"Financial planning is the best approach to achieve a financially prosperous future, without having to sacrifice the enjoyment of the present."

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

Insular

2011 | **ANNUAL REPORT**

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 and Trust 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.

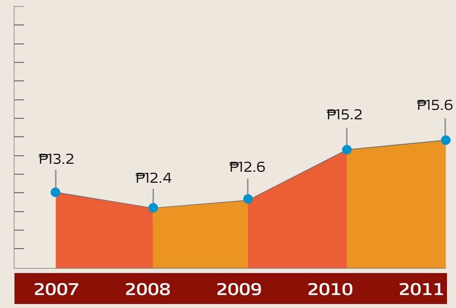
We are Insular Life, the pioneering and largest Filipino life insurance company. We enable our professional, customer-oriented employee and agency force to render service of the highest quality.

We optimize stakeholder value by pursuing strategic opportunities, and by achieving sustained growth through dynamic marketing, prudent investments, and exceptional service.

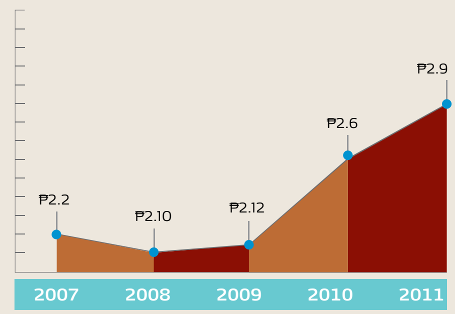
In pursuit of our corporate mission, we are guided by our core values:

- Love of God and Country
- Integrity
- Excellence
- Prudence
- Respect for the Individual
- Teamwork

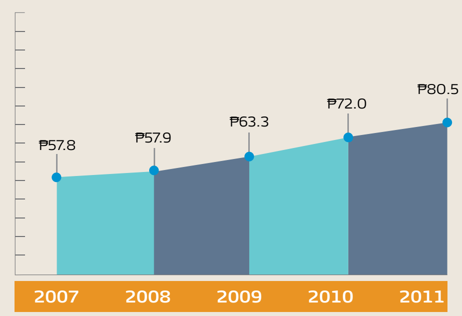
Consolidated Financial Highlights



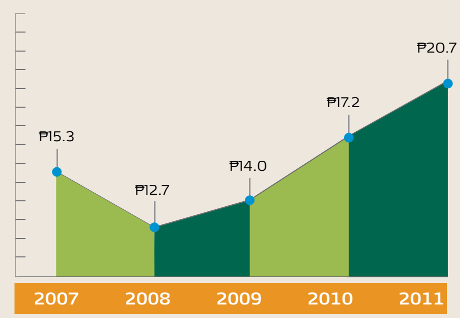
REVENUES (in billion pesos)



NET INCOME (in billion pesos)



ASSETS (in billion pesos)



MEMBERS' EQUITY (in billion pesos)

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

For the Year	2011	2010	2009	2008	2007
Net Income per FS	2,893	2,561	2,120	2,097	2,214
Net Insurance Revenue per FS	8,701	8,376	7,402	7,009	8,782
Operating Revenue	6,860	6,800	5,155	5,422	4,416
Total Revenue per FS *(Net Insurance Revenue + Operating Revenue)*	**15,561**	**15,176**	**12,556**	**12,432**	**13,198**
Assets	**80,523**	**71,982**	**63,324**	**57,922**	**57,795**
Cash and Cash Equivalents	**3,237**	**2,984**	**1,742**	**2,152**	**2,806**
Cash on hand and in banks	481	515	304	417	322
Short term investment	2,757	2,470	1,438	1,735	2,485
Liabilities	**59,828**	**54,738**	**49,284**	**45,172**	**42,530**
Retained Earnings	**14,898**	**12,856**	**8,019**	**6,723**	**5,422**
Appropriated	250	175	125	100	75
Unappropriated	14,648	12,681	7,894	6,623	5,347
Members' Equity	**20,695**	**17,245**	**14,040**	**12,750**	**15,265**
Total Liabilities and Member's Equity	**80,523**	**71,982**	**63,324**	**57,922**	**57,795**

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

For the Year	2011	2010	2009	2008	2007
Net Income per FS	2,059	1,879	1,535	1,912	1,855
Net Insurance Revenue per FS	8,452	8,092	7,132	6,764	8,534
Operating Revenue	5,965	6,049	4,503	5,143	3,986
Total Revenue per FS *(Net Insurance Revenue + Operating Revenue)*	**14,417**	**14,141**	**11,635**	**11,906**	**12,520**
Assets	**79,923**	**71,853**	**61,672**	**55,408**	**57,506**
Cash and Cash Equivalents	**3,087**	**2,802**	**1,611**	**2,003**	**2,724**
Cash on hand and in banks	382	405	266	387	281
Short term investment	2,705	2,398	1,345	1,616	2,443
Liabilities	**59,716**	**54,635**	**49,175**	**45,064**	**42,425**
Retained Earnings	**9,801**	**8,589**	**4,435**	**3,724**	**2,609**
Appropriated	250	175	125	100	75
Unappropriated	9,551	8,414	4,310	3,624	2,534
Members' Equity	**20,207**	**17,218**	**12,496**	**10,344**	**15,081**
Total Liabilities and Member's Equity	**79,923**	**71,853**	**61,672**	**55,408**	**57,506**

Vicente R. Ayllón

Message to Policyholders

Dear Policyholders:

At Insular Life, we regard your trust and confidence in us as a measure of our performance and the strength of our capability. And this is in keeping with our partnership to help you achieve financial security.

Looking back at our more than a century-old institution, we are very pleased that we continued to make significant strides in 2011 despite lingering uncertainties in most parts of the world.

Longevity has its advantage. In our industry most especially, we have mastered the art of acting swiftly and decisively amid the changing market conditions while continuing to invest in our future. We did this to make sure that we emerge from any challenge as a stronger company, able to address the full range of financial security needs of our policyholders at every stage of their life.

THE BIGGER PICTURE

In 2011, the Philippine economy demonstrated its resilience when it posted a 3.7 percent growth in gross domestic product (GDP) albeit slower than the 7 percent gain in 2010. This modest growth was largely driven by overseas Filipino workers (OFWs), who sent home more than US$20 billion, fuelling the demand for real estate properties and the services sector on the production side, and household consumption on the demand side.

On the other hand, exports declined by 3.8 percent after growing by 21 percent in the previous year, in step with the sluggishness in major economies, as well as the supply chain disruption caused by the earthquake and *tsunami* in Japan, and the flooding in Thailand. Natural calamities and disasters that hit the Philippines also shaved an estimated 0.63 percent of GDP due to damages in agriculture and infrastructure. These weather-related disturbances, in turn, triggered a spike in headline inflation, which averaged 4.7 percent year-on-year, compared with 3.9 percent, previously.

Amid the setbacks, Philippine financial markets remained robust and healthy, thanks to the country's generally strong macroeconomic fundamentals. Interest rates continued to decline significantly due to abundant liquidity. The Philippine Stock Exchange index (PSEi) ended 2011 at 4,371.960, a 4.07 percent growth year-on-year from 4,201.140 in 2010. The PSEi was one of only five indices globally to demonstrate positive performance in 2011. It was second only to the United States' Dow Jones Industrial Average (DJIA) which posted 5.53 percent growth, and was the top over-all in Asia -- easily giving the PSEi the recognition of one of the best performing stock markets in the world last year.

Buoying this performance was the series of upgrades on the Philippine sovereign credit ratings and outlook by international rating agencies, which boosted market sentiment.

ANOTHER YEAR OF STELLAR RESULTS

In times like these, Insular Life's heritage provides a foundational strength of purpose that benefits you, our policyholders. We are able to focus on long-term results, not short-term spikes in performance, amid market swings. Many of our policies and contracts are designed to be in force for decades, and we manage our Company so that you and your beneficiaries can be assured of a financially secure future.

Building momentum throughout the year, we are pleased to report that our consolidated net income in 2011 rose 12 percent to ₱2.9 billion from ₱2.6 billion in 2010, as a result of higher premiums and sustained strong investment performance during the year. We posted ₱15.5 billion in consolidated revenues, 2 percent higher than ₱15.2 billion in 2010. Of this amount, net insurance revenues contributed ₱8.7 billion, and other operating revenues such as investment income, equity in net earnings of associates, rental income and net realized gains amounted to ₱6.9 billion.

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

> "Longevity has its advantage. In our industry most especially, we have mastered the art of acting swiftly and decisively amid the changing market conditions while continuing to invest in our future."

Our consolidated assets rose 12 percent to ₱80.5 billion from ₱72.0 billion in 2010. Asset increment came from growth in bonds, term loans and stocks. Consolidated liabilities grew 9 percent to ₱59.8 billion from the previous year's ₱54.7 billion. Total members' equity increased 20 percent to ₱20.7 billion from ₱17.2 billion.

PARENT COMPANY

Our progress was enhanced by the rock-solid financial strength of our parent company. In 2011, Insular Life recorded ₱3.6 billion in new business premiums, a 12 percent increase from 2010 levels. Total premiums generated for the year reached ₱7.6 billion, a 4 percent increase over the previous year. Growth in premiums together with a stable investment income

contributed to the marked increase in net income of parent company amounting to ₱2.1 billion in 2011, an increase of 10 percent compared to 2010 level of ₱1.9 billion. Total volume of insurance Business-in-Force of parent company reached ₱211 billion from the previous year's level of ₱200 billion.

Our three subsidiaries and one affiliate also recorded significant gains in 2011. Insular Health Care, Inc. (IHCI), our health maintenance organization, posted revenues of ₱273.8 million, one of the highest in its 20-year history. Net profit after taxes was at ₱5.5 million while total assets stood at ₱291.8 million.

Insular Investment & Trust Corporation (IITC), our investment banking arm, posted gross revenues of ₱27.8 million. Net income surged by 141 percent year-on-year to ₱9.4 million from ₱3.9 million. Total assets increased to ₱496.6 million from ₱484.9 million, previously.

HomeCredit Mutual Building & Loan Association raised its service fee income by 17 percent to ₱14.1 million from ₱12.1 million in 2010. Mapfre Insular Insurance Corporation (Mapfre Insular) reported gross premiums of ₱1.8 billion, 11 percent higher than in 2010, which nudged up its net income by 14 percent to ₱236 million.

MEETING OUR GOALS

The fact that Insular Life was able to consistently grow its bottom line above ₱2 billion in the past five years amid a turbulent and economically distressed environment is a solid testament to our determination and focus on delivering on our strategic priorities.

To sustain our gains and further strengthen our industry ranking as among the top five leading insurance companies in the country, both in terms of total premiums and profitability, we adopted four major strategies in 2011:

Using fundamental customer and end-user insights, we designed customer-centric solutions that deliver on our promise of being a "far-sighted guardian." In 2011, we launched five new products: the **I-Peso Optimizer**,

Mayo Jose B. Ongsingco

a structured variable unit-linked insurance plan; the **i-Heal**, a limited-pay health plan; the **Variable Returns Asset** (VRA), a single-pay variable unit-linked insurance plan; **i-Aspire**, a limited-pay endowment plan maturing in 20 years, attained age 60 or attained age 65; and the **Peso Advantage 5**, a five-year anticipated endowment policy.

In addition to marketing support through institutional as well as product advertising, contest promotions and other campaign drives, we also conducted numerous forums on health and wellness, financial security, and estate planning.

We strengthened our distribution capability by continuously recruiting new agents and by raising agency force proficiency and productivity through training and incentives. By the end of 2011, we had a total of 2,200 active members in our sales force, representing an 8 percent increase over the previous year.

We continued to strengthen our presence and make our refreshed brand more visible by investing in the renovation of thirteen offices nationwide. Recognizing that more and more Filipinos are using the internet as a very convenient way to communicate and get information, we established several web-based initiatives to make Insular Life services more accessible and convenient to our policyholders and agents. We also strengthened our backroom support to enable us to generate proposals from the web, and create more IT-driven programs to connect with stakeholders.

We continued to be guided by prudence in maintaining a strong balance sheet while making our operating cash flows robust. In 2011, we took advantage of the National Government's bond exchange program that enabled us to more effectively match our assets with future liabilities and better manage our balance sheets going forward. We also booked seven additional fixed-rate term loans, totaling ₱4.1 billion.

MOVING FORWARD

After crossing the century mark in 2011, we gained more confidence in our ability to continuously weather any storm and prepare the ground for a future of sustained growth. Moving forward, we will relentlessly focus on our policyholders' needs as we rigorously execute strategies to keep Insular Life foremost among all Filipino life insurers at the front lines of the industry.

In 2012, we foresee four major developments that will have an impact on the local insurance industry:

- The proposed expansion of the mandatory insurance coverage for all Filipino workers seeking employment overseas. The Philippine government, in accordance with the Migrant Workers and Overseas Filipinos Act of 1995, currently enforces this requirement only on first time deployments. Insular Life, in tandem with its affiliate, Mapfre Insular, was one of only four accredited life and non-life insurance companies, which provided insurance coverage to around 60,000 agency-recruited overseas Filipino workers in 2011. This coverage provides life insurance benefits for natural and accidental death and permanent disablement as well as non-life benefits for repatriation because of termination of employment, medical condition and death, for medical evacuation, subsistence allowance and money claims.

> **"We continued to strengthen our presence and make our refreshed brand more visible."**

- The continuous increase in the minimum paid-up capitalization requirement for all insurance companies from ₱175 million by end-2011 to ₱250 million by end-2012, and proposed to be increased every year thereafter to eventually reach ₱1 billion by 2016. While this will not affect Insular Life, which had un-appropriated retained earnings of ₱9.6 billion in 2011, we expect this regulatory requirement to lead to mergers and consolidations and reshape the local insurance industry.

- The advent of microinsurance as an integral development tool. Microinsurance policies in the country currently offer coverage values between ₱500 and ₱200,000. Premium payments can be as small as one peso or up to ₱19 a day, and giving out benefits as large as ₱190,000 per policy. According to the Insurance Commission (IC), the number of Filipinos buying microinsurance has already risen considerably; from an estimated 3.1 million policies sold in 2011, this is expected to increase to over five million by 2012. This should significantly raise the insurance penetration rate in the country, which hovers below 14 percent of the 96 million population. Insular Life intends to play a significant role in providing microinsurance coverage jointly with our affiliate Mapfre Insular, which is a microinsurance leader in South America.

- The entry of more companies offering products through bancassurance will continue to heat up industry competition. Of the first-year premiums in 2011, more than 40 percent were sold through the bancassurance distribution channel while the remaining 60 percent were generated through the agency channel.

> "We also do not forget that there is a person behind every policy we sell. By staying true to our established principle of long-term performance, we are able to provide what our policyholders want and need from a financial services company: a secure and stable future."

In terms of overall outlook, we see the continued expansion of the domestic economy as a key driver for growth despite the lingering crises in Europe and the United States. Higher GDP growth, combined with more OFW remittances, more robust BPO industry, and more investment flows from public-private partnership (PPP) projects, would in turn translate to more lives to protect, and more savings and investment to manage.

While the downtrend in interest rates could still pose a major challenge for insurance companies, we see other secondary sources of income unique to Insular Life, such as dividends from our strategic equity investments and rentals from prime real estate, that can compensate for the decline in interest income.

Within the organization, the presence and dynamism of our skilled, dedicated and caring people give us more optimism to build a great future based on a remarkable past. A future rooted in the hearts and minds of the people who create the wonderful fabric of Insular Life.

We also do not forget that there is a person behind every policy we sell. By staying true to our established principle of long-term performance, we are able to provide what our policyholders want and need from a financial services company: a secure and stable future.

It is our privilege to work with you and to continue to earn your trust. On behalf of our Board of Trustees and our people, thank you.

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

MAYO JOSE B. ONGSINGCO
President and Chief Operating Officer

Adhering to Good Corporate Governance Principles

Consistent with the fiduciary nature of our business, we are committed to the highest standards of corporate governance. This is critical to the integrity of our operations and to maintaining the trust of our policyholders. We expect all our trustees, employees and agents to act with honesty, integrity and fairness.

BOARD OF TRUSTEES

The Board of Trustees, composed of elected representatives from among the policyholder-members of the company, is the primary advocate of good governance in the organization. It directs the company towards the attainment of its vision, mission and corporate objectives and ensures that the company's undertakings are aligned with the fundamental principles of good governance — fairness, accountability, transparency and integrity.

Upon the recommendation of Management, the Board sets the Company's corporate objectives, strategies and annual budget. Management's performance is monitored properly for effectiveness and efficiency in achieving its strategic targets while at the same time protecting its stakeholders' interests.

Company policies are likewise set by the Board. Certain matters of operations within prescribed limits may be delegated by the Board to Management for better efficiency. Those which are beyond these limits are required to be presented to the Board for prior approval.

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:

- Mr. Vicente R. Ayllón, *Chairman of the Board and Chief Executive Officer;*
- Mr. Mayo Jose B. Ongsingco,*President and Chief Operating Officer;* and
- Mrs. Mona Lisa B. de la Cruz, *Executive Vice President, Treasurer, and Chief Actuary*

Non-Executive Directors:

- Mrs. Marietta C. Gorrez
- Atty. Francisco Ed. Lim

Independent Directors:

- Mr. Alfredo B. Paruñgao, *Board Vice Chairman*
- Mr. Delfin L. Lazaro
- Mr. Ricardo G. Librea
- Dr. Bernardo M. Villegas

Above: The Insular Board of Trustees led by Vicente R. Ayllón *(4th from left)*. With him are *(from left to right)* Ricardo G. Librea, Mona Lisa B. de la Cruz, Mayo Jose B. Ongsingco, Alfredo B. Paruñgao, Francisco Ed. Lim, Marietta C. Gorrez, and Bernardo M. Villegas (Not in photo: Delfin L. Lazaro)

The composition of the Board, where most of the members are independent directors, ensures that there is open and independent discussion of the issues. Decisions are made based on objective evaluation of the issues, keeping in mind the best interests of the Company.

All Trustees possess all the qualifications and none of the disqualifications provided in the Company's amended By-Laws and as required under the Insurance Commission's Corporate Governance Principles and Leading Practices ("CGPLP"). They are experts in their own fields and competent managers in insurance and insurance-related fields. 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.

All Trustees have attended the required corporate governance seminar conducted by training providers accredited by the Insurance Commission pursuant to its directive. Not one of the Trustees possesses any temporary disqualification as provided in the CGPLP. Any change in their circumstances that would cause their temporary or permanent disqualification, is required to be immediately disclosed.

The Chairman of the Board

Aside from being the Chairman of the Board, Mr. Vicente R. Ayllón also serves as the company's Chief Executive Officer. He also sits as Chairman of the various subsidiary corporations of Insular Life namely: Insular Health Care, Inc., Insular Investment and Trust 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. These are primarily for the protection of the parent company's (Insular Life) investments in these subsidiaries.

He also occupies various posts in these companies where Insular Life has minority shareholdings: Chairman of the Board, Asian Hospital, Inc; Vice Chairman of the Board, Union Bank of the Philippines and Mapfre Insular Insurance Corporation; and Director, Pilipinas Shell Petroleum Corp. and in Shell Company of the Philippines, Ltd. Other directorships are in Philippine Hoteliers, Inc., where he is an independent director, 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

The Board has constituted six committees to help it in the performance of its role and responsibility 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 detailed below:

VARIOUS BOARD COMMITTEES AND MEMBERS
(As of December 31, 2011)

EXECUTIVE COMMITTEE

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

BUDGET & AUDIT COMMITTEE (BAC)

Ricardo G. Librea, *Chairman*
Alfredo B. Paruñgao, *Vice Chairman*
Marietta C. Gorrez
Bernardo M. Villegas

FINANCE & INVESTMENT COMMITTEE (FIC)

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

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*
Marietta C. Gorrez
Francisco Ed. Lim
Alfredo B. Paruñgao

NOMINATIONS COMMITTEE

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

Board Actions

The Board of Trustees and its Executive Committee meet every month or as often as necessary. All material information is 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 also 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.

The average attendance for the thirteen Board meetings for the year is 95 percent. Majority of the Trustees had higher than 85 percent attendance in the regular Board meetings. Six had perfect attendance while one had 92 percent attendance. On the other hand, average attendance for the Executive Committee meetings is 91 percent. No one had an attendance of less than 50 percent in both meetings.

Board Performance Appraisal

In compliance with the CGPLP and pursuant to the provisions in the Insular Life 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 to all answered performance standards in each of these performance 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 with an overall performance rating of "1" (highly effective performance).

The record of attendance of the Trustees for the Board and Committee meetings held for the year is shown below:

Trustee	Regular/ Special Board Meetings	Executive Committee Meetings	Other Board Committees				
			BAC	FIC	GovCom	Nominations	PerCom
Vicente R. Ayllón	10/13*	7/7*					
Alfredo B. Paruñgao	13/13**	7/7	6/6**	3/3*			1/1
Mona Lisa B. de la Cruz	11/13					1/1	
Marietta C. Gorrez	12/13		6/6				1/1
Delfin L. Lazaro	13/13			2/3			
Ricardo G. Librea	13/13	6/6	6/6*		7/7		1/1**
Francisco Ed. Lim	13/13			2/3	6/6*	1/1*	1/1
Mayo Jose B. Ongsingco	13/13	6/7		3/3**			
Bernardo M. Villegas	12/13	4/6**	4/6	2/3	6/7**	1/1**	1/1*

* Chairman
** Vice Chairman

All the members of the Board of Trustees attended the 2011 Annual Regular Members' Meeting held last 25 May 2011.

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.

Compensation of Key Management Personnel

The total compensation of key management personnel with ranks of Vice President and up for the year is ₱316,109,668. The estimated total amount of compensation for the key management personnel for 2012 is ₱347,720,635.

GOVERNANCE PROGRAM

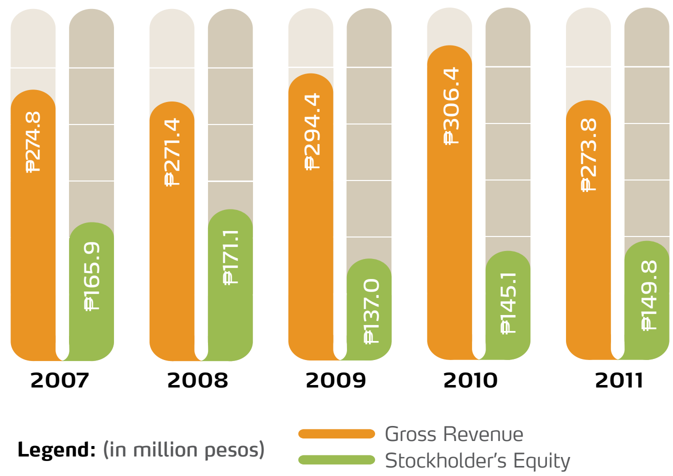
Management continuously promotes a culture of good governance and compliance through its Governance Program. It strictly adheres to mandated requirements and guidelines such as those stated in the Insurance Code, Anti-Money Laundering Act, other laws, and in the rules and regulations of the Insurance Commission and other government regulatory agencies. Various initiatives are undertaken to support this objective, including compliance and good governance educational campaigns, policy implementation, regular feedback and monitoring system, and other activities.

In a Governance event entitled "*Renewing Our Commitment to our Core Values*" held last November 23, 2011, the Chairman of the Board and CEO, led all the employees in the renewal of their commitment to the core values especially as the Company starts its journey towards another century. He added that corporate governance is a shared responsibility. For his part, the company President emphasized the need for corporate governance as Insular Life continues to face the challenges of an increasingly dynamic business environment. In turn, the Company's Compliance Officer, challenged all employees to learn, understand and apply the core values in their daily activities.

Subsidiaries' and Affiliate's Performance Highlights

Insular Health Care

Insular Health Care, Inc. (IHCI) is one of the top ten health maintenance organizations (HMOs) in the Philippines in terms of capitalization, comprehensive healthcare packages and service delivery. IHCI offers one of the industry's most comprehensive healthcare programs in the market with the flexibility to meet specific needs of its members. To date, it has a network of over 1,250 hospitals, medical clinics, dental clinics and reference laboratories nationwide and over 9,700 medical specialists.

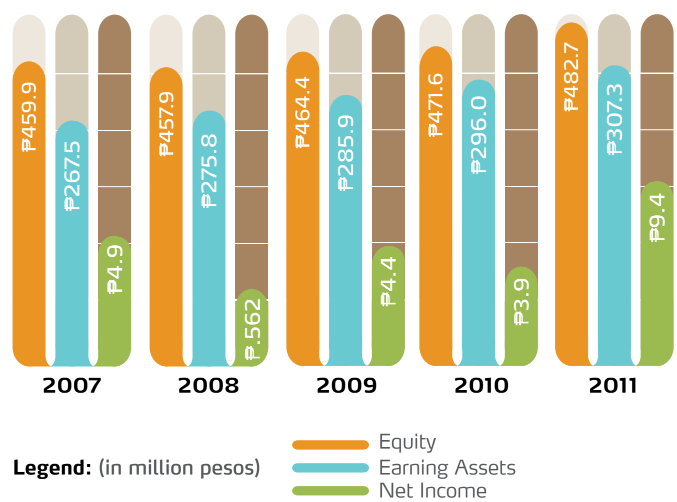


2011 HIGHLIGHTS

- Posted revenues of ₱273.8 million, one of the highest in its 20-year history. Net Profit After Taxes was ₱5.5 million while total assets stood at ₱291.8 million.
- Launched several initiatives to boost sales such as the development of the Direct Sales Team and strengthening of the Corporate Account Management Team.
- Improved its turnaround time for payment of doctors to 76 percent within 45 days from 6 percent. For hospitals, the turnaround time improved to 66 percent paid within 30 days from 33 percent.

Insular Investment & Trust

Insular Investment and Trust Corporation (IITC) is the investment banking arm of Insular Life. IITC is engaged in investment banking, treasury, trust and investment management services. It provides products and services in corporate finance, money markets, and trust and investment management.

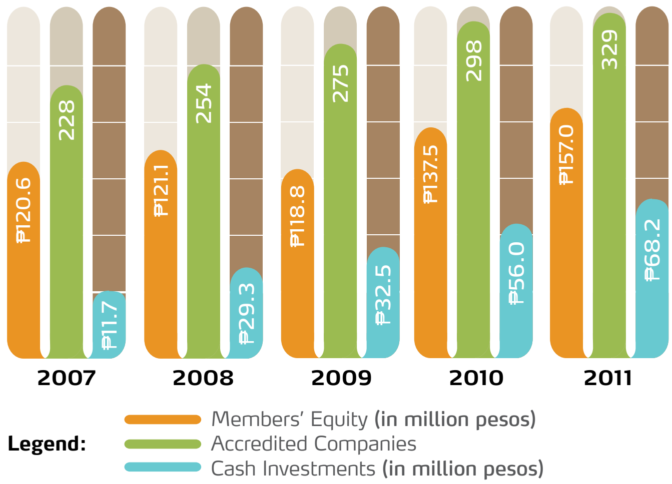


2011 HIGHLIGHTS

- Posted gross revenues of ₱27.8 million in 2011. Net income surged by 141 percent year-on-year to ₱9.42 million from ₱3.9 million. Total assets increased to ₱496.6 million from ₱484.9 million, previously.
- Participated in major loan arrangement deals, such as the underwriting of the ₱15 billion shares of a major food company and ₱1 billion term loan facility of the largest tollroad operator, in which IITC acted the sole arranger.
- Expanded funding sources by tapping other Qualified Institutional Buyers (QIBs).

Insular Home Credit

HomeCredit Mutual Building & Loan Association primarily offers contract savings for home ownership. It accredits companies and offers various products and services to their employees so they can own a home. HomeCredit offers competitive rates for immediate cash needs and a "rent-to-own" scheme that enables its members to rent houses at affordable rates and ultimately own the unit. It now services over 800 companies across industries in Metro Manila, CALABAR, CAMANAVA, and nearby provinces of Bulacan and Pampanga, and in Cebu.



2011 HIGHLIGHTS

- Increased by 37 percent or to 28,000 the number of people it accredited from 20,648 in 2010.
- Raised by 17 percent its service fee income to ₱14.1 million from ₱12.1 million in 2010.
- Posted a 31 percent increase in its Capital Stock-Installment shares Preferred B or the amount of paid-up funds contributed by members, to ₱134 million from ₱102 million in 2010.

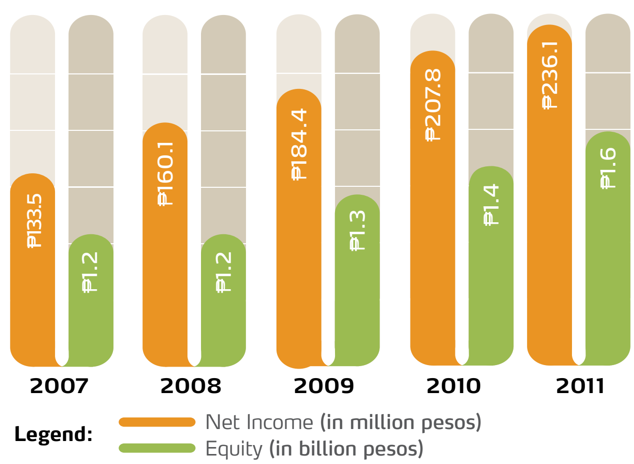
Affiliate

MAPFRE | INSULAR

Mapfre Insular Insurance Corporation (Mapfre) ranks fourth in terms of premiums retained and net worth among the top ten non-life insurance providers in the country. The company is an alliance of two well-known and respected industry giants: MAPFRE of Spain and The Insular Life Assurance Company, Ltd. Mapfre Insular offers general insurance for financial protection and risk management and has ten offices nationwide.

2011 HIGHLIGHTS

- Increased by 11 percent to ₱1.84 billion its gross premiums written, driving its net income up by 14 percent to ₱236 million;
- Appointment of a new President and CEO, Mr. Javier Warleta, enabled the company to boost strong growth in the direct insurance business.
- Established a platform for microinsurance, in view of its plan to start commercial operations in 2012. Mapfre Insular hopes to duplicate its success in other markets such as those in South America where Mapfre is a major player, if not the market leader.
- Started providing the mandatory insurance coverage, in partnership with Insular Life to around 60,000 agency-recruited overseas Filipino workers. It was one of only four accredited non-life and life insurance companies allowed by the Philippine government for first time deployment of OFWs.



Engaging our Employees

Employee engagement is a broad measure of how committed and motivated people are to do their best at work and generate strong business performance.

Our employees are critical enablers of Insular Life's success in sustaining its business, and in making a difference in the lives of our policyholders and the communities touched by our presence. Thus, we have programs designed to create an empowered workforce with responsibility and accountability for their contribution to Insular's business objectives.

The Human Resources Division (HRD) ensures that Insular Life has the organizational design and work culture that support the development of employee competencies, and which consequently contributes to business productivity and continuity. It provides services on recruitment, training, development, benefits and compensation, and motivational activities for the Company.

WORKFORCE PROFILE

As of end-2011, Insular Life has a full-time/regular workforce of 725 employees, which cover those in our head office in Alabang, Muntinlupa City and Makati City, as well as in our branch offices in key cities and provinces nationwide.

The ratio of male to female staff was at 1:3, 27 percent of whom occupied senior management positions in 2011. The average age of our workforce is 36 years old, which reflects the seniority and work experience needed in serving the interest of our policyholders.

Employee turnover rate in 2011 was at 8 percent, reflecting our success in keeping our workforce professionally committed and engaged. All our employees undergo regular job performance and career development reviews administered by our HRD in consultation with each employee's superior.

Insular Life maintains a formal management and employee council that represents and addresses not only work-related issues, but also lends its support to Company directions.

COMPENSATION & BENEFITS

Looking after our employees' and their dependents' well-being is a deep-rooted tradition in Insular Life's corporate fabric.

Insular Life aligns its compensation structure with the required competencies and performance of its employees. Likewise, a regular benchmarking of salaries and benefits with the industry and community is conducted to sustain competitive and equitable financial rewards for its employees.

On top of the statutory benefits mandated by the Law, Insular Life offers additional benefits that further contribute to enhancing employees' quality of life. For instance, the Company offers a very generous healthcare program both for the employees and their dependents. We were also among the first, and currently, among the few local companies that offer a housing program.

REWARDS AND RECOGNITION

Part of our internal stakeholder engagement approach is to recognize and reward employees for their outstanding achievements.

Career advancement for exemplary job performance is tied up with the Promotion policy. Commitment in rendering long years of service is likewise recognized. Moreover, among the highlights of employees' activities spearheaded by HRD is 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 contribution to the industry.

Aside from the Life Office Management Association (LOMA) study support being offered by Insular, the Company has in place a scholarship program for employees who wish to pursue postgraduate degrees related to their job functions.

The Company also shares its success with our employees' family members through the College Scholarship for Employee Dependents program, which covers full tuition, book allowance and other fees. As of SY 2011-2012, there are five students who are part of the scholarship program.

TRAINING AND DEVELOPMENT

Critical to employee engagement is the competency-building effort of Insular Life. This ensures readiness of employees to perform existing functions and be prepared for future assignments.

In 2011, each employee participated in training and development activities for an average of 40-50 hours.

In coordination with the officers of the Company and as validated with the business requirements, HRD's Training and Programs are designed and conducted among target participants across all units nationwide. These programs utilize various learning methodologies that will ensure optimized learning and linkages with the challenges of employees' function.

To help fulfill our brand promise of being the Far-Sighted Guardian, we launched three seminar training programs in 2011:

Brand Promise through Customer Experience

A two-day course that aims to make advocates out of Insular Life's leaders in carrying out our Brand Promise of being the Far-Sighted Guardian. It discusses the CRM Model and the leadership competencies.

Financial Planning Series

Financial Planning I: "From Status Quo to Financial Pro"

A five-hour forum that enables employees to appreciate the value of savings that is in line with one's investment goals. It discusses the three life portfolios:

savings, protection and investment. It was designed so that employees would be able to take on the role of Far-Sighted Guardians.

Financial Planning II: "From Status Quo to Financial Pro: Level Up!"

A five-hour forum that enables frontliners to knowledgeably explain developments in the capital markets and how it affects the performance of our investment-linked products, to policyholders.

SHINE Exuding the Magandang Araw Experience

A two-day course that aims to enable employees in servicing units to effectively connect with our customers by consistently imbibing and exuding the ***Magandang Araw*** experience in their daily tasks and activities.

We also enhanced some of our regular training programs to fit the evolving needs of our employees. Our regular training curriculum is described in the table on this page.

REGULAR TRAINING CURRICULUM

PROGRAM TITLE	PROGRAM DESCRIPTION
GENERAL AND CUSTOMER CARE	
General Employee Orientation Course (New employees)	Orientation on the Company's profile, objectives, operations, work standards, benefits and compensation structure
Fundamentals of Life Insurance (All employees)	In-depth discussion on life insurance theories and products to guide them in providing customer service
Product Orientation (All employees)	Updating on new and/or existing products to enable them to address all inquiries and requests from customers
Customer Care Seminar (All employees)	Seminar on the need to provide excellent customer service and practice Insular Life's Filipino brand of Customer Care (***Magandang Araw*** experience)
Strengthening Personal Capability (All employees)	Development of personal and interpersonal skills to cope effectively with the demands of the workplace and personal lives
MANAGEMENT PROGRAM	
Supervisory Management Course (Supervisory to Senior Manager Levels)	Introduction of basic management theories and applications
Action-Centered Leadership (Supervisory to Senior Manager Levels)	Follow-through seminar on leadership role and the importance of actions over qualities and knowledge
Coaching and Counseling Workshop (Supervisory to Senior Manager Levels)	Workshop that equips the participants with the skills in correcting performance of their staff through coaching and counseling
Leadership: The Management of Change (Supervisory to Senior Manager Levels	Enhancement of leadership roles by experiencing the change process
Executive Development Program (From AVP to President levels)	Advanced management courses and learning sessions, updates on corporate trends in response to the competitive business environment
EXTERNAL TRAINING PROGRAMS	
Enrollment in local or foreign public training programs on specific business areas. The programs are conducted by properly selected external training firms/consultants.	
LOMA INSURANCE EDUCATION PROGRAMS	
Life Office Management Association (LOMA) is a worldwide organization of life, health, and financial services companies based in Atlanta, USA. Several LOMA designations are earned culminating in the Fellow, Life Management Institute. Insular Life offers a LOMA Scholarship Program to support employees in terms of financial assistance, such as matriculation fees and cash awards.	

EMPLOYEE COMMUNICATIONS

Internal communications play a key role in ensuring that our employees are informed about the business, thus improving commitment and engagement. Across the Company, employees have access to an intranet portal; an employee magazine called ***Life Cycles***; and a number of electronic information resources. These facilities serve as an important source of employee feedback.

Face-to-face briefings are also held across business units. As part of the Code of Business Conduct, the Company has in place a formal procedure to provide employees with available channels for raising concerns in relation to any business conduct issue or malpractice.

INDUSTRY LEADERSHIP

As a consistent industry leader, Insular Life takes pride in sharing the talent and expertise of our people that contribute to raising industry standards and issues that affect the insurance public.

Our employees who demonstrated this commitment in 2011 are:

- Insular Life President and Chief Operating Officer **Mayo Jose B. Ongsingco:** President of the Philippine Life Insurance Association (PLIA);
- Insular Life Executive Vice President, Chief Actuary and Head of the Administrative Operations Group **Mona Lisa B. de la Cruz**: Governor of the Actuarial Society of the Philippines;
- Insular Life Senior Vice President **Ma. Edita C. Elicaño**: Chairperson for Preneed Committee, Actuarial Society of the Philippines;
- Insular Life First Vice President and Insular Investment and Trust Corporation President **Ronnie B. Alcantara**: President of the Financial Executives Institute of the Philippines (FINEX);
- Insular Life Vice President **Atty. Renato S. De Jesus**: Vice Chairman for Legal and Legislative Committee, and Vice Chairman for Ad Hoc Committee on Insurance Code Amendments, Philippine Life Insurance Association (PLIA);
- Insular Life Senior Assistant Vice President **Katerina V. Suarez**: Treasurer, Actuarial Society of the the Philippines;
- Insular Life Assistant Vice President **Ma. Sandra J. Bustos**: Chairperson for Education Committee, Philippine Life Insurance Association (PLIA);
- Insular's Metro Manila Care Supervisor **Uldarico P. Aure**: Treasurer of the Association of Service Professionals in Life Insurance (ASPLI).

Employee engagement is a broad measure of how committed and motivated people are to do their best at work and generate strong business performance. Moving forward, we at Insular Life will ensure that we will continue to have the talents and skills required to pursue our aspiration to be the No. 1 insurance company by 2021.

Engaging our Policyholders

Listening to our policyholders strengthens our ability to address what matters to them.

We regard our policyholders as our primary stakeholders who are most affected by our business and who most affect us. Listening to their views and understanding their concerns are critical to the sustainability of Insular Life.

Through our Policyholders Services Division (PhSD), we ensure the efficient and effective delivery of our various services to our policyholders and conduct regular engagement activities. Through these efforts we learn from policyholders about their perspectives and needs and keep them informed about our business. As their expectations of Insular Life increase, we are making our engagement programs more consistent and rigorous.

In 2011, we heightened our level of engagement with policyholders by offering more multi-channel venues for open communication. We also conducted internal activities to enjoin our employees and agents in building mutual understanding and trust in the pursuit of shared goals. We continued to build awareness on our new brand identity and brand message: to be every Filipino's far-sighted guardian by caring for the family and being there every step of the way in all life stages, through the best and worst of times.

INTERNAL ACTIVITIES

Imbibing the Magandang Araw Insular Experience

Magandang Araw Insular is a declaration of our commitment to create a uniquely Insular Life experience, one that is reinforced in every customer touch point to make sure policyholders have a pleasant experience in doing business with us.

In 2011, we held a two-day training workshop on "Brand Promise through Experience" to transform our internal and external stakeholders into strong advocates of our refreshed brand. We also held **SHINE Exuding the *Magandang Araw* Experience** for our customer service associates to more fully live out and give our customers the ***Magandang Araw*** service ideals.

We also mounted the first *Magandang Araw* National Convention to share best practices with our customer service staff on converting customers into '*suki*' (individuals who have been captivated into a service relationship because of their repeated *Magandang Araw* experience with Insular Life). A total of 120 customer service professionals attended the two-day convention.

EXTERNAL ACTIVITIES

Bringing the Customer Experience Online

We seized emerging opportunities presented by the proliferation of web-based and social media channels to improve our communication with

Insular Moms Advocates on Insular's Facebook Page (*from left*) Joy Gonzales, Johanna Coronado and Karen Plata

Insular Finance Savvy Advocates on Insular's Facebook Page (*from left*) Michael Tayag, Alijeffty Gonzales, Karla Fernandez and Adrian Cailao.

policyholders, strengthen our relationships, and increase their satisfaction with Insular Life.

In 2011, we enhanced our corporate website to support our sales, servicing, and customer recruitment efforts. These enhancements included the development of the Customer and the Agents Portals.

We also started to engage our customers through the popular social media network, Facebook, to maintain our competitive edge in this digital age. Through our Facebook Fan Page, users not only gain access to our wide array of products and services, they also learn more about financial planning through Insular Finance Savvy and Insular Mom advocates.

The Insular Finance Savvy advocates are financial advisers who provide insights on risk protection, wealth management and long-term investments. Insular Moms are made up of real-life mothers who want to help homemakers deal with money matters such as managing the household budget, putting their hard-earned money to good use through wise investments, raising smart kids, and even maintaining healthy relationships with loved ones.

Insular Life homepage

Nurturing Customer Loyalty

After revolutionizing the way we connect with our stakeholders through the I-EAGLE Online Customer Portal, we embarked on several web-based initiatives to earn their loyalty. These initiatives, which called for the expansion of our web-based policy servicing (enrolment, premium collection and policy transactions), are the following:

100 Plus 1 Program

The program encouraged policy owners to enroll online and activate their I-EAGLE Online Customer Portal account. Jollibee food coupons were given as a reward for every online account activation.

Automatic Charging Option (ACO)

The ACO is an online premium payment facility that automatically charges premiums against policyholders' enrolled VISA or Mastercard credit cards as they fall due. As of December 2011, total premium collections from ACO-enrolled transactions generated ₱46.4 million.

Insular AVP Rey Aldaba (*left*) congratulates Insular Policyholder Orlando Arcilla (*center*), Grand Prize winner of the Cashandog ***100 Plus 1 Promo***

e-BAYAD

This online premium payment facility allows policyholders to pay premiums anytime using MasterCard or Visa Credit Cards. As of December 2011, the e-BAYAD transactions generated premium collections equivalent to ₱5.8 million.

I-EAGLE Customer Portal

After enabling our customers to enroll Over-the-Counter and online in I-EAGLE Customer Portal, we launched an Over-the-Phone channel in March 2011 to offer convenience and access.

I-Chat

This web chat facility allows our customers to have direct and personal connectivity with our service staff in real time. Aside from accessibility, they can also get immediate feedback or solution to their issues.

System Enhancements

We also enhanced our automated processes to raise our service delivery and efficiency levels. These system enhancements involved the assignment of unique Customer Identification Numbers, development of the I-HEAL (Insular Health Expense Allocation) support system, creation of an automated support facility to handle anticipated endowment funds, integration of a Policy Benefits Administration System (PBAS), among other things.

Promoting our Refreshed Brand

In 2011, we unveiled a two-pronged advertising and communication campaign to sustain awareness on our new brand identity.

The first phase of the campaign involved a 30-second TV commercial entitled "Bed," which was shown in selected cable channels and cinemas in Metro Manila and key provincial cities. This was originally part of a series of videos launched internally to mark Insular Life's centennial anniversary in November 2010. Overwhelming response to the video inspired us to use the video grabs for the print advertisements in two major broadsheets as part of the campaign.

Heightened brand awareness was sustained in the second phase of the campaign, this time involving print ads on our newest health savings plan product, I-Heal, in two major broadsheets.

Our refreshed brand also became a tangible experience for our customers when we embarked

Variations of Insular Life's print ad, ***Bed***

The renovated Aurora *(left)*, Quezon Avenue *(center)* and Makati *(right)* branch offices on several office renovations in 2011. As of end-2011, 13 of our 100 customer service centers nationwide have started sporting a brand-new look to become more customer-friendly. The physical improvements also involved adopting a uniform color palette in step with the new brand identity of Insular Life.

Looking back to plan the road ahead:
The Insular coffee table book and the 2011 calendars set

Part of the touch points that Insular sustains with its policyholders are the various publications it produces regularly.

These projects, at the very core, build on the brand identity of Insular as the Filipino's Far Sighted Guardian. These materials allow us to explore a wide array of subjects that promote the Filipino heritage, and promote advocacies, such as financial literacy. What inspires us to create these publications is the hope that readers, especially the younger set, would be piqued to re-explore their Filipino roots, and find pride in their cultural birthright.

In 2011, Insular received recognition from two of the top Public Relations award-giving bodies, the International Association of Business Communicators (IABC)-Philippines; and the Public Relations Society of the Philippines (PRSP).

IABC Philippines conferred the Top Award, Communication Skills Division, on Insular's coffee table book, ***1910-2010: The Century Past, A Century Forward***, in the **10th Philippine Quill Awards**. The book, penned by Joan Orendain, and designed by Felix Mago Miguel was produced by Insular Life for its centennial celebration. It was selected as the front-runner among the 17 winners under the Communication Skills Division. It likewise received an Award of Excellence under the Division's Publication category.

Meanwhile, Insular's 2011 calendar set received an Award of Merit for Publication Design (Communication Creative Division). Titled ***Planned Spaces, Human Places: Living Architecture of the Filipinos***, it was conceptualized and designed by Kestrel DDM. The calendar set -- which consists of a desk calendar, planner, pad calendar and wallet calendar -- featured a snap shot of the Philippine's best contemporary architectural works such as the residence of National Artist Architect Francisco Mañosa, the BenCab Museum, the Pearl Farm Resort, and the U.P. Church of the Holy Sacrifice. Photos were taken by Toy Magtaas and Bobot Meru.

IABC Philippines also recognized Insular's centennial musicale, ***100: Insular Life's Musical Journey in C Major***, with an Award of Excellence in Writing and a Finalist's trophy for Special Events, Internal or External.

The two publications were again recognized during the **47th Anvil Awards** by the Public Relations Society of the Philippines. Both projects received Awards of Excellence trophies. Anvil is touted to the "Oscars" of Public Relations locally.

Recognition such as the Philippine Quill and the Anvil Awards are affirmations for us: that we are putting out the best communication materials for our stakeholders, and that they, in turn, appreciate the gesture.

"A good plan is like a road map: it shows the final destination and usually the best way to get there."

Judd H. Stanley
American Author

As we navigate the unexpected challenges that life can present to us, it is essential to have a carefully prepared plan to guide us when we encounter problems. A plan can make all the difference between success and failure because it helps us focus on the goals that we set. With over a hundred years of expertise in planning, Insular Life provides the foresight and experience necessary to create a plan that is tailored to your needs, and will provide you with the most efficient route to your destination.

On the Right Track

This 21-year-old future doctor has taken the straight and narrow path towards planning her future.

As early as her kindergarten years, aspiring doctor Kina Cabrera says she always enthusiastically replied with "Doctor!" whenever she was asked what she wanted to be when she grew up. While she had no idea then what doctors did, she knew it was the path she would eventually take.

Now 21 years old, Kina has stayed painstakingly on track. She just finished an accelerated medicine program at the De La Salle Health Sciences Institute in Dasmariñas, Cavite. After one more year in internship before taking the medical board exam, and four more years for her residency and specialization, she will finally be a doctor.

"Doctors are responsible for improving the quality of life, not only of their patients, but also of their patients' families and loved ones. I decided that this is what I want to do. I want to bring them joy and hope in a concrete way. After having finished my four years in medical school, the desire to become a doctor was reinforced 10-fold especially after my fourth year where I was exposed to actual patients in the hospital," explains Kina.

This clarity with which Kina sees the future is something she attributes to her father who has been with Insular Life for as long as she remembers. In fact, she grew up frequently traveling with her family because of the various regional positions her father held.

"It really made an impact on us. Over breakfast, for example, we would always talk about the future: how important it is to invest in it, or how to handle our own money. Growing up, the importance of saving was imprinted on me very early on, and I'm thankful for that," she says.

SAVING FOR THE RAINY DAY

Even when she was still in grade school, Kina made it a point to set aside something from her little allowance. In medical school, she stashed her spare cash in an envelope in her dormitory room before eventually putting it in a bank.

Kina with Insular Life Chairman of the Board & CEO Vicente R. Ayllón (*extreme left*) and parents, Ramon M. Cabrera and Maricar G. Cabrera (*3rd and 4th from left, respectively*).

> "The importance of saving was imprinted on me very early on, and I'm thankful for that."

"When my dad learned about it, he was very happy. He said it was a good thing that I was applying what he was telling me," Kina says.

Being an Insular Life scholar all throughout medical school raised Kina's confidence about her future. In addition to a fully-paid tuition, she also received a book allowance every semester. As she was chosen based on her performance in high school, she needed to maintain her grades to keep the scholarship. And she did.

Despite her age, Kina is similarly clear-headed when it comes to planning her personal life and career. Appearing more mature than her age, she talks about the future with spontaneity and a sense of wonder; at the same time, she is very serious about it.

"I definitely want to have a family of my own. In terms of when, I don't know. I talk to some doctors about it. Some say it's best to start a family before your residency; others say after. So I really don't know," she explains.

Either way, Kina says she is in a serious relationship with a long-time friend and fellow would-be doctor. He is close with her family and has a good influence on her. When they were still in medical school, he encouraged her to study harder and more diligently.

"We do talk about the future. Of course, now it might seem far away since we're preoccupied with more immediate concerns, like the board exams, but we talk about it. I'd like to have two kids, a boy and a girl preferably. I won't force them to be doctors. I don't mind if they aren't," she adds.

THE DOCTOR IS ALSO A BUSINESSWOMAN AT HEART

Aside from a promising medical career, she also wishes to dabble in baking. "As you know, it could take years to establish your career as a doctor. So I want to start a business. I have enjoyed baking since I was in third grade, so it makes sense to go there."

She also plans to invest in her first Insular Life policy. "But I have to talk to my dad about it," she added, laughing.

This "double life" as a doctor and businesswoman will hopefully be enough to provide for her family, Kina says. While she has modest dreams for her future husband and kids – "being able to provide three meals a day, just the basic necessities" – she admits she would be a happy wife and mother if she could provide just a little more for leisure.

"I love traveling. I hope to be able to travel some day with my own family," she says.

And so she continues to save. At the cusp of adulthood, Kina says having a father who works in the insurance industry made a lot of difference in the way she views the future. For one, she has gained an appreciation on how important it is to look ahead, to prepare for a future that might prove to be uncertain.

"He was a big influence when I was growing up. We would always talk, sometimes about serious things. We were really close, and I learned a lot from him."

For someone as young and brilliant as Kina, the future looms large with possibilities. Whether it's a lovely family, a promising medical practice, or even a worthwhile business, being familiar with the significance and logic of the insurance business has equipped her with the necessary skill to seize the future.

Love Actuary

A love that goes beyond numbers.

He was a confident, refined city boy. She was an ingenuous, winsome lass from Bulacan. They competed for the same position: as actuarial assistant at Insular Life in November 2004. Boy and girl did not "meet" at the time. But he "broke" her heart when he eventually landed the post.

But fate has its ways. Just three months later, a colleague of his at the Actuarial Division resigned and she was called back to fill the vacancy. Thus began a friendship that progressed into courtship and has now blossomed into marriage and a lifelong partnership.

Abel Vergara and Charmaine Palma share the love for numbers. Both have Mathematics degrees, specializing in Actuarial Science: hers from UP, his from UST.

Their first impressions of each other were opposites: to him, she was "jolly, friendly, and always smiling"; to her, he was straight as an arrow, serious, and spiritual. "Every morning when I come to work, I would see him reading *The Purpose-Driven Life* or *The Daily Bread* or some other inspirational book," she says, to prove her point.

ORDER OF NUMBERS

Complementary personalities and shared interests brought them together. She taught him corny jokes and how to let loose. He taught her how to be more confident in dealing with people in authority. She loves to splurge on books, he on branded clothes and shoes, but only after they have allocated funds to their respective investments.

On May 5, 2012, exactly seven years after they pledged themselves as a couple, they were married in a beautiful ceremony at the historic San Agustin Church in Intramuros. In their wedding invitation, the date was written as "5-5- (2+0+1+2), 5pm." Now that's seriously appreciating the beauty and order of numbers.

Charmaine, though, had a more whimsical explanation: "When the timing is right, things just fall into place, unintentionally creating patterns you never expect to exist."

Planetary alignments and numeric coincidences notwithstanding, the Vergaras are serious planners. Their wedding was a year and a half in the making. "We decided that it should either be a simple wedding or the best we can have," Abel reveals. "We chose the second option. So we calculated how much we needed for the best wedding and figured out that it will take this length of time to save up for the expenses." Charmaine adds: "Both of us put in an equal share in the wedding fund."

For Abel, planning is in his blood. Growing up with a father who works for the Insurance Commission, he grasped early in life the value of saving for the future. "My allowance back then was too small to buy much of anything," he relates." So I followed my father's advice and saved it up so he can invest it for me – pooling it together with his investments. It felt good to see my money growing."

Charmaine's motivation is different: "My parents did not finish college, but they had a small bakery in Bulacan. With hard work and frugality, they managed to send their children, all six of us, to college. They invested in us. So now my goal, aside from becoming self-sufficient, is to help support them in their old age. Although I realize the value of caring for your elders, I don't want to end up having to depend on my children to support me when I grow old."

SHARING GOALS AND DREAMS

And so it was that as a couple, Abel and Charmaine took planning for their married life as seriously as when they were both single. The good news was that they found their goals – be they financial, career or personal – so aligned that they somehow meshed together seamlessly.

Firstly, they understand each other's career goals and set aside time to attain them. "Because we are in the same business," he explains," we are able to separate work and personal concerns. We give each other room to grow professionally. We don't mind if each one has to study for exams because we know how seriously studying is required."

As an insurance professional, Abel has attained the position of fellow of the Life Office Management Association (LOMA) – the prestigious international association for insurance and financial service professionals. He has not only completed the requisite examinations, but has done so with flying colors. Proof of this are the three international LOMA awards under his belt: Top ARA for 2009, Top AFSI for 2009, and TOP AIRC for 2010 – all for receiving the highest scores in the Eastern Region (meaning any area outside of the United States) in the LOMA licensing exams.

"I would like them to know that I am not only doing this for the designation. I am doing this because I am serious about being the best in the field," Abel says. His ultimate career goal is to become a chartered financial analyst (CFA), managing and growing the country's top investment portfolios.

Charmaine is an actuarial specialist with the rank of senior manager at Insular Life. She is a Master of Science in Applied Mathematics (Actuarial Science) degree holder from the University of the Philippines, and is now working to be a Fellow of the Actuarial Society of the Philippines and the Society of Actuaries.

"Good things have happened to us when we started being a couple," Charmaine states. Their goals as singles have become shared goals: to have their own home, own a car, grow their investments, save up for travel, and be financially self-sufficient in their retirement years.

While he has encouraged her to pursue advancement in her career, she has kindled in him the desire to share with the less fortunate. "I've always felt the need to help people," she relates. "Now, one of our shared personal goals is to be able to contribute significantly, not just monetary donations given once in a while to a charitable organization. We want to be able to share and give personal time and effort, such as teaching kids or devoting time to a home for the aged."

MARRIAGE AND PLANNING WELL

In five years, the Vergara couple see themselves as having attained their respective career goals, having their own house and car and a child to dote on: "We plan to set up funds for our household expenses, to which we will contribute in equal portions. There will be a fund for our child's education, one for our travels, one for our retirement, etcetera," she says.

Seven years ago, when Charmaine signed up with Insular Life, she chose to belong to a Filipino company with more than 100 years of history. "It's not only the compensation; I also like the culture here. People help each other to learn. For example, we receive regular emails that offer financial advice like how to align your decisions with your goals in life. My objectives here are aligned with the Company's: to educate people about insurance and what financial planning can do for your life," she stresses.

Abel, who has spent seven fruitful years at Insular Life as an actuarial specialist, has since sought to broaden the scope of his experience in the insurance industry by accepting a marketing manager's post in another company.

"Working at Insular Life has helped us develop our investment portfolio," Abel explains. "It has taught us discipline in handling finances, how to plan, to have a goal for the future, and to work towards it. There is also the work ethic: the kind of work we do has taught us to be diligent, to pay careful attention to details. In our line of work, one amiss digit can make everything wrong. It should not be just about the money. You should be good at what you do, and you should love your job."

> "We plan to set up funds for our household expenses, to which we will contribute in equal portions. There will be a fund for our child's education, one for our travels, one for our retirement, etcetera."

Insular Life Leads the Way in the Offering of Structured Investment-Linked Insurance Products

by **Alijeffty C. Gonzales**, CIS, RFP

True to its century-old advocacy of helping Filipino families achieve financial security and well-being, Insular Life has always been at the forefront of introducing market-responsive financial products. One of Insular Life's earliest pioneering moves, for instance, recognized the key role of the workingman as the primary breadwinner in the family. Thus, in 1958, it introduced Industrial Life Insurance in the Philippines. This innovation opened the way for ordinary Filipinos to avail themselves of affordable life insurance coverage.

In 1977, Insular Life embarked on Mass Marketing (the forerunner of Direct Marketing) which was another first in the life insurance industry. It used mass media tools like the coveted center spread in Sunday newspapers, and complemented this effort by putting in place a simplified application process to make affordable coverage available to a bigger segment of the market. Coupled with a simplified application process, it help ensured the financial soundness of a larger number of Filipino families.

Insular Life today continues to be a pioneering company as it keeps itself attuned to the shifts in client profiles, as well as in the much broader dynamics of the national and global markets. It has ventured into designing and offering Variable Unit Life (VULs) insurance products by the mid-2000's, as a response to policyholders' clamor for products that allowed them to receive financial returns to fund various milestones in their lives, while still enjoying the protection of life insurance coverage. The move further complemented the Company's brand identity of the Far-Sighted Guardian: helping Filipinos plan their financial well-being and giving them the means to fulfill their goals. In 2010, the Company further expanded this product line by introducing structured VULs.

This new terrain is full of exciting challenges for Insular Life and its policyholders. Foremost among these is the need to expand one's understanding of gains and losses from the perspective of investment.

PUTTING GAINS AND LOSSES INTO PERSPECTIVE

The Sub-prime Crisis that swept financial markets in 2008 left an indelible mark on the confidence level of investors. The collapse of multinational financial institutions due to the weight of toxic assets in their books led to widespread sell-down of securities in a scale not seen since the 1929 Wall Street meltdown. Stocks and bonds, which are normally negatively correlated, dropped at the same time! This challenges the traditional portfolio management strategy of diversification as a way to mitigate investment risk: if an investor cannot protect his hard-earned money by allocating his

funds among diverse investment outlets, then the natural reaction would be to seek refuge in the seemingly innocuous safety of savings deposits.

BUT IS THIS THE RIGHT REACTION?

From a **Real Returns** computation perspective, an investment hurdle that is normally ignored by a typical investor is the *need to earn more than the inflation rate*. Funds earning less than inflation experience negative yields and erodes its value over time. The main culprit for this is the confusion between *nominal* and *real* returns.

To illustrate, a bank deposit that pays 2 percent interest per annum gives a nominal return of 2 percent. However, if inflation is 4 percent, for example, real returns would be negative 2 percent per year. These represent a REAL LOSS of 2 percent per year. This means that if the funds are kept in the bank, then the compounded loss would be 9.61 percent in five years, 18.29 percent in 10 years, and more than 33 percent loss in real value in 20 years.

The world's central banks acted swiftly to minimize the effects of the sub-prime crisis, by massive fiscal stimuli: first by cutting interest rates to historically low levels; and second, by injecting enormous amounts of cash infusions to companies considered "too big to fail". This resulted in the flooding of cheap money in the global financial system. Under our current Fiat monetary system, all of these stimuli would eventually result to inflation, hitting investors with a double whammy. That is, low nominal rates (*due to an investor's loss aversion*) plus inflationary pressure (*due to world's central bank reaction*) equals LOSS OF REAL VALUE OF HARD-EARNED MONEY.

PROACTIVE INVESTMENT APPROACH

The more proactive investment approach under this low interest /massive liquidity environment is to try to anticipate its effect on the value of traded assets like stocks and bonds. The objective is how an investor can position his investment portfolio not only to protect the value of his funds (i.e., *earn more than inflation*), but also participate in a globally attractive investment opportunity.

the three main greater China markets (Taiwan, Hong Kong and China). Policyholders who availed of the I-DWM will enjoy a participation in the upside of these three markets in the next five years while having the assurance of getting 100 percent of their initial premium back at the end of five years.

An SVUL gives policyholders three distinct benefits. First it covers the life of the insured to as much as 125 percent of the premium collected. Next, it guarantees the principal against capital loss if it is held to maturity. Finally, it allows the policyholders to participate in a very attractive investment opportunity.

I-DWM was followed by the even more successful **I-DOLLAR ENERGY 5 (IDE-5)**, which was also a 100 percent capital-protected SVUL invested in a global portfolio of energy-related entities. The investment portion of the fund would be 80 percent to a non-renewable energy portfolio and 20 percent to a renewable energy portfolio. At the time when the product was introduced, the average price of crude oil in the world market hovered around US $65/75 per barrel. Today, we are now seeing prices well above US $100/barrel, and if situation in the Middle East does not normalize very soon, the price of crude oil may steadily climb -- benefiting Insular Life policyholders who availed of the IDE-5 two years ago.

> "We try to change the landscape of the insurance business and the way we do things by not only providing solutions, but also the know-how to tailor-fit those solutions."

The insight that guided Insular Life's special product development team is that under a low interest rate environment, companies doing business will see a reduction in their operating expenses because of the lower cost of borrowing. This in turn can lead to better margins/profits, and if the company is listed in the stock market, this may see its stock price rise as a result.

On the issue of the massive liquidity driven stimulus, Milton Friedman – a Nobel Prize recipient for the Economic Sciences stated that inflation is the result of too much money chasing too few goods. The resulting insight from this statement illustrates that inflation is inevitable and the only way to beat inflation is to ride inflation by investing in goods that would rise due to inflationary pressures. A further refinement to this insight was that it is better to focus on goods with inelastic demand – meaning that the demand would remain strong even if prices start to go up. Food and energy came up as natural choices.

A LOOK AT INSULAR'S STRUCTURED VULS

In early 2010, Insular Life, after an extensive search for a suitable international counterparty capable of structuring a global capital-protected investment fund, launched the highly successful **I-Dollar Wealth Multiplier**.

This is the first Structured Variable Universal Life (SVUL) offered in the market that focuses on a China-centric theme. The investment component of this SVUL is divided equally among

In 2011, Insular Life launched a Peso-denominated SVUL: the **INSULAR PESO OPTIMIZER (IPO)**, the first SVUL offered in the market with a *minimum* maturity value of ***105 percent.*** The IPO also has a unique built-in feature designed to protect earnings from future market corrections. This means that early gains are locked-in and would no longer be affected by any future drop, and thus would constitute the basis for the computation of the final maturity value.

TAKING A SURE STEP INTO THE FUTURE

Clearly, the horizon is only starting to get brighter for Insular's structured VUL line-up. The special product development team is currently exploring newer and more responsive investment themes. Some interesting ideas include a high technology fund that would allow our policyholders to participate in the growth of Apple, Google, Ebay and maybe even in the initial listing of Facebook. Another possibility is a relative performance fund where we would pit the performance of the US market versus China in the next seven years, and where the final maturity value would be based on the market that performed better.

Thus, as the market opens up more investing prospects for structured VULs, Insular Life invites its policyholders to learn more about SVULS and how these could help them achieve fruitful returns for their future.

Looking to the Future with Optimism

The general agency he built from the ground has been named "Agency of the Year" six times in the eight years that it existed. On the other two years, it was named "Rookie Agency of the Year" and a runner-up. You can say insurance man Toots Cortez really knows a lot about planning for the future; but he still wakes up excited about the things to come, both in his life and in the insurance industry.

In a way, Corlife Insurance Agency is the fourth child of Nunnatus "Toots" Cortez and his wife, Myrna. An electronics and communications engineer by education, Toots' first job after college was selling life insurance. Those were the days when he offered insurance products over the phone, and sometimes got shouted at.

Not once, however, did he think of shifting careers. When he came in into the industry, he was attracted by the financial rewards the job offers. But things changed. "Now, I love solving people's financial concerns," he says. "I love meeting people from different walks of life, and finding out their needs and wants. Every person is different, and I need to tailor-fit what I offer to what that person needs. That's what's so exciting about the job."

STARTING SMALL

He sold insurance from 1988 until 2002. The following year, he established Corlife, which exclusively distributes Insular Life products. In the intervening years, he got married, had three "insurance babies," and, of course, learned the ropes of the business like the back of his hand.

His wife had her own promising career in project management. But she gave it all up after 15 years that Toots had 'courted' her to join him in the insurance business. Their combined skills spelled more success. Myrna took charge of office administration and finance, Toots handled sales. Their combined skills made Corlife a cut above the rest. Their passion on what they do give them a clear direction towards their goal.

"Our old office was less than 80 square meters. The whole family helped out. My children had to help clean the office: my two sons were mopping the floor, and I was fixing some minor electrical connections," Toots says.

After three years in a cramped office, they were able to move to a bigger and better building, before eventually buying their own unit in Makati City. From a single agent – Toots – they now have 25. They call themselves "financial advisors" to set them apart from the traditional insurance agent.

SECRET SKILL

Despite his personal success -- including being named ***Underwriter of the Year*** thrice, ***Division Underwriter*** thrice, and ***Wealth Series Underwriter of the Yea***r thrice, and gaining recognition in the Million Dollar Round Table (MDRT), an internationally-recognized financial organization, such as making it to the ***Top of the Table*** twice, the ***Court of the Table*** twice, and achieving the honor of being a ***Life Member*** -- Toots shuns from being called 'a good salesman'.

"I'm very poor in sales talk, but I'm a good communicator. I have the ability to get through to people, to engage them in a conversation. I'm a good listener and I ask the right questions. In a one-hour conversation with a prospective client, I would only talk for ten minutes. The rest of the time, it's him or her," he adds.

The venture took off because of a combination of passion and vision – the same formula he used in planning for the future of his family.

As parents, Toots and Myrna have always worked to provide a comfortable life to their kids, send them to good schools, or maybe abroad for further studies. But what is more important to them is they were able to raise their children with humility in their hearts and having strong faith in God. They feel that they had been successful in this regard.

As a bonus perhaps, all of their three children seem to have inherited their father's entrepreneurial gene. Raised in a household where their parents constantly talked about business over meals, Toots says their kids don't seem to be inclined to go into employment.

Now both 48 years old, the couple says they have their retirement planned out as early as ten years ago. They plan to travel extensively. He'll play golf. She'll shop. He'll do some consultancy work in the afternoons a few times a week. And, visit the kids every now and then.

However, as an old-timer in the insurance business, Toots says he knows how unpredictable the future can be. This makes financial planning even more crucial.

"We can have the perfect plan for you right now, but we don't know what's going to happen 10, 20 years down the road. People change, be it the lifestyle that they want in the future or their current needs, so we have to adjust. Monitoring is also important. The relationship between advisor and client is a long journey," he stresses.

AGILITY IS KEY

This kind of flexibility has also been a critical ingredient in the company's endurance to stay on top. Aside from having good and hardworking financial advisors, Toots says Corlife has been quick to adapt to changing times." Our culture of excellence is an accepted norm by our team members. Our key people, Belen, Celi, Alvin, Beth, Yvonne, Violet and Ian, are our front liners to influence other members to gravitate to our common goal: to give the best service to our customers."

"We try to change the landscape of the insurance business in the way we do things by not only providing solutions to financial concerns of other people, but doing a different approach to meet our client needs," Toots explains.

They have set up a financial consultancy firm, CFCI, a marketing arm of the main business, composed of the senior financial advisors of Corlife. The two organizations work hand in hand to give a complete financial planning package to clients.

"If my financial advisors will just sell Insular Life products, that's just product pushing. It is important to unearth the financial concerns of people first before giving solutions," he adds.

These innovations are necessary because the market is getting more sophisticated, Myrna says. Thankfully, Insular Life is also quick to adapt. From traditional policies to investment-based policies, the new challenge today is increasing their expertise to keep up with a more knowledgeable market."

Filipinos are slowly becoming more and more open-minded about financial planning, compared to 20 years ago when the industry was less professionalized and suffered from low credibility," Toots adds.

The *bahala na* mentality is the primary hindrance in financial planning, and Filipinos are beginning to understand the importance of a financial blueprint, he says.

From bottom row, left to right: Toots Cortez, Myrna Cortez, Belen Pujol, Alvin Zenarosa, Ian Cabanilla; **2nd row, left to right :** Arceli Tan, Beth Domingo, and Dez dela Cruz; **3rd row, left to right :** Nicole Baduria, Lani Sun, Yvonne Medrano and Elsa Reyes; **4th row, left to right:** Marian Libot , Violet Lozada, Anna Canlas; **5th row,** Mildred Lazatin

"We try to change the landscape of the insurance business and the way we do things by not only providing solutions, but also the know-how to tailor-fit those solutions."

What his financial advisors do is merely guide them to have the things that they might need and want in the future.

In the end, even if Toots and Myrna have planned for their retirement meticulously, it remains to be a "far-flung idea," says Myrna.

"In this business, you will enjoy yourself so much that you will not think about retirement. You won't think that it will come. The longer you stay in the industry, the less you will feel that you're working, the farther you will set your retirement age."

As for Corlife, the couple says they look forward to passing on the torch to deserving financial advisors of the team. They don't like the idea of their children suddenly entering the picture just on the virtue of blood relations. It's a family business, Myrna admits, but they like to keep things very professional; the children would have to earn their keep.

For a man who has built his professional and personal life around planning for the future, Toots says he still fully enjoys the present. From looking after his family to making strides in the insurance industry, financial planning has allowed him to always be enthusiastic about the things to come.

Some Enchanted Venture

This relentless dreamer has ventured into another revolutionary program that aims to see an end to poverty in the near future.

Antonio P. Meloto Jr. is a well-known game changer. From his headquarters at the GK Enchanted Farm in Angat, Bulacan, the silver-haired founder and chairman of Gawad Kalinga is laying the building blocks for a utopia of the near future – one where common good is greater than personal gain, where wealth is shared and not hoarded, and where every member of the community contributes to the betterment of a society that recognizes no difference between rich and poor.

Mr. Meloto founded Gawad Kalinga in 2000 while daring to dream of ending poverty in the Philippines by giving land to the landless, homes for the homeless, and food for the hungry. Since launching the first GK Village, he has been recognized by local and international organizations for his social conscience and humanitarian efforts. Among these were The Outstanding Filipino (TOFIL) Award for Humanitarian Service in 2006, the Ramon Magsaysay Award for Community Leadership in 2006, the Ernst and Young Philippines' Social Entrepreneur of the Year 2010 , and most recently, the prestigious Skoll Award for Social Entrepreneurship in 2012 – a distinction that carried with it a US$1-million grant for Gawad Kalinga.

Tito Tony, as people in GK call him, has changed the way GK partners, such as big businesses and government entities, look at charity and social responsibility. "Our work is nation building, with a clear objective that no one has ever stated this way before: to eradicate poverty within one generation, that is, in 21 years – from 2003 when we launched GK globally, to 2024."

The GK777 development model delineates an action plan divided into three seven-year phases: In 2003, the first phase called Social Justice was launched, benefiting the poorest of the poor through the construction of houses in GK communities in the countryside. The second phase, which is ongoing, is Social Artistry – a stewardship phase that focuses on building self-sufficiency and self-governance through community-based programs for health, education, environment and productivity. The final phase, to commence in 2018, is envisioned as a time of Social Progress, when the GK programs and plans put into action are expected to spawn grassroots economies and bring a whole new generation of Filipinos from poverty to prosperity.

GK plans to accomplish these goals, not through charity work, but through wealth creation by 2024. "The problem with charity is that it ends with charity. To secure the future, we need to help the poor create wealth," says Mr. Meloto.

NO-RETIREMENT MODE

Ending poverty is a daunting task, and this former business executive is not kicking up his heels anytime

soon. In fact, he finds himself taking a very hands-on approach in mentoring a new and kinder generation of social entrepreneurs who will invest in a shared value ecosystem that will help the poor succeed in life while turning a profit. "I want this generation to learn from the mistakes of my generation," he says.

The Center for Social Innovation (CSI) at the GK Enchanted Farm is a training center for developing sustainable business ecosystems that will bring together social entrepreneurs, farmers and producers, and experts and resources from the government, business and academic communities. Mr. Meloto likes to call it "the University of Hope, where you are schooled in real life. It is a village university, where rich and poor both learn something new everyday."

The Enchanted Farm CSI team is composed of 22 of the best and brightest students who graduated from the most prestigious schools in Metro Manila. Some have resigned from high-paying jobs in multinational corporations to join Mr. Meloto in fulfilling the GK dream. The oldest in the team is 30 years old, the youngest is not yet 20. Each member of the team runs his or her own social enterprise. Some of these enterprises are the ***Grassroots Kitchen***, which runs the farm's restaurant; ***Enchantea***, the farm's signature beverage line made of *calamansi*, lemongrass and pandan; ***Golden Eggs***, duck eggs tinted with food-grade yellow coloring instead of the more common but dubious red; and ***Blue Bamboo Ventures***, which is innovating ways of utilizing Philippine grasses and spearheading the design and construction of the Grass Palace – an open pavilion and event venue that will welcome its first wedding reception this May.

From the rudiments of constructing energy-efficient housing facilities to creating and producing marketable organic products developed from the crops grown on the farm, to teaching Math and English to village children and simple labors such as digging trenches for irrigation and laying gravel on the front yard of the Grass Villas, everything is a real-world learning experience for the CSI Team.

NEW BEGINNING

There are currently 50 families living in the GK Village at the 14-hectare Enchanted Farm. They were chosen from

Plots are planted to different crops like lettuce, lemongrass and dill

The Grass Palace, when finished, will showcase the best in Filipino artistry and craftsmanship

The farm, home to currently 50 families, is an incubator site for agri-based enterprises and is described by Mr. Meloto as a village university the local government's list of the most indigent families.

"This is called Enchanted Farm," Mr. Meloto relates with a smile, "because it is in Barangay *Encanto* (meaning 'spirits'). They say there used to be many bad spirits here, indicating the insurgents. Now, we've driven away the bad by bringing in the good spirits – the spirit of caring, of sharing, of *bayanihan* – that have driven away poverty, the root cause of crime and insurgency. Bring the people out of poverty and you give them not charity, but hope."

Of course, there are conditions for living – and remaining – in the GK community. Every resident has duties to fulfill – fields to till, houses to build, roads to keep clean, gardens and vegetable patches to tend, peace and order to maintain – and strict tenets of behavior to follow. Good work ethic and a sense of responsibility are instilled into everyone, down to the smallest child. But no one complains. Each family member who works earns a higher than average wage. Apart from this weekly allowance, the farmers get a percentage of the profits. Savings are set aside for their health insurance, college education and other contingencies.

THE NEW SOCIAL ENTREPRENEURS

In March 2012, Mr. Meloto was joined by GK Executive Director Jose Luis Oquineña in receiving the prestigious Skoll Award for Social Entrepreneurship at Oxford University in England for the work being done at the GK Enchanted Farm. It is social entrepreneurship that has impact, scalability and sustainability.

"We offer the Philippines as the gateway to social entrepreneurship in Asia. Our target is to raise half a million social entrepreneurs all over the Philippines. They are the new wealth creators of the country."

Social entrepreneurship is a new business model that applies the concepts of enlightened capitalism. To Mr. Meloto, social entrepreneurs are the new heroes of the age: "We offer the Philippines as the gateway to social entrepreneurship in Asia. Our target is to raise half a million social entrepreneurs all over the Philippines. They are the new wealth creators of the country."

The farm is an incubator, nurturing business ecosystems that are forgiving enough for social entrepreneurs to make mistakes while testing prototypes

Panoramic view of the farmlands

Some of the farm's products (*from top left clockwise*): Golden Eggs, Sulu Coffee, Theo- Philo artisan chocolates, and Enchantea.

and new business models. At the same time, it is demanding enough for them to build global Filipino brands that have real social and environmental impact.

The farm is envisioned as a resort and training hub. With its indigenously crafted facilities, including villas for accommodation, restaurants, a fishpond, gift shops, swimming pools and children's play area, the farm expects to welcome at least 100,000 people a year for various training programs when the facilities are completed by October 2012.

TAKING UP THE CHALLENGE

Mr. Meloto challenges big businesses to set the example in transforming people's lives. "Those who have the most – the educated, the rich – they should lead the way. Big business is not the enemy of the poor; big business is the friend of development. They should take responsibility for their country and fellowmen."

He cites a Goldman-Sachs study conducted in 2005, which declared the Philippines as one of the Next Eleven (N-11) – a group of 11 countries having a high potential of becoming the world's largest economies of the 21st century. According to this study, the Philippine economy will become the 14th largest in the world by 2050.

From wealth generation and ambition to passion and sacrifice. From maximum profits to optimum profits. From corporate social responsibility to corporate social investment. This dreamer and visionary encourages every Filipino to effect change, and to help regain hope, faith and trust in the Philippines and in the Filipino. "We should see the Philippines as our home, the Filipinos as our family, because when we do that, we will take care of everyone as we take care of our own," Mr. Meloto, the true dreamer and patriot.

“Vision without action is merely a dream. Action without vision just passes the time. Vision with action can change the world.”

Joel A. Barker

Without action, your vision will remain ephemeral and unrealized. Without vision, action is ineffective and effort is wasted. With the proper vision paired with action, it becomes possible to transform dreams into reality. Insular Life provides the necessary combination of vision and action—a plan and an action point, that enables our stakeholders to succeed in achieving their dreams and aspirations.

Building the Bridge to Tomorrow

"The future is not completely beyond our control. It is the work of our own hands." -- *Robert F. Kennedy*

Digos elementary students get into the storytelling activity

Insular Foundation, Inc. has always believed in investing in the future. Since its inception in 1962, it has focused on programs that support the youth, specifically in their aspirations to attain quality education.

The Foundation has since evolved, adding programs under its growing areas of concern. It has branched out to related advocacies such as literacy, infrastructure building, volunteerism, culture and arts, and environment. Nonetheless, it remains committed not only to building its legacy, but more importantly, in initiating programs that would actively contribute to building the Filipino's dream of a more progressive and socially-responsive Philippines.

TAKING THE LEAD WITH QUALITY EDUCATION

In the tertiary level, the Insular Life Gold Eagle Program sustained its efforts in recognizing excellence, and in supporting future educators. For SY 2010-2011, it conferred the Insular Gold Eagle medal to the graduating valedictorians in 1,000 select high schools nationwide. Then, among the Gold Eagle awardees, ten students who wished to pursue a B.S. Education course and who qualified at the University of the Philippines in Diliman were selected to receive full scholarship grants. Thus, for SY 2011-2012, the new grantees joined the five junior and seven sophomore B.S. Education scholars, bringing the total number of Insular Gold Eagle scholarship recipients to 22.

The program also underwent several changes during the year to optimize efficiency and to be more responsive to the needs of the scholars. The Foundation increased the monthly stipend of the new scholars to accommodate Board and Lodging expenses. Moreover, the B.S. Mathematics College Scholarship Grant has been integrated under the Insular Gold Eagle Scholarship program to streamline processes.

In 2011, Insular Foundation, through its Adopt-a-Scholar program continued to support young students of Itaas Elementary School in Muntinlupa City. The

BY THE NUMBERS

108 Grade 1 students

became new scholars under the Adopt-a-School program in 2011

22 scholars

under the Insular Life Gold Eagle Scholarship program

115 total

The Outstanding Filipino awardees from 1988 to 2011

Over **6,000** participant-students

in the ***100 Years of Insular, 100 Beloved Filipino Children's Stories*** **Storytelling Caravan**

In 2011, the Foundation invested

₱6,348,000

in various programs, a **33%** increase

from the previous year's

₱4,784,000

Insular Foundation's Adopt-a-Scholar beneficiaries

Foundation and Insular employees gave school supplies, school bags, a set of uniform, storybooks, and hygiene kits to 200 select Grades 1 and 3 students. Grade 3 scholars, moreover, received an English dictionary each. Now on its third year, the program welcomed its new batch of 108 Grade 1 students in SY 2011-12.

INSPIRING WITH STORIES

Believing in the power of stories, the Insular Foundation once again donated copies of its two children's storybooks, *The Luckiest Girl in the World* and *Christmas in February* to 1,000 top performers of the Department of Education's National Achievement Test for Grade 6. The Foundation gave ten copies of each title per school which are targeted for use in the schools' literacy programs, or for leisure reading.

Adarna storyteller Noy Bonanciar regale Grade 3 students with *Ang Madyik Silya ni Titoy*

On its second year, the *100 Years of Insular, 100 Beloved Filipino Children's Stories* storytelling caravan was held in Digos City, Davao Del Sur and in Cavite. The two districts were chosen because of the impressive number of elementary schools in these areas that got high marks in the Department of Education's National Achievement Test.

In September 2011, the caravan headed to Digos where five Adarna House storytellers visited Necencio Isidro Elementary School, Balabag Elementary School, Ramon Magsaysay Central Elementary School, Igpit Elementary School, San Miguel Elementary School, Digos Central School, and Don Mariano Marcos Elementary School. At the same time, a storytelling workshop was held for 55 Digos elementary and high school teachers to complement the caravan.

The caravan's last stop was Cavite, in December 2011. The storytelling team visited Don Crispin Yumol (Punta) Elementary School in Tanza, Cavite; Mendez Elementary School; and, Amadeo Elementary School. Just like in Digos, ten stories were told per school.

Thirty Grades One to Three students from indigent families at the Amadeo Elementary School, furthermore, were surprised with an early Christmas party right after the caravan. They enjoyed an afternoon of games, prizes and storytelling, plus free copies of Adarna and Insular Life storybooks.

Poster of one of Filfest's musical productions in 2011

SUPPORTING ARTS AND CULTURE

Insular Foundation, through its support of the Filfest Cultural Foundation, Inc., once again allowed arts patrons and students to experience world-class performances with a series of classical musical shows in 2011. Indeed, the fourth season of Filfest culminated with a show titled ***"All-Chestra"*** that featured soprano Rachelle Gerodias, baritone Andrew Fernando and Filharmonika, all under the musical direction of Gerard Salonga.

A TOAST TO EXCELLENCE

For the 24th year, Insular together with its partner, the JCI Senate Philippines, saluted exemplary individuals who were selected as The Outstanding Filipino, or TOFIL, awardees. Five honorees made it to the roster of TOFIL awardees: Dr. Jesus P. Estanislao for Governance; Dr. Ramon M. Nery for Government/Public Service; Mr. Jose T. Pardo for Business; Sylvia D. Pendon for Entrepreneurship; and Dr. Emerlinda R. Roman for education. They were conferred the TOFIL trophy and medal in formal ceremonies at the Malacañang Palace witnessed by His Excellency, President Benigno S. Aquino III.

As it continues to expand its stakeholders, Insular Foundation re-affirms its commitment to empowering the youth through education, promoting excellence, supporting the Filipino heritage, and giving its share in protecting the environment.

INSULAR FOUNDATION PROGRAMS

AS OF DECEMBER 2011

Area	Programs	
Education	Scholarships	Insular Gold Eagle Program
		Adopt-a-Scholar
	Literacy	Storybooks for Children
		Storytelling Caravan
		Storytelling Workshop
		Book Donations
	Infrastructure	Gawad Kalinga Tambayani Center in GK Manggahan-Kawayanan, Marcelo Green, Parañaque
Volunteerism	Gawad Kalinga	
Arts and Culture	Support for Filfest Cultural Foundation	
Environment	Support for Philippine Eagle Foundation	
Social Development	The Outstanding Filipino awards	

Front row, L-R: Former Chief Justice and 2011 TOFIL Board of Judges chair Hon. Reynato Puno; Dr. Jesus P. Estanislao, TOFIL awardee for Governance; His Excellency Benigno S. Aquino III; Mr. Jose T. Pardo, TOFIL Awardee for Business; Dr. Emerlinda R. Roman, TOFIL awardee for Education; Ms. Sylvia D. Pendon, TOFIL awardee for Entrepreneurship; and Dr. Ramon M. Nery, TOFIL awardee for for Government/Public Service. *Back row, L-R:* 2011 TOFIL National Chairman JCI Sen. Reginald T. Yu; Insular Life Chairman of the Board and CEO Vicente R. Ayllón; and, JCI Senate Philippine National Chairman JCI Sen. Nelson S. Tan.

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05. Bernardo M. Villegas
Member

06. Ricardo G. Librea
Member

07. Delfin L. Lazaro
Member

08. Mona Lisa B. de la Cruz
Member

09. Francisco Ed. Lim
Member

01 | 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 & Trust Corporation, Insular Health Care, Inc., Insular Life Management and Development Corporation, Home Credit Mutual Building & Loan Association, Insular Foundation, Inc., and Asian Hospital, 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., and The Palms Country Club

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

02 | 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 & Trust 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

03 | 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 & Trust 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


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04 | **Marietta C. Gorrez**

- Trustee of The Insular Life Assurance Company, Ltd.; Director of the 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, Head of Administrative Operations Group; Former President of ILAC General Insurance Agency, Inc.; Former Director & Treasurer of Insular Investment & Trust 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 the Insular Foundation, Inc., and the 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, Asian Institute of Management; Master in Business Administration (1978), De La Salle University; Bachelor of Science in Mathematics (1974), University of Sto. Tomas

05 | **Bernardo M. Villegas**

- Trustee of The Insular Life Assurance Company, Ltd.; University Professor at the University of Asia and the Pacific; 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

06 | **Ricardo G. Librea**

- Trustee of The Insular Life Assurance Company, Ltd.; Director of Insular Investment & Trust Corporation, and Union Bank of the Philippines; 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

07 | **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

08 | **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; Treasurer of Insular Health Care, Inc., Insular Investment & Trust 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 Insular Health Care, Inc., ILAC General Agency, Inc., Home Credit Mutual Building & Loan Association, Insular Life Development & Management Corporation, Insular Investment & Trust Corporation, Insular Life Property Holdings, Inc., and Professional Services, Inc. (Medical City); Fellow and Governor 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

09 | **Francisco Ed. Lim**

- Trustee of The Insular Life Assurance Company, Ltd.; Co-Managing Partner and Head, Corporate and Special Projects Department of ACCRALAW; Director of the Energy Development Corporation, and Producers Savings Bank Corporation; 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; Professional 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


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Management

as of March 1, 2012

Vicente R. Ayllón
Chairman 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 (AOG)

Jesus Alfonso G. Hofileña
Sales and Marketing Group (SMG)

Senior Vice Presidents

Ramon M. Cabrera
Agency Management

Ma. Edita C. Elicaño
Actuarial Division

First Vice Presidents

Myrna A. Alcantara
Allied Marketing Channels Division

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

Renato S. De Jesus
Legal Affairs Coordinating Office

Maria Teresa L. Cruz
Information Services Division

John Jesus O. Lim
Metro Manila Sales Division

Susana G. Nicolas
Human Resources Division

Jocelyn B. Reyes
Policyholders Services Division

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

Amelita F. Tamayo
Marketing & Agency Support Division

Vice Presidents

Geraldine B. Alvarez
Branch Management Division

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

Enrico L. Cordoba
Corporate Planning Staff

Carmen G. Duque
Business Process Management Staff

Alijeffty C. Gonzales
Business Development Unit

Mundece L. Lu
Visayas-Mindanao Sales Division

Carlito V. Lucas
Group Marketing Division

Seraline L. Manguni
Seconded to Insular Health Care, Inc. as Actuary and Technical Operations Head

Mylene C. Padilla
Finance Division

Henry A. Pagulayan
Central/North Luzon Sales Division

Eleanor G. Tañada
New Business Division

Senior Assistant Vice Presidents

Arnaldo I. Aquino
Central East Visayas Regional Office

Hector A. Caunan
Real Property Division

Corazon S. Cruz
Systems Development Department III

Lorenzo Luis Liborio B. Gallardo II
Corporate Accounts Department

Laarni F. Garraton
Seconded to Insular Health Care, Inc. as Chief Financial Officer and Administration Operations Head

Esperanza A. Gregorio
General Agencies

Vera Victoria C. Morales
Investment Management Staff

Jose A. Padilla
Customer Experience Management Center

William S. Racadio
New Business Division

Cesar Y. Salera
Legal Affairs Unit

Ana Maria R. Soriano
Public Relations Staff

Katerina V. Suarez
Actuarial Research & Product Development Staff

Engeline T. Ureta
Audit Staff

Assistant Vice Presidents

Reynaldo R. Aldaba
South Luzon Sales Division

Alan Joseph S. Amador
Investment Management Staff

Iris S. Aman
Agency Relations Department

Rene P. Asuncion
Systems Development Department II

Florfida L. Buitre
Legal Affairs Coordinating Office

Maria Sandra J. Bustos
SMG Training and Education Department

Johanna C. Coronado
Brand Marketing Department

Hilario C. Delos Santos
Technical Services Department

Regina Karla E. Fernandez
Metro Central Regional Office

Maria Ida C. Himan
Property Leasing & Sales Department

Michael L. Manalastas
Sales & Marketing Support Team

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

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

Paulita A. Sioson
Corporate Planning Staff

Diana Rose A. Tagra
Underwriting Department

Jesito V. Villamor
South Mindanao Regional Office

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **The Insular Life Assurance Company, Ltd** is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2011 and 2010, 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 22nd day of March 2012

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, 2011 and 2010, 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, 2011 and 2010, 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. 08-001998-63-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 3174581, January 2, 2012, Makati City

March 22, 2012

CONSOLIDATED BALANCE SHEETS

	December 31	
	2011	2010 (As restated, Note 2)
ASSETS		
Cash and Cash Equivalents (Note 4)	**₱3,237,486,066**	₱2,984,430,101
Insurance Receivables (Note 5)	**258,409,912**	230,704,373
Financial Assets (Note 6):		
Fair value through profit or loss	**5,307,769,593**	4,135,312,054
Available-for-sale	**14,509,468,041**	12,380,045,532
Held-to-maturity	**18,592,423,784**	16,984,045,826
Loans and receivables	**21,301,889,368**	19,032,902,019
Investments in Associates (Note 7)	**7,291,689,061**	6,151,302,091
Investment Properties (Note 8)	**9,229,298,200**	9,312,976,279
Property and Equipment (Note 9)	**393,105,406**	400,003,850
Retirement Benefits Asset (Note 23)	**139,826,580**	67,992,101
Deferred Income Tax Assets - net (Note 24)	**38,665,850**	38,223,015
Other Assets (Note 10)	**223,168,713**	264,140,127
TOTAL ASSETS	**₱80,523,200,574**	₱71,982,077,368
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Legal policy reserves (Note 11)	**₱44,905,957,034**	₱41,505,471,988
Other insurance liabilities (Note 12)	**12,455,080,017**	10,871,411,839
Accrued expenses and other liabilities (Note 13)	**1,287,090,121**	1,352,847,111
Retirement benefits liability (Note 23)	**1,481,483**	2,391,545
Deferred income tax liabilities - net (Note 24)	**1,178,404,638**	1,005,377,983
Total Liabilities	**59,828,013,293**	54,737,500,466
Members' Equity		
Equity attributable to Parent Company		
Reserve for fluctuation in available-for-sale financial assets (Note 6):		
Attributable to the Group:		
Equity securities	**4,540,264,722**	3,692,019,878
Debt securities	**515,410,871**	279,163,007
Attributable to associates (Notes 6 and 7)	**433,488,627**	109,835,027
	5,489,164,220	4,081,017,912
Premium on deemed disposal of investment in an associate (Note 7)	**304,954,486**	304,954,486
Share in surplus reserves of a subsidiary	**2,940,756**	2,940,756
Retained earnings (Notes 2, 14 and 30):		
Appropriated	**250,000,000**	175,000,000
Unappropriated (Note 8)	**14,648,105,745**	12,680,642,677
	20,695,165,207	17,244,555,831
Equity attributable to noncontrolling interests	**22,074**	21,071
Total Members' Equity	**20,695,187,281**	17,244,576,902
TOTAL LIABILITIES AND MEMBERS' EQUITY	**₱80,523,200,574**	₱71,982,077,368

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31	
	2011	2010 (As restated, Note 2)
REVENUE		
Insurance Revenue (Note 15)		
Gross earned premiums on insurance contracts	**₱8,842,767,143**	₱8,532,358,821
Reinsurers' share of premiums on insurance contracts	**(141,489,594)**	(155,907,747)
Net Insurance Revenue	**8,701,277,549**	8,376,451,074
Operating Revenue		
Investment income (Note 16)	**4,915,447,042**	4,970,887,317
Equity in net earnings of associates (Note 7)	**1,163,599,541**	933,343,076
Rental income (Notes 8 and 27)	**318,611,622**	245,912,726
Net realized gains (Note 17)	**305,533,609**	537,998,344
Foreign exchange gain - net (Note 6)	**3,362,859**	–
Other income	**153,090,934**	111,607,329
Total Operating Revenue	**6,859,645,607**	6,799,748,792
Total Revenue	**15,560,923,156**	15,176,199,866
INSURANCE BENEFITS AND OPERATING EXPENSES		
Insurance Benefits Expenses (Note 18)		
Gross benefits and claims on insurance contracts	**6,444,741,754**	5,913,535,947
Reinsurers' share of benefits and claims on insurance contracts	**(25,149,830)**	(47,530,390)
Net change in:		
Legal policy reserves	**3,403,480,607**	3,711,729,655
Reinsurers' share in legal policy reserves	**(2,995,561)**	(2,009,271)
Net Insurance Benefits Expenses	**9,820,076,970**	9,575,725,941
Operating Expenses		
General insurance expenses (Note 19)	**1,629,627,638**	1,633,073,442
Commissions and other acquisition expenses	**638,279,524**	648,276,008
Foreign exchange loss - net (Note 6)	**–**	257,812,384
Investment expenses (Note 20)	**199,359,226**	160,757,700
Other losses (Note 21)	**14,824,214**	49,244,325
Total Operating Expenses	**2,482,090,602**	2,749,163,859
Total Insurance Benefits and Operating Expenses	**12,302,167,572**	12,324,889,800
INCOME BEFORE INCOME TAX	**3,258,755,584**	2,851,310,066
PROVISION FOR INCOME TAX (Note 24)	**366,006,690**	289,826,216
NET INCOME	**₱2,892,748,894**	₱2,561,483,850
ATTRIBUTABLE TO:		
Parent Company	**₱2,892,748,066**	₱2,561,485,436
Noncontrolling Interest	**828**	(1,586)
NET INCOME	**₱2,892,748,894**	₱2,561,483,850

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2011	2010 (As restated, Note 2)
NET INCOME	**P2,892,748,894**	P2,561,483,850
OTHER COMPREHENSIVE INCOME		
Increase in value of available-for-sale equity securities - net of tax (Note 6)	**1,074,529,818**	1,705,290,566
Valuation gains realized through profit or loss (Note 6)	**(226,284,974)**	(497,881,378)
	848,244,844	1,207,409,188
Increase in value of available-for-sale debt securities - net of tax (Note 6)	**289,927,616**	161,024,101
Valuation gains realized through profit or loss (Note 6)	**(53,679,577)**	(735,545)
	236,248,039	160,288,556
Increase in value of available-for-sale equity securities attributable to associates (Notes 6 and 7)	**323,653,600**	131,294,996
TOTAL OTHER COMPREHENSIVE INCOME	**1,408,146,483**	1,498,992,740
TOTAL COMPREHENSIVE INCOME	**P4,300,895,377**	₱4,060,476,590
ATTRIBUTABLE TO:		
Parent Company	**₱4,300,894,374**	P4,060,478,176
Noncontrolling Interest	**1,003**	(1,586)
TOTAL COMPREHENSIVE INCOME	**P4,300,895,377**	P4,060,476,590

See accompanying Notes to Consolidated Financial Statements.

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

	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)	Revaluation Increment in Investment Properties (Note 8)	Premium on Deemed Disposal of Investment in an Associate (Note 7)	Share in Surplus Reserves of Subsidiary	Retained Earnings (Notes 15 and 31) Appropriated	Retained Earnings (Notes 15 and 31) Unappropriated	Total	Equity Attributable to Noncontrolling Interest	Total
BALANCES AT DECEMBER 31, 2009 AS PREVIOUSLY REPORTED	**₱2,484,610,690**	**₱118,874,451**	**(₱21,459,969)**	**₱3,131,514,650**	**₱304,954,486**	**₱2,793,019**	**₱125,000,000**	**₱7,893,760,185**	**₱14,040,047,512**	**₱22,657**	**₱14,040,070,169**
Transfer of revaluation increment on investment properties to unappropriated retained earnings (Note 2)	–	–	–	(3,131,514,650)	–	–	–	3,131,514,650	–	–	–
BALANCES AT DECEMBER 31, 2009 AS RESTATED	**2,484,610,690**	**118,874,451**	**(21,459,969)**	**–**	**304,954,486**	**2,793,019**	**125,000,000**	**11,025,274,835**	**14,040,047,512**	**22,657**	**14,040,070,169**
Total comprehensive income for the year as previously reported	1,207,409,188	160,288,556	131,294,996	–	–	–	–	2,574,447,575	4,073,440,315	(1,586)	4,073,438,729
Effect of change in accounting policy for revaluation increment in investment properties	–	–	–	–	–	–	–	(12,962,139)	(12,962,139)	–	(12,962,139)
Total comprehensive income for the year as restated	1,207,409,188	160,288,556	131,294,996	–	–	–	–	2,561,485,436	4,060,478,176	(1,586)	4,060,476,590
Appropriation of retained earnings for the required minimum paid-up capital (Note 30)	–	–	–	–	–	–	50,000,000	(50,000,000)	–	–	–
Dividends to members (Note 14)	–	–	–	–	–	–	–	(855,969,857)	(855,969,857)	–	(855,969,857)
Appropriation of surplus	–	–	–	–	–	147,737	–	(147,737)	–	–	–
BALANCES AT DECEMBER 31, 2010 AS RESTATED	**₱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**
BALANCES AT DECEMBER 31, 2010 AS PREVIOUSLY REPORTED	**₱3,692,019,878**	**₱279,163,007**	**₱109,835,027**	**₱3,062,231,948**	**₱304,954,486**	**₱2,940,756**	**₱175,000,000**	**₱9,618,410,729**	**₱17,244,555,831**	**₱21,071**	**₱17,244,576,902**
Transfer of revaluation increment of investment properties to unappropriated retained earnings (Note 2)	–	–	–	(3,062,231,948)	–	–	–	3,062,231,948	–	–	–
BALANCES AT DECEMBER 31, 2010 AS RESTATED	**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**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2011	2010 (As restated, Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱3,258,755,584**	₱2,851,310,066
Adjustments for:		
Interest income (Note 16)	**(3,488,661,677)**	(3,336,524,727)
Net change in legal policy reserves (Note 18)	**3,400,485,046**	3,709,720,384
Dividend income (Note 16)	**(1,392,751,024)**	(1,516,535,928)
Equity in net earnings of associates (Note 7)	**(1,163,599,541)**	(933,343,076)
Interest expense (Note 18)	**412,881,090**	371,581,544
Dividends to members (Note 14)	**256,305,000**	250,614,000
Net changes in retirement benefits asset	**(72,744,541)**	(43,572,061)
Trading gains from financial assets at FVPL (Note 16)	**(34,034,341)**	(117,826,662)
Foreign exchange loss (gain) - net (Note 6)	**(3,362,859)**	257,812,384
Net realized loss (gain) on disposals of (Note 17):		
Available-for-sale financial assets	**(283,057,942)**	(532,946,100)
Investment properties	**(11,011,099)**	4,776,141
Noncurrent assets held for sale	**–**	1,959,078
Property and equipment	**(4,803,340)**	124,734
Realized gain on:		
Foreclosure of properties (Note 17)	**(6,543,955)**	(11,912,197)
Repossession of properties (Note 17)	**(117,273)**	–
Depreciation and amortization of:		
Investment properties (Note 8)	**142,501,403**	119,369,446
Property and equipment and computer software (Notes 9 and 10)	**66,663,377**	66,809,181
Impairment loss on:		
Investment properties (Note 8 and 21)	**8,446,754**	14,906,731
Available-for-sale equity securities (Note 6 and 21)	**4,060,260**	34,329,177
Property and equipment (Note 9)	**2,317,200**	8,417
Operating income before working capital changes	**1,091,728,122**	1,190,660,532
Changes in operating assets and liabilities:		
Net decrease (increase) in:		
Insurance receivables	**(27,705,539)**	10,989,196
Loans and receivables	**34,798,413**	(42,134,985)
Net increase in:		
Other insurance liabilities	**1,556,568,178**	1,334,511,975
Accrued expenses and other liabilities	**(65,756,990)**	304,924,275
Net cash generated from operations	**2,589,632,184**	2,798,950,993
Income taxes paid	**(298,930,787)**	(313,218,601)
Net cash generated from operating activities	**2,290,701,397**	2,485,732,392
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	**₱3,504,452,247**	₱3,447,288,005
Releases of loans and receivables	**2,746,490,488**	(2,262,072,485)
Proceeds from disposals and/or maturities of:		
Available-for-sale financial assets	**1,932,988,082**	1,016,036,053
Held-to-maturity financial assets (Note 6)	**1,697,804,328**	1,899,203,172
Investment properties	**64,897,766**	106,100,262

(Forward)

	Years Ended December 31	
	2011	2010 (As restated, Note 2)
Property and equipment	**18,689,950**	5,372,913
Noncurrent assets held for sale	**–**	33,055,626
Dividends received	**1,392,751,024**	1,516,535,928
Net decrease (increase) in other assets	**37,539,387**	(8,405,741)
Collections of loans and receivables	**(4,681,941,643)**	922,417,359
Additional investments in:		
Held-to-maturity financial assets (Note 6)	**(3,298,089,535)**	(3,360,752,152)
Available-for-sale financial assets (Note 6)	**(2,601,366,666)**	(1,489,925,664)
Financial assets at fair value through profit or loss (Note 6)	**(1,172,457,539)**	(996,538,612)
Investment properties (Note 8)	**(114,495,517)**	(530,258,727)
Property and equipment and computer software (Notes 9 and 11)	**(72,536,716)**	(106,571,728)
Net cash generated from (used in) investing activities	**(545,274,344)**	191,484,209
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of dividends to members	**(1,079,489,998)**	(1,062,783,857)
Interest paid to members (Note 18)	**(412,881,090)**	(371,581,544)
Cash used in financing activities	**(1,492,371,088)**	(1,434,365,401)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**253,055,965**	1,242,851,200
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,984,430,101**	1,741,578,901
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱3,237,486,066**	₱2,984,430,101

See accompanying 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. The Company celebrated its 100th year anniversary on November 25, 2010. On November 12, 2010, the SEC has approved the amendment of the Company's Articles of Incorporation to extend its corporate term for another 50 years or until November 26, 2060.

The registered business address of the Company is Insular Life 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 22, 2012.

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:

Deemed Cost Adjustment
On March 9, 2012, the Philippine Interpretations Committee Q&A No. 2011-05, that was approved by the Financial Reporting Standards Council (FRSC) on January 5, 2012, was released. This states that the entity which, upon transition to PFRS, opted to adopt the "deemed cost method" for its property, plant and equipment account (investment property in the case of the Group) should in accordance with PFRS 1.11, *First-time Adoption of PFRS*, and PAS 8.26, *Accounting Policies, Changes in Accounting Estimates and Errors*, close out the revaluation increment account to the opening retained earnings in the consolidated financial statements at the earliest prior period presented and not to another equity category.

This adjustment to Unappropriated Retained Earnings has the following effects on the Group's "Other Losses" and "Unappropriated Retained Earnings" accounts and 2010 consolidated statement of income:

Reconciliation of Other Losses

	December 31, 2010
Other Losses, as previously reported	₱36,282,186
Add: Impairment loss on investment properties previously charged to Revaluation Increment in Investment Properties	12,962,139
Other Losses, as restated	₱49,244,325

Reconciliation of Unappropriated Retained Earnings

	December 31, 2010	January 1, 2010
Unappropriated Retained Earnings, as previously reported	₱9,618,410,729	₱7,893,760,185
Add: Revaluation Increment in Investment Properties closed to Unappropriated Retained Earnings	3,062,231,948	3,131,514,650
Unappropriated Retained Earnings, as restated	₱12,680,642,677	₱11,025,274,835

Reconciliation of 2010 consolidated statement of income

	December 31, 2010
Net income, as previously reported	₱2,574,447,575
Less: Impairment loss on investment properties previously charged to Revaluation Increment in Investment Properties	12,962,139
Net income, as restated	₱2,561,485,436

Effect on the Consolidated Balance Sheet
The adoption of the new accounting policy has no effect on the total assets, total liabilities and total members' equity as of January 1, 2010.

Effect on the Consolidated Statement of Cash Flows for 2010
There are no material differences in the 2010 statement of cash flows prepared under the new accounting policy.

New and Amended Accounting Standards and Interpretations that
Became Effective Beginning January 1, 2011
Adoption of the following changes in the Philippine Accounting Standards (PAS), PFRS and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations, did not have any significant impact on the Group's financial statements.

- PAS 24 (Amendment), *Related Party Transactions*, clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

- PAS 32 (Amendment), *Financial Instruments: Presentation*, alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement*, removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset.

The amendments to the following interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (determining the fair value of award credits)
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

Other amendments resulting from the 2010 Improvements to PFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- PFRS 3, *Business Combinations* (Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008))
- PFRS 3, *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Statements*

Improvements to PFRS
Improvements to PFRS, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments in 2011 resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- PFRS 3, *Business Combinations*, amends the measurement options available for non-controlling interest (NCI). Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

- PFRS 7, *Financial Instruments - Disclosures*, intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

- PAS 1, *Presentation of Financial Statements*, clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

New Accounting Standards, Interpretations and Amendments to
Existing Standards Effective Subsequent to December 31, 2011
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 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 2012

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition*, require additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- Amendment to PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets*, clarifies the determination of deferred income tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred income tax on investment property measured using the fair value model in PAS 40, *Investment Property*, should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred income tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

Effective 2013

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*, require an entity to disclose information about rights of setoff 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, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities*. 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 balance sheet date:

  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 consolidated balance sheet;
  c) The net amounts presented in the consolidated balance sheet;
  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 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendment affects disclosures only and has no impact on the Company'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 Standard Interpretation Committee (SIC)-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities (including 'special purpose entities,' or 'structured 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.

- 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 (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

- PFRS 12, *Disclosures of Interests in Other Entities*, includes all of the disclosures that were previously in PAS 27, related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates and Joint Ventures*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

- PFRS 13, *Fair Value Measurement*, establishes a single source of guidance under PFRS 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 by PFRS.

- 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.

- Amendments to 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 re-wording. The Group is currently assessing the impact of the amendments to PAS 19.

- 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.

- Revised PAS 28, as a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, and describes the application of the equity method to investments in joint ventures in addition to associates.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

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 setoff" 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. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The Group is currently assessing impact of the amendments to PAS 32.

Effective 2015

- PFRS 9, *Financial Instruments: Classification and Measurement*, reflects the first phase on the replacement of PAS 39, *Financial Instruments: Recognition and Measurement*, and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Standard Issued but not yet Effective

- 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 rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and FRSC 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, 2011 on the Group's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the financial statements when these are adopted.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Group and its subsidiaries as of December 31, 2011 and 2010. 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, 2011 and 2010, using consistent accounting principles. Following are the Group's subsidiaries and the corresponding percentages of ownership as of December 31:

	Percentage of Ownership	
	2011	2010
Insular Investment and Trust Corporation (IITC)	**100.00**	100.00
IITC Properties, Inc. (IPI)	**100.00***	100.00*
Insular Property Ventures, Inc. (IPVI)	**100.00***	100.00*
Insular Life Health Care Incorporated (I-Care)	**100.00**	100.00
ILMADECO	**100.00**	100.00
ILAC General Insurance Agency, Inc.	**100.00****	100.00**
Insular Life Property Holdings, Inc.	**100.00**	100.00
Home Credit Mutual Building & Loan Association, Inc. (Home Credit)	**99.96**	99.96

** Represents the Company's ownership through IITC*
*** 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, 2011 and 2010, 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 which are separately administered under Insular Life Wealth Series Funds (the Separate Funds) (Note 6).

As of December 31, 2011 and 2010 the Group's held-for-trading financial assets at FVPL consist of quoted equity securities (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, 2011 and 2010, 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, 2011 and 2010, the Group's loans and receivables consist of cash and cash equivalents, term loans, policy loans, interest receivable, accounts receivable, mortgage loans, housing loans, amounts due from agents, finance leases, car financing loans, 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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010.

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

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, 2011 and 2010, 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; or
- 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; or
- 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.

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

The balance sheet 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, 2011 and 2010 are as follows:

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

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

The share of profit of the associates is shown on the face of the consolidated 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).

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

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.

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

The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the consolidated 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
Electronic and data processing equipment	3-5
Transportation equipment	4-5

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.

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

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.

Interest in Joint Venture
The Group's interest in its joint venture is accounted for using the equity method of accounting. The interest in joint venture is carried in the 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.

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

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

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

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

Impairment losses, if any, are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired nonfinancial asset.

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.

Retained Earnings

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

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.

Operating Revenue

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

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.

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.

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.

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 16.11% equity investment in UBP is classified as an associate since the Company has established that it has significant influence over UBP. The Group actively participates in the financial and operating policy decisions of UBP through representations in the board and various committees in UBP. Accordingly, the investment is accounted for using the equity method.

On the other hand, equity investment in Pilipinas Shell Petroleum Company (PSPC) is classified as AFS since the Company does not have significant influence over PSPC even if it owns 19.49% of PSPC. Accordingly, the investment is carried at its estimated fair value as of December 31, 2011 and 2010 (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 Company'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 2010, the Company reclassified noncurrent assets held for sale to investment properties because the immediate sale of these properties did not push through (Notes 8). In 2010, noncurrent assets held for sale were reclassified to property and equipment because these were used in the operations. No reclassifications were made in 2011.

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 ₱850,284,998 and ₱855,969,857 as of December 31, 2011 and 2010, 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 expense is recognized in profit or loss 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 ₱6,053,894,209 and ₱5,268,015,558 as of December 31, 2011 and 2010, respectively (Note 28).

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 ₱258,409,912 and ₱230,704,373 as of December 31, 2011 and 2010, respectively (Note 5). Based on management's assessment, there is no impairment of its insurance receivables in 2011 and 2010.

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 ₱21,301,889,368 and ₱19,032,902,019 as of December 31, 2011 and 2010, respectively (Note 6). Allowance for impairment on loans and receivables amounted to ₱267,022,317 and ₱289,138,754 as of December 31, 2011 and 2010, respectively (Note 6). Provision for impairment on loans and receivables amounted to ₱7,035,003 in 2011 and ₱10,314,030 in 2010 (Notes 6 and 19).

The carrying value of the Group's AFS debt securities amounted to ₱3,768,619,968 and ₱3,096,719,396 as of December 31, 2011 and 2010, respectively (Note 6) while the carrying value of the Group's HTM financial assets amounted to ₱18,592,423,784 and ₱16,984,045,826 as of December 31, 2011 and 2010, respectively (Note 6). In 2011 and 2010, 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 addition, the Group evaluates other factors, including normal volatility in share price for unquoted equities.

In 2011 and 2010, the Group recognized impairment loss amounting to ₱4,060,260 and ₱34,329,177, respectively (Note 6).

The carrying value of the Group's AFS equity securities amounted to ₱10,740,848,073 and ₱9,283,326,136 as of December 31, 2011 and 2010, 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 lands, 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 ₱3,303,538,331 (Note 8), ₱386,206,963 (Note 9) and ₱26,228,600 (Note 10), respectively as of December 31, 2011 and ₱3,337,177,513 (Note 8), ₱256,674,604 (Note 9) and ₱29,660,627 (Note 10), respectively as of December 31, 2010.

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 net selling price and value-in-use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect the nonfinancial assets.

The Group recognized impairment loss on its investment properties amounting to ₱8,446,754 and ₱14,906,731 in 2011 and 2010, respectively (Notes 8 and 21). Impairment loss on property and equipment amounted to ₱2,317,200 in 2011 and ₱8,417 in 2010 (Notes 9 and 21). The carrying value of the Group's nonfinancial assets amounted to ₱17,137,261,380 and ₱16,128,422,347 as of December 31, 2011 and 2010, respectively.

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

No noncurrent asset was held for sale for 2011 and 2010.

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 ₱44,905,957,034 and ₱41,505,471,988 as of December 31, 2011 and 2010, respectively (Note 11). Net change in legal policy reserves amounted to ₱3,400,485,046 and ₱3,709,720,384 in 2011 and 2010, 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 ₱700,088,095 and ₱615,102,700, as of December 31, 2011 and 2010, 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 ₱139,826,580 as of December 31, 2011 and ₱67,992,101 as of December 31, 2010 (Note 23). Net retirement benefits liability amounted ₱1,481,483 and ₱2,391,545 as of December 31, 2011 and 2010 (Note 23). The Group's unrecognized net actuarial gains amounted to ₱67,537,054 and ₱205,108,637 as of December 31, 2011 and 2010, 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 ₱2,150,554,675 in 2011 and ₱1,977,392,698 in 2010 (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.

IITC is currently involved in legal proceedings. IITC does not believe the proceeding will have a material adverse effect on its financial position. It is possible, however, that changes in estimates relating to those proceedings may materially affect the consolidated financial statements in subsequent years (Note 31).

4. Cash and Cash Equivalents

	2011	2010
Cash on hand	**₱255,386**	₱251,225
Cash in banks:		
Commercial banks (Note 25)	**480,489,310**	514,541,752
Thrift bank	**–**	53,736
	480,489,310	514,595,488
Cash equivalents in commercial banks (Note 25)	**2,756,741,370**	2,469,583,388
	₱3,237,486,066	₱2,984,430,101

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

	2011	2010
Due premiums	**₱247,136,135**	₱221,455,139
Reinsurance assets	**11,273,777**	9,249,234
	₱258,409,912	₱230,704,373

6. Financial Assets

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

	2011	2010
Financial assets at FVPL	**₱5,307,769,593**	₱4,135,312,054
AFS financial assets	**14,509,468,041**	12,380,045,532
HTM financial assets	**18,592,423,784**	16,984,045,826
Loans and receivables	**21,301,889,368**	19,032,902,019
	₱59,711,550,786	₱52,532,305,431

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

Financial Assets at FVPL

	2011	2010
At Fair Value		
Cash and cash equivalents	**₱449,561,966**	₱114,093,126
Equity securities - quoted	**2,242,142,762**	1,522,164,669
Debt securities - quoted - fixed interest rates:		
Government:		
Local currency	**854,197,791**	596,181,600
Foreign currency	**1,334,882,895**	1,338,366,162
Corporate	**380,483,903**	539,401,535
Interest receivable	**46,500,276**	25,104,962
	₱5,307,769,593	₱4,135,312,054

Financial assets at FVPL consist of net assets of separately administered and reported Separate Funds underlying the VUL insurance contracts. These financial assets are designated as at FVPL in accordance with the investment strategy and valuation provisions of the VUL insurance contracts. Likewise, this is consistent with the valuation basis of the reserve for policies held by the policyholders. Financial assets designated as at FVPL amounted to ₱5,305,815,593 and ₱4,134,225,654 as of December 31, 2011 and 2010, respectively. A subsidiary has held-for-trading financial assets at FVPL which amounted to ₱1,954,000 as of December 31, 2011 and ₱1,086,400 as of December 31, 2010.

Fair value gain from financial assets designated as at FVPL presented in the separate financial statements of VUL funds amounted to ₱12,175,515 and ₱737,654,829 in 2011 and 2010, respectively. Fair value loss from held-for-trading FVPL financial assets amounted to ₱133,645 in 2011. Fair value gain from held-for-trading FVPL financial assets amounted to ₱875,152 in 2010.

AFS Financial Assets

	2011	2010
At Fair Value		
Equity securities:		
Quoted	**₱4,609,365,480**	₱3,919,270,017
Unquoted	**6,131,482,593**	5,364,056,119
	10,740,848,073	9,283,326,136
Debt securities:		
Quoted:		
Government:		
Local currency	**2,636,391,620**	2,022,605,154
Foreign currency	**1,066,598,702**	994,128,298
Corporate	**56,292,172**	36,267,564
Unquoted - government	**9,337,474**	43,718,380
	3,768,619,968	3,096,719,396
	₱14,509,468,041	₱12,380,045,532

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:

	2011	2010
Equity securities:		
Attributable to the Group:		
Beginning balance	**₱3,692,019,878**	₱2,484,610,690
Increase in value of AFS equity securities net of tax	**1,074,529,818**	1,705,290,566
Valuation losses (gains) realized through profit or loss:		
Gain on sale	**(230,345,234)**	(532,210,555)
Impairment (Note 21)	**4,060,260**	34,329,177
Ending balance	**4,540,264,722**	3,692,019,878
Attributable to associates:		
Beginning balance	**₱109,835,027**	(₱21,459,969)
Increase in value of AFS equity securities attributable to associates (Note 7)	**323,653,600**	131,294,996
Ending balance	**433,488,627**	109,835,027
	₱4,973,753,349	₱3,801,854,905

(Forward)

	2011	2010
Debt securities:		
Beginning balance	**₱279,163,007**	₱118,874,451
Increase in value of AFS debt securities net of tax	**289,927,441**	161,024,101
Valuation gains realized through profit or loss	**(53,679,577)**	(735,545)
Ending balance	**₱515,410,871**	₱279,163,007

HTM Financial Assets

	2011		2010	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Debt securities:				
Government:				
Local currency	**₱14,433,791,329**	**₱17,507,962,351**	₱12,882,949,060	₱15,187,774,995
Foreign currency	**3,040,555,575**	**3,448,021,933**	3,035,847,385	3,602,271,136
Corporate:				
Local currency	**1,096,352,066**	**1,196,981,801**	1,043,037,579	1,165,062,015
Foreign currency	**21,724,814**	**28,267,668**	22,211,802	23,895,931
	₱18,592,423,784	**₱22,181,233,753**	₱16,984,045,826	₱19,979,004,077

Loans and Receivables

	2011	2010
Term loans	**₱14,373,534,104**	₱12,423,451,477
Policy loans	**5,666,841,882**	5,265,458,648
Interest receivable	**671,640,443**	667,605,951
Accounts receivable	**323,377,020**	372,474,457
Housing loans	**150,172,143**	158,607,975
Mortgage loans	**106,035,690**	161,785,047
Due from agents	**93,269,618**	97,308,524
Car financing loans	**48,499,793**	42,987,237
Finance leases	**36,782,868**	36,206,523
Stock loans	**28,967,507**	38,137,261
Others	**69,790,617**	58,017,673
	21,568,911,685	19,322,040,773
Less allowance for impairment loss on loans	**267,022,317**	289,138,754
	₱21,301,889,368	₱19,032,902,019

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

- Term loans - pertain to investments in fixed-rate loans of corporate borrowers with terms ranging from 5 to 10 years. Interest rates range from 2.25% to 10.35% in both 2011 and 2010.
- Policy loans - pertain to loans granted to policyholders. The loan is issued with the cash surrender value of the policyholder's insurance policy as collateral. Interest rates on policy loans range from 6% to 10% in 2011 and 2010.
- 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 0.01% to 10.35% and 0.03% to 16.8% in 2011 and 2010, 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 15 years. Interest rates on these loans range from 6.65% to 19% and 9.5% to 13% in 2011 and 2010, respectively.
- Due from agents - pertain to unremitted collections, advances by agents, invalid withdrawal of compensation by agents and charges for amendment/replacement of policies.
- Car financing loans - pertain to car loans granted to employees at an annual interest of 6% payable semi-annually and with terms ranging from 5 to 7 years.
- Finance leases - pertain to real estate mortgages which are collectible over a period of 20 years at an annual interest of 18% in 2011 and 2010.
- 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:

	2011	2010
Housing loans	**₱163,085,911**	₱170,313,549
Less unamortized deferred interest income	**12,913,768**	11,705,574
	₱150,172,143	₱158,607,975
Car financing loans	**₱48,521,376**	₱43,080,430
Less unamortized deferred interest income	**21,583**	93,193
	₱48,499,793	₱42,987,237

The amortization of deferred interest income amounting to ₱3,813,429 in 2011 and ₱3,731,684 in 2010 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:

	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**

	2010			
	Accounts Receivable	Mortgage Loans	Due from Agents	Total
Beginning balances	₱178,843,682	₱23,754,666	₱101,037,032	₱303,635,380
Provisions for the year (Note 19)	2,933,979	7,380,051	–	10,314,030
Recoveries	(1,223,285)	(734,693)	(917,602)	(2,875,580)
Write-off	(5,272,483)	(12,605,282)	(4,057,311)	(21,935,076)
Ending balances	₱175,281,893	₱17,794,742	₱96,062,119	₱289,138,754

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

The Group does not recognize interest income on impaired loans and receivables.

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

	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**
Impairment (Note 21)	–	–	**(4,060,260)**	–	**(4,060,260)**
Foreign exchange adjustments	**1,369,564**	**2,998,843**	–	**973,790**	**5,342,197**
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**

	2010				
			AFS		
	FVPL	HTM	Equity Securities	Debt Securities	Total
Beginning balances	₱3,138,773,442	₱15,672,577,618	₱7,770,406,215	₱2,263,943,237	₱28,845,700,512
Acquisitions	1,768,824,776	3,360,752,152	599,771,702	890,153,962	6,619,502,592
Disposals/maturities	(1,590,249,234)	(1,899,203,172)	(303,323,489)	(179,766,464)	(3,972,542,359)
Fair value gain	833,699,239	–	1,250,800,885	169,229,921	2,253,730,045
Impairment (Note 21)	–	–	(34,329,177)	–	(34,329,177)
Reclassification	–	12,506,398	–	(12,506,398)	–
Foreign exchange adjustments	(15,736,169)	(172,169,325)	–	(29,823,001)	(217,728,495)
Discount (premium) amortization - net	–	9,582,155	–	(4,511,861)	5,070,294
Ending balances	₱4,135,312,054	₱16,984,045,826	₱9,283,326,136	₱3,096,719,396	₱33,499,403,412

As of December 31, 2011 and 2010, 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 2011.

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

	2011	2010
Beginning balance	**₱382,262,415**	₱263,815,227
Maturities	**(3,020,197)**	–
Amortization	**(4,110,244)**	(3,720,456)
Fair value gain	**38,436,060**	122,167,644
Ending balance	**₱413,568,034**	₱382,262,415

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

	2011	2010
Beginning balance	**₱346,002,391**	₱349,722,847
Maturities	**(3,020,197)**	–
Amortization	**(4,110,244)**	(3,720,456)
Ending balance	**₱338,871,950**	₱346,002,391

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

	2011	2010
Beginning balance	**₱55,885,923**	₱57,612,213
Amortization	**(1,913,251)**	(1,726,290)
Ending balance	**₱53,972,672**	₱55,885,923

7. Investments in Associates

The movement of the investments in associates is as follows:

	2011	2010
Acquisition cost:		
Beginning balance	**₱1,655,410,255**	₱1,655,410,255
Accumulated equity in net earnings:		
Beginning balance	**4,081,102,323**	3,405,149,783
Equity in net earnings for the year	**1,163,599,541**	933,343,076
Dividends received (Note 16)	**(346,866,171)**	(257,390,536)
Ending balance	**4,897,835,693**	4,081,102,323
Equity in reserve for fluctuation in AFS		
Beginning balance	**109,835,027**	(21,459,969)
Share in net movement of reserve for fluctuation in AFS financial assets of the associates during the year (Note 6)	**323,653,600**	131,294,996
Ending balance	**433,488,627**	109,835,027
Premium on deemed disposal of investment in an associate	**304,954,486**	304,954,486
	₱7,291,689,061	₱6,151,302,091

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 are as follows:

	2011	2010
UBP		
Total assets	**₱270,185,874,000**	₱252,999,817,000
Total liabilities	**227,346,835,000**	217,014,467,000
Net income	**6,595,398,000**	5,353,251,000
MAPFRE		
Total assets	**3,830,962,210**	3,335,498,106
Total liabilities	**2,204,244,805**	1,889,544,053
Net income	**236,158,563**	207,855,312
PPVI		
Total assets	**341,657,933**	63,246,982
Total liabilities	**318,689,687**	36,985,257
Net income	**166,650,435**	62,506,043

8. Investment Properties

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

	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**

	2010		
	Land	**Buildings and Improvements**	**Total**
Costs			
Beginning balances	₱6,215,475,749	₱3,381,819,524	₱9,597,295,273
Additions	3,884,600	538,286,324	542,170,924
Disposals	(104,219,822)	(7,588,815)	(111,808,637)
Reclassifications	8,577,437	(44,256,900)	(35,679,463)
Ending balances	6,123,717,964	3,868,260,133	9,991,978,097
Accumulated Depreciation and Impairment Loss			
Beginning balances	147,919,198	392,183,475	540,102,673
Depreciation and amortization (Note 19)	–	119,369,446	119,369,446
Impairment loss (Note 21)	–	20,461,933	20,461,933
Disposals	–	(932,234)	(932,234)
Ending balances	147,919,198	531,082,620	679,001,818
Net Book Values	₱5,975,798,766	₱3,337,177,513	₱9,312,976,279

As allowed under PFRS 1, the Group used the fair value of the investment properties as of January 1, 2004 as deemed cost. The amount by which the fair value exceeds the carrying value of the property was added to the carrying value of the investment properties with a corresponding credit to 'Revaluation increment in investment properties', net of tax, under members' equity in the consolidated balance sheets.

In accordance with the general requirement under PFRS 1, the Group closed out the revaluation increment in investment properties account with a balance of ₱3,131,514,650 as of January 1, 2010 to retained earnings (Note 2). The revaluation increment in investment properties pertains to the remaining balance of the deemed cost adjustment on certain investment properties which arose when the Group transitioned to PFRS in 2005.

As of December 31, 2011 and 2010, the balance of unappropriated retained earnings includes the remaining balance of the deemed cost adjustment amounting to ₱3,050,553,358 and ₱3,062,231,948, respectively (Note 2), 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 amount of undepreciated revaluation increment closed to retained earnings is not available for dividend distribution.

The total fair value of the investment properties amounted to ₱10,002,474,215 and ₱9,848,281,007 as of December 31, 2011 and 2010, 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 ₱318,611,622 in 2011 and ₱245,912,726 in 2010. Direct expenses arising in respect of such investment properties amounted to ₱184,916,927 in 2011 and ₱156,008,839 in 2010 while indirect operating expenses amounted to ₱9,589,791 in 2011 and ₱3,697,188 in 2010 (Note 20). Future minimum lease rentals receivable under noncancellable operating leases are disclosed in Note 27.

In 2010, noncurrent assets held for sale with carrying value of ₱22,031,052 were reclassified to investment properties. Investment properties reclassified to property and equipment amounted to ₱57,710,555 in 2010 (Note 9).

There were no reclassifications in 2011.

9. Property and Equipment

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

	2011					
	Land and Buildings	Furniture Fixtures and Equipment	Electronic and Data Processing Equipment	Transportation Equipment	Leasehold Improvements	Total
Costs						
Beginning balances	**₱218,518,097**	**₱308,893,531**	**₱202,588,340**	**₱97,513,737**	**₱60,961,757**	**₱888,475,462**
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**

	2010					
	Land and Buildings	Furniture Fixtures and Equipment	Electronic and Data Processing Equipment	Transportation Equipment	Leasehold Improvements	Total
Costs						
Beginning balances	₱126,486,154	₱297,723,406	₱186,646,163	₱93,343,978	₱61,927,239	₱766,126,940
Additions	32,216,447	13,554,342	16,109,817	22,526,640	827,304	85,234,550
Retirements/disposals	–	(2,404,306)	(167,640)	(18,356,881)	(1,772,697)	(22,701,524)
Reclassifications	59,815,496	20,089	–	–	(20,089)	59,815,496
Ending balances	218,518,097	308,893,531	202,588,340	97,513,737	60,961,757	888,475,462
Accumulated Depreciation and Amortization						
Beginning balances	29,876,032	204,522,333	109,815,851	50,495,948	52,852,985	447,563,149
Depreciation and amortization (Note 19)	1,907,172	12,673,128	23,895,588	18,278,852	2,391,483	59,146,223
Impairment loss (Note 21)	8,417	–	–	–	–	8,417
Retirements/disposals	–	(1,414,610)	(19,260)	(14,696,787)	(2,115,520)	(18,246,177)
Ending balances	31,791,621	215,780,851	133,692,179	54,078,013	53,128,948	488,471,612
Net Book Values	₱186,726,476	₱93,112,680	₱68,896,161	₱43,435,724	₱7,832,809	₱400,003,850

Investment property and noncurrent assets held for sale reclassified to property and equipment in 2010 amounted to ₱59,815,496 (nil in 2011). The cost of fully depreciated property and equipment that are still in use in the Group's operations amounted to ₱320,850,802 and ₱244,754,644 as of December 31, 2011 and 2010, respectively.

10. Other Assets

	2011	2010
Interest in joint venture	**₱148,349,598**	₱148,349,598
Computer software	**26,228,600**	29,660,627
Value added input tax	**4,410,842**	29,619,588
Others	**44,179,673**	56,510,314
	₱223,168,713	₱264,140,127

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 2011 and 2010. The Group has no share of any capital commitment as of December 31, 2011 and 2010.

Computer Software

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

	2011	2010
Cost		
Beginning balance	**₱256,571,061**	₱236,276,183
Additions	**6,093,894**	20,294,878
Ending balance	**262,664,955**	256,571,061
Accumulated Amortization		
Beginning balance	**226,910,434**	219,247,476
Amortization (Note 19)	**9,525,921**	7,662,958
Ending balance	**236,436,355**	226,910,434
Net Book Value	**₱26,228,600**	₱29,660,627

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 follows:

	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**

	2010		
	Legal Policy Reserves	Reinsurers' Share of Liabilities	Net
Aggregate reserves for:			
Ordinary life policies	₱40,350,605,477	₱67,265,023	₱40,283,340,454
Group life policies	1,114,999,425	–	1,114,999,425
Accident and health policies	103,439,969	3,290,864	100,149,105
Unit-linked policies	7,541,576	558,572	6,983,004
	₱41,576,586,447	₱71,114,459	₱41,505,471,988

Movement of aggregate reserves is as follows:

	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**
Liability released for payments of death, maturities, surrender benefits and claims	**530,027,300**	**–**	**530,027,300**
Accretion of investment income or change in unit prices	**1,531,506,540**	**–**	**1,531,506,540**
Fees deducted	**(3,858,391,303)**	**2,995,561**	**(3,861,386,864)**
Foreign exchange adjustment	**3,355,082**	**–**	**3,355,082**
Ending balances	**₱44,980,067,054**	**₱74,110,020**	**₱44,905,957,034**

	2010		
	Legal Policy Reserves	Reinsurers' Share of Liabilities	Net
Beginning balances	₱37,864,856,792	₱69,105,188	₱37,795,751,604
Premiums received	4,919,112,588	–	4,919,112,588
Liability released for payments of death, maturities, surrender benefits and claims	(576,893,693)	–	(576,893,693)
Accretion of investment income or change in unit prices	1,400,566,747	–	1,400,566,747
Fees deducted	(1,840,965,013)	2,009,271	(1,842,974,284)
Foreign exchange adjustment	(190,090,974)	–	(190,090,974)
Ending balances	₱41,576,586,447	₱71,114,459	₱41,505,471,988

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

	2011	2010
Members' deposits and other funds on deposit	**₱10,525,936,907**	₱9,052,937,714
Reserve for dividends to members	**1,229,055,015**	1,203,371,425
Claims pending settlement	**700,088,095**	615,102,700
	₱12,455,080,017	₱10,871,411,839

13. Accrued Expenses and Other Liabilities

	2011	2010
Accounts payable	**₱424,526,193**	₱417,001,948
Accrued employee benefits	**273,893,965**	277,744,359
Preferred shares of Home Credit owned by its members	**156,984,278**	137,546,581
Commissions payable	**94,929,171**	129,756,161
Advances from joint venture (Note 10)	**83,797,768**	79,834,764
General expenses due and accrued	**65,568,116**	60,912,380
Remittances not yet allocated	**60,952,359**	158,164,345
Taxes payable	**38,303,989**	44,476,305
Others	**88,134,282**	47,410,268
	₱1,287,090,121	₱1,352,847,111

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

- Accounts payable - pertain to amounts due to contractors and suppliers.
- Preferred shares of Home Credit owned by its members - pertain to Preferred Serial B shares which are reclassified as Redeemable Preferred Capital Contributions. Accordingly, dividend payments on these shares are presented as interest expense in the consolidated statement of income. Holders of Preferred Serial B shares have priority in the availment of housing loans and are entitled to obtain mortgage loan and interest discounts.
- Remittances not yet allocated - pertain to 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 23, 2012 and February 17, 2011, the BOT approved the set up of provision for dividends to members for the years ended December 31, 2011 and 2010 applicable to dividends to be paid out for the period January 1, 2012 to December 31, 2012 and January 1, 2011 to December 31, 2011, respectively.

Breakdown of the dividend provision is as follows:

	2011	2010
Chargeable to retained earnings	**₱966,917,972**	₱942,786,000
Chargeable to income (Note 18)	**256,305,000**	250,614,000
	₱1,223,222,972	₱1,193,400,000

Dividends to members charged against retained earnings are as follow:

	2011	2010
Dividends declared during the year	**₱966,917,972**	₱942,786,000
Excess of dividends declared in prior year against actual amount paid	**(116,632,974)**	(86,816,143)
	₱850,284,998	₱855,969,857

15. Insurance Revenue

	2011	2010
Life insurance contracts	**₱6,499,365,618**	₱6,319,912,198
VUL insurance contracts	**1,930,673,702**	1,777,181,550
Accident and health contracts	**412,727,823**	435,265,073
Gross earned premiums on insurance contracts	**8,842,767,143**	8,532,358,821
Reinsurers' share of premiums on insurance contracts	**(141,489,594)**	(155,907,747)
Net insurance revenue	**₱8,701,277,549**	₱8,376,451,074

16. Investment Income

	2011	2010
Interest income on:		
Loans and receivables	**₱1,708,468,081**	₱1,557,558,505
HTM financial assets	**1,584,102,462**	1,525,059,212
AFS financial assets	**185,544,184**	242,301,738
Others	**10,546,950**	11,605,272
	3,488,661,677	3,336,524,727
Dividend income	**1,392,751,024**	1,516,535,928
Trading gains from financial assets at FVPL	**34,034,341**	117,826,662
Total investment income	**₱4,915,447,042**	₱4,970,887,317

17. Net Realized Gains - net

	2011	2010
Disposals of:		
AFS financial assets	**₱283,057,942**	₱532,946,100
Investment properties	**11,011,099**	(4,776,141)
Property and equipment	**4,803,340**	(124,734)
Noncurrent assets held for sale	**–**	(1,959,078)
Foreclosure of properties	**6,543,955**	11,912,197
Repossession of properties	**117,273**	–
	₱305,533,609	₱537,998,344

18. Insurance Benefits Expenses

	2011	2010
VUL funds allocation	**₱1,820,337,655**	₱1,740,397,119
Death and hospitalization benefits	**1,105,938,727**	938,227,791
Surrenders	**1,073,665,461**	1,098,064,251
Increase in reserve for supplementary contracts	**794,936,230**	608,295,114
Maturities	**511,233,266**	539,498,120
Payments on supplementary contracts	**456,923,208**	354,842,967
Interest expense	**412,881,090**	371,581,544
Dividends to members (Note 14)	**256,305,000**	250,614,000
Others	**12,521,117**	12,015,041
Total gross benefits and claims on insurance contracts	**6,444,741,754**	5,913,535,947
Reinsurers' share of benefits and claims on insurance contracts	**(25,149,830)**	(47,530,390)
Net change in:		
Legal policy reserves	**3,403,480,607**	3,711,729,655
Reinsurers' share in legal policy reserves	**(2,995,561)**	(2,009,271)
	₱9,820,076,970	₱9,575,725,941

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

	2011		
	Gross Change in Legal Policy Reserves	Reinsurers' Share of Change in Legal Policy Reserves	Net
Life insurance contracts	**₱3,399,078,614**	**₱2,601,319**	**₱3,396,477,295**
VUL insurance contracts	**4,401,993**	**394,242**	**4,007,751**
	₱3,403,480,607	**₱2,995,561**	**₱3,400,485,046**

	2010		
	Gross Change in Legal Policy Reserves	Reinsurers' Share of Change in Legal Policy Reserves	Net
Life insurance contracts	₱3,714,716,067	₱1,796,689	₱3,712,919,378
VUL insurance contracts	(2,986,412)	212,582	(3,198,994)
	₱3,711,729,655	₱2,009,271	₱3,709,720,384

19. General Insurance Expenses

	2011	2010
Personnel (Notes 22, 23 and 25)	**₱1,022,730,700**	₱949,949,010
Depreciation and amortization (Notes 8, 9 and 10)	**209,164,780**	186,178,627
Marketing, advertising, and promotion	**84,051,434**	101,514,396
Outside services	**58,080,575**	69,256,943
Transportation and communication	**53,992,752**	56,623,954
Repairs and maintenance	**30,339,049**	32,014,973
Rent (Note 27)	**21,033,208**	21,743,783
Printing and supplies	**14,666,643**	15,396,544
Training	**14,926,980**	11,853,405
Utilities	**9,902,702**	11,483,232
Provision for impairment on loans and receivables (Note 6)	**7,035,003**	10,314,030
Others	**103,703,812**	166,744,545
	₱1,629,627,638	₱1,633,073,442

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

20. Investment Expenses

	2011	2010
Real estate expenses (Note 8)	**₱194,506,718**	₱159,706,027
Investment management expenses	**4,852,508**	1,051,673
	₱199,359,226	₱160,757,700

21. Other Losses

	2011	2010 (As restated, Note 2)
Impairment loss on:		
Investment properties (Note 8)	**₱8,446,754**	₱14,906,731
AFS equity securities (Note 6)	**4,060,260**	34,329,177
Property and equipment (Note 9)	**2,317,200**	8,417
	₱14,824,214	₱49,244,325

22. Personnel Expenses

	2011	2010
Salaries and bonuses	**₱884,643,553**	₱811,248,427
Employee benefits	**106,069,181**	93,579,819
Retirement benefits cost (Note 23)	**32,017,966**	45,120,764
	₱1,022,730,700	₱949,949,010

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 the 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 made on December 31, 2011, except for Home Credit with latest actuarial valuation made on December 31, 2010.

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:

	2011				
	Parent	Subsidiaries			
	Company	IITC	I-Care	Home Credit	Total
Current service cost	**₱46,201,400**	**₱117,217**	**₱1,235,813**	**₱360,689**	**₱47,915,119**
Interest cost	**67,771,600**	**66,599**	**1,023,361**	**316,623**	**69,178,183**
Expected return on plan assets	**(66,586,300)**	**(119,287)**	**(460,986)**	**(309,974)**	**(67,476,547)**
Amortization of net actuarial gains	**(11,501,700)**	**(61,770)**	**–**	**(24,619)**	**(11,588,089)**
Curtailment gains	**(6,010,700)**	**–**	**–**	**–**	**(6,601,700)**
	₱29,874,300	**₱2,759**	**₱1,798,188**	**₱342,719**	**₱32,017,966**

	2010				
	Parent	Subsidiaries			
	Company	IITC	I-Care	Home Credit	Total
Current service cost	₱48,104,100	₱231,620	₱1,425,166	₱287,616	₱50,048,502
Interest cost	62,843,200	214,311	943,517	265,487	64,266,515
Expected return on plan assets	(59,826,000)	(82,905)	(525,106)	(207,228)	(60,641,239)
Amortization of net actuarial gains	(8,478,400)	–	–	(74,614)	(8,553,014)
	₱42,642,900	₱363,026	₱1,843,577	₱271,261	₱45,120,764

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

	2011				
	Parent	Subsidiaries			
	Company	IITC	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**

	2010				
	Parent	Subsidiaries			
	Company	IITC	I-Care	Home Credit	Total
Present value of defined benefit obligation	₱689,507,344	₱1,091,786	₱10,336,980	₱3,681,664	₱15,110,430
Fair value of plan assets	960,489,523	1,988,111	7,683,105	5,166,228	14,837,444
	(270,982,179)	(896,325)	2,653,875	(1,484,564)	272,986
Unrecognized net actuarial gains (losses)	203,588,728	1,001,822	(367,827)	885,914	1,519,909
Retirement benefits liability (asset)	(P67,393,451)	₱105,497	₱2,286,048	(P598,650)	₱1,792,895

The net retirement benefits asset as of December 31, 2011 and 2010 amounting to ₱139,826,580 and ₱67,992,101, 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 follows:

	2011				
	Parent	Subsidiaries			
	Company	IITC	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**	**316,623**	**1,669,653**
Interest cost	**67,771,600**	**66,599**	**1,023,361**	**360,689**	**1,450,649**
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**

	2010				
	Parent	Subsidiaries			
	Company	IITC	I-Care	Home Credit	Total
Beginning balances	₱622,826,400	₱2,597,711	₱10,783,048	₱2,540,541	₱15,921,300
Current service cost	48,104,100	231,620	1,425,166	287,616	1,944,402
Interest cost	62,843,200	214,311	943,517	265,487	1,423,315
Benefits paid	(44,266,356)	(1,259,543)	(2,692,980)	(163,752)	(4,116,275)
Actuarial loss (gain)	–	(692,313)	(121,771)	751,772	(62,312)
Ending balances	₱689,507,344	₱1,091,786	₱10,336,980	₱3,681,664	₱15,110,430

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

	2011				
	Parent	Subsidiaries			
	Company	IITC	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**

	2010				
	Parent	Subsidiaries			
	Company	IITC	I-Care	Home Credit	Total
Beginning balances	₱854,657,000	₱1,381,752	₱7,501,513	₱2,960,399	₱11,843,664
Expected return on plan assets	59,826,000	82,905	525,106	207,228	815,239
Actual contribution	82,369,625	1,705,124	2,454,300	2,163,752	6,323,176
Benefits paid	(44,266,356)	(1,259,543)	(2,692,980)	(163,752)	(4,116,275)
Actuarial gain (loss)	7,903,254	77,873	(104,834)	(1,399)	(28,360)
Ending balances	₱960,489,523	₱1,988,111	₱7,683,105	₱5,166,228	₱14,837,444

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

	2011			
	Parent	Subsidiaries		
	Company	IITC	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%**

	2010			
	Parent	Subsidiaries		
	Company	IITC	I-Care	Home Credit
Cash and cash equivalents	25%	53.54%	47.07%	50.90%
Investments in debt and equity securities	75%	46.46%	52.01%	49.10%
Receivables	–	–	0.92%	–
	100.00%	100.00%	100.00%	100.00%

Actual return on plan assets is as follows:

	2011			
	Parent	**Subsidiaries**		
	Company	**IITC**	**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**

	2010			
	Parent	Subsidiaries		
	Company	IITC	I-Care	Home Credit
Expected return on plan assets	₱59,826,000	₱82,905	₱525,106	₱207,228
Actuarial gain (loss) on plan assets	7,903,254	77,873	(104,834)	(1,399)
Actual return on plan assets	₱67,729,254	₱160,778	₱420,272	₱205,829

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 ₱104,762,509 to its defined benefit plan in 2011. The Group does not expect to contribute to its defined benefit plan in 2012.

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

	2011			
	Parent	Subsidiaries		
	Company	IITC	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%**

	2010			
	Parent	Subsidiaries		
	Company	IITC	I-Care	Home Credit
Discount rate	10.09%	8.25%	8.75%	10.50%
Expected rate of return on plan assets	7.00%	7.00%	7.00%	7.00%
Rate of salary increases	10.00%	8.00%	8.00%	4.00%

Amounts for the current and prior periods are as follows:

	2011			
	Parent	Subsidiaries		
	Company	IITC	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 - gain	**(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	IITC	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	IITC	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	IITC	I-Care	Home Credit
Present value of defined benefit obligation	₱354,630,272	₱4,392,075	₱7,357,805	₱2,650,702
Fair value of plan assets	734,017,115	3,924,795	6,245,133	2,768,140
Unfunded defined benefit obligation (net plan assets)	(379,386,843)	467,280	1,112,672	(117,438)
Experience adjustments on defined benefit obligation - loss (gain)	(15,302,900)	(45,871)	–	103,854
Experience adjustments on plan assets - loss	(58,633,100)	(176,730)	(213,992)	(21,712)

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

24. Income Taxes

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

	2011	2010
Current:		
Final tax	**₱296,662,892**	₱310,736,321
RCIT	**989,776**	1,382,879
MCIT	**1,278,119**	1,388,815
	298,930,787	313,508,015
Deferred	**67,075,903**	(23,681,799)
	₱366,006,690	₱289,826,216

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

Deferred Income Tax Assets - Net

	2011	2010
Deferred income tax assets - tax effects of:		
Allowance for impairment on loans and receivables	**₱37,151,425**	₱36,853,626
Accrued expenses not yet deductible	**1,289,618**	1,080,358
Unamortized past service cost contributions	**1,205,205**	955,453
Retirement and other long-term employee benefits payable	**444,445**	717,463
Allowance for impairment of supplies	**67,240**	67,240
Unrealized foreign exchange loss	**121**	31,609
Excess MCIT	**277,537**	20,818

(Forward)

	2011	2010
Total deferred income tax assets	**40,435,591**	39,726,567
Deferred income tax liability - tax effect of		
unrealized gain on AFS financial assets	**(1,769,741)**	(1,503,552)
Net deferred income tax assets	**₱38,665,850**	₱38,223,015

Deferred Income Tax Liabilities - Net

	2011	2010
Deferred income tax assets - tax effects of:		
NOLCO	**₱197,620,110**	₱232,715,418
Unrealized foreign exchange loss	**251,186,838**	268,909,984
Accrued expenses not yet deductible	**113,857,174**	106,205,719
Unamortized past service cost contributions	**49,734,467**	50,442,247
Allowance for impairment on loans and receivables	**42,937,555**	48,217,096
Total deferred income tax assets	**655,336,144**	706,490,464
Deferred income tax liabilities - tax effects of:		
Revaluation increment in investment properties	**(1,351,901,225)**	(1,356,251,415)
Reserve for fluctuation in AFS financial assets	**(430,160,000)**	(324,936,103)
Retirement benefits asset	**(41,871,181)**	(20,218,035)
Accrued rent income	**(9,808,376)**	(10,462,894)
Total deferred income tax liabilities	**(1,833,740,782)**	(1,711,868,447)
Net deferred income tax liabilities	**(₱1,178,404,638)**	(₱1,005,377,983)

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:

	2011	2010
NOLCO	**₱2,146,458,882**	₱1,973,075,912
Excess of MCIT over RCIT	**4,095,793**	4,316,786

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

Year Incurred	Expiration	January 1, 2011	Incurred	Applied	Expired	December 31, 2011
2008	2011	₱1,080,836,874	₱–	₱–	₱1,080,836,874	₱–
2009	2012	515,763,125	–	–	–	515,763,125
2010	2013	1,152,193,973	–	–	–	1,152,193,973
2011	2014	–	1,137,327,431	–	–	1,137,327,431
		₱2,748,793,972	₱1,137,327,431	₱–	(₱1,080,836,874)	₱2,805,284,529

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

Year Incurred	Expiration	January 1, 2011	Incurred	Applied	Expired	December 31, 2011
2008	2011	₱335,643	₱–	₱–	₱335,643	₱–
2009	2012	3,849,748	–	–	–	3,849,748
2010	2013	131,395	–	–	–	131,395
2011	2014	–	389,669	–	–	389,669
		₱4,316,786	₱389,669	₱–	(₱335,643)	₱4,370,812

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:

	2011	2010
Provision for income tax at statutory income tax rates	**₱976,928,766**	₱859,281,662
Adjustments for:		
Interests and dividends subjected to final tax at a lower rate	**(557,084,240)**	(546,735,966)
Movement on NOLCO and excess of MCIT		
over RCIT with no deferred tax set up	**376,390,851**	403,783,341
Equity in net earnings of an associate	**(349,079,862)**	(280,002,923)
Gain on sale of investments in AFS financial assets - net	**(80,410,875)**	(160,126,745)
Nontaxable income – net	**(6,440,303)**	(5,101,216)
Nondeductible expenses	**2,940,967**	6,083,109
Nondeductible interest expense	**1,543,308**	1,818,049
Impairment losses on properties and AFS financial assets	**1,218,078**	10,826,905
Provision for income tax	**₱366,006,690**	₱289,826,216

Revenue Regulations (RR) 19-2011 and 15-2010
On December 9, 2011, the Bureau of Internal Revenue issued RR 19-2011 amending certain provisions of Revenue Memorandum Circular No. 57-2011. These regulations require that additional disclosures in the notes to financial statements shall be made to include information on taxable income and deductions to be taken.

On November 25, 2010, the BIR issued RR 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes, duties and licenses paid or accrued during the year.

Details are disclosed in the separate financial statements of the parent company and its subsidiaries.

25. Related Party Transactions

Transactions with related parties consist mainly of:

a. Savings and current accounts and cash equivalents are maintained with UBP, an associate:

	2011	2010
Savings and current accounts (Note 4)	**₱82,271,504**	₱63,515,125
Cash equivalents (Note 4)	**570,350,426**	1,047,784,367
	₱652,621,930	₱1,111,299,492

Interest income relating to these accounts, which are based on market rates, amounted to ₱31,467,051 and ₱22,435,431 in 2011 and 2010, respectively (Note 16).

b. Investments in government securities made through IITC, classified as HTM financial assets, amounted to ₱194,802,581 as of December 31, 2010 (nil in 2011).

c. The Parent Company's transactions with subsidiaries and the related account balance that were eliminated during consolidation are as follows:

	2011	2010
<u>IITC</u>		
Rent income	**₱1,764,758**	₱1,786,877
<u>ILAC GA</u>		
Accounts receivable	**112,883**	106,708

<u>I-Care and Home Credit</u>
Membership fees received by ICARE from Home Credit amounting to ₱644,525 for the year ended December 31, 2011 (nil in 2010).

<u>Terms of Intercompany Transactions</u>
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. Based on management's evaluation, there is no impairment on receivables relating to amounts owed by related parties as of December 31, 2011 and 2010.

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

	2011	2010
Salaries and other short-term employee benefits	**₱307,385,453**	₱255,252,483
Post-employment and other long term benefits	**8,724,215**	9,533,700
	₱316,109,668	₱264,786,183

26. Trust Operations

Securities and other properties held by IITC in fiduciary or agency capacities for its customers amounting to ₱0.3 billion as of December 31, 2010 and nil as of December 31, 2011, are not included in the consolidated financial statements since these are not assets of the Group. Trust income amounted to ₱0.02 million in 2011 and ₱5.4 million in 2010.

On October 23, 2009, the Trust Committee and the Board of Directors (BOD) of IITC 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 IITC's trust operation effective April 16, 2010.

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

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:

	2011	2010
Within one year	**₱14,978,947**	₱15,895,710
After one year but not more than five years	**17,859,956**	16,518,513
	₱32,838,903	₱32,414,223

b. Operating lease commitments - the Group as lessor

The future minimum rentals receivable under noncancelable operating leases follows:

	2011	2010
Within one year	**₱78,918,441**	₱100,293,261
After one year but not more than five years	**122,243,861**	195,935,933
More than five years	**22,733,903**	27,960,271
	₱223,896,205	₱324,189,465

Rent expense recognized in 2011 and 2010 amounted to ₱21,033,208 and ₱21,743,783, respectively (Note 19).

28. Financial Instruments

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

	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS				
Insurance Receivables				
Due premiums	**₱247,136,135**	**₱247,136,135**	₱221,455,139	₱221,455,139
Reinsurance assets	**11,273,777**	**11,273,777**	9,249,234	9,249,234
	258,409,912	**258,409,912**	230,704,373	230,704,373

(Forward)

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets at FVPL				
Cash and cash equivalents	**449,561,966**	**449,561,966**	114,093,126	114,093,126
Equity securities – quoted	**2,242,142,762**	**2,242,142,762**	1,522,164,669	1,522,164,669
Debt securities - fixed interest rates - quoted:				
Government:				
Local currency	**854,197,791**	**854,197,791**	596,181,600	596,181,600
Foreign currency	**1,334,882,895**	**1,334,882,895**	1,338,366,162	1,338,366,162
Corporate	**380,483,903**	**380,483,903**	539,401,535	539,401,535
Interest receivable	**46,500,276**	**46,500,276**	25,104,962	25,104,962
	5,307,769,593	**5,307,769,593**	4,135,312,054	4,135,312,054
HTM Financial Assets - quoted debt securities - fixed interest rates:				
Government:				
Local currency	**14,433,791,329**	**17,507,962,351**	12,882,949,060	15,187,774,995
Foreign currency	**3,040,555,575**	**3,448,021,933**	3,035,847,385	3,602,271,136
Corporate				
Local currency	**1,096,352,066**	**1,196,981,801**	1,043,037,579	1,165,062,015
Foreign currency	**21,724,814**	**28,267,668**	22,211,802	23,895,931
	18,592,423,784	**22,181,233,753**	16,984,045,826	19,979,004,077
Loans and Receivables				
Cash and cash equivalents	**3,237,486,066**	**3,237,486,066**	2,984,430,101	2,984,430,101
Term loans	**14,373,534,104**	**16,405,604,068**	12,423,451,477	14,068,912,273
Policy loans	**5,666,841,882**	**5,666,841,882**	5,265,458,648	5,265,458,648
Interest receivable	**671,640,443**	**671,640,443**	667,605,951	667,605,951
Accounts receivable	**154,488,398**	**154,488,398**	197,192,564	197,192,564
Housing loans	**150,172,143**	**197,078,631**	158,607,975	193,916,743
Mortgage loans	**99,569,073**	**99,569,073**	143,990,305	143,990,305
Car financing loans	**48,499,793**	**65,024,830**	42,987,237	50,870,206
Stock loans	**28,967,507**	**28,967,507**	38,137,261	38,137,261
Finance leases	**36,782,868**	**42,899,808**	36,206,523	45,320,715
Due from agents	**1,602,540**	**1,602,540**	1,246,405	1,246,405
Others	**69,790,617**	**69,790,617**	58,017,673	58,017,673
	21,301,889,368	**23,403,507,797**	19,032,902,019	20,730,668,744
	24,539,375,434	**26,640,993,863**	22,017,332,120	23,715,098,845
AFS Financial Assets				
Equity securities:				
Quoted	**4,609,365,480**	**4,609,365,480**	3,919,270,017	3,919,270,017
Unquoted	**6,131,482,593**	**6,131,482,593**	5,364,056,119	5,364,056,119
Debt securities:				
Quoted:				
Government:				
Local currency	**2,636,391,620**	**2,636,391,620**	2,022,605,154	2,022,605,154
Foreign currency	**1,066,598,702**	**1,066,598,702**	994,128,298	994,128,298
Corporate	**56,292,172**	**56,292,172**	36,267,564	36,267,564
Unquoted – government	**9,337,474**	**9,337,474**	43,718,380	43,718,380
	14,509,468,041	**14,509,468,041**	12,380,045,532	12,380,045,532
	₱63,207,446,764	**₱68,897,875,162**	₱55,747,439,905	₱60,440,164,881

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL LIABILITIES				
Insurance Liabilities				
Legal policy reserves	**₱44,905,957,034**	**₱44,905,957,034**	₱41,505,471,988	₱41,505,471,988
Other insurance liabilities:				
Members' deposits and other funds on deposit	**10,525,936,907**	**10,525,936,907**	9,052,937,714	9,052,937,714
Reserve for dividends to members	**1,229,055,015**	**1,229,055,015**	1,203,371,425	1,203,371,425
Claims pending settlement	**700,088,095**	**700,088,095**	615,102,700	615,102,700

(Forward)

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Other Financial Liabilities				
Accrued expenses and other liabilities:				
Accounts payable	**424,526,193**	**487,613,992**	417,001,948	428,950,372
Accrued employee benefits	**273,893,965**	**273,893,965**	277,744,359	277,744,359
Preferred shares of Home Credit owned by its members	**156,984,278**	**156,984,278**	137,546,581	137,546,581
Commissions payable	**94,929,171**	**94,929,171**	129,756,161	129,756,161
Advances from joint venture	**83,797,768**	**83,797,768**	79,834,764	79,834,764
General expenses due and accrued	**65,568,116**	**65,568,116**	60,912,380	60,912,380
Others*	**57,902,713**	**57,902,713**	23,160,798	23,160,798
	₱58,518,639,255	**₱58,581,727,054**	₱53,502,840,818	₱53,514,789,242

**Excluding statutory liabilities amounting to ₱30,231,569 and ₱24,249,470 as of December 31, 2011 and 2010, 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 value of unquoted equity securities were valued using pricing models which include reference to the current market value of another instrument that is substantially the same and assumptions as determined reasonable by the management at the time of valuation.

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 5% to 17% in 2011 and 6% to 11% in 2010. 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:

	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**

	2010			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Financial Assets at FVPL				
Equity securities	₱1,522,164,669	₱–	₱–	₱1,522,164,669
Debt securities	2,473,949,297	–	–	2,473,949,297
	3,996,113,966	–	–	3,996,113,966
AFS Financial Assets				
Equity securities	3,919,270,017	–	5,268,015,558	9,187,285,575
Debt securities	3,053,001,016	43,718,380	–	3,096,719,396
	6,972,271,033	43,718,380	5,268,015,558	12,284,004,971
	₱10,968,384,999	₱43,718,380	₱5,268,015,558	₱16,280,118,937

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:

	2011	2010
Beginning balance	**₱5,268,015,558**	₱4,898,073,683
Fair value gain	**1,103,763,069**	369,941,875
Transfer to Level 2 fair value hierarchy	**(317,884,418)**	–
Ending balance	**₱6,053,894,209**	₱5,268,015,558

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.

In 2010, there were no transfers within the different levels.

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 ₱5,571,292,479 and ₱4,561,451,063 as of December 31, 2011 and 2010, respectively.

The following assumptions were used to determine the fair value of PSPC shares of stock as of December 31, 2011 and 2010:

- 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 ₱12.60 per share and ₱18.82 per share in 2011 and 2010, respectively.
- The PBV multiple of PCOR is 1.9395x and 3.3076x in 2011 and 2010, respectively.
- The PBV multiple of Petron for 2010 was discounted by 55.45%. The discount tempers the year-end PCOR PBV multiple, which significantly rose due to the extreme price movement on news specific only to Petron. The discount factor of 55.45% was arrived at by comparing the weighted average price of Petron in the first 11 months of 2010 (i.e ₱6.2315 for the period January 4 to November 22) when prices were stable as against the last month (i.e. ₱13.9891 for the period November 23 to

December 30), when prices rose from ₱6.00 levels to a high of ₱18.82 at yearend 2010. The weighted average price:

a. takes into account the full market performance of the stock for 2010, including the volume of shares transacted in various price levels.
b. tempers extreme price movements caused by extraordinary developments/news in the market.
c. was determined using a third party system (i.e. Technistock)

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:

2011		2010	
Change in variable	**Effect on equity**	Change in variable	Effect on equity
Increase by .5%	**₱27,856,462**	Increase by .5%	₱22,807,255
Decrease by .5%	**(27,856,462)**	Decrease by .5%	(22,807,255)

The Group has investments in Shell Co. of the Philippines (SCOP) and The Medical City (MC) shares of stock which are not quoted in the market as of December 31, 2011 and 2010. Included in the unquoted shares of stock as of December 31, 2010 is the Group's investment in AHI shares of stock which already had an observable quoted price in market in 2011.

The estimated fair market values of the aforementioned shares are as follows:

	2011	2010
Shell Co. of the Philippines	**₱101,861,617**	₱100,550,384
The Medical City	**380,740,113**	327,733,363
Asian Hospital	**317,884,418**	278,280,748

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
		AHI	SCOP	MC	on equity
2011	**Increase**	–	**10.10%**	**6.25%**	₱34,091,456
	Decrease	–	**10.10%**	**6.25%**	(34,091,456)
2010	Increase	1.52%	13.03%	2.94%	26,996,596
	Decrease	1.52%	13.03%	2.94%	(26,996,596)

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:

	2011	2010
Whole Life		
Gross	**₱93,407,727,126**	₱92,066,915,254
Net	**83,112,557,780**	82,023,613,847
Endowment		
Gross	**25,243,059,636**	21,132,005,154
Net	**24,541,878,755**	20,556,431,439
Term Insurance		
Gross	**14,559,142,125**	14,045,583,894
Net	**14,271,311,302**	14,046,810,919
Group Insurance		
Gross	**72,707,476,228**	68,608,745,179
Net	**55,530,084,146**	49,351,953,749
Variable Life		
Gross	**1,991,718,611**	1,119,237,738
Net	**1,209,928,115**	909,312,605
Total		
Gross	**₱207,909,123,726**	₱196,972,487,219
Net	**₱178,665,760,098**	₱166,888,122,559

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 2011 and 2010, the resulting values are lower than the statutory reserves.

	December 31, 2011	December 31, 2010
Scenario	**% Change from Base Run**	% Change from Base Run
Base Run	**0.00%**	0.00%
Mortality + 5%	**(2.51%)**	(1.96%)
Investment Return + 1%	**2.69%**	1.89%
Discount Rate - 1%	**4.79%**	7.13%
Expense + 10%	**(8.24%)**	(6.74%)
Lapse + 5%	**(0.79%)**	(0.48%)

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 follows:

	2011	2010
Housing loans	**₱144,565,052**	₱170,313,549
Mortgage loans	**97,595,278**	105,680,612
Finance leases	**32,794,576**	34,932,562
Stock loans	**8,425,731**	7,560,938
	₱283,380,637	₱318,487,661

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, 2011 and 2010.

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

	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**

(Forward)

	2011			
	Neither past due nor impaired			
	Investment Grade	Non-Investment Grade	Past due or Impaired	Total
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
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
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
Mortgage loans	99,569,073		6,466,617	106,035,690
Accounts receivable	–	143,746,576	179,630,444	323,377,020
Housing loans	150,172,143	–	–	150,172,143
Due from agents	–	1,602,541	91,667,077	93,269,618
Finance leases	–	36,782,868	–	36,782,868
Car financing loans	48,499,793	–	–	48,499,793
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
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
	₱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.*

	2010			
	Neither past due nor impaired			
	Investment Grade	Non-Investment Grade	Past due or Impaired	Total
Insurance Receivables				
Due premiums	₱221,455,139	₱–	₱–	₱221,455,139
Reinsurance assets	–	9,249,234	–	9,249,234
	221,455,139	9,249,234	–	230,704,373
Financial Assets at FVPL				
Cash and cash equivalents	114,093,126	–	–	114,093,126
Quoted equity securities	1,522,164,669	–	–	1,522,164,669
Quoted debt securities - fixed interest rates:				
Government:				
Local currency	596,181,600	–	–	596,181,600
Foreign currency	1,338,366,162	–	–	1,338,366,162
Corporate	539,401,535	–	–	539,401,535
Interest receivable	25,104,962	–	–	25,104,962
	4,135,312,054	–	–	4,135,312,054
HTM Financial Assets - debt securities - fixed interest rates:				
Government:				
Local currency	₱12,882,949,060	₱–	₱–	₱12,882,949,060
Foreign currency	3,035,847,385	–	–	3,035,847,385
Corporate:				
Local currency	1,043,037,579	–	–	1,043,037,579
Foreign currency	22,211,802	–	–	22,211,802
	16,984,045,826	–	–	16,984,045,826
Loans and Receivables				
Cash and cash equivalents*	2,984,178,876	–	–	2,984,178,876
Term loans	12,423,451,477	–	–	12,423,451,477
Policy loans	5,265,458,648	–	–	5,265,458,648
Interest receivable	667,605,951	–	–	667,605,951
Mortgage loans	143,990,305	–	17,794,742	161,785,047
Accounts receivable	–	140,944,993	231,529,464	372,474,457
Housing loans	158,607,975	–	–	158,607,975
Due from agents	–	1,246,405	96,062,119	97,308,524
Finance leases	–	36,206,523	–	36,206,523
Car financing loans	42,987,237	–	–	42,987,237
Stock loans	–	38,137,261	–	38,137,261
Others	–	58,017,673	–	58,017,673
	18,702,101,593	274,552,855	345,386,325	19,322,040,773
AFS Financial Assets				
Equity securities:				
Quoted	3,919,270,017	–	–	3,919,270,017
Unquoted	5,364,056,119	–	–	5,364,056,119
Debt securities:				
Quoted:				
Government:				
Local currency	2,022,605,154	–	–	2,022,605,154
Foreign currency	994,128,298	–	–	994,128,298
Corporate	36,267,564	–	–	36,267,564
Unquoted - government	43,718,380	–	–	43,718,380
	12,380,045,532	–	–	12,380,045,532
	₱55,407,139,020	₱283,802,089	₱345,386,325	₱56,036,327,434

**Excluding cash on hand amounting to ₱251,225 as of December 31, 2010.*

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:

	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**	**₱288,505,960**

	2010					
	Past due but not impaired				Past due and	
	< 30 days	31 to 60 days	>60 days	Total	Impaired	Total
Loans and receivables:						
Accounts receivable	₱–	₱360,048	₱55,887,523	₱56,247,571	₱175,281,893	₱271,529,464
Mortgage loans	–	–	–	–	17,794,742	17,794,742
Due from agents	–	–	–	–	96,062,119	96,062,119
	₱–	₱360,048	₱55,887,523	₱56,247,571	₱289,138,754	₱401,633,896

For assets to be classified as 'past due and impaired', contractual payments in arrears are more than 90 days. An impairment adjustment is recorded in the consolidated statement of income for these asset write-offs. When credit exposure is adequately secured, arrears of more than 90 days might still be classified as 'past due but not impaired', with no impairment adjustment recorded. The Group operates mainly on a 'neither past due nor impaired basis' and when evidence of impairment is available, sufficient collateral will be obtained for 'past due and impaired' assets, an impairment assessment will also be performed if applicable.

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

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:

	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**

	2011				
	Up to a year	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
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:					
Accounts payable	**446,089,645**	**23,499,372**	**12,503,082**	**5,585,188**	**487,677,287**
Accrued employee benefits	**5,043,047**	**–**	**–**	**273,893,965**	**278,937,012**
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	**89,987,982**	**–**	**–**	**–**	**89,987,982**
	785,726,555	**23,499,372**	**12,503,082**	**279,479,153**	**1,101,208,161**
Total financial liabilities	**11,333,641,165**	**4,398,298,254**	**2,848,068,487**	**39,819,321,830**	**58,399,329,736**
Liquidity gap	**₱3,860,302,925**	**₱4,824,429,412**	**₱4,047,869,717**	**₱19,295,509,293**	**₱32,028,111,347**

	2010				
	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Financial assets:					
Cash and cash equivalents	₱2,984,430,101	₱–	₱–	₱–	₱2,984,430,101
Insurance receivables	230,704,373	–	–	–	230,704,373
Financial assets at FVPL	66,574,294	375,229,618	1,316,646,198	2,313,847,429	4,072,297,539
HTM financial assets	1,729,124,955	9,951,410,801	4,323,042,827	20,781,647,825	36,785,226,408
Loans and receivables	7,446,985,247	4,260,548,211	4,181,346,392	7,084,194,118	22,973,073,968
AFS financial assets	869,317,975	2,387,967,894	1,737,471,252	25,546,483,284	30,541,240,405
Total financial assets	13,327,136,945	16,975,156,524	11,558,506,669	55,726,172,656	97,586,972,794
Insurance liabilities:					
Legal policy reserves	3,273,518,185	2,502,618,521	2,994,902,390	32,670,655,091	41,441,694,187
Other insurance liabilities:					
Members' deposits and other funds on deposit	1,695,896,672	11,908,016	1,039,202,041	6,305,930,985	9,052,937,714
Reserve for dividends to members	1,203,371,425	–	–	–	1,203,371,425
Claims pending settlement	615,102,700	–	–	–	615,102,700
	3,514,370,797	11,908,016	1,039,202,041	6,305,930,985	10,871,411,839
Other financial liabilities:					
Accrued expenses and other liabilities:					
Accounts payable	380,891,664	32,278,990	40,750,970	20,597,576	474,519,200
Accrued employee benefits	4,609,273	–	–	273,135,086	277,744,359
Commissions payable	129,756,161	–	–	–	129,756,161
Advances from joint venture	79,834,764	–	–	–	79,834,764
General expenses due and accrued	60,912,380	–	–	–	60,912,380
Others	26,200,184	21,210,084	–	–	47,410,268
	682,204,426	53,489,074	40,750,970	293,732,662	1,070,177,132
Total financial liabilities	7,470,093,408	2,568,015,611	4,074,855,401	39,270,318,738	53,383,283,158
Liquidity gap	₱5,857,043,537	₱14,407,140,913	₱7,483,651,268	₱16,455,853,918	₱44,203,689,636

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

The amount of legal policy reserves and death claims pending settlements amounted to ₱5,270,311,797 as of December 31, 2011 expected to be paid out in 2012 and ₱3,888,620,885 as of December 31, 2010 expected to be paid out in 2011.

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:

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**

2010

		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%	₱–	₱41,053,452	₱–	₱52,634,875	₱22,396,426	₱480,096,847	₱596,181,600
Foreign currency	2%-10%	–	20,085,726	–	53,789,037	988,758,452	275,732,947	1,338,366,162
Corporate	6%-12%	103,000,000	65,384,626	148,500,000	70,385,540	123,100,760	29,030,609	539,401,535
		103,000,000	126,523,804	148,500,000	176,809,452	1,134,255,638	784,860,403	2,473,949,297
AFS Debt Securities								
Quoted:								
Government:								
Local currency	5%-9%	42,775,408	441,619,115	106,201,082	53,227,111	–	1,378,782,438	2,022,605,154
Foreign currency	7%-8%	–	123,043,483	–	25,680,844	–	845,403,971	994,128,298
Corporate	8%	–	14,126,539	–	22,141,025	–	–	36,267,564
Unquoted	3%-5%	–	34,486,615	9,231,765	–	–	–	43,718,380
		42,775,408	613,275,752	115,432,847	101,048,980	–	2,224,186,409	3,096,719,396
		₱145,775,408	₱739,799,556	₱263,932,847	₱277,858,432	₱1,134,255,638	₱3,009,046,812	₱5,570,668,693

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, 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**

December 31, 2010:

	Changes in variable	Effect on income before tax	Effect on equity
USD	+ 25 basis points	(₱5,684,545)	(₱22,026,013)
PHP	+ 25 basis points	(6,561,135)	(17,876,090)
USD	- 25 basis points	6,009,970	23,334,394
PHP	- 25 basis points	6,656,595	18,197,423

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
2011	**Increase by 0.5%**	**₱10,645,107**	**₱32,203,801**
	Decrease by 0.5%	**(10,645,107)**	**(32,203,801)**
2010	Increase by 0.5%	7,920,716	38,639,935
	Decrease by 0.5%	(7,920,716)	(38,639,935)

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 that can be an easy multiple of measurement for the Group was used.

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:

	2011		2010	
	United States Dollar Value	**Peso Equivalent**	United States Dollar Value	Peso Equivalent
Assets				
Financial assets at FVPL	**US$11,055,289**	**₱485,636,735**	US$9,421,564	₱413,465,336
HTM financial assets	**69,711,355**	**3,062,280,402**	69,683,472	3,058,059,169
AFS financial assets	**24,280,612**	**1,066,598,724**	21,782,920	955,943,444
	US$105,047,256	**₱4,614,515,861**	US$100,887,956	₱4,427,467,949
Liability				
Legal Policy Reserves	**US$78,025,164**	**₱3,427,489,404**	US$76,928,763	₱3,376,018,764

The foregoing United States Dollar amounts have been restated to their Peso equivalents using the exchange rate of ₱43.928 and ₱43.885 to US$1, as recommended by IC, as of December 31, 2011 and 2010, respectively. Net unrealized foreign exchange gain amounted to ₱3,362,458 in 2011. Net unrealized foreign exchange loss amounted to ₱257,707,020 in 2010.

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
2011	**Increase by 1.72%**	**₱76,763,863**
	Decrease by 1.72%	**(76,763,863)**
2010	Increase by 1.43%	64,039,754
	Decrease by 1.43%	(64,039,754)

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 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, 2011 and 2010, the Group's estimated MOS based on its calculation amounted to ₱5,657,096,221 and ₱4,672,551,611, respectively. The final amount of the MOS 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.

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:

	2011	2010
Property and equipment - net	**₱128,338,644**	₱134,003,287
Accounts receivable and other assets	**318,488,324**	268,663,029
	₱446,826,968	₱402,666,316

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, 2011 and 2010, 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:

	2011	2010
Minimum statutory net worth	**₱500,000,000**	₱350,000,000
Minimum paid-up capital	**250,000,000**	175,000,000

The BOT has approved the appropriation of ₱250,000,000 and ₱175,000,000 for the minimum paid-up capital required as of December 31, 2011 and 2010, respectively, and such amount as required under the foregoing DOF Order No. 27-06 dated September 1, 2006 by December 31 of each year until 2011.

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

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

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, 2011 and 2010, 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:

	2011	2010
Net worth	**₱21,076,876,926**	₱18,288,079,650
Aggregate RBC requirement	**10,936,417,788**	9,569,311,099
RBC Ratio	**193%**	191%

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 2010 and 2011, BIR appealed to the Supreme Court where the cases are yet to be resolved.

   The cases are expected to be resolved by the Supreme Court within 2012. 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 Supreme Court 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.

   The request for refund and/or issuance of Tax Credit Certificates is still pending in the BIR Office of the Commissioner.

c. IITC 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 IITC that involves a complaint for specific performance and sum of money amounting to ₱90 million. As counterclaims, IITC 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. IITC 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. IITC awaits the initial order from the Court of Appeals.

   There are other treasury bills amounting to ₱119.6 million (included in the "Other receivables" account under "Loans and receivables" in the balance sheet) bought and paid for, but remain undelivered to IITC by a financial institution also involved in the prearranged transactions. On March 25, 1995, IITC filed a case with the Makati Regional Trial Court (Makati RTC) for the recovery of the ₱119.6 million undelivered treasury bills. On June 16, 2003, the Makati RTC rendered a decision allowing IITC to claim 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 IITC, filed their respective appeals before the CA. On June 8, 2008, the CA set aside for lack of basis the Makati RTC's decision allowing IITC to claim for the ₱119. 6 million, including accrued interest. IITC questioned the said CA decision through a Petition for Review filed with the Supreme Court. The case is still pending resolution. IITC management and its legal counsel, however, believe that the case will ultimately be resolved in favor of IITC.

The Insular Life Assurance Company, Ltd.

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(As of March 1, 2012)

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(As March 1, 2012)

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[1] Seconded as concurrent President of Insular Investment and Trust Corporation and of HomeCredit 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 and Trust Corporation
Investment banking

IITC Subsidiaries:

Insular Property Ventures, Inc.
Residential/ Commercial development

IITC 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.

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"Financial planning is the best approach to achieve a financially prosperous life in the future, without having to sacrifice the enjoyment of the present."

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

Ideas are the primary means by which we influence each other, and the words we use allow us to share key concepts which can effect a change in the way we think, and the way we act.

In this annual report, we shine a spotlight on the words of respected and visionary individuals who have shared their wisdom through the years. Their statements have become the basis and impetus for action.

Their ideas and words are presented upfront, as a direct statement to our stakeholders that Insular Life will continue to provide the vision and foresight that will enable them to plan for their future and achieve their financial goals.

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