-Care**	**Home Credit**	**Total**
Beginning balances	**₱1,024,894,218**	**₱1,076,542**	**₱16,255,222**	**₱4,669,783**	**₱22,001,547**
Interest income	**51,135,960**	**–**	**820,890**	**223,216**	**1,044,106**
Actual return (loss) excluding amount recognized in net interest cost	**(40,869,315)**	**–**	**407,190**	**(149,668)**	**257,522**
Actual contribution	**–**	**–**	**5,000,000**	**–**	**5,000,000**
Benefits paid	**(145,065,244)**	**–**	**(1,288,008)**	**(1,755,939)**	**(3,043,947)**
Ending balances	**₱890,095,619**	**₱1,076,542**	**₱21,195,294**	**₱2,987,392**	**₱25,259,228**

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

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:

	2016	2015
Loans and receivable:		
Cash and cash equivalents	**7%**	8%
Receivables	**14%**	13%
	21%	21%
Equity securities:		
Food, beverage, and tobacco	**8%**	7%
Telecommunications	**6%**	6%
Others	**2%**	2%
	16%	15%
Debt securities:		
Government debt securities	**53%**	50%
Investment grade	**10%**	14%
	63%	64%
Fair value of plan assets	**100%**	100%

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

	2016		
	Subsidiaries		
	IIC	**I-Care**	**Home Credit**
Cash and cash equivalents	**86.72%**	**99.00%**	**32.74%**
Investments in debt and equity securities	**13.28%**	**1.00%**	**67.26%**
	100.00%	**100.00%**	**100.00%**

	2015		
	Subsidiaries		
	IIC	I-Care	Home Credit
Cash and cash equivalents	86.73%	99.00%	56.79%
Investments in debt and equity securities	13.27%	1.00%	43.21%
	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:

	2016			
	Parent	**Subsidiaries**		
	Company	**IIC**	**I-Care**	**Home Credit**
Discount rate*	**5.34%**	–	**5.05%**	**4.78%**
Future salary increases	**5.00%**	–	**5.00%**	**3.00%**
Mortality rate	**1994 GAM****	–	**1994 GAMT****	**1994 GAM**
Disability rate	**1952 Disability Study, Period 2, Benefit 5**	–	**1952 Disability Study, Period 2, Benefit 5**	**1952 Disability Study, Period 2, Benefit 5**

	2015			
	Parent	Subsidiaries		
	Company	IIC	I-Care	Home Credit
Discount rate*	4.92%	4.54%	5.05%	4.42%
Future salary increases	5.00%	4.00%	5.00%	5.00%
Mortality rate	1994 GAM**	1994 GAM**	1994 GAMT**	1994 GAM**
Disability rate	1952 Disability Study, Period 2, Benefit 5	1952 Disability Study, Period 2, Benefit 5	1952 Disability Study, Period 2, Benefit 5	1952 Disability Study, Period 2, Benefit 5

** This is the single weighted average discount rate which is based on bootstrapped PDEX PDST-R2 rates at various tenors as of December 29, 2016 and as of December 29, 2015. Rates for intermediate durations were*
***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, 2016:

	Parent	**Subsidiaries**	
	Company	**I-Care**	**Home Credit**
Discount rate:			
Increase of 1%	**(₱83,904,633)**	**(₱2,738,657)**	**(₱395,919)**
Decrease of 1%	**98,456,146**	**3,248,575**	**461,826**
Salary increase rate:			
Increase of 1%	**105,970,888**	**3,213,360**	**469,476**
Decrease of 1%	**(91,814,337)**	**(2,775,697)**	**(412,576)**

December 31, 2015:

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

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, 2016 and 2015.

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

December 31, 2016:

	Parent Company		
	Normal Retirement	**Other Than Normal Retirement**	**Total**
Less than 1 year	**₱32,740,575**	**₱40,692,293**	**₱73,432,868**
More than 1 year to 5 years	**42,609,542**	**179,748,122**	**222,357,664**
More than 5 years to 10 years	**421,160,991**	**246,549,210**	**667,710,201**
More than 10 years	**2,432,630,167**	**884,687,654**	**3,317,317,821**

	Subsidiaries		
	I-Care	**Home Credit**	**Total**
Less than 1 year	**₱940,836**	**₱131,627**	**₱1,072,463**
More than 1 year to 5 years	**6,952,300**	**586,274**	**7,538,574**
More than 5 years to 10 years	**7,098,274**	**2,022,261**	**9,120,535**
More than 10 years	**94,060,831**	**24,559,461**	**118,620,292**

December 31, 2015:

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

	Subsidiaries		
	I-Care	Home Credit	Total
Less than 1 year	₱1,061,197	₱154,545	₱1,215,742
More than 1 year to 5 years	6,445,049	618,356	7,063,405
More than 5 years to 10 years	4,542,618	1,793,304	6,335,922
More than 10 years	52,694,491	22,253,876	74,948,367

The Parent Company has not made any contribution to its defined benefit plan in 2016 and expects to contribute ₱285,616,154 to its defined benefit plan in 2017.

25. **Income Taxes**

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

	2016	2015
Current:		
Final tax	**₱442,283,235**	₱376,870,772
RCIT	**13,404,281**	12,783,652
MCIT	**12,809**	16,229
	455,700,325	389,670,653
Deferred	**(125,696,318)**	(66,872,523)
	₱330,004,007	₱322,798,130

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

Deferred Income Tax Assets

	2016	2015
Deferred income tax assets - tax effects of:		
Allowance for impairment on loans and receivables	**₱199,669**	₱375,397
Retirement and other long-term employee benefits payable	**743,762**	1,616,202
Unamortized past service cost contributions	**1,549,568**	821,170
Accrued expenses not yet deductible	**10,718,015**	7,578,162
Total deferred income tax assets	**₱13,211,014**	₱10,390,931

Deferred Income Tax Liabilities - Net

	2016	2015
Deferred income tax liabilities - tax effects of:		
Accrued expenses not yet deductible	**₱314,270,127**	₱303,101,264
Unrealized foreign exchange loss	**172,477,015**	168,826,608
Retirement benefit liability	**85,684,846**	
Unamortized past service cost contributions	**11,282,083**	14,752,227
Impairment of investment properties and property and equipment	**6,843,543**	6,843,543
Allowance for impairment on loans and receivables	**5,688,357**	7,671,733
Total deferred income tax assets	**596,245,971**	501,195,375
Deferred income tax liabilities - tax effects of:		
Revaluation increment in investment properties	**(1,032,855,169)**	(1,124,912,974)
Reserve for fluctuation in AFS financial assets	**(25,207,250)**	(110,768,124)
Accrued rent income	**(6,591,331)**	(9,979,863)
Retirement benefits asset	**–**	(27,163,124)
Unrealized foreign exchange gain	**–**	(35,840)
Total deferred income tax liabilities	**(1,064,653,750)**	(1,272,859,925)
Net deferred income tax liabilities	**(₱468,407,779)**	(₱771,664,550)

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:

	2016	2015
NOLCO	**₱3,288,958,170**	₱3,077,896,713
Excess of MCIT over RCIT	**23,005,673**	23,408,653

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

Year Incurred	Expiration	January 1, 2016	Incurred	Applied	Expired	December 31, 2016
2013	2016	₱1,694,519,783	₱–	₱–	(₱1,694,519,783)	₱–
2014	2017	14,617,143	–	–	–	14,617,143
2015	2018	1,368,759,787	–	–	–	1,368,759,787
2016	2019		1,905,581,240	–	–	1,905,581,240
		₱3,077,896,713	₱1,905,581,240	₱–	(₱1,694,519,783)	₱3,288,958,170

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

Year Incurred	Expiration	January 1, 2016	Incurred	Applied	Expired	December 31, 2016
2013	2016	₱415,789	₱–	₱–	(₱415,789)	₱–
2014	2017	22,976,635	–	–	—	22,976,635
2015	2018	16,229	–	–	—	16,229
2016	2019	–	12,809	–	—	12,809
		₱23,408,653	₱12,809	₱–	(₱415,789)	₱23,005,673

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:

	2016	2015
Provision for income tax at statutory income tax rates	**₱1,578,923,104**	₱627,527,755
Adjustments for:		
Equity in net earnings of an associate	**(451,747,142)**	(221,834,024)
Interests and dividends subjected to final tax at a lower rate	**(144,585,539)**	(182,288,939)
Gain on sale of investments in AFS financial assets - net	**(995,242,902)**	(117,791,273)
Movement in NOLCO and excess of MCIT over RCIT with no deferred tax set up and derecognition of deferred tax on NOLCO	**571,858,215**	409,105,260
Nontaxable income	**(339,215,782)**	(221,158,877)
Nondeductible expenses	**59,076,830**	22,059,006
Impairment losses on properties and AFS financial assets	**50,937,223**	7,179,222
Provision for income tax	**₱330,004,007**	₱322,798,130

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, 2016 and 2015 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*						
Term Loan	**2016**	**₱50,000,000**	**₱50,000,000**	**₱–**	**₱–**	2 years; 3% interest per annum;
	2015	–	–	–	–	
Interest on term loan	**2016**	**150,000**	**150,000**	**–**	**–**	unsecured; unguaranteed; no impairment
	2015	–	–	–	–	
Common overhead	**2016**	**10,099,732**	**–**	**–**	**–**	30-day; noninterest-bearing; settled in cash;
	2015	15,611,193	5,704,561	–	–	

(Forward)

Related Party Transactions

Category	Year	Amount of transactions during the year	Outstanding balance Due from	Due to	Cash and investment accounts	Terms and condition
Rentals	**2016**	**₱8,543,502**	**₱293,523**	**₱–**	**₱–**	One to three-year lease contract; 30-day; noninterest-bearing; settled in cash; unsecured, unguaranteed, no impairment
	2015	8,498,715	282,253	86	–	
Dividends	**2016**	**29,500,000**	**10,000,000**	**–**	**–**	noninterest-bearing; settled in cash; unguaranteed; unsecured; no impairment
	2015	47,800,000	1,000,000	–	–	
Insurance revenue	**2016**	**2,310,298**	**–**	**–**	**–**	
	2015	2,652,488	–	–	–	
Leasehold Improvement	**2016**	**527,077**	**–**	**–**	**–**	30-day; noninterest-bearing; settled in cash; unguaranteed; unsecured; no impairment
	2015	3,913,100	3,913,100	–	–	
Associates						
Rental income	**2016**	**3,113,210**	**262,870**	**87,550**	**–**	30-day; noninterest-bearing; unsecured; unguaranteed; settled in cash
	2015	5,043,709	152,974	–	–	
Rental deposits	**2016**	**–**	**16,972**	**–**	**–**	noninterest-bearing; settled in cash; unguaranteed; unsecured; no impairment
	2015	–	7,438	–	–	
Insurance revenue	**2016**	**32,790,629**	**–**	**–**	**–**	
	2015	55,958,576	–	–	–	
Director's Fee	**2016**	**845,595**	**–**	**–**	**–**	
	2015	1,207,440	–	–	–	
UBP						
Dividend income	**2016**	**257,396,424**	**–**	**–**	**–**	
	2015	360,354,994	–	–	–	
Interest income	**2016**	**24,141,631**	**1,836,458**		**2,290,726**	noninterest bearing; settled in cash; unguaranteed; unsecured, no impairment
	2015	22,427,346	1,836,458	–	1,782,450	
Saving and current accounts	**2016**	**662,182,518**	**–**	**–**	**2,815,233,412**	interest-bearing, unguaranteed; unsecured; unrestricted
	2015	795,845,622	–	–	2,153,050,894	
Director's Fee	**2016**	**5,576,000**	**–**	**–**	**–**	
	2015	4,828,000	–	–	–	
Retirement Plan						
Advances	**2016**	**145,065,244**	**–**	**–**	**–**	
	2015	122,110,212	–	–	–	
Total	**2016**	**₱1,232,241,860**	**₱62,559,823**	**₱87,550**	**₱2,817,524,138**	
Total	2015	₱1,446,251,393	₱12,896,784	₱86	₱2,154,833,344	

**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:

	2016	2015
Savings and current accounts (Note 4)	**₱318,420,182**	₱291,780,173
Special savings accounts (Note 4)	**2,496,813,230**	1,861,270,721
	₱2,815,233,412	₱2,153,050,894

c. In November 2014, the Company availed of the subordinated notes issued by UBP. These investments, classified as HTM financial assets, earned interests amounting to ₱16,125,000 in both 2016 and 2015. The carrying value and fair value of these subordinated notes amounted to ₱300,000,000 and ₱299,995,767, respectively in 2016 and 2015.

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

	2016	2015
Salaries and other short-term employee benefits	**₱187,760,222**	₱319,877,268
Post-employment and other long term benefits	**37,890,184**	26,621,939
	₱225,650,406	₱346,499,207

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:

	2016	2015
Within one year	**₱15,144,133**	₱13,394,538
After one year but not more than five years	**26,859,713**	27,050,879
More than five years	**2,637,427**	–
	₱44,641,273	₱40,445,417

Rent expense recognized in 2016 and 2015 amounted to ₱22,804,824 and ₱21,699,506, respectively (Note 20).

b. Operating lease commitments - the Group as lessor

The future minimum rentals receivable under noncancelable operating leases follows:

	2016	2015
Within one year	**₱233,245,344**	₱206,969,086
After one year but not more than five years	**523,426,995**	176,959,169
	₱756,672,339	₱383,928,255

Rent income recognized in 2016 and 2015 amounted to ₱336,690,470 and ₱361,535,040, respectively (Note 8).

28. **Group Information and Non-controlling Interest**

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

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

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

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

The Parent Company is subject to statutory regulations on Risk-Based Capital (RBC) and other externally imposed capital requirements (Note 33). All asset investments of the Parent Company require approval from the IC. The Parent Company submits annual financial statements to the IC to determine adequacy of the Parent Company's investments. IC classifies assets according to admitted and non-admitted assets for the purpose of calculating financial ratios that the Parent Company is required to maintain. These, among others, pose restrictions as to the use or transfer of assets within the Group, as well as, the settlement of liabilities as of December 31, 2016 and 2015.

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, 2016 and 2015.

The subsidiaries have no contingent liabilities (other than disclosed in Note 35) or capital commitments as of December 31, 2016 and 2015 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, 2016 and 2015.

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

	2016	2015
Preferred shareholders' interest:		
Beginning balance	**₱151,635,442**	₱170,558,522
Issuances during the year	**77,068,445**	74,758,751
Redemption during the year	**(74,315,168)**	(93,681,831)
	154,388,719	151,635,442
Common shareholders' interest:		
Beginning balance	**15,303**	18,630
Share in the total comprehensive income during the year	**(2,165)**	(3,327)
	13,138	15,303
	₱154,401,857	₱151,650,745

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

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

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

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

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

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

Dividends declared to the preferred shareholders of Home credit amounted to ₱8,701,401 and ₱18,443,917 in 2016 and 2015, respectively.

The summarized financial information, before intercompany eliminations, of Home Credit as of and for the years ended December 31, 2016, 2015, and 2014 follows:

Financial position	**As of December 31, 2016**	As of December 31, 2015	As of December 31, 2014
Cash and cash equivalents	**₱53,767,087**	₱44,682,193	₱66,181,071
Loans and receivables	**127,472,955**	100,903,156	111,077,095
Available-for-sale investments	**18,619,741**	23,820,642	27,716,901
Property and equipment	**3,217,703**	3,541,857	3,785,186
Investment properties	**10,781,882**	10,467,342	16,984,332
Other assets	**1,721,894**	2,411,490	1,664,077
Total assets	**215,581,262**	185,826,680	227,408,662
Accounts payable and accrued expenses	**68,463,020**	27,004,385	21,016,923
Redeemable preferred capital contributions	**–**	–	2,228,043
Total liabilities	**68,463,020**	27,004,385	23,244,966
Total equity	**₱147,118,242**	₱158,822,295	₱204,163,696
Attributable to the Group	**(₱7,283,615)**	₱7,171,550	₱33,586,544
Attributable to NCI	**₱154,401,857**	₱151,650,745	₱170,577,152

Financial performance	**Years Ended December 31**		
	2016	2015	2014
Interest income	**₱13,445,310**	13,612,461	14,877,772
Interest expense	**(150,000)**	(378,547)	(1,104,619)
Net interest income	**13,295,310**	13,233,914	13,773,153
Service fees	**11,808,012**	9,969,284	8,205,526
Miscellaneous Income	**9,697,909**	5,903,732	6,338,053
Total operating income	**34,801,231**	29,106,930	28,316,732
Operating Expenses	**(39,369,025)**	(39,232,407)	(33,708,357)
Net income*	**(4,567,794)**	(10,125,477)	(5,391,625)
Other comprehensive income (loss)	**(845,434)**	1,808,366	989,577
Total comprehensive loss	**(₱5,413,228)**	(₱8,317,111)	(₱4,402,048)
Attributable to the Group	**(₱5,411,063)**	(₱8,313,782)	(₱4,400,288)
Attributable to NCI	**(₱2,165)**	(₱3,327)	(₱1,760)

**Pursuant to RA No. 8763, otherwise known as the "Home Guarantee Corporation Act of 2000," Home Credit.*

Cash flows	**Years Ended December 31**		
	2016	2015	2014
Cash provided by (used in) operating activities	**(₱38,854,923)**	₱5,762,062	(₱6,578,803)
Cash provided by investing activities	**3,887,942**	12,334,091	8,653,369
Cash provided by (used in) financing activities	**44,051,875**	(39,595,031)	(18,509,736)
Net increase in cash and cash equivalents	**₱9,084,894**	(₱21,498,878)	(₱16,435,170)

29. Other Income

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

30. Financial Instruments

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

	2016		2015	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS				
Financial Assets at FVPL				
Equity securities - quoted	**₱3,994,787,310**	**₱3,994,787,310**	₱4,012,616,850	₱4,012,616,850
Under separate fund:				
Traditional VULs:				
Quoted equity securities	**14,073,469,362**	**14,073,469,362**	12,910,091,156	12,910,091,156
Quoted debt securities:				
Government:				
Local currency	**1,320,969,283**	**1,320,969,283**	1,109,100,790	1,109,100,790
Foreign currency	**2,557,421,911**	**2,557,421,911**	1,521,072,701	1,521,072,701
Corporate:				
Local currency	**112,074,589**	**112,074,589**	153,053,669	153,053,669
Foreign currency	**135,770,611**	**135,770,611**	128,636,870	128,636,870
Structured VULs*:				
Local currency	**667,239,570**	**667,239,570**	1,000,320,732	1,000,320,732
Foreign currency	**1,194,709,761**	**1,194,709,761**	1,112,094,805	1,112,094,805
	24,056,442,397	**24,056,442,397**	21,946,987,573	21,946,987,573
AFS Financial Assets				
Equity securities:				
Quoted	**23,747,346,679**	**23,747,346,679**	5,882,205,420	5,882,205,420
Unquoted**	**443,910,660**	**443,910,660**	7,031,162,253	7,031,162,253
Debt securities:				
Quoted:				
Government:				
Local currency	**8,371,444,010**	**8,371,444,010**	4,153,283,572	4,153,283,572
Foreign currency	**937,455,298**	**937,455,298**	997,540,159	997,540,159
Corporate:				
Local currency	**4,831,787,154**	**4,831,787,154**	998,815,544	998,815,544
Foreign currency	**33,167,988**	**33,167,988**	32,645,009	32,645,009
	38,365,111,789	**38,365,111,789**	19,095,651,957	19,095,651,957
HTM Financial Assets				
Government:				
Local currency	**14,380,214,568**	**17,833,553,615**	14,931,544,158	18,013,819,276
Foreign currency	**16,114,009**	**23,066,373**	676,267,838	703,145,793
Corporate:				
Local currency	**7,838,411,277**	**8,036,127,923**	8,145,482,907	8,792,827,388
Foreign currency	**273,600,899**	**282,294,854**	258,127,845	298,220,265
	22,508,340,753	**26,175,042,765**	24,011,422,748	27,808,012,722
Loans and Receivables				
Term loans	**7,910,880,882**	**8,557,053,740**	8,229,002,353	9,118,386,105
Housing loans	**143,732,522**	**131,258,773**	153,032,134	159,163,607
Car financing loans	**37,157,110**	**40,275,199**	38,964,631	39,539,242
	8,091,770,514	**8,728,587,712**	8,420,999,118	9,317,088,954
TOTAL FINANCIAL ASSETS	**₱93,021,665,453**	**₱97,325,184,663**	₱73,475,061,396	₱78,167,741,206

(Forward)

Financial Instruments

	2016		2015	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL LIABILITIES				
Insurance Liabilities				
Legal policy reserves	**₱56,316,933,902**	**₱56,316,933,902**	₱52,677,297,519	₱40,996,461,065
Derivative Financial Instrument:				
Derivative liability	**34,807,709**	**34,807,709**	₱25,859,311	25,859,311
TOTAL FINANCIAL LIABILITIES	**₱56,351,741,611**	**₱56,351,741,611**	₱52,703,156,830	₱41,022,320,376

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

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

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

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

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

Equity securities

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

Debt securities

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

Structured VULs

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

Term loans

The fair values of term loans are estimated using the discounted cash flow technique that makes use of market rates and credit spread. Market rates ranged from 2.87% to 4.85% and 2.81% to 4.55% in 2016 and 2015, respectively.

Housing and car financing loans

The fair values of housing and car financing loans are estimated using the discounted cash flow technique that makes use of market rates ranging from 7.95% to 14.89% in 2016 and 7.87% to 14.59% in 2015. Credit risk is minimal for such types of secured lending instruments.

Legal policy reserves and other insurance liabilities
The carrying amounts of legal policy reserves reflect the fair valued liability.

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 that are not based on observable market data.

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

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS MEASURED AT FAIR VALUE				
Financial Assets at FVPL				
Equity securities - quoted	**₱3,994,787,310**	**₱–**	**₱–**	**₱3,994,787,310**
Under separate fund*:				
Traditional VULs:				
Quoted equity securities	**14,073,469,362**	**–**	**–**	**14,073,469,362**
Quoted debt securities:				
Government:				
Local currency	**1,320,969,283**	**–**	**–**	**1,320,969,283**
Foreign currency	**2,557,421,911**	**–**	**–**	**2,557,421,911**
Corporate:				
Local currency	**112,074,589**	**–**	**–**	**112,074,589**
Foreign currency	**135,770,611**	**–**	**–**	**135,770,611**
Structured VULs**:				
Local currency	**–**	**–**	**667,239,570**	**667,239,570**
Foreign currency	**–**	**–**	**1,194,709,761**	**1,194,709,761**
	22,194,493,066	**–**	**1,861,949,331**	**24,056,442,397**
AFS Financial Assets				
Equity securities:				
Quoted	**23,747,346,679**	**–**	**–**	**23,747,346,679**
Unquoted***		**407,472,819**	**32,730,339**	**440,203,158**
Debt securities:				
Quoted:				
Government:				
Local currency	**8,350,954,180**	**20,489,830**	**–**	**8,371,444,010**
Foreign currency	**937,455,298**	**–**	**–**	**937,455,298**

(Forward)

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Corporate:				
Local currency	**₱4,831,787,154**	**₱–**	**₱–**	**₱4,831,787,154**
Foreign currency	**33,167,988**	**–**	**–**	**33,167,988**
	37,900,711,299	**427,962,649**	**32,730,339**	**38,361,404,287**
FINANCIAL ASSETS FOR WHICH FAIR VALUE IS DISCLOSED				
HTM Financial Assets:				
Government:				
Local currency	**17,833,553,615**	**–**	**–**	**17,833,553,615**
Foreign currency	**23,066,373**	**–**	**–**	**23,066,373**
Corporate:				
Local currency	**8,036,127,923**	**–**	**–**	**8,036,127,923**
Foreign currency	**282,294,854**	**–**	**–**	**282,294,854**
	26,175,042,765	**–**	**–**	**26,175,042,765**
Loans and receivable:				
Term loans	**–**	**8,557,053,740**		**8,557,053,740**
Housing loans	**–**	**131,258,773**	**–**	**131,258,773**
Car financing loans	**–**	**40,275,199**	**–**	**40,275,199**
	–	**8,728,587,712**	**–**	**8,728,587,712**
TOTAL FINANCIAL ASSETS	**₱86,270,247,130**	**₱9,156,550,361**	**₱1,894,679,670**	**₱97,321,477,161**
FINANCIAL LIABILITIES				
Derivative Financial Instrument:				
Derivative liability	**₱–**	**₱34,807,709**	**₱–**	**₱34,807,709**

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

	2015			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS MEASURED AT FAIR VALUE				
Financial Assets at FVPL				
Equity securities - quoted	₱4,012,616,850	₱–	₱–	₱4,012,616,850
Under separate fund*:				
Traditional VULs:				
Quoted equity securities	12,910,091,156	–	–	12,910,091,156
Quoted debt securities:				
Government:				
Local currency	1,109,100,790	–	–	1,109,100,790
Foreign currency	1,521,072,701	–	–	1,521,072,701
Corporate:				
Local currency	153,053,669	–	–	153,053,669
Foreign currency	128,636,870	–	–	128,636,870
Structured VULs**:				
Local currency	–	–	1,000,320,732	1,000,320,732
Foreign currency	–	–	1,112,094,805	1,112,094,805
	19,834,572,036	–	2,112,415,537	21,946,987,573
AFS Financial Assets				
Equity securities:				
Quoted	5,882,205,420	–	–	5,882,205,420
Unquoted***	–	6,201,580,900	808,132,792	7,009,713,692

(Forward)

	2015			
	Level 1	Level 2	Level 3	Total
Debt securities				
Quoted:				
Government:				
Local currency	₱4,115,598,746	₱37,684,826	₱–	₱4,153,283,572
Foreign currency	997,540,159	–	–	997,540,159
Corporate:				
Local currency	998,815,544	–	–	998,815,544
Foreign currency	32,645,009	–	–	32,645,009
	12,026,804,878	6,239,265,726	808,132,792	19,074,203,396
FINANCIAL ASSETS FOR WHICH FAIR VALUE IS DISCLOSED				
HTM Financial Assets:				
Government:				
Local currency	2,329,257,582	15,684,561,694	–	18,013,819,276
Foreign currency	703,145,793	–	–	703,145,793
Corporate:				
Local currency	8,792,827,388	–	–	8,792,827,388
Foreign currency	298,220,265	–	–	298,220,265
	12,123,451,028	15,684,561,694	–	27,808,012,722
Loans and Receivables				
Term loans	–	9,118,386,105	–	9,118,386,105
Housing loans	–	159,163,607	–	159,163,607
Car financing loans	–	39,539,242	–	39,539,242
	–	9,317,088,954	–	9,317,088,954
TOTAL FINANCIAL ASSETS	₱43,984,827,942	₱31,240,916,374	₱2,920,548,329	₱78,146,292,645
FINANCIAL LIABILITIES				
Derivative Financial Instrument:				
Derivative liability	₱–	₱25,859,311	₱–	₱25,859,311

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

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:

	2016	2015
AFS financial assets:		
Beginning balance	**₱808,132,792**	₱1,916,163,944
Acquisition (disposal)	**(387,701,227)**	3,507,524,060
Fair value gain (loss) recognized through OCI	**19,771,593**	1,586,025,688
Transfer from (to) Level 2 fair value hierarchy	**(407,472,819)**	(6,201,580,900)
Ending balance	**₱32,730,339**	₱808,132,792

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:

	2016	2015
USD		
Beginning balance	**₱1,112,094,805**	₱2,141,998,908
Additions (maturities)	–	(1,163,902,295)
Fair value gain	**19,129,585**	10,996,102
Foreign exchange adjustments	**63,485,371**	123,002,090
Ending balance	**₱1,194,709,761**	₱1,112,094,805

(Forward)

	2016	2015
Peso		
Beginning balance	**₱1,000,320,732**	₱1,041,505,575
Additions	**(360,198,215)**	–
Fair value loss	**27,117,053**	(41,184,843)
Ending balance	**667,239,570**	1,000,320,732
Total	**₱1,861,949,331**	₱2,112,415,537

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

	2016	2015
Investment in a petroleum company	**₱–**	₱6,201,580,900
Investment in a healthcare company	**407,472,819**	775,402,453
Investment in a holding company	**32,730,339**	32,730,339
	₱440,203,158	₱7,009,713,692

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 now quoted in the market at ₱69.80 per share as of December 31, 2016. As of December 31, 2015, the investee-petroleum company's shares are marked to market using a recent transaction price at ₱20 per share.

In 2016, the investee-petroleum company conducted a stock rights offering to fund its various expansion projects. A third party advisor valued the rights at ₱20.00 per share. As a restatement to the reasonableness of the pricing, another independent advisor issued a fairness opinion on the valuation.

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

31.2 *Investment in a healthcare company*

The Group has investments in a healthcare company's (the "investee-healthcare company") shares of stock which are not quoted in the market as of December 31, 2016 and 2015. The investee-healthcare company was valued using the recent transacted price in 2016 and discounted cashflow (DCF) valuation model in 2015. Management assessed that the change in valuation technique in 2016 is appropriate as the recent transaction was done in an orderly manner and both parties are clearly market participants as defined under PFRS 13.

In 2016, the Group sold off its 62,438 shares at ₱6,513.00 per share. The Group and the buyer are separate entities that belong to different groups, each acting on their own behalf. The seller and the buyer are now existing shareholders of the healthcare company, hence all parties are considered to have full knowledge of the status of operations and financial standing of the investee company. All parties are also financially sound investors with adequate capabilities to evaluate the investee company and make a decision based on the merits of the transaction. The transaction executed by the parties was not done under compelling circumstances that may put pressure on the judgment of any involved party. Also, prior to the finalization of the sale, all parties were given ample time to conduct their own due diligence on the subject company.

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

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

(b) The terminal value was calculated using FCF from the last year of the 10-year projection period capitalized into perpetuity using the Gordon growth model based on a growth rate of 5.4%;

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

(d) A marketability discount factor of 20% in 2015 was used considering that the Healthcare Company's shares are not liquid; and

(e) A minority discount factor of 10% in 2015 was used given that the Company is only a minority shareholder in the investee-healthcare company.

The analysis of the fair market value of the investee-healthcare company's shares below is performed for the reasonably possible movements in unobservable inputs in 2015, with all other variables held constant, showing the impact on other comprehensive income:

Significant unobservable input	Level at year end	Sensitivity of the input to fair value
WACC	11.50%	0.25% increase or decrease in the WACC of the investee healthcare company would result in the decrease or increase in fair value by ₱18,753,784 and ₱20,366,718, respectively.
FCF growth rate	5.40%	0.25% increase or decrease in the perpetuity growth rate of the investee healthcare company's FCF would result in the increase or decrease in fair value by ₱12,750,098 and ₱11,747,041, respectively.
Marketability discount factor	20.00%	0.25% increase (decrease) in the marketability discount factor of the investee healthcare company would result in the decrease (increase) in fair value by ₱2,423,133.
Minority discount factor	10.00%	0.25% increase (decrease) in the minority discount factor of the investee healthcare company would result in the decrease (increase) in fair value by ₱2,153,991.

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

The Group has investments in a holding company's (the "investee-holding company") shares of stock which are not quoted in the market as of December 31, 2016 and 2015. The investee-holding company was valued using adjusted net asset method in 2016 and 2015 since majority of its net assets are carried at fair value.

No significant transactions done in 2016 according to the management of the investee-holding company. The management believes that the book value represents fair valuation considering that its financial statements have been prepared in accordance with PFRS and majority of its net 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 their book values with all other variables held constant, showing the impact on the other comprehensive income:

	Significant unobservable input	Level at year-end	Sensitivity of the input to fair value
2016	**Book value per share**	**₱1,303**	**4.99% increase (decrease) in the book value per share of the investee holding company would result in the decrease (increase) in fair value by ₱1,633,550.**

	Significant unobservable input	Level at year-end	Sensitivity of the input to fair value
2015	Book value per share	₱1,303	4.99% increase (decrease) in the book value per share of the investee holding company would result in the decrease (increase) in fair value by ₱1,633,550.

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 level at yearend	Sensitivity of the input to fair value
2016	**ROP CDS level (3yrs-8yrs)**	**110 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 ₱18,834,358 and ₱19,359,842, respectively.**
	USD IRS (3yrs-8yrs)	**167-214 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 ₱22,183,560 and ₱22,767,053, respectively.**
	PHP IRS (1yr-6yrs)	**345-365 basis points**	**50 basis points increase or decrease in PHP IRS would result in the decrease and increase in market value of the note by ₱12,258,041 and ₱12,532,393, respectively.**
2015	ROP CDS level (1yr-7yrs)	108 basis points	50 basis points increase or decrease in ROP CDS would result in the decrease and increase in market value of the note by ₱21,344,867 and ₱22,044,327, respectively.
	USD IRS (1yr-7yrs)	141-195 basis	50 basis points increase or decrease in USD IRS would result in the decrease and increase in market value of the note by ₱25,804,008 and ₱26,602,087, respectively.

(Forward)

Significant unobservable input other than quoted prices within Level 1	Range level at yearend	Sensitivity of the input to fair value
PHP IRS (1yr-7yrs)	265-370 basis points	50 basis points increase or decrease in PHP IRS would result in the decrease and increase in market value of the note by ₱17,163,957 and ₱17,608,086, respectively.

Note: The sensitivity is only applied to the bond portion of the structured notes. Further, results of the sensitivity do not reflect stressed scenarios due to non-linearity characteristics of the product.

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
2016	**ROP CDS level (3-8 years)**	**55-120 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 ₱22,183,560 and ₱22,767,053, respectively.**
2015	Bank CDS level (3-8 years)	62-133 basis points	50 basis points increase or decrease in ROP CDS would result in the decrease and increase in market value of the note by ₱25,804,008 and ₱26,602,087, respectively.

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
2016	**Bank CDS level (1-7 years)**	**51-118 basis points**	**A 50 basis points increase (decrease) in CDS would result in the decrease and increase in fair value of the note by ₱12,258,041 and ₱12,532,393, respectively.**
2015	Bank CDS level (1-7 years)	10-67 basis points	A 50 basis points increase (decrease) in CDS would result in the decrease (increase) in fair value of the note by ₱17,163,957 and ₱17,608,086, respectively.

Note: The Sensitivity is only applied to the bond portion of the structured notes. Further, results of the sensitivity do not reflect stressed scenarios due to non-linearity characteristics of the product.

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

The Bank CDS level is based on the closest available CDS maturity of the counterparty matched to the remaining maturity of the structured notes. Further, the Bank CDS is a proxy for the funding cost of the counterparty which is considered as a significant unobservable input.

The above estimates are based on assumptions that, if altered, can change the analysis expressed herein. This shall not constitute a representation or warranty as to future performance of the structured notes. Further, past performance is not indicative of future results.

32. Insurance and Financial Risk Management

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

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

32.1 Regulatory Framework

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

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

32.2 Insurance Risk

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

32.2.1 *Underwriting risk*

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

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

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

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

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

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

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

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

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

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

	2016	2015
Whole Life		
Gross	**₱94,242,760,806**	₱95,156,210,988
Net	**83,763,411,175**	84,391,104,680
Endowment		
Gross	**26,125,723,763**	26,149,167,894
Net	**24,070,265,463**	24,134,499,893
Term Insurance		
Gross	**8,976,733,618**	10,558,890,778
Net	**8,680,849,604**	10,242,284,665
Group Insurance		
Gross	**81,861,042,717**	70,449,288,190
Net	**49,266,372,404**	42,602,047,473
Variable Life		
Gross	**55,281,496,621**	48,137,882,505
Net	**46,462,157,829**	41,571,658,097
Total		
Gross	**₱266,487,757,525**	₱250,451,440,355
Net	**₱212,243,056,475**	₱202,941,594,808

32.2.2 *Life Insurance Contracts*

a. *Assumptions*

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

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

Subsequently, new estimates are developed at each balance sheet date to determine whether liabilities are adequate in the light of the latest current estimates. The initial assumptions are not altered if the liabilities are considered adequate. If the liabilities are not adequate, the assumptions are altered (i.e., "unlocked") to reflect the latest current estimates. No margin is added to the assumptions in this event.

As a result, the effect of changes in the underlying variables on insurance liabilities and related assets is not symmetrical. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant enough deteriorations in estimates have an impact.

b. *Terms*

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

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

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

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

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

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

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

ii. the assumptions used for the LAT which reflect best estimate assumptions.

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

i. Mortality and morbidity rates

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

ii. Discount rates

Discount rates relate to the time value of money. For fair valued liabilities, the discount rate is set to be equal to the investment return. For statutory liability, discount rate ranges from 3% to 6%. The IC does not allow a discount rate of more than 6%. An increase in discount rate would result in decrease in liability that needs to be set up to meet obligations to policyholders.

iii. Investment return

The weighted average rate of return is derived based on a model portfolio that is assumed to back the liabilities, consistent with the long term asset allocation strategy. An increase in investment return would lead to increase in investment income, thus increasing profits for stakeholders. The net investment return is the base discount rate assumption used for the LAT runs.

iv. Expenses

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

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

32.2.3 *Reinsurance Contracts*

a. *Terms and assumptions*

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

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

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

b. *Sensitivities*

Sensitivity testing on the LAT model was done to determine net changes in legal policy reserves that would arise due to changes in parameters such as mortality, expenses, investment income and discount rate. The scenarios tested involved increasing/decreasing one parameter while retaining the others constant at the original base run for the LAT. The resulting values for the discounted cash flows per scenario were then tabulated and compared to the value for the base run. The tabulation of results below showing percentage change of the value for each scenario from the value for the base run would give an idea of the sensitivity of the discounted cash flow to changes in the various items driving profit for the Company. 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 Company. None of the tabulated results below would have resulted in additional liability set up over and above the statutory reserves held by the Company. The LAT results per base run scenario run show present value of net cash flows amounting to (₱50,308,370,453) and (₱40,996,461,065) as of December 31, 2016 and 2015, respectively.

The analysis below is performed for a reasonable possible movement in key assumptions with all other assumptions held constant on the statements of income and members' equity. Based on the scenarios tested for 2016 and 2015, the resulting values are lower than the statutory reserves.

	December 31, 2016	December 31, 2015
Scenario	**% Change from Base Run**	% Change from Base Run
Base Run	**0.00%**	0.00%
Mortality + 5%	**-0.09%**	-0.67%
Investment Return + 1%	**-0.80%**	-1.96%
Discount Rate - 1%	**23.46%**	13.77%
Expense + 10%	**3.79%**	0.78%
Lapse + 5%	**-0.90%**	-1.11%

32.3 Financial Risk

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

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

The Group has guidelines and procedures on fixed and equity investments. On fixed investments, the Group has to place its investment portfolio in negotiable instruments that will give high-yield, low-risks return without sacrificing the IC and the Group's requirements. The IC requirements state that the investment in fixed instruments shall only come from financial institutions or corporate entities with acceptable ratings from PhilRatings, or at least the rank is within the top 15, in case of banks. Meanwhile, investment in negotiable instruments involving reserve and surplus investments shall follow the guidelines set by the Code (Note 31). On equity investments, the Group has to place its investment portfolio in equity market that will give high-yield, low-risks return taking into account the IC and Group's requirements.

32.3.1 *Credit Risk*

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

i. Reinsurers in respect of unpaid claims;
ii. Reinsurers in respect of claims already paid;
iii. Financial assets at FVPL;
iv. HTM financial assets;
v. Loans and receivables;
vi. AFS financial assets; and
vii. Counterparty bank default on CCS agreement.

The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved by the Division Heads. Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to

Reinsurance is placed with high rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews.

At each year-end, management performs assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertain a suitable allowance for impairment of reinsurance assets.

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

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

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

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

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

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

The maximum credit exposure of the financial assets of the Group is equal to their carrying value except for the following financial assets with collaterals (e.g., equity value, real estate), the financial effects of which are as follows:

	2016	2015
Housing loans	**₱164,001,750**	₱168,798,688
Mortgage loans	**104,134,088**	99,634,845
Finance leases	**42,397,848**	37,098,163
Stock loans	**27,312,534**	14,257,549
	₱337,846,220	₱319,789,245

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 ₱361,556,131 and ₱394,803,614 for housing loans and mortgage loans as of December 31, 2016 and 2015, respectively.

Risk Concentrations of the Maximum Exposure to Credit Risk

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

The following table presents the Group's concentration of credit risk in the Group's debt securities portfolio by industrial distribution as percentage of total debt securities:

	2016	2015
Property	**31%**	26%
Holding firms	**25%**	22%
Electricity, energy, power, and water	**15%**	17%
Financial institutions	**10%**	12%
Telecommunications	**9%**	11%
Tollways operation and maintenance	**8%**	9%
Food, beverage, and tobacco	**1%**	2%
Others	**1%**	1%
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, 2016 and 2015.

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

	2016			
	Neither past due nor impaired			
	Investment Grade	**Non-Investment Grade**	**Past Due or Impaired**	**Total**
Insurance Receivables				
Due premiums	**₱165,150,543**	**₱–**	**₱–**	**₱165,150,543**
Reinsurance assets	–	**5,152,732**	–	**5,152,732**
	165,150,543	**5,152,732**	–	**170,303,275**
Financial Assets at FVPL				
Equity securities - quoted	**3,994,787,310**	–	–	**3,994,787,310**
Under separate fund:				
Traditional VULs:				
Cash and cash equivalents	**2,981,555,219**	–	–	**2,981,555,219**
Quoted equity securities	**14,073,469,362**	–	–	**14,073,469,362**
Quoted debt securities:				
Government:				
Local currency	**1,320,969,283**	–	–	**1,320,969,283**
Foreign currency	**2,557,421,911**	–	–	**2,557,421,911**
Corporate:				
Local currency	**112,074,589**	–	–	**112,074,589**
Foreign currency	**135,770,611**	–	–	**135,770,611**
Other receivables	**87,953,997**	–	–	**87,953,997**
Structured VULs:				
Local currency	**667,239,570**	–	–	**667,239,570**
Foreign currency	**1,194,709,761**	–	–	**1,194,709,761**
	27,125,951,613	–	–	**27,125,951,613**

(Forward)

	2016			
	Neither past due nor impaired			
	Investment Grade	Non-Investment Grade	Past Due or Impaired	Total
AFS Financial Assets				
Equity securities:				
Quoted	**₱23,747,346,679**	**₱–**	**₱–**	**₱23,747,346,679**
Unquoted	**443,910,660**	**–**	**–**	**443,910,660**
Debt securities:				
Quoted:				
Government:				
Local currency	**8,371,444,010**	**–**	**–**	**8,371,444,010**
Foreign currency	**937,455,298**	**–**	**–**	**937,455,298**
Corporate:				
Local currency	**4,831,787,154**	**–**	**–**	**4,831,787,154**
Foreign currency	**33,167,988**	**–**	**–**	**33,167,988**
	38,365,111,789	**–**	**–**	**38,365,111,789**
HTM Financial Assets:				
Government:				
Local currency	**14,380,214,568**	**–**	**–**	**14,380,214,568**
Foreign currency	**16,114,009**	**–**	**–**	**16,114,009**
Corporate:				
Local currency	**7,838,411,277**	**–**	**–**	**7,838,411,277**
Foreign currency	**273,600,899**	**–**	**–**	**273,600,899**
	22,508,340,753	**–**	**–**	**22,508,340,753**
Loans and Receivables				
Cash and cash equivalents*	**7,864,214,320**	**–**	**–**	**7,864,214,320**
	7,864,214,320	**–**	**–**	**7,864,214,320**
Term loans	**7,910,880,882**	**–**	**–**	**7,910,880,882**
Policy loans	**5,424,707,120**	**–**	**–**	**5,424,707,120**
Accounts receivable	**4,836,064**	**1,133,538,280**	**23,363,856**	**1,161,738,200**
Interest receivable	**478,999,419**	**–**	**–**	**478,999,419**
Housing loans	**143,732,522**	**–**	**–**	**143,732,522**
Mortgage loans	**58,516,062**	**17,841,269**	**11,666,543**	**88,023,874**
Car financing loans	**37,157,110**	**–**	**–**	**37,157,110**
Finance leases	**15,014,523**	**8,707,350**	**9,101,078**	**32,822,951**
Stock loans	**18,087,562**	**1,082,856**	**5,303,207**	**24,473,625**
Due from agents	**–**	**3,489,074**	**4,352,635**	**7,841,709**
Others	**1,362,862**	**296,028,054**	**6,109,067**	**303,499,983**
	14,093,294,126	**1,460,686,883**	**59,896,386**	**15,613,877,395**
	21,957,508,446	**1,460,686,883**	**59,896,386**	**23,478,091,715**
	₱110,122,063,145	**₱1,465,839,615**	**₱59,896,386**	**₱111,647,799,145**

**Excluding cash on hand as of December 31, 2016.*

	2015			
	Neither past due nor impaired			
	Investment Grade	Non-Investment Grade	Past Due or Impaired	Total
Insurance Receivables				
Due premiums	₱191,911,402	₱–	₱–	₱191,911,402
Reinsurance assets	–	2,916,870	–	2,916,870
	191,911,402	2,916,870	–	194,828,272
Financial Assets at FVPL				
Equity securities - quoted	4,012,616,850	–	–	4,012,616,850
Under separate fund:				
Traditional VULs:				
Cash and cash equivalents	1,438,736,857	–	–	1,438,736,857
(Forward)				

	2015			
	Neither past due nor impaired			
	Investment Grade	Non-Investment Grade	Past Due or Impaired	Total
Quoted equity securities	₱12,910,091,156	₱–	₱–	₱12,910,091,156
Quoted debt securities:				
Government:				
Local currency	1,109,100,790	–	–	1,109,100,790
Foreign currency	1,521,072,701	–	–	1,521,072,701
Corporate:				
Local currency	153,053,669	–	–	153,053,669
Foreign currency	128,636,870	–	–	128,636,870
Other receivables	52,750,890	–	–	52,750,890
Structured VULs:				
Local currency	1,000,320,732	–	–	1,000,320,732
Foreign currency	1,112,094,805	–	–	1,112,094,805
	23,438,475,320	–	–	23,438,475,320
AFS Financial Assets				
Equity securities:				
Quoted	5,882,205,420	–	–	5,882,205,420
Unquoted	7,031,162,253	–	–	7,031,162,253
Debt securities:				
Quoted:				
Government:				
Local currency	4,153,283,572	–	–	4,153,283,572
Foreign currency	997,540,159	–	–	997,540,159
Corporate:				
Local currency	998,815,544	–	–	998,815,544
Foreign currency	32,645,009	–	–	32,645,009
	19,095,651,957	–	-	19,095,651,957
HTM Financial Assets:				
Government:				
Local currency	14,931,544,158	–	–	14,931,544,158
Foreign currency	676,267,838	–	–	676,267,838
Corporate:				
Local currency	8,145,482,907	–	–	8,145,482,907
Foreign currency	258,127,845	–	–	258,127,845
	24,011,422,748	–	–	24,011,422,748
Loans and Receivables				
Cash and cash equivalents*	7,107,803,480	–	–	7,107,803,480
Short term investment	33,368,707	–	–	33,368,707
	7,141,172,187	–	–	7,141,172,187
Term loans	8,229,002,353	–	–	8,229,002,353
Policy loans	5,469,582,698	–	–	5,469,582,698
Accounts receivable	3,829,307	842,387,053	33,239,031	879,455,391
Interest receivable	431,994,611	–	–	431,994,611
Housing loans	153,032,134	–	–	153,032,134
Mortgage loans	50,642,410	5,298,388	16,058,686	71,999,484
Net interest in joint venture for under PAS 39	18,146,965	–	–	18,146,965
Car financing loans	38,964,631	–	–	38,964,631
Finance leases	21,341,030	4,081,772	12,297,368	37,720,170
Stock loans	9,300,180	1,781,754	5,459,073	16,541,007
Due from agents	–	3,226,054	7,696,124	10,922,178
Others	1,181,774	67,797,585	5,335,628	74,314,987
	14,427,018,093	924,572,606	80,085,910	15,431,676,608
	21,568,190,280	924,572,606	80,085,910	22,572,848,795
	₱88,305,651,707	₱927,489,476	₱80,085,910	₱89,313,227,092

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

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:

2016

	Past due but not impaired				Past due and	
	< 30 days	**31 to 60 days**	**> 60 days**	**Total**	**Impaired**	**Total**
Loans and receivables:						
Accounts receivable	**₱3,024,764**	**₱791,744**	**₱5,007,995**	**₱8,824,503**	**₱14,539,353**	**₱23,363,856**
Mortgage loans	**2,551,266**	**4,361,844**	**4,340,916**	**11,254,026**	**609,472**	**11,863,498**
Finance Leases	**3,824,040**	**2,438,642**	**2,485,781**	**8,748,463**	**352,615**	**9,101,078**
Stock loans	**1,476,192**	**592,417**	**395,688**	**2,464,297**	**2,838,909**	**5,303,206**
Due from agents	**–**	**–**	**–**	**–**	**4,352,635**	**4,352,635**
Others	**2,785,408**	**722,209**	**1,447,918**	**4,955,535**	**1,153,532**	**6,109,067**
	₱13,661,670	**₱8,906,856**	**₱13,678,298**	**₱36,246,824**	**₱23,846,516**	**₱60,093,340**

2015

	Past due but not impaired				Past due and	
	< 30 days	31 to 60 days	> 60 days	Total	Impaired	Total
Loans and receivables:						
Accounts receivable	₱4,975,869	₱1,700,014	₱9,062,552	₱15,738,435	₱17,500,596	₱33,239,031
Mortgage loans	3,577,900	3,205,411	7,683,752	14,467,063	1,591,623	16,058,686
Finance Leases	6,847,065	2,199,463	2,628,834	11,675,362	622,006	12,297,368
Stock loans	1,483,599	1,124,275	567,742	3,175,616	2,283,457	5,459,073
Due from agents	–	–	–	–	7,696,124	7,696,124
Others	3,046,829	268,049	281,460	3,596,338	1,739,290	5,335,628
	₱19,931,262	₱8,497,212	₱20,224,340	₱48,652,814	₱31,433,096	₱80,085,910

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

The Group operates mainly on a "neither past due nor impaired basis" and when evidence of impairment is available, an impairment assessment will also be performed if applicable.

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

32.3.2 *Liquidity Risk*

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

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

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

The amounts disclosed in the maturity analysis of financial assets used to manage liquidity, insurance liabilities, and financial liabilities of the Group are the contractual undiscounted cash flows based on the remaining period at the balance sheet date to their contractual maturities or expected repayment dates:

	2016				
	Up to a year	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
Financial assets:					
Cash and cash equivalents	**₱7,864,611,077**	**₱–**	**₱–**	**₱–**	**₱7,864,611,077**
Insurance receivables	**170,303,275**	**–**	**–**	**–**	**170,303,275**
Financial assets at FVPL	**21,290,236,184**	**1,166,858,303**	**1,863,807,663**	**4,905,991,760**	**29,226,893,910**
AFS financial assets	**37,792,469,612**	**2,387,347,320**	**1,827,404,170**	**17,508,733,434**	**59,515,954,536**
HTM financial assets	**1,927,689,819**	**4,007,848,252**	**5,797,225,490**	**30,791,887,077**	**42,524,650,638**
Loans and receivables	**1,851,485,916**	**1,314,925,617**	**3,443,763,524**	**9,164,225,860**	**15,774,400,918**
Total financial assets	**70,896,795,884**	**8,876,979,492**	**12,932,200,847**	**62,370,838,131**	**155,076,814,354**
Legal policy reserves	**9,809,220,620**	**4,122,050,333**	**5,238,297,330**	**37,147,365,619**	**56,316,933,902**
Derivative liability	**34,807,709**	**–**	**–**	**–**	**34,807,709**
Other insurance liabilities:					
Members' deposits and other funds on deposit*	**21,246,085,299**	**697,947,257**	**461,942,384**	**5,822,693,901**	**28,228,668,841**
Reserve for dividends to members	**231,283,375**	**–**	**–**	**–**	**231,283,375**
Claims pending settlement	**1,859,741,059**	**–**	**–**	**–**	**1,859,741,059**
	23,337,109,733	**697,947,257**	**461,942,384**	**5,822,693,901**	**30,319,693,275**
Other financial liabilities:					
Accrued expenses and other liabilities:					
Accrued employee benefits	**51,376,338**	**–**	**–**	**389,348,346**	**440,724,684**
Accounts payable	**653,297,734**	**68,144,221**	**537,380**	**2,526,895**	**724,506,230**
General expenses due and accrued	**36,750,465**	**24,392,551**	**–**	**–**	**61,143,016**
Commissions payable	**88,050,296**	**–**	**–**	**–**	**88,050,296**
Others	**8,068,099**	**1,102,148**	**987,063**	**27,146,936**	**37,304,246**
	837,542,932	**93,638,920**	**1,524,443**	**419,022,177**	**1,351,728,472**
Total financial liabilities	**34,018,680,994**	**4,913,636,510**	**5,701,764,157**	**43,389,081,697**	**88,023,163,358**
Liquidity position	**₱36,878,114,890**	**₱3,963,342,982**	**₱7,230,436,690**	**₱18,981,756,434**	**₱67,053,650,996**

**Excluding unearned membership fees of I-Care amounting to ₱80,106,666*

	2015				
	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Financial assets:					
Cash and cash equivalents	₱7,108,300,822	₱–	₱–	₱–	₱7,108,300,822
Short term investments	33,379,256	–	–	–	33,379,256
Insurance receivables	194,828,272	–	–	–	194,828,272
Financial assets at FVPL	19,079,426,196	302,691,932	1,409,657,858	4,197,771,567	24,989,547,553
AFS financial assets	23,127,342,295	663,064,674	1,592,495,976	7,490,528,570	32,873,431,515
HTM financial assets	2,878,052,910	3,560,368,803	6,725,003,742	32,653,524,448	45,816,949,903
Loans and receivables	1,697,761,255	1,118,184,576	2,223,308,236	10,403,088,975	15,442,343,042
Total financial assets	54,119,091,006	5,644,309,985	11,950,465,812	54,744,913,560	126,458,780,363
Legal policy reserves	7,056,057,627	2,313,876,413	4,940,941,682	38,366,421,797	52,677,297,519
Derivative Liability	25,859,311	–	–	–	25,859,311
Other insurance liabilities:					
Members' deposits and other funds on deposit*	17,147,651,570	535,671,093	789,821,508	6,277,262,690	24,750,406,861

(Forward)

	2015				
	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Reserve for dividends to members	₱643,186,642	₱–	₱–	₱–	₱643,186,642
Claims pending settlement	1,716,718,790	–	–	–	1,716,718,790
	19,507,557,002	535,671,093	789,821,508	6,277,262,690	27,110,312,293
Other financial liabilities:					
Accrued expenses and other liabilities:					
Accrued employee benefits	604,243,073	–	–	141,607,809	745,850,882
Accounts payable	602,278,749	22,139,565	–	–	624,418,314
General expenses due and accrued	52,731,700	30,278,361	–	–	83,010,061
Commissions payable	71,066,949	–	–	–	71,066,949
Others	9,077,592	1,054,508	1,260,110	28,005,370	39,397,580
	1,339,398,063	53,472,434	1,260,110	169,613,179	1,563,743,786
Total financial liabilities	27,928,872,003	2,903,019,940	5,732,023,300	44,813,297,666	81,377,212,909
Liquidity position	₱26,190,219,003	₱2,741,290,045	₱6,218,442,512	₱9,931,615,894	₱45,081,567,454

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

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

32.3.3 *Market Risk*

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

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

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

ii. set out the assessment and determination of what constitutes market risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment; and

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

a. *Fair Value Interest Rate Risk*

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

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

2016

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
		Maturity						
Financial assets at FVPL - debt securities								
Government:								
Local currency	2%-8%	₱–	₱49,357,716	₱42,662,674	₱52,716,455	₱162,510,291	₱1,013,722,147	₱1,320,969,283
Foreign currency	4%-11%	45,022,235	–	104,369,093	73,504,910	69,029,560	2,265,496,113	2,557,421,911
Corporate:								
Local currency	6%	–	–	–	–	–	112,074,589	112,074,589
Foreign currency	4% - 7%	–	–	44,345,127	50,701,166	–	40,724,318	135,770,611
Structured VULs:								
Local currency	2% - 4%	–	–	261,928,570	–	405,311,000	–	667,239,570
Foreign currency	1% - 4%	–	–	274,016,332	139,964,567	349,348,282	431,380,580	1,194,709,761
AFS debt securities:								
Quoted:								
Government:								
Local currency	4%-9%	30,607,522	–	1,060,785,719	–	–	7,280,050,769	8,371,444,010
Foreign currency	4%-10%	–	–	–	–	–	937,455,298	937,455,298
Corporate :								
Local currency	4%-8%	101,322,852	–	–	150,365,720	345,257,538	4,234,841,044	4,831,787,154
Foreign currency	7%	–	33,167,988	–	–	–	–	33,167,988
		₱176,952,609	₱82,525,704	₱1,788,107,515	₱467,252,818	₱1,331,456,671	₱16,315,744,858	₱20,162,040,175

2015

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
		Maturity						
Financial assets at FVPL - debt securities								
Government:								
Local currency	2%-8%	₱129,633,782	₱–	₱–	₱133,983,818	₱33,576,768	₱811,906,422	₱1,109,100,790
Foreign currency	4%-11%	67,690,568	46,210,841	-	104,203,325	71,808,160	1,231,159,807	1,521,072,701
Corporate:								
Local currency	6%	50,000,000	-	-	-	-	103,053,669	153,053,669
Foreign currency	4% - 7%	-	-	-	43,642,888	46,877,816	38,116,166	128,636,870
Structured VULs:								
Local currency	2% - 4%	314,080,000	-	-	286,371,732	-	399,869,000	1,000,320,732
Foreign currency	1% - 4%	-	-	-	260,409,382	131,861,986	719,823,437	1,112,094,805
AFS debt securities:								
Quoted:								
Government:								
Local currency	4%-8%	12,091,879	30,764,542	-	1,052,473,314	-	3,057,953,837	4,153,283,572
Foreign currency	6%-10%	105,583,659	-	-	-	-	891,956,500	997,540,159
Corporate :								
Local currency	5%-8%	-	104,634,373	-	-	-	894,181,171	998,815,544
Foreign currency	7%	-	-	-	32,645,009	-	-	32,645,009
		₱679,079,888	₱181,609,756	₱–	₱1,913,729,468	₱284,124,730	₱8,148,020,009	₱11,206,563,851

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
2016	**USD**	**+ 25 basis points**	**(₱2,837,401)**	**(₱26,725,832)**
	PHP	**+ 25 basis points**	**(570,266)**	**(227,982,662)**
	USD	**- 25 basis points**	**3,004,835**	**28,105,533**
	PHP	**- 25 basis points**	**583,025**	**234,133,588**
2015	USD	+ 25 basis points	(₱2,381,812)	(₱25,445,582)
	PHP	+ 25 basis points	–	(98,155,290)
	USD	- 25 basis points	2,547,275	27,085,350
	PHP	- 25 basis points	–	101,308,083

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

The use of +/- 25 basis points is a reasonably possible change in the market value of the debt securities.

The following table provides the sensitivity analysis of the fair value of the CCS and its effect on income before income tax due to changes in interest rates as of December 31:

CCS Leg	Change in variable	Effect on income before tax
December 31, 2016:		
Peso Interest Rate	**Increase by 25 basis points**	**(₱866,045)**
Peso Interest Rate	**Decrease by 25 basis points**	**836,450**
USD Interest Rate	**Increase by 25 basis points**	**833,712**
USD Interest Rate	**Decrease by 25 basis points**	**(868,786)**
December 31, 2015:		
Peso Interest Rate	Increase by 25 basis points	(₱145,037)
Peso Interest Rate	Decrease by 25 basis points	184,439
USD Interest Rate	Increase by 25 basis points	187,434
USD Interest Rate	Decrease by 25 basis points	(142,038)

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

b. *Equity Price Risk*

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

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

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

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

	Change in PSEi index	Effect on Income Before tax	Effect on Equity
2016	**Increase by 0.5%**	**₱8,687,341**	**₱115,666,115**
	Decrease by 0.5%	**(8,687,341)**	**(115,666,116)**
2015	Increase by 0.5%	8,525,625	54,170,509
	Decrease by 0.5%	(8,525,625)	(54,170,509)

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

Risk Concentrations of the Maximum Exposure to Equity Price Risk

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

The following table presents the Group's concentration of equity price risk in the Group's equity portfolio by industrial distribution as percentage of total equity securities:

	2016	2015
Electricity, energy, power and water	**40%**	26%
Financial institutions	**28%**	32%
Holding firms	**10%**	12%
Food, beverage and tobacco	**7%**	10%
Property	**5%**	8%
Telecommunications	**4%**	5%
Others	**6%**	7%
Total	**100%**	100%

c. *Currency Risk*

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's foreign currency-denominated assets and liability as of December 31 consist of the following:

	2016		2015	
	United States Dollar Value	**Peso Equivalent**	United States Dollar Value	Peso Equivalent
Assets				
Cash and cash equivalent	**$24,147,834**	**₱1,202,876,055**	$25,926,935	₱1,222,869,825
Financial assets at FVPL	**66,837,011**	**3,329,352,029**	66,918,018	3,156,255,250
AFS financial assets	**970,643,124**	**48,350,645,948**	21,857,184	1,030,915,918
HTM financial assets	**289,714,908**	**14,431,568,712**	19,810,789	934,395,684
	$1,351,342,877	**₱67,314,442,744**	$134,512,926	₱6,344,436,677
Liability				
Derivative liability	**$698,768**	**₱34,807,709**	$548,262	₱25,859,311
Legal policy reserves	**1,275,693**	**63,546,080**	4,486,434	211,607,146
	$1,974,461	**₱98,353,789**	$5,034,696	₱237,466,457

The foregoing United States Dollar amounts have been restated to their Peso equivalents using the exchange rate of ₱49.813 and ₱47.166 to US$1, as recommended by IC, as of December 31, 2016 and 2015, respectively. Net foreign exchange gain amounted to ₱180,964,172 and ₱193,122,230 in 2016 and 2015, 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
2016	**Increase by 2.68%**	**₱1,728,694,083**
	Decrease by 2.68%	**(1,728,694,083)**
2015	Increase by 1.53%	50,253,963
	Decrease by 1.53%	(50,253,963)

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

The following table provides the sensitivity analysis of the fair value of the CCS and its effect on income before income tax, and equity due to changes in foreign currency rates as of December 31:

Changes in variable	Effect on income before tax	Effect on equity
December 31, 2016:		
Increase by 2.68%	**(₱6,674,942)**	**(₱4,672,459)**
Decrease by 2.68%	**6,674,942**	**4,672,459**
December 31, 2015:		
Increase by 1.53%	(3,608,199)	(2,525,739)
Decrease by 1.53%	3,608,199	2,525,739

33. Capital Management and Regulatory Requirements

33.1 Capital Management Framework

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

The Group considers its total retained earnings amounting to ₱26,600,131,447 and ₱21,675,758,016 as of December 31, 2016 and 2015, 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:

	2016	2015
Property and equipment - net	**₱153,564,336**	₱166,986,553
Accounts receivable and other assets	**1,236,281,081**	940,340,716
	₱1,389,845,417	₱1,107,327,269

In 2015 audit, IC computed Company's Capital and Networth Requirement amounting to ₱250,000,000 and ₱25,859,039,209, respectively.

31.1.1 *Minimum Members' Equity Requirements*

Insurance Commission (IC) Circular Letter (CL) No. 2017-14 provides for the ninimum members' equity requirements for all mutual life insurance companies on a staggered basis for the years ended December 31, 2016 up to 2022. The term "Members' Equity/Owners' Equity" is equal to the total company assets minus total company liabilities which shall remain unimpaired at all times. The table below shows the amount of minimum total members' equity and schedule of compliance per IC CL No. 2017-14.

Minimum Total Members' Equity	**Compliance Date**
₱550,000,000	31 December 2016
990,000,000	31 December 2019
1,300,000,000	31 December 2022

As of December 31, 2016 and 2015, the Parent Company's members' equity is ₱43,872,935,212 and ₱25,452,286,551, respectively.

33.1.2 *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:

	2016	2015
Net worth	**₱42,891,675,125**	₱23,573,788,849
Aggregate RBC requirement	**18,221,028,300**	12,936,550,417
RBC Ratio	**235%**	182%

The final amount of the RBC ratio can be determined only after the accounts of the Company has been examined by the IC specifically as to admitted and nonadmitted assets as defined under the same Code. Based on the results of 2015 audit of IC, the Company's RBC ratio as of December 31, 2015 was equivalent to 204% (i.e., with net worth and aggregate RBC requirement amounting to ₱26,109,036,209 and ₱12,795,363,110, 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 in the next page shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered, settled, or reversed as of December 31, 2016.

	2016		
	Within 12 months	Over 12 months	Total
ASSETS			
Cash and Cash Equivalents	**₱7,864,611,077**	**₱–**	**₱7,864,611,077**
Short term investment	**–**	**–**	**–**
Insurance Receivables	**170,303,275**	**–**	**170,303,275**
Financial Assets:			
Fair value through profit or loss	**21,079,392,391**	**5,943,163,492**	**27,022,555,883**
Available-for-sale	**24,320,165,938**	**14,044,945,851**	**38,365,111,789**
Held-to-maturity	**428,549,683**	**22,079,791,070**	**22,508,340,753**
Loans and receivables	**1,610,984,253**	**13,979,046,627**	**15,590,030,880**
Investments in Associates	**–**	**9,117,892,365**	**9,117,892,365**
Investment Properties	**–**	**8,117,694,965**	**8,117,694,965**
Property and Equipment	**–**	**285,888,862**	**285,888,862**
Retirement Benefits Asset	**1,076,542**	**–**	**1,076,542**
Deferred Income Tax Assets - net	**80,990**	**13,130,024**	**13,211,014**
Other Assets	**40,743,218**	**147,889,121**	**188,632,339**
TOTAL ASSETS	**₱55,515,907,367**	**₱73,729,442,377**	**₱129,245,349,744**

	2016		
	Within 12 months	Over 12 months	Total
LIABILITIES			
Legal policy reserves	**9,809,220,620**	**46,507,713,282**	**56,316,933,902**
Derivative liability	**34,807,709**	**–**	**34,807,709**
Other insurance liabilities	**23,417,216,398**	**6,982,583,543**	**30,399,799,941**
Accrued expenses and other liabilities	**146,247,394**	**1,336,061,804**	**1,482,309,198**
Retirement benefits liability	**3,264,491**	**285,616,154**	**288,880,645**
Deferred income tax liabilities - net	**159,674**	**468,248,105**	**468,407,779**
TOTAL LIABILITIES	**₱33,410,916,286**	**₱55,580,222,888**	**₱88,991,139,174**

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

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

35. Other Matters

IIC entered into certain prearranged transactions involving a series of mutual sale and purchase transactions of treasury bills with two financial institutions in 1994. The transactions led to a case filed against IIC that involves a complaint for specific performance and sum of money amounting to ₱90.0 million. As counterclaims, IIC seeks the award of ₱21.1 million.

The main case was dismissed on August 28, 2008 for failure of the other party to file a Pre-trial Brief within the prescribed period. IIC was allowed to present evidence on its counterclaims on September 9, 2008. The other party filed a motion for reconsideration which the court denied on January 26, 2009. It then appealed the case to the Court of Appeals on March 2, 2009.

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

As of March 3, 2017, the case is still pending at the RTC Manila, Branch 28.

THE INSULAR GROUP OF COMPANIES

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

SUBSIDIARIES

Insular Health Care, Inc.
Health/HMO

Insular Investment Corporation
Investment banking

Subsidiaries:

Insular Property Ventures, Inc.
Residential/Commercial development

IIC Properties, Inc.
Residential/Commercial development

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.
Corporate Social Responsibility

About Insular Life

Insular Life was established on November 25, 1910 as the first Filipino-owned life insurance company. It has a long tradition of steadfast commitment to its policyholders, demonstrated by its more than 100 years of continuous service to the Filipino people. Today, it is the largest Filipino life insurance company, with offices in key cities in the country. Insular Life provides financial solutions through its various products – from whole life, endowment, limited-pay, to pension, college education, group, and variable unit investment-linked plans – designed to allow individuals to take control of their family's financial security.

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

Mission Statement

We are Insular, the pioneering and largest Filipino life insurance company.

Our mission is to provide a full range of high-value insurance products and other related services that empower families to attain financial security and fulfill their dreams, thus helping build a stronger Philippines.

We enable our professional, customer-oriented employee and agency force to render service of the highest quality.

We are experts in our core business, and we operate with excellence at all times to optimize stakeholder value.

We continuously pursue strategic opportunities, and achieve sustained growth through dynamic marketing, prudent investments, and exceptional service.

The Insular Life Assurance Company, Ltd.
Insular Life Corporate Centre
Insular Life Drive, Filinvest Corporate City
Alabang, Muntinlupa City, 1781 Metro Manila, Philippines

Tel. No. :	(632) 582-1818
Fax No. :	(632) 771-1717
E-mail :	headofc@insular.com.ph
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