



## SUSTAINED GROWTH, POSITIVE OUTLOOK

2016 WEALTH SERIES REPORT  
TO POLICYHOLDERS



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## MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



Dear Valued Policyholder,

2016 was a volatile year for many around the world. Britain's exit from the European Union, coined the "Brexit"; the anticipated interest rate hikes of the United States Federal Reserves; the slowdown of China's economy; and the election of Donald J. Trump as the 45th United States of America, were but some of the major forces that sent ripples across the globe.

The Philippines was not totally spared from the global headwinds and had its share of challenges. Nonetheless, the Philippine economy remained as one of the fastest-growing in the Asian region. The country's annual Gross Domestic Product (GDP) grew 6.9 percent in 2016, driven by robust household spending, which, in turn, was fueled by

remittances, minimal inflation, low interest rates, and improved incomes. Among the country's major industries, the Industry showed the highest gains, posting a 7.6 percent rise, followed by Services at 7.4 percent.

Operating in such a rapidly shifting environment proved to be a test of mettle for many in the financial sector. However, I am proud to say that your Company, Insular Life, was able to leverage the strength and stability that it has built in its 106 years of operations. As proof, we saw the phenomenal jump in Insular Life's net income, from Php 1.41 billion to Php 3.68 billion, and assets of Php 132.97 billion. Your Company, moreover, remains as one of the best capitalized in the local life insurance industry,

with our net worth at Php 43.87 billion.

It is this strength, as well as the best-in-class expertise of our Investment team that you can depend on.

I am pleased to report to you that the Wealth Series funds delivered a solid performance in 2016. Among the nine Wealth Series funds, Growth Fund posted the most increase, at 3.85 percent, followed by Equity Fund at 3.02 percent. The Balanced Fund, a mixed exposure of equity and fixed-income assets, delivered returns of 2.64 percent. Our peso-denominated funds out-performed the market in general. Specifically, both the Growth Fund and the Equity Fund's gains outstripped that of the Philippine Stock Exchange Index (PSEi), which declined by 1.6 percent. You may read the full details of your funds' performance in the succeeding sections.

Moving forward, I would like to re-affirm our commitment to you to prudently managing the Wealth Funds, while taking well-calculated moves to deliver the best yields to you.

On behalf of the Management, thank you for your continued trust in Insular Life as your partner in wealth creation.



NINA D. AGUAS  
Chief Executive Officer



## PESO FIXED INCOME FUND

### FUND PERFORMANCE

Peso Fixed Income Fund ended 2016 with a NAVPU of Php1.87272, sustaining a decent 1% growth from previous year amid a volatile bond market environment. Several global as well as local events happened in 2016 which include “Brexit”, Philippine Presidential election and the US Presidential election among others. The Fund continues to invest in a mix of government and corporate bonds and short-term securities.

### MARKET REVIEW AND OUTLOOK

After the US started its rate tightening cycle in December 2015 by increasing Fed Fund rates by 25 basis points, market remained cautious in 2016 anticipating the Fed's next move. Buying appetite somehow returned after Fed Chair Yellen did suggest that the Fed anticipates that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate. The US continuing to sound supportive of low interest rates gave the BSP enough room to hold policy rates steady despite a generally upward trajectory in the inflation number.

Election jitters and the weakening Peso placed investors on defensive stance looking to reduce positions that also led to last minute selling ahead of the May 9 national elections. A sigh of relief followed as

the elections turned out generally peaceful and buying interest returned particularly on the short to the mid part of the curve. As election fever faded, the local GS market remained cautious ahead of the British referendum and generally priced-in a “Remain” vote. Hence, when results came out to “Exit” the EU, global risk aversion ensued, diminishing rate hike expectations for the Fed. US Treasuries (UST) rallied and touched new lows. The local bond market tracked movements in UST and likewise recorded significant drop in yields across all tenors.

The Philippine economy posted a higher than expected Q2-2016 GDP growth of 7.0% YOY, well above market expectations of 6.6-6.8%. This robust growth was mainly driven by strong domestic demand from election-related spending. Local bond yields moved slightly lower but momentum was short-lived as market started to price-in a new bond supply through the issuance of Retail Treasury Bonds (RTB). The Bureau of the Treasury successfully issued in September total of P100 billion of the new 10Y RTB with a coupon rate of 3.50% p.a.

In the last quarter of 2016, risk aversion resurfaced stemming from a potential downside risk that could result from the US Presidential election in November and from the increasing probability of Fed rate hike in December. Donald Trump's victory in the U.S. presidential race sparked a wave of capital outflows across Southeast Asia including the Philippines. Most of emerging market currencies and bonds suffered



with the Philippine Peso hitting the P50.00 level against the US Dollar. Despite higher than expected Q3-2016 GDP growth of 7.1% YOY, market players remained cautious and chose to stay on the sidelines. The local bond market continued to be under pressure after the Fed signalled a faster pace of interest rate increases in 2017 after it did so by 25bps in December, as market expected. Moving forward, a rising interest rate environment would be challenging for bond portfolios. We expect yields to remain volatile while trading appetite will likely center in the short-end and most liquid part of the local yield curve.

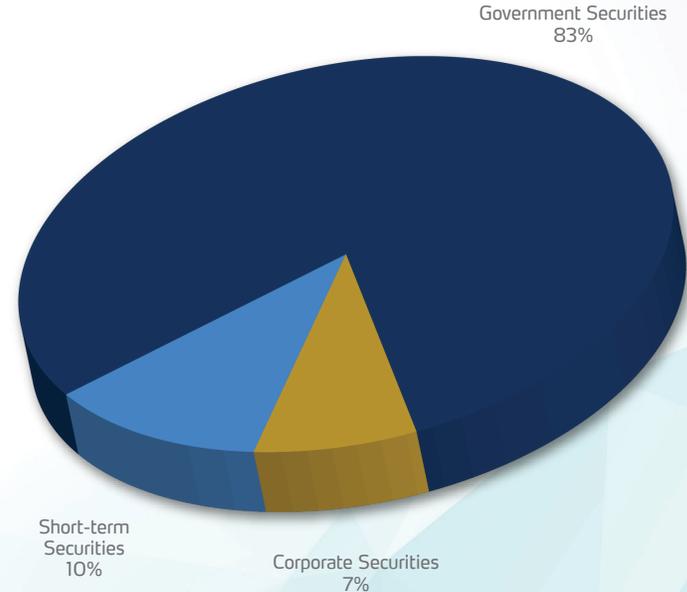
## TOP HOLDINGS

### GOVERNMENT SECURITIES:

- Philippine Government Bond due 21 Mar 2033
- Philippine Government Bond due 19 July 2031
- Philippine Government Bond due 20 Aug 2024
- Philippine Government Bond due 15 Aug 2023
- Philippine Government Bond due 21 Apr 2023

## FIXED INCOME FUND

Fund Distribution by Market Value





## EQUITY FUND

### FUND PERFORMANCE

The Equity Fund ended the year with a NAVPU of Php 4.4349, up 3.02% from the previous year. The Fund outperformed the Philippine Stock Exchange Index (PSEi), which declined by 1.6% for the year. Volatility of the Fund remained lower at 14.5% versus the PSEi's 18.4% (Note: The volatility was based on the annualized standard deviation of daily returns of the portfolio and the PSEi). The Fund maintains its exposure across all sectors of the market, with bias on conglomerates and consumer related stocks. Cash position of the Fund was 17.1% to cushion against expected volatility in the coming year.

### MARKET REVIEW

Despite the panic in January wherein we saw neighboring equities markets in Asia being sold off heavily, the local bourse managed to rally as it tried to breach the 8,000 level once again. We saw the PSEi drop by as much as 12.5% just on the first three (3) weeks of the year. The sell-off was mainly due to the perceived weakening of the global economy amid the economic slowdown in China, and the plunging crude oil prices.

Bargain hunters began to surface right after as attractive

valuations became apparent. Increased economic activity due to election spending, and interest rate cuts in Japan and Europe propelled the market to bounce back. The peaceful conclusion of the country's national elections also contributed to the upbeat investor sentiment driving the market to sustain its rally. Foreign funds reemerged as net buyers, enabling the PSEi to record its 2016 peak at 8,102.30 in July.

Global concerns began to weigh down on investor sentiment throughout the second half of the year. Uncertainties brought by the Brexit; the escalating tension between the US and China; and the anticipation of the Fed rate hike, which finally happened in December; all contributed to the risk aversion in the equities market. Trump's presidency and his protectionist stance on trade also contributed to the negative sentiment given the significant role of the US in global trade.

The PSEi ended the year at 6,840.64, translating to a year to date decline of 1.6%.

### OUTLOOK

Despite the political headwinds, fundamentals of the Philippine economy continue to be sound. Volatility in the local equities market is expected to persist however, given the lingering uncertainties in the global front. Foreign fund flows remain as key risk to market performance especially with the Fed projected to have another round of policy rate hikes in 2017.



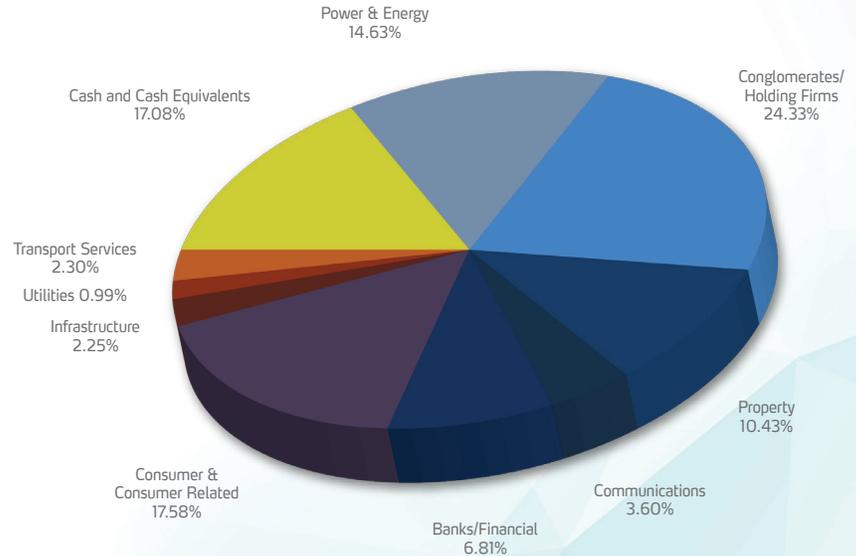
## EQUITY FUND STOCK LIST

As of December 31, 2016

AC	AYALA CORPORATION
AEV	ABOITIZ EQUITY VENTURES
AGI	ALLIANCE GLOBAL INC.
ALI	AYALA LAND INC.
AP	ABOITIZ POWER CORPORATION
BDO	BANCO DE ORO UNIVERSAL BANK
BPI	BANK OF THE PHILIPPINE ISLANDS
DMC	DMCI HOLDINGS, INC.
DNL	D AND L INDUSTRIES, INC.
EDC	ENERGY DEVELOPMENT CORPORATION
EEL	EEL CORPORATION
EW	EAST WEST BANKING CORPORATION
FDC	FILINVEST DEVELOPMENT CORPORATION
FGEN	FIRSTGEN CORPORATION
FLI	FILINVEST LAND INC.
FPH	FIRST PHILIPPINE HOLDINGS
GLO	GLOBE TELECOMS
GTCAP	GT CAPITAL HOLDINGS, INC.
ICT	INTERNATIONAL CONTAINER TERMINAL SERVICES, INC.
JFC	JOLIBEE FOODS CORPORATION
JGS	JG SUMMIT HOLDINGS, INC.
LPZ	LOPEZ HOLDINGS, INC.
MAXS	MAX'S GROUP, CORP.
MBT	METROBANK AND TRUST CO.
MEG	MEGAWORLD CORPORATION
MER	MANILA ELECTRIC CO.
MPI	METRO PACIFIC INVESTMENTS, CORP.
MWC	MANILA WATER CO.
MWIDE	MEGAWIDE CONSTRUCTION CORP.
PBB	PHILIPPINE BUSINESS BANK
PCOR	PETRON CORPORATION
PGOLD	PUREGOLD PRICE CLUB, INC.
PHEN	PHINMA ENERGY CORP.
RLC	ROBINSONS LAND CORPORATION
RRHI	ROBINSONS RETAIL HOLDINGS, INC.
SCC	SEMIRARA MINING CORPORATION
SECB	SECURITY BANK CORPORATION
SM	SM INVESTMENTS CORP.
SMC	SAN MIGUEL CORPORATION
SMPH	SM PRIME HOLDINGS, INC.
SSI	SSI GROUP, INC.
TEL	PLDT, INC.
URC	UNIVERSAL ROBINA CORPORATION
VLL	VISTA LAND AND LIFESCAPES, INC.

## EQUITY FUND

Fund Distribution by Market Value





## GROWTH FUND

### FUND PERFORMANCE

Growth Fund NAVPU closed 2016 with a NAVPU of Php1.6212, 3.85% up from the previous year. The Fund outperformed the Philippine Stock Exchange Index (PSEi), which declined by 1.6% for the year. Volatility of the Fund was lower at 14.9% versus the PSEi's 18.4% (Note: The volatility was based on the annualized standard deviation of daily returns of the portfolio and the PSEi).

The Fund remained overweight on companies exposed in consumer, retail, and power sectors, all of which were believed to outperform the market during the period. Cash position of the Fund was 16.0% to be defensive against expected volatility in 2017.

### MARKET REVIEW

Despite the panic in January wherein we saw neighboring equities markets in Asia being sold off heavily, the local bourse managed to rally as it tried to breach the 8,000 level once again. We saw the PSEi drop by as much as 12.5% just on the first three (3) weeks of the year. The sell-off was mainly due to the perceived weakening of the global economy amid the economic slowdown in China, and the plunging crude oil prices.

Bargain hunters began to surface right after as attractive valuations became apparent. Increased economic activity due to election spending, and interest rate cuts in Japan and Europe propelled the market to bounce back. The peaceful conclusion of the country's national elections also contributed to the upbeat investor sentiment driving the market to sustain its rally. Foreign funds reemerged as net buyers, enabling the PSEi to record its 2016 peak at 8,102.30 in July.

Global concerns began to weigh down on investor sentiment throughout the second half of the year. Uncertainties brought by the Brexit; the escalating tension between the US and China; and the anticipation of the Fed rate hike, which finally happened in December; all contributed to the risk aversion in the equities market. Trump's presidency and his protectionist stance on trade also contributed to the negative sentiment given the significant role of the US in global trade.

The PSEi ended the year at 6,840.64, translating to a year to date decline of 1.6%.

### OUTLOOK

Despite the political headwinds, fundamentals of the Philippine economy continue to be sound. Volatility in the local equities market is expected to persist however, given the lingering uncertainties in the global front. Foreign fund flows remain as key risk to market performance especially with the Fed projected to have another round of policy rate hikes in 2017.



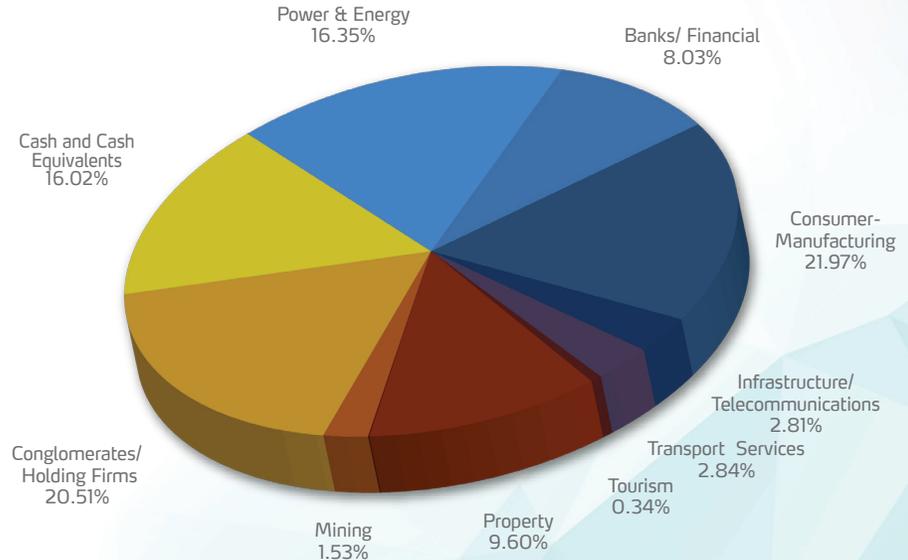
## GROWTH FUND STOCK LIST

As of December 31, 2016

AC	AYALA CORPORATION
AEV	ABOITIZ EQUITY VENTURES, INC.
AGI	ALLIANCE GLOBAL INC.
ALI	AYALA LAND, INC.
AP	ABOITIZ POWER CORPORATION
BDO	BANCO DE ORO UNIVERSAL BANK
BEL	BELLE CORPORATION
CIC	CONCEPCION INDUSTRIAL CORPORATION
DMC	DMCI HOLDINGS, INC.
DMPL	DEL MONTE PACIFIC LTD.
DNL	D AND L INDUSTRIES, INC.
EDC	ENERGY DEVELOPMENT CORPORATION
EEI	EEI CORPORATION
EW	EAST WEST BANKING CORPORATION
FGEN	FIRSTGEN CORPORATION
FPH	FIRST PHILIPPINE HOLDINGS
GLO	GLOBE TELECOMS
GTCAP	GT CAPITAL HOLDINGS, INC.
ICT	INTERNATIONAL CONTAINER TERMINAL SERVICES, INC.
JGS	JG SUMMIT HOLDINGS, INC.
LPZ	LOPEZ HOLDINGS
MAXS	MAX'S GROUP, INC.
MBT	METROPOLITAN BANK AND TRUST COMPANY
MEG	MEGAWORLD CORPORATION
MPI	METRO PACIFIC INVESTMENTS
MWIDE	MEGAWIDE CONSTRUCTION CORP.
NIKL	NICKEL ASIA CORP.
PBB	PHILIPPINE BUSINESS BANK
PCOR	PETRON CORPORATION
PGOLD	PUREGOLD PRICE CLUB, INC.
PHEN	PHINMA ENERGY CORP
PX	PHILEX MINING
PXP	PHILEX PETROLEUM CORPORATION
RFM	RFM CORPORATION
RLC	ROBINSONS LAND CORPORATION
RRHI	ROBINSONS RETAIL HOLDINGS, INC.
RW/M	TRAVELLERS INTERNATIONAL HOTEL GROUP, INC.
SCC	SEMIRARA MINING CORPORATION
SECB	SECURITY BANK CORPORATION
SM	SM INVESTMENTS CORP.
SMC	SAN MIGUEL CORPORATION
SMPH	SM PRIME CORPORATION
SSI	SSI GROUP, INC.
URC	UNIVERSAL ROBINA CORPORATION
VLL	VISTA LAND AND LIFESCAPES, INC.

## GROWTH FUND

Fund Distribution by Market Value





## SELECT EQUITIES FUND

### FUND PERFORMANCE

SEF NAVPU closed 2016 at Php0.8061, down by 5.81% from the previous year. The Fund lagged the Philippine Stock Exchange Index (PSEi), which declined by 1.6% for the year. Underperformance was mainly due to significant headwinds faced by some of the component stocks particularly in the telecommunications sector. SEF volatility was higher at 18.7% versus the PSEi's 18.4% mainly due to its concentration in fewer stocks (Note: The volatility was based on the annualized standard deviation of daily returns of the portfolio and the PSEi).

### MARKET REVIEW

Despite the panic in January wherein we saw neighboring equities markets in Asia being sold off heavily, the local bourse managed to rally as it tried to breach the 8,000 level once again. We saw the PSEi drop by as much as 12.5% just on the first three (3) weeks of the year. The sell-off was mainly due to the perceived weakening of the global economy amid the economic slowdown in China, and the plunging crude oil prices.

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The PSEi ended the year at 6,840.64, translating to a year to date decline of 1.6%.

### OUTLOOK

Despite the political headwinds, fundamentals of the Philippine economy continue to be sound. Volatility in the local equities market is expected to persist however, given the lingering uncertainties in the global front. Foreign fund flows remain as key risk to market performance especially with the Fed projected to have another round of policy rate hikes in 2017.



**COMPOSITION OF SEF AS OF  
29 DECEMBER 2016 IS AS FOLLOWS:**

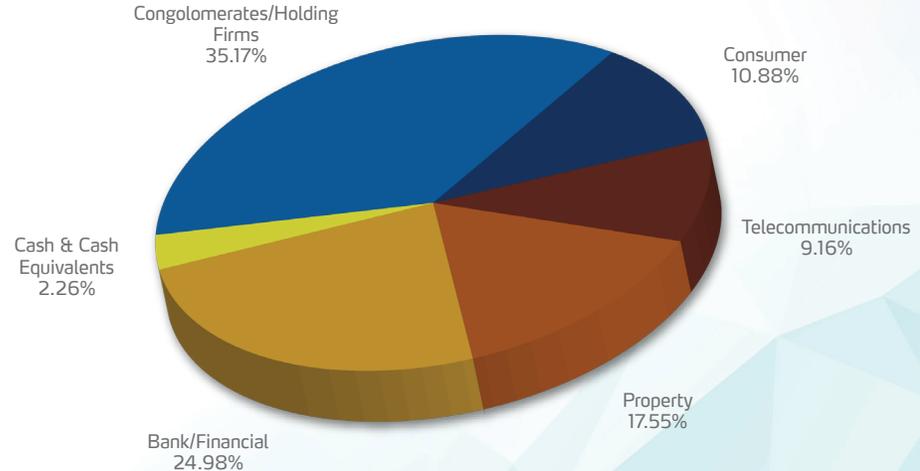
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<b>SECB</b>	SECURITY BANK CORPORATION
<b>SM</b>	SM INVESTMENTS CORP.
<b>SMPH</b>	SM PRIME HOLDINGS, INC.
<b>TEL</b>	PLDT, INC.
<b>URC</b>	UNIVERSAL ROBINA CORPORATION

**RESERVE LIST**

<b>AC</b>	ABOITIZ EQUITY VENTURES, INC.
<b>GLO</b>	ABOITIZ POWER CORPORATION
<b>GTCAP</b>	INT'L CONTAINER TERMINAL SERVICES, INC.
<b>JFC</b>	MANILA ELECTRIC COMPANY
<b>JGS</b>	ROBINSONS LAND CORPORATION

## SELECT EQUITIES FUND

Fund Distribution by Market Value





## GUARDIAN FUND (SELECT EQUITIES FUND 2)

### FUND PERFORMANCE

SEF2 NAVPU closed 2016 at Php0.7341, down by 8.2% since it was launched on 17 June 2016. The Fund outperformed the Philippine Stock Exchange Index (PSEi), which declined by 10.3% for the comparable period. SEF2 volatility was lower at 7.5% versus the PSEi's 16.8% for the comparable period, mainly due to its elevated cash position in anticipation of a weak market ahead (Note: The volatility was based on the annualized standard deviation of daily returns of the portfolio and the PSEi).

### MARKET REVIEW

Despite the panic in January wherein we saw neighboring equities markets in Asia being sold off heavily, the local bourse managed to rally as it tried to breach the 8,000 level once again. We saw the PSEi drop by as much as 12.5% just on the first three (3) weeks of the year. The sell-off was mainly due to the perceived weakening of the global economy amid the economic slowdown in China, and the plunging crude oil prices.

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The PSEi ended the year at 6,840.64, translating to a year to date decline of 1.6%.

### OUTLOOK

Despite the political headwinds, fundamentals of the Philippine economy continue to be sound. Volatility in the local equities market is expected to persist however, given the lingering uncertainties in the global front. Foreign fund flows remain as key risk to market performance especially with the Fed projected to have another round of policy rate hikes in 2017.



## BALANCED FUND

### FUND PERFORMANCE

For the year ended 2016, the Balanced Fund posted a Net Asset Value Per Unit (NAVPU) of Php2.829745, which translated to a growth of 2.54% from previous year. The diversified portfolio of the balanced fund is comprised of investments in the Equity and Fixed-Income Fund. The strategic allocation of the fund allows it to maximize earnings from the stock market and at the same time enjoy the relative safety of less volatile fixed income investments.

### MARKET REVIEW AND OUTLOOK

In 2016, the equities market embarked on a roller coaster ride as the Philippine Stock Exchange Index (PSEi) slid by around 12.5% at the early part of the year from heavy selling on account of the perceived weakening of the global economy, an economic slowdown in China and plunging crude oil prices. As the dust settled, bargain hunters emerged, enticed by attractive valuations. Being a national election year, the country benefited from increased economic activities. The peaceful outcome of the elections and interest rate cuts in other parts of the world propelled the PSEi to a new high of 8,102 by midyear. Towards the end of the year, the ride shifted downward as investors reduced risk assets due to the heightened uncertainty brought about by several factors such as Brexit, U.S. – China tensions, the protectionist stance of the Trump presidency and a looming Fed rate hike.

In the local bond market, the Bangko Sentral ng Pilipinas held interest rates steady during the early part of the year, influenced by the U.S. decision to support low rates warranting only gradual increases. Prior to the national elections, wary investors trimmed their positions, reducing risk. Nonetheless, buying interest quickly returned as the elections turned out to be peaceful and market players returned to the market favoring the mid part of the yield curve. However, another vote caused market jitters and this was the “Brexit” vote that surprised many with its outcome, causing a bid to safety. Following the movements of U.S. treasuries, local bonds recorded a significant drop in yields. Further, strong Philippine economic numbers provided additional support before the new supply of Retail Treasury Bonds flooded the market, causing market players to price this in. As the Fed raised interest rates in December, the bond market continued to face downward pressure after the Fed signaled a faster pace of rate tightening.

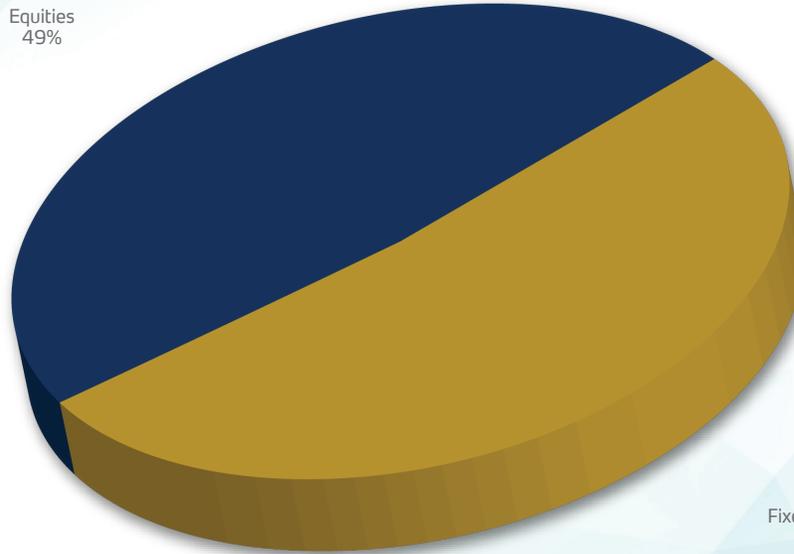
The Philippines continues to enjoy sound economic fundamentals, despite some political headwinds. However, external risks remain amid the recovering global environment. These uncertainties may lead to enhanced volatility in the local equity and bond markets moving forward.



## BALANCED FUND

Fund Distribution by Market Value

Equities  
49%



Fixed Income  
51%



## DOLLAR FIXED INCOME FUND

### FUND PERFORMANCE

In 2016 ROPs were on a steady course with prices ascending until just about after the first half. However, the positive trend reversed towards yearend as prices stumbled on heightened market volatility due to interest rate expectations, U.S. presidential election results as well as global external shocks. The Dollar Fixed Income Fund, consisting mainly of Philippine sovereign bonds ended the year with a Net Asset Value Per Unit (NAVPU) of USD1.490371, down (0.88%) year-on-year.

### MARKET REVIEW

The year 2016 was an eventful year that had its share of ups and downs. ROPs prices continued to track the movements of U.S. Treasuries, enjoying highs as investors flocked to safe haven assets during uncertain periods. These were when the world's central banks adopted monetary easing policies and the Fed took a dovish outlook, influenced by financial market turmoil and global weakness. Around midyear, BREXIT caught many off guard and tempered the risk appetite of the market as concerns surfaced. Yet another surprise was the victory of President Donald Trump in the U.S. elections in November. This outcome and the uncertainty of the impact of President Trump's hard-line economic policies on the U.S. and the global economy triggered a massive sell-off in USTs, causing prices to plummet. Lastly, the Fed finally delivered on its

forecast and raised interest rates by 25 basis points at its December FOMC meeting as supported by improving U.S. figures.

Domestically, the Philippines continued to enjoy favorable economic fundamentals. For the full year 2016, the economy grew by 6.8%, supported by fiscal stimuli, resilient OFW remittance growth, an expanding outsourcing industry and rising investments. The upbeat sentiment on the Philippine economy provided support for the new ROP 41 issued in March, which saw huge interest from the market. Towards midyear, the country held its own presidential elections and witnessed Rodrigo Duterte win by a landslide. Investors watched closely as the new administration carried on the macroeconomic policies from its predecessor. Notwithstanding the positive local backdrop, there were still headwinds that the country faced during the year. Some of these were the impact of El Niño on agriculture, a precarious power supply situation, moderation in both remittances and BPO revenues, as well as mounting concern over extra-judicial killings in the war against drugs.

### OUTLOOK

Moving forward, emerging markets are expected to continue taking its cue from the developments in the U.S. markets, especially in the timing and frequency of interest rate hikes by the Fed. Adding volatility to the mix are other external factors such as global growth issues and geopolitical risks that will keep the market on the defensive.

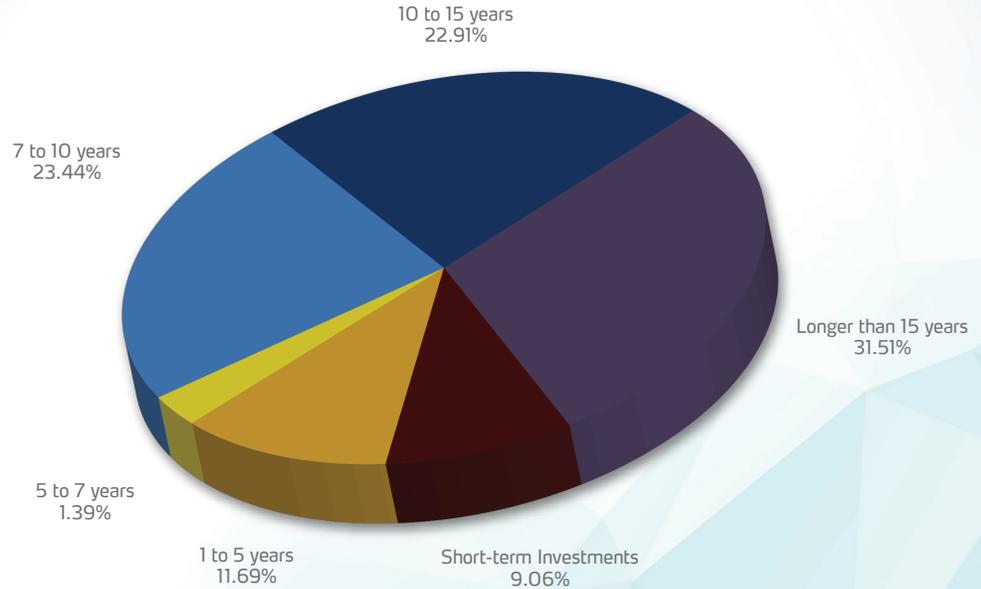


## DOLLAR FIXED INCOME FUND

Fund Distribution by Market Value

### TOP HOLDINGS

- Republic of the Philippines 2034
- Republic of the Philippines 2031
- Republic of the Philippines 2030
- Republic of the Philippines 2041
- Republic of the Philippines 2024





### THE BOARD OF TRUSTEES

THE INSULAR LIFE ASSURANCE COMPANY, LTD.

### OPINION

We have audited the accompanying financial statements of Insular Life Wealth Series Funds (the "Funds"), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in net assets attributable to unitholders, and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Insular Life Wealth Series Funds as at December 31, 2016 and 2015, and its financial performance and its 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 Financial Statements section of our report. We are

independent of the Funds 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 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.

### RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of 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 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 Funds or to cease operations, or has no realistic alternative but to do so.



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

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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 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 Funds to cease to continue as a going concern.



- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

### RESTRICTION ON DISTRIBUTION AND USE

This report is intended solely for the information and use of the board of trustees and management of The Insular Life Assurance Company, Ltd. and for submission to the Insurance Commission and should not be used for any other purpose.

**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



December 31, 2016										
Peso Investment Funds										
	Balanced Fund	Fixed Income Fund	Equity Fund	Growth Fund	Select Equities Fund	Select Equities Fund 2	Peso Money Market Fund	Asian Emerging Companies Fund	Philippine Equity Advantage Fund Tranche 1	Philippine Equity Advantage Fund Tranche 2
<b>ASSETS</b>										
Cash and cash equivalents (Note 3)	₱132,985	₱167,786,679	₱1,087,431,524	₱769,104,515	₱99,213,025	₱430,899,853	₱149,532,793	₱-	₱-	₱-
Financial assets at fair value through profit or loss (Note 4):										
Debt securities	-	1,433,043,872	-	-	-	-	-	261,928,570	272,426,000	132,885,000
Equity securities	-	-	5,193,605,622	4,019,869,870	4,293,090,332	566,903,538	-	-	-	-
Investment in fixed income fund	736,627,398	-	-	-	-	-	-	-	-	-
Investment in equity fund	696,154,244	-	-	-	-	-	-	-	-	-
Receivables (Note 5):										
Subscriptions receivable	694,556	1,203,726	9,229,033	1,669,108	-	273,534	977,573	-	-	-
Investment income receivable	-	14,820,589	2,579,728	2,361,677	3,788,697	264,421	258,161	-	-	-
Other receivables	1,000	1,466,081	1,481,461	969	-	1,193	-	-	-	-
	1,433,610,183	1,618,320,947	6,294,327,368	4,793,006,139	4,396,092,054	998,342,539	150,768,527	261,928,570	272,426,000	132,885,000
<b>LIABILITIES (Note 6)</b>										
Accounts payable	2,412,356	1,309	19,228,981	3,886,944	873,727	4,784,833	39,364,823	-	-	-
Accrued and other liabilities	1,277,547	2,218,715	11,276,702	8,698,586	6,982,416	1,814,775	54,462	-	-	-
	3,689,903	2,220,024	30,505,683	12,585,530	7,856,143	6,599,608	39,419,285	-	-	-
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>										
	₱1,429,920,280	₱1,616,100,923	₱6,263,821,685	₱4,780,420,609	₱4,388,235,911	₱991,742,931	₱111,349,242	₱261,928,570	₱272,426,000	₱132,885,000
Number of Units	505,333,200	862,936,950	1,412,383,744	2,948,713,230	5,443,896,591	1,350,995,705	110,363,069	375,471	305,000	150,000
Net Asset Value Per Unit	₱2.83	₱1.87	₱4.43	₱1.62	₱0.81	₱0.73	₱1.01	₱697.60	₱893.20	₱885.90

See accompanying Notes to Financial Statements.



December 31, 2016										
Dollar Investment Funds										
	Fixed Income Fund	Dollar Money Market Fund	China Prime Fund Tranche 1	China Prime Fund Tranche 2	Asia Dynamic Equity Fund	Asian Emerging Companies Fund	Euro Blue Chips Dollar Fund	Total Peso and Dollar Investment Funds	Eliminating Entries	Combined
<b>ASSETS</b>										
Cash and cash equivalents (Note 3)	₱220,145,344	₱57,308,501	₱-	₱-	₱-	₱-	₱-	₱2,981,555,219	₱-	₱2,981,555,219
Financial assets at fair value through profit or loss (Note 4):										
Debt securities	2,693,192,522	-	191,202,219	82,814,113	139,964,567	431,380,580	349,348,282	5,988,185,725	-	5,988,185,725
Equity securities	-	-	-	-	-	-	-	14,073,469,362	-	14,073,469,362
Investment in fixed income fund	-	-	-	-	-	-	-	736,627,398	(736,627,398)	-
Investment in equity fund	-	-	-	-	-	-	-	696,154,244	(696,154,244)	-
Receivables (Note 5):										
Subscriptions receivable	351,801	-	-	-	-	-	-	14,399,331	(694,556)	13,704,775
Investment income receivable	50,107,250	48,911	-	-	-	-	-	74,229,434	-	74,229,434
Other receivables	1,246	-	-	-	-	-	-	2,951,950	(2,932,162)	19,788
	2,963,798,163	57,357,412	191,202,219	82,814,113	139,964,567	431,380,580	349,348,282	24,567,572,663	(1,436,408,360)	23,131,164,303
<b>LIABILITIES (Note 6)</b>										
Accounts payable	-	4,390	-	-	-	-	-	70,557,363	(2,412,356)	68,145,007
Accrued and other liabilities	4,116,865	25,017	-	-	-	-	-	36,465,085	(1,214,362)	35,250,723
	4,116,865	29,407	-	-	-	-	-	107,022,448	(3,626,718)	103,395,730
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>										
	₱2,959,681,298	₱57,328,005	₱191,202,219	₱82,814,113	₱139,964,567	₱431,380,580	₱349,348,282	₱24,460,550,215	(₱1,432,781,642)	₱23,027,768,573
<b>Number of Units</b>	39,866,471	1,139,686	4,000	1,750	3,000	10,000	7,550			
<b>Net Asset Value Per Unit</b>	₱74.24	₱ 50.30	₱47,800.55	₱47,322.35	₱46,654.86	₱43,138.06	₱46,271.30			

See accompanying Notes to Financial Statements.



December 31, 2015

Peso Investment Funds

	Balanced Fund	Fixed Income Fund	Equity Fund	Growth Fund	Select Equities Fund	Strategic Resources Fund	Asian Emerging Companies Fund	Philippine Equity Advantage Fund Tranche 1	Philippine Equity Advantage Fund Tranche 2	Total Peso Investment Funds
<b>ASSETS</b>										
Cash and cash equivalents (Note 3)	P133,762	P90,486,377	P533,510,659	P238,905,636	P198,321,415	P-	P-	P-	P-	P1,061,357,849
Financial assets at fair value through profit or loss (Note 4):										
Debt securities	-	1,262,154,459	-	-	-	314,080,000	286,371,732	268,949,000	130,920,000	2,262,475,191
Equity securities	-	-	4,343,211,102	4,310,703,440	4,256,176,614	-	-	-	-	12,910,091,156
Investment in fixed income fund	664,216,371	-	-	-	-	-	-	-	-	664,216,371
Investment in equity fund	851,809,866	-	-	-	-	-	-	-	-	851,809,866
Receivables (Note 5):										
Subscriptions receivable	-	358,323	2,139,940	-	2,819,989	-	-	-	-	5,318,252
Investment income receivable	-	9,681,768	1,826,162	965,746	4,191,588	-	-	-	-	16,665,264
Other receivables	487,978	1,003,991	1,006,144	299	-	-	-	-	-	2,498,412
	1,516,647,977	1,363,684,918	4,881,694,007	4,550,575,121	4,461,509,606	314,080,000	286,371,732	268,949,000	130,920,000	17,774,432,361
<b>LIABILITIES (Note 6)</b>										
Accounts payable	2,204,778	244,798	2,241,758	1,698,744	-	-	-	-	-	6,390,078
Accrued and other liabilities	429,843	2,122,857	9,668,656	9,064,151	7,790,504	-	-	-	-	29,076,011
	2,634,621	2,367,655	11,910,414	10,762,895	7,790,504	-	-	-	-	35,466,089
<b>NET ASSETS</b>										
<b>ATTRIBUTABLE TO UNITHOLDERS</b>										
	P1,514,013,356	P1,361,317,263	P4,869,783,593	P4,539,812,226	P4,453,719,102	P314,080,000	P286,371,732	P268,949,000	P130,920,000	P17,738,966,272
Number of Units	549,160,036	733,864,802	1,133,285,592	2,913,588,110	5,175,431,573	325,000	375,471	305,000	150,000	
Net Asset Value Per Unit	P2.76	P1.85	P4.30	P1.56	P0.86	P966.40	P762.70	P881.80	P872.80	

See accompanying Notes to Financial Statements.



December 31, 2015

Dollar Investment Funds

	Fixed Income Fund	China Prime Fund Tranche 1	China Prime Fund Tranche 2	Asia Dynamic Equity Fund	Asian Emerging Companies Fund	Euro Blue Chips Dollar Fund	Total Dollar Investment Funds	Total Peso and Dollar Investment Funds	Eliminating Entries	Combined
<b>ASSETS</b>										
Cash and cash equivalents (Note 3)	₱377,379,008	₱—	₱—	₱—	₱—	₱—	₱377,379,008	₱1,438,736,857	₱—	₱1,438,736,857
Financial assets at fair value through profit or loss (Note 4):										
Debt securities	1,649,709,571	181,872,096	78,537,286	131,861,986	399,401,688	320,421,749	2,761,804,376	5,024,279,567	—	5,024,279,567
Equity securities	—	—	—	—	—	—	—	12,910,091,156	—	12,910,091,156
Investment in fixed income fund	—	—	—	—	—	—	—	664,216,371	(664,216,371)	—
Investment in equity fund	—	—	—	—	—	—	—	851,809,866	(851,809,866)	—
Receivables (Note 5):										
Subscriptions receivable	75,185	—	—	—	—	—	75,185	5,393,437	—	5,393,437
Investment income receivable	30,688,453	—	—	—	—	—	30,688,453	47,353,717	—	47,353,717
Other receivables	283	—	—	—	—	—	283	2,498,695	(2,494,960)	3,735
	2,057,852,500	181,872,096	78,537,286	131,861,986	399,401,688	320,421,749	3,169,947,305	20,944,379,666	(1,518,521,197)	19,425,858,469
<b>LIABILITIES (Note 6)</b>										
Accounts payable	10,502,688	—	—	—	—	—	10,502,688	16,892,766	(2,204,778)	14,687,988
Accrued and other liabilities	3,189,367	—	—	—	—	—	3,189,367	32,265,378	(290,182)	31,975,196
	13,692,055	—	—	—	—	—	13,692,055	49,158,144	(2,494,960)	46,663,184
<b>NET ASSETS</b>										
ATTRIBUTABLE TO UNITHOLDERS	₱2,044,160,445	₱181,872,096	₱78,537,286	₱131,861,986	₱399,401,688	₱320,421,749	₱3,156,255,250	₱20,895,221,522	(₱1,516,026,237)	₱19,379,195,285
Number of Units	28,825,041	4,000	1,750	3,000	10,000	7,550				
Net Asset Value Per Unit	₱70.92	₱45,468.02	₱44,878.45	₱43,954.00	₱39,940.17	₱42,439.97				

See accompanying Notes to Financial Statements.



Year Ended December 31, 2016

Peso Investment Funds

	Balanced Fund	Fixed Income Fund	Equity Fund	Growth Fund	Select Equities Fund	Select Equities Fund 2	Peso Money Market Fund	Strategic Resources Fund	Asian Emerging Companies Fund	Philippine Equity Advantage Fund Tranche 1	Philippine Equity Advantage Fund Tranche 2
<b>INCOME</b>											
Interest income - deposits (Note 3)	₱-	₱369,674	₱6,531,945	₱4,334,350	₱383,200	₱1,047,748	₱1,800,052	₱-	₱-	₱-	₱-
Interest income - debt securities (Note 4)	-	65,681,736	-	-	-	-	-	-	-	-	-
Dividends (Note 5)	-	-	86,475,192	70,898,191	90,347,705	1,461,634	-	-	-	-	-
	-	66,051,410	93,007,137	75,232,541	90,730,905	2,509,382	1,800,052	-	-	-	-
<b>EXPENSES</b>											
Management fees (Note 7)	-	22,563,700	113,380,763	96,843,641	83,369,314	8,911,066	447,311	-	-	-	-
Administration fees (Note 7)	847,704	846,686	3,137,321	2,682,550	2,641,778	254,055	59,726	-	-	-	-
Custody fees (Note 7)	-	244,115	1,137,422	959,651	1,192,327	130,539	-	-	-	-	-
Government taxes and duties	-	13,207,683	147	292	179	-	-	-	-	-	-
Professional fees	-	74,895	74,895	74,895	74,548	32,500	-	-	-	-	-
Transaction costs	777	88,756	1,115,934	763,171	66,500	207,862	308,714	-	-	-	-
	848,481	37,025,835	118,846,482	101,324,200	87,344,646	9,536,022	815,751	-	-	-	-
<b>OTHER INCOME (LOSSES)</b>											
Net change in unrealized gain (loss)											
on investment	(120,106,278)	(26,240,840)	(24,260,075)	101,924,504	(150,876,502)	(76,512,063)	-	46,118,215	(24,443,162)	3,477,000	1,965,000
Realized gain (loss) on investment	181,504,442	4,204,661	191,379,141	131,080,462	(139,929,293)	-	-	-	-	-	-
Foreign currency gain	-	-	-	-	-	-	-	-	-	-	-
	61,398,164	(22,036,179)	167,119,066	233,004,966	(290,805,795)	(76,512,063)	-	46,118,215	(24,443,162)	3,477,000	1,965,000
<b>NET INCREASE (DECREASE)</b>											
<b>IN NET ASSETS</b>											
<b>ATTRIBUTABLE TO</b>											
<b>UNITHOLDERS RESULTING</b>											
<b>FROM OPERATIONS AND</b>											
<b>OTHER COMPREHENSIVE</b>											
<b>INCOME</b>	<b>₱60,549,683</b>	<b>₱6,989,396</b>	<b>₱141,279,721</b>	<b>₱206,913,307</b>	<b>(₱287,419,536)</b>	<b>(₱83,538,703)</b>	<b>₱984,301</b>	<b>₱46,118,215</b>	<b>(₱24,443,162)</b>	<b>₱3,477,000</b>	<b>₱1,965,000</b>

See accompanying Notes to Financial Statements.



Year Ended December 31, 2016

Dollar Investment Funds

	Fixed Income Fund	Dollar Money Market Fund	China Prime Fund Tranche 1	China Prime Fund Tranche 2	Asia Dynamic Equity Fund	Asian Emerging Companies Fund	Euro Blue Chips Dollar Fund	Total Peso and Dollar Investment Funds	Eliminating Entries	Combined
<b>INCOME</b>										
Interest income - deposits (Note 3)	₱1,890,792	₱ 640,712	₱-	₱-	₱-	₱-	₱-	₱16,998,473	₱-	₱16,998,473
Interest income - debt securities (Note 4)	114,199,030	-	-	-	-	-	-	179,880,766	-	179,880,766
Dividends (Note 5)	-	-	-	-	-	-	-	249,182,722	-	249,182,722
	116,089,822	640,712	-	-	-	-	-	446,061,961	-	446,061,961
<b>EXPENSES</b>										
Management fees (Note 7)	41,501,352	173,583	-	-	-	-	-	367,190,730	-	367,190,730
Administration fees (Note 7)	1,521,717	22,356	-	-	-	-	-	12,013,893	-	12,013,893
Custody fees (Note 7)	676,902	-	-	-	-	-	-	4,340,956	-	4,340,956
Government taxes and duties	-	-	-	-	-	-	-	13,208,301	-	13,208,301
Professional fees	75,791	-	-	-	-	-	-	407,524	-	407,524
Transaction costs	314,871	44,388	-	-	-	-	-	2,910,973	-	2,910,973
	44,090,633	240,327	-	-	-	-	-	400,072,377	-	400,072,377
<b>OTHER INCOME (LOSSES)</b>										
Net change in unrealized gain (loss) on investment	(153,909,903)	-	(830,122)	(123,811)	665,040	9,055,872	10,362,606	(403,734,519)	120,106,278	(283,628,241)
Realized gain (loss) on investment	14,418,983	-	-	-	-	-	-	382,658,396	(181,504,442)	201,153,954
Foreign currency gain	114,720,194	-	10,160,245	4,400,638	7,437,541	22,923,020	18,563,927	178,205,565	-	178,205,565
	(24,770,726)	-	9,330,123	4,276,827	8,102,581	31,978,892	28,926,533	157,129,442	(61,398,164)	95,731,278
<b>NET INCREASE (DECREASE) IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS RESULTING FROM OPERATIONS AND OTHER COMPREHENSIVE INCOME</b>										
	₱47,228,463	₱400,385	₱9,330,123	₱4,276,827	₱8,102,581	₱31,978,892	₱28,926,533	₱203,119,026	(₱61,398,164)	₱141,720,862

See accompanying Notes to Financial Statements.



Year Ended December 31, 2015									
Peso Investment Funds									
	Balanced Fund	Fixed Income Fund	Equity Fund	Growth Fund	Select Equities Fund	Strategic Resources Fund	Asian Emerging Companies Fund	Philippine Equity Advantage Fund Tranche 1	Philippine Equity Advantage Fund Tranche 2
<b>INCOME</b>									
Interest income - deposits (Note 3)	P17	P323,663	P881,794	P598,299	P403,686	P-	P-	P-	P-
Interest income - debt securities (Note 4)	-	58,705,160	-	-	-	-	-	-	-
Dividends (Note 5)	-	-	76,986,866	81,865,921	70,465,893	-	-	-	-
	17	59,028,823	77,868,660	82,464,220	70,869,579	-	-	-	-
<b>EXPENSES</b>									
Management fees (Note 7)	-	20,525,231	97,551,617	103,391,148	63,468,391	-	-	-	-
Administration fees (Note 7)	881,804	772,842	2,702,919	2,863,507	2,012,721	-	-	-	-
Custody fees (Note 7)	-	214,226	1,050,054	1,093,356	1,124,718	-	-	-	-
Government taxes and duties	3	11,064,727	258	79	338	-	-	-	-
Professional fees	-	72,074	72,074	72,074	66,916	-	-	-	-
Transaction costs	5,720	76,843	180,852	114,516	90,486	-	-	-	-
	887,527	32,725,943	101,557,774	107,534,680	66,763,570	-	-	-	-
<b>OTHER INCOME (LOSSES)</b>									
Net change in unrealized gain (loss) on investment	(121,901,350)	(35,706,525)	(589,036,348)	(731,466,785)	(685,546,712)	(8,710,000)	(23,391,843)	(5,978,000)	(3,105,000)
Realized gain (loss) on investment	33,248,230	683,118	178,466,825	186,851,696	(9,689,414)	-	-	-	-
Foreign currency gain	-	-	-	-	-	-	-	-	-
	(88,653,120)	(35,023,407)	(410,569,523)	(544,615,089)	(695,236,126)	(8,710,000)	(23,391,843)	(5,978,000)	(3,105,000)
<b>NET INCREASE (DECREASE) IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS RESULTING FROM OPERATIONS AND OTHER COMPREHENSIVE INCOME</b>									
	(P89,540,630)	(P8,720,527)	(P434,258,637)	(P569,685,549)	(P691,130,117)	(P8,710,000)	(P23,391,843)	(P5,978,000)	(P3,105,000)

See accompanying Notes to Financial Statements.



Year Ended December 31, 2015

Dollar Investment Funds

	Fixed Income Fund	Greater China Fund	Strategic Energy Fund	China Prime Fund Tranche 1	China Prime Fund Tranche 2	Asia Dynamic Equity Fund	Asian Emerging Companies Fund	Euro Blue Chips Dollar Fund	Total Peso and Dollar Investment Funds	Eliminating Entries	Combined
<b>INCOME</b>											
Interest income - deposits (Note 3)	₱3,388,962	₱-	₱-	₱-	₱-	₱-	₱-	₱-	₱5,596,421	₱-	₱5,596,421
Interest income - debt securities (Note 4)	75,573,604	-	-	-	-	-	-	-	134,278,764	-	134,278,764
Dividends (Note 5)	-	-	-	-	-	-	-	-	229,318,680	-	229,318,680
	78,962,566	-	-	-	-	-	-	-	369,193,865	-	369,193,865
<b>EXPENSES</b>											
Management fees (Note 7)	28,631,259	-	-	-	-	-	-	-	313,567,646	-	313,567,646
Administration fees (Note 7)	1,049,813	-	-	-	-	-	-	-	10,283,606	-	10,283,606
Custody fees (Note 7)	314,480	-	-	-	-	-	-	-	3,796,834	-	3,796,834
Government taxes and duties	-	-	-	-	-	-	-	-	11,065,405	-	11,065,405
Professional fees	71,247	-	-	-	-	-	-	-	354,385	-	354,385
Transaction costs	329,197	-	-	-	-	-	-	-	797,614	-	797,614
	30,395,996	-	-	-	-	-	-	-	339,865,490	-	339,865,490
<b>OTHER INCOME (LOSSES)</b>											
Net change in unrealized gain (loss) on investment	(36,626,681)	5,730,677	32,437,848	(2,016,688)	(530,942)	(1,646,367)	(14,455,909)	(8,522,517)	(2,230,473,142)	121,901,350	(2,108,571,792)
Realized gain (loss) on investment	(888,406)	-	-	-	-	-	-	-	388,672,049	(33,248,230)	355,423,819
Foreign currency gain	96,478,815	18,917,387	43,983,578	9,828,944	4,244,404	7,126,239	21,584,932	17,316,606	219,480,905	-	219,480,905
	58,963,728	24,648,064	76,421,426	7,812,256	3,713,462	5,479,872	7,129,023	8,794,089	(1,622,320,188)	88,653,120	(1,533,667,068)
<b>NET INCREASE (DECREASE) IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS RESULTING FROM OPERATIONS AND OTHER COMPREHENSIVE INCOME</b>											
	₱107,530,298	₱24,648,064	₱76,421,426	₱7,812,256	₱3,713,462	₱5,479,872	₱7,129,023	₱8,794,089	(₱1,592,991,813)	₱88,653,120	(₱1,504,338,693)

See accompanying Notes to Financial Statements.



FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Peso Investment Funds											
	Balanced Fund	Fixed Income Fund	Equity Fund	Growth Fund	Select Equities Fund	Select Equities Fund 2	Peso Money Market Fund	Strategic Resources Fund	Asian Emerging Companies Fund	Philippine Equity Advantage Fund Tranche 1	Philippine Equity Advantage Fund Tranche 2
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AT DECEMBER 31, 2014</b>	<b>₱1,616,829,151</b>	<b>₱1,375,445,558</b>	<b>₱5,082,722,411</b>	<b>₱5,929,855,449</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱322,790,000</b>	<b>₱309,763,575</b>	<b>₱274,927,000</b>	<b>₱134,025,000</b>
Contributions received from units issued	74,423,822	251,647,304	926,119,788	190,126,166	5,179,346,976	-	-	-	-	-	-
Redemptions during the year	(87,698,987)	(257,055,072)	(704,799,969)	(1,010,483,840)	(34,497,757)	-	-	-	-	-	-
	(13,275,165)	(5,407,768)	221,319,819	(820,357,674)	5,144,849,219	-	-	-	-	-	-
Net increase (decrease) in net assets attributable to unitholders resulting from operations	(89,540,630)	(8,720,527)	(434,258,637)	(569,685,549)	(691,130,117)	-	-	(8,710,000)	(23,391,843)	(5,978,000)	(3,105,000)
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AT DECEMBER 31, 2015</b>	<b>1,514,013,356</b>	<b>1,361,317,263</b>	<b>4,869,783,593</b>	<b>4,539,812,226</b>	<b>4,453,719,102</b>	<b>-</b>	<b>-</b>	<b>314,080,000</b>	<b>286,371,732</b>	<b>268,949,000</b>	<b>130,920,000</b>
Contributions received from units issued	248,298,206	439,378,554	2,181,613,739	641,815,800	535,924,854	1,085,331,373	508,863,562	-	-	-	-
Redemptions during the year	(392,940,965)	(191,584,290)	(928,855,368)	(608,120,724)	(313,988,509)	(10,049,739)	(398,498,621)	(360,198,215)	-	-	-
	(144,642,759)	247,794,264	1,252,758,371	33,695,076	221,936,345	1,075,281,634	110,364,941	(360,198,215)	-	-	-
Net increase (decrease) in net assets attributable to unitholders resulting from operations	60,549,683	6,989,396	141,279,721	206,913,307	(287,419,536)	(83,538,703)	984,301	46,118,215	(24,443,162)	3,477,000	1,965,000
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AT DECEMBER 31, 2016</b>	<b>₱1,429,920,280</b>	<b>₱1,616,100,923</b>	<b>₱6,263,821,685</b>	<b>₱4,780,420,609</b>	<b>₱4,388,235,911</b>	<b>₱991,742,931</b>	<b>₱111,349,242</b>	<b>₱-</b>	<b>₱261,928,570</b>	<b>₱272,426,000</b>	<b>₱132,885,000</b>

See accompanying Notes to Financial Statements.



FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Dollar Investment Funds										
	Fixed Income Fund	Dollar Money Market Fund	China Prime Fund Tranche 1	China Prime Fund Tranche 2	Asia Dynamic Equity Fund	Asian Emerging Companies Fund	Euro Blue Chips Dollar Fund	Total Peso and Dollar Investment Funds	Eliminating Entries	Combined
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AT DECEMBER 31, 2014</b>	<b>₱ 1,688,738,813</b>	<b>₱-</b>	<b>₱174,059,840</b>	<b>₱74,823,824</b>	<b>₱126,382,114</b>	<b>₱392,272,665</b>	<b>₱311,627,660</b>	<b>₱17,814,263,060</b>	<b>(₱1,617,954,522)</b>	<b>₱16,196,308,538</b>
Contributions received from units issued	403,586,920	—	—	—	—	—	—	7,025,250,976	(74,423,822)	6,950,827,154
Redemptions during the year	(155,695,586)	—	—	—	—	—	—	(2,250,231,211)	87,698,987	(2,162,532,224)
	247,891,334	—	—	—	—	—	—	4,775,019,765	13,275,165	4,788,294,930
Net increase (decrease) in net assets attributable to unitholders resulting from operations	107,530,298	—	7,812,256	3,713,462	5,479,872	7,129,023	8,794,089	(1,694,061,303)	88,653,120	(1,605,408,183)
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AT DECEMBER 31, 2015</b>	<b>2,044,160,445</b>	<b>—</b>	<b>181,872,096</b>	<b>78,537,286</b>	<b>131,861,986</b>	<b>399,401,688</b>	<b>320,421,749</b>	<b>20,895,221,522</b>	<b>(1,516,026,237)</b>	<b>19,379,195,285</b>
Contributions received from units issued	1,251,273,445	62,385,265	—	—	—	—	—	6,954,884,798	(248,298,206)	6,706,586,592
Redemptions during the year	(382,981,055)	(5,457,645)	—	—	—	—	—	(3,592,675,131)	392,940,965	(3,199,734,166)
	868,292,390	56,927,620	—	—	—	—	—	3,362,209,667	144,642,759	3,506,852,426
Net increase (decrease) in net assets attributable to unitholders resulting from operations	47,228,463	400,385	9,330,123	4,276,827	8,102,581	31,978,892	28,926,533	203,119,026	(61,398,164)	141,720,862
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AT DECEMBER 31, 2016</b>	<b>₱2,959,681,298</b>	<b>₱57,328,005</b>	<b>₱191,202,219</b>	<b>₱82,814,113</b>	<b>₱139,964,567</b>	<b>₱431,380,580</b>	<b>₱349,348,282</b>	<b>₱24,460,550,215</b>	<b>(₱1,432,781,642)</b>	<b>₱23,027,768,573</b>

See accompanying Notes to Financial Statements.



FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Year Ended December 31, 2016										
	Peso Investment Funds										
	Balanced Fund	Fixed Income Fund	Equity Fund	Growth Fund	Select Equities Fund	Select Equities Fund 2	Peso Money Market Fund	Strategic Resources Fund	Asian Emerging Companies Fund	Philippine Equity Advantage Fund Tranche 1	Philippine Equity Advantage Fund Tranche 2
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>											
Net increase (decrease) in net assets attributable to unitholders resulting from operations	₱60,549,683	₱6,989,396	₱141,279,721	₱206,913,307	(₱287,419,536)	(₱83,538,703)	₱984,301	₱46,118,215	(₱24,443,162)	₱3,477,000	₱1,965,000
Adjustments for (gain) loss on increase/ decrease in value and sale of investments - net	(61,398,164)	22,036,179	(167,119,066)	(233,004,966)	290,805,795	76,512,063	–	(46,118,215)	24,443,162	(3,477,000)	(1,965,000)
Operating income (loss) before working capital changes	(848,481)	29,025,575	(25,839,345)	(26,091,659)	3,386,259	(7,026,640)	984,301	–	–	–	–
Net increase (decrease):											
Subscription receivable	(694,556)	(845,403)	(7,089,093)	(1,669,108)	2,819,989	(273,534)	(977,573)	–	–	–	–
Investment income receivable	–	(5,138,821)	(753,566)	(1,395,931)	402,891	(264,421)	(258,161)	–	–	–	–
Other receivable	486,978	(462,090)	(475,317)	(670)	–	(1,193)	–	–	–	–	–
Net (increase) decrease:											
Accounts payable, accrued and other liabilities	1,055,282	(147,631)	18,595,269	1,822,635	65,639	6,599,608	39,419,285	–	–	–	–
Net cash from (used in) operating activities	(777)	22,431,630	(15,562,052)	(27,334,733)	6,674,778	(966,180)	39,167,852	–	–	–	–
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>											
Net sale (acquisition) of investments	144,642,759	(192,925,592)	(683,275,454)	523,838,536	(327,719,513)	(643,415,601)	–	360,198,215	–	–	–
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>											
Net contributions to (redemptions from) the funds	(144,642,759)	247,794,264	1,252,758,371	33,695,076	221,936,345	1,075,281,634	110,364,941	(360,198,215)	–	–	–
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>											
	(777)	77,300,302	553,920,865	530,198,879	(99,108,390)	430,899,853	149,532,793	–	–	–	–
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>											
	133,762	90,486,377	533,510,659	238,905,636	198,321,415	–	–	–	–	–	–
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)</b>											
	₱132,985	₱167,786,679	₱1,087,431,524	₱769,104,515	₱99,213,025	₱430,899,853	₱149,532,793	₱–	₱–	₱–	₱–

See accompanying Notes to Financial Statements



FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Year Ended December 31, 2016										
Dollar Investment Funds										
	Fixed Income Fund	Dollar Money Market Fund	China Prime Fund Tranche 1	China Prime Fund Tranche 2	Asia Dynamic Equity Fund	Asian Emerging Companies Fund	Euro Blue Chips Dollar Fund	Total	Eliminating Entries	Combined
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>										
Net increase (decrease) in net assets attributable to unitholders resulting from operations	₱47,228,463	₱400,385	₱9,330,123	₱4,276,827	₱8,102,581	₱31,978,892	₱28,926,533	₱203,119,026	(₱61,398,164)	₱141,720,862
Adjustments for (gain) loss on increase/ decrease in value and sale of investments - net	24,770,726	—	(9,330,123)	(4,276,827)	(8,102,581)	(31,978,892)	(28,926,533)	(157,129,442)	61,398,164	(95,731,278)
Operating income (loss) before working capital changes	71,999,189	400,385	—	—	—	—	—	45,989,584	—	45,989,584
Net increase (decrease):										
Subscription receivable	(276,616)	—	—	—	—	—	—	(9,005,894)	694,556	(8,311,338)
Investment income receivable	(19,418,797)	(48,911)	—	—	—	—	—	(26,875,717)	—	(26,875,717)
Other receivable	(963)	—	—	—	—	—	—	(453,255)	437,202	(16,053)
Net (increase) decrease:										
Accounts payable, accrued and other liabilities	(9,575,190)	29,407	—	—	—	—	—	57,864,304	(1,131,758)	56,732,546
Net cash from (used in) operating activities	42,727,623	380,881	—	—	—	—	—	67,519,022	—	67,519,022
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>										
Net sale (acquisition) of investments	(1,068,253,677)	—	—	—	—	—	—	(1,886,910,327)	(144,642,759)	(2,031,553,086)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>										
Net contributions to (redemptions from) the funds	868,292,390	56,927,620	—	—	—	—	—	3,362,209,667	144,642,759	3,506,852,426
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>										
	(157,233,664)	57,308,501	—	—	—	—	—	1,542,818,362	—	1,542,818,362
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>										
	377,379,008	—	—	—	—	—	—	1,438,736,857	—	1,438,736,857
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)</b>										
	₱220,145,344	₱57,308,501	₱—	₱—	₱—	₱—	₱—	₱2,981,555,219	₱—	₱2,981,555,219

See accompanying Notes to Financial Statements



Year Ended December 31, 2015

	Peso Investment Funds								
	Balanced Fund	Fixed Income Fund	Equity Fund	Growth Fund	Select Equities Fund	Strategic Resources Fund	Asian Emerging Companies Fund	Philippine Equity Advantage Fund Tranche 1	Philippine Equity Advantage Fund Tranche 2
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>									
Net increase (decrease) in net assets attributable to unitholders resulting from operations	(P89,540,630)	(P8,720,527)	(P434,258,637)	(P569,685,549)	(P691,130,117)	(P8,710,000)	(P23,391,843)	(P5,978,000)	(P3,105,000)
Adjustments for (gain) loss on increase/ decrease in value and sale of investments - net	88,653,120	35,023,407	410,569,523	544,615,089	695,236,126	8,710,000	23,391,843	5,978,000	3,105,000
Operating income (loss) before working capital changes	(887,510)	26,302,880	(23,689,114)	(25,070,460)	4,106,009	—	—	—	—
Net increase (decrease):									
Subscription receivable	425,722	(70,482)	6,275,115	3,188,047	(2,819,989)	—	—	—	—
Investment income receivable	—	(264,778)	(600,215)	60,684	(4,191,588)	—	—	—	—
Other receivable	(487,978)	(410,657)	(408,515)	4,292	—	—	—	—	—
Net (increase) decrease:									
Accounts payable, accrued and other liabilities	943,060	270,914	(14,769,525)	(18,484,187)	7,790,504	—	—	—	—
Net cash from (used in) operating activities	(6,706)	25,827,877	(33,192,254)	(40,301,624)	4,884,936	—	—	—	—
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>									
Net sale (acquisition) of investments	13,275,165	(19,771,441)	(183,802,970)	337,561,381	(4,951,412,740)	—	—	—	—
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>									
Net contributions to (redemptions from) the funds	(13,275,165)	(5,407,768)	221,319,819	(820,357,674)	5,144,849,219	—	—	—	—
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(6,706)</b>	<b>648,668</b>	<b>4,324,595</b>	<b>(523,097,917)</b>	<b>198,321,415</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>140,468</b>	<b>89,837,709</b>	<b>529,186,064</b>	<b>762,003,553</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)</b>	<b>P133,762</b>	<b>P90,486,377</b>	<b>P533,510,659</b>	<b>P238,905,636</b>	<b>P198,321,415</b>	<b>P—</b>	<b>P—</b>	<b>P—</b>	<b>P—</b>

See accompanying Notes to Financial Statements.



Year Ended December 31, 2015

Dollar Investment Funds

	Fixed Income Fund	Greater China Fund	Strategic Energy Fund	China Prime Fund Tranche 1	China Prime Fund Tranche 2	Asia Dynamic Equity Fund	Asian Emerging Companies Fund	Euro Blue Chips Dollar Fund	Total Peso and Dollar Investment Funds	Eliminating Entries	Combined
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>											
Net increase (decrease) in net assets attributable to unitholders resulting from operations	₱107,530,298	₱24,648,064	₱76,421,426	₱7,812,256	₱3,713,462	₱5,479,872	₱7,129,023	₱8,794,089	(₱1,592,991,813)	₱88,653,120	(₱1,504,338,693)
Adjustments for (gain) loss on increase/ decrease in value and sale of investments - net	(58,963,728)	(24,648,064)	(76,421,426)	(7,812,256)	(3,713,462)	(5,479,872)	(7,129,023)	(8,794,089)	1,622,320,188	(88,653,120)	1,533,667,068
Operating income (loss) before working capital changes	48,566,570	—	—	—	—	—	—	—	29,328,375	—	29,328,375
Net increase (decrease):											
Subscription receivable	314,937	—	—	—	—	—	—	—	7,313,350	(425,722)	6,887,628
Investment income receivable	(9,698,425)	—	—	—	—	—	—	—	(14,694,322)	—	(14,694,322)
Other receivable	(283)	—	—	—	—	—	—	—	(1,303,141)	1,308,292	5,151
Net (increase) decrease:											
Accounts payable, accrued and other liabilities	11,230,315	—	—	—	—	—	—	—	(13,018,919)	(882,570)	(13,901,489)
Net cash from (used in) operating activities	50,413,114	—	—	—	—	—	—	—	7,625,343	—	7,625,343
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>											
Net sale (acquisition) of investments	(457,873,227)	350,042,170	813,860,125	—	—	—	—	—	(4,098,121,537)	(13,275,165)	(4,111,396,702)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>											
Net contributions to (redemptions from) the funds	247,891,334	(350,042,170)	(813,860,125)	—	—	—	—	—	3,611,117,470	13,275,165	3,624,392,635
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(159,568,779)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(479,378,724)</b>	<b>—</b>	<b>(479,378,724)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>536,947,787</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,918,115,581</b>	<b>—</b>	<b>1,918,115,581</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)</b>	<b>₱377,379,008</b>	<b>₱—</b>	<b>₱—</b>	<b>₱—</b>	<b>₱—</b>	<b>₱—</b>	<b>₱—</b>	<b>₱—</b>	<b>₱1,438,736,857</b>	<b>₱—</b>	<b>₱1,438,736,857</b>

See accompanying Notes to Financial Statements.



## 1. INVESTMENT FUND INFORMATION

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On February 14, 2005, the Insurance Commission (“IC”) approved the license of The Insular Life Assurance Co., Ltd. (the “Company”) to sell variable-unit linked (“VUL”) insurance contracts, a life insurance product that is linked to investment in Insular Life Wealth Series Funds (the “Separate Funds”). The Separate Funds of the Company consisted of Philippine Peso (“Peso”) Investment Funds which include Balanced Fund, Peso Fixed Income Fund and Equity Fund (established and launched to the public on March 8, 2005), and United States Dollar (“Dollar”) Investment Funds which include Dollar Fixed Income Fund (established and launched to the public on September 24, 2007). The other Peso Investment Funds which include Growth Fund, Strategic Resources Fund, Asian Emerging Companies Peso Fund, Philippine Equity Advantage Fund Tranche 1, Philippine Equity Advantage Fund Tranche 2, Select Equities Fund, Peso Money Market Fund and Select Equities Fund 2 were established and launched to public in February 2011, October 2011, September 2012, February 2014, April 2014, January 2015, January 2016, and June 2016, respectively. The other Dollar Investment Funds which include China Prime Fund Tranche 1, China Prime Fund Tranche 2, Asia Dynamic Equity Fund, Asian Emerging Companies Dollar Fund, Euro Blue Chips Dollar Fund, and Dollar Money Market Fund were established and launched to the public in June 2012, July 2012, February 2013, May 2013, July 2014, and January 2016, respectively.

The Strategic Resources Fund, Strategic Energy Fund, and Greater China Fund matured in October 2016, November 2015, and March 2015, respectively.

**Following are the investment objectives of the Separate Funds:**

### **Peso Investment Fund**

#### ***Balanced Fund***

This is a fund that simultaneously provides long-term growth and steady income. It invests in prime-rated stocks that are listed in the Philippine Stock Exchange (“PSE”) and in government securities, bonds issued by, and term loans extended to prime Philippine corporations and short-term money market instruments.

#### ***Fixed Income Fund***

This is a fund that invests in debt obligations and debentures issued by corporations, or by the government. These include government securities, fixed income instruments issued by Philippine corporations and short-term money market instruments.

#### ***Equity Fund***

This is a fund that provides long-term total return and capital appreciation by investing primarily in dividend-paying shares of



local companies with large capitalization and growth potential, and which are listed in the PSE. It also invests in short-term money market instruments.

### ***Growth Fund***

This is a fund that provides long-term growth and capital appreciation by investing largely in medium to largely capitalized listed companies in the PSE leaning towards those with significant growth potential. It also invests in short-term money market instruments.

### ***Select Equities Fund***

This is a fund that provides long-term portfolio growth from capital appreciation by primarily investing in ten (10) of the most liquid and well-capitalized dividend-paying stocks listed in the PSE. It also invests in short-term money market instruments.

### ***Guardian Fund (Select Equities Fund 2)***

The Fund is an actively managed fund primarily investing in ten (10) of the most liquid and well-capitalized dividend-paying stocks listed in the PSE. It also invests in short-term money market instruments. The set of rules and criteria that cover the stock selection process is a continuation of Select Equities Fund (SEF) wherein dividend payments, free float market

capitalization, and average monthly turnover will all be taken into consideration.

### ***Money Market Fund***

This is a fund designed to provide stable returns while maintaining adequate liquidity through investments in peso denominated short-term securities. This is a very conservative fund with low risk classification given that the investments entered into are comprised mainly of cash and near-cash investments.

### ***Strategic Resources Fund***

This is a fund that was offered for a limited period from August to September 2011. The objective of this fund is to deliver competitive returns on peso-denominated variable life insurance by investing in a structured note linked to the global resources of energy and agribusiness.

This fund is fully invested in a 5-year, Peso-linked, Dollar-structured note issued by ING Bank N.V. in October 2011. The structured note provides principal protection at maturity and an upside potential determined through participation in the performance of ING customized index which is allocated between cash and equities of SPDR S&P Oil & Gas Exploration & Production ETF (XOP US Equity) and Market Vectors



Agribusiness ETF (MOO US Equity). This fund, with 325,000 total units, matured on October 6, 2016. This fund's net asset value per unit (NAVPU) at maturity amounted to Php 1,108.30.

### ***Asian Emerging Fund***

This is a fund that was offered for a limited period in September 2012. The objective of this fund is to deliver competitive returns on peso-denominated variable life insurance by investing in a structured note linked to the small-capitalized companies in Asia.

This fund is fully invested in a 7-year, Peso-linked, Dollar-structured note issued by ING Bank N.V. in September 2012. The structured note provides principal protection at maturity and an upside potential determined through a participation in the performance of ING Asian Emerging Companies Index VT 10% Index.

### ***Philippine Equity Advantage Fund - Tranche 1***

This is a fund that was offered for a limited period in February 2014. The objective of this fund is to deliver competitive returns on peso-denominated variable life insurance by investing in a structured note linked to a custom index exposed to the Philippine Equity market.

This fund is fully invested in a 7-year, Peso-Denominated, Dollar-settled structured note issued by BNP Paribas in February 2014. The structured note provides principal protection at maturity and an upside potential determined through a participation in the performance of Insular Philippine Equity PHP VT 10% Index.

### ***Philippine Equity Advantage Fund - Tranche 2***

This is a fund that was offered for a limited period in April 2014. The objective of this fund is to deliver competitive returns on peso-denominated variable life insurance by investing in a structured note linked to a custom index exposed to the Philippine Equity market.

This fund is fully invested on a 7-year, Peso-Denominated, Dollar-settled structured note issued by BNP Paribas in April 2014. The structured note provides principal protection at maturity and an upside potential determined through a participation in the performance of Insular Philippine Equity PHP 2 VT 10% Index.



### **Dollar Investment Fund**

#### ***Fixed Income Fund***

This is a fund that seeks to achieve capital preservation and provide income growth over a medium to long term period by investing on a diversified portfolio of Dollar-denominated fixed income instruments issued mainly by the Philippine government and prime corporations.

#### ***Greater China Fund***

This is a fund that was offered for a limited period from January to February 2010. The objective of this fund is to deliver competitive returns on Dollar-denominated variable life insurance by investing in a structured note linked to the growth markets of Greater China.

This fund is fully invested in a 5-year, Dollar-structured note issued by Citigroup Funding Inc. on February 22, 2010. The structured note, which is guaranteed by Citigroup, Inc., provides principal protection at maturity and an upside potential determined through a participation in the performance of the equity markets of Hong Kong, China, and Taiwan as represented by the Tracker Fund of Hong Kong (2800 HK Equity), Hang Seng Investment Index Funds Series - H Share Index Exchange Traded Fund (2828 HK Equity), and MSCI Taiwan Index (TAMSCI), respectively. This fund, with 7,228 total units, matured on March 2, 2015. This fund's net asset

value per unit (NAVPU) at maturity amounted to \$1,026.77.

#### ***Strategic Energy Fund***

This is a fund that was offered for a limited period from October to November 2010. The objective of this fund is to deliver competitive returns on Dollar-denominated variable life insurance by investing in a structured note linked to the credit of the Republic of the Philippines ("ROP") and to a basket of energy equity indices.

This fund is fully invested in a 5-year, Dollar-structured note issued by ING Bank N.V. on November 16, 2010. In the absence of a credit event by the ROP or the issuer, the structured note provides principal protection at maturity plus an upside potential. The upside potential of the note is derived through participation in the performance of global energy indices represented by Energy Select Sector (XLE US Equity) and Powershares Wilderhill Clean Energy Portfolio (PBW US). This fund, with 16,300 total units, matured on November 16, 2015. This fund's NAVPU at maturity amounted to \$1,058.60.

#### ***China Prime Fund – Tranche 1***

This is a fund that was offered for a limited period in June 2012. The objective of this fund is to deliver competitive returns on Dollar-denominated variable life insurance by investing in a structured note linked to the select stock companies in China.



This fund is fully invested in a 7-year, Dollar-structured note issued by Citigroup Funding Inc. in July 2012. The structured note, which is guaranteed by Citigroup, Inc., provides principal protection at maturity and an upside potential determined through a participation in the performance of the equity markets in China as represented by the Tracker Fund of Hang Seng Investment Enterprises Index (“HSCEI”).

#### ***China Prime Fund – Tranche 2***

This is a fund that was offered for a limited period in July 2012. The objective of this fund is to deliver competitive returns on Dollar-denominated variable life insurance by investing in a structured note linked to the select stock companies in China.

This fund is fully invested in a 7-year, Dollar-structured note issued by Citigroup Funding Inc. in July 2012. The structured note, which is guaranteed by Citigroup, Inc., provides principal protection at maturity and an upside potential determined through a participation in the performance of the equity markets in China as represented by the Tracker Fund of HSCEI.

#### ***Asia Dynamic Equity Fund***

This fund was offered for a limited period in February 2013. The objective of this fund is to deliver competitive returns on dollar denominated variable life insurance by investing in a structured note that provides exposure to equities listed in Asia excluding Japan.

This fund is fully invested in a 7-year, Dollar-structured note issued by Standard Chartered Bank in March 2013. It provides payouts from the 1st to the 6th policy anniversary of 0.5% of the in force single premium and an upside potential at maturity determined through a participation in the performance of the Asia Risk Control Investable Index (ARC-I Index).

#### ***Asian Emerging Companies Fund***

This fund was offered for a limited period in May 2013. The objective of this fund is to deliver competitive returns on Dollar-denominated variable life insurance by investing in a structured note that provides exposure to emerging companies in Asia through a customized risk-control index called ING Asian Emerging Companies VT 10% Index.

The fund is fully invested in a 10-year, Dollar-structured note issued by ING Bank N.V. in May 2013. Maturity benefit of the note is paid out in four equal payouts on the 7th, 8th, 9th, and 10th anniversary. The payout will include both portion of the principal and the upside potential observed during the first 7 years through a participation in the performance of the ING Asian Emerging Companies VT 10% Index.



### ***Dollar Money Market Fund***

This is a fund designed to provide stable returns while maintaining adequate liquidity through investments in dollar denominated short-term securities. This is a very conservative fund with low risk classification given that the investments entered into are comprised mainly of cash and near-cash investments.

### ***Euro Blue Chips Dollar Fund***

This fund was offered for a limited period in July 2014. The objective of this fund is to deliver competitive returns on Dollar-denominated variable life insurance by investing in a structured note that provides exposure to European Blue-Chip companies through a customized risk-control index called ING European Blue-Chip Companies VT 10% Index.

The fund is fully invested in a 7-year, Dollar-structured note linked to ROP credit issued by ING Bank N.V. in July 2014. The structured note provides principal protection at maturity and an upside potential determined through a participation in the performance of ING European Blue-Chip Companies VT 10% Index.

Balance Fund, Peso Fixed Income Fund, Equity Fund, Growth Fund, Select Equities Fund, Select Equities Fund 2, and Peso Money Market Fund (which are all Peso Investment Funds);

and Dollar Fixed Income Fund and Dollar Money Market Fund (which are all Dollar Investment Funds) are classified as "Traditional VUL."

Strategic Resources Fund, Asian Emerging Companies Fund, Philippine Equity Advantage Fund Tranche 1, and Philippine Equity Advantage Fund Tranche 2 (which are all Peso Investment Funds); and Greater China Fund, Strategic Equity Fund, China Prime Fund Tranche 1, China Prime Fund Tranche 2, Asia Dynamic Equity Fund, Asian Emerging Companies Fund, and Euro Blue Chips Dollar Fund (which are all Dollar Investment Funds) are classified as "Structured VUL."

The Company entered into Service Level Agreement with a third-party multinational bank (the "Fund Administrator") accredited by the Bangko Sentral ng Pilipinas ("BSP"). Under this agreement, the Fund Administrator shall perform fund accounting and valuation services of the Separate Funds. Custodianship of Separate Funds' assets is also done by the said third-party multinational bank accredited by the BSP. The Company acts as Fund Manager to the Separate Funds.

The financial statements of the Separate Funds, which were prepared from the accounts maintained by the Fund Administrator, are provided solely for the Company's use and for submission to the IC.



The financial statements were authorized for issue by the President and Chief Operating Officer of the Company on March 23, 2017.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES**

### **Statement of Compliance**

The Separate Funds' financial statements have been prepared in accordance with Philippine Financial Reporting Standards ("PFRS").

### **Basis of Financial Statement Preparation**

The financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss ("FVPL") which are carried at fair value. The financial statements are presented in Philippine Peso, which is the Separate Funds' functional currency.

The financial statements include the financial statements of the 18 and 16 Separate Wealth Series Funds as of and for the year ended December 31, 2016 and 2015, respectively, namely: Balanced Fund, Peso Fixed Income Fund, Equity Fund, Growth Fund, Select Equities Fund, Select Equities Fund 2, Peso Money Market Fund, Strategic Resources Fund,

Asian Emerging Companies Fund, Philippine Equity Advantage Fund Tranche 1, and Philippine Equity Advantage Fund Tranche 2, which comprise the Peso Investment Funds; and Dollar Fixed Income Fund, Dollar Money Market Fund, Greater China Fund, Strategic Energy Fund, China Prime Fund Tranche 1, China Prime Fund Tranche 2, Asia Dynamic Equity Fund, Asian Emerging Companies Fund, and Euro Blue Chips Dollar Fund, which comprise the Dollar Investment Funds. Inter-fund investments are eliminated in full.

### **Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year, except that the Separate Funds have adopted the following new accounting pronouncements starting January 1, 2016. Adoption of these pronouncements is not expected to have a significant impact on the Separate Funds' financial position or performance.

- 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
- Amendments to PFRS 11, Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations
- PFRS 14, Regulatory Deferral Accounts



- Amendments to PAS 1, Presentation of Financial Statements - Disclosure Initiative
- Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization
- Amendments to PAS 16, Property, Plant and Equipment and PAS 41, Agriculture - Bearer Plants
- Amendments to PAS 27, Separate Financial Statements - Equity Method in Separate Financial Statements
- 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'

### **Standards Issued but Not Yet Effective**

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

### **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

### **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
- Amendments to PFRS 4, Insurance Contracts - Applying PFRS 9, Financial Instruments, with PFRS 4
- PFRS 15, Revenue from Contracts with Customers
- PFRS 9, Financial Instruments

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but 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 Separate Fund's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Fund's financial liabilities. The adoption will also have an effect on the Fund's application

of hedge accounting and on the amount of its credit losses. The Fund is currently assessing the impact of adopting this standard.

#### Effective beginning on or after January 1, 2019

- PFRS 16, Leases

#### 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 Fund continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2016 on the Separate Funds' 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.

#### Fair Value Measurement

Financial instruments in the Separate Funds are measured at fair value at the end of each reporting date. 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 in either case as follows:

- 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 Company. 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.

The Company 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 financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active

markets for identical assets or liabilities;

- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; or
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the Separate Funds' financial statements on a recurring basis, the Company 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 Company's management determines the policies and procedures for both recurring and non-recurring fair value measurement.

At each reporting date, the management analyzes the movements in the values of assets and liabilities of the Separate Funds which are required to be re-measured or re-assessed as per the Company'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 Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy as explained above.

### **Financial Instruments**

The Company recognizes a financial asset or a financial liability in the statements of financial position when it 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 Company 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.

Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities, as appropriate. The Company determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

### **Financial Assets 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; or
- the assets are part of a group of financial assets, which are managed and their performance evaluated on a fair value



basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument 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 statements of comprehensive 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 Separate Funds' financial assets at FVPL consist of debt securities, equity securities, and inter-fund investments. Inter-fund investments are eliminated in full in the statements of financial position.

After initial measurement, financial assets which are classified as financial assets at FVPL are measured at their fair values in the Separate Funds. The fair value of financial asset is based on their quoted market prices on a recognized exchange or

sourced from a reputable counterparty, in the case of non-exchange traded instruments, at the reporting date without any deduction for estimated future selling costs.

Subsequent changes in the fair value of financial assets at FVPL are recognized in the statements of comprehensive income.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. These comprise of cash and cash equivalents, subscriptions receivable, investment income receivable, and other receivables. After initial measurement, such assets are subsequently measured at amortized cost using effective interest rate method less any allowance for impairment. The effective interest rate amortization and loss arising from impairment, if any, are recognized in the statements of comprehensive income.

### Derecognition of Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when the criteria listed are met:



- the rights to receive cash flows from the financial asset have expired;
- the Separate Funds retain 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 Separate Funds have 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 have transferred control of the financial asset.

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

### **Impairment of Financial Assets**

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial asset in the Separate Funds is impaired. A financial asset or 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 occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interests or principal repayments, the probability that they will enter bankruptcy or other financial reorganization, and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### **Financial assets carried at amortized cost**

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets in the Separate Funds that are individually significant, or collectively, for financial assets that are not individually significant. If the Company determined that no objective evidence of impairment exists for an individually



assessed financial asset, whether significant or not, it include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. 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 there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statements of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future

recovery and all collateral has been realized or has been transferred to the Separate Funds.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statements of comprehensive income.

### Cash and Cash Equivalents

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

### Revenue Recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Separate Funds and when the revenue can be measured reliably, on the following bases:

**Interest income** is recognized on an accrual basis using the effective interest rate method by applying the rate that



discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset. Interest income on cash and cash equivalents ("Interest income-deposits" in the statements of comprehensive income) is disclosed separately from interest income on debt securities ("Interest income-debt securities" in the statements of comprehensive income).

**Dividend income** is recognized when the Separate Funds' rights to receive payment has been established. Dividend income relating to exchange-traded equity investments is recognized in the statements of comprehensive income on ex-dividend date. Property dividend is recognized for the amount of cash dividend alternative with the corresponding debit treated as an additional investment.

**Realized gains and losses on investment arise** from sale of investments while unrealized gains and losses on investments include marked to market valuation of investment held as of reporting date.

#### **Expense Recognition**

All expenses, including administration, custody, and investment management fees, are recognized in the statements of comprehensive income on an accrual basis.

Administration, custody, and investment management fees of the Separate Funds are being charged by the Fund Administrators, Fund Custodians, and the Fund Manager, respectively, as a percentage of the Separate Funds' net asset value before deduction for such expenses and are recognized in the statements of comprehensive income as they accrue.

Transaction costs include charges by brokers for the purchase and sell transactions of equity and debt securities and are recognized in the statements of comprehensive income when incurred.

Government taxes and fees related to the investment income of the Separate Funds are charged to the statements of comprehensive income when incurred.

#### **Foreign Currency Denominated Transactions**

Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the IC exchange rate. Foreign exchange gains or losses are taken to the statements of comprehensive income.



### 3. CASH AND CASH EQUIVALENTS

2016										
Peso Investment Funds							Dollar Investment Fund			
Balanced Fund	Fixed Income Fund	Equity Fund	Growth Fund	Select Equities Fund	Select Equities Fund 2	Peso Money Market Fund	Fixed Income Fund	Dollar Money Market Fund	Combined	
Cash in banks	₱132,985	₱186,679	₱973,340	₱1,276,807	₱1,413,025	₱1,099,853	₱224,269	₱220,145,344	₱513,578	₱225,965,880
Cash equivalents	–	167,600,000	1,086,458,184	767,827,708	97,800,000	429,800,000	149,308,524	–	56,794,923	2,755,589,339
	₱132,985	₱167,786,679	₱1,087,431,524	₱769,104,515	₱99,213,025	₱430,899,853	₱149,532,793	₱220,145,344	₱57,308,501	₱2,981,555,219

2015						
Peso Investment Funds					Dollar Investment Fund	
Balanced Fund	Fixed Income Fund	Equity Fund	Growth Fund	Select Equities Fund	Fixed Income Fund	Combined
Cash in banks	₱133,762	₱386,377	₱1,210,659	₱1,605,636	₱139,019,660	₱144,277,509
Cash equivalents	–	90,100,000	532,300,000	237,300,000	238,359,348	1,294,459,348
	₱133,762	₱90,486,377	₱533,510,659	₱238,905,636	₱198,321,415	₱1,438,736,857

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are made for varying periods of between one day and three months and earn interest at the prevailing short-term deposit rates. Interest income on bank deposits totaled ₱16,998,473 and ₱5,596,421 in 2016 and 2015, respectively.



#### 4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

##### Investments in Debt Securities

	2016			
	Peso Investment Funds			
	Fixed Income Fund	Asian Emerging Companies Fund	Philippine Equity Advantage Fund Tranche 1	Philippine Equity Advantage Fund Tranche 2
Acquisition cost	₱1,463,529,343	₱375,471,000	₱305,000,000	₱150,000,000
Increase (decrease) in value of investments	(30,485,471)	(113,542,430)	(32,574,000)	(17,115,000)
Fair value	₱1,433,043,872	₱261,928,570	₱272,426,000	₱132,885,000

	2016						
	Dollar Investment Funds						
	Fixed Income Fund	China Prime Fund Tranche 1	China Prime Fund Tranche 2	Asia Dynamic Equity Fund	Asian Emerging Companies Fund	Euro Blue Chips Dollar Fund	Combined
Acquisition cost	₱2,850,038,295	₱177,656,000	₱77,724,500	₱133,242,000	₱444,140,000	₱328,123,000	₱6,304,924,138
Increase (decrease) in value of investments	(156,845,773)	13,546,219	5,089,613	6,722,567	(12,759,420)	21,225,282	(316,738,413)
Fair value	₱2,693,192,522	₱191,202,219	₱82,814,113	₱139,964,567	₱431,380,580	₱349,348,282	₱5,988,185,725



2015

Peso Investment Funds

	Fixed Income Fund	Strategic Resources Fund	Asian Emerging Companies Fund	Philippine Equity Advantage Fund Tranche 1	Philippine Equity Advantage Fund Tranche 2
Acquisition cost	₱1,266,399,089	₱325,000,000	₱375,471,000	₱305,000,000	₱150,000,000
Increase (decrease) in value of investments	(4,244,630)	(10,920,000)	(89,099,268)	(36,051,000)	(19,080,000)
Fair value	₱1,262,154,459	₱314,080,000	₱286,371,732	₱268,949,000	₱130,920,000

2015

Dollar Investment Funds

	Fixed Income Fund	China Prime Fund Tranche 1	China Prime Fund Tranche 2	Asia Dynamic Equity Fund	Asian Emerging Companies Fund	Euro Blue Chips Dollar Fund	Combined
Acquisition cost	₱1,652,489,432	₱177,656,000	₱77,724,500	₱133,242,000	₱444,140,000	₱328,123,000	₱5,235,245,021
Increase (decrease) in value of investments	(2,779,861)	4,216,096	812,786	(1,380,014)	(44,738,312)	(7,701,251)	(210,965,454)
Fair value	₱1,649,709,571	₱181,872,096	₱78,537,286	₱131,861,986	₱399,401,688	₱320,421,749	₱5,024,279,567

Investments in debt securities include bonds and structured notes (see Note 8).



The following tables present the breakdown of investments in debt securities by contractual maturity as of December 31:

	2016				2016							Combined
	Peso Investment Funds				Dollar Investment Funds							
	Fixed Income Fund	Asian Emerging Companies Fund*	Philippine Equity Advantage Fund Tranche 1*	Philippine Equity Advantage Fund Tranche 2*	Fixed Income Fund	China Prime Fund Tranche 1*	China Prime Fund Tranche 2*	Asia Dynamic Equity Fund*	Asian Emerging Companies Fund*	Euro Blue Chips Dollar Fund*		
Due after one year through five years	₱631,943,178	₱375,471,000	₱305,000,000	₱150,000,000	₱1,010,276,218	₱199,252,000	₱87,172,750	₱149,439,000	₱-	₱376,088,150	₱3,284,642,296	
Due after five years	1,492,355,437	-	-	-	2,910,063,123	-	-	-	498,130,000	-	4,900,548,560	
	<b>₱2,124,298,615</b>	<b>₱375,471,000</b>	<b>₱305,000,000</b>	<b>₱150,000,000</b>	<b>₱3,920,339,341</b>	<b>₱199,252,000</b>	<b>₱87,172,750</b>	<b>₱149,439,000</b>	<b>₱498,130,000</b>	<b>₱376,088,150</b>	<b>₱8,185,190,856</b>	

\*The contractual maturity disclosed represents the acquisition cost of these securities due to the difficulty in projecting the maturity value of the structured notes based on the best available data.

	2015				2015							Combined
	Peso Investment Funds				Dollar Investment Funds							
	Fixed Income Fund	Strategic Resources Fund*	Asian Emerging Companies Fund*	Philippine Equity Advantage Fund Tranche 1*	Philippine Equity Advantage Fund Tranche 2*	Fixed Income Fund	China Prime Fund Tranche 1*	China Prime Fund Tranche 2*	Asia Dynamic Equity Fund*	Asian Emerging Companies Fund*	Euro Blue Chips Dollar Fund*	
Due after one year through five years	₱608,040,053	₱325,000,000	₱375,471,000	₱-	₱-	₱703,029,865	₱188,664,000	₱82,540,500	₱141,498,000	₱-	₱-	₱ 2,424,243,418
Due after five years	1,227,227,197	-	-	305,000,000	150,000,000	1,687,781,070	-	-	-	471,660,000	356,103,300	4,197,771,567
	<b>₱1,835,267,250</b>	<b>₱325,000,000</b>	<b>₱375,471,000</b>	<b>₱305,000,000</b>	<b>₱150,000,000</b>	<b>₱2,390,810,935</b>	<b>₱188,664,000</b>	<b>₱82,540,500</b>	<b>₱141,498,000</b>	<b>₱471,660,000</b>	<b>₱356,103,300</b>	<b>₱6,622,014,985</b>

\*The contractual maturity disclosed represents the acquisition cost of these securities due to the difficulty in projecting the maturity value of the structured notes based on the best available data.

Interest income from investment in debt securities totaled ₱179,880,766 and ₱134,278,764 in 2016 and 2015, respectively.



**Investments in Equity Securities**

	2016				
	Equity Fund	Growth Fund	Select Equities Fund	Select Equities Fund 2	Combined
Acquisition cost	₱4,507,862,408	₱3,523,909,492	₱5,129,513,546	₱643,415,601	₱13,804,701,047
Increase in value of investments	685,743,214	495,960,378	(836,423,214)	(76,512,063)	268,768,315
Fair value	₱5,193,605,622	₱4,019,869,870	₱4,293,090,332	₱566,903,538	₱14,073,469,362

	2015			
	Equity Fund	Growth Fund	Select Equities Fund	Combined
Acquisition cost	₱3,633,207,813	₱3,916,667,566	₱4,941,723,326	₱12,491,598,705
Increase in value of investments	710,003,289	394,035,874	(685,546,712)	418,492,451
Fair value	₱4,343,211,102	₱4,310,703,440	₱4,256,176,614	₱12,910,091,156

**5. RECEIVABLES**

	2016							2015		
	Peso Investment Funds					Peso Money Market Fund		Dollar Investment Fund		
	Balanced Fund	Fixed Income Fund	Equity Fund	Growth Fund	Select Equities Fund	Select Equities Fund 2		Fixed Income Fund	Dollar Money Market Fund	Combined
Investment income receivables:										
Accrued interest	₱-	₱14,820,589	₱1,000,223	₱535,974	₱1,304	₱18,440	₱258,161	₱50,107,250	₱48,911	₱66,790,852
Accrued dividends	-	-	1,579,505	1,825,703	3,787,393	245,981	-	-	-	7,438,582
Total investment income receivables	-	14,820,589	2,579,728	2,361,677	3,788,697	264,421	258,161	50,107,250	48,911	74,229,434
Subscriptions receivable	694,556	856,448	8,881,755	1,669,108	-	273,534	977,573	351,801	-	13,704,775
Other receivables	1,000	-	15,380	969	-	1,193	-	1,246	-	19,788
	₱695,556	₱15,677,037	₱11,476,863	₱4,031,754	₱3,788,697	₱539,148	₱1,235,734	₱50,460,297	₱48,911	₱87,953,997



2015

	Peso Investment Funds					Dollar Investment Fund	
	Balanced Fund	Fixed Income Fund	Equity Fund	Growth Fund	Select Equities Fund	Fixed Income Fund	Combined
Investment income receivables:							
Accrued interest	₱–	₱9,681,768	₱7,097	₱3,164	₱2,619	₱30,688,453	₱40,383,101
Accrued dividends	–	–	1,819,065	962,582	4,188,969	–	6,970,616
	–	9,681,768	1,826,162	965,746	4,191,588	30,688,453	47,353,717
Subscriptions receivable	–	358,323	2,139,940	–	2,819,989	75,185	5,393,437
Other receivables	1,000	–	2,153	299	–	283	3,735
	₱1,000	₱10,040,091	₱3,968,255	₱966,045	₱7,011,577	₱30,763,921	₱52,750,889

- Accrued interest receivable pertains to interest earned on investments in debt securities and short-term investments but not yet credited to the Separate Funds as of reporting date. Interest rates for such investments range from 1.625% to 10.625% for both in 2016 and 2015.
- Accrued dividend receivables are noninterest-bearing and pertain to dividends earned on investment in equity securities but not yet received by the Separate Funds.
- Subscription receivable pertains to value of units subscribed but not yet received as at reporting date.
- Other receivable includes due from Fund Manager and outstanding sales as at reporting period. Inter-fund receivable of Peso Fixed Income Fund amounting ₱ 1,466,081 and ₱ 1,003,991 in 2016 and 2015, respectively; and inter-fund receivable of Equity Fund amounting ₱ 1,466,081 and ₱ 1,003,991 in 2016 and 2015, respectively, have been eliminated in full (see Note 6).



## 6. ACCOUNTS PAYABLE AND ACCRUED AND OTHER LIABILITIES

December 31, 2016										
	Peso Investment Funds							Dollar Investment Fund		Combined
	Balanced Fund	Fixed Income Fund	Equity Fund	Growth Fund	Select Equities Fund	Select Equities Fund 2	Peso Money Market Fund	Fixed Income Fund	Dollar Money Market Fund	
Accounts payable -										
Due to broker	P-	P-	P19,227,672	P3,886,944	P-	P4,784,833	P-	P-	P-	P27,899,449
Due to related party	-	1,309	1,309	-	873,727	-	39,364,823	-	4,390	40,245,558
	-	1,309	19,228,981	3,886,944	873,727	4,784,833	39,364,823	-	4,390	68,145,007
Accrued and other liabilities:										
Management fees payable (Note 7)	-	2,099,078	10,755,790	8,331,251	6,650,930	1,731,945	48,304	3,834,037	22,215	33,473,550
Administration fees payable (Note 7)	63,185	59,934	283,083	229,109	209,029	47,628	5,970	140,606	2,747	1,041,291
Custody fees payable (Note 7)	-	24,491	96,058	76,743	81,576	9,655	-	102,833	-	391,356
Professional fees payable	-	35,033	35,032	35,033	35,033	15,924	-	35,031	-	191,086
Transaction fees payable	-	-	47,271	20,167	-	-	188	-	55	67,681
Taxes and other payables	-	179	59,468	6,283	5,848	9,623	-	4,358	-	85,759
	63,185	2,218,715	11,276,702	8,698,586	6,982,416	1,814,775	54,462	4,116,865	25,017	35,250,723
	P63,185	P2,220,024	P30,505,683	P12,585,530	P7,856,143	P6,599,608	P39,419,285	P4,116,865	P29,407	P103,395,730

December 31, 2015										
	Peso Investment Funds					Dollar Investment Fund		Combined		
	Balanced Fund	Fixed Income Fund	Equity Fund	Growth Fund	Select Equities Fund	Fixed Income Fund				
Accounts payable -										
Due to broker	P-	P-	P1,996,960	P998,518	P-	P10,449,784	P13,445,262			
Due to related party	486,978	1,309	1,309	700,226	-	52,904	1,242,726			
	486,978	1,309	1,998,269	1,698,744	-	10,502,688	14,687,988			
Accrued and other liabilities:										
Management fees payable (Note 7)	-	1,888,865	9,001,941	8,452,854	7,200,392	2,842,481	29,386,533			
Administration fees payable (Note 7)	139,661	128,497	455,607	433,229	411,748	188,441	1,757,183			
Custody fees payable (Note 7)	-	30,974	80,357	79,973	79,156	79,819	350,279			
Professional fees payable	-	74,521	74,521	74,521	66,917	74,689	365,169			
Transaction fees payable	-	-	38,171	2,900	9,700	-	50,771			
Taxes and other payables	-	-	18,059	20,674	22,591	3,937	65,261			
	139,661	2,122,857	9,668,656	9,064,151	7,790,504	3,189,367	31,975,196			
	P626,639	P2,124,166	P11,666,925	P10,762,895	P7,790,504	P13,692,055	P46,663,184			

The accounts payable and accrued and other liabilities of Balanced Fund for 2016 and 2015 in the above table are net of inter-fund receivables and payables (see Notes 5 and 7).



## 7. FEES

### a) Management fees

Pursuant to the investment management agreement, the Fund Manager is entitled to receive from the Separate Funds an investment management fee equal to 1.5% per annum of the net asset value before deduction of the administration, custody, and investment management fee, of the Peso Fixed Income Fund and Dollar Fixed Income Fund; 1.75% per annum of the net asset value before deduction of the administration, custody, and investment management fee of the Select Equities Fund, 0.445% per annum of the net asset value before deduction of the administration, and investment management fee of the Peso Money Market Fund and Dollar Money Market Fund; and 2.0% per annum of the net asset value before deduction of investment management fee of the Growth Fund, Equity Fund, and Select Equities Fund 2. The other remaining funds are passively managed. Due to this, no investment management fee was incurred in 2016 and 2015 related to these funds.

Investment management fees expense amounted to ₱ 367,190,730 and ₱ 313,567,646 in 2016 and 2015, respectively. Investment management fees payable outstanding as of December 31, 2016 and 2015 amounted to ₱ 33,473,550 and ₱ 29,386,533, respectively (see Note 6).

### b) Administration fees

Pursuant to the Service Level Agreement, the Fund Administrator is entitled to receive administration fee payable monthly in arrears and calculated at 5.5 basis points per annum based on the net asset value before deduction of the administration, custody, and investment management fees. Funds without administration fee incurred in 2016 and 2015 are passively administered.

Administration fees expense amounted to ₱ 12,013,893 and ₱ 10,283,606 in 2016 and 2015, respectively. Administration fees payable outstanding as of December 31, 2016 and 2015 amounted to ₱ 1,041,291 and ₱ 1,757,183, respectively (see Note 6).

### c) Custody fees

Pursuant to the Service Level Agreement, the Fund Custodian is entitled to receive between 2.0 to 3.0 basis points per annum based on the total portfolio asset value of the Separate Funds. Structured notes are held at the custody of the Company and as such there was no custody fee expense incurred for all structured notes in 2016 and 2015 (see Note 6).

Custody fees expense amounted to ₱ 4,340,956 and ₱ 3,796,834 in 2016 and 2015, respectively. Outstanding balances of custody fees payable amounted to ₱ 391,356 and ₱ 350,279 as of December 31, 2016 and 2015, respectively (see Note 6).



## 8. FINANCIAL INSTRUMENTS

The following tables summarize the financial instruments by category of the Separate Funds as of December 31:

	2016				Total
	Peso Investment Funds		Dollar Investment Funds		
	Fair Value through profit or loss	Loans and receivables	Fair Value through profit or loss	Loans and receivables	
<i>Financial assets</i>					
<b>Traditional VULs:</b>					
Cash and cash equivalents	₱-	₱2,704,101,374	₱-	₱277,453,845	₱2,981,555,219
Equity securities - quoted	14,073,469,362	-	-	-	14,073,469,362
Debt securities - quoted fixed interest rates	1,433,043,872	-	2,693,192,522	-	4,126,236,394
Subscriptions receivable	-	13,352,974	-	351,801	13,704,775
Investment income receivable	-	24,073,273	-	50,156,161	74,229,434
Other receivables	-	18,542	-	1,246	19,788
<b>Structured VULs</b>	<b>667,239,570</b>	<b>-</b>	<b>1,194,709,761</b>	<b>-</b>	<b>1,861,949,331</b>
	<b>₱16,173,752,804</b>	<b>₱2,741,546,163</b>	<b>₱3,887,902,283</b>	<b>₱327,963,053</b>	<b>₱23,131,164,303</b>

	2016			
	Peso Investment Funds		Dollar Investment Funds	
		Other financial liabilities		Other financial liabilities
<i>Financial liabilities</i>				
Accounts payable		₱68,140,617		₱4,390
Accrued and other liabilities*		31,027,440		4,137,524
		<b>₱99,168,057</b>		<b>₱4,141,914</b>
				<b>₱68,145,007</b>
				<b>₱5,164,964</b>
				<b>₱103,309,971</b>

\*Excluding taxes payable amounting ₱85,759



	2015		2015		Total
	Peso Investment Funds		Dollar Investment Funds		
	Fair Value through profit or loss	Loans and receivables	Fair Value through profit or loss	Loans and receivables	
<i>Financial assets</i>					
Traditional VULs:					
Cash and cash equivalents	₱–	₱1,061,357,849	₱–	₱377,379,008	₱1,438,736,857
Equity securities - quoted	12,910,091,156	–	–	–	12,910,091,156
Debt securities - quoted fixed interest rates	1,262,154,459	–	1,649,709,571	–	2,911,864,030
Subscriptions receivable	–	5,318,252	–	75,185	5,393,437
Investment income receivable	–	16,665,264	–	30,688,453	47,353,717
Other receivables	–	3,452	–	283	3,735
Structured VULs	1,000,320,732	–	1,112,094,805	–	2,112,415,537
	₱15,172,566,347	₱1,083,344,817	₱2,761,804,376	₱408,142,929	₱19,425,858,469

	2015		2015		Total
	Peso Investment Funds		Dollar Investment Funds		
		Other financial liabilities		Other financial liabilities	
<i>Financial liabilities</i>					
Accounts payable		₱4,185,300		₱10,502,688	₱14,687,988
Accrued and other liabilities*		28,724,505		3,185,430	31,909,935
		₱32,909,805		₱13,688,118	₱46,597,923

\*Excluding taxes payable amounting ₱65,261

The carrying values of loans and receivables and other financial liabilities approximate their fair values since these are short term in nature.



The following table presents the fair value hierarchy of the financial assets at FVPL as at December 31, 2016 and 2015:

	2016			Total
	Level 1	Level 2	Level 3	
<b>Equity securities</b>	<b>₱14,073,469,362</b>	<b>₱-</b>	<b>₱-</b>	<b>₱14,073,469,362</b>
<b>Debt securities:</b>				
Traditional VULs:				
Local currency	1,433,043,872	-	-	1,433,043,872
Foreign currency	2,693,192,522	-	-	2,693,192,522
Structured VULs:				
Local currency	-	-	667,239,570	667,239,570
Foreign currency	-	-	1,194,709,761	1,194,709,761
	<b>₱18,199,705,756</b>	<b>₱-</b>	<b>₱1,861,949,331</b>	<b>₱20,061,655,087</b>
	2015			Total
	Level 1	Level 2	Level 3	
Equity securities	₱12,910,091,156	₱-	₱-	₱12,910,091,156
Debt securities:				
Traditional VULs:				
Local currency	1,262,154,459	-	-	1,262,154,459
Foreign currency	1,649,709,571	-	-	1,649,709,571
Structured VULs:				
Local currency	-	-	1,000,320,732	1,000,320,732
Foreign currency	-	-	1,112,094,805	1,112,094,805
	<b>₱15,821,955,186</b>	<b>₱-</b>	<b>₱2,112,415,537</b>	<b>₱17,934,370,723</b>

The fair values of financial assets at FVPL on Level 1 category are based on the quoted market prices.

The following table shows the reconciliation of the beginning and ending balances of Level 3 financial assets at FVPL as of December 31:

	2016	2015
<b>Peso</b>		
Beginning balance	<b>₱1,000,320,732</b>	₱1,041,505,575
Maturities	<b>(360,198,215)</b>	–
Fair value gain (loss)	<b>27,117,053</b>	(41,184,843)
Ending balance	<b>667,239,570</b>	1,000,320,732
<b>USD</b>		
Beginning balance	<b>1,112,094,805</b>	2,141,998,908
Maturities	–	(1,163,902,295)
Fair value gain	<b>19,129,585</b>	10,996,102
Foreign exchange adjustments	<b>63,485,371</b>	123,002,090
Ending balance	<b>1,194,709,761</b>	1,112,094,805
<b>Total Level 3 financial assets</b>	<b>₱1,861,949,331</b>	₱2,112,415,537

There were no transfers within different levels of the fair value hierarchy in 2016 and 2015.

The structured notes can be decomposed into bond components and option components. 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/PHP cross currency swap rates (for the PHP-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:

	<b>Significant observable input other than quoted prices included within Level 1</b>	<b>Range level at yearend</b>	<b>Sensitivity of the input to fair value</b>
2016	<b>ROP CDS level (3yrs-8yrs)</b>	<b>110 basis points</b>	<b>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.</b>
	<b>USD IRS (3yrs-8yrs)</b>	<b>167-214 basis points</b>	<b>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.</b>
	<b>PHP IRS (1yr-6yrs)</b>	<b>345-365 basis points</b>	<b>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.</b>
2015	<b>ROP CDS level (3yrs-8yrs)</b>	<b>108 basis points</b>	<b>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.</b>
	<b>USD IRS (3yrs-8yrs)</b>	<b>141-195 basis points</b>	<b>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.</b>
	<b>PHP IRS (1yr-6yrs)</b>	<b>265-370 basis points</b>	<b>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.</b>



The analysis of the fair market value of the structured notes as of December 31 is performed for the reasonably possible movement in the significant unobservable inputs with all other variables held constant, showing the impact to profit and loss follows:

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, the results of the sensitivity do not reflect stressed scenarios due to the non-linearity characteristics of the product.*



Dollar 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	ROP 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, the results of the sensitivity do not reflect stressed scenarios due to the non-linearity characteristics of the product.*

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 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.



## 9. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The financial instruments of the Separate Funds consist mainly of cash and cash equivalents, financial assets at FVPL, receivables, accounts payable, and accrued and other liabilities excluding taxes. The overall risk management program of the Separate Funds focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance. The Separate Funds is exposed to credit risk, liquidity risk, equity price risk, fair value interest rate risk, and foreign currency 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.

### ***Credit risk***

Credit risk is the risk that the Separate Funds will incur a loss because its counterparties failed to discharge their contractual obligations. The Separate Funds' exposure to credit risk arises from default of the counterparty, with a maximum credit exposure equal to the carrying amount of the financial assets of the Separate Funds.

As of December 31, 2016 and 2015, all of the Separate Funds' financial assets are neither past due nor impaired.

The Separate Funds use a credit rating concept based on the borrowers' and counterparties' overall creditworthiness, as follows:

- Investment grade - rating given to borrowers and counterparties who possess strong to very strong capacity to meet their obligations;
- Non-investment grade - rating given to borrowers and counterparties who possess above average capacity to meet their obligations.

As of December 31, 2016 and 2015, all of the Separate Funds' financial assets fall under investment grade category.

### ***Risk concentrations of the maximum exposure to credit risk***

The Company'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 Separate Funds' concentration of credit risk in its debt securities portfolio by industrial distribution as percentage of total debt securities as of December 31:

	<b>2016</b>	<b>2015</b>
Government	<b>65%</b>	52%
Financial institutions	<b>31%</b>	42%
Electricity, energy, power, and water	<b>3%</b>	4%
Others	<b>1%</b>	2%
<b>Total</b>	<b>100%</b>	100%

#### **Liquidity risk**

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

The Separate Funds manage liquidity through a group liquidity risk policy which determines what constitutes liquidity risk for the Separate Funds, specify minimum proportion of funds to meet emergency calls, set up of contingency funding plans, specify the sources of funding and the events that would trigger the plan, and determine concentration of funding sources, report of liquidity risk exposures, and breaches to the monitoring authority.

As of December 31, 2016 and 2015, the Separate Funds' other financial liabilities excluding taxes payable amounting to ₱103,309,971 and ₱46,597,923, respectively, have maturities of less than one year. The Separate Funds has cash amounting to ₱2,981,555,219 and ₱1,438,736,857 as of December 31, 2016 and 2015, respectively, which are due on demand that can be used to settle financial liabilities.

**Equity price risk**

The Separate Funds' equity price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices.

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 Separate Funds are exposed to equity price risk because of investments held under Equity Fund, Growth Fund, Select Equities Fund, and Select Equities Fund 2 which are classified in the statements of financial position as financial assets at FVPL. The following table demonstrates the sensitivity to a reasonable possible change in the price of equity securities as of December 31:

2016		2015	
Change in Quoted Prices of Investments Carried at Fair Value	Effect on Net Asset Value Attributable to Unitholders	Change in Quoted Prices of Investments Carried at Fair Value	Effect on Net Asset Value Attributable to Unitholders
<b>50 basis points rise</b>	<b>₱65,867,888</b>	50 basis points rise	₱64,545,641
<b>50 basis points fall</b>	<b>(65,867,888)</b>	50 basis points fall	(64,545,641)

**Risk concentrations of the maximum exposure to equity price risk**

The Company'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 analyses the Separate Funds' concentration of equity price risk in its equity portfolio by industrial distribution as percentage of total equity securities as of December 31:

	2016	2015
Holding Firms	28%	23%
Banks	14%	17%
Electricity, energy, power, and water	14%	16%
Property	14%	16%
Food, beverage, and tobacco	13%	13%
Retail	7%	5%
Transportation services	2%	2%
Mining	2%	2%
Others	6%	6%
Total	100%	100%

***Fair value interest rate risk***

Fair value interest rate risk arises from the possibility that changes in interest rates will affect the fair values of investment in debt securities under FVPL. The exposure of the Separate Funds to market risk for changes in interest rates is related primarily to investments under the Peso Fixed Income Fund and Dollar Fixed Income Fund, which are classified in the statements of financial position as financial assets at FVPL.



The following table demonstrates the sensitivity to a reasonable possible change in interest rates:

	<b>2016</b>		<b>2015</b>
<b>Change in Market Rate of Interest</b>	<b>Effect on Net Asset Value Attributable to Unitholders</b>	<b>Change in Market Rate of Interest</b>	<b>Effect on Net Asset Value Attributable to Unitholders</b>
<b>25 basis points rise</b>	<b>(₱78,152,543)</b>	<b>25 basis points rise</b>	<b>(₱51,932,587)</b>
<b>25 basis points fall</b>	<b>81,973,183</b>	<b>25 basis points fall</b>	<b>54,731,103</b>

***Foreign currency risk***

Foreign 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 Separate Funds' 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
<b>Assets</b>				
Traditional VULs:				
Cash and cash equivalents	US\$5,569,908	₱277,453,845	US\$8,001,081	₱377,379,008
Debt securities	54,066,058	2,693,192,522	34,976,669	1,649,709,571
Investment income receivable	1,006,889	50,156,161	650,648	30,688,453
Subscription receivable	7,062	351,801	1,594	75,185
Other receivables	25	1,246	6	283
Structured VULs	23,983,895	1,194,709,761	23,578,315	1,112,094,805
	<b>US\$84,633,837</b>	<b>₱4,215,865,336</b>	<b>US\$67,208,313</b>	<b>₱3,169,947,305</b>
<b>Liability</b>				
Accounts payable	US\$88	₱4,390	US\$222,675	₱10,502,688
Accrued and other liabilities	83,149	4,141,882	67,620	3,189,367
	<b>US\$83,237</b>	<b>₱4,146,272</b>	<b>US\$290,295</b>	<b>₱13,692,055</b>

The foregoing Dollar amounts have been restated to their Peso equivalents using the exchange rate of ₱ 49.813 and ₱ 47.166 to US\$1, prevailing spot rate and as recommended by IC, as of December 31, 2016 and 2015, respectively.



The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on net asset value attributable to unitholders:

<b>2016</b>		<b>2015</b>	
<b>Change in Peso - Foreign Exchange Rate</b>	<b>Effect on Net Asset Value Attributable to Unitholders</b>	<b>Change in Peso - Foreign Exchange Rate</b>	<b>Effect on Net Asset Value Attributable to Unitholders</b>
<b>Peso depreciation of 2.68%</b>	<b>₱112,874,070</b>	<b>Peso depreciation of 1.53%</b>	<b>₱48,290,705</b>
<b>Peso appreciation of 2.68%</b>	<b>(112,874,070)</b>	<b>Peso appreciation of 1.53%</b>	<b>(48,290,705)</b>



# COMPANY PROFILE

At **Insular Life**, we apply over a hundred years of experience in financial protection, savings and investments to help you make confident decisions for you and your loved ones. We recognize that financial priorities change over time — that is why we are here to help you plan ahead, through every step of the way.

As an Insular Life customer, you have the confidence of being protected by a company with a consolidated asset base of Php 129 billion; net worth of Php 40.3 billion; net income of Php 4.9 billion; revenues of Php 25 billion, and total life insurance business-in-force of Php 267.3 billion, as of yearend 2016.

We remain committed to serving the Filipino, as we spread the benefits of life insurance to every family. Thus, as you look ahead, be assured that Insular Life will guide you, as you advance from one life stage to the next.