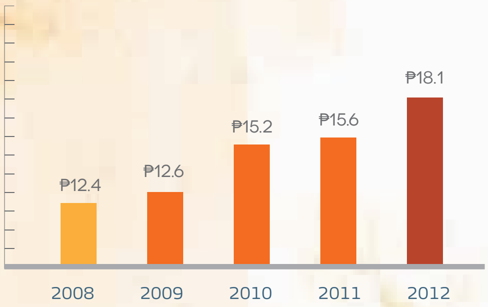
LIVES EMPOWERED THE FUTURE SECURED

2012 INSULAR ANNUAL REPORT

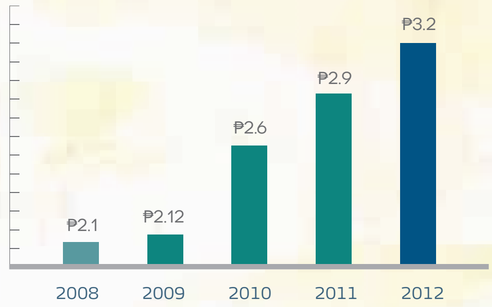
1910
Insular

CONSOLIDATED FINANCIAL HIGHLIGHTS

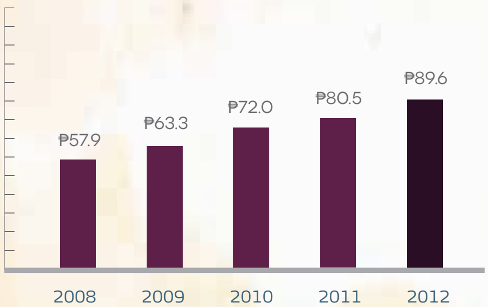
REVENUES
(IN BILLION PESOS)



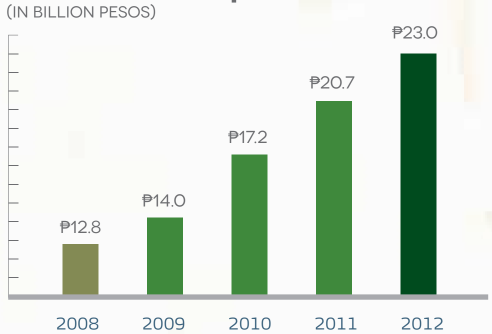
NET INCOME
(IN BILLION PESOS)



ASSETS
(IN BILLION PESOS)



MEMBERS' EQUITY
(IN BILLION PESOS)



ABOUT THE REPORT

Content

This Insular Life Consolidated 2012 Annual Report gives an update on the progress and priorities set out in our previous report in 2011. It contains data and information on various aspects of our business and operations. Our intention is to provide a holistic view of our financial, operational, social responsibility, and governance performance.

Audience

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

Reporting Cycle and Boundary

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

Data Collection and Validation

In order to obtain the relevant data for this report, consultations were made with our business units on the financial, social, and operational topics that they deem most relevant to our business as an insurance company. Meanwhile, we engaged the services of SGV & Co. to audit our financial reports for the parent company, Insular Life, and the consolidated report for the Insular Group of Companies.

Data are validated and processed by our Public Relations Staff. We have developed a basic reporting protocol and defined the requests for specific data in our collection tool to align the understanding of what data are required from our offices.

Reporting Criteria

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

Feedback

We welcome feedback from our stakeholders to improve our reporting process. Please email the Public Relations Staff at mdsantos@insular.com.ph.

For other information, as well as to secure a copy of the 2012 Annual Report, please contact:

Ms. Ana Maria R. Soriano
Senior Assistant Vice President
Public Relations Staff
Insular Life Corporate Centre, Insular Life Drive, Filinvest Corporate City, Alabang, 1781 Muntinlupa City
Email: arsoriano@insular.com.ph

On the cover: Denise Viña and Stephanie Ty (couple); Jeremy David L. Plata and Cassandra Sofia L. Plata (kids) **Magazine breaker:** Denise Viña and Stephanie Ty (young couple); Jeremy David L. Plata, Althea M. Decena, and Cassandra Sofia L. Plata (kids); Brikcio S. Santos and Elena S. Santos (retirees) **CSR breaker:** Janice M. Decena and Althea M. Decena

Concept and Design: Kestrel DDM ▪ Content: Writers Edge, Inc. ▪ Photography: Bobot Meru ▪ Printer: CGKformaprint, Inc.

This annual report, except the financial statements section, is printed on Forest Stewardship Council-certified paper stocks.

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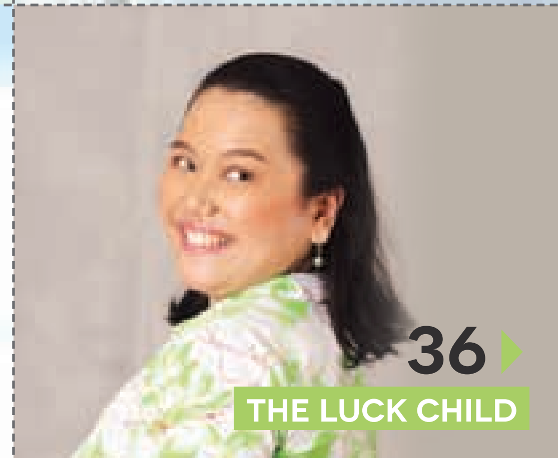


FINANCIAL HIGHLIGHTS

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

For the year	2012	2011	2010	2009	2008
Net Income per FS	**3,216**	2,893	2,574	2,120	2,097
Net Insurance Revenue per FS	**10,449**	8,701	8,376	7,402	7,009
Operating Revenue	**7,641**	6,860	6,800	5,155	5,422
Total Revenue per FS (Net Insurance Revenue + Operating Revenue)	**18,089**	**15,561**	**15,176**	**12,556**	**12,432**
Assets	**89,586**	**80,523**	**71,982**	**63,324**	**57,922**
Cash and Cash Equivalents	**4,704**	**3,237**	**2,984**	**1,742**	**2,152**
Cash on hand and in banks	909	481	515	304	417
Short term investments	3,796	2,757	2,470	1,438	1,735
Liabilities	**66,541**	**59,828**	**54,738**	**49,284**	**45,172**
Retained Earnings	**17,258**	**14,898**	**9,793**	**8,019**	**6,723**
Appropriated	250	250	175	125	100
Unappropriated	17,008	14,648	9,618	7,894	6,623
Members' Equity	**23,045**	**20,695**	**17,245**	**14,040**	**12,750**
Total Liabilities and Members' Equity	**89,586**	**80,523**	**71,982**	**63,324**	**57,922**

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

For the year	2012	2011	2010	2009	2008
Net Income per FS	**2,134**	2,059	1,892	1,535	1,912
Net Insurance Revenue per FS	**10,188**	8,452	8,092	7,132	6,764
Operating Revenue	**6,383**	5,965	6,049	4,503	5,143
Total Revenue per FS (Net Insurance Revenue + Operating Revenue)	**16,571**	**14,417**	**14,141**	**11,635**	**11,906**
Assets	**92,755**	**79,923**	**71,853**	**61,672**	**55,408**
Cash and Cash Equivalents	**4,537**	**3,087**	**2,802**	**1,611**	**2,003**
Cash on hand and in banks	770	382	405	266	387
Short term investments	3,767	2,705	2,398	1,345	1,616
Liabilities	**66,340**	**59,716**	**54,635**	**49,175**	**45,064**
Retained Earnings	**11,084**	**9,801**	**5,527**	**4,435**	**3,724**
Appropriated	250	250	175	125	100
Unappropriated	10,834	9,551	5,352	4,310	3,624
Members' Equity	**26,415**	**20,207**	**17,218**	**12,496**	**10,344**
Total Liabilities and Members' Equity	**92,755**	**79,923**	**71,853**	**61,672**	**55,408**

Vicente R. Ayllón

MESSAGE TO **POLICYHOLDERS**

Dear Policyholders:

2012 was undeniably the Year of the Philippines. And for the nation's largest and leading insurance company with local roots that are more than a century deep, 2012 was a time to shine.

Throughout our history, we have seen how the Philippine economy rode on a boom-and-bust cycle. We have witnessed how Filipinos demonstrated their resilient spirit, both in times of abundance and of scarcity. It is here where Insular Life is drawing vast insights, experience and inspiration. Our sustained financial growth stems from our deep understanding of the needs of the Philippine market and the Filipino policyholder.

Now that the tailwinds have again turned to our country's favor, we at Insular Life will not just play witness to the changing tides. True to being a far-sighted guardian, we will ensure that our policyholders emerge more empowered by addressing their financial security needs.

2012: A world divided

The year 2012 divided the world into risks and opportunities. On one side, we saw major economies in Europe still grappling with political and macroeconomic uncertainty, hurting investors, consumers and corporate balance sheets. Economic growth in the U.S. remained anemic and insurers faced combined pressures from low interest rates, rising demand from investors for higher returns, and growing regulations on risk and capital management practices.

On the other side of the world were the fast-growing Asia-Pacific region economies, where the spotlight shone on the Philippines' phenomenal story on resiliency.

Bucking the global downtrend, the domestic economy emerged as Asia's fastest growing next to China and was hailed as one of the world's success stories in 2012. Our gross domestic product (GDP) grew by 6.6 percent – the highest in a non-election year since 1988.

We began to reap demographic dividends from having a young, skilled, and hardworking population that has transformed the business


Mayo Jose B. Ongsingco

process outsourcing industry into a US$13-billion revenue source in 2012, 18 percent higher than US$11 billion in 2011. The number of workers employed in the BPO sector also rose 21.8 percent to 780,000 from 640,000 during the period. Even amid the persistent weakness in the global economy, demand for overseas Filipino workers remained robust. They continued to be a major economic driver as remittances they sent home hit an all-time high of US$21.39 billion in 2012, 6.3 percent higher than year-ago levels.

These inflows not only strengthened the services sector, but also fed the growth of other industries such as retail, real estate, and manufacturing.

More importantly, they helped create a rising Filipino middle class, whose newfound financial freedom fueled domestic consumption and reduced our country's dependence on exports than most emerging markets. Indicative of this growth was our per capita GDP, which surged by 4.8 percent from 2.2 percent in 2011.

This financial freedom also made its way into the domestic equities market. In 2012, the Philippine composite index reached 38 record highs and grew by 33 percent from the year-ago level to close at 5,812.73. This made our stock market one of the world's ten best performers and second-best in Asia Pacific after Thailand.

Rising share prices also benefited Philippine companies. In addition to stronger corporate earnings, local firms took advantage of record-low interest rates and a benign inflation to raise funds for business operations and expansion. This led to a flurry of activities in the Philippine capital markets, which also benefited the insurance industry through corporate lending and equity investments.

Confidence in the Philippines' growth story was reaffirmed when international credit rating agencies raised our sovereign credit ratings just a notch below investment grade in 2012. Continuous improvement in the country's strong external position, prudent fiscal management, and transparent governance have led to 11 positive credit rating actions since President Benigno S. Aquino III took over in June 2010, and to investment-grade credit rating status in March 2013.

Moving from strength to strength

Given our leadership position in the Philippine insurance industry, Insular Life was a direct recipient of this very positive operating environment.

Thus, 2012 became another windfall year for the Company. Our consolidated net income rose 10 percent to ₱3.2 billion from ₱2.9 billion in 2011. Net income is the best indication of how well a company is managed, and how much it is growing. It must be said that Insular Life has had a steady growth in net income for decades and our 2012 net income is an all-time high, making us one of the most profitable insurance companies in the industry.

Consolidated revenues were 17 percent higher at ₱18.1 billion than ₱15.5 billion a year ago. Of the amount, net insurance revenues contributed ₱10.4 billion, 20 percent higher than in 2011, and other operating revenues such as investment income, equity in net earnings, and net realized gains amounted to ₱7.6 billion.

Total insurance benefits and operating expenses reached ₱14.6 billion, a 19 percent jump from ₱12.3 billion, previously, with gross benefits and claims on insurance contracts and net change in legal policy reserves accounting for the bulk of the total.

Our consolidated assets rose 11 percent to ₱89.6 billion from ₱80.5 billion in 2011 while consolidated liabilities grew 11 percent to ₱66.5 billion from ₱59.8 billion. Total members' equity increased 11 percent to ₱23.0 billion from ₱20.7 billion. With these remarkable increases in our assets and equity, we will continue to maintain our standing in the insurance industry. Our gross earned premiums on insurance contracts expanded 20 percent to ₱10.6 billion from ₱8.8 billion a year ago.

Our parent company, Insular Life, recorded ₱5.2 billion in new business premiums, a whopping 45 percent increase from 2011 levels. Total premiums increased to ₱9.4 billion, 24 percent higher than the 2011 level. Our investment income of ₱5.4 billion was 4 percent higher than the previous year's ₱5.2 billion and contributed to a 4 percent increase in our net income of ₱2.1 billion from the 2011 level.

Also producing significant gains in 2012 were our three subsidiaries and one affiliate:

- **Insular Health Care, Inc. (IHCI)** posted revenues of ₱283.3 million, one of the highest in its 21-year history. Its total assets grew by ₱13.3 million to ₱305.1 million from 2011, with total equity of ₱151.8 million and retained earnings of ₱48.4 million.
- **Insular Investment Corporation (IIC)**, our investment banking arm, grew its net income to ₱161.9 million from ₱9.4 million year-on-year. Total assets increased to ₱712.5 million from ₱496.6 million, previously. Gross revenues grew by nearly tenfold to ₱296.8 million from year-ago's ₱27.8 million. Total stockholders' equity stood at ₱644.8 million.
- **HomeCredit Mutual Building & Loan Association** increased its preferred shares and redeemable capital contribution by 16 percent or ₱21.4 million as a result of the growth of its membership base. This boosted total equity by 11 percent.
- Our affiliate non-life insurance company, **Mapfre Insular**, reported gross premiums of ₱1.9 billion, driven by a double-digit growth in direct premiums written of ₱1.6 billion. It generated a net income of ₱161 million. Mapfre Insular ranks 5th among non-life insurance companies in terms of net premiums earned and total equity.

Seizing opportunities

Operating in one of the fastest-growing economies of the world naturally offers plenty of opportunities for an insurance company like Insular Life. However, success breeds more competition. And in the past six years that we were able to consistently breach our ₱2-billion profitability mark and remain as one of the top five leading insurance companies, we found that we are getting better at it.

In 2012, our clear strategy of seizing fresh opportunities while ensuring long-term quality sustainable growth again paid off. We encapsulated this strategy in the acronym CHARGE: where ***C*** stands for Consistency, ***H*** is for High production, ***A*** is Agent Activity, translated in terms of number of policies, ***R*** is for Recruitment, ***G*** is for Goal-busting efforts, and ***E*** is for Everyday new business submissions in all offices.

Coming from a banner year in 2011, we started 2012 with a highly charged sales rally that engaged not just our sales people, but the rest of the Company as we aimed to make Insular Life the insurer of choice from Aparri to Jolo. Before the second half of 2012, the campaign has started showing significant results and we have not looked back since.

Our record-breaking gains in 2012 were the product of a careful, customer-centric strategy that addressed the financial needs of our policyholders at every stage of their life.

To enable our policyholders to ride on the crest of the vibrant economies of the Philippines and others in the region, we launched three new investment-linked products in 2012: the **I-Dollar Pay 7,** the first structured product in the local market that pays out returns annually rather than upon maturity; the **I-Peso Fortune**, which invests in the promising performance of small-capitalized companies in the Asian region; and the **I-Peso Enhancer**, a seven-year, single-pay product with guaranteed returns. The three new products generated for the Company total premiums of ₱1.1 billion in 2012.

To help our policyholders appreciate the investment opportunities and life-changing benefits of our products, the Company embarked on a multi-media marketing campaign that involved TV and print advertisements, online contest promotions and digital campaigns launched in major social media networks such as Facebook, blogs, and YouTube. We also conducted seminars on topics about health and wellness, financial security, and estate planning.

Insurance being a 'push' product means that we have to literally go out of our way to sell the concept of insurance to our market. This meant creating a wider customer footprint to physically reach key areas in the archipelago, as well as virtually make our products more accessible to our policyholders through the web.

In 2013, we expect to complete the physical makeover of our offices nationwide, to align with the refreshed Insular Life brand. These improvements, along with efforts to more deeply ingrain the *Magandang Araw* brand of service in our corporate culture, are expected to communicate our distinct character as a customer-centric organization.

Insular Life invested in a new and powerful policy administration system that will provide comprehensive integrated solutions to support a wide variety of policies, procedures, distribution channels, product mixes, organizational structure, and target markets. The policy administration system will also provide us with the capability to interface with clients through internet and mobile devices at their preferred location.

Ahead of the curve

While we continue to have a bullish view of the Philippines in 2013 and beyond, we anticipate the following developments to shape the local insurance industry:

- The enactment of the law amending the 1974 Insurance Code for the first time. The amendments address a range of issues that are already deemed antiquated and have been stunting the growth of the insurance industry. The industry expects the bill to be signed into law this year.
- The continuous drop in interest rates, which could prompt insurance companies to seek alternative sources of income. On our part, we continue to have a prime real estate portfolio that provides us substantial rental revenues, in addition to cash dividends from our strategic equity holdings in a leading universal bank and a major manufacturing company.

Our fates are intertwined

Our nation is populated with hardworking people who are focused on providing well for their families, buying homes, building businesses, and investing for the future – people who contribute every day, in large ways and small, to the making of a strong, competitive economy fully capable of holding its own in the global marketplace.

As the economic pie grows larger and the business and societal landscape evolves, Insular Life will, too. With your enduring trust, we will continue to thrive and move closer towards our aspiration to become the life insurer of choice in the country.

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

Mayo Jose B. Ongsingco, MNSA
President and Chief Operating Officer

CORPORATE **GOVERNANCE**

It has always been the Company's policy and strategy to promote and put into practice an effective framework for good corporate governance across the organization, keeping in mind the interests of its stakeholders.

Seated (L-R): Ms. Marietta C. Gorrez, Mr. Vicente R. Ayllón, Ms. Mona Lisa B. de la Cruz
Standing (L-R): Mr. Delfin L. Lazaro, Mr. Ricardo G. Librea, Mr. Alfredo B. Paruñgao, Mr. Mayo Jose B. Ongsingco, Dr. Bernardo M. Villegas, Atty. Francisco Ed. Lim

BOARD OF TRUSTEES

The ultimate responsibility for good corporate governance rests with the Company's Board of Trustees. These individuals are elected representatives and are known for their impeccable integrity and high ethical standards. They ensure that governance principles direct their actions in the Company's attainment of corporate objectives and in pursuit of its mission and vision.

Each of the Trustees possesses all the qualifications and none of the disqualifications (whether temporary or permanent) provided in the Company's amended By-Laws, and as required under the Insurance Commission's Corporate Governance Principles and Leading Practices (CGPLP). All of them are experts in their own fields and competent managers in insurance and insurance-related fields. They all have attended Corporate Governance seminars conducted by duly accredited training providers. They also have the necessary skills, training, experience, and integrity that help them in the performance of their roles and responsibilities as guardians of the corporation.

Composition

The Board is composed of nine members who are leaders in their respective fields and were selected for their integrity and probity. They are:

EXECUTIVE DIRECTORS	NON-EXECUTIVE DIRECTORS	INDEPENDENT DIRECTORS
Vicente R. Ayllón *Chairman of the Board and Chief Executive Officer* **Mayo Jose B. Ongsingco** *President and Chief Operating Officer; and* **Mona Lisa B. de la Cruz** *Executive Vice President, Chief Actuary and Treasurer*	**Marietta C. Gorrez** **Francisco Ed. Lim**	**Alfredo B. Paruñgao** *Board Vice Chairman* **Delfin L. Lazaro** **Ricardo G. Librea** **Bernardo M. Villegas**

The balanced composition ensures that there is open and independent discussion of various issues taken up. Decisions are made based on an objective evaluation of the issues, keeping in mind the best interests of the Company.

The Chairman of the Board

Aside from being the Chairman of the Board, Mr. Ayllón also serves as the Company's Chief Executive Officer. He also sits as Chairman of the Board of the various subsidiary corporations of Insular Life namely: Insular Health Care, Inc., Insular Investment Corporation, Home Credit Mutual Building and Loan Association, and Insular Life Management and Development Co. He also serves as the Chairman and President of Insular Life Property Holdings, Inc. and the Vice Chairman of Mapfre Insular Insurance Corporation. Mr. Ayllón's role as Chairman of the Board of these subsidiaries ensures alignment of the overall objectives of the Insular Group of Companies.

He also occupies various posts in corporations where Insular Life has minority shareholdings -- Vice Chairman of the Board of Union Bank of the Philippines; and Director of Pilipinas Shell Petroleum Corp. and of Shell Company of the Philippines, Ltd. His other directorships are in Rockwell Land Corporation and in the Palms Country Club.

Mr. Ayllón also sits as the Chairman of the Insular Foundation Inc., the Company's corporate social responsibility arm.

Board Committees

There are six Board Committees that help the Board of Trustees in the overall management of the Company.

The Executive Committee of the Board exercises powers and attributes, allowable by law, of the Board of Trustees during the intervening period between the Board meetings. It shall report all resolutions it has adopted at the first meeting which the Board may subsequently hold for the purpose of ratifying such resolutions.

The other Board Committees and their composition are indicated below:

COMMITTEES AND MEMBERS:
(As of December 31, 2012)

EXECUTIVE COMMITTEE

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

BUDGET & AUDIT COMMITTEE (BAC)

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

FINANCE & INVESTMENT COMMITTEE (FIC)

Alfredo B. Paruñgao
Chairman
Bernardo M. Villegas
Vice Chairman
Delfin L. Lazaro
Francisco Ed. Lim
Mayo Jose B. Ongsingco

GOVERNANCE COMMITTEE (GovCom)

Francisco Ed. Lim
Chairman
Bernardo M. Villegas
Vice Chairman
Ricardo G. Librea

PERSONNEL & COMPENSATION COMMITTEE (PerCom)

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

NOMINATIONS COMMITTEE

Vicente R. Ayllón
Chairman
Delfin L. Lazaro
Vice Chairman
Ricardo G. Librea

Board Actions

The Board of Trustees and its Executive Committee meet every month, or as often as necessary. All material information are completely disclosed to the Board and the Executive Committee to help them in decision making. Minutes of these meetings, including relevant comments, opinions, and any dissenting opinion, are properly recorded.

The Board reviews and approves significant corporate actions that have not been otherwise delegated to Management. In the previous year, the Board has acted on corporate matters referred to it pertaining to strategic initiatives, investments, adoption of Company policies, and the like. There were no material related party transactions that needed to be discussed. The Board likewise monitors and evaluates corporate performance through the regular reports submitted by Management, including financial statements, legal and regulatory compliance, and other relevant aspects of the operations that are regularly reported to the Board. Any significant change in the directorships of the Trustees outside Insular Life is likewise required to be disclosed to ensure that the Trustees have enough time for the job.

The average attendance for the regular/ special Board meetings for the past Fiscal Year is 96 percent. On the other hand, average attendance for the Executive Committee meetings is 95 percent. No one had an attendance of less than 50 percent in both meetings.

All the members of the Board of Trustees, which includes the Chairpersons of each Board Committee, attended the Annual Regular Members' Meeting held on 23 May 2012.

A summary of the Board and Board Committee attendance is indicated below:

Trustee	Regular/ Special Board Meetings	Executive Committee Meetings	Other Board Committees				
			BAC	FIC	GovCom	Nominations	PerCom
Vicente R. Ayllón	11/12*	9/11*				1/1*	
Alfredo B. Paruñgao	12/12**	10/11	5/6**	3/3*			3/3
Mona Lisa B. de la Cruz	11/12						3/3
Marietta C. Gorrez	11/12		5/6				3/3
Delfin L. Lazaro	12/12			2/3		1/1**	
Ricardo G. Librea	12/12	11/11	6/6*		4/4	1/1	3/3**
Francisco Ed. Lim	11/12		4/6	2/3	4/4*		
Mayo Jose B. Ongsingco	12/12	11/11		3/3			
Bernardo M. Villegas	11/12	11/11**	4/6	3/3**	2/4**		3/3*

*Committee Chairman
**Committee Vice Chairman
Not a member

Board Performance Appraisal

In compliance with the CGPLP and pursuant to Insular Life's Manual on Corporate Governance, the Board of Trustees conducted self-assessments on their performance as an Individual Trustee, on the performance of the Board as a whole, and on the performance of each of their respective Board Committees. All nine Trustees reported 100 percent compliance with all the performance standards in each of the assessments.

In addition, the Performance Assessment of the Chairman of the Board was also conducted by the Non-Executive Trustees. The Chairman was given 100 percent compliance rating in all performance standard items.

MANAGEMENT

Management is in charge of the day-to-day operations and the conduct of business of the Company. It implements the policies and strategies as approved by the Board in directing the Company's course and business activities. Management is accountable to the Board for the effective and efficient performance of the functions of the corporation and for the attainment of the corporate targets.

The total compensation of key management personnel with ranks of Vice President and up for the year is ₱335,742,003.90. The estimated total amount of compensation for the key management personnel for 2013 is ₱369,316,204.29.

Governance Program

Management continuously promotes a culture of good governance and compliance through its Governance Program. It strictly adheres to mandated requirements and guidelines such as those stated in the Insurance Code, Anti-Money Laundering Act (AMLA), other laws, and in the rules and regulations of the Insurance Commission, and other government regulatory agencies.

Various enhancement initiatives are continuously being explored to support this objective, including the development of automated tools and facilities to improve and facilitate governance operations and our compliance with all the rules and requirements of the regulators. Noteworthy of these are the automated tracking of potentially suspicious transactions and the online orientation/assessment of servicing personnel on the AMLA provisions.

SUBSIDIARIES' AND AFFILIATE'S **PERFORMANCE HIGHLIGHTS**

Insular Health Care

Insular Health Care, Inc. (IHCI) is one of the top ten health maintenance organizations (HMOs) in the Philippines in terms of capitalization, comprehensive healthcare packages and service delivery. It offers one of the industry's most comprehensive healthcare programs and the flexibility to meet specific members' needs. Its network spans 1,507 hospitals, out-patient facilities and dental clinics nationwide and 10,829 medical specialists.

2012 HIGHLIGHTS

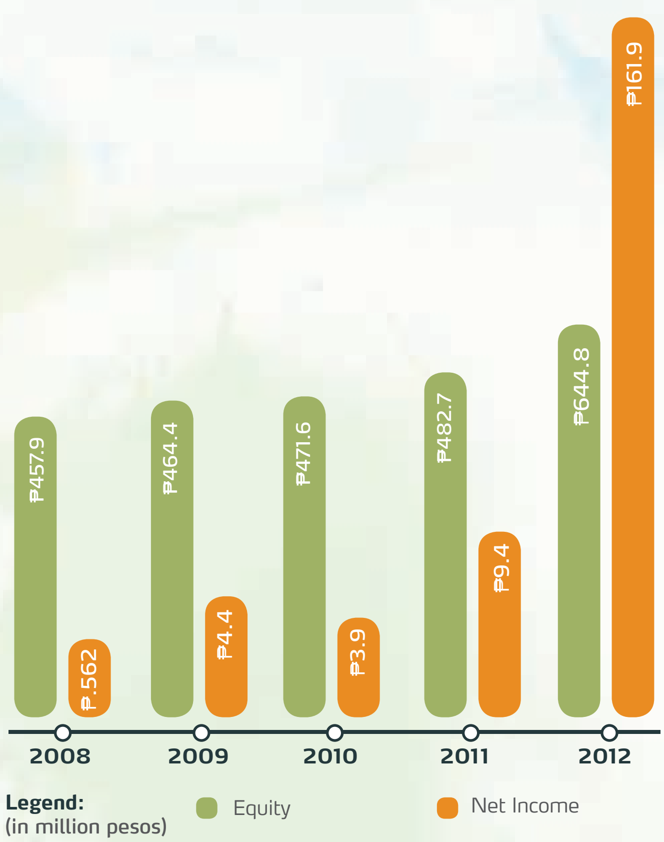
- Posted revenues of ₱283.3 million, one of the highest in its 21-year history.
- Increased total assets by ₱13.3 million to ₱305.1 million, from 2011 figures.
- Recorded total equity of ₱151.8 million and retained earnings of ₱48.4 million

Insular Investment

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

2012 HIGHLIGHTS

- Recorded a net income of ₱161.9 million in 2012, a skyrocketting 1,618 percent from ₱9.4 million in 2011.
- Grew its gross revenues to ₱296.8 million from the previous year's ₱27.8 million due to a significant one-time gain, as well as the stellar performance of the Corporate Finance Division during the year.
- Posted total assets of ₱712.5 million and total stockholders' equity of ₱644.8 million.
- Doubled its underwriting and arrangement income to ₱9.7 million from the previous year's ₱4.7 million, primarily due to the completion of two major deals: a ₱2-billion term loan facility for a premier telecommunications company; and the underwriting of a historic ₱80-billion preferred shares offering of a leading Philippine conglomerate.

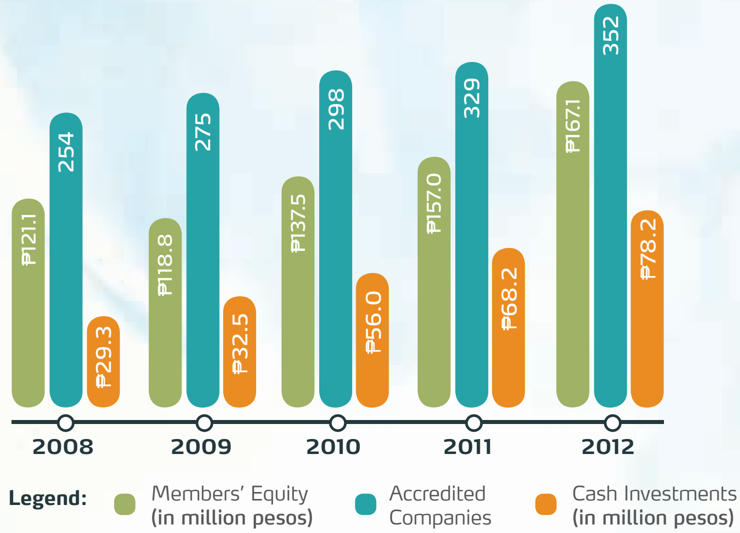


Insular Home Credit

HomeCredit Mutual Building & Loan Association (Insular HomeCredit) is a wholly owned subsidiary of The Insular Life Assurance Co., Ltd. It primarily offers a disciplined savings program with a housing and cash loan component to employees of accredited companies.

2012 HIGHLIGHTS

- Shored up its membership base by 2,285 as it rode on the exponential growth of the business process outsourcing (BPO), manufacturing, logistics, information technology, and educational services sectors which comprised a majority of the new members from accredited companies. These results were due to the expansion and improved efficiency of our automatic debit arrangements with major banks.
- Released ₱50.5 million in total contributions and earnings to 464 members who completed their savings term in 2012. A total of 88 members availed of new subscription prices amounting to ₱19 million.
- Increased the preferred shares and redeemable capital contribution by 16 percent or ₱21.4 million as a result of the growth of its membership base. This boosted total equity by 11 percent.
- Expanded its asset base to ₱240.7 million, 2.2 percent from year-ago levels.
- Increased by 14.5 percent or ₱9.9 million its cash and cash equivalents to ₱78.2 million due to improved collection processes, efficient administration, and the disposal of several real estate properties.



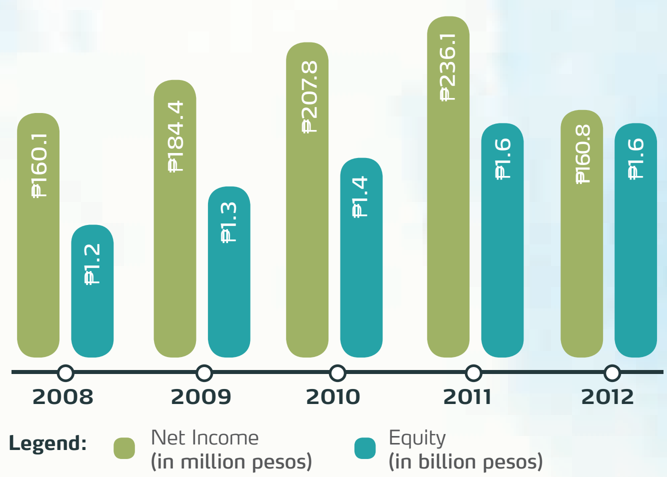
Affiliate

MAPFRE | INSULAR

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

2012 HIGHLIGHTS

- Generated a net income of ₱161 million despite the sluggish sales of motor vehicles in the country as a result of natural calamities in Japan and Thailand that caused supply chain disruptions;
- Posted a double-digit growth in direct premiums written or by 10.7 percent to ₱1.6 billion year-on-year, boosting gross premiums written by 4.2 percent;
- Grew its Accident and Health business by nearly 31 percent due to the success of the Mandatory Insurance for Overseas Filipino Workers, its fire insurance business by over 13 percent, and its surety business by more than 41 percent as it successfully capitalized on business opportunities resulting from an improved economy.



BEING A TOP EMPLOYER

Vital to the long-term success of Insular Life is having an open, conducive and stimulating working environment. It is only by ensuring the happiness, comfort and security of our people can we truly render the *Magandang Araw* brand of service to our customers and other stakeholders.

Our Company has reached past a century because we hire the right people, nurture their growth, and cultivate in them a mindset of innovation.

Our programs empower our people to make a positive difference to policyholders and public, as well as encourage them to achieve personal and professional growth.

Employee Force Profile

As of end-2012, Insular Life has a regular employee force of 776 employees, which cover those in our head office in Alabang, Muntinlupa City, as well as in our branch offices in key cities and provinces nationwide.

The ratio of male to female staff was at 5:8, of which 478 were female and 298 were male. Of the total, 21 percent or 164 employees occupied senior management positions in 2012.

As our business requires a dynamic synergy of expertise, work experience, and energy to meet the needs of our policyholders, the average age of employees in 2012 was at 37 years old.

Compensation & Benefits

Our Human Resources Division (HRD) together with our line managers administer a thorough review of the job performance and career development path for our employees. These regular evaluations are based on employees' individual accomplishments as measured against their job responsibilities, as well as the performance of the business unit and the company as a whole.

The results of these evaluations form part of our remuneration policy. We design our compensation and benefits schemes based on a variety of factors, such as the scope of the employee's responsibilities, individual performance, and competitiveness in the industry and the community. Indeed, the increasing demand for talent makes it all the more compelling to regularly benchmark our compensation structure.

We extend the inherent benefits of being a financial institution by offering our employees and their dependents a generous healthcare program and a housing program. These benefits are offered on top of the benefits mandated by law.

Rewards and Recognition

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

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

Insular Life extends subsidies to employees taking up courses under the Life Office Management Association (LOMA), an employee training and development association used by life insurance companies in over 70 countries worldwide. Due to its commitment to the program, Insular Life has been a consistent recipient of the Excellence in Education Awards from LOMA in the past 13 years starting in 1992. The Company has also developed a steady roster in the Fellow, Life Management Institute (FLMI), with 37 fellows to date. The FLMI Program has been the standard of excellence in the insurance and financial services industry in the world since 1932.

In addition, the Company also offers a scholarship program for employees who wish to pursue post-graduate degrees related to their job functions.

Insular Life also extends benefits through the College Scholarship for Employee Dependents program, which covers full tuition, book allowance, and other fees.

Insular Life Employees with Industry Recognition in 2012:

Diana Rose A. Tagra	Fellow, Academy in Life Underwriting, Life Office Management Association
Dennis Kim G. Benitez	1st Runner Up in the Best Sales Coordinator and 2nd Runner Up in the Best Service Coordinator Categories Awarded by: International Group Program (IGP) Star Awards, Boston, USA

Training and Development

We continue to provide a range of training programs designed to hone the skills and capabilities of our employees in carrying out their daily duties, as well as preparing them to assume higher responsibilities as the next leaders of the organization.

In 2012, each Insular Life employee participated in training and development activities for an average of 50 hours, inclusive of general orientation, product training, and behavioral programs. This cut across all levels – from the rank and file to middle management. We use a blended approach that includes workshops, coaching and instructor-led training sessions all designed and conducted among target participants across all units nationwide.

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

Communicating with employees

Critical to maintaining a good two-way communication within the organization is the existence of a formal management and employee council. This addresses work-related issues as well as lends support to Insular Life's overall business direction.

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

All Insular Life employees also abide by a Code of Business Conduct, which lays down our formal policies and procedures in raising and addressing concerns in relation to any business conduct issue or malpractice.

The employee council, AGILA, works in partnership with Management to communicate Company initiatives, and engage the participation of employees in various internal and industry-wide activities such as the Life Insurance Consciousness Week.

Industry Leadership

As one of the top life insurance companies in the country, Insular Life contributes to raising industry standards and issues that affect the insuring public.

Insular Life Employees in Industry Leadership Positions

Maria Teresa L. Cruz	Co-Chairperson of the Information & Technology Committee, Philippine Life Insurance Association (PLIA)
Atty. Renato S. De Jesus	Chairperson of the Legal & Legislative Committee (Legislative Matters), PLIA
Mylene C. Padilla	Finance & Investment Committee Member, PLIA
Diana Rose A. Tagra	Chairperson of the Medical Information Bureau (MIB) Committee, PLIA
Vilma A. Gorgonia, MD	Treasurer, Philippine Society of Insurance Medicine (PSIM)
Minerva P. Ave	Board Member for 2012, Home Office Life Underwriters Association of the Philippines (HOLUAP)
Jayson C. Torres	Officer for Special Events Committee for 2012, Association of Service Professionals in Life Insurance (ASPLI)

WHO IS THE TYPICAL INSULAR LIFE EMPLOYEE?

AS OF END-2012

AVERAGE AGE OF INSULAR EMPLOYEES

37 YEARS OLD

PREDOMINANT GENDER FEMALE

THERE ARE **298** MALE EMPLOYEES REPRESENTING **38.4%** OF THE TOTAL EMPLOYEE FORCE

478 FEMALE EMPLOYEES **61.6%** OF THE TOTAL EMPLOYEE FORCE

WHAT COURSE DID MOST OF THE INSULAR LIFE EMPLOYEES TAKE IN COLLEGE?

478 ACCOUNTANCY OR ACCOUNTING (BS OR BSC)

OTHERS

COMPUTER SCIENCE (BS)
BUSINESS ADMINISTRATION (BS OR BSC)
MATHEMATICS, APPLIED MATHEMATICS OR STATISTICS (BS OR AB)
MANAGEMENT (BS, BA OR BSC)
PSYCHOLOGY (BS, AB OR BA)
MARKETING (BS OR BSC)
COMMERCE (BS)
COMPUTER ENGINEERING (BS)
INFORMATION TECHNOLOGY (BS)
COMMERCE (BS)
COMPUTER ENGINEERING (BS)
INFORMATION TECHNOLOGY (BS)

47 NUMBER OF EMLOYEES WITH POST-GRADUATE DEGREES

IN WHAT CITY IS THE GREATEST NUMBER OF INSULAR LIFE EMPLOYEES LOCATED?

434 ALABANG, MUNTINLUPA CITY

AVERAGE NUMBER OF YEARS OF SERVICE TO INSULAR LIFE

11 YEARS

RANK & FILE VERSUS SENIOR PERSONNEL RATIO

3:1

THE POWER OF CHOICE

At Insular Life, we care deeply about our clients' financial well-being and security at every stage of their life.

It is this concern that drives us to innovate and develop new products and services based on our deep understanding of their ever-changing needs. We focus on being the exemplar in the industry when it comes to customer service, born from our commitment to preserving and growing the trust bestowed upon us.

We believe in empowering people to live their lives to the fullest – freed from the anxiety of the future, able to fulfill their dreams and focus on what truly matters to them.

WHEN WINDOWS OPEN

As one of the top agency leaders of Insular Life, Malou Dela Cruz-Romero is well-versed in the benefits of life insurance products. This knowledge is backed by experience. As a beneficiary of her husband's insurance policy, she saw first-hand how preparing for the future could be the window that opens for a family when a door closes with the passing of a spouse.

When her husband succumbed to cancer in January 1989, Marilou Dela Cruz, then 37 years old, turned to the heavens and asked, "Is this really happening to me?"

Along with their three kids, the couple had just arrived from a trip to the United States, where they visited his relatives after she attended her first Million Dollar Round Table Annual Meeting, an elite gathering of the top six percent of life insurance professionals in the world. Qualifying for the exclusive group has been her dream since becoming a part-time agent for Insular Life in 1981. She was on cloud nine.

"Later on I realized the trip was (my husband's) way of saying goodbye to everyone," says Malou, now Mrs. Romero after remarrying in 2008. "I will always remember that point in my life with mixed emotions. I achieved a dream but I became a widow at 37 with three kids. My youngest was just nine years old then."

But she was never the type to brood over tragedy, she adds. Her husband was buried on a Sunday, and she was back to work the next day, attending to a sales call. What got her through the potentially devastating event was her late husband's belief on the power of ensuring the future.

"I became a living testimony to the miracle of life insurance," she declares. "I was an insurance agent so I knew how it could benefit lives. But when my husband died and I became a beneficiary myself, I gained personal insight as to how this miracle can really safeguard families."

Now 60 years old, the bubbly Mrs. Romero recalls how her husband's death had little effect on their lifestyle. They did not have to sell their house and give up the car. More importantly, their children did not have to transfer to more affordable schools. Two of them, Rex and Pia, in fact went to one of the most exclusive schools in the country. The youngest, Tina, took up medicine, a daunting financial task for any parent, much more for anyone venturing at it alone.

Malou Romero repurposed her mother's old sewing machine into her office table, as a tribute to the invaluable lessons she was taught in her youth.

For Mrs. Romero, the tragic event only inspired her to reach even greater heights, both personally and professionally. "All my life had been centered around my husband. Then I realized that I can move on, that there is life after the death of a spouse. I feel blessed to have a second chance. The financial independence helped me get started on that track," she explains.

As an insurance professional, her stellar career at that point was only just beginning. She would go on to qualify for MDRT for an unprecedented 26 straight years, all while climbing through the ranks in the insurance business. In 2011, she reached another milestone: forming her own general agency, MLR Financial.

Having accomplished a lot, she now dreams of "duplicating" herself. She wants to mentor people who can eventually qualify for MDRT, attain what she has done, and reap the good life that a career in life insurance promises.

Growing up as a young girl in Abucay, Bataan, Mrs. Romero says that being an insurance agent was not in her list of dream jobs. She wanted to be a detective or an actress. Unknown to her, however, her experiences were somehow preparing her for a career in insurance.

"As a girl, I remember joining *sagalas*. My mother, who used to be a dressmaker, would always make my gown. Early on, I learned that I should always smile at people because it uplifts their moods," she shares, while giving a sample of the winning smile that she says has put her clients at ease.

As a tribute to her mother, Mrs. Romero re-outfitted a sewing machine and made it her table at the Makati office of MLR Financial. It was the same one her mother used in making her childhood gowns. All around the office, in fact, are more tributes to her decades of good work.

On a prominent wall hangs a beautiful oil painting, a gift from her first clients who have been with her for 32 years. "From investments before, I'm now taking care of their estate planning," she says. "Insular Life and I have been with them every step of the way."

Growing up in a poor family in the province has had a big impact on her personality. When her clients see that she is just an "ordinary person, like them," she becomes someone whom they can easily trust.

Her time as a working student in college had strengthened her work ethics. She remembers working as a secretary for various companies in the morning while slugging through her accounting subjects at night. Now that she is a much-awarded agent and agency leader, this passion for hard work is still evident in her everyday routine, a significant part of which remains to be devoted to working and improving herself.

"I don't feel like stopping," she says. "Life insurance has empowered me in so many ways. I have people asking me, 'How can a widow do it?' And all I do is flash them a smile. It's true. When a door closes, a window – in my case, many windows – will open."

Standing, from left: Rheycaraido Recto, Marylyn M. Joven, Olivia S. Real, Robert Theodore S. Romero, Maria Rowena C. Ablaza, Dolores DR. Cruz, Angeles P. Comeily Birjandi, Victor Rafael G. Florendo. *Seated, from left:* Rebecca A. Delas Alas, Marilou L. Romero, Michelle Love S. Romero, Emma Nena G. Gumapac, Joliza C. Gelhay, Blessilda V. Resuello.

With husband Robert Theodore S. Romero

THE POWER OF CHOICE

The freedom to choose one's path is possibly the most valuable gift that parents could bequeath their children. Rex Dela Cruz and his sisters now have their places in the sun, but they still remember with gratitude the road that led them there.

Michael Rex Dela Cruz was 14 when his father, Rogelio, died. He remembers feeling devastated, he says, but at the same time he knew that he needed to be prepared to shoulder more responsibilities in the young family.

"I have two younger sisters, Pia and Tina. One of the last things Papa told me was to take care of them," he shares. "Instantly I became the man in the family."

Now involved with operations of a holding company, this father of three says he is still in awe over how his family stayed strong during the turbulent time in their life. He had doubts whether they could pull through, and it was his mother, Marilou Dela Cruz, then an up-and-coming insurance agent, who became the family's steady rock.

"Amazingly, she was still able to provide for us. There was no drastic change in our lifestyle," he says. "All of that had been fruits of life insurance."

As the eldest, Rex was the first to experience the rewards of a secure future. In college, he took up electronics and communications engineering in one of the most exclusive schools in Manila, thanks to the insurance proceeds from his late father's policy and his mother's steady earnings as an agent.

As a result, life insurance – which a young Rex thought was merely "an ordinary sales job" – turned out to be a pivotal lifesaver, without which he couldn't picture life after his father's unfortunate demise.

And so when his eldest child Miguel Luis was born in 1995, the young father didn't think twice about getting a college education policy for his firstborn.

At right about the same time, his two siblings, Pia and Tina, were in college. Pia went to the same exclusive school, while Tina was about to start studying to be a doctor. The exorbitant fees associated with medical school never became an issue, Tina says, still thanks to their hardworking mother and the "miracle" of life insurance.

"Insurance played a very important role in all our lives," she adds. "It helped us get through a very difficult time and beyond."

Now a gastroenterology fellow in Kentucky, Tina says the insurance business did not only secure their family's financial wellbeing; it also paved the way for them to pursue the things that they are passionate about.

"Like most kids I had many fantasy jobs," she shares. "When I was eight, I was admitted to UST Hospital and my experience with my physician inspired my dream. I also met other role models throughout the years. Today, while work can be demanding, I can say that it's all worth it, and very rewarding."

For Pia, who is now based in Singapore, she says she someday wants to achieve the same level of fulfillment and success as her mother, who is respected in the field of insurance, not just locally but in the international arena.

"She has always been my inspiration," she adds. "For as long as I can remember, I would go to her office and see her hard at work. After high school, I worked for her so I know that her line of work is not easy. I know that she really worked hard."

Today, the former events planner is embarking on a journey of her own, which she juggles with her duties as a wife and mother. A small jewelry and accessories business keeps her busy, and while it's currently more a hobby than anything, she also plans to expand by joining bazaars in order to market the proudly Filipino-made products.

"I'm also very focused on my son. We've also bought a house recently so we're busy with renovations. As a housewife, I now have the luxury to take longer vacations. On weekends, we go to Orchard Road and go malling. I'm happy."

None of these, she notes, would have been possible if not for life insurance.

Rex Romero talks about how his parents' foresight and hard work empowered him and his siblings to choose their own paths.

"It's what raised us. What sent us to good schools, what allowed us to do what we wanted. For me and my siblings, there would have been no other way. Things would've been so different."

At the prime of their lives, the three Dela Cruz children – all married – never fail to pay homage to the tireless energy of their mother, who has managed to qualify to the prestigious MDRT for 26 years now, and who continues to delight her 500 clients with her excellent service.

The insurance business, and their family as life insurance beneficiary, have made a lot of difference in Mrs. Dela Cruz-Romero's ability to bring up her three children and maintain the lifestyle they used to enjoy when their father was around.

"I can't imagine how life would be had we turned out otherwise," Rex says.

Tina, one of Rex's sisters, talks about how their mother became their anchor when their father passed away.

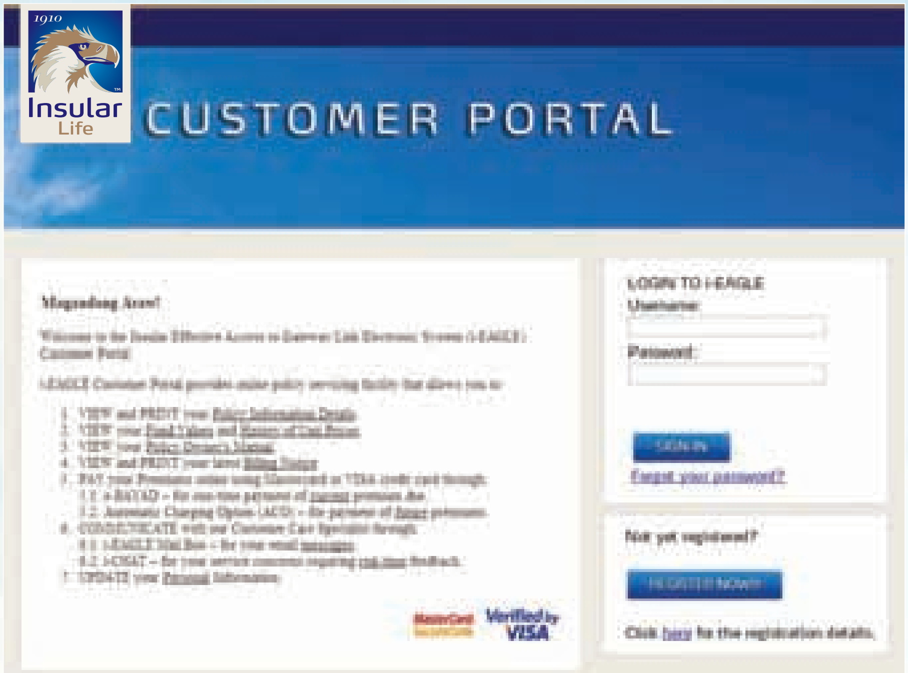
Paying it forward. Now a father himself, Rex has taken the lessons of his parents and made sure his family has sufficient insurance coverage.

WHERE EVERY MORNING IS A **BRAND NEW CHANCE TO SHINE**

As soon as she graduated with her master's degree from the University of Michigan, Mona Lisa B. de la Cruz already knew what she wanted in life: to serve her countrymen by doing what she did best – crunching numbers. So she set her sights on landing an actuarial job at the state-owned pension agency, also as a way to pay back the scholarship that enabled her to obtain a degree in BS Statistics, *cum laude*, at the University of the Philippines.

Fate, however, took her to a slightly different road – specifically, to Ayala Avenue. Today, as Executive Vice President, Chief Actuary and Treasurer of Insular Life, Ms. de la Cruz still found a way to fulfill her dream and destiny. Not only is Insular Life one of the leading life insurance companies in the country, it is also one of the few more-than-a-century-old Filipino institutions that continues to grow even amidst the onslaught of financial market liberalization and competition.

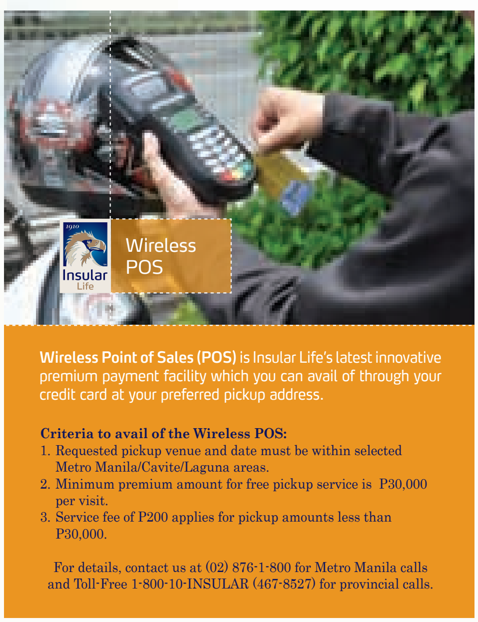
"I started seeing the numbers come to life in 1997, upon my appointment as Head of Insurance Administration Group," said the seasoned actuary who now heads Insular Life's Administrative Operations Group.



Filipino strength

In 2008, Insular Life launched its flagship customer service program called *Magandang Araw*. For the Company, *Magandang Araw* is more than just a greeting. "Filipinos are very caring people. We capitalized on this unique cultural strength and made it Insular Life's brand of customer care that would differentiate our service," Ms. de la Cruz said.

When a visitor enters any Insular Life office, whether it is in Tuguegarao in Northern Luzon, Cotabato in Southern Mindanao, or in its Alabang headquarters in Metro Manila, it is like entering a Filipino home for the first time. The typical Filipino host is known for giving red-carpet treatment to any guest, bringing out his best linen and tableware, cooking special dishes, even graciously offering his own room if the guest stays for the night. It is this Filipino value of treating each customer as an honored guest that is the principle behind Insular Life's customer service program.



"To us, *Magandang Araw* is not just a greeting, but a commitment to make each customer touch point a pleasant and memorable experience. From the moment a person goes through Insular Life's doors, he is greeted by the security guards. Wherever else he may stop in the premises, our customer care representatives render the *Magandang Araw* experience. Every effort is made to impart the Filipino brand of caring," Ms. de la Cruz explained.

Evolution to revolution

When the program was initially rolled out, Insular Life's staff were required to constantly use *Magandang Araw* as a greeting. "The immediate feedback we got from our frontline staff was very positive. The greeting could not be said without a smile so the staff was aware that each time they say it, they have to smile, too. And this also requires having a 'smiling' tone in our voices when we talk to our customers over the phone," Ms. de la Cruz added.

Brightening a person's day, however, proved to be a daunting

task that requires more than just knowing how to render or elicit a smile. "One of the biggest challenges we had was changing our people's mindset and instilling the value of delivering excellent service. This led us to make *Magandang Araw* a service brand," she said.

This dramatic shift in perspective from being policy-centered to customer-centric required that every customer encounter becomes, not just transactional, but also relationship-based. Laying down the red carpet for its customers also called for serious investment in staff training, IT infrastructure, and office renovations.

To ensure that *Magandang Araw* permeates on all levels of the organization and embedded in the corporate culture, Insular Life regularly conducts orientation sessions for newly hired employees and training programs for all employees and agents.

To make it convenient and easy for policyholders to access company services at any time of the day, the Company invested in various online portals that give customers a range of service menu. Insular Life is among the few insurance companies with a Customer Portal, called the iEagle, for self-service inquiries, including a premium payment facility called the eBayad, in addition to its various tie-ups with major banks, credit cards, and other payment facilities.

Policyholders who cannot physically go to Insular Life branch offices located nationwide can also talk to any customer care representative through iChat, an online facility that is popular with overseas Filipino workers. They can also opt to just call up 876-1-800, Insular Life's Interactive Voice Response System, to access their policies' information, or to talk to a customer care representative.

Insular Life agents can also access policy-related information such as payment details and other pertinent information through the online Agents' Portal designed for agency communications, statement of accounts, and production reporting.

In 2013, the Company made a multi-million peso investment in upgrading its core policy administration system to improve time to market products and achieve greater efficiency.

The Company is also completing a five-year program that required all its branch offices nationwide to have a uniform brand look to bring the *Magandang Araw* experience to its doorsteps.

More than three years after it was launched, *Magandang Araw* continues to bring a ray of sunshine and smiles, not just to its customers, but also to the Company and its staff. "Our customer retention has increased, we have more repeat business, and we have received many positive feedback and referrals," said Ms. de la Cruz. "While it's hard to quantify the correlation, we can say that *Magandang Araw* has also contributed to improving productivity, as our staff now has a more positive attitude at work."

Despite Insular Life's more than 100 years of doing business in the Philippines, it still continuously keeps its brand of Filipino service relevant and fresh: making every day a *Magandang Araw*.

The Customer Care Unit team (L-R): Eric Baccay, Jayson Torres, Andrea Mendoza, Jem Maralit, Joni Mortel, Lilibeth Co, KC Martinez, Rose Manango, Grace Tolentino, Dhic Penuliar and Von Gallardo.

TRUE BELIEVER

Fifty-one-year-old Arnel Molina is an engineer-cum-entrepreneur by profession. But from the passionate way he talks about insurance, financial planning and Insular Life, one would think that he was a bonafide Insular Life financial professional. Then again, this father of three has had first-hand knowledge of how having a trusted partner really counts when the going gets tough.

Mr. Molina was a 28-year-old engineer when he got his first policy, courtesy of his employer, Schlumberger. He gradually built up his coverage from there, as he fully believed in preparing for his family's security.

However, "When I was paying my Insular Life policies, way back 20 years ago, I didn't fully realize what I was going into," he confesses. After all, the thinking of people then was that an insurance policy was useful only when you die. Even his own father constantly cautioned him about putting his money in insurance policies. The elder Molina had once helped a family in their neighborhood claim their insurance. The process took long years. Understandably, the experience left Mr. Molina's father with a lasting distrust in insurance companies.

Mr. Molina took this advice with a grain of salt. He believed in preparing for the future, and so he got more policies. He even encouraged his co-workers and friends to use their "gimmick" money to invest in insurance and pension plans.

Still, at the back of his mind, the only benefit of his life insurance would be to safeguard his family when the inevitable happens.

This mindset was turned on its head years later.

As a consultant engineer for offshore drilling projects, a month or two would sometimes go by before Mr. Molina's next contract. There came a time, however, when this gap period took longer than was comfortable. Between his children's schooling and their household bills, he knew he needed help. But a loan application with a multinational bank only led to heartache. "They didn't even give me the courtesy of a call-back, to tell me what I needed to do to satisfy their requirements."

"I was at the lowest ebb in my life. I had nowhere else to go." Then came Insular Life, which he likened to a lifeboat in rough current. His long-time Insular Life agent and friend, Victoria Ramirez, told that him that he could use his policies to take out a loan.

"I didn't know that the policy had any value, compared to, say, a land title. Who cares about a policy, anyway? But I went to the Insular office, anyway, and I brought all my Insular Life policies with me. The Customer Service people immediately attended to my concern. They checked my policies. And I got the surprise of my life when they told me I could take a loan of ₱1 million."

He continues, "I was even more surprised when I was told that my check could have been released that same day, if only I had arrived a little earlier. You see, I had arrived at the office almost at closing time. But I didn't mind not receiving my check right away. That was a million pesos! And to think an insurance company could (give me this help) when a leading bank in the country couldn't. True enough, the check was there the following day. My wife couldn't believe it either."

That experience clarified something for Mr. Molina: an insurance policy could be useful even while you're still alive.

"The money gave me enough time to recover. It empowered me to get me back on my feet," he says. "The policies served their purpose at a perfect time."

This event was a turning point for the UP Diliman graduate. But it would not be the last time that his policies would save him from trouble.

"The policies served their purpose at the right time," Mr. Molina shares his story of how his insurance policies helped his family at a low point in their life.

"After getting that first loan, in 2010, I had a steady stream of consulting jobs. But sometime later, I was again without a consultancy assignment for three months. Yet we still needed to fulfill several financial obligations, so I went to Insular once more. I used one policy to update the others, then used the remaining money to sustain us while I waited for my paychecks."

By then, he knew that Insular Life would always have his back, and that his insurance policies can be a lifeline in times of crisis.

While he admits that he doesn't put all his eggs in the Insular Life basket, it's the excellent customer service that had often spelled the difference. From brief exchanges with security guards and managers, he said every encounter always rings true to the company's promise of giving a *'Magandang Araw'* experience.

"As a family, we're very sensitive to the quality of service. We believe in providing constructive criticism. For example, at restaurants, we've become regulars because of friendly staff. In the case of Insular Life, there was always something extra. Our agent Vicky, never fails to give us Insular's corporate planners. She would even go to our house just to pick up our check and deposit it for us," he relates.

That he could access his policy account online is something that he also finds remarkable. "(A Customer Service Specialist) enrolled me in the iEagle online customer portal. After that I could check my policies even when I'm in the middle of the ocean, at the drilling rigs. I could see my premium due dates, and this is very important, because then, I'm always up to date."

Over the years, Mr. Molina has transformed himself into a person who is actively involved in planning his financial future. "As an overseas Filipino worker, you have to be conscious of the limited time you have. So while you're still strong, you have to save and invest." He looks to his parents and in-laws, who retired comfortably.

He had taken it upon himself to be knowledgeable about the products that insurance companies offer. "Insurance products have evolved – there are some that have fund components. You could go into that kind of investment." He also never gets tired of encouraging his friends to get more insurance policies, or to increase their coverage.

When their kids were young, he and his wife Luna attended a parenting seminar where the value of a sound and viable vision for their family was impressed upon them. "We made a plan. We told each other, 'OK by this time we should have a house already because the kids would be at college and that should be our priority.' Things like that."

Mrs. Molina adds, "It was gratifying to know that our goals were aligned. We wanted to give the best options possible for our children, especially their education."

After a couple of decades of hard work and careful planning, Mr. Molina is reaping the benefits of being an empowered provider to his family. His three children, all with Insular Life's College Provider policies, can now afford to study wherever they want. His eldest daughter, Lea -- who had spent a year in the Netherlands as a high school exchange student -- now has the choice of any university in any corner of the world. He also has various investments in real estate: from their first house in Laguna Bel Air to a property in Terrazas de Punta Fuego, condo unit in Bonifacio Global City, amongst others.

The financial independence also gave him the freedom to pursue a business that can potentially earn a niche for him in the road construction industry while helping the country solve its perennial infrastructure woes.

At the moment, Mr. Molina is the sole supplier of a liquid soil stabilizer called TerraZyme, currently used in the United States, Australia, and the Middle East. Still awaiting approval from the Department of Public Works and Highways, the product promises to prolong the lives of roads to up to 50 years from the current three. Along with his other business, he now has four regular employees and several workers for their start-up construction venture.

In a decade, when all of his three children would have graduated, Mr. Molina says he looks forward to a relaxed life. He is thankful, he adds, that his children appear to have inherited their father's sense of ambition and drive and their mother's positive outlook in life.

At the end of the day, this hardcore Insular Life fan is not a fan for nothing. He remembers all too well the day when his deep admiration for the company began: that when he was at his lowest, it was there to pull him up, all the way to becoming the empowered father, husband, and businessman that he is today.

Mr. Arnel Molina with wife Luna Marie, and children Lea, Asha and Matthew

IN THE FRONT LINES

As one of the frontliners of Insular Life, Dhic Penuliar has had a wealth of experience in interacting with policyholders. Through it all, his goal -- just like in running -- is to bring in each encounter his personal best.

Whenever Insular Life Customer Care Specialist Dicto "Dhic" Penuliar runs, it is as if all the world's worries drift away with every step. Whether it is his everyday after-work jog or in one of the seven marathons he has participated, running has always been an "emotional outlet" for the 37-year-old, a form of release that is both physical and mental.

"Focus is important when you run," says the multi-sport enthusiast and taekwondo black belt. "That's why I don't listen to music. So I don't get distracted. I've realized that I become more creative this way. Sometimes I even think of customers' concerns when I run, and my mind gets filled with solutions."

As a frontliner who comes face to face with Insular Life's policyholders everyday, Dhic admits that his job can be daunting. From simple policy changes to emotionally draining death claims, the range of responsibilities requires him to be versatile. The wealth of life insurance knowledge he is expected to have, plus the ability to communicate technical concepts in simple terms for the ordinary policyholder, means he has to understand thoroughly insurance concepts inside out and how they work.

"Customer Care Specialists in Insular Life have to earn that frontline assignment, and thankfully all of us are equipped before we are put on the spot. We undergo trainings and seminars, and since new products get more and more complicated, we always get a refresher course. Seniority also counts. If you're going to be in the frontline, you need to have been with the company for three to five years," he says.

Dhic has been with Insular Life for 14 years, a career that began by chance, or, in hindsight, serendipity. "Actually, *napadaan lang ako*," quips the father of two. "I was drawn to the façade of the head office, then located in Makati. I got a call back and went through the interviews and was eventually hired for the job."

Over the years, this marketing graduate from Letran and MBA-holder from Pamantasan ng Lungsod ng Pilipinas has cultivated a career with Insular Life that is built, not only on dedication to excellence, but a genuine desire to serve the company's policyholders and to make a difference -- no matter how little -- in their lives.

"For instance, if they have a simple request like a policy loan, we strive to complete it under one hour. That's our benchmark. That may sound simple, but our customers really appreciate the fact that they no longer have to return to our office. It means less hassle and expense for them," he says.

"I derive satisfaction from helping. But to make a mark in customer service, we must not only help; we must delight. We want to make them smile and make

Each Insular Life client is greeted with a *Magandang Araw* smile and service

the experience memorable, at least memorable enough that when they return they will look for you. When that happens, that means you have gained another 'suki.'"

Dhic admits that when it comes right down to it, insurance products are all the same. It is Insular Life's '*Magandang Araw*' experience, however, that sets the company apart.

"I just constantly remind myself that every encounter with a policyholder is a chance for us to show them the '*Magandang Araw*' service that we're known for. I've met people from all walks of life. To me, it doesn't matter if they have an insurance worth ₱50,000 or ₱1 million. They deserve good service because they've worked hard for every centavo."

He has also observed that Filipinos are not used to receiving good service and sometimes feel they do not deserve it. "But we do!" Dhic says. "When you treat them right and render good service, they feel grateful. It's as if you're doing them a favor when in fact you're only doing your job."

While excellent customer service work is its own reward, he says leaving a good impression – and the goodwill that this produces – can have far-reaching effects.

"You have to consider that each one is a potential multiplier of the business. They will refer you to their friends and family. On the other hand, bad service can also go a long way. Imagine if a customer bad-mouths you, that's detrimental not only to you but to the company that you represent," he says.

In a way, when he got into running five years ago, his passion for customer service grew deeper. He shares that the importance of discipline was instilled upon him early on, thanks to his father who was a strict disciplinarian.

"I police myself, whether at work or in running," he says. "When preparing for a marathon, for instance, I run everyday for four to five months and get two weeks of rest in between. My goal is to qualify for a Milo Olympics championship and have a sub-4 record. That means finishing under four hours. My record stands at 4 hours, 5 minutes."

This painstaking dedication is evident in the fact that Dhic would still report to work even when his muscles would be sore from a marathon the previous day. He would still get out of bed, commute to the Alabang office, and perform his many tasks, which include manning the counter, attending to policyholders, and answering phone and email inquiries.

"No one trains to lose," the determined Dhic says.

One of the toughest parts of his jobs is processing death claims. "There are stories that can really take an emotional toll on you," he adds.

"Recently, I handled a policy involving a husband who was shot while he was going out of a mall parking lot. It is during these difficult moments when you realize the importance of listening to your clients. But after giving a sympathetic ear to the bereaved, we had to undergo a debriefing with our boss just to unburden ourselves, to unload the emotional baggage. In situations like this, running helps because it clears your mind," he says.

In the same way that listening is an integral skill for any successful customer care specialist, the running aficionado says listening to one's body is also critical to his success in the sport. "After all, knowing your body inside out, its strengths and limitations, is the first step in controlling it," he explains.

"Running is not just about speed. It's also about pacing. You start slow, you finish strong. You need to condition your body to go the distance. A marathon is not a sprint."

And so 14 long years after beginning a career with the company, Dhic has a built, not only a job, but a life around Insular Life. He even met his wife, underwriter Ma. Luisa or "Malot," on the job. He dreams of having his kids – Isabela Riyo, 5, and Isaiah Riley, 2 – joining the national taekwondo team one day.

Over the years, Dhic has come to realize that his passion for and dedication to excellent customer service can go a long way. All he needed to do was take the first step.

Dhic and Malot, with their kids Izzy and Ash.

INSULAR LIFE 2.0

Ask Amy Tamayo how Insular Life found the need to invade the social media sphere and she will start telling the story of a bird.

"One day, I discovered this nest in my own backyard. I decided to snap a photo of the egg. The next day, I went back and took another photo, this time, of a bird coming out of the shell. Then I posted the photo on Facebook. I was surprised that people loved it! I got so many reactions and suggestions," said the head of the Company's Marketing and Agency Support Department, and Digital Marketing Committee.

Documenting the nascent stages of the bird's life soon became a routine photo-uploading project for Ms. Tamayo. It also opened her eyes to the vast potential of social media marketing.

The challenge, however, is how a company that is over a century old, would ride on a bandwagon that has been dramatically shaping consumer behavior. As an estimated 30 million Filipinos are now using Facebook and 10 million are on Twitter, the Philippines has recently earned the reputation "Social Media Capital of the World."

Breaking the shell

In 2011, after enrolling in an 11-month online course on Digital Marketing, Ms. Tamayo started planting the idea in the organization when she presented her thesis to her boss. At the time, only one foreign insurance company in the Philippines has started a social media campaign so there was hardly a proof of success to show.

On the other hand, Insular Life needed to refresh its brand image and connect with the younger market, based on a 2008 Usage, Attitude, Image (UAI) market research survey on the Company.

So when Ms. Tamayo presented a proposed digital marketing plan for Insular Life, the Company's Group Heads agreed to adopt it, but only as an "experimentation." They challenged her to sustain the experiment until she can prove that the plan would be a worthy investment.

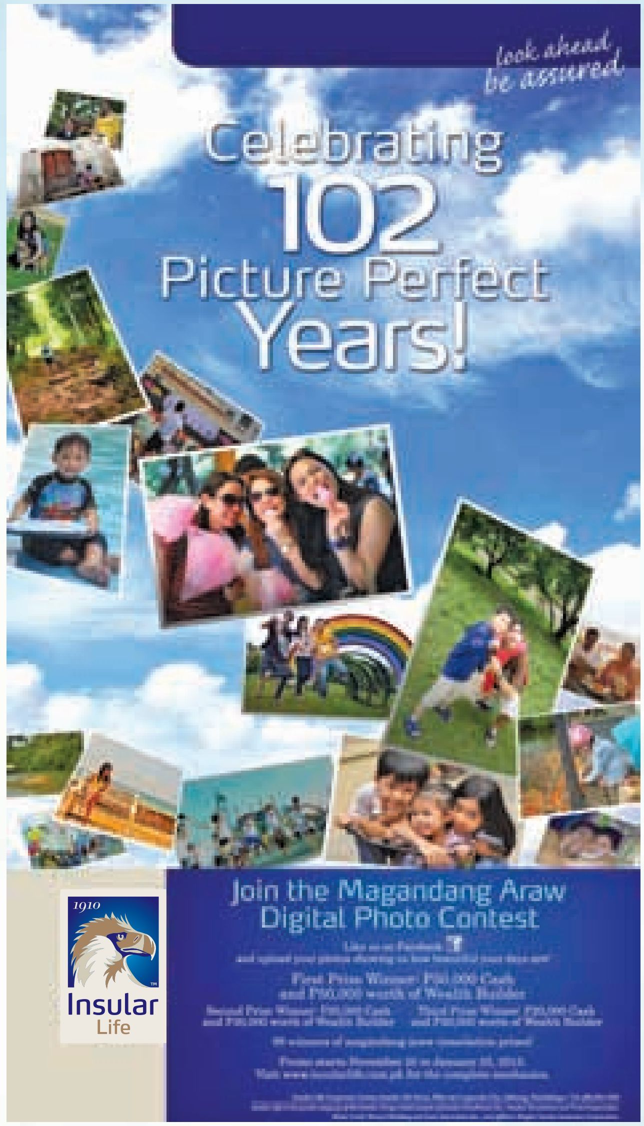
Reaching people

With the help of an agency partner who mined the digital space, and a cross-functional Digital Marketing Committee, Insular Life discovered ways to reach people who love social media and who are either existing or potential policyholders. Once it was able to find out more about its target market, the Company worked out strategies to get them to hang out on its Facebook account, and then tailor-fit content that will glue them in.

The Company introduced Facebook netizens to so-called "Insular Advocates" who are comprised of two teams providing tips on finance and investments, budgeting, saving, parenting, home management, and financial planning, among others.

On one team are the regular moms who talk about personal finance topics such as tips on paying for their children's tuition. The other team has the financial savvy batch dishing out investment-related advice on how to make your money earn for you.

To boost the traffic in its Facebook page, Insular Life also launched promotional activities such as the ***Magandang Araw* Digital Photo Contest, the *Araw-Araw, Magandang Araw* and the *MAS Magandang Buhay* promos**. Running for two months from November 25, 2012, the digital photo contest drew Filipinos, 18 years old and older, who snapped and sent photos that captured their "*Magandang Araw*" experience and depicted distinctly Filipino traits.



"Through our Facebook and blog posts, videos and other content from our website, we are giving our audience a reason to click through and visit our site. Once there, we open the window that would move them to take action by signing up on our mailing list, calling to schedule a free consultation with our agents, or attending our financial literacy fora," Ms. Tamayo said.

In just a matter of months, the idea started catching the imagination of other people within the organization. "Different groups started thinking of ways to use the social media platform and this led to various IT innovations," Ms. Tamayo said.

Savings tips from Insular Life

The Company also expanded its digital marketing menu by having its own blog site and video channel to make Insular Life more searchable in the worldwide web and help achieve its brand promise as a "far-sighted guardian."

The blog site, www.savingstips.com.ph, features articles on financial management and allows online discussion and interaction among netizens who wish to learn more how to save, invest, and manage their finances. Meanwhile, the YouTube channel, www.youtube.com/user/insularlifecomph, serves as the Company's official home page on YouTube where all its TV commercials, product videos, and similar educational materials are organized for easy access of agents, employees, and policyholders.

Plans are also in the pipeline to make its social media presence more integrated with its financial advocacy and literacy campaigns to feed the continuing education needs of people who attend Insular Life-sponsored financial fora.

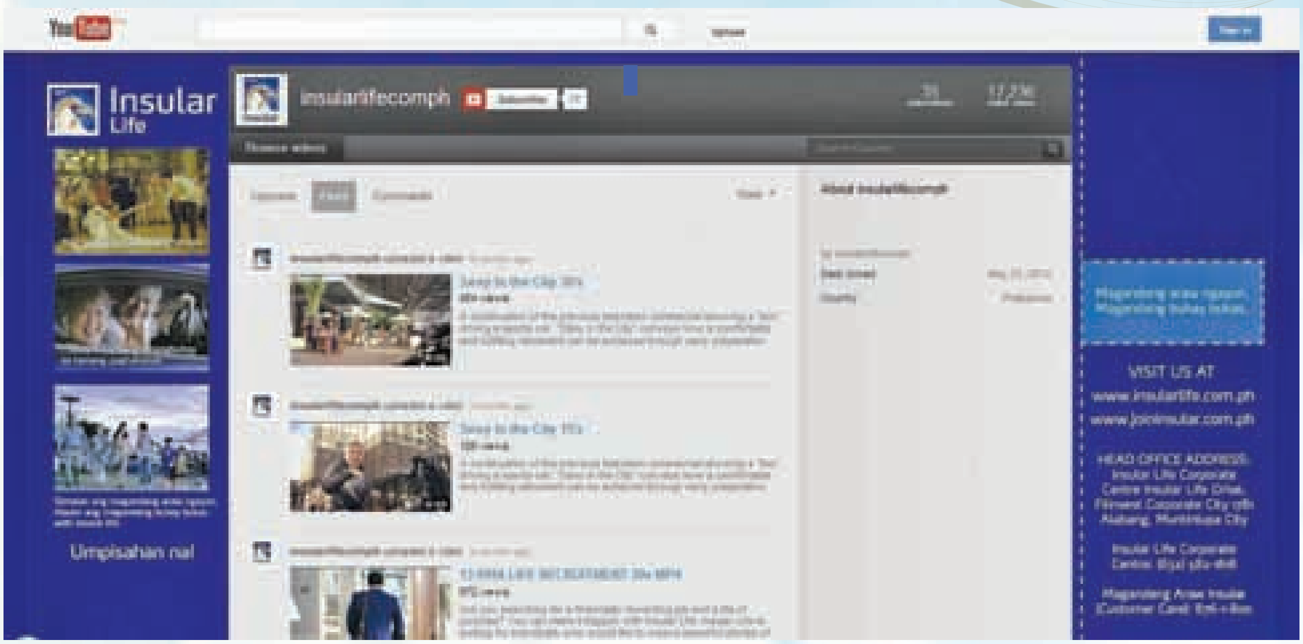
e-Challenges

Ms. Tamayo said the challenge for Insular Life is to find more creative ways to constantly engage as many netizens and convert every "Like" into an education and business engagement. "Everything has to be integrated with our electronic customer relationship marketing strategy – from having the ability to tag Insular Life's existing policyholders who are following the Company on Facebook and Twitter, to enabling agents to track sales leads so that ultimately, every social media follower gets educated on how to manage his finances or better yet, converted into a lifelong policyholder."

As of March 2013, Insular Life's Facebook following has already grown to around 16,000 fans while its Twitter page, which started only in January 2013, already drew around 1,500 followers. It also has around 1,800 followers for its blogsite. The numbers are expected to swell as the Company rolls out more digital marketing initiatives in the coming years.

Insular Life is also improving its "listening tools" to make its social media strategy effective. "We need to know what people are saying about us and our competitors, whether or not

Insular Life's Twitter Page



Insular Life's YouTube Channel

Insular Life's Facebook Page

we are doing a good job and what will give us the chance to stand out. We need to have our ear constantly pressed to the ground," Ms. Tamayo said.

Social media consumption is expected to dramatically change as the country moves farther into the digital age. "Our challenge is for our people to be ahead of the curve. If our clients are more knowledgeable than our own agents in this field, we will not be as competitive," she added.

What began as an experiment eventually turned out to be a game changer for Insular Life, one of the few local companies that has made inroads into the social media space. The challenge now is sustaining its relevance to Filipinos in the next generation and beyond, and opening a worldwide web of opportunities.

THE LUCK CHILD

Twenty-seven-year-old Kristine Concepcion seems to have it all: a loving family. A career that allows her to pursue her passion. Appreciative and supportive friends. True love. Plus a mind-boggling winning streak in different raffles and contests. Then again, Kristine explains that it takes more than blind luck to have your cake and eat it, too.

Fans of the ***Star Wars*** franchise might remember Obi Wan Kenobi famously saying, "There is no such thing as luck."

But try telling that to 27-year-old Kristine Concepcion or "KC", who is notoriously known in her circle of friends as the 'Queen of Raffles and Promos'. From gift packs of conditioner and cup noodles, to mobile phones worth ₱24,000 and overnight stays at five-star hotels, KC has won them all. The freelance writer and blogger started joining contests when she was just 13 and her winning streak, she admits, is mindboggling.

Her parents, Larry and Jean, were worried at first about KC joining so many contests as she might neglect her studies. But when they saw how happy she was, and winnings came after winnings, they, together with her siblings, Katrina and Kristian, supported her all the way, and even joined contests from time to time.

"For two to three years, we didn't buy toiletries in the house, because I have won lots of it. I even shared some to our relatives and friends. Name it, I might have won it: shampoo, t-shirts, cassette tapes, CDs, deodorants, plane and concert tickets, and even cash. For the entire 2009, I was able to attend all the movie premieres of a certain radio station," she says.

Aside from her amazing winning streak, KC is also an avid listener of a popular morning FM radio program, and is well-known among fellow fans by her codename "Astroboy".

Even the laptop she now uses for her remote workplace website, odesk.com, was the plum prize in an office raffle. Her officemates then, aware of her incredible luck had predicted that she would win something. True enough, she took home the grand prize.

"Everyone was saying, 'KC again?'" narrates the bubbly UP Diliman graduate.

"Winning contests is not about being lucky. In fact, one should have persistence as well as the right combination of effort, smarts, and competitiveness," she says. "During a Valentine's Day promo, the sponsor of the contest asked for the sweetest, most romantic love letter. So I really tried my best to come up with an amazing letter," she says. "I really put a great deal of effort into it."

The prize: an overnight stay for two at an upscale hotel in Ortigas, including buffet breakfast.

But today, KC is more discriminating in the types of contests she joins. "Do I need this?" is now a question she always asks before devoting time and energy in a promo.

It is quite ironic that KC, who considers herself the type of person who lives in the moment -- laidback and unconcerned about the future -- grew up in an environment where her father constantly spoke about insurance and planning for the future. KC's father is Larry Concepcion, an employee of Insular Life for 25 years who rose through the ranks .

"Papa would tell us, '*Sa* insurance *ko kayo binuhay*.' While I appreciate that it has made our lives comfortable, it was something that I didn't think about for myself. I don't look that far ahead into the future."

But that changed drastically when KC's parents and her youngest brother, Kristian, migrated to the US in early 2012. All of a sudden, the gamut of responsibilities that fell on her shoulders made her reconsider her carefree attitude.

"Since my sister Katrina has moved out, I now live alone and have to look after the house. I've even learned how to cook, a skill I did not have interest in before despite my mom's patient prodding," she explains.

Despite a promising three-year career at a Korean literacy company that saw her climb through the ranks to a supervisory position, KC quit her job because of the distance she has to travel every day to and from the Makati office. She considered her options and eventually decided to pursue her love for writing and blogging – hitting, she adds, two birds with one stone.

(From left) The Concepcion family on their Singapore trip: Larry, Jean, KC, Katrina, and Kristian

"I've always held a special place in my heart for writing," says the English Studies graduate. "I would always blog about the restaurants I've visited, the movies I've seen, the people I've met. Some people have told me that they actually went to a particular restaurant because of what I've written. So when I tried odesk.com, it was perfect."

For more than a year now, KC has been writing web and social media content for a wide variety of websites. Apart from all the new things that she has learned, she says she loves the challenge of having to persuade and influence readers via words. The best part? Not only does she earn without having to leave the house, her new line of work actually enables her to save more.

With the extra money, this "luck child" says she is learning to rely less and less on luck and more and more on a deliberate effort to plan for her future financial security. In 2012, she acquired a Wealth Builder policy from Insular Life after an enlightening conversation with an agent.

"Knowing that I have a fallback makes me relaxed, and makes me feel that I can do whatever I want. It started with my dad. Even if we were financially doing OK, he gave us a safeguard with the policies he got for us, because something unforeseen can happen anytime," she says.

As KC's job requires her to spend a lot of time online, she has taken the initiative to be more involved with planning her future. She now regularly monitors her policy in Insular Life's online customer portal, called the iEagle. Initially, she only did so because of her dad's prodding; but she eventually saw the importance of being on top of things. Now, visits the portal on a weekly basis.

"At my age, I'm at that point in my life when I have to make some important decisions in terms of not only career and relationships, but also money," she says.

While her improbable luck has made KC's life more interesting, she says being lucky is not the same as simply waiting for things to happen. She had a few lucky breaks – such as being the daughter of a man who thinks about the future – something that allows her to follow her long-held dreams. After signing up with Insular Life, she now has guarantee that when lady luck stops smiling, her own wide grin will not go with it.

BE A PART-OWNER OF THE ONGOING **PROSPERITY OF THE PHILIPPINE ECONOMY**

By: Alijeffty C. Gonzales, CIS, CWM, RFP

People have various reasons for investing their money – to fund their children's education, to start a business, to live a comfortable life after retirement, or just simply to have peace of mind at knowing they are financially secure.

But to achieve our investment goals, two important factors must be considered - Time Horizon and Return on Investment (ROI). Let me explain ROI first.

ROI

Investments that grow at 10 percent per year would see the investment double in 7.2 years, while investments that grow at 2 percent per year would take 36 years to double. When you consider the type of investment that you select to generate ROI, take note that almost all investment options available can be grouped into two general categories: **Lending Vehicles** and **Owning Vehicles**.

LENDING VEHICLES are investments that normally pay interest, have a fixed maturity date, and have implied guarantee on the return on your investments. Common examples of this vehicle are corporate bonds, treasury bills, and notes. The interest received is the compensation to investors for letting another party (possibly a bank or the issuer of the lending vehicle) use the investors' money for whatever purpose they deem fit. Simply put, this can be likened to temporarily giving up ownership of our funds in return for a bigger amount in the future. The primarily risk of this type of investment however, is the credit worthiness of the borrower. This type of investment vehicles are also known as *debit securities*.

OWNING VEHICLES do not pay interest, nor do they have a pre-determined maturity date. The ROI is generated through appreciation of the value of the investment. A common example would be a piece of real estate where the ROI will be the difference between the selling price and the purchase price of the real estate property. The stock market is also categorized as an Owning vehicle.

Time Horizon

One might ask, *Which would be more appropriate to help me achieve my financial goals?*

As a practicing Registered Financial Planner, my advice is to first consider the time horizon to your financial goals. If your time horizon to achieving your goals is five years or less, you would be better off putting your funds in Lending vehicles. But if your time horizon is five years or more, you may well put them in Owning vehicles. This is because while Owning vehicles have an inherent near-term volatility (tendency for values to fluctuate), these nonetheless provide good growth potential in the medium-to-long-term.

Market Prospects

The low interest rate environment policy adapted by the Philippine Monetary authorities in the last several years has made Lending vehicles unattractive due to the low ROI. This policy is in reaction to the global financial contagion of 2008-2009, which saw some of the world's biggest financial institutions fall by the wayside because of recklessness and over-speculation in the US sub-prime mortgages. The resulting impact was the slowdown in economic activities because of the difficulty to secure credit. Global central banks, including our own Bangko Sentral ng Pilipinas, embarked on a low interest rate policy to encourage more borrowings, in order to create enough economic activities to jumpstart stalled economies.

The bright side of this low interest rate environment is that operating companies took advantage of this opportunity to secure medium-to-long-term funding to expand their business operations. Big-name companies such as Ayala Corporation, SM, and PLDT took to the market to raise funds at very good rates. This enabled them to build up huge cash reserves for business expansion.

Confluence of Positive Events

- The assumption of Benigno Aquino III to the presidency in June 2010 on a platform of good governance
- Foreign currency inflow from OFWs of US$21.39 billion and BPO of US$13.0 billion sparked the continued expansion of domestic consumption
- The Philippine Government's expected roll-out of Public-Private-Partnership (PPP) projects in 2013
- The upgrade of the country to investment grade

These are just some of the key indicators that augur very well for the Philippine economy. Thus, for investors looking for a vehicle for funds that will not be used for at least five years, the best option is to put these in Owning vehicles.

Economic growth can best be captured by becoming part-owners of business enterprises positioned to benefit from these developments, which are large companies with wide footprints in consumer products and services such as food, real estate, telecommunication, and power utilities. As the purchasing power of the Filipino consumer increases, these companies will be able to sell more of their products and services, resulting in better bottom line, which in turn may lead to higher stock prices.

Since 2005, Insular Life has been offering Variable Unit-Linked products that allow policyholders to become part-owners of the on-going Philippine prosperity. These products are offered under the ***Wealth Series*** brand of investment funds.

PESO FIXED INCOME FUND – this fund invests in peso-denominated high-grade corporate papers, government securities, and cash instruments for liquidity purposes. Since its inception in 2005, this low-risk fund has delivered an average return of 7.37 percent per year.

DOLLAR FIXED INCOME FUND -- a better alternative to regular US Dollar savings and time deposits that pay less than 1 percent per year. This fund invests in US Dollar-denominated government securities, more popularly known as ROPs. From its inception six years ago, the Dollar Fixed Income Fund has given policyholders an average return of 7.29 percent per year.

But the funds best positioned to take advantage of the continued Philippine prosperity are the following:

BALANCED FUND -- this fund allows policyholders to take a tempered exposure to the Philippine stock market. Equity investments are capped at 60 percent of the portfolio and the balance is allocated to fixed income securities. The average ROI of this fund in the last eight years is 13.61 percent per year.

EQUITY FUND -- this fund allows policyholders with more exposure to profitable Philippine operating companies. Up to 90 percent of this fund are placed in equities, and is ideal for policyholders building up funds for long-term financial goals. This equity fund has an impressive eight-year average return of 23.45 percent per year.

GROWTH FUND -- this is Insular Life's newest investment fund, launched in February 2011, at an initial offer of ₱1 per unit. Now, just over two years since inception, it has already generated more than 50 percent ROI.

If you have excess funds that you will not need for at least five years, would you rather lend or own? And if, you decide to own, choose to own a piece of the on-going Philippine economic prosperity.

Fixed-Income Fund		
15-Mar-05	1.000000	Percentage Growth since Launch Date
2005	1.094341	9.43%
2006	1.262129	15.33%
2007	1.330224	5.40%
2008	1.35179	1.62%
2009	1.43313	6.02%
2010	1.546994	7.95%
2011	1.660622	7.35%
2012	1.758301	5.88%
8y Annual Average		7.37%

Balanced Fund		
15-Mar-05	1.000000	Percentage Growth since Launch Date
2005	1.085571	8.56%
2006	1.343302	23.74%
2007	1.477776	10.01%
2008	1.145596	-22.48%
2009	1.454425	26.96%
2010	1.98933	36.78%
2011	2.093651	5.24%
2012	2.513448	20.05%
8y Annual Average		13.61%

Equity Fund		
15-Mar-05	1.000000	Percentage Growth since Launch Date
2005	1.06665	6.67%
2006	1.496867	40.33%
2007	1.749926	16.91%
2008	1.014367	-42.03%
2009	1.625298	60.23%
2010	2.72384	67.59%
2011	2.809707	3.15%
2012	3.786942	34.78%
8y Annual Average		23.45%

Dollar Fixed Income Fund		
8-Oct-07	1.000000	Percentage Growth since Launch Date
2007	1.015665	1.57%
2008	0.967032	-4.36%
2009	1.138065	17.77%
2010	1.239847	9.14%
2011	1.335549	7.72%
2012	1.494196	11.88%
6y Annual Average		7.29%


Lollipop Fairy

GIVING BACK

At Insular Life, we believe in delivering the exceptional: new high-value insurance products and financial services, passionate sales teams, better customer-centric service and greater stakeholder value.

When we consider our community, and to a greater extent, our nation, we are encouraged to give back more - to the persons and institutions that help make a better future for everyone.

LIVING OUR VALUES

As far-sighted guardians, we believe that we have a corporate social responsibility (CSR) to make a positive contribution to the communities touched by our business. Thus, for almost 50 years now, the Insular Foundation, Inc., our CSR arm, has been running programs focused on education, and arts and culture, since these are aligned with our vision to help Filipinos secure their future while celebrating the best of our shared heritage. We have since embarked on environmental conservation, and disaster relief efforts as we took on a holistic view of the needs of communities.

Our CSR activities are in the form of educational scholarships, corporate partnerships, employee volunteerism, and monetary giving. We aim to generate positive outcomes in a way that supports long-term customer and community relationships, brand, reputation and business.

Below are the CSR initiatives we mounted in 2012:

Investing in Education

Education is more than reading, writing, and arithmetic. For us at Insular Life, it is one of the most important investments we can make in our people and the country's future. It gives everyone a fighting chance to overcome poverty and inequality.

In 2012, the Insular Life Foundation sustained its various investments in education.

Scholarships

The Insular Gold Eagle Awards remained as one of the most sought-after educational incentive among graduating high school class valedictorians. Every school year, the Foundation gives out medals to the valedictorians of a select list of 1,000 public and private high schools in the Philippines. In School Year 2012-2013, 46.3 percent of the program's recipient schools were from the Visayas region.

To raise the roster of high-quality educators in the country, the Foundation also provides scholarship grants, under the Gold Eagle program, to academically gifted individuals to encourage them to join the teaching profession. The Insular Life College Scholarship Grant is automatically offered to the recipients of the Insular Gold Eagle Awards medals who can vie for the ten slots at the Bachelor of Science in Education program of the University of the Philippines in Diliman. The scholarship covers tuition, miscellaneous fee, book allowance, board and lodging and stipend. As of School Year 2012-2013, there were 33 scholars at various college levels who were enrolled in the program.

Aside from BS Education, the Foundation also granted scholarships to five UP Diliman students pursuing

INSULAR FOUNDATION, INC.

A PROFILE OF INSULAR FOUNDATION PROJECTS IN 2012

- EDUCATION
- ARTS & CULTURE
- COMMUNITY SERVICE
- ENVIRONMENT CONSERVATION
- DISASTER RESPONSE

GOLD EAGLE PROGRAM

RECIPIENT SCHOOLS OF THE INSULAR GOLD EAGLE MEDAL:

998 SCHOOLS

BREAKDOWN OF AREAS

NORTH/ CENTRAL LUZON	13.8%
METRO MANILA	5.8%
SOUTH LUZON	13.6%
VISAYAS	46.3%
MINDANAO	20.4%

RECIPIENTS BY TYPE OF SCHOOL:

PRIVATE SCHOOLS	20.9%
PUBLIC SCHOOLS	79.9%

EDUCATION CARAVAN

3,431 STUDENTS REACHED DURING THE 2010 STORYTELLING CARAVAN

2,659 DEL CARMEN STUDENTS REACHED DURING THE 2012 STORYTELLING CARAVAN

2,000 SCHOOLS THAT HAVE RECIEVED THE INSULAR STORYBOOKS FROM 2010–2011

3,959 DEL CARMEN STUDENTS WHO RECIEVED THE INSULAR STORYBOOKS IN 2012

6,168 STUDENTS REACHED DURING THE 2011 STORYTELLING CARAVAN

260 PARTICIPANTS IN THE STORYTELLING WORKSHOP SINCE 2007

SCHOOL SUPPLIES DISTRIBUTED

1,200 KITS DAY CARE AND PRE SCHOOL

1,560 KITS GRADE 1–3

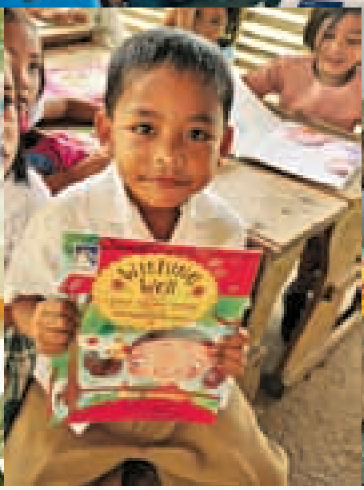
1,375 KITS GRADE 4–6

NOTEBOOKS | CRAYONS | PENCILS
RULERS | SCISSORS | GLUE | ART PAPER
ERASERS | MANILA PAPER | BALLPENS
ENVELOPES | SHARPENER | PAD PAPER

EMPLOYEE VOLUNTEERISM IN GAWAD KALINGA (GK)

RATIO OF VOLUNTEERS TO GK KIDS IN 2012

9:49



BS Mathematics. In 2012, we welcomed five scholars who qualified to the scholarship grant. During the first run of the scholarship program, from School Year 2007-2010, three scholars graduated *magna cum laude*. Insular Life proudly welcomed one of these awardees to its ranks, Robert Z. Ronquillo III, who is now part of the company's Actuarial Research and Product Development Department.

Literacy

As part of our commitment to the Filipino youth, the Foundation continued its various literacy programs. In 2012, it focused its education reform on the fifth-class municipality of Del Carmen, Siargao.

Insular Foundation held an Education Caravan on August 14-19, 2012. This involved the donation and distribution of school supply kits to 4,225 Del Carmen students from Day Care to Grade 6, copies of Insular's storybooks for children, and used books gathered from the book donation drive among Insular Life employees nationwide.

The caravan also served as the launch activity for the two new addition to Insular's storybooks series: *Wishing Well*, written by Annie Pacaña-Lumbao and illustrated by Beth Parrocha-Doctolero; and *Bisnesboy Minggoy*, penned by Augie Rivera with artworks by Liza Flores.

Consistent with the other books in the Series, the two books also focus on teaching basic financial literacy skills to children, such as recognizing needs and wants, and giving value to hard work. The books also impart the value of wise resource management. The Series has been running since 2010 and was developed by Insular Foundation in partnership with Filipino publisher Adarna House.

Over 1,000 copies each of the two books were given to the grade school pupils and public schools in Del Carmen, including those in its island barangays of San Fernando, Caub, and Hali-an. The same number of copies of *The Luckiest Girl in the World* and *Christmas in February* — the two earlier books in the Series, were also distributed to the students and schools.

To mark the launch of the two books, Insular Foundation held a 10-school storytelling caravan in the municipality entitled "100 Years of Insular, 100 Beloved Filipino Children's Stories". Storytellers from Filipino publisher Adarna House brought to life a variety of tales penned or retold by Filipino writers and also read *Bisnesboy Minggoy* in 10 schools in the municipality, and a one-day free storytelling workshop for Del Carmen teachers from kindergarten to Grade 2.

The final part of the Education Caravan was a free storytelling workshop to 56 primary school teachers of the town. During the workshop, educators learned basic storytelling techniques and had the chance to try these out in the hands-on session.

competency training and access to educational enrichment opportunities.

Financial literacy

In 2012, we partnered with AIESEC Philippines, the world's largest youth-driven organization, for a Leadership Convergence Summit, which aimed to exchange ideas on issues relevant to the global and Philippine society.

Insular Life Vice President for Business Development Alijeffty C. Gonzales hosted a workshop on investing in the stock market to over 150 students from UP, Ateneo de Manila University, De La Salle University, University of Asia and the Pacific, Adamson University, Miriam College, University of Santo Tomas, San Beda College and Enderun College.

Employee Volunteerism

Our employees are a key component of our Company's CSR initiatives. Their efforts enhance what we contribute to our communities on a corporate level.

Adopt-a-Scholar

Since 2003, Insular Life employee volunteers sustained their commitment to support scholars in grade school by donating a year's supply of school supplies, a set of uniform, school shoes or bags, and storybooks. The scholars are selected from a community at the New Bilibid Prison reservation and are children of inmates, prison guards, its employees and residents.

There are currently 178 scholars in the program. In 2012, Insular Foundation gave monetary incentives to those who finished at the top three of their class in grades 2 and 4.

Gawad Kalinga Volunteerism

April 2012 marked a milestone as we began our volunteerism work at the Gawad Kalinga Manggahan-Kawayanan site in Marcelo Green, Parañaque City. Every morning of the third Saturday of the month, our employee volunteers conducted various educational activities for kids from neighboring poor villages at the GK Tambayani Center that Insular Life donated to the site in 2010. Topics ranged from personal hygiene to saving up for the future.

The TamBayani is a learning center equipped with a library and computer facilities and was designed to provide educational programs for the GK youth through a series of learning

Other CSR Initiatives

Insular Foundation also reached out to the other sectors of society in 2012.

It made a ₱1-million donation to the Philippine Eagle Foundation, Inc. for the conservation of the Philippine eagle and its forest habitat.

It also extended a ₱1-million donation the Filfest Foundation, Inc., a non-stock, non-profit organization that aims to develop a new generation of classical music enthusiasts. By lending the ILCC Auditorium as a venue for world-class classical music and dance performances mounted by Filfest, Insular Life is supporting the promotion of Filipino arts and culture.

The spate of natural calamities in 2012 also prompted our corporate response in the form of donations. Half a million pesos were each given to the Munting Kalinga Foundation, Inc., to aid the Muntinlupa residents who were adversely affected by the August 2012 monsoon rains; and the Roman Catholic Bishop of Mati, Inc. for the Compostella Valley victims of typhoon Pablo.

We will continue to make a difference in uplifting the living conditions and reaching out to the underprivileged, as we share the fruits of our continued success as a business.

Insular Life Chairman of the Board and CEO Vicente R. Ayllón (4th from left) turning over the ₱1-million check donation to Philippine Eagle Foundation Chairman Carlos G. Dominguez (3rd from left). With them are (from left) PEF Executive Director Dennis Salvador, PEF Board member Emily Abrera, Insular Life President and Chief Operating Officer Mayo Jose B. Ongsingco, and Insular Life Senior AVP, PR Staff Head, and Insular Foundation Administrator Ana Maria R. Soriano.

BOARD OF **TRUSTEES**

1. **Vicente R. Ayllón**
   Chairman of the Board and
   Chief Executive Officer
2. **Alfredo B. Paruñgao**
   Vice Chairman
3. **Mayo Jose B. Ongsingco**
   Member
4. **Bernardo M. Villegas**
   Member
5. **Ricardo G. Librea**
   Member
6. **Delfin L. Lazaro**
   Member
7. **Mona Lisa B. de la Cruz**
   Member
8. **Marietta C. Gorrez**
   Member
9. **Francisco Ed. Lim**
   Member


1


2


3


4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6


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9

1 Vicente R. Ayllón

- Chairman of the Board & CEO of The Insular Life Assurance Company, Ltd.; Chairman of the Board & President of Insular Life Property Holdings, Inc.; Chairman of the Board of Insular Investment Corporation, Insular Health Care, Inc., Insular Life Management and Development Corporation, Home Credit Mutual Building & Loan Association, and Insular Foundation, Inc.,; Vice Chairman of Union Bank of the Philippines, and Mapfre Insular Insurance Corp.; and Director of Pilipinas Shell Petroleum Corporation, Shell Company of the Philippines, Ltd., The Palms Country Club, and Rockwell Land Corporation

- B.S. Commerce (1952), University of the East; Associate in Commercial Science (1950), San Juan de Letran College

2 Alfredo B. Paruñgao

- Vice Chairman of the Board of The Insular Life Assurance Company, Ltd.; Chairman of Philtown Properties, Inc., and CIBI Foundation, Inc.; Director of Insular Investment Corporation, U-Bix Corporation, and Swift Foods, Inc.; Director and Vice President of P&GERS Fund, Inc.; Director and Treasurer of DS Realty, Inc.; President of Ligaya Management Corporation; Former Chief of Staff of the Office of the Chairman, Social Security Commission; Former Senior Vice President & Chief Finance Officer of Fort Bonifacio Development Corporation; Former President & CEO of Philippine Global Communications, Inc.; and Former Executive Vice President & Chief Operating Officer of Philippine National Oil Company

- Certified Public Accountant; B.S. Commerce (1956), *Summa Cum Laude*, Far Eastern University

3 Mayo Jose B. Ongsingco

- Trustee, President & COO of The Insular Life Assurance Company, Ltd.; Trustee of Insular Foundation, Inc.; Chairman of the Insular Life Employees' Retirement Fund, and ILAC General Insurance Agency, Inc.; Vice Chairman (Board) & ExCom Member of Insular Health Care, Inc.; Vice Chairman & President of Insular Life Management & Development Corp.; Vice Chairman (Board) of Insular Life Property Holdings, Inc.; Vice Chairman (Board/ExCom) of Home Credit Mutual Building & Loan Association, Inc.; Director and ExCom Member of Insular Investment Corporation; and Director of Mapfre Insular Insurance Corporation, Union Bank of the Philippines, Pilipinas Shell Petroleum Corporation, Keppel Philippines Holdings, Inc., and PPI Prime Venture, Inc.

- Master of National Security Administration (1999), National Defense College of the Philippines; Master of Business Administration (1977), University of the Philippines; AB Economics (1974), *Magna Cum Laude*, De La Salle University; BSC Accounting (1974), *Magna Cum Laude*, De La Salle University

4 Bernardo M. Villegas

- Trustee of The Insular Life Assurance Company, Ltd.; University Professor at the University of Asia and the Pacific; Research Director at the Center for Research and Communication; Visiting Professor at the IESE Business School, Barcelona, Spain; Director of Alaska Milk Corporation, PHINMA Properties, Benguet Corporation, TDI, Inc., and Dualtech Foundation; Consultant on Strategic Planning and Management Development or Director of leading firms in the following industries: food and beverage, sugar milling, pharmaceutical, electric power, banking, information technology, construction, agribusiness, trading, transportation and engineering; and Columnist at the *Manila Bulletin* and *Philippine Daily Inquirer*

- Fourth Place, Board Exam for Certified Public Accountant (CPA); Ph.D. in Economics (1963), Harvard University; M.A. in Economics (1961), Harvard University; Bachelor of Science in Commerce (1958), *Summa Cum Laude*, De La Salle University; Bachelor of Arts (1958), *Summa Cum Laude*, De La Salle University

5 Ricardo G. Librea

- Trustee of The Insular Life Assurance Company, Ltd.; Director of Insular Investment Corporation; Member, Audit Committee of the Manila Polo Club; Past President of the Financial Executives Institute of the Philippines (FINEX), and Rotary Club of Makati; Past Chairman of FINEX Research & Development Foundation, Inc., and Makati Rotary Club Foundation, Inc.; and Member of the Management Association of the Philippines

- Certified Public Accountant; B.S. Business Administration (1957), University of the East

6 Delfin L. Lazaro

- Trustee of The Insular Life Assurance Company, Ltd.; Chairman of Atlas Fertilizer and Chemicals, Inc., and Philwater Holdings Company, Inc.; Vice Chairman & President of ASIACOM; Managing Director of Lazaro, Bernardo, Tiu and Associates, Inc.; and Director of Ayala Corporation, Ayala Land, Inc., Integrated Microelectronics, Inc., Manila Water Company, Inc., Ayala DBS Holdings, Inc., Probe Productions, Inc., Ayala International Holdings, Ltd., AYC Holdings Ltd., Bestfull Holdings Ltd., AI North America, and Empire Insurance Company

- Master in Business Administration (1971), with Distinction, Harvard Graduate School of Business; B.S. Metallurgical Engineering (1967), University of the Philippines

7 Mona Lisa B. de la Cruz

- Trustee, Executive Vice President, Chief Actuary and Treasurer of The Insular Life Assurance Company, Ltd.; Trustee of the Insular Foundation, Inc., and Insular Life Employees' Retirement Fund; Director and Treasurer of Insular Health Care, Inc., Insular Investment Corporation, Home Credit Mutual Bldg. & Loan Association, Insular Life Development & Management Corporation, Insular Life Property Holdings, Inc., and ILAC General Insurance Agency, Inc.; Director of Professional Services, Inc. (Medical City); Fellow of the Actuarial Society of the Philippines; Associate of the Society of Actuaries, USA; and Member of the International Actuarial Association

- Master of Science in Mathematics, major in Actuarial Science (1979), University of Michigan; Bachelor of Science in Statistics (1978), *Cum Laude*, University of the Philippines

8 Marietta C. Gorrez

- Trustee of The Insular Life Assurance Company, Ltd.; Director of the Insular Health Care, Inc., Foundation for Professional Training, Inc., and Alliance for the Family Foundation of the Philippines, Inc.; Former Senior Vice President of The Insular Life Assurance Company, Ltd.; Head of Business Support Group, Head of Sales Operations Group, Head of Corporate Operations Group, and Head of Administrative Operations Group; and Former President of ILAC General Insurance Agency, Inc.; Former Director & Treasurer of Insular Investment Corporation, and Insular Health Care, Inc.; Former Director of Insular Life Management & Development Corporation, Insular Life Property Holdings, Inc., and Home Credit Mutual Building & Loan Association; and Former Trustee of Insular Foundation, Inc., and Insular Life Employees' Retirement Fund

- Registered Financial Consultant, International Association of Registered Financial Consultants; Master in Business Economics (candidate), University of Asia & the Pacific; Graduate Top Management Program, Fellow, Life Management Institute, Asian Institute of Management; Master in Business Administration (1978), De La Salle University; Bachelor of Science in Mathematics (1974), University of Sto. Tomas

9 Francisco Ed. Lim

- Trustee of The Insular Life Assurance Company, Ltd.; Co-Managing Partner and Head, Corporate and Special Projects Department of ACCRALAW; Independent Director of the Energy Development Corporation, and Producers Savings Bank Corporation; Trustee of Shareholders Association of the Philippines (SHAREPHIL); Trustee and Corporate Secretary of Wharton-Penn Alumni Association, Inc.; Co-Chairperson, Sub-Committee of the Philippine Supreme Court on E-Commerce Law; Member, Sub-Committee of the Philippine Supreme Court on Commercial Courts, Revision of Rules Governing Notaries Public, and Evidence & DNA Evidence; Professorial Lecturer at the Philippine Judicial Academy; Law Professor at the School of Law, Ateneo de Manila University Graduate School, and Graduate School of Law of San Beda College; Philippine Contributor to the Compliance Complete (Thomson Reuters International online publication); Columnist, (Point of Law) *Philippine Daily Inquirer*; Member of the Financial Executives of the Philippines, Management Association of the Philippines, Integrated Bar of the Philippines, Philippine Bar Association, and New York State Bar Association; Past President & CEO of the Philippine Stock Exchange, Inc., and Securities Clearing Corporation of the Philippines; Past Chairman of the Philippine Stock Exchange Foundation, Inc., and Capital Market Development Center, Inc.; Former Director of The Philippine Stock Exchange, Inc., Securities Clearing Corporation of the Philippines, and Philippine Dealing & Exchange Corporation; Former Trustee of the Securities Investors Protection Fund; and Former Member of the Capital Market Development Council

- Master of Laws (1987), University of Pennsylvania, USA; Bachelor of Laws (1981), Second Honors, Ateneo de Manila University; Bachelor of Philosophy (1975), *Magna Cum Laude*, University of Sto. Tomas; Bachelor of Arts (1975), *Cum Laude*, University of Sto. Tomas

MANAGEMENT

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

Mayo Jose B. Ongsingco
President and Chief Operating Officer

EXECUTIVE
VICE PRESIDENTS

Mona Lisa B. de la Cruz
Chief Actuary, Corporate Treasurer & Head
Administrative Operations Group

Jesus Alfonso G. Hofileña
Sales and Marketing Group

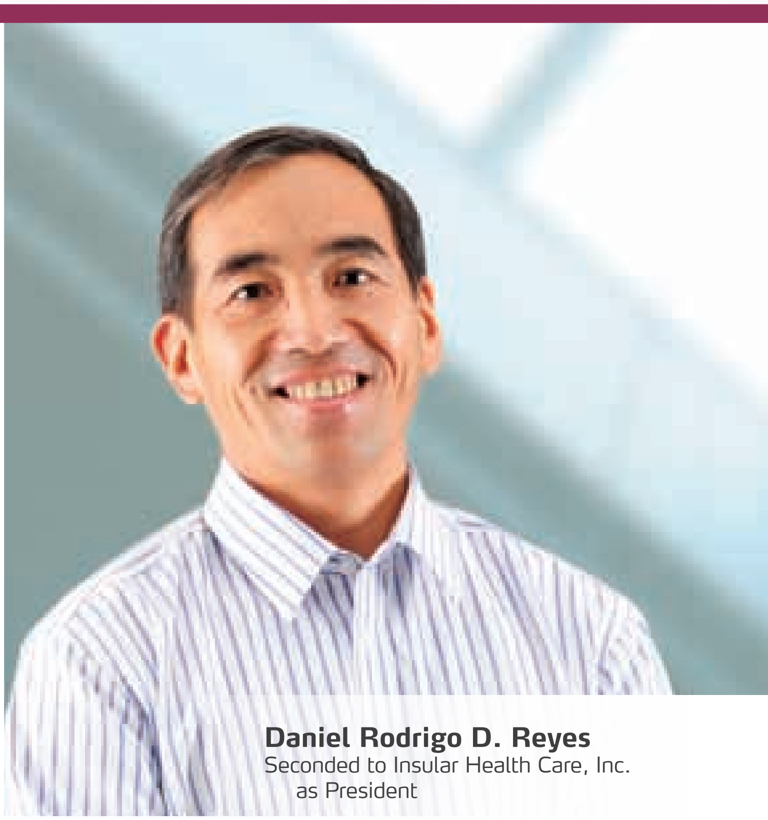
SENIOR
VICE PRESIDENTS

Ramon M. Cabrera
Agency Management

Ma. Edita C. Elicaño
Actuarial Division

FIRST VICE PRESIDENTS

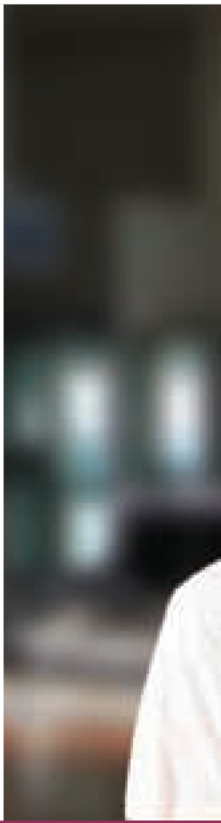
Myrna A. Alcantara
Allied Marketing Channels Division



Daniel Rodrigo D. Reyes
Seconded to Insular Health Care, Inc. as President

Susana G. Nicolas
Human Resources Division

Maria Teresa L. Cruz
Information Services Division



Ronnie B. Alcantara
Seconded to Insular Investment Corporation and to HomeCredit Mutual Building and Loan Association as President

Jocelyn B. Reyes
Policyholders' Services Division

Amelita F. Tamayo
Marketing & Agency Support Division

John Jesus O. Lim
Metro Manila Sales Division

Renato S. De Jesus
Legal Affairs Coordinating Office

VICE PRESIDENTS

Geraldine B. Alvarez
Branch Management Division

Carmen G. Duque
Business Process Management Staff

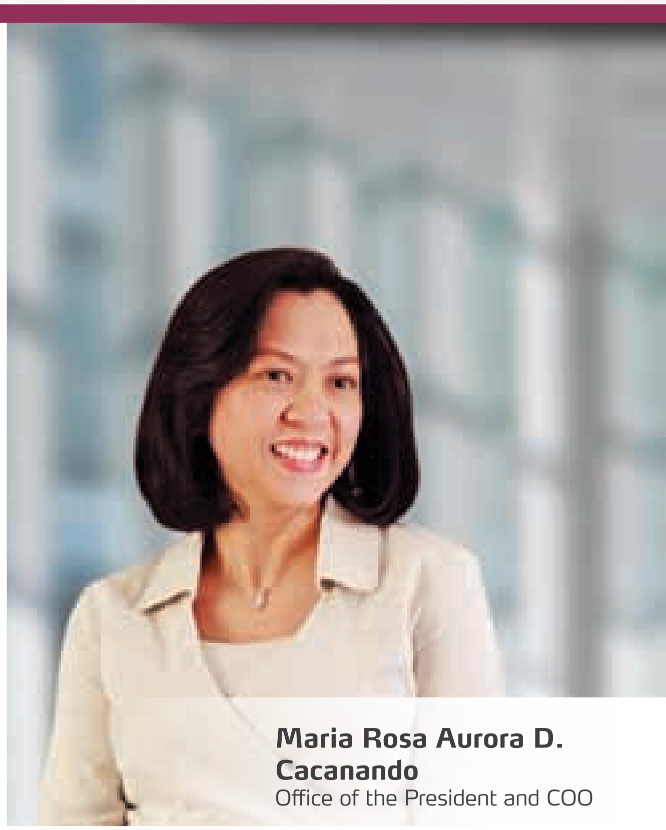
Alijeffty C. Gonzales
Business Development Unit

Enrico L. Cordoba
Corporate Planning Staff

Carlito V. Lucas
Group Marketing Division

Seraline L. Manguni
Seconded to Insular Health Care, Inc.

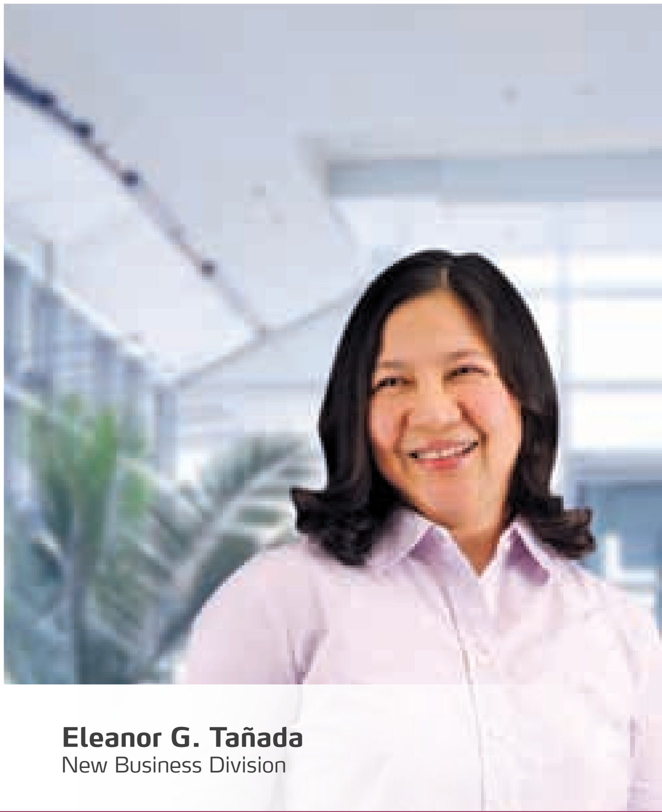
Henry A. Pagulayan
Central/North Luzon Sales Division



Maria Rosa Aurora D. Cacanando
Office of the President and COO

Mylene C. Padilla
Finance Division

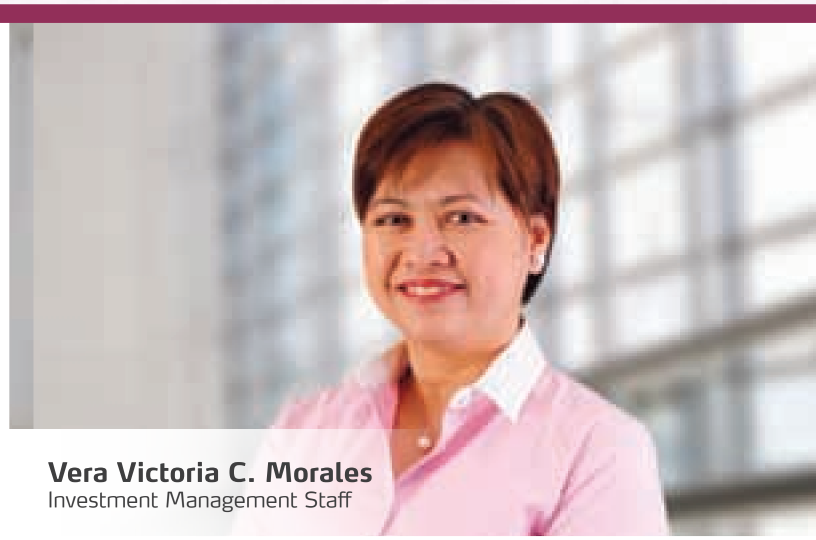
Mundece L. Lu
Visayas-Mindanao Sales Division



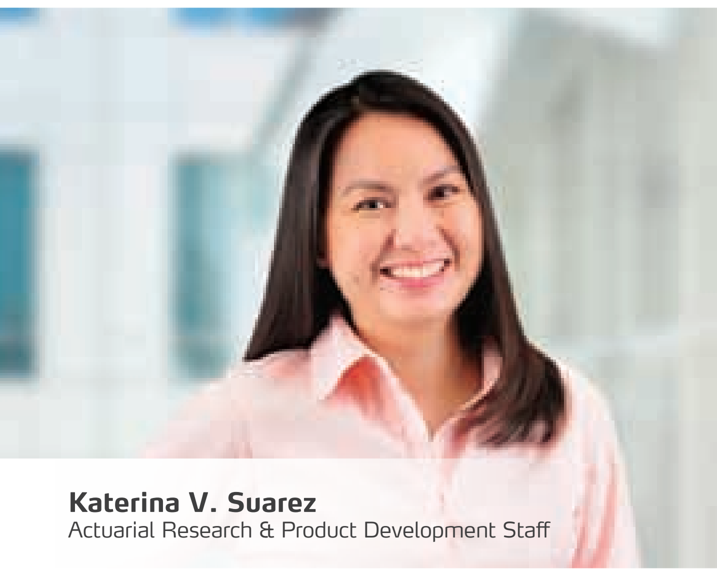
Eleanor G. Tañada
New Business Division

SENIOR ASSISTANT VICE PRESIDENTS

William S. Racadio
New Business Division

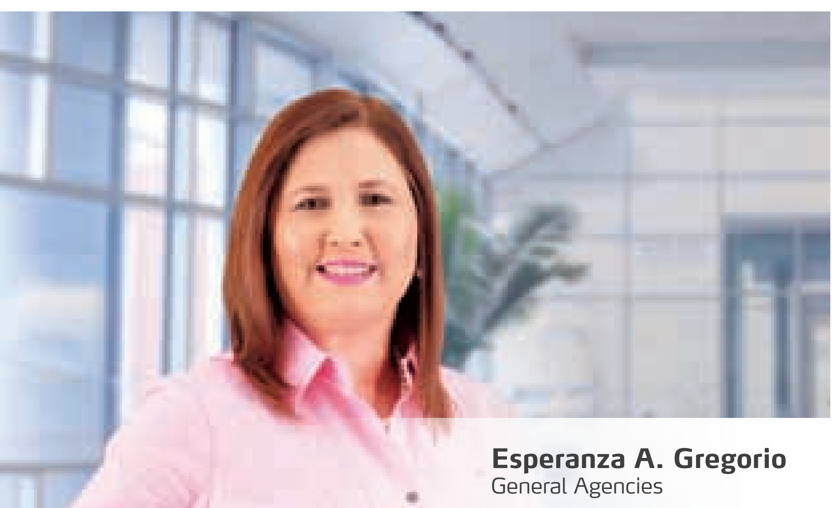


Vera Victoria C. Morales
Investment Management Staff



Katerina V. Suarez
Actuarial Research & Product Development Staff

Ana Maria R. Soriano
Public Relations Staff



Esperanza A. Gregorio
General Agencies

Arnaldo I. Aquino
Central East Visayas Regional Office

Corazon S. Cruz
Systems Development Department III

Laarni F. Garraton
Seconded to Insular Health Care, Inc.

Lorenzo Luis Liborio B. Gallardo II
Corporate Accounts Department

Jose A. Padilla
Customer Experience Management Center

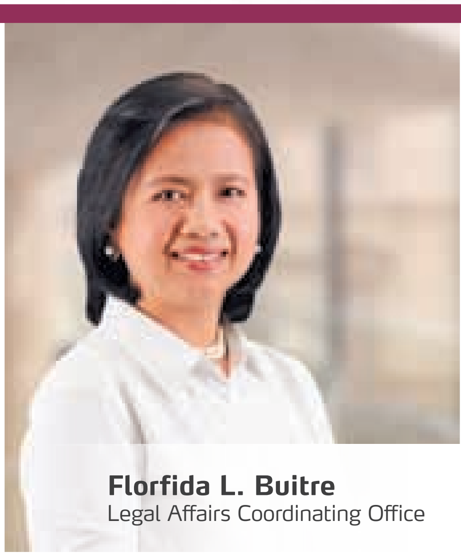
Engeline T. Ureta
Audit Staff

Hector A. Caunan
Real Property Division

Cesar Y. Salera
Legal Affairs Unit

ASSISTANT VICE PRESIDENTS

Iris S. Aman
Agency Relations Department



Florfida L. Buitre
Legal Affairs Coordinating Office

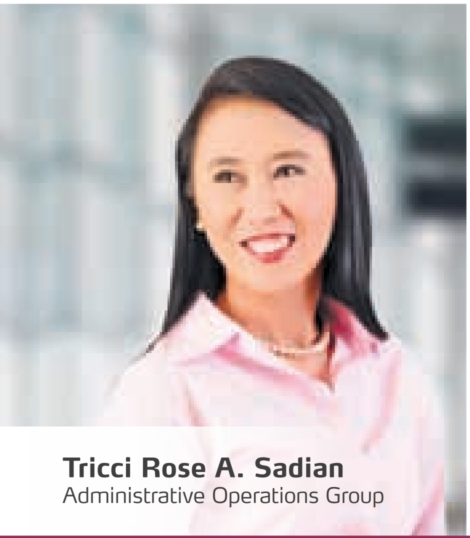
Rene P. Asuncion
Systems Development Department II

Regina Karla E. Fernandez-Libatique
Business Development Unit

Geoffrey M. Pineda
Metro Central Regional Office

Ma. Editha B. Mendiola
Office of the Chairman of the Board & CEO

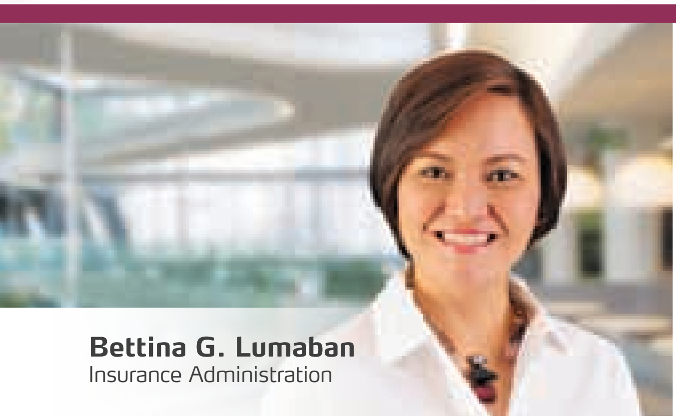
Jesito V. Villamor
South Mindanao Regional Office



Tricci Rose A. Sadian
Administrative Operations Group

Alvin C. Purugganan
North Luzon Regional Office

Diana Rose A. Tagra
Underwriting Department



Bettina G. Lumaban
Insurance Administration

Johanna C. Coronado
Brand Marketing Department

Michael L. Manalastas
Sales & Marketing Support Team

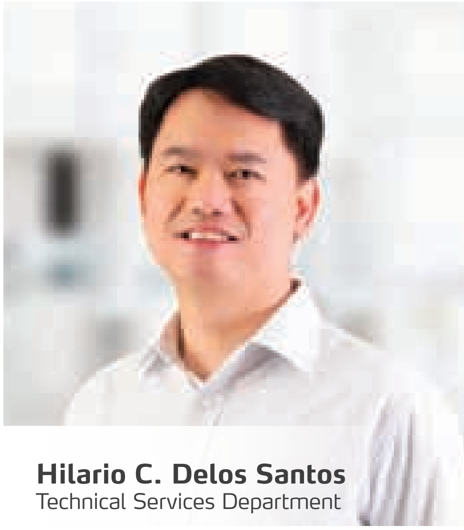
Maria Ida C. Himan
Property Leasing & Sales Department

Maria Sandra J. Bustos
SMG Training and Education Department

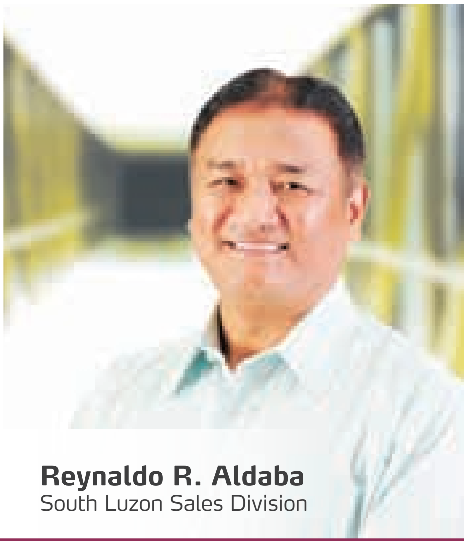
Geraldine G. Pascual
Office of the Executive Vice President-SMG

Alan Joseph S. Amador
Investment Management Staff

Paulita A. Sioson
Corporate Planning Staff



Hilario C. Delos Santos
Technical Services Department



Reynaldo R. Aldaba
South Luzon Sales Division

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **The Insular Life Assurance Co., Ltd** is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2012 and 2011, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

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

Mayo Jose B. Ongsingco
President and Chief Operating Officer

Mona Lisa B. de la Cruz
Treasurer

Signed this 27th day of March 2013

INDEPENDENT AUDITORS' REPORT

SGV & Co
Ernst & Young

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

We have audited the accompanying consolidated financial statements of The Insular Life Assurance Company, Ltd. (a domestic mutual life insurance company) and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in members' equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Insular Life Assurance Company, Ltd. and Subsidiaries as at December 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-AR-1 (Group A),
March 3, 2011, valid until March 2, 2014
Tax Identification No. 012-082-670
BIR Accreditation No. 08-001998-63-2012,
April 11, 2012, Valid until April 10, 2015
PTR No. 3669664, January 2, 2013, Makati City

March 27, 2013

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

	December 31	
	2012	2011
ASSETS		
Cash and Cash Equivalents (Note 4)	**₱4,704,477,963**	₱3,237,486,066
Insurance Receivables (Note 5)	**228,431,255**	258,409,912
Financial Assets (Note 6):		
Fair value through profit or loss	**10,294,305,823**	5,307,769,593
Available-for-sale	**14,880,854,907**	14,509,468,041
Held-to-maturity	**20,053,654,073**	18,592,423,784
Loans and receivables	**21,551,682,066**	21,301,889,368
Investments in Subsidiaries and Associates (Note 7)	**8,109,225,940**	7,291,689,061
Investment Properties (Note 8)	**9,048,780,236**	9,229,298,200
Property and Equipment (Note 9)	**409,969,670**	393,105,406
Retirement Benefits Asset (Note 23)	**91,371,431**	139,826,580
Deferred Income Tax Assets - net (Note 24)	**5,500,954**	38,665,850
Other Assets (Note 10)	**207,920,412**	223,168,713
TOTAL ASSETS	**₱89,586,174,730**	₱80,523,200,574

LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Legal Policy Reserves (Note 11)	**₱47,549,280,966**	₱44,905,957,034
Other Insurance Liabilities (Note 12)	**16,314,664,340**	12,455,080,017
Accrued Expenses and Other Liabilities (Note 13)	**1,742,119,518**	1,287,090,121
Retirement benefits liability (Note 23)	**1,720,746**	1,481,483
Deferred Income Tax Liabilities - net (Note 24)	**933,479,118**	1,178,404,638
Total Liabilities	**66,541,264,688**	59,828,013,293
Members' Equity		
Equity attributable to Parent Company		
Reserve for fluctuation in value of available-for-sale financial assets (Note 6):		
Attributable to the Group:		
Equity securities	**14,653,360,993**	9,894,648,663
Debt securities	**677,799,590**	511,506,382
Attributable to associates (Notes 6 and 7)	**337,306,611**	433,488,627
	5,479,125,243	5,489,164,220
Premium on deemed disposal of investment in an associate (Note 7)	**304,954,486**	304,954,486
Share in surplus reserves of a subsidiary	**3,226,537**	2,940,756
Retained earnings (Notes 14 and 30):		
Appropriated	**250,000,000**	250,000,000
Unappropriated (Note 8)	**17,007,582,109**	14,648,105,745
Equity attributable to Parent Company	**23,044,888,375**	20,695,165,207
Equity attributable to Noncontrolling Interests	**21,667**	22,074
Total Members' Equity	**23,044,910,042**	20,695,187,281
TOTAL LIABILITIES AND MEMBERS' EQUITY	**₱89,586,174,730**	₱80,523,200,574

See accompanying Notes to Financial Statements.

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

	Years Ended December 31	
	2012	2011
REVENUE		
Insurance Revenue (Note 15)		
Gross earned premiums on insurance contracts	**₱10,610.536,472**	₱8,842,767,143
Reinsurers' share of premiums on insurance contracts	**(166,476,158)**	(141,489,594)
Net Insurance Revenue	**10,444,060,314**	8,701,277,549
Operating Revenue		
Investment income (Note 16)	**5,415,261,556**	4,915,447,042
Equity in net earnings of associates (Note 7)	**1,262,864,952**	1,163,599,541
Rental income (Notes 8 and 27)	**400,450,547**	318,611,622
Net realized gains (Note 17)	**378,616,879**	305,533,609
Foreign exchange gain - net (Note 6)	**–**	3,362,859
Other income	**183,491,333**	153,090,934
Total Operating Revenue	**7,640,685,267**	6,859,645,607
Total Revenue	**18,084,745,581**	15,560,923,156
INSURANCE BENEFITS AND OPERATING EXPENSES		
Insurance Benefits Expenses (Note 18)		
Gross benefits and claims on insurance contracts	**8,675,005,211**	6,444,741,754
Reinsurers' share of benefits and claims on insurance contracts	**(25,734,606)**	(25,149,830)
Net change in:		
Legal policy reserves	**2,640,784,319**	3,403,480,607
Reinsurers' share in legal policy reserves	**2,539,613**	(2,995,561)
Net Insurance Benefits Expenses	**11,292,594,537**	9,820,076,970
Operating Expenses		
General insurance expenses (Note 19)	**2,079,764,108**	1,629,627,638
Commissions and other acquisition expenses	**693,894,552**	638,279,524
Foreign exchange loss - net (Note 6)	**290,378,588**	–
Investment expenses (Note 20)	**196,826,797**	199,359,226
Other losses (Note 21)	**17,688,803**	14,824,214
Total Operating Expenses	**3,278,552,848**	2,482,090,602
Total Insurance Benefits and Operating Expenses	**14,571,147,385**	12,302,167,572
INCOME BEFORE INCOME TAX	**3,513,598,196**	3,258,755,584
PROVISION FOR INCOME TAX (Note 24)	**297,850,904**	366,006,690
NET INCOME	**₱3,215,747,292**	₱2,892,748,894
ATTRIBUTABLE TO:		
Parent Company	**₱3,215,746,344**	₱2,892,748,066
Noncontrolling Interest	**948**	828
NET INCOME	**₱3,215,747,292**	₱2,892,748,894

See accompanying Notes to Financial Statements.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2012	2011
NET INCOME	**₱3,215,747,292**	₱2,892,748,894
OTHER COMPREHENSIVE INCOME		
Increase in value of available-for-sale equity securities - net of tax (Note 6)	**59,672,751**	1,074,529,818
Valuation losses (gains) realized through profit or loss (Note 6)	**(140,758,448)**	(226,284,974)
	(81,085,697)	848,244,844
Increase in value of available-for-sale debt securities - net of tax (Note 6)	**167,407,678**	289,927,616
Valuation gains realized through profit or loss (Notes 6)	**(178,453)**	(53,679,577)
	167,229,225	236,248,039
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**(10,038,488)**	1,408,146,483
TOTAL COMPREHENSIVE INCOME	**₱3,205,708,804**	₱4,300,895,377
ATTRIBUTABLE TO:		
Parent Company	**₱3,205,707,367**	₱4,300,894,374
Noncontrolling Interest	**1,437**	1,003
TOTAL COMPREHENSIVE INCOME	**₱3,205,708,804**	₱4,300,895,377

See accompanying Notes to Financial Statements.

THE INSULAR LIFE ASSURANCE CO. LTD.
(A Domestic Mutual Life Insurance Company)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Equity Attributable to Parent Company									
	Reserve for Fluctuation in Available-for-Sale Financial Assets									
	Attributable to the Group									
	Equity Securities (Note 6)	Debt Securities (Note 6)	Attributable to Associates (Notes 6 and 7)	Premium on Deemed Disposal of Investment in an Associate (Note 7)	Share in Surplus Reserves of Subsidiary	Retained Earnings (Notes 14 and 30) Appropriated	Retained Earnings (Notes 14 and 30) Unappropriated	Total	Equity Attributable to Noncontrolling Interest	Total
BALANCES AT DECEMBER 31, 2010	**₱3,692,019,878**	**₱279,163,007**	**₱109,835,027**	**₱304,954,486**	**₱2,940,756**	**₱175,000,000**	**₱12,680,642,677**	**₱17,244,555,831**	**₱21,071**	**₱17,244,576,902**
Total comprehensive income	848,244,844	236,247,864	323,653,600	–	–	–	2,892,748,066	4,300,894,374	1,003	4,300,895,377
Appropriation of retained earnings for the required minimum paid-up capital (Note 30)	–	–	–	–	–	75,000,000	(75,000,000)	–	–	–
Dividends to members (Note 14)	–	–	–	–	–	–	(850,284,998)	(850,284,998)	–	(850,284,998)
BALANCES AT DECEMBER 31, 2011	**4,540,264,722**	**515,410,871**	**433,488,627**	**304,954,486**	**2,940,756**	**250,000,000**	**14,648,105,745**	**20,695,165,207**	**22,074**	**20,695,187,281**
Total comprehensive income	(81,085,697)	167,228,736	(96,182,016)	–	–	–	3,215,746,344	3,205,707,367	1,437	3,205,708,804
Appropriation of surplus	–	–	–	–	285,781	–	(285,781)	–	–	–
Dividends to members (Note 14)	–	–	–	–	–	–	(855,984,199)	(855,984,199)	(1,844)	(855,986,043)
BALANCES AT DECEMBER 31, 2012	**₱4,459,179,025**	**₱682,639,607**	**₱337,306,611**	**₱304,954,486**	**₱3,226,537**	**₱250,000,000**	**₱17,007,582,109**	**₱23,044,888,375**	**₱21,667**	**₱23,044,910,042**

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱3,513,598,196**	₱3,258,755,584
Adjustments for:		
Interest income (Note 16)	**(4,055,561,224)**	(3,488,661,677)
Net change in legal policy reserves (Note 18)	**2,643,323,932**	3,400,485,046
Equity in net earnings of associates (Note 7)	**(1,262,864,952)**	(1,163,599,541)
Dividend income (Note 16)	**(1,231,815,080)**	(1,392,751,024)
Interest expense (Note 18)	**435,642,780**	412,881,090
Foreign exchange loss (gain) - net (Note 6)	**290,378,588**	(3,362,859)
Dividends to members (Notes 14 and 18)	**256,410,000**	256,305,000
Trading gains from financial assets at FVPL (Note 16)	**(127,885,252)**	(34,034,341)
Net changes in retirement benefits asset	**48,694,412**	(72,744,541)
Net realized gain on disposals of (Note 17):		
Available-for-sale financial assets	**(340,232,722)**	(283,057,942)
Investment properties	**(36,654,490)**	(11,011,099)
Property and equipment	**(1,947,397)**	(4,803,340)
Realized loss (gain) on:		
Foreclosure of properties (Note 17)	**759,459**	(6,543,955)
Repossession of properties (Note 17)	**(541,729)**	(117,273)
Depreciation and amortization of:		
Investment properties (Note 8)	**144,008,618**	142,501,403
Property and equipment and computer software (Notes 9 and 10)	**69,968,898**	66,663,377
Impairment loss on:		
Property and equipment (Notes 9 and 21)	**15,739,700**	2,317,200
Investment properties (Notes 8 and 21)	**1,059,103**	8,446,754
Available-for-sale equity securities (Notes 6 and 21)	**890,000**	4,060,260
Operating income before working capital changes	**362,970,840**	1,091,728,122
Changes in operating assets and liabilities:		
Net decrease (increase) in:		
Insurance receivables	**29,978,657**	(27,705,539)
Loans and receivables	**(294,804,432)**	34,798,413
Net increase (decrease) in:		
Other insurance liabilities	**3,901,466,988**	1,556,568,178
Accrued expenses and other liabilities	**455,029,397**	(65,756,990)
Net cash generated from operations	**4,454,641,450**	2,589,632,184
Income taxes paid	**(368,186,744)**	(298,930,787)
Net cash generated from operating activities	**4,086,454,706**	2,290,701,397

(Forward)

	Years Ended December 31	
	2012	2011
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	**₱3,848,376,876**	₱3,504,452,247
Collections of loans and receivables	**3,093,264,459**	2,746,490,488
Releases of loans and receivables	**(2,840,889,312)**	(4,681,941,643)
Dividends received	**1,580,961,137**	1,392,751,024
Proceeds from disposals and/or maturities of:		
Available-for-sale financial assets	**1,267,841,962**	1,932,988,082
Held-to-maturity financial assets (Note 6)	**1,204,995,035**	1,697,804,328
Investment properties	**128,803,929**	64,897,766
Property and equipment	**3,905,385**	18,689,950
Net decrease in other assets	**3,782,164**	37,539,387
Additional investments in:		
Financial assets at fair value through profit or loss (Note 6)	**(4,951,806,890)**	(1,172,457,539)
Held-to-maturity financial assets (Note 6)	**(2,848,000,883)**	(3,298,089,535)
Available-for-sale financial assets (Note 6)	**(1,410,969,383)**	(2,601,366,666)
Property and equipment and computer software (Notes 9 and 10)	**(79,394,861)**	(72,536,716)
Investment properties (Note 8)	**(74,679,839)**	(114,495,517)
Net cash used in investing activities	**(1,073,810,221)**	(545,274,344)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of dividends to members	**(1,110,009,808)**	(1,079,489,998)
Interest paid to members (Note 18)	**(435,642,780)**	(412,881,090)
Net cash used in financing activities	**(1,545,652,588)**	(1,492,371,088)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,466,991,897**	253,055,965
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,237,486,066**	2,984,430,101
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱4,704,477,963**	₱3,237,486,066

See accompanying Notes to Consolidated Financial Statements.

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

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

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

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

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

Authorization for Issuance of the Consolidated Financial Statements
The consolidated financial statements of the Group were authorized for issuance by the Board of Trustees (BOT) on March 27, 2013.

2. Summary of Significant Accounting and Financial Reporting Policies

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

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

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year, except for the following amended PFRS and Philippine Accounting Standard (PAS) which were adapted as of January 1, 2012.

- PFRS 1 (Amendment), *First-time Adoption of Philippine Financial Reporting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*, provides guidance on how an entity should resume presenting PFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. The amendment also removes the legacy fixed dates in PFRS 1 relating to derecognition and day one gain or loss transactions.

  The adoption of this new standard has no impact on the Group's financial position or performance.

- PFRS 7 (Amendment), *Financial Instruments: Disclosures - Transfers of Financial Assets*, requires additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The Group did not have any transfers of financial assets in 2012 and 2011, thus, this amendment has no impact on the Group's financial statements.

- PAS 12 (Amendment), *Income Taxes - Deferred Tax: Recovery of Underlying Assets*, clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The Group's investment properties and property and equipment are accounted for under the cost model, as such, this amendment has no impact on the Group's financial statements.

New Accounting Standards, Interpretations and Amendments to
Existing Standards Effective Subsequent to December 31, 2012
The Group will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new changes in PFRS and new Philippine Interpretations based on International Financial Reporting and Interpretations Committee (IFRIC) to have a significant impact on the financial statements. The relevant disclosures will be included in the notes to the financial statements when these become effective.

Effective 2013

- Amendments to PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Government Loans, require first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. As a result of not applying PFRS 9, *Financial Instruments*, and PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, retrospectively, first-time adopters will not have to recognize the corresponding benefit of a below-market rate government as a government grant. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

- Amendments to PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*, require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  c) The net amounts presented in the statement of financial position;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

  The amendments to PFRS 7 are to be retrospectively applied. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*, replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The application of this new standard will not have a significant impact on the Group's financial position or performance.

- PFRS 11, *Joint Arrangements*, replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The group is still assessing the impact of adopting this new standard on the Group's financial position or performance.

- PFRS 12, *Disclosure of Interests in Other Entities*, includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The application of this new standard will have no impact on the Group's financial position or performance.

- PFRS 13, *Fair Value Measurement*, establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted.

  The Group anticipates that adoption of this standard may have a significant impact on its financial position and may result to more extensive disclosures in the financial statements. The Group is currently assessing the impact of adopting this standard.

- Amendment to PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*, changes the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance.

- Revised PAS 19, *Employee Benefits*, range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

  The Parent Company obtained the services of an external actuary to compute the impact on the financial statements upon adoption of the standard. The effects are detailed below:

	As at December 31, 2012	As at January 1, 2012
Increase (decrease) in:		
Balance sheet		
Net defined benefit asset/liability	**₱97,414,483**	(₱2,094,371)
Deferred tax asset/liability	**29,224,345**	(628,311)
Other comprehensive income	**75,583,340**	–
Retained earnings	**(7,393,202)**	(1,466,060)

	2012
Statement of income	
Net benefit cost	₱8,467,346
Income tax expense	(2,540,204)
Profit for the year	(5,927,142)

- Revised PAS 27, *Separate Financial Statements*, as a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The revised standard has no significant impact on the Group's financial position or performance.

- Revised PAS 28, *Investments in Associates and Joint Ventures*, as a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The group is still assessing the impact of adopting this new standard on the Group's financial position or performance.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. This interpretation is not applicable to the Group.

Effective 2014

- Amendments to PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group expects that this interpretation will not have a significant impact on its financial position or performance.

Effective 2015

- PFRS 9, *Financial Instruments: Classification and Measurement*, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The Group is currently assessing the impact of adopting this standard.

Deferred

- Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to December 31, 2012 on the Company's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the financial statements when these are adopted.

Improvements to PFRS issued in years 2009 to 2011

The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The omnibus amendments to PFRS were issued primarily with a view to remove inconsistencies and clarify wordings. There are separate transitional provisions for each standard which are all effective beginning January 1, 2013. Adoption of the following improvements has no impact on the Group's financial position or performance.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*, clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*.

- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*, clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required.

- PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*, clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise.
- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*, clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*.
- PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*, clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment.

Basis of Consolidation
The consolidated financial statements include the financial statements of the Group and its subsidiaries as of December 31, 2012 and 2011. The financial statements of the subsidiaries are prepared for the same reporting years as the Group, except for Insular Life Management and Development Corp. (ILMADECO) which was presented as of and for the years ended March 31, 2012 and 2011, using consistent accounting principles.

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

	Percentage of Ownership	
	2012	2011
Insular Investment Corporation (IIC)	**100.00**	100.00
IITC Properties, Inc. (IPI)	**100.00***	100.00*
Insular Property Ventures, Inc. (IPVI)	**100.00***	100.00*
Insular Life Health Care Incorporated (I-Care)	**100.00**	100.00
ILMADECO	**100.00**	100.00
ILAC General Insurance Agency, Inc.	**100.00****	100.00**
Insular Life Property Holdings, Inc.	**100.00**	100.00
Home Credit Mutual Building & Loan Association, Inc. (Home Credit)	**99.96**	99.96

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

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

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

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

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

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

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

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

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

Financial assets
a. Financial Assets at FVPL

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

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

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

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

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

As of December 31, 2012 and 2011, the Group's financial assets at FVPL are designated at FVPL by management at initial recognition. The financial assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy. The Group manages these financial assets in accordance with the investment strategy and valuation provisions of the Variable Unit-Linked (VUL) insurance contracts. Likewise, this is consistent with the valuation basis of the reserve for policies held by the policyholders. These financial assets consist primarily of quoted government and corporate debt securities with fixed interest rates and quoted equity securities. All investments are separately administered under Insular Life Wealth Series Funds (the Separate Funds) except for equity securities purchased by the Parent Company in 2012 amounting to ₱1,491,664,437 and securities held by a subsidiary in 2011 amounting to ₱1,954,000 (Note 6).

b. HTM Financial Assets

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

As of December 31, 2012 and 2011, the Group's HTM financial assets consist of quoted government and corporate debt securities with fixed interest rates (Note 6).

c. Loans and Receivables

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

As of December 31, 2012 and 2011, the Group's loans and receivables consist of cash and cash equivalents, term loans, policy loans, interest receivable, accounts receivable, housing loans, mortgage loans, car financing loans, finance leases, due from agents, stock loans, and other receivables (Notes 4 and 6).

d. AFS Financial Assets

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

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

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

When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as realized gain in the consolidated statement of income.

As of December 31, 2012 and 2011, the Group's AFS financial assets consist of quoted and unquoted government and corporate debt securities with fixed interest rates and quoted and unquoted equity securities (Note 6).

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

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

As of December 31, 2012 and 2011, the Group's other financial liabilities consist of legal policy reserves, other insurance liabilities and accrued expenses and other liabilities (Notes 11, 12 and 13).

The Group does not have financial liabilities at FVPL as of December 31, 2012 and 2011.

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

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

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

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

As of December 31, 2012 and 2011, the Group has no embedded derivatives requiring bifurcation.

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

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

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

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

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

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

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

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

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

Derecognition of Financial Instruments

Financial assets

A financial asset is derecognized when:

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

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

Financial liabilities

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

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

Impairment of Financial Assets

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

Financial assets carried at amortized cost

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

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

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

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

AFS financial assets

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

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

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

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

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

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

The Group's percentages of ownership in the shares of stock of associates as of December 31, 2012 and 2011 are as follow:

PPI Prime Ventures, Inc. (PPVI)	30.00
Mapfre Insular Insurance Corporation (MIIC)	25.00
Union Bank of the Philippines (UBP)	16.11

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

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

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

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

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

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

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

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

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

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

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

The EUL of property and equipment of the Group follows:

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

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

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

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

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

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

At balance sheet date, assessment is done to determine if properties under this account qualify to be classified as noncurrent asset held for sale and are not depreciated for the year.

There was no asset classified as held for sale as of December 31, 2012 and 2011.

<u>Interest in Joint Venture</u>
The Group's interest in its joint venture is accounted for using the equity method of accounting. The interest in joint venture is carried in the consolidated balance sheet under "Other assets" at cost plus post-acquisition changes in the Group's share of net assets of the joint venture. The Group's share in the results of operations of the joint venture is reflected in the consolidated financial statements.

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

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

<u>Impairment of Nonfinancial Assets</u>
The Group's nonfinancial assets consist of investments in associates, investment properties, property and equipment and other assets.

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

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

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

Insurance Contracts

Product classification

a. Insurance and Investment Contracts

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

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

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

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

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

b. VUL Insurance Contracts

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

The liability for the investment portion of VUL insurance contracts is increased by additional deposits and changes in unit prices and is decreased by policy administration fees, fund charges, mortality and surrender charges and any withdrawals. As of the balance sheet date, this liability is computed on the basis of the number of units allocated to the policyholders multiplied by the unit price of the underlying investment funds.

The fund assets and liabilities are separately administered under Separate Funds by the Parent Company's trustee, a third party multinational bank accredited by the Bangko Sentral ng Pilipinas. The fund assets are designated as financial assets at FVPL and are valued on a basis consistent with the measurement basis in the balance sheet. The fund liabilities are included in 'Members' deposits and other funds on deposit' under other insurance liabilities.

c. Options and Guarantees

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

Recognition and measurement

a. Premiums

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

b. Reinsurance Assets

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

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

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

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

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

c. Legal Policy Reserves

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

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

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

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

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

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

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

d. Benefits and Claims

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

e. Incurred But Not Reported (IBNR) Claims

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

f. Reserve for Dividends to Members

Dividends distributable to members are charged to operations and retained earnings. The amount charged against current year's operations represents the savings on loadings or policy administration costs. This is approximated as 21% of the total dividends. On the other hand, the remaining amount of dividends is charged against retained earnings and represents savings on mortality and favorable investment yields which are determined based on actual investment income and mortality experience over several years. Investment income and mortality are long-term factors such that savings on these are better measured over a number of years rather than on a single-year basis. Any difference between the amount set up as reserve for dividends for the year as against the dividends actually paid is charged against retained earnings. The Group believes that this dividend sourcing policy more appropriately matches the dividends with its proper source and is more logical and rational. The charging of a portion of the dividends against retained earnings is approved by the IC.

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

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

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

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

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

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

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

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

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

Membership fees

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

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

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

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

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

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

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

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

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

Income Tax
Final tax
Final tax on interest income is presented in the consolidated statement of income at the time interest is earned.

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

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

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

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

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

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

Unrecognized deferred income tax assets are re-assessed at each balance sheet date, and are recognized to the extent that it has become probable that sufficient future taxable profits will allow all or part of the deferred income tax assets to be recovered.

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

Provisions

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

Contingencies

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

Events After the Balance Sheet Date

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

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

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

Judgments

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

Product classification

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

Classification of financial instruments

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

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

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

The classification of the Group's financial instruments by categories is shown in Note 28.

Determination of existence of significant influence

The Group's 16.11% equity investment in Union Bank of the Philippines (UBP) is classified as an associate since the Group has established that it has significant influence over UBP through active participation of all members of the Board in the working committees of UBP.

The Group's 19.49% equity investment in Pilipinas Shell Petroleum Company (PSPC) is classified as AFS since the Group does not have significant influence over PSPC. Accordingly, the investment is carried at its estimated fair value as of December 31, 2012 and 2011 (Note 28).

Distinction among property and equipment, investment properties and noncurrent assets held for sale

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

The Group's head office in Alabang is classified as investment property rather than property and equipment since the entire property is predominantly leased to third parties.

In 2012, the total cost of investment properties reclassified to property and equipment amounted to ₱39,557,936 while the total cost of property and equipment reclassified to investment properties amounted to ₱3,342,000 (nil in 2011) (Notes 8 and 9).

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

Any difference between the amount set up as reserve for dividends for the year as against the dividends actually paid is charged against retained earnings. Management believes that this dividend sourcing policy more appropriately matches the dividends with its proper source and is more logical and rational. The charging of a portion of the dividends against retained earnings is approved by the IC.

Reserve for dividends to members charged against retained earnings amounted to ₱855,986,043 and ₱850,284,998 as of December 31, 2012 and 2011, respectively (Note 14).

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

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

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

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

The carrying value of the unquoted AFS equity securities referred to above amounted to ₱5,054,506,333 and ₱6,131,482,593 as of December 31, 2012 and 2011, respectively (Notes 6 and 28).

There are also unquoted AFS equity securities where there is no reference to current market value of a similar instrument. Fair value of these securities is based on their book values as shown in their audited financial statements since the assets of this investee company is substantially carried at market values. Another unquoted AFS equity securities are valued using the discounted cash flow technique.

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

The carrying value of insurance receivables amounted to ₱228,431,255 and ₱258,409,912 as of December 31, 2012 and 2011, respectively (Note 5). Based on management's assessment, there is no impairment of its insurance receivables in 2012 and 2011.

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

The carrying value of the Group's loans and receivables, excluding cash and cash equivalents, amounted to ₱21,551,682,066 and ₱21,301,889,368 as of December 31, 2012 and 2011, respectively (Note 6). Allowance for impairment on loans and receivables amounted to ₱84,168,124 and ₱267,022,317 as of December 31, 2012 and 2011, respectively (Note 6). Provision for impairment on loans and receivables amounted to ₱3,922,869 in 2012 and ₱7,035,003 in 2011 (Notes 6 and 19).

The carrying value of the Group's AFS debt securities amounted to ₱4,165,437,518 and ₱3,768,619,968 as of December 31, 2012 and 2011, respectively (Note 6) while the carrying value of the Group's HTM financial assets amounted to ₱20,053,654,073 and ₱18,592,423,784 as of December 31, 2012 and 2011, respectively (Note 6). In 2012 and 2011, the Group did not recognize any impairment loss on AFS debt securities and HTM financial assets.

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

In 2012 and 2011, the Group recognized impairment loss amounting to ₱890,000 and ₱4,060,260, respectively (Note 6).

The carrying value of the Group's AFS equity securities amounted to ₱10,715,417,389 and ₱10,740,848,073 as of December 31, 2012 and 2011, respectively (Note 6).

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

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

The carrying value of depreciable investment properties, property and equipment and computer software, net of accumulated depreciation and amortization, amounted to ₱3,156,352,490 (Note 8), ₱329,991,043 (Note 9) and ₱18,855,524 (Note 10), respectively as of December 31, 2012 and ₱3,303,538,331 (Note 8), ₱386,206,963 (Note 9) and ₱26,228,600 (Note 10), respectively as of December 31, 2011.

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

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

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

The Group recognized impairment loss on its investment properties amounting to ₱1,059,103 and ₱8,446,754 in 2012 and 2011, respectively (Notes 8 and 21). Impairment loss on property and equipment amounted to ₱15,739,700 in 2012 and ₱2,317,200 in 2011 (Notes 9 and 21). The carrying value of the Group's nonfinancial assets amounted to ₱17,775,896,257 and ₱17,137,261,380 as of December 31, 2012 and 2011, respectively (Notes 7, 8, 9 and 10).

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

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

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

The carrying value of legal policy reserves amounted to ₱47,549,280,966 and ₱44,905,957,034 as of December 31, 2012 and 2011, respectively (Note 11). Net change in legal policy reserves amounted to ₱2,643,323,932 and ₱3,400,485,046 in 2012 and 2011, respectively (Note 18).

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

Total claims pending settlement, included under 'Other insurance liabilities' in the consolidated balance sheet amounted to ₱980,623,687 and ₱700,088,095, as of December 31, 2012 and 2011, respectively (Note 12).

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

Net retirement benefits asset amounted to ₱91,371,431 as of December 31, 2012 and ₱139,826,580 as of December 31, 2011 (Note 23). Net retirement benefits liability amounted ₱1,720,746 and ₱1,481,483 as of December 31, 2012 and 2011 (Note 23). The Group's unrecognized net actuarial gains amounted to ₱188,204,998 and ₱67,537,054 as of December 31, 2012 and 2011, respectively (Note 23).

Realizability of deferred income tax assets
The carrying amount of deferred income tax assets recognized is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be

utilized. However, if there is no assurance that the Group will generate sufficient future taxable profits to allow all or part of deferred income tax assets to be utilized, the assets are not recognized in the books. The Group did not recognize deferred income tax assets on NOLCO and excess of MCIT over RCIT, amounting to ₱1,917,446,127 in 2012 and ₱2,150,554,675 in 2011 (Note 24).

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

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

4. Cash and Cash Equivalents

	2012	2011
Cash on hand	**₱254,290**	₱255,386
Cash in banks (Note 25)	**908,520,769**	480,489,310
Cash equivalents in commercial banks (Note 25)	**3,795,702,904**	2,756,741,370
	₱4,704,477,963	₱3,237,486,066

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

5. Insurance Receivables

	2012	2011
Due premiums	**₱214,791,757**	₱247,136,135
Reinsurance assets	**13,639,498**	11,273,777
	₱228,431,255	₱258,409,912

6. Financial Assets

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

	2012	2011
Financial assets at FVPL	**₱10,294,305,823**	₱5,307,769,593
AFS financial assets	**14,880,854,907**	14,509,468,041
HTM financial assets	**20,053,654,073**	18,592,423,784
Loans and receivables	**21,551,682,066**	21,301,889,368
	₱66,780,496,869	₱59,711,550,786

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

Financial Assets at FVPL

	2012	2011
Equity security - quoted	**₱1,491,664,437**	₱1,954,000
Under separate fund:		
Cash and cash equivalents	**993,508,891**	449,561,966
Equity securities - quoted	**4,158,980,050**	2,240,188,762
Debt securities - quoted - fixed interest rates:		
Government:		
Local currency	**1,275,493,705**	854,197,791
Foreign currency	**2,002,090,304**	1,334,882,895
Corporate	**330,174,654**	380,483,903
Interest receivable	**42,393,782**	46,500,276
	₱10,294,305,823	₱5,307,769,593

Quoted equity security directly administered by the Parent Company represents preferred shares listed in the stock exchange. Fair value loss on this equity securities amounted to ₱8,758,314 in 2012.

Financial assets at FVPL under separate funds consist of net assets administered and reported underlying the VUL insurance contracts. These financial assets are designated as at FVPL in accordance with the investment strategy and valuation provisions of the VUL insurance contracts. Likewise, this is consistent with the valuation basis of the reserve for policies held by the policyholders. A subsidiary has held-for-trading financial assets at FVPL which amounted to nil as of December 31, 2012 and ₱1,954,000 as of December 31, 2011.

Fair value gain from FVPL financial assets presented in the separate financial statements of VUL funds amounted to ₱1,344,875,104 and ₱12,175,515 in 2012 and 2011, respectively.

AFS Financial Assets

	2012	2011
Equity securities:		
Quoted	**₱5,660,911,056**	₱4,609,365,480
Unquoted	**5,054,506,333**	6,131,482,593
	10,715,417,389	10,740,848,073
Debt securities:		
Quoted:		
Government:		
Local currency	**3,092,780,784**	2,636,391,620
Foreign currency	**1,006,584,387**	1,066,598,702
Corporate	**36,258,773**	56,292,172
Unquoted - government	**29,813,574**	9,337,474
	4,165,437,518	3,768,619,968
	₱14,880,854,907	₱14,509,468,041

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

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

	2012	2011
Equity securities:		
Attributable to the Group:		
Beginning balance	**₱4,540,264,722**	₱3,692,019,878
Increase in value of AFS equity securities net of tax	**59,672,751**	1,074,529,818
Valuation losses (gains) realized through profit or loss:		
Gain on sale	**(141,648,448)**	(230,345,234)
Impairment (Note 21)	**890,000**	4,060,260
Ending balance	**4,459,179,025**	4,540,264,722
Attributable to associates:		
Beginning balance	**433,488,627**	109,835,027
Increase (decrease) in value of AFS equity securities attributable to associates (Note 7)	**(96,182,016)**	323,653,600
Ending balance	**337,306,611**	433,488,627
	₱4,796,485,636	₱4,973,753,349
Debt securities:		
Beginning balance	**₱515,410,871**	₱279,163,007
Increase in value of AFS debt securities net of tax	**167,407,189**	289,927,441
Valuation gains realized through profit or loss	**(178,453)**	(53,679,577)
Ending balance	**₱682,639,607**	₱515,410,871

HTM Financial Assets

	2012		2011	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Debt securities:				
Government:				
Local currency	**₱15,361,152,820**	**₱19,733,169,689**	₱14,433,791,329	₱17,507,962,351
Foreign currency	**2,793,948,803**	**3,020,801,974**	3,040,555,575	3,448,021,933
Corporate:				
Local currency	**1,898,552,450**	**2,076,813,572**	1,096,352,066	1,196,981,801
Foreign currency	–	–	21,724,814	28,267,668
	₱20,053,654,073	**₱24,830,785,235**	₱18,592,423,784	₱22,181,233,753

Loans and Receivables

	2012	2011
Term loans	**₱14,101,025,603**	₱14,373,534,104
Policy loans	**5,624,884,044**	5,666,841,882
Interest receivable	**879,003,857**	671,640,443

(Forward)

	2012	2011
Accounts receivable	**₱391,383,049**	₱323,377,020
Housing loans	**165,196,948**	150,172,143
Mortgage loans	**83,948,418**	106,035,690
Car financing loans	**48,542,732**	48,499,793
Finance leases	**37,483,571**	36,782,868
Due from agents	**33,890,397**	93,269,618
Stock loans	**24,130,714**	28,967,507
Others	**246,360,857**	69,790,617
	21,635,850,190	21,568,911,685
Less allowance for impairment loss on loans	**84,168,124**	267,022,317
	₱21,551,682,066	₱21,301,889,368

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

- Term loans - pertain to investments in fixed-rate loans of corporate borrowers with terms ranging from 5 to 10 years. Interest rates range from 2.25% to 10.35% in both 2012 and 2011.
- Policy loans - pertain to loans granted to policyholders. The loan is issued with the cash surrender value of the policyholder's insurance policy as collateral. Interest rates on policy loans range from 7% to 10% and 6% to 10% in 2012 and 2011, respectively.
- Interest receivable - pertains to accrued interest arising from investments in debt securities, cash equivalents, term loans, mortgage loans, and other receivables with interest rates ranging from 0.03% to 10.35% and 0.01% to 10.35% in 2012 and 2011, respectively.
- Accounts receivable - pertain to miscellaneous receivables from employees, agents, related parties and third parties.
- Housing loans - pertain to long-term loans granted to employees at an annual interest of 8% payable semi-annually with terms ranging from 5 to 20 years.
- Mortgage loans - pertain to housing loans granted to third parties and former employees with terms ranging from 5 to 20 years. Interest rates on these loans range from 6.65% to 13% and 6.65% to 19% in 2012 and 2011, respectively.
- Car financing loans - pertain to car loans granted to employees at an annual interest of 6% payable semi-annually and with terms ranging from 5 to 7 years.
- Finance leases - pertain to real estate mortgages which are collectible over a period of 20 years at an annual interest of 18% in 2012 and 2011.
- Due from agents - pertain to advances by agents, invalid withdrawal of compensation by agents, unremitted collections and charges for amendment/replacement of policies.
- Stock loans - pertain to short-term loans which are granted to qualified members of the programs launched by Home Credit, a subsidiary.

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

	2012	2011
Housing loans	**₱175,885,547**	₱163,085,911
Less unamortized deferred interest income	**10,688,599**	12,913,768
	165,196,948	150,172,143
Car financing loans	**48,549,260**	48,521,376
Less unamortized deferred interest income	**6,528**	21,583
	48,542,732	48,499,793
	₱213,739,680	₱198,671,936

The amortization of deferred interest income amounting to ₱2,240,224 and ₱3,813,429 in 2012 and 2011, respectively, is recognized as part of interest on loans and receivables included under 'Investment income' in the consolidated statements of income (Note 16).

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

	2012			
	Accounts Receivable	**Mortgage Loans**	**Due from Agents**	**Total**
Beginning balances	**₱168,888,622**	**₱6,466,617**	**₱91,667,078**	**₱267,022,317**
Provisions for the year (Note 19)	**2,713,384**	**934,024**	**275,461**	**3,922,869**
Recoveries	**(1,432,500)**	**(1,420,354)**	**(120,226)**	**(2,973,080)**
Write-off	**(121,225,678)**	**(18,426)**	**(62,559,878)**	**(183,803,982)**
Ending balances	**₱48,943,828**	**₱5,961,861**	**₱29,262,435**	**₱84,168,124**

	2011			
	Accounts Receivable	Mortgage Loans	Due from Agents	Total
Beginning balances	₱175,281,893	₱17,794,742	₱96,062,119	₱289,138,754
Provisions for the year (Note 19)	6,797,325	–	237,678	7,035,003
Recoveries	(12,886,462)	(3,902,150)	(218,917)	(17,007,529)
Write-off	(304,134)	(7,425,975)	(4,413,802)	(12,143,911)
Ending balances	₱168,888,622	₱6,466,617	₱91,667,078	₱267,022,317

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

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

	2012				
			AFS		
	FVPL	HTM	Equity Securities	Debt Securities	Total
Beginning balances	**₱5,307,769,593**	**₱18,592,423,784**	**₱10,740,848,073**	**₱3,768,619,968**	**₱38,409,661,418**
Acquisitions	**4,528,620,923**	**2,848,000,883**	**973,469,383**	**437,500,000**	**8,787,591,189**
Disposals/maturities	**(825,829,256)**	**(1,204,995,035)**	**(1,121,478,449)**	**(150,227,232)**	**(3,302,529,972)**
Fair value gain	**1,376,900,475**	**–**	**123,468,382**	**169,439,864**	**1,669,808,721**
Foreign exchange adjustments	**(93,155,912)**	**(187,064,643)**	**–**	**(54,426,933)**	**(334,647,488)**
Impairment (Note 21)	**–**	**–**	**(890,000)**	**–**	**(890,000)**
Discount (premium amortization - net	**–**	**5,289,084**	**–**	**(5,468,149)**	**(179,065)**
Ending balances	**₱10,294,305,823**	**₱20,053,654,073**	**₱10,715,417,389**	**₱4,165,437,518**	**₱45,228,814,803**

	2011				
			AFS		
	FVPL	HTM	Equity Securities	Debt Securities	Total
Beginning balances	₱4,135,312,054	₱16,984,045,826	₱9,283,326,136	₱3,096,719,396	₱33,499,403,412
Acquisitions	1,733,369,467	3,298,089,535	1,131,897,483	1,469,469,183	7,632,825,668
Disposals/maturities	(649,635,110)	(1,697,804,328)	(629,979,427)	(1,019,950,713)	(3,997,369,578)
Fair value gain	87,353,618	–	959,664,141	230,846,168	1,277,863,927
Foreign exchange adjustments	1,369,564	2,998,843	–	973,790	5,342,197
Impairment (Note 21)	–	–	(4,060,260)	–	(4,060,260)
Discount (premium) amortization - net	–	5,093,908	–	(9,437,856)	(4,343,948)
Ending balances	₱5,307,769,593	₱18,592,423,784	₱10,740,848,073	₱3,768,619,968	₱38,409,661,418

As of December 31, 2012 and 2011, government securities under HTM financial assets totaling ₱62,500,000 are deposited with the IC as security for the benefit of policyholders and creditors of the Group in accordance with the provision of the Code.

Reclassification from AFS Financial Assets to HTM Financial Assets
On September 15, 2008, the Group reclassified AFS debt securities with amortized cost amounting to ₱283,501,557 to HTM financial assets. At the date of reclassification, fair market value of the debt securities amounted to ₱343,106,120 which became the new amortized cost of HTM financial assets as of reclassification date. The difference of fair value and amortized cost as of date of reclassification amounting to ₱59,604,563 was taken directly to equity and is to be amortized until maturity. The Group expects to recover interests from the debt securities at an effective interest of 8.18%.

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

There were no reclassifications made in 2012 and 2011.

As of December 31, 2012 and 2011, the carrying values of the debt securities reclassified in 2010 and 2008 had the debt securities not been reclassified to HTM financial assets are as follow:

	2012	2011
Beginning balance	**₱413,568,034**	₱382,262,415
Fair value gain	**20,751,167**	38,436,060
Amortization	**(7,656,126)**	(4,110,244)
Maturities	**–**	(3,020,197)
Ending balance	**₱426,663,075**	₱413,568,034

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

	2012	2011
Beginning balance	**₱338,871,950**	₱346,002,391
Amortization	**(7,656,126)**	(4,110,244)
Maturities	**–**	(3,020,197)
Ending balance	**₱331,215,824**	₱338,871,950

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

	2012	2011
Beginning balance	**₱53,972,672**	₱55,885,923
Amortization	**(2,126,421)**	(1,913,251)
Ending balance	**₱51,846,251**	₱53,972,672

7. Investments in Associates

The movement of the investments in associates is as follows:

	2012	2011
Acquisition cost:		
Beginning balance	**₱1,655,410,255**	₱1,655,410,255
Accumulated equity in net earnings:		
Beginning balance	**4,897,835,693**	4,081,102,323
Equity in net earnings for the year	**1,262,864,952**	1,163,599,541
Dividends received (Note 16)	**(349,146,057)**	(346,866,171)
Ending balance	**5,811,554,588**	4,897,835,693
Equity in reserve for fluctuation in AFS;		
Beginning balance	**433,488,627**	109,835,027
Share in net movement of reserve for fluctuation in AFS financial assets of the associates during the year (Note 6)	**(96,182,016)**	323,653,600
Ending balance	**337,306,611**	433,488,627
Premium on deemed disposal of investment in an associate	**304,954,486**	304,954,486
	₱8,109,225,940	₱7,291,689,061

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

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

	2012	2011
UBP		
Total assets	**₱279,744,986,000**	₱272,628,941,000
Total liabilities	**231,897,743,000**	229,789,902,000
Net income	**7,585,352,000**	6,595,398,000
MIIC		
Total assets	**4,207,177,556**	3,830,962,210
Total liabilities	**2,558,533,260**	2,204,244,805
Net income	**160,842,926**	236,158,563
PPVI		
Total assets	**75,209,001**	341,657,932
Total liabilities	**50,841,455**	318,437,518
Net income	**1,147,132**	166,902,604

8. Investment Properties

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

	2012		
	Land	**Buildings and Improvements**	**Total**
Costs			
Beginning balances	**₱6,081,596,874**	**₱3,976,433,683**	**₱10,058,030,557**
Additions	**11,375,848**	**63,303,991**	**74,679,839**
Reclassifications	**2,016,000**	**(38,231,936)**	**(36,215,936)**
Disposals	**(46,723,970)**	**(59,584,458)**	**(106,308,428)**
Ending balances	**6,048,264,752**	**3,941,921,280**	**9,990,186,032**
Accumulated Depreciation and Impairment Loss			
Beginning balances	**155,837,005**	**672,895,352**	**828,732,357**
Depreciation and amortization (Note 19)	–	**144,008,618**	**144,008,618**
Reclassifications	–	**(18,453,023)**	**(18,453,023)**
Impairment loss (Note 21)	–	**1,059,103**	**1,059,103**
Disposals	–	**(13,941,259)**	**(13,941,259)**
Ending balances	**155,837,005**	**785,568,791**	**941,405,796**
Net Book Values	**₱5,892,427,747**	**₱3,156,352,489**	**₱9,048,780,236**

	2011		
	Land	Buildings and Improvements	Total
Costs			
Beginning balances	₱6,123,717,964	₱3,868,260,133	₱9,991,978,097
Additions	2,063,200	119,093,545	121,156,745
Disposals	(44,184,290)	(10,919,995)	(55,104,285)
Ending balances	6,081,596,874	3,976,433,683	10,058,030,557
Accumulated Depreciation and Impairment Loss			
Beginning balances	147,919,198	531,082,620	679,001,818
Depreciation and amortization (Note 19)	–	142,501,403	142,501,403
Impairment loss (Note 21)	7,917,807	528,947	8,446,754
Disposals	–	(1,217,618)	(1,217,618)
Ending balances	155,837,005	672,895,352	828,732,357
Net Book Values	₱5,925,759,869	₱3,303,538,331	₱9,229,298,200

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

As of December 31, 2012 and 2011, the balance of retained earnings includes the remaining balance of the deemed cost adjustment amounting to ₱4,463,298,002 and ₱4,506,337,416, respectively, related to certain investment properties which arose when the Group transitioned to PFRS in 2005. This amount has yet to be absorbed through additional depreciation in profit or loss in the case of depreciable assets and through sale in the case of land.

The total fair value of the investment properties amounted to ₱10,602,989,823 and ₱9,966,874,215 as of December 31, 2012 and 2011, respectively, based on an independent appraiser valuation and the Group's in-house valuation (roughly 15% to 20% of the total investment properties). The fair value represents the amount at which the assets could be exchanged between a knowledgeable and willing buyer and seller in an arm's length transaction at the date of the valuation.

The Group enters into operating leases for all its investment properties (Note 27). Rental income amounted to ₱400,450,547 in 2012 and ₱318,611,622 in 2011. Direct expenses arising in respect of such investment properties amounted to ₱178,479,394 in 2012 and ₱184,916,927 in 2011 while indirect operating expenses amounted to ₱15,941,225 in 2012 and ₱9,589,791 in 2011 (Note 20). Future minimum lease rentals receivable under noncancellable operating leases are disclosed in Note 27.

In 2012, total cost of investment properties reclassified to property and equipment amounted to ₱39,557,936 while total cost of property and equipment reclassified to investment properties amounted to ₱3,342,000 (nil in 2011) (Notes 8 and 9).

9. Property and Equipment

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

	2012					
	Land and Buildings	**Furniture Fixtures and Equipment**	**Electronic and Data Processing Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Total**
Costs						
Beginning balances	**₱223,113,398**	**₱312,156,756**	**₱223,822,602**	**₱101,651,116**	**₱64,771,242**	**₱925,515,114**
Additions	**8,938,933**	**11,738,446**	**22,062,029**	**21,382,960**	**13,092,789**	**77,215,157**
Reclassifications	**36,215,936**	**6,944**	**(6,944)**	**–**	**–**	**36,215,936**
Retirements/disposals	**(1,072,102)**	**(4,896,122)**	**(31,839,572)**	**(18,529,347)**	**(3,766,995)**	**(60,104,138)**
Ending balances	**267,196,165**	**319,006,024**	**214,038,115**	**104,504,729**	**74,097,036**	**978,842,069**
Accumulated Depreciation and Amortization						
Beginning balances	**32,677,843**	**220,934,456**	**159,375,250**	**68,105,441**	**51,316,718**	**532,409,708**
Depreciation and amortization (Note 19)	**3,617,830**	**7,375,218**	**28,055,362**	**17,405,513**	**3,962,195**	**60,416,118**
Reclassifications	**18,453,023**	**515**	**(515)**	**–**	**–**	**18,453,023**
Impairment (Note 21)	**15,739,700**	**–**	**–**	**–**	**–**	**15,739,700**
Retirements/disposals	**–**	**(4,861,864)**	**(31,696,985)**	**(17,820,306)**	**(3,766,995)**	**(58,146,150)**
Ending balances	**70,488,396**	**223,448,325**	**155,733,112**	**67,690,648**	**51,511,918**	**568,872,399**
Net Book Values	**₱196,707,769**	**₱95,557,699**	**₱58,305,003**	**₱36,814,081**	**₱22,585,118**	**₱409,969,670**

	2011					
	Land and Buildings	Furniture Fixtures and Equipment	Electronic and Data Processing Equipment	Transportation Equipment	Leasehold Improvements	Total
Additions	20,632,540	6,988,892	21,348,477	9,374,213	8,098,700	66,442,822
Retirements/disposals	(16,037,239)	(3,725,667)	(114,215)	(5,236,834)	(4,289,215)	(29,403,170)
Ending balances	223,113,398	312,156,756	223,822,602	101,651,116	64,771,242	925,515,114
Accumulated Depreciation and Amortization						
Beginning balances	31,791,621	215,780,851	133,692,179	54,078,013	53,128,948	488,471,612
Depreciation and amortization (Note 19)	2,444,932	8,870,932	25,797,286	17,657,263	2,367,043	57,137,456
Impairment loss (Note 21)	2,317,200	–	–	–	–	2,317,200
Retirements/disposals	(3,875,910)	(3,717,327)	(114,215)	(3,629,835)	(4,179,273)	(15,516,560)
Ending balances	32,677,843	220,934,456	159,375,250	68,105,441	51,316,718	532,409,708
Net Book Values	₱190,435,555	₱91,222,300	₱64,447,352	₱33,545,675	₱13,454,524	₱393,105,406

The cost of fully depreciated property and equipment that are still in use in the Group's operations amounted to ₱345,649,797 and ₱320,850,802 as of December 31, 2012 and 2011, respectively.

10. Other Assets

	2012	2011
Interest in joint venture	**₱148,349,598**	₱148,349,598
Computer software	**18,855,523**	26,228,600
Value added input tax	**4,976,146**	4,410,842
Others	**35,739,145**	44,179,673
	₱207,920,412	₱223,168,713

Interest in Joint Venture

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

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

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

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

The development of the project has not been completed and the joint venture has no income yet in 2012 and 2011. The Group has no share of any capital commitment as of December 31, 2012 and 2011.

Computer Software

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

	2012	2011
Cost		
Beginning balance	**₱262,664,955**	₱256,571,061
Additions	**2,179,703**	6,093,894
Ending balance	**264,844,658**	262,664,955
Accumulated Amortization		
Beginning balance	**236,436,355**	226,910,434
Amortization (Note 19)	**9,552,780**	9,525,921
Ending balance	**245,989,135**	236,436,355
Net Book Value	**₱18,855,523**	₱26,228,600

Others

Others include prepaid employee loan benefit, prepaid expenses, taxes, deposits and other current assets.

11. Legal Policy Reserves

Details of legal policy reserves are as follow:

	2012		
	Legal Policy Reserves	**Reinsurers' Share of Liabilities**	**Net**
Aggregate reserves for:			
Ordinary life policies	**₱46,238,708,384**	**₱70,410,514**	**₱46,168,297,870**
Group life policies	**1,280,841,522**	**–**	**1,280,841,522**
Accident and health policies	**94,696,084**	**–**	**94,696,084**
Unit-linked policies	**6,605,383**	**1,159,893**	**5,445,490**
	₱47,620,851,373	**₱71,570,407**	**₱47,549,280,966**

	2011		
	Legal Policy Reserves	Reinsurers' Share of Liabilities	Net
Aggregate reserves for:			
Ordinary life policies	₱43,764,636,193	₱71,052,026	₱43,693,584,167
Group life policies	1,120,735,063	–	1,120,735,063
Accident and health policies	90,293,805	2,105,180	88,188,625
Unit-linked policies	4,401,993	952,814	3,449,179
	₱44,980,067,054	₱74,110,020	₱44,905,957,034

Movement of aggregate reserves is as follows:

	2012		
	Legal Policy Reserves	**Reinsurers' Share of Liabilities**	**Net**
Beginning balances	**₱44,980,067,054**	**₱74,110,020**	**₱44,905,957,034**
Premiums received	**4,399,452,416**	**–**	**4,399,452,416**
Fees deducted	**(4,014,162,457)**	**(2,539,613)**	**(4,011,622,844)**
Accretion of investment income or change in unit prices	**1,631,778,922**	**–**	**1,631,778,922**
Liability released for payments of death, maturities, surrender benefits and claims	**822,635,536**	**–**	**822,635,536**
Foreign exchange adjustment	**(198,920,098)**	**–**	**(198,920,098)**
Ending balances	**₱47,620,851,373**	**₱71,570,407**	**₱47,549,280,966**

	2011		
	Legal Policy Reserves	Reinsurers' Share of Liabilities	Net
Beginning balances	₱41,576,586,447	₱71,114,459	₱41,505,471,988
Premiums received	5,196,982,988	–	5,196,982,988
Fees deducted	(3,858,391,303)	2,995,561	(3,861,386,864)
Accretion of investment income or change in unit prices	1,531,506,540	–	1,531,506,540
Liability released for payments of death, maturities, surrender benefits and claims	530,027,300	–	530,027,300
Foreign exchange adjustment	3,355,082	–	3,355,082
Ending balances	₱44,980,067,054	₱74,110,020	₱44,905,957,034

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

12. Other Insurance Liabilities

	2012	2011
Members' deposits and other funds on deposit	**₱14,105,183,051**	₱10,525,936,907
Reserve for dividends to members	**1,228,857,601**	1,229,055,015
Claims pending settlement	**980,623,688**	700,088,095
	₱16,314,664,340	₱12,455,080,017

13. Accrued Expenses and Other Liabilities

	2012	2011
Accrued employee benefits	**₱571,742,346**	₱273,893,965
Accounts payable	**543,704,269**	424,526,193
Preferred shares of Home Credit owned by its members	**167,097,142**	156,984,278
Remittances not yet allocated	**102,301,634**	60,952,359
Commissions payable	**87,293,879**	94,929,171
Advances from joint venture (Note 10)	**84,971,083**	83,797,768
General expenses due and accrued	**84,208,973**	65,568,116
Taxes payable	**42,842,405**	38,303,989
Others	**57,957,787**	88,134,282
	₱1,742,119,518	₱1,287,090,121

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

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

14. Dividend Declaration

On February 28, 2013 and February 23, 2012, the BOT approved the set up of provision for dividends to members for the years ended December 31, 2012 and 2011 applicable to dividends to be paid out for the period January 1, 2013 to December 31, 2013 and January 1, 2012 to December 31, 2012, respectively.

Breakdown of the dividend provision is as follows:

	2012	2011
Chargeable to retained earnings	**₱969,199,207**	₱966,917,972
Chargeable to income (Note 18)	**256,410,000**	256,305,000
	₱1,225,609,207	₱1,223,222,972

Dividends to members charged against retained earnings are as follow:

	2012	2011
Dividends declared during the year	**₱969,199,207**	₱966,917,972
Excess of dividends declared in prior year against actual amount paid	**(113,213,164)**	(116,632,974)
	₱855,986,043	₱850,284,998

15. Insurance Revenue

	2012	2011
Life insurance contracts	**₱6,396,831,842**	₱6,499,365,618
VUL insurance contracts	**3,757,287,587**	1,930,673,702
Accident and health contracts	**456,417,043**	412,727,823
Gross earned premiums on insurance contracts	**10,610,536,472**	8,842,767,143
Reinsurers' share of premiums on insurance contracts	**(166,476,158)**	(141,489,594)
Net insurance revenue	**₱10,444,060,314**	₱8,701,277,549

16. Investment Income

	2012	2011
Interest income on:		
Loans and receivables	**₱1,849,697,834**	₱1,708,468,081
HTM financial assets	**1,656,957,859**	1,584,102,462
AFS financial assets	**274,632,544**	185,544,184
Others	**274,272,987**	10,546,950
	4,055,561,224	3,488,661,677
Dividend income	**1,231,815,080**	1,392,751,024
Trading gains from financial assets at FVPL	**127,885,252**	34,034,341
Total investment income	**₱5,415,261,556**	₱4,915,447,042

17. Net Realized Gains - net

	2012	2011
Disposals of:		
AFS financial assets	**₱340,232,722**	₱283,057,942
Investment properties	**36,654,490**	11,011,099
Property and equipment	**1,947,397**	4,803,340
Foreclosure of properties	**(759,459)**	6,543,955
Repossession of properties	**541,729**	117,273
	₱378,616,879	₱305,533,609

18. Insurance Benefits Expenses

	2012	2011
VUL funds allocation	**₱3,484,473,303**	₱1,820,337,655
Maturities	**1,405,280,082**	794,936,230
Surrenders	**1,115,022,195**	1,073,665,461
Death and hospitalization benefits	**980,507,651**	1,105,938,727
Payments on supplementary contracts	**549,496,718**	456,923,208
Increase in reserve for supplementary contracts	**442,011,622**	511,233,266
Interest expense	**435,642,780**	412,881,090
Dividends to members (Note 14)	**256,410,000**	256,305,000
Others	**6,160,860**	12,521,117
Total gross benefits and claims on insurance contracts	**8,675,005,211**	6,444,741,754
Reinsurers' share of benefits and claims on insurance contracts	**(25,734,606)**	(25,149,830)
Net change in:		
Legal policy reserves	**2,640,784,319**	3,403,480,607
Reinsurers' share in legal policy reserves	**2,539,613**	(2,995,561)
	₱11,292,594,537	₱9,820,076,970

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

	2012		
	Gross Change in Legal Policy Reserves	**Reinsurers' Share of Change in Legal Policy Reserves**	**Net**
Life insurance contracts	**₱2,638,580,929**	**(₱2,746,692)**	**₱2,641,327,621**
VUL insurance contracts	**2,203,390**	**207,079**	**1,996,311**
	₱2,640,784,319	**(₱2,539,613)**	**₱2,643,323,932**

	2011		
	Gross Change in Legal Policy Reserves	Reinsurers' Share of Change in Legal Policy Reserves	Net
Life insurance contracts	₱3,406,620,190	₱2,601,319	₱3,404,018,871
VUL insurance contracts	(3,139,583)	394,242	(3,533,825)
	₱3,403,480,607	₱2,995,561	₱3,400,485,046

19. General Insurance Expenses

	2012	2011
Personnel (Notes 22, 23 and 25)	**₱1,321,013,567**	₱1,022,730,700
Depreciation and amortization (Notes 8, 9 and 10)	**213,977,516**	209,164,780
Outside services	**110,210,807**	58,080,575
Marketing, advertising, and promotion	**102,474,977**	84,051,434
Transportation and communication	**51,729,045**	53,992,752
Repairs and maintenance	**29,594,546**	30,339,049
Printing and supplies	**18,055,026**	14,666,643

(Forward)

	2012	2011
Training	**₱16,095,415**	₱14,926,980
Rent (Note 27)	**13,245,652**	21,033,208
Utilities	**11,728,258**	9,902,702
Provision for impairment on loans and receivables (Note 6)	**3,922,869**	7,035,003
Others	**187,716,430**	103,703,812
	₱2,079,764,108	₱1,629,627,638

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

20. Investment Expenses

	2012	2011
Real estate expenses (Note 8)	**₱194,420,619**	₱194,506,718
Investment management expenses	**2,406,178**	4,852,508
	₱196,826,797	₱199,359,226

21. Other Losses

	2012	2011
Impairment loss on:		
Property and equipment (Note 9)	**₱15,739,700**	₱2,317,200
Investment properties (Note 8)	**1,059,103**	8,446,754
AFS equity securities (Note 6)	**890,000**	4,060,260
	₱17,688,803	₱14,824,214

22. Personnel Expenses

	2012	2011
Salaries and bonuses	**₱918,341,700**	₱884,643,553
Retirement and other employee benefits (Note 23)	**402,671,867**	138,087,147
	₱1,321,013,567	₱1,022,730,700

23. Retirement Benefits

The Group has defined benefit plans covering substantially all regular employees and executives, which require contributions to be made to the retirement funds. The Parent Company's retirement fund is administered by its BOT consisting of its key officers while that of the subsidiaries are administered by UBP. The latest actuarial valuation of the Group's defined benefit plans was as of December 31, 2012.

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

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

	2012				
	Parent	**Subsidiaries**			
	Company	**IIC**	**I-Care**	**Home Credit**	**Total**
Current service cost	**₱65,740,000**	**₱117,217**	**₱1,167,942**	**₱479,357**	**₱1,764,516**
Interest cost	**55,915,359**	**44,016**	**797,163**	**374,872**	**1,216,051**
Expected return on plan assets	**(73,456,139)**	**(108,685)**	**(744,692)**	**(268,284)**	**(1,121,661)**
Amortization of net actuarial gains	**–**	**(82,707)**	**(118,076)**	**(17,851)**	**(218,634)**
	₱48,199,220	**(₱30,159)**	**₱1,102,337**	**₱568,094**	**₱1,640,272**

	2011				
	Parent	Subsidiaries			
	Company	IIC	I-Care	Home Credit	Total
Current service cost	₱46,201,400	₱117,217	₱1,235,813	₱360,689	₱1,713,719
Interest cost	67,771,600	66,599	1,023,361	316,623	1,406,583
Expected return on plan assets	(66,586,300)	(119,287)	(460,986)	(309,974)	(890,247)
Amortization of net actuarial gains	(11,501,700)	(61,770)	–	(24,619)	(86,389)
Curtailment gains	(6,010,700)	–	–	–	–
	₱29,874,300	P2,759	₱1,798,188	₱342,719	₱2,143,666

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

	2012				
	Parent	**Subsidiaries**			
	Company	**IIC**	**I-Care**	**Home Credit**	**Total**
Present value of defined benefit obligation	**₱826,975,000**	**₱907,271**	**₱11,782,893**	**₱7,949,820**	**₱20,639,984**
Fair value of plan assets	**1,104,601,344**	**2,022,583**	**13,355,158**	**5,491,582**	**20,869,323**
	(277,626,344)	**(1,115,312)**	**(1,572,265)**	**2,458,238**	**(229,339)**
Unrecognized net actuarial gains (losses)	**186,254,913**	**1,193,409**	**3,001,178**	**(2,244,502)**	**1,950,085**
Retirement benefits liability (asset)	**(₱91,371,431)**	**₱78,097**	**₱1,428,913**	**₱213,736**	**₱1,720,746**

	2011				
	Parent	Subsidiaries			
	Company	IIC	I-Care	Home Credit	Total
Present value of defined benefit obligation	₱856,090,400	₱746,038	₱10,772,469	₱4,358,976	₱15,877,483
Fair value of plan assets	1,058,261,400	1,811,413	12,411,540	5,365,681	19,588,634
	(202,171,000)	(1,065,375)	(1,639,071)	(1,006,705)	(3,711,151)
Unrecognized net actuarial gains	62,600,349	1,173,631	3,012,298	750,776	4,936,705
Retirement benefits liability (asset)	(₱139,570,651)	₱108,256	₱1,373,227	(₱255,929)	₱1,225,554

The net retirement benefits asset as of December 31, 2012 and 2011 amounting to ₱91,371,431 and ₱139,826,580, respectively, are qualified for recognition in the financial statements based on the asset ceiling test.

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

	2012				
	Parent	**Subsidiaries**			
	Company	**IIC**	**I-Care**	**Home Credit**	**Total**
Beginning balances	**₱856,090,400**	**₱746,038**	**₱10,772,469**	**₱4,358,976**	**₱15,877,483**
Current service cost	**65,740,000**	**117,217**	**1,167,942**	**479,357**	**1,764,516**
Interest cost	**55,915,359**	**44,016**	**797,163**	**374,872**	**1,216,051**
Benefits paid	**(17,775,970)**	–	**(586,920)**	**(98,428)**	**(685,348)**
Actuarial loss (gain)	**(132,994,789)**	–	**(367,761)**	**2,835,043**	**2,467,282**
Ending balances	**₱826,975,000**	**₱907,271**	**₱11,782,893**	**₱7,949,820**	**₱20,639,984**

	2011				
	Parent	Subsidiaries			
	Company	IIC	I-Care	Home Credit	Total
Beginning balances	₱689,507,344	₱1,091,786	₱10,336,980	₱3,681,664	₱15,110,430
Current service cost	46,201,400	117,217	1,235,813	360,689	1,713,719
Interest cost	67,771,600	66,599	1,023,361	316,623	1,406,583
Benefits paid	(50,616,700)	(223,853)	(909,065)	–	(1,132,918)
Actuarial loss (gain)	124,017,356	(305,711)	(914,620)	–	(1,220,331)
Effect of curtailment	(20,790,600)	–	–	–	–
Ending balances	₱856,090,400	₱746,038	₱10,772,469	₱4,358,976	₱15,877,483

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

	2012				
	Parent	**Subsidiaries**			
	Company	**IIC**	**I-Care**	**Home Credit**	**Total**
Beginning balances	**₱1,058,261,400**	**₱1,811,413**	**₱12,411,540**	**₱5,365,681**	**₱19,588,634**
Expected return on plan assets	**73,456,139**	**108,685**	**744,692**	**268,284**	**1,121,661**
Actual contribution	–	–	**1,046,651**	**98,428**	**1,145,079**
Benefits paid	**(17,775,970)**	–	**(586,920)**	**(98,428)**	**(685,348)**
Actuarial gain (loss)	**(9,340,225)**	**102,485**	**(260,805)**	**(142,383)**	**(300,703)**
Ending balances	**₱1,104,601,344**	**₱2,022,583**	**₱13,355,158**	**₱5,491,582**	**₱20,869,323**

	2011				
	Parent	Subsidiaries			
	Company	IIC	I-Care	Home Credit	Total
Beginning balances	₱960,489,523	₱1,988,111	₱7,683,105	₱5,166,228	₱14,837,444
Expected return on plan assets	66,586,300	119,287	460,986	309,974	890,247
Actual contribution	102,051,500	–	2,711,009	–	2,711,009
Benefits paid	(72,187,600)	(223,853)	(909,065)	–	(1,132,918)
Actuarial gain (loss)	1,321,677	(72,132)	2,465,505	(110,521)	2,282,852
Ending balances	₱1,058,261,400	₱1,811,413	₱12,411,540	₱5,365,681	₱19,588,634

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

	2012			
	Parent	**Subsidiaries**		
	Company	**IIC**	**I-Care**	**Home Credit**
Cash and cash equivalents	**43.00%**	**16.07%**	**81.65%**	**52.41%**
Investments in debt and equity securities	**52.00%**	**83.93%**	**18.35%**	**46.61%**
Receivables	**5.00%**	**–**	**–**	**0.98%**
	100.00%	**100.00%**	**100.00%**	**100.00%**

	2011			
	Parent	Subsidiaries		
	Company	IIC	I-Care	Home Credit
Cash and cash equivalents	31.63%	70.03%	65.89%	52.40%
Investments in debt and equity securities	59.94%	29.97%	33.61%	47.60%
Receivables	8.43%	–	0.50%	–
	100.00%	100.00%	100.00%	100.00%

Actual return on plan assets is as follows:

	2012			
	Parent	**Subsidiaries**		
	Company	**IIC**	**I-Care**	**Home Credit**
Expected return on plan assets	**₱73,456,139**	**₱108,685**	**₱744,692**	**₱268,284**
Actuarial gain (loss) on plan assets	**(9,340,225)**	**102,485**	**(260,805)**	**(142,383)**
Actual return on plan assets	**₱64,115,914**	**₱211,170**	**₱483,887**	**₱125,901**

	2011			
	Parent	Subsidiaries		
	Company	IIC	I-Care	Home Credit
Expected return on plan assets	₱66,586,300	₱119,287	₱460,986	₱309,974
Actuarial gain (loss) on plan assets	1,321,677	(72,132)	2,465,505	(110,521)
Actual return on plan assets	₱67,907,977	₱47,155	₱2,926,491	₱199,453

The overall expected return on the plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

The Group contributed ₱1,145,079 to its defined benefit plan in 2012.

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

	2012			
	Parent	**Subsidiaries**		
	Company	**IIC**	**I-Care**	**Home Credit**
Discount rate	**6.60%**	**5.90%**	**7.40%**	**8.60%**
Expected rate of return on plan assets	**7.00%**	**6.00%**	**6.00%**	**5.00%**
Rate of salary increases	**10.00%**	**6.00%**	**4.00%**	**4.00%**

	2011			
	Parent	Subsidiaries		
	Company	IIC	I-Care	Home Credit
Discount rate	10.09%	5.90%	9.90%	8.60%
Expected rate of return on plan assets	7.00%	6.00%	7.00%	4.00%
Rate of salary increases	10.00%	6.00%	8.00%	6.00%

In 2012, the discount rate and salary increase rate used in determining the present value of defined benefit obligation of the Group are as follow:

	2012			
	Parent	**Subsidiaries**		
	Company	**IIC**	**I-Care**	**Home Credit**
Discount rate	**5.73%**	**5.90%**	**6.30%**	**5.00%**
Salary increase rate	**7.00%**	**6.00%**	**5.00%**	**4.00%**

Amounts for the current and prior periods are as follow:

	2012			
	Parent	**Subsidiaries**		
	Company	**IIC**	**I-Care**	**Home Credit**
Present value of defined benefit obligation	**₱826,975,000**	**₱907,271**	**₱11,782,893**	**₱7,949,820**
Fair value of plan assets	**1,104,601,344**	**2,022,583**	**13,355,158**	**5,491,582**
Net plan assets	**(277,626,344)**	**(1,115,312)**	**(1,572,265)**	**2,458,238**
Experience adjustments on defined benefit obligation - loss (gain)	**114,058,111**	**–**	**(616,118)**	**–**
Experience adjustments on plan assets - gain (loss)	**(9,340,225)**	**102,485**	**(260,805)**	**(142,383)**

	2011			
	Parent	Subsidiaries		
	Company	IIC	I-Care	Home Credit
Present value of defined benefit obligation	₱856,090,400	₱746,038	₱10,772,469	₱4,358,976
Fair value of plan assets	1,058,261,400	1,811,413	12,411,540	5,365,681
Net plan assets	(202,171,000)	(1,065,375)	(1,639,071)	(1,006,705)
Experience adjustments on defined benefit obligation - loss	(183,426,344)	(305,711)	(405,384)	–
Experience adjustments on plan assets - gain (loss)	1,321,677	(72,132)	2,465,505	(110,521)

	2010			
	Parent	Subsidiaries		
	Company	IIC	I-Care	Home Credit
Present value of defined benefit obligation	₱689,507,344	₱1,091,786	₱10,336,980	₱3,681,664
Fair value of plan assets	960,489,523	1,988,111	7,683,105	5,166,228
Unfunded defined benefit obligation (net plan assets)	(270,982,179)	(896,325)	2,653,875	(1,484,564)
Experience adjustments on defined benefit obligation - gain	–	643,361	2,029,976	–
Experience adjustments on plan assets - gain (loss)	7,903,254	77,873	(104,834)	(1,399)

	2009			
	Parent	Subsidiaries		
	Company	IIC	I-Care	Home Credit
Present value of defined benefit obligation	₱622,826,400	₱2,597,711	₱10,783,048	₱2,540,541
Fair value of plan assets	854,657,000	1,381,752	7,501,513	2,960,399
Unfunded defined benefit obligation (net plan assets)	(231,830,600)	1,215,959	3,281,535	(419,858)
Experience adjustments on defined benefit obligation - gain	(13,025,672)	(288,437)	(142,456)	–
Experience adjustments on plan assets - gain (loss)	21,480,985	26,323	(299,421)	1,511

	2008			
	Parent	Subsidiaries		
	Company	IIC	I-Care	Home Credit
Present value of defined benefit obligation	₱354,630,272	₱4,392,075	₱7,357,805	₱2,650,702
Fair value of plan assets	734,017,115	3,924,795	6,245,133	2,768,140
Unfunded defined benefit obligation (net plan assets)	(379,386,843)	467,280	1,112,672	(117,438)
Experience adjustments on defined benefit obligation - loss (gain)	(15,302,900)	(45,871)	–	103,854
Experience adjustments on plan assets - loss	(58,633,100)	(176,730)	(213,992)	(21,712)

24. Income Taxes

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

	2012	2011
Current:		
Final tax	**₱346,963,836**	₱296,662,892
RCIT	**976,968**	989,776
MCIT	**24,338,994**	1,278,119
	372,279,798	298,930,787
Deferred	**(74,428,894)**	67,075,903
	₱297,850,904	₱366,006,690

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

Deferred Income Tax Assets - Net

	2012	2011
Deferred income tax assets - tax effects of:		
Accrued expenses not yet deductible	**₱2,221,387**	₱1,289,618
Allowance for impairment on loans and receivables	**1,812,511**	37,151,425
Retirement and other long-term employee benefits payable	**1,499,508**	444,445
Unamortized past service cost contributions	**1,021,289**	1,205,205
Unrealized foreign exchange loss	**37,858**	121
Excess MCIT	**–**	277,537
Allowance for impairment of supplies	**–**	67,240
Total deferred income tax assets	**6,592,553**	40,435,591
Deferred income tax liability - tax effect of unrealized gain on AFS financial assets	**(1,091,599)**	(1,769,741)
Net deferred income tax assets	**₱5,500,954**	₱38,665,850

Deferred Income Tax Liabilities - Net

	2012	2011
Deferred income tax assets - tax effects of:		
Unrealized foreign exchange loss	**₱313,803,162**	₱251,186,838
Accrued expenses not yet deductible	**201,515,420**	113,857,174
NOLCO	**157,620,109**	197,620,110
Unamortized past service cost contributions	**42,031,396**	49,734,467
Allowance for impairment on loans and receivables	**22,051,729**	42,937,555
Impairment of investment properties and property and equipment	**6,627,723**	–
Total deferred income tax assets	**743,649,539**	655,336,144
Deferred income tax liabilities - tax effects of:		
Revaluation increment in investment properties	**(1,338,989,400)**	(1,351,901,225)
Reserve for fluctuation in AFS financial assets	**(293,314,383)**	(430,160,000)
Retirement benefits asset	**(27,411,415)**	(41,871,181)
Accrued rent income	**(17,221,423)**	(9,808,376)
Unrealized gain on trading debt securities	**(192,036)**	–
Total deferred income tax liabilities	**(1,677,128,657)**	(1,833,740,782)
Net deferred income tax liabilities	**(₱933,479,118)**	(₱1,178,404,638)

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

	2012	2011
NOLCO	**₱1,911,798,438**	₱2,146,458,882
Excess of MCIT over RCIT	**5,647,689**	4,095,793

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

Year Incurred	Expiration	January 1, 2012	Incurred	Applied	Expired	December 31, 2012
2009	2012	₱515,691,993	₱–	(₱9,786,006)	(₱505,905,987)	₱–
2010	2013	1,152,173,155	–	(12,347,574)	(133,333,333)	1,006,492,248
2011	2014	1,137,327,431	–	(8,446,908)	–	1,128,880,523
2012	2015	–	301,826,030	–	–	301,826,030
		₱2,805,192,579	₱301,826,030	(₱30,580,488)	(₱639,239,320)	₱2,437,198,801

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

Year Incurred	Expiration	January 1, 2012	Incurred	Applied	Expired	December 31, 2012
2009	2012	₱3,849,748	₱–	(₱316,119)	(₱3,533,629)	₱–
2010	2013	133,913	–	(133,913)	–	–
2011	2014	389,670	–	(389,207)	–	463
2012	2015	–	5,647,226	–	–	5,647,226
		₱4,373,331	₱5,647,226	(₱839,239)	(₱3,533,629)	₱5,647,689

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

	2012	2011
Provision for income tax at statutory income tax rates	**₱1,054,079,459**	₱976,928,766
Adjustments for:		
Interests and dividends subjected to final tax at a lower rate	**(536,528,922)**	(557,084,240)
Equity in net earnings of an associate	**(378,859,486)**	(349,079,862)
Movement in NOLCO and excess of MCIT over RCIT with no deferred tax set up and derecognition of NOLCO	**251,343,024**	376,390,851
Gain on sale of investments in AFS financial assets - net	**(101,921,857)**	(80,410,875)
Nondeductible expenses	**9,046,957**	2,940,967
Nondeductible interest expense	**1,829,049**	1,543,308
Nontaxable income - net	**(1,137,320)**	(6,440,303)
Impairment losses on properties and AFS financial assets	**–**	1,218,078
Provision for income tax	**₱297,850,904**	₱366,006,690

25. Related Party Transactions

Related party relationships exist when the entity has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the entity in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

Transactions with related parties consist mainly of:

a. Lease of office spaces, cash advances, dividends and loans. The balances as of and for the years ended December 31, 2012 and 2011 are as follow:

Category	Year	Amount of transactions during the year	Outstanding balance Due from	Due to	Terms and condition
Subsidiaries*					
Common overhead	**2012**	**₱22,380,189**	**₱–**	**₱–**	**30-day; non-interest bearing; settled in cash**
	2011	₱25,093,762	₱–	₱–	30-day; non-interest bearing; settled in cash
Rentals	**2012**	**12,576,465**	**105,538**	**–**	**One to three year lease contract; 30-day; non-interest bearing; settled in cash**
	2011	12,770,772	118,202	–	One to three year lease contract; 30-day; non-interest bearing; settled in cash
Dividends	**2012**	**3,300,000**	**–**	**–**	
	2011	4,100,000	–	–	
Insurance revenue	**2012**	**1,476,771**	**–**	**–**	
	2011	1,650,392	94,117	–	
Advances	**2012**	**–**	**–**	**–**	**30-day; non-interest bearing; settled in cash**
	2011	–	14,063,590	–	30-day; non-interest bearing; settled in cash
Rental deposits	**2012**	**–**	**–**	**698,932**	**One to three year lease contract; 30-day; non-interest bearing; settled in cash**
	2011	–	–	146,214	One to three year lease contract; 30-day; non-interest bearing; settled in cash

(Forward)

Category	Year	Amount of transactions during the year	Outstanding balance Due from	Due to	Terms and condition
Associates					
MIIC					
Dividend income	**2012**	**43,750,000**	**–**	**–**	
	2011	37,500,000	–	–	
Rental income	**2012**	**7,066,997**	**123,148**	**–**	**One to five year lease contract; 30-day; non-interest bearing; settled in cash**
	2011	5,753,661	–	–	One to five year lease contract; 30-day; non-interest bearing; settled in cash
Rental deposits	**2012**	**185,938**	**–**	**12,026**	**One to five year lease contract; 30-day; non-interest bearing; settled in cash**
	2011	805,451	–	5,672	One to five year lease contract; 30-day; non-interest bearing; settled in cash
Advances	**2012**	**–**	**–**	**–**	
	2011	36,393	–	–	
UBP					
Dividend income	**2012**	**310,078,201**	**–**	**–**	
	2011	258,398,029	–	–	
Retirement Plan					
Advances	**2012**	**21,118,695**	**–**	**–**	**30-day; non-interest bearing; settled in cash**
	2011	80,090,529	5,756,510	–	30-day; non-interest bearing; settled in cash
Total	**2012**	**₱421,933,256**	**₱228,686**	**₱710,958**	
Total	2011	₱426,198,989	₱20,032,419	₱151,886	

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

Outstanding balances of the intercompany receivables at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables.

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

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

	2012	2011
Savings and current accounts (Note 4)	**₱408,607,977**	₱82,271,504
Special savings accounts (Note 4)	**790,110,169**	570,350,426
	₱1,198,718,146	₱652,621,930

Interest income relating to these accounts, which are based on market rates, amounted to ₱24,817,380 and ₱31,467,051 in 2012 and 2011, respectively.

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

	2012	2011
Salaries and other short-term employee benefits	**₱348,845,903**	₱307,385,453
Post-employment and other long term benefits	**28,800,139**	22,724,215
	₱377,646,042	₱330,109,668

26. Trust Operations

On October 23, 2009, the Trust Committee and the Board of Directors (BOD) of IIC approved the temporary cessation of the Company's trust operation. During its regular meeting held on February 25, 2010, the BOD approved the permanent cessation of IIC's trust operation effective April 16, 2010.

On July 29, 2011, IIC's request for the cancellation of its trust license was approved by Monetary Board of Bangko Sentral ng Pilipinas (BSP) in its Resolution No. 1152.

On April 19, 2012, SEC approved the amendment of IIC's articles of incorporation and by-laws to remove the word "Trust" from its corporate name.

27. Lease Commitments

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

a. Operating lease commitments - the Group as lessee

The future minimum rentals payable under noncancelable operating leases follows:

	2012	2011
Within one year	**₱13,163,099**	₱14,978,947
After one year but not more than five years	**18,521,677**	17,859,956
More than five years	**240,293**	780,702
	₱31,925,069	₱33,619,605

Rent expense recognized in 2012 and 2011 amounted to ₱13,245,652 and ₱21,033,208, respectively (Note 19).

b. Operating lease commitments - the Group as lessor

The future minimum rentals receivable under noncancelable operating leases follows:

	2012	2011
Within one year	**₱250,755,937**	₱78,918,441
After one year but not more than five years	**513,547,111**	122,243,861
More than five years	**80,959,347**	22,733,903
	₱845,262,395	₱223,896,205

Rent income recognized in 2012 and 2011 amounted to ₱400,450,547 and ₱318,611,622, respectively (Note 8).

28. Financial Instruments

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

	2012		2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS				
Insurance Receivables				
Due premiums	**₱214,791,757**	**₱214,791,757**	₱247,136,135	₱247,136,135
Reinsurance assets	**13,639,498**	**13,639,498**	11,273,777	11,273,777
	228,431,255	**228,431,255**	258,409,912	258,409,912
Financial Assets at FVPL				
Cash and cash equivalents	**993,508,891**	**993,508,891**	449,561,966	449,561,966
Equity securities - quoted	**5,650,644,487**	**5,650,644,487**	2,242,142,762	2,242,142,762
Debt securities - fixed interest rates - quoted:				
Government:				
Local currency	**1,275,493,705**	**1,275,493,705**	854,197,791	854,197,791
Foreign currency	**2,002,090,304**	**2,002,090,304**	1,334,882,895	1,334,882,895
Corporate	**330,174,654**	**330,174,654**	380,483,903	380,483,903
Interest receivable	**42,393,782**	**42,393,782**	46,500,276	46,500,276
	10,294,305,823	**10,294,305,823**	5,307,769,593	5,307,769,593
AFS Financial Assets				
Equity securities:				
Quoted	**5,660,911,056**	**5,660,911,056**	4,609,365,480	4,609,365,480
Unquoted	**5,054,506,333**	**5,054,506,333**	6,131,482,593	6,131,482,593
Debt securities:				
Quoted:				
Government:				
Local currency	**3,092,780,784**	**3,092,780,784**	2,636,391,620	2,636,391,620
Foreign currency	**1,006,584,387**	**1,006,584,387**	1,066,598,702	1,066,598,702
Corporate	**36,258,773**	**36,258,773**	56,292,172	56,292,172
Unquoted - government	**29,813,574**	**29,813,574**	9,337,474	9,337,474
	14,880,854,907	**14,880,854,907**	14,509,468,041	14,509,468,041

(Forward)

	2012		2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
HTM Financial Assets - quoted debt securities - fixed interest rates:				
Government:				
Local currency	**₱15,361,152,820**	**₱19,733,169,689**	₱14,433,791,329	₱17,507,962,351
Foreign currency	**2,793,948,803**	**3,020,801,974**	3,040,555,575	3,448,021,933
Corporate				
Local currency	**1,898,552,450**	**2,076,813,572**	1,096,352,066	1,196,981,801
Foreign currency	–	–	21,724,814	28,267,668
	20,053,654,073	**24,830,785,235**	18,592,423,784	22,181,233,753
Loans and Receivables				
Cash and cash equivalents	**4,704,223,673**	**4,704,223,673**	3,237,486,066	3,237,486,066
Term loans	**14,101,025,603**	**16,561,869,488**	14,373,534,104	16,405,604,068
Policy loans	**5,624,884,044**	**5,624,884,044**	5,666,841,882	5,666,841,882
Interest receivable	**879,003,857**	**879,003,857**	671,640,443	671,640,443
Accounts receivable	**342,439,221**	**342,439,221**	154,488,398	154,488,398
Housing loans	**165,196,948**	**205,246,949**	150,172,143	197,078,631
Mortgage loans	**77,986,557**	**77,986,557**	99,569,073	99,569,073
Car financing loans	**48,542,732**	**79,078,410**	48,499,793	65,024,830
Finance leases	**37,483,571**	**47,431,246**	36,782,868	42,899,808
Due from agents	**4,627,962**	**4,627,962**	1,602,540	1,602,540
Stock loans	**24,130,714**	**24,130,714**	28,967,507	28,967,507
Others	**246,360,857**	**246,360,857**	69,790,617	69,790,617
	26,255,905,739	**28,797,282,978**	24,539,375,434	26,640,993,863
	71,713,151,797	**79,031,660,198**	63,207,446,764	68,897,875,162
FINANCIAL LIABILITIES				
Insurance Liabilities				
Legal policy reserves	**47,549,280,966**	**47,549,280,966**	44,905,957,034	44,905,957,034
Other insurance liabilities**:**				
Members' deposits and other funds on deposit	**14,105,183,052**	**14,105,183,052**	10,525,936,907	10,525,936,907
Reserve for dividends to members	**1,228,857,601**	**1,228,857,601**	1,229,055,015	1,229,055,015
Claims pending settlement	**980,623,687**	**980,623,687**	700,088,095	700,088,095
Other Financial Liabilities				
Accrued expenses and other liabilities:				
Accrued employee benefits	**571,742,346**	**571,742,346**	273,893,965	273,893,965
Accounts payable	**543,704,269**	**543,804,269**	424,526,193	487,613,992
Preferred shares of Home Credit owned by its members	**167,097,142**	**167,097,142**	156,984,278	156,984,278
Commissions payable	**87,293,879**	**87,293,879**	94,929,171	94,929,171
Advances from joint venture	**84,971,083**	**84,971,083**	83,797,768	83,797,768
General expenses due and accrued	**84,208,973**	**84,208,973**	65,568,116	65,568,116
Others*	**56,346,067**	**56,346,067**	57,902,713	57,902,713
	₱65,459,309,065	**₱65,459,409,065**	₱58,518,639,255	₱58,581,727,054

**Excluding statutory liabilities amounting to ₱1,611,720 and ₱30,231,569 as of December 31, 2012 and 2011, respectively.*

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

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

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

Equity securities
The fair values of equity securities are based on quoted prices. Fair values of unquoted equity securities were valued using valuation techniques as disclosed in Note 28.

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

Term, housing and car financing loans
Fair values of term, housing and car financing loans are estimated using the discounted cash flow technique that makes use of market rates ranging from 6% to 12% in 2012 and 5% to 17% in 2011. There is also an assumption that credit risk is minimal for such types of secured lending instruments.

Other loans and receivables
The fair values of other loans and receivables equal their carrying values due to the short-term nature of these assets.

Legal policy reserves and other insurance liabilities
The carrying amounts of legal policy reserves reflect the statutory reserves. Other insurance liabilities approximate their fair values.

Accrued expenses and other liabilities
The fair values of short-term accrued expenses and other liabilities, except rental deposits included under "Accounts payable", equal their carrying values. The fair values of long-term accrued expenses and other liabilities are estimated to be the present value of the future cash flows discounted at market rates for similar types of instruments.

Rental deposits
The fair values of rental deposits are estimated using the discounted cash flows technique that makes use of market rates.

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

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

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

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Financial Assets at FVPL				
Equity securities	**₱5,650,644,487**	**₱–**	**₱–**	**₱5,650,644,487**
Debt securities	**3,607,758,663**	–	–	**3,607,758,663**
	9,258,403,150	–	–	**9,258,403,150**
AFS Financial Assets				
Equity securities	**5,744,538,303**	–	**4,970,879,086**	**10,715,417,389**
Debt securities	**4,122,153,147**	**43,284,371**	–	**4,165,437,518**
	9,866,691,450	**43,284,371**	**4,970,879,086**	**14,880,854,907**
	₱19,125,094,600	**₱43,284,371**	**₱4,970,879,086**	**₱24,139,258,057**

	2011			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Financial Assets at FVPL				
Equity securities	₱2,242,142,762	₱–	₱–	₱2,242,142,762
Debt securities	2,569,564,589	–	–	2,569,564,589
	4,811,707,351	–	–	4,811,707,351
AFS Financial Assets				
Equity securities	4,291,481,062	317,884,418	6,053,894,209	10,663,259,689
Debt securities	3,724,400,990	44,218,978	–	3,768,619,968
	8,015,882,052	362,103,396	6,053,894,209	14,431,879,657
	₱12,827,589,403	₱362,103,396	₱6,053,894,209	₱19,243,587,008

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

	2012	2011
Beginning balance	**₱6,053,894,209**	₱5,268,015,558
Fair value gain(loss)	**(1,083,015,123)**	1,103,763,069
Transfer to Level 2 fair value hierarchy	–	(317,884,418)
Ending balance	**₱4,970,879,086**	₱6,053,894,209

In 2011, the Group's investment in Asian Hospital, Inc. (AHI) shares of stock was transferred from Level 3 to Level 2 fair value hierarchy as a quoted price in market became observable.

The Group has investments in PSPC shares of stock classified as AFS which is not quoted in the market. PSPC shares are marked to market using a valuation technique based on adjusted Price to Book Value (PBV) Ratio. Fair market value of PSPC shares amounted to ₱4,421,651,374 and ₱5,571,292,479 as of December 31, 2012 and 2011, respectively.

The following assumptions were used to determine the fair value of PSPC shares of stock as of December 31, 2012 and 2011:

- For stocks not traded in any exchange, the approximate fair value of PSPC can be determined using relative valuation tools and the price performance of peer corporation.
- The PBV Ratio is a regular valuation tool used to compare peer corporation.
- Among the peer listed corporations of PSPC, Petron Corporation (PCOR) is considered the nearest petroleum company that PSPC can be compared to.
    a. Petron is listed and operates in the Philippines.
    b. Information about other peer corporations in the region is not comparable since the market and the structure of the entities are different from PSPC.
- The price used for the PBV Ratio computation of PSPC is the closing price of Petron amounting to ₱10.40 per share and ₱12.60 per share in 2012 and 2011, respectively.
- The PBV multiple of PCOR is 1.5753x and 1.9395x in 2012 and 2011, respectively.

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

2012		2011	
Change in variable	**Effect on equity**	Change in variable	Effect on equity
Increase by .5%	**₱22,108,257**	Increase by .5%	₱27,856,462
Decrease by .5%	**(22,108,257)**	Decrease by .5%	(27,856,462)

The Group has investments in Shell Co. of the Philippines and The Medical City shares of stock which are not quoted in the market as of December 31, 2012 and 2011.

The estimated fair market values of the aforementioned shares are as follow:

	2012	2011
The Medical City (MC)	**₱393,018,307**	₱380,740,113
Shell Co. of the Philippines (SCOP)	**156,209,405**	101,861,617
Asian Hospital	–	317,884,418

MC was valued using discounted cashflow (DCF) valuation model in 2012 and book value (BV) per share in 2011.

The following assumptions were used to determine the fair value of MC shares as of December 31, 2012.

- Weighted average cost of capital (WACC) of MC was used in determining the present value of the free cashflows (FCF);
- The terminal value was calculated using FCF from the last year of the 10-year projection period capitalized into perpetuity using the Gordon growth model based on a growth rate of 3%;
- Normalization adjustments were made in the FCF of the last year of the projection period for purposes of computing the terminal value;
- A marketability discount factor of 15% was used considering that MC shares are not liquid; and
- A minority discount factor of 15% was used given that the Company is only a minority shareholder in MC.

SCOP was valued using adjusted net asset method in 2012 and 2011 since majority of its assets are carried at fair value.

The analysis of book value of the unquoted shares below is performed for the reasonably possible movements in their book values with all other variables held constant, showing the impact on the other comprehensive income:

		Change in BV per share		Total effect
		SCOP	MC	on equity
2012	**Increase**	**11.09%**	**0.50%**	**(₱15,362,771)**
	Decrease	**11.09%**	**0.50%**	**15,362,771**
2011	Increase	10.10%	6.25%	34,091,456
	Decrease	10.10%	6.25%	(34,091,456)

29. Insurance and Financial Risk Management

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

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

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

Regulatory Framework

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

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

Insurance Risk

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

Underwriting risk

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

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

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

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

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

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

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

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

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

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

	2012	2011
Whole Life		
Gross	**₱94,261,969,998**	₱93,407,727,126
Net	**83,881,723,003**	83,112,557,780
Endowment		
Gross	**24,757,917,282**	25,243,059,636
Net	**24,142,480,122**	24,541,878,755
Term Insurance		
Gross	**13,736,897,443**	14,559,142,125
Net	**13,283,232,780**	14,271,311,302
Group Insurance		
Gross	**75,434,098,576**	72,707,476,228
Net	**52,563,339,903**	55,530,084,146
Variable Life		
Gross	**8,567,342,717**	1,991,718,611
Net	**7,852,699,143**	1,209,928,115
Total		
Gross	**₱216,758,226,016**	₱207,909,123,726
Net	**₱181,723,474,951**	₱178,665,760,098

Life Insurance Contracts

Assumptions

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

For life insurance contracts with fixed and guaranteed terms, estimates are made in two stages. At inception of the contracts, the Group determines assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. These assumptions are used for calculating the liabilities during the life of the contract. A margin for risk and uncertainty is added to these assumptions. These assumptions are "locked in" for the duration of the contract. Subsequently, new estimates are developed at each balance sheet date to determine whether liabilities are adequate in the light of the latest current estimates. The initial assumptions are not altered if the liabilities are considered adequate. If the liabilities are not adequate, the assumptions are altered ("unlocked") to reflect the latest current estimates; no margin is added to the assumptions in this event. As a result, the effect of changes in the underlying variables on insurance liabilities and related assets is not symmetrical. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant enough deteriorations in estimates have an impact.

Terms

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

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

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

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

Variable life products provide, in addition to life insurance coverage, living benefit where payments are linked to units of an investment fund set up by the Group from the premiums paid by the policyholders.

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

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

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

a. Mortality and morbidity rates

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

b. Discount rates

Discount rates relate to the time value of money. For fair valued liabilities, the discount rate is set to be equal to the investment return. For statutory liability, discount rate ranges from 3% to 6%. The IC does not allow a discount rate of more than 6%. An increase in discount rate would result in decrease in liability that needs to be set up to meet obligations to policyholders.

c. Investment return

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

d. Expenses

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

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

Reinsurance Contracts

Terms and assumptions

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

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

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

Sensitivities

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

The analysis below is performed for a reasonable possible movement in key assumptions with all other assumptions held constant on the consolidated statements of income and members' equity. Based on the scenarios tested for 2012 and 2011, the resulting values are lower than the statutory reserves.

	December 31, 2012	December 31, 2011
Scenario	**% Change from Base Run**	% Change from Base Run
Base Run	**0.00%**	0.00%
Mortality + 5%	**(3.29%)**	(2.51%)
Investment Return + 1%	**4.24%**	2.69%
Discount Rate - 1%	**0.15%**	4.79%
Expense + 10%	**(13.70%)**	(8.24%)
Lapse + 5%	**(0.92%)**	(0.79%)

Financial Risk

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

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

The Group has guidelines and procedures on fixed and equity investments. On fixed investments, the Group has to place its investment portfolio in negotiable instruments that will give high-yield, low-risks return without sacrificing the IC and the Group's requirements. The IC requirements state that the investment in fixed instruments shall only come from financial institutions or corporate entities with acceptable ratings from PhilRatings, or at least the rank is within the top 15, in case of banks. Meanwhile, investment in negotiable instruments involving reserve and surplus investments shall follow the guidelines set by the Code and the Margin of Solvency (MOS) requirements (Note 30). On equity investments, the Group has to place its investment portfolio in equity market that will give high-yield, low-risks return taking into account the IC and the Group's requirements.

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

- reinsurers in respect of unpaid claims;
- reinsurers in respect of claims already paid;
- insurance contract holders;
- insurance intermediaries;
- financial assets at FVPL;
- HTM financial assets;
- Loans and receivables; and
- AFS financial assets

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

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

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

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

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

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

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

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

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

The maximum credit exposure of the financial assets of the Group is equal to their carrying value except for the following financial assets with collaterals (e.g., equity value, real estate), the financial effects of which are as follow:

	2012	2011
Housing loans	**₱170,433,182**	₱144,565,052
Mortgage loans	**78,160,882**	97,595,278
Finance leases	**37,483,571**	32,794,576
Stock loans	**7,841,591**	8,425,731
	₱293,919,226	₱283,380,637

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

The Group did not have any significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2012 and 2011.

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

	2012			
	Neither past due nor impaired			
	Investment Grade	**Non-Investment Grade**	**Past Due or Impaired**	**Total**
Insurance Receivables				
Due premiums	**₱214,791,757**	**₱–**	**₱–**	**₱214,791,757**
Reinsurance assets	–	**13,639,498**	–	**13,639,498**
	214,791,757	**13,639,498**	–	**228,431,255**

(Forward)

	2012			
	Neither past due nor impaired			
	Investment Grade	Non-Investment Grade	Past Due or Impaired	Total
Financial Assets at FVPL				
Cash and cash equivalents	₱993,508,891	₱–	₱–	₱993,508,891
Quoted equity securities	5,650,644,487	–	–	5,650,644,487
Quoted debt securities - fixed interest rates:				
Government:				
Local currency	1,275,493,705	–	–	1,275,493,705
Foreign currency	2,002,090,304	–	–	2,002,090,304
Corporate	330,174,654	–	–	330,174,654
Interest receivable	42,393,782	–	–	42,393,782
	10,294,305,823	–	–	10,294,305,823
AFS Financial Assets				
Equity securities:				
Quoted	5,660,911,056	–	–	5,660,911,056
Unquoted	5,054,306,333	200,000	–	5,054,506,333
Debt securities:				
Quoted:				
Government:				
Local currency	3,092,780,784	–	–	3,092,780,784
Foreign currency	1,006,584,387	–	–	1,006,584,387
Corporate	36,258,773	–	–	36,258,773
Unquoted - government	29,813,574	–	–	29,813,574
	14,880,654,907	200,000	–	14,880,854,907
HTM Financial Assets - debt securities - fixed interest rates:				
Government:				
Local currency	15,361,152,820	–	–	₱15,361,152,820
Foreign currency	2,793,948,803	–	–	2,793,948,803
Corporate:				
Local currency	1,898,552,450	–	–	1,898,552,450
	20,053,654,073	–	–	20,053,654,073
Loans and Receivables				
Cash and cash equivalents*	4,704,223,673	–	–	4,704,223,673
Term loans	14,101,025,603	–	–	14,101,025,603
Policy loans	5,624,884,044	–	–	5,624,884,044
Interest receivable	879,003,857	–	–	879,003,857
Accounts receivable	2,304,662	334,366,570	54,711,817	391,383,049
Housing loans	–	165,196,948	–	165,196,948
Mortgage loans	26,156,906	18,446,210	39,345,302	83,948,418
Car financing loans	48,542,732	–	–	48,542,732
Finance leases	19,930,897	17,552,674	–	37,483,571
Due from agents	–	4,627,962	29,262,435	33,890,397
Stock loans	16,733,233	7,397,481	–	24,130,714
Others	145,745,839	100,615,018	–	246,360,857
	25,601,934,887	648,202,863	123,319,554	26,340,073,863
	₱71,045,341,447	₱662,042,361	₱84,168,124	₱71,797,319,921

**Excluding cash on hand amounting to ₱254,290 as of December 31, 2012.*

	2011			
	Neither past due nor impaired			
	Investment Grade	Non-Investment Grade	Past Due or Impaired	Total
Insurance Receivables				
Due premiums	₱247,136,135	₱–	₱–	₱247,136,135
Reinsurance assets	–	11,273,777	–	11,273,777
	247,136,135	11,273,777	–	258,409,912
Financial Assets at FVPL				
Cash and cash equivalents	449,561,966	–	–	449,561,966
Quoted equity securities	2,242,142,762	–	–	2,242,142,762

(Forward)

	2011			
	Neither past due nor impaired			
	Investment Grade	Non-Investment Grade	Past Due or Impaired	Total
Quoted debt securities - fixed interest rates:				
Government:				
Local currency	₱854,197,791	₱–	₱–	₱854,197,791
Foreign currency	1,334,882,895	–	–	1,334,882,895
Corporate	380,483,903	–	–	380,483,903
Interest receivable	46,500,276	–	–	46,500,276
	5,307,769,593	–	–	5,307,769,593
AFS Financial Assets				
Equity securities:				
Quoted	4,609,365,480	–	–	4,609,365,480
Unquoted	6,131,482,593	–	–	6,131,482,593
Debt securities:				
Quoted:				
Government:				
Local currency	2,636,391,620	–	–	2,636,391,620
Foreign currency	1,066,598,702	–	–	1,066,598,702
Corporate	56,292,172	–	–	56,292,172
Unquoted - government	9,337,474	–	–	9,337,474
	14,509,468,041			14,509,468,041
HTM Financial Assets - debt securities - fixed interest rates:				
Government:				
Local currency	14,433,791,329	–	–	14,433,791,329
Foreign currency	3,040,555,575	–	–	3,040,555,575
Corporate:				
Local currency	1,096,352,066	–	–	1,096,352,066
Foreign currency	21,724,814	–	–	21,724,814
	18,592,423,784	–	–	18,592,423,784
Loans and Receivables				
Cash and cash equivalents*	3,237,230,680	–	–	3,237,230,680
Term loans	14,373,534,104			14,373,534,104
Policy loans	5,666,841,882	–	–	5,666,841,882
Interest receivable	671,640,443	–	–	671,640,443
Accounts receivable	–	143,746,576	179,630,444	323,377,020
Housing loans	150,172,143	–	–	150,172,143
Mortgage loans	99,569,073		6,466,617	106,035,690
Car financing loans	48,499,793	–	–	48,499,793
Finance leases	–	36,782,868	–	36,782,868
Due from agents	–	1,602,541	91,667,077	93,269,618
Stock loans	–	28,967,507	–	28,967,507
Others	–	69,790,617		69,790,617
	24,247,488,118	280,890,109	277,764,138	24,806,142,365
	₱62,904,285,671	₱292,163,886	₱277,764,138	₱63,474,213,695

**Excluding cash on hand amounting to ₱255,386 as of December 31, 2011.*

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

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

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

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

	2012					
	Past due but not impaired				**Past due and**	
	< 30 days	**31 to 60 days**	**>60 days**	**Total**	**Impaired**	**Total**
Loans and receivables:						
Accounts receivable	**₱5,446,716**	**₱48,580**	**₱272,693**	**₱5,767,989**	**₱48,943,828**	**₱54,711,817**
Mortgage loans	**28,258,248**	**4,268,939**	**856,254**	**33,383,441**	**5,961,861**	**39,345,302**
Due from agents	**–**	**–**	**–**	**–**	**29,262,435**	**29,262,435**
	₱33,704,964	**₱4,317,519**	**₱1,128,947**	**₱39,151,430**	**₱84,168,124**	**₱123,319,554**

	2011					
	Past due but not impaired				Past due and	
	< 30 days	31 to 60 days	>60 days	Total	Impaired	Total
Loans and receivables:						
Accounts receivable	₱10,539,392	₱99,198	₱103,232	₱10,741,822	₱168,888,622	₱179,630,444
Mortgage loans	–	–	–	–	6,466,617	6,466,617
Due from agents	–	–	–	–	91,667,077	91,667,077
	₱10,539,392	₱99,198	₱103,232	₱10,741,822	₱267,022,316	₱277,764,138

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

The Company operates mainly on a 'neither past due nor impaired basis' and when evidence of impairment is available, an impairment assessment will also be performed if applicable.

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

Liquidity Risk

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

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

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

The amounts disclosed in the maturity analysis of financial assets, insurance liabilities and financial liabilities of the Group are the contractual undiscounted cash flows based on the remaining period at the balance sheet date to their contractual maturities or expected repayment dates:

	2012				
	Up to a year	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
Financial assets:					
Cash and cash equivalents	**₱4,704,477,963**	**₱–**	**₱–**	**₱–**	**₱4,704,477,963**
Insurance receivables	**228,431,256**	**–**	**–**	**–**	**228,431,256**
Financial assets at FVPL	**6,802,540,514**	**1,274,960,805**	**456,388,528**	**1,760,415,976**	**10,294,305,823**
HTM financial assets	**4,621,995,529**	**5,191,504,915**	**3,865,911,563**	**34,471,865,288**	**48,151,277,295**
Loans and receivables	**7,753,855,946**	**1,293,518,673**	**3,331,482,050**	**9,256,993,521**	**21,635,850,190**
AFS financial assets	**1,626,316,829**	**1,192,296,260**	**2,530,005,828**	**12,037,935,434**	**17,386,554,351**
Total financial assets	**25,737,618,037**	**8,952,280,653**	**10,183,787,969**	**57,527,210,219**	**102,400,896,878**
Insurance liabilities:					
Legal policy reserves	**5,930,879,339**	**3,001,990,914**	**2,547,660,475**	**36,068,750,238**	**47,549,280,966**
Other insurance liabilities:					
Members' deposits and other funds on deposit	**7,016,472,645**	**1,112,531,914**	**504,099,436**	**5,472,079,057**	**14,105,183,052**
Reserve for dividends to members	**1,228,857,601**	**–**	**–**	**–**	**1,228,857,601**
Claims pending settlement	**980,623,688**	**–**	**–**	**–**	**980,623,688**
	9,225,953,934	**1,112,531,914**	**504,099,436**	**5,472,079,057**	**16,314,664,341**
Other financial liabilities:					
Accrued expenses and other liabilities:					
Accrued employee benefits	**6,132,768**	–	**486,000,000**	**79,609,578**	**571,742,346**
Accounts payable	**498,530,975**	**28,464,069**	**14,330,697**	**2,378,528**	**543,704,269**
Commissions payable	**87,293,879**	–	**–**	**–**	**87,293,879**
Advances from joint venture	**84,971,083**	–	**–**	**–**	**84,971,083**
General expenses due and accrued	**84,208,973**	–	**–**	**–**	**84,208,973**
Others	**56,346,067**	–	**–**	**–**	**56,346,067**
	817,483,745	**28,464,069**	**500,330,697**	**81,988,106**	**1,428,266,617**
Total financial liabilities	**15,974,317,018**	**4,142,986,897**	**3,552,090,608**	**41,622,817,401**	**65,292,211,924**
Liquidity gap	**₱9,763,301,019**	**₱4,809,293,756**	**₱6,631,697,361**	**₱15,904,392,818**	**₱37,108,684,954**

	2011				
	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Financial assets:					
Cash and cash equivalents	₱3,237,486,066	₱–	₱–	₱–	₱3,237,486,066
Insurance receivables	258,409,912	–	–	–	258,409,912
Financial assets at FVPL	117,787,400	1,550,823,819	87,586,293	3,549,618,081	5,305,815,593
HTM financial assets	3,255,231,029	3,808,998,815	2,053,833,150	28,042,724,690	37,160,787,684
Loans and receivables	7,567,939,301	2,770,635,034	2,755,793,936	8,929,072,451	22,023,440,722
AFS financial assets	757,090,382	1,092,269,998	1,998,724,825	18,593,415,901	22,441,501,106
Total financial assets	15,193,944,090	9,222,727,666	6,895,938,204	59,114,831,123	90,427,441,083
Insurance liabilities:					
Legal policy reserves	4,570,223,702	3,449,614,838	2,524,375,771	34,298,827,247	44,843,041,558
Other insurance liabilities:					
Members' deposits and other funds on deposit	4,048,547,798	925,184,045	311,189,634	5,241,015,430	10,525,936,907
Reserve for dividends to members	1,229,055,015	–	–	–	1,229,055,015
Claims pending settlement	700,088,095	–	–	–	700,088,095
	5,977,690,908	925,184,045	311,189,634	5,241,015,430	12,455,080,017
Other financial liabilities:					
Accrued expenses and other liabilities:					
Accrued employee benefits	5,043,047	–	–	273,893,965	278,937,012
Accounts payable	446,089,645	23,499,372	12,503,082	5,585,188	487,677,287
Commissions payable	94,929,171	–	–	–	94,929,171
Advances from joint venture	83,797,768	–	–	–	83,797,768
General expenses due and accrued	65,878,942	–	–	–	65,878,942
Others	57,902,713	–	–	–	57,902,713
	753,641,286	23,499,372	12,503,082	279,479,153	1,069,122,893
Total financial liabilities	11,301,555,896	4,398,298,255	2,848,068,487	39,819,321,830	58,367,244,468
Liquidity gap	₱3,892,388,194	₱4,824,429,411	₱4,047,869,717	₱19,295,509,293	₱32,060,196,615

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

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

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

- the Group structures levels of market risk it accepts through a group market risk policy that determines what constitutes market risk for the Group; basis used to fair value financial assets and financial liabilities; asset allocation and portfolio limit structure; diversification benchmarks by type and duration of instrument; reporting of market risk exposures and breaches to the monitoring authority; monitoring compliance with market risk policy and review of market risk policy for pertinence and changing environment;
- set out the assessment and determination of what constitutes market risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment; and
- establish asset allocation and portfolio limit structure, to ensure that assets back specific policyholders liabilities and that assets are held to deliver income and gains for policyholders which are in line with expectations of the policyholders.

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

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

		2012						
		Maturity						
Fixed Rate Instruments	**Effective Interest Rate**	**In 1 year or less**	**More than 1 year but not more than 2 years**	**More than 2 years but not more than 3 years**	**More than 3 years but not more than 4 years**	**More than 4 years but not more than 5 years**	**More than 5 years**	**Total**
Financial Assets at FVPL debt securities								
Government:								
Local currency	**6%-9%**	**₱–**	**₱52,557,155**	**₱89,320,451**	**₱372,692,500**	**₱–**	**₱760,923,599**	**₱1,275,493,705**
Foreign currency	**2%-11%**	**16,660,034**	**52,165,384**	**947,576,492**	**30,769,683**	**5,426,346**	**949,492,365**	**2,002,090,304**
Corporate	**7%-10%**	**99,333,332**	**70,565,214**	**62,776,108**	**–**	**47,500,000**	**50,000,000**	**330,174,654**
		115,993,366	**175,287,753**	**1,099,673,051**	**403,462,183**	**52,926,346**	**1,760,415,964**	**3,607,758,663**
AFS Debt Securities								
Quoted:								
Government:								
Local currency	**5%-9%**	**37,822,459**	**16,534,573**	**13,929,718**	**820,733,597**	**199,398,310**	**2,004,362,127**	**3,092,780,784**
Foreign currency	**7%-8%**	**–**	**22,095,594**	**–**	**110,795,038**	**–**	**873,693,755**	**1,006,584,387**
Corporate	**5%-8%**	**–**	**36,258,773**	**–**	**–**	**–**	**–**	**36,258,773**
Unquoted	**3%-5%**	**–**	**20,673,456**	**9,140,118**	**–**	**–**	**–**	**29,813,574**
		37,822,459	**95,562,396**	**23,069,836**	**931,528,635**	**199,398,310**	**2,878,055,882**	**4,165,437,518**
		₱153,815,825	**₱270,850,149**	**₱1,122,742,887**	**₱1,334,990,818**	**₱252,324,656**	**₱4,638,471,846**	**₱7,773,196,181**

		2011						
		Maturity						
Fixed Rate Instruments	Effective Interest Rate	In 1 year or less	More than 1 year but not more than 2 years	More than 2 years but not more than 3 years	More than 3 years but not more than 4 years	More than 4 years but not more than 5 years	More than 5 years	Total
Financial Assets at FVPL debt securities								
Government:								
Local currency	6%-15%	₱47,578,625	₱–	₱53,270,475	₱395,940,794	₱50,000,000	₱307,407,897	₱854,197,791
Foreign currency	2%-10%	–	19,010,457	54,690,149	927,745,048	32,711,293	300,725,948	1,334,882,895
Corporate	6%-12%	49,830,705	99,666,666	71,185,020	61,801,512	–	98,000,000	380,483,903
		97,409,330	118,677,123	179,145,644	1,385,487,354	82,711,293	706,133,845	2,569,564,589
AFS Debt Securities								
Quoted:								
Government:								
Local currency	5%-9%	37,849,689	90,308,880	5,421,066	–	825,145,014	1,712,548,477	2,671,273,126
Foreign currency	7%-8%	115,343,465	24,630,869	–	–	117,267,687	809,356,681	1,066,598,702
Corporate	8%	–	–	21,410,667	–	–	–	21,410,667
Unquoted	3%-5%	–	–	9,337,473	–	–	–	9,337,473
		153,193,154	114,939,749	36,169,206	–	942,412,701	2,521,905,158	3,768,619,968
		₱250,602,484	₱233,616,872	₱215,314,850	₱1,385,487,354	₱1,025,123,994	₱3,228,039,003	₱6,338,184,557

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

December 31, 2012:

	Changes in variable	**Effect on income before tax**	**Effect on equity**
USD	**+ 25 basis points**	**(₱17,064,740)**	**(₱34,755,783)**
PHP	**+ 25 basis points**	**(11,381,645)**	**(49,973,687)**
USD	**- 25 basis points**	**18,111,218**	**40,864,318**
PHP	**- 25 basis points**	**11,749,660**	**51,394,413**

December 31, 2011:

	Changes in variable	Effect on income before tax	Effect on equity
USD	+ 25 basis points	(₱6,778,657)	(₱24,310,530)
PHP	+ 25 basis points	(7,265,587)	(45,528,914)
USD	- 25 basis points	7,245,269	25,518,818
PHP	- 25 basis points	7,427,415	46,950,689

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

The use of +/- 25 basis points is a reasonably possible change in the market value of the debt securities on a regular day basis.

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

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

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

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

	Change in PSEi index	**Effect on Income Before tax**	Effect on Equity
2012	**Increase by 0.5%**	**₱19,349,798**	**₱55,908,314**
	Decrease by 0.5%	**(19,349,798)**	**(55,908,314)**
2011	Increase by 0.5%	10,645,107	32,203,801
	Decrease by 0.5%	(10,645,107)	(32,203,801)

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

To provide a consistent measure of sensitivity to equity securities, a percentage measure of one-half of a percent (0.5%) that will provide a value of reasonably possible change in the overall investment.

Currency Risk
Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's foreign currency-denominated assets and liability as of December 31 consist of the following:

	2012		2011	
	United States Dollar Value	**Peso Equivalent**	United States Dollar Value	Peso Equivalent
Assets				
Financial assets at FVPL	**US$23,425,964**	**₱964,962,325**	US$11,055,289	₱485,636,735
HTM financial assets	**73,334,676**	**3,020,801,974**	69,711,355	3,062,280,389
AFS financial assets	**24,436,405**	**1,006,584,387**	24,280,612	1,066,598,724
	US$121,197,045	**₱4,992,348,686**	US$105,047,256	₱4,614,515,861
Liability				
Legal Policy Reserves	**US$75,744,895**	**₱3,120,083,718**	US$78,025,164	₱3,427,489,404

The foregoing United States Dollar amounts have been restated to their Peso equivalents using the exchange rate of ₱41.192 and ₱43.928 to US$1, as recommended by IC, as of December 31, 2012 and 2011, respectively. Net foreign exchange loss amounted to ₱290,378,588 in 2012. Net foreign exchange gain amounted to ₱3,362,859 in 2011.

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

	Change in USD - PHP exchange rate	Effect on Income Before Tax
2012	**Increase by 1.72%**	**(₱7,011,584)**
	Decrease by 1.72%	**7,011,584**
2011	Increase by 1.43%	76,763,863
	Decrease by 1.43%	(76,763,863)

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

30. Capital Management and Regulatory Requirements

Capital Management Framework

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

The Group considers its total retained earnings amounting to ₱17,257,582,109 and ₱14,898,105,745 as of December 31, 2012 and 2011, respectively, as its capital.

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

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

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

MOS

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

The MOS shall be the excess of the value of its admitted assets (as defined under the same Code) over the amount of its liabilities, unearned premiums and reinsurance reserves. As of December 31, 2012 and 2011, the Company's estimated MOS based on its calculation amounted to ₱6,865,420,234 and ₱5,657,096,221, respectively. The final amount of the MOS can be determined only after the accounts of the Company have been examined by the IC specifically as to admitted and nonadmitted assets as defined under the same Code.

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

	2012	2011
Property and equipment - net	**₱146,313,003**	₱128,338,644
Accounts receivable and other assets	**384,269,135**	318,488,324
	₱530,582,138	₱446,826,968

Fixed capitalization requirements

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

As of December 31, 2012 and 2011, the required minimum statutory net worth and minimum paid-up capital for the Group, being a wholly Filipino-owned domestic insurance company, amounted to the following:

	2012	2011
Minimum statutory net worth	**₱500,000,000**	₱500,000,000
Minimum paid-up capital	**250,000,000**	250,000,000

In 2011, the BOT approved the appropriation of additional ₱75,000,000 to meet the minimum paid-up capital required under the foregoing DOF Order No. 27-06 dated September 1, 2006 by December 31 of each year until 2011.

On June 1, 2012, the DOF issued DOF order 15-2012 imposing new capitalization requirements for life, nonlife and reinsurance companies which will increase on a staggered basis starting for the years ended December 31, 2012 up to 2020.

The Group has complied with the minimum paid-up capital requirement during the reported financial periods.

RBC requirements

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

On October 29, 2008, the IC issued Circular Letter No. 26-2008, which recalls that in view of the compliance of insurance companies with the requirement of Insurance Memorandum Circular (IMC) No. 10-2006, the scheduled increases due December 31, 2007 have been deferred for a year. Hence, the IMC reiterates that by December 31, 2009, insurance companies should comply with the increase previously scheduled for December 31, 2008. As of December 31, 2012 and 2011, the Group has complied with the minimum paid-up capital requirements.

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

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

	2012	2011
Net worth	**₱27,024,627,375**	₱21,076,876,926
Aggregate RBC requirement	**12,875,117,994**	10,936,417,788
RBC Ratio	**210%**	193%

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

31. Other Matters

a. On July 15, 2005, the Parent Company filed separate Petitions for Review with the Court of Tax Appeals (CTA), to contest the assessment by the Bureau of Internal Revenue (BIR) for deficiency documentary stamp taxes (DST) for calendar years 2001 and 2002. The CTA, in separate Decisions dated August 12, 2008 and April 21, 2009, granted the Petitions for Review and decided in favor of the Parent Company. It declared the Formal Letter of Demand and Assessment Notices for deficiency DST for 2001 and 2002 cancelled and withdrawn. BIR's Motions for Reconsideration seeking to reverse the CTA Decisions were both denied. Subsequently, the CTA En Banc upheld both CTA decisions and denied BIR's Motions for Reconsideration. In 2011 and 2010, BIR appealed to the Supreme Court (SC) where the cases are yet to be resolved.

   The cases are expected to be resolved by the SC within 2013. The Parent Company's management and legal counsel continue to believe that it has a strong legal basis for exemption from the said tax.

   In a previous case involving the Parent Company on assessments for DST for calendar years 1990 to 1994 and premium tax for calendar years 1993 to 1994, the Court of Appeals (CA), in its September 29, 1998 decision, upheld the CTA Resolution date December 29, 1997 declaring the Parent Company's exemption from payment of DST and premium tax. This earlier case was cited by the SC in a 2006 decision involving another mutual life insurance company where it was confirmed that said company is a cooperative, thus exempt from the payment of DST on life insurance premiums.

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

   On March 26, 2013, the Parent Company received BIR's denial of the Parent Company's claim for a refund. The Parent Company is considering to appeal the BIR Commissioner's decision.

c. IIC entered into certain prearranged transactions involving a series of mutual sale and purchase transactions of treasury bills with two financial institutions in 1994. The transactions led to a case filed against IIC that involves a complaint for specific performance and sum of money amounting to ₱90 million. As counterclaims, IIC seeks the award of ₱21.1 million. The main case was dismissed on August 28, 2008 for failure of the other party to file a Pre-trial Brief within the prescribed period. IIC was allowed to present evidence on its counterclaims on September 9, 2008. The other party filed a motion for reconsideration which the court denied on January 26, 2009 and filed a Notice of Appeal on March 2, 2009. IIC awaits the initial order from the CA.

   There are other treasury bills amounting to ₱119.6 million (included in the "Miscellaneous receivables" account under "Receivables" in the balance sheet) bought and paid for, but remain undelivered to IIC by a financial institution also involved in prearranged transactions. On March 25, 1995, IIC filed a case with the Makati Regional Trial Court (Makati RTC) for the recovery of the ₱119.6 million undelivered treasury bills. On June 16, 2003, the Makati RTC rendered a decision allowing IIC to claim for ₱119.6 million (plus accrued interest), net of counterclaims awarded to a co-respondent. At various dates after the Makati RTC decision, all the parties, including IIC, filed their respective appeals before the Court of Appeals. On June 8, 2008, the CA set aside for lack of basis the Makati RTC's decision allowing IIC to claim for the ₱119.6 million, including accrued interest. In response to this decision, IIC filed the petition for review with the SC.

   On April 25, 2012, the SC rendered a decision in favor of IIC ordering the other financial institution to pay ₱136.8 million with interest at the rate of 6% per annum from March 21, 1995 until full payment. On the other hand, the SC also ordered IIC to pay the financial institution ₱17.2 million with legal interest rate at 6% per annum from June 10, 1994 until full payment. Any amount not paid upon the finality of the decision shall be subject to interest at the increased rate of 12% percent per annum reckoned from the date of finality of the decision until full payment thereof.

   The financial institution filed a motion for reconsideration on the SC's decision on April 25, 2012. On July 16, 2012, the SC issued a Resolution denying with finality the motion for reconsideration filed by the financial institution.

   On September 25, 2012, the SC issued the Entry of Judgment, which certifies the April 25, 2012 decision to be final and executory in the Book of Entries of Judgments.

   On February 11, 2013, IIC's legal counsel issued a motion for issuance of writ of execution to enforce the decision against the financial institution.

d. On April 19, 2012, SEC approved the amendment of IIC's article of incorporation and by-laws to remove the word "Trust" from its corporate name.

THE INSULAR LIFE ASSURANCE COMPANY, LTD.

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(As of March 1, 2013)

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Chairman

Alfredo B. Paruñgao
Vice Chairman

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Marietta C. Gorrez
Delfin L. Lazaro
Ricardo G. Librea
Francisco Ed. Lim
Mayo Jose B. Ongsingco
Bernardo M. Villegas

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Bernardo M. Villegas, *Vice Chairman*
Ricardo G. Librea
Mayo Jose B. Ongsingco
Alfredo B. Paruñgao

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(As of March 1, 2013)

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Chairman of the Board and
Chief Executive Officer

Mayo Jose B. Ongsingco
President and
Chief Operating Officer

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Diana Rose A. Tagra
Jesito V. Villamor

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

INSULAR GROUP OF COMPANIES

The Insular Life Assurance Company, Ltd.
Holding Company, life insurance underwriting

Subsidiaries

Insular Investment Corporation
Investment banking

IIC Subsidiaries:

Insular Property Ventures, Inc.
Residential/ Commercial development

IIC Properties, Inc.
Residential/ Commercial development

Insular Health Care, Inc.
Health/ HMO

ILAC General Insurance Agency, Inc.
General agency

Insular Life Property Holdings, Inc.
Real estate

Insular Life Management and Development Corporation
Management services

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

Affiliates

Mapfre Insular Insurance Corporation
Non-life insurance underwriting

Union Bank of the Philippines
Universal banking

PPI Prime Venture, Inc.
Real estate

Social Commitment

Insular Foundation, Inc.

ABOUT INSULAR LIFE

Insular Life was established on November 25, 1910 as the first Filipino-owned life insurance company. It has a long tradition of steadfast commitment to its policyholders, demonstrated by its more than 100 years of continuous service to the Filipino people. Today, it is the largest Filipino life insurance company with offices in almost all the key cities in the country. Insular Life provides financial solutions through its various products -- from whole life, endowment, limited-pay, to pension and unit-linked investment funds – designed to allow individuals to take control over their families' financial security.

Insular has subsidiaries offering allied financial services -- **Insular Health Care, Inc., Insular Investment Corporation, HomeCredit Mutual Building and Loan Association,** and **Mapfre Insular Insurance Corporation.**

MISSION STATEMENT

Our mission is to provide a full-range of high-value insurance products and other financial services that empower families to fulfill their dreams, thus helping build a stronger Philippines.

We are Insular Life, the pioneering and largest Filipino life insurance company. We enable our professional, customer-oriented employee and agency force to render service of the highest quality.

We optimize stakeholder value by pursuing strategic opportunities, and by achieving sustained growth through dynamic marketing, prudent investments, and exceptional service.

In pursuit of our corporate mission, we are guided by our core values:

- Love of God and Country
- Integrity
- Excellence
- Prudence
- Respect for the Individual
- Teamwork

LIVES EMPOWERED THE FUTURE SECURED

Insular Life empowers people by providing the means to manage their financial needs, anchored at every life stage, giving them the freedom to fulfill their dreams and live the life they choose.

1910 Insular

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