Insular

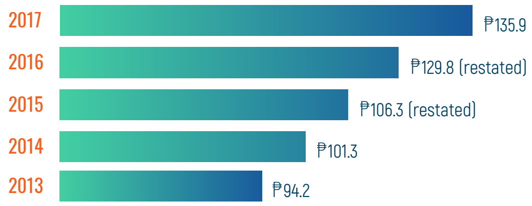
inlife for good

2017 ANNUAL REPORT

INTUNE WITH TODAY, INTOUCH WITH TOMORROW

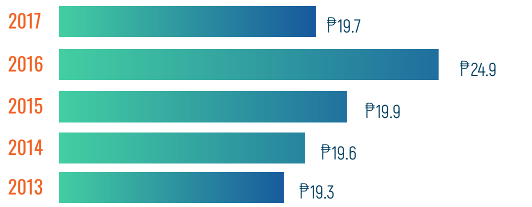
Consolidated Financial Highlights

CONSOLIDATED ASSETS
in billion pesos



CONSOLIDATED NET INCOME
in billion pesos

CONSOLIDATED REVENUES
in billion pesos



CONSOLIDATED MEMBERS' EQUITY
in billion pesos

About the Report

Content

This Insular Group 2017 Annual Report gives an update on the progress and priorities set out in our previous report in 2016. It contains data and information on various aspects of our business and operations. Our intention is to provide a holistic view of our financial, operational, social responsibility, and governance performance.

Audience

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

Reporting Cycle and Boundary

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

Data Collection and Validation

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

Reporting Criteria

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

Feedback

We welcome feedback from our stakeholders to improve our reporting process.

Please email Mr. Jude C. Galford III / Public Relations Staff at jcgalford@insular.com.ph

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Our Theme

Inlife is in touch with the current times and understands the concerns of people in various life stages. We are a company that knows and addresses what its policyholders long for: joy and comfort today, and time with loved ones and financial security tomorrow. InLife bridges the gap between dream and reality, giving policyholders the ability to concretize the future.

The design sensibility is anchored on self-awareness and playfulness: vibrant, colorful and modern, with elements that suggest things young people care about: technology, relationships, travel, and "selfies" to mark the moment. Circles and other icons reflect the ever-present digital aspect of life, while color in the font titles and callouts generate positivity and a light, youthful flair.

Concept, design and layout by Kestrel IMC. ▪ Photography by Christian Halili ▪ Printing by Dolmar Printing

Inside this Report

Numbers that Matter

₱41 billion
NET WORTH
(Parent Company)

₱8.1 billion
GROSS BENEFITS AND CLAIMS PAID
(Parent Company)

₱140.1 billion
ASSETS
(Parent Company)

₱280.5 billion
BUSINESS IN FORCE
(Parent Company)

₱62.4 billion
LEGAL POLICY RESERVES
(Parent Company)

22 Total Number of
INSULAR LIFE BUILDINGS NATIONWIDE

14.17%

EQUITY FUND

1-year return
as of Dec. 29, 2017

12.5% 10-year CAGR
as of March 31, 2018

6.6%

BALANCED FUND

1-year return
as of Dec. 29, 2017

8% 10-year CAGR
as of March 31, 2018

54

Total Number of
INSULAR LIFE BRANCH OFFICES NATIONWIDE

37 years old

AVERAGE AGE OF INSULAR LIFE EMPLOYEES

98.8%

Percentage of
LOMA PASSERS

62%

Percentage of
FEMALE EMPLOYEES

THE INSULAR LIFE ASSURANCE COMPANY, LTD.

CONSOLIDATED FIVE-YEAR FINANCIAL HIGHLIGHTS (in million pesos)

FOR THE YEAR	2017	2016 (as restated)	2015 (as restated)	2014	2013
Net Income per FS	**5,034**	4,933	1,769	2,949	2,392
Net Insurance Revenue per FS	**12,219**	12,929	13,587	12,784	12,342
Operating Revenue	**7,508**	11,978	6,348	6,846	7,003
Total Revenue per FS *(Net Insurance Revenue + Operating Revenue)*	**19,727**	24,907	19,935	19,630	19,345
Assets	**135,902**	129,792	106,293	101,354	94,202
Cash and Cash Equivalents	**4,966**	7,865	7,108	7,260	5,499
Cash on hand and in banks	**628**	549	584	1,108	864
Cash equivalents in commercial banks	**4,338**	7,315	6,524	6,152	4,635
Liabilities	**99,371**	97,046	89,441	78,505	72,105
Retained Earnings	**26,289**	21,460	16,949	20,442	18,312
Appropriated	**550**	550	250	250	250
Unappropriated	**25,739**	20,910	16,699	20,192	18,062
Members' Equity	**36,531**	32,746	16,851	22,849	22,097
Total Liabilities and Members' Equity	**135,902**	129,792	106,293	101,354	94,202

THE INSULAR LIFE ASSURANCE COMPANY, LTD.

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

FOR THE YEAR	2017	2016 (as restated)	2015 (as restated)	2014	2013
Net Income per FS	**4,020**	3,684	1,407	2,355	1,503
Net Insurance Revenue per FS	**11,858**	12,660	13,382	12,584	12,121
Operating Revenue	**6,460**	10,699	5,943	6,196	6,049
Total Revenue per FS *(Net Insurance Revenue + Operating Revenue)*	**18,318**	23,359	19,325	18,779	18,170
Assets	**140,092**	133,218	107,870	104,393	100,108
Cash and Cash Equivalents	**4,297**	7,256	6,618	6,861	5,149
Cash on hand and in banks	**335**	327	439	921	709
Cash equivalents in commercial banks	**3,962**	6,929	6,179	5,940	4,440
Liabilities	**99,109**	96,853	89,286	78,640	72,253
Retained Earnings	**16,706**	12,884	9,613	13,449	11,900
Appropriated	**550**	550	250	250	250
Unappropriated	**16,156**	12,334	9,363	13,199	11,650
Members' Equity	**40,983**	36,365	18,584	25,753	27,854
Total Liabilities and Members' Equity	**140,092**	133,218	107,870	104,393	100,108
New Business Premiums	**7,053**	7,786	8,490	7,865	7,349
Total Premiums	**11,848**	12,479	12,765	11,928	11,277
Gross Investment Income	**4,748**	4,606	4,254	4,223	4,438
Legal Policy Reserves	**62,373**	65,064	61,397	51,058	49,554
Net Worth	**40,983**	36,365	18,584	25,753	27,854
Gross Benefits and Claims Paid	**8,111**	8,067	9,464	9,934	8,325

Making InLife a Force for Good

Q&A with **Nina D. Aguas**
Executive Chairman

For someone who heads a 107-year-old institution, Insular Life Executive Chairman Nina D. Aguas defies stereotypes. She has a distinct and youthful sound — from the cadence of her walk to the way she talks — and her infectious smile is making everyone sit up and ask: "What's Insular Life been up to lately?"

Nina has already built a three-decade career in international and local banking, but she still could not help but brim with excitement, particularly when it comes to the company's new battle cry, **Inlife for Good.**

In this interview, Nina shares her views on how Insular Life strives to remain relevant in a country where majority of the population still have limited or no access to financial services.

How did you come up with Inlife for Good?

Giving birth to **Inlife for Good** was very personal to me.

I've had a storied career working for financial institutions here and abroad. But I've always known that my heart is where the home is and kept a quiet wish to be part of a great local institution – an institution that does good, builds communities and cities, and elevates lives. So, it's by design as well as divine grace that I'm here at Insular Life.

For 107 years now, Insular Life has built a reputation as a company that has made delivering good its primary purpose. We create a positive impact to the lives of our policyholders, our communities, and our country. Thus, the term **"Inlife for Good"** came to be.

"Inlife" is short for Insular Life. If we were to have a broader view of the world and sustain the legacy we leave behind, we should go beyond being "insular," which means narrow-minded, parochial, and shortsighted. It has been over a hundred years since the Company was established in 1910. Back then, being named "Insular" was a source of great national pride, as this connoted being "island born" or born in the Philippines.

If we have to stay relevant to the next generation, particularly to the millennials, we should be "in" — to be current and always in the know of what's happening around us. Adding "For Good" to Inlife gives us a higher purpose to serve.

How will Inlife for Good enable the company to stay relevant?

Evolving changes in technology, demography, as well as consumer needs and expectations are disrupting many businesses, including insurance. In this constantly changing world, **Inlife for Good** will serve as our true north — a fixed point that will help us stay true to what we are and what want to be as a company.

Digitalization can help us fulfill our stakeholders' needs faster and improve customer experience at every touch point — whether they choose to deal with our agents or through bancassurance. We can facilitate two-way conversations, use data to understand them better and find out their needs, and offer products and services that meet those needs.

But to me, digitalization is not really a strategy; it's an enabler. We want Inlife to be at the forefront of digitalization. Our ambition is to be the first fully digitally connected insurance company five years from today.

"For 107 years now, Insular Life has built a reputation as a company that has made delivering good its primary purpose. We create a positive impact to the lives of our policyholders, our communities, and our country."

“...the quality of our human capital – the Inlifers – will continue to be our key differentiator in the industry.”

How do you plan to meet this ambition?

In the last two years, our organization has undergone dramatic transformation. In 2016, we said that the innovation we make is all about making it easy for the policyholder, not because it will be easy for us to do.

In 2017, we stepped up our efforts in many ways you can imagine. Our financial performance still ranks as among the best in the industry. We expect 2018 to be our best year ever, as we inch closer to be the No. 3 by 2022 in terms of gross premium revenues while moving to No. 1 on other financial measures where we currently rank as second or third.

In addition to financial stability, Inlife is also gaining attention for innovation. We are thankful for the awards and recognition we earned from prestigious organizations here and abroad. In 2017, we earned the “Trusted Brand Gold Award” from Reader’s Digest and was recognized as the “Best Domestic Life Insurance Company in the Philippines” in the Insurance Asia Awards 2017 held in Singapore.

The same regional award-giving body also awarded InLife for Digital Insurance Initiative of the Year Award for our Automated Underwriting System (AUS), a first in the local industry. Clearly, the AUS is a worthwhile investment we have made that has already starting to bear fruits. It gave us the technical edge we needed to seal the bancassurance partnership with Union Bank of the Philippines in 2017. To this day, we are proud to say Inlife is the only insurance company in the country that can process and deliver a policy decision in just 30 minutes when others take three to four days to process alone. As of end-2017, AUS users already accounted for 48 percent of our sales force. Our target by the end of 2018 is 100 percent adoption.

On the physical infrastructure side, we finished the renovation of the Insular Life Building in Makati City in 2017. This historic building is an icon reimagined as it has stood the test of time for the past 50 years. It also embodies our environmental responsibility as the building has a Silver LEED (Leadership in Energy and Environmental Design) certification, which means its construction methods and materials, coupled with energy-efficient building equipment, make it a sustainable building. We have also opened the Inlife Learning Center on the mezzanine floor where our agents can hold cozy meetings and attend career opportunity talks and sessions for potential agency recruits in our Wi-Fi and Internet-enabled training rooms.

We have faced many challenges in 2017, particularly in the second half, due to competitive pressures. But we remain more courageous, bolder, and stronger as a result. However, we realized that we could only stay this way as an institution, determined to forge forward, if we look after the people who take care of our policyholders. This is why we broadened the definition of a “customer” — not only to refer to our policyholders, but also to every member of the Inlife family.

Studies show the Philippines is entering a "sweet spot" as its young population enters the workforce and starts contributing to the economy. How does InLife plan to reap its share of this demographic dividend?

Millennials currently comprise about half of the Inlifers. We find that they work as hard, if not harder, than other generations, and are optimistic about their career paths. They also know their priorities when it comes to money, people, and purpose. So harnessing their youthful energy is both interesting and exciting for a 107-year institution like Inlife.

We are also increasingly seeing millennials comprising our customer base. We really find them a different breed: quite opportunistic, more financially savvy, and data-driven when it comes to making decisions. They have the luxury of having information at their fingertips, so they can benchmark and compare various investment options. While this new market segment presents vast opportunities for us, it also poses a certain challenge. We have to learn from the young to stay relevant. We have to use technology, too, to meet their demand for speedy service as they have the penchant for instant gratification. Thus, we have come up with campaigns like #Adulting and investment-linked products like the First Million Fund that cater to the growing millennial market.

How do you plan to make Inlife a greater force for good in society?

We have always been on the lookout for ways to help improve the lives of Filipinos. Beyond business profitability, Inlife has to cast a wider net to reach out to the uninsured and unserved. If there is an insurance company in the Philippines that embraces this philosophy, it is Inlife. And there is no more opportune time to reach out to our countrymen than now. Digital technology enables us to find innovative ways to create meaningful and sustainable impact.

In 2017, Inlife forged a partnership with the International Finance Corporation (IFC) of the World Bank to educate and offer risk-mitigating solutions for women in the country. A 2015 report released by the IFC, entitled "She for Shield: Insure Women to Better Protect All," showed that women represent an untapped $1.7-trillion opportunity, mostly in emerging markets. It has since been exploring partnerships with insurance companies in various countries to raise the uptake of insurance by women.

We are privileged to join IFC in this cause to help women become self-reliant and financially independent. Inlife became the first insurance company in Asia to partner with IFC on this program, which we branded as **"Empowering the Filipino Sheroes."**

We believe this program will bring Inlife to a higher level of significance as we empower Filipinas for good through insurance. Not only will this strengthen our brand's positioning and revenue diversity, it will also raise women's financial literacy and health awareness. More importantly, the potential to create a positive ripple effect in society is vast. When you insure mothers and working women, they will effectively look out for the welfare of their family so more people benefit.

How do you ensure that Inlife's gains will be sustained for good?

We remain bullish and hopeful that the Philippine economy will sustain its growth momentum and Inlife will continue to ride on this trajectory. Competition in the insurance industry is going to be more intense as stronger economic growth creates wider opportunities.

At Inlife, we always look for ways to expand our reach and going digital is one way to go. Technology will enable us to be more agile, more accurate, and more engaging. However, we know that we are an insurance company: face-to-face human interaction is still the best way to serve our customers better. This means the quality of our human capital — the Inlifers — will continue to be our key differentiator in the industry.

Building Inlife as an institution of enduring greatness, defined by its mission of delivering good, continues to be my hope for this Company.

As they say, it takes a village to become a company like no other. For this, I must thank many people — our Inlifers, who root for our success in every step of the way; our smart and committed Board of Trustees, who provide wisdom, guidance and support; and our dear policyholders, who help us learn and open our minds to constant learning and relearning. No matter the challenge, they bless us all with the grit, passion, compassion and class to brave it all. This makes me prouder to serve **Inlife for Good.**

InLife and in Business

Q&A with **Mona Lisa B. dela Cruz**
President & Chief Executive Officer

Thanks to a strong Philippine economy, a growing middle class, and a demographic "sweet spot" wherein the country starts to benefit from the earning capacity of its young population, Insular Life (InLife) continues to reap the benefits of being a strong player in the local insurance industry.

In this interview, President & Chief Executive Officer Mona Lisa B. dela Cruz talks about how the Company is navigating the changing landscape and pushing for inclusiveness in a country where only a little more than half of the population has some form of life insurance.

How would you describe the performance of InLife against that of the local insurance industry in 2017?

The Philippine insurance industry had a banner year in 2017, which can be attributed to a much-improved business environment, relatively lower inflation, and higher economic growth, which stood at 6.7 percent in GDP.

Based on the unaudited quarterly statistical report as of December 31, 2017, submitted by all local life insurers and released by the Insurance Commission (IC) in March 2018:

- Total premiums reached ₱202.5 billion, up 11 percent from 2016 when the industry had a flat performance;
- Total assets grew 18 percent to ₱1.26 trillion; and
- Net worth increased by 19.4 percent to ₱202.4 billion from their 2016 levels.

Other indicators also pointed toward positive growth, as cited by the Insurance Commission in their latest data:

- Insurance density (premiums over population) grew by almost 5 percent at ₱1,930 per person;
- Insurance penetration (premiums over the country's gross domestic product) went up from 1.27 percent to 1.28 percent; and
- Life insurance coverage provided by private insurers rose from 46.22 percent to 52.07 percent, out of an estimated population of 104.9 million Filipinos.

The local insurance industry's robust performance also reflects the feverish competition among players, including Inlife.

Based on the same unaudited quarterly figures from the IC, Inlife managed to secure its industry rankings. The Company ranked No. 2 in net worth, No. 3 in net income and in admitted assets, and No. 7 in premium income.

As we are coming from a record-breaking performance in 2016 in terms of revenues, net income, assets, and net worth, so, naturally, 2017 will be a consolidation.

Based on our audited financial statements as of December 31, 2017, our consolidated net income nonetheless breached the ₱5-billion mark for the first time at, P5.03 billion, growing 2 percent from ₱4.9 billion in 2016.

Consolidated revenues, however, declined by 21 percent to ₱19.7 billion from ₱24.9 billion a year ago. Consolidated total assets grew 5 percent to ₱135.9 billion from ₱130.0 billion year on year. Consolidated members' equity or net worth increased 12 percent at ₱36.5 billion from ₱32.7 billion.

The Parent Company generated net income of ₱4 billion, up by 9 percent from ₱3.7 billion in 2016. Parent Company's assets increased by 5 percent, from ₱133.2 billion in 2016 to ₱140

billion in 2017. We had a net worth of ₱41.0 billion, which was a 13 percent improvement from the 2016 level of ₱36.4 billion. Total business-in-force stood at ₱280.5 billion, with 337,200 policies. This represented a 5 percent growth from the previous year's ₱267.3 billion, with 334,996 policies in force.

On the premium production side, we ended up with a 9-percent drop in new business premiums, which stood at ₱7.1 billion in 2017 versus ₱7.8 billion in 2016. Total premiums were down by 5 percent from a year ago to ₱11.8 billion.

What were the major initiatives of the Company in 2017?

We recognize that the financial services industry is now at a tipping point: either disrupt or get disrupted. A lot of firms are encroaching into the financial arena, not just enticing new customers, but also raising customer expectations for customized and targeted experiences.

While it has a 107-year head start to build a solid reputation and a track record of stability, InLife has to change the way it does business and serve its stakeholders, too. Not only must we learn to adapt, we also must learn to "unlearn" our traditional notions of competing.

This is why innovation and technology had a big impact on the Company's initiatives in 2017, as financial technology (fintech) and insurance technology (insurtech) took center stage. These two factors significantly influenced what we did in 2017 and what we wanted to do in the next five years to remain competitive in the marketplace.

With digital technology, there are now greater opportunities to enhance customer experience and sales distribution. This prompted us to embark on these digital transformation initiatives in 2017:

- We have digitized some of our processes with the use of Robotic Process Automation (RPA). RPA allows faster deployment of programs to automate repetitive and resource-intensive processes. Automation of these repetitive, mundane tasks is critical for enterprises to gain higher efficiency, lower costs and ensure better user experience. Our investment in RPA has already paid for itself with our deployment of robots that will perform repetitive testing of software & generation of scheduled reports.

- Our Customer Portal is now sporting an enhanced look and better interface. It was recently upgraded as mobile first design to be compliant with user experience design best practices. This supports our aim to increase client engagement. We have also added first-in-the-market online straight-through processing for functionalities that ramp up service convenience. Withdrawal of Variable Unit-Linked (VUL) funds can now be done by policyholders online without leaving their homes, with funds credited directly to their nominated bank account. Other transactions such as fund switch and premium redirection for VUL policies can also be done online. Inlife is the first life insurance company offering fully automated services from application to benefit fulfillment.

- In 2017, we launched our e-commerce platform. Our first online product, Prime Care, provides funds for medical treatment of dread diseases. Also, we completed the successful pilot of an e-commerce product sold via our corporate website and serviced through our online customer portal. We are looking at further building up this online distribution channel.

In addition to these exciting initiatives, Inlife remains the only insurance company in the country that offers a fully automated, end-to-end sales process which includes automated underwriting. Policyholders can fill out forms, choose their desired product, undergo underwriting and receive decisions on applications, all online, in just 30 minutes. This fully-automated sales process will also give revised quotations in case the applicant is found to be substandard.

What new products did you launch in 2017 and how do these reflect the changing customer demands?

Consistent with our thrust to provide Filipinos with a better financial future, we launched a new VUL fund called **Peso Global Equity Fund** to allow local investors to diversify into global markets using Philippine pesos. At this point when funds are flowing into developed markets, it is timely to provide our clients with options to diversify internationally. Peso Global Equity Fund provides access to international equities that can take our investors' investment to the next level. Global Equity fund was made available to existing Wealth Secure and VRA products, subject to minimum placements.

I also mentioned earlier that **Prime Care**, apart from being the first product we launched through e-commerce, is itself a product of Inlife's innovation. It is a unique product because it not only offers a lump sum amount upon diagnosis of a critical illness, but also provides a monthly allowance for treatment for three years. It also covers 35 types of critical illnesses.

We also launched **Wealth Assure** on a Guaranteed Issue Offer (GIO) basis, which means applications are accepted and approved instantly. Because it is GIO, there is no need for long health or medical questions, and applications are accepted regardless of one's state of health.

For the first time since we forged a bancassurance partnership with UnionBank of the Philippines in 2017, we also launched two guaranteed issue products exclusively offered by Union for Life for UnionBank clients. These products are: **InLife Security**, a guaranteed issue offer (GIO) product that provides lifetime insurance coverage and living benefits from the policyholder's participation in Inlife's various VUL funds; and the **InLife Prominence**, a GIO, single-pay VUL product that gives clients access to a diverse portfolio of high- yielding assets while providing life insurance protection.

We remain mindful of emerging trends that involve greater use of online platforms and social media to sell our products. The IC recently released new guidelines covering e-commerce, including the use of mobile apps to distribute insurance products. With regulations now in place, we hope to take advantage of emerging technology and introduce other innovations in our product pipeline and sales and distribution channels to heighten product awareness, improve efficiency in delivery, and ultimately, cast a wider net when it comes to insuring as many Filipinos. Our local market is also getting younger, as more young Filipinos enter the workforce and gain purchasing power to buy insurance and invest. These millennials design their life plans — their career path, marriage, etcetera — more deliberately and so we also take these into consideration when we design the products we offer.

What internal initiatives did you roll out in 2017 to prepare your organization for the evolving landscape?

We continue to improve on our systems and processes, not just to gear up for the changing business environment, but more so to provide an even better customer experience. A lot of these initiatives have to do with automation as well as relationship building.

For our bancassurance partnership with UnionBank, we have recruited, trained, and licensed 86 financial advisors and 329 business and relationship managers in 2017. We set up the policy issue system, customer servicing system, and monitoring systems customized to the unique requirements of bancassurance. This year, we are keen on continuously improving our bancassurance support capabilities.

In our continuous effort to improve productivity, we looked at ways to further strengthen our relationship with our agency force. We have built this relationship over many years anchored on mutual trust. InLife continues to regard our high-performing agent partners as one of the key pillars of our resilience as a company amid the onslaught of competition and war for talent, not just within our industry.

The other key pillar is our own people at InLife. To cope with the challenging operating environment and make room for more growth, we also deepened our talent bench and hired key talents in 2017, including an Agency Distribution Head, a Chief Strategy Officer, a Chief Innovation Officer, a Chief Information Security Officer, as well as a new Human Resource Division (HRD) Head.

We also started digitizing employee experience using the Human Resource Information System (HRIS) for data entry, tracking, and information needs of our HRD, payroll, management, and accounting functions within the Company. We also put in place tools that will make it easier for our senior officers to know how they measure job performance and for our employees to be aware of how they are being evaluated. With technology, real-time performance assessment will now be possible so everyone will be on their toes and push work productivity. We are also digitizing the other people processes such as training management, talent acquisition, succession planning, and compensation planning. These tools will enable the company to integrate the people process from "womb to tomb."

In terms of physical infrastructure, a major milestone for us in 2017 was the unveiling of the extensively renovated Insular Life Building in Makati City. The reimagined iconic building now showcases modernized facilities and equipment, a state-of-the-art boardroom, a grand ballroom that can host events for up to 300 people, an updated façade, and a five-level parking building. Insular Life Makati also boasts of its Silver LEED (Leadership in Energy and Environmental Design) certification, which means its construction methods and materials, coupled with energy-efficient building equipment, make it a sustainable building. It uses less water and energy, and reduces greenhouse gas emissions. It is also certified by the Philippine Economic Zone Authority (PEZA), assuring tenants of tax incentives and other commercial benefits.

“The risks, as well as the opportunities, will always be there. Competition will always be tough, for instance, but that is the reality of the free market and it is good because it only drives us to be better in what we do.”

The building houses our InLife Learning Center, which features millennial colors and interiors that are a far cry from the 54-year-old building's former look. The InLife Learning Center, is primarily for the use of our agents, for training, private meetings between agents and their clients, and with a lounge at the center. At the entrance is our office for customer service. Except for the mezzanine and the 12th floor that InLife occupies, the building is available for commercial lease.

How do you plan to make a 107-year-old company like InLife relevant to younger Filipinos?

Millennials are now undeniably a growing market segment for insurance players. There are an estimated 26 million millennials as of 2016, according to the Philippine Statistics Authority, who comprise one-third of the country's total population. While they spend their salaries to enjoy and experience life in its fullness, market insights we have gathered show that they do not plan to stay in the YOLO (You Only Live Once) phase forever. Eventually, they transition to concern themselves with the more serious parts of life (dubbed as 'adulting'), and part of this realization is the need to save for their future.

These insights led us to develop the **First Million Fund**, a VUL insurance offer that calls for parents to jumpstart their investment by putting in an initial premium of at least ₱500,000, which could reach ₱1 million on the eighth policy year. After launching the Fund in 2016, we embarked on a social media campaign on 'adulting' targeted at millennials and their parents.

In addition to coming up with products for the millennial market, we realized that our brand has to evolve as well to keep up with this young mindset. This led us to launch "**Inlife for Good**." Apart from shortening 'Insular Life' into 'Inlife,' we also wanted a catchy version that connotes being an insider, trendy, cool and hip, or being "in." We added "for Good" to reinforce the commitment that we have had in the past 107 years: we serve for a higher purpose for the good of our policyholders, our stakeholders, and our community. And as a company with a 107-year track record, we are here for good.

We think of our company as the 'flag bearer' in the Philippine insurance industry. After all, we are the only 100-percent Filipino-owned insurance company among the top life insurance companies. Thus, we always strive to work to be at par with or exceed the multinationals in serving the insurance needs of the Filipino. The greater challenge, however, is really to insure more Filipinos and raise the country's insurance penetration rate. We believe we have a significant role to play and that is why we are saying Inife is "for good" — working for the good of the Filipino nation.

More than being relevant to the younger Filipinos, this is the bigger message that we hope to achieve with our rebranding.

What risks and opportunities do you see in 2018 for the Company?

We have a very positive outlook for 2018. Our economy's GDP is expected to grow by 8 percent and national income per capita is seen to reach US$5,000, bringing the Philippines closer to becoming an upper middle-income country. The life insurance industry is projected to grow by 9 percent.

As one of the industry leaders, Inlife is prepared to capitalize on this growth momentum.

In 2018, our bancassurance partnership will become fully operational. We hope to benefit from UnionBank's total network of 300 branches and offices and its over six million clients in 2018. We plan to go full blast with our agency force expansion to reach a bigger segment of the market.

We also continue to build our digital capabilities to modernize our sales and service channels. Our goal is to continually improve servicing digitally and to automate our processes to make them faster and more convenient for our policyholders. Nowadays, online channels have made serving the customer a 24-hour window rather than the traditional 9-to-5 office hours. We are also moving for more and more usage of our automated underwriting system (AUS) and our online policy servicing through our customer portal. We also organize events online and offline to maintain our active engagement with policyholders and our agents.

We have also entered into a partnership with the International Finance Corporation (IFC) of the World Bank to educate and offer risk-mitigating solutions for women in the country. Inlife is IFC's only partner in Asia and we are excited to deliver more products to women and ensure their financial wellness. This program, which we call **"Empowering the Filipino Sheroes,"** is our way of helping the mission on financial inclusion so all Filipino women will gain access to financial instruments and life insurance.

As for the global market environment, while we recognize threats, being in the insurance business for 107 years makes the Company a veteran to all these cyclical challenges. The risks, as well as the opportunities, will always be there. Competition will always be tough, for instance, but that is the reality of the free market and it is good because it only drives us to be better in what we do. In the end, the good we do will all redound to the benefit of the Filipino — and this is why we say, we are **"Inlife for good."**

Corporate Governance

Insular Life's dynamic corporate culture is guided by its strong corporate governance framework. This framework ensures that the Company's strategy in achieving its corporate objectives is aligned with the interests of its Stakeholders.

The Company fully complies with the corporate governance principles as embodied in our Manual on Corporate Governance (MCG) and Code of Conduct. These Codes are aligned with the corporate governance principles as enunciated in the Insurance Commission's (IC) Corporate Governance Principles and Leading Practices (CGPLP), ASEAN Corporate Governance Scorecard (ACGS) and other internationally accepted corporate governance practices. We also benchmark with the best corporate governance practices in other companies in the financial sector.

In 2017, the Company was recognized by the Insurance Commission and the Institute of Corporate Directors (ICD) as one of the *Top Insurance Companies in the 2017 ASEAN Corporate Governance Scorecard* (ACGS). We took a great stride in improving our corporate governance practices as the result of our ACGS assessment increased by fourteen (14) points to 93.47 points. The ACGS, which is the important tool in assessing corporate governance practices of companies, provides standards reflecting principles espoused by the Organization for Economic Cooperation and Development (OECD).

A detailed disclosure of the Company's corporate governance practices in 2017 is discussed below.

RIGHTS OF OUR MEMBERS

Insular Life is a non-stock, mutual life insurance company. In lieu of stockholders, we have Policyholder-Members ("Members") who are owners of the Company. The Company upholds and respects the rights of all Members as provided in the Amended Insurance Code, the Corporation Code, other pertinent laws, rules and regulations, the Company's Articles of Incorporation, By-Laws, and Manual on Corporate Governance (MCG).

Members have the right to be notified of any regular or special Members' Meeting. In 2017, the Notice of the Annual Members' Meeting (AMM) was published once a week for four (4) consecutive weeks starting 26 April 2017 (or 28 days before the date of the AMM) in The Philippine Star and Pilipino Star NGAYON. It was simultaneously published in the Company website.

Members also have a right to nominate candidates for the Board of Trustees. They may do so in writing and have it delivered to the Board of Trustees on or before the fourth Wednesday of January immediately preceding the AMM.

During the Members' Meeting, each Member is entitled to one (1) vote, regardless of the number of policies he owns or the amount of insurance that he holds. Each Member has the right to elect Trustees or members of the Board individually. This right to vote may be exercised in person or in absentia through the use of a duly executed proxy form.

Each Member has a right to be informed of the condition of the Company, of the current members of the Board and Management, its corporate objectives and other relevant information. Each Member also has an opportunity to ask questions or raise issues during the Meeting and to address their concern directly to the Trustees and Management.

2017 Annual Members' Meeting (AMM)

The 2017 AMM was held on Wednesday, 24 May 2017 at 4:15 PM at the Company's principal office and easy to reach location, Insular Life Corporate Centre Auditorium, Filinvest Corporate City, Alabang in Muntinlupa City.

The registration started at 09:00 AM and ended at 04:00 PM. All registered Members received a Policyholder Kit containing updated information about the Company, including the latest Annual Report. An electronic system facilitated the registration and voting process.

All nine (9) members of the Board of Trustees (including the CEO-Trustee and Chairpersons of each Board Committees) were present during the AMM and were presided by Independent, Non-executive Chairman of the Board, Mr. Luis C. la Ó.

All agenda items in the Notice were taken up by the Chairman and upon proper motion, were approved. The Trustees replacing those whose terms have expired were elected individually by the Members during the Meeting.

Resolutions adopted for each agenda item were known on the floor after it was carried. There was no bundling of several items in each resolution. A summary of all the resolutions adopted during the AMM, as well as the results on votes by poll, were published in the Company website on 25 May 2017, or one (1) day after the AMM.

The Company's Corporate Secretary documented the conduct of the Meeting in the Minutes of the AMM ("Minutes"). The 2017 Minutes includes the following: rules of the meeting; the voting and voting tabulation procedures; list of Trustees and Senior Officers who were in attendance during the Meeting; identification of the name of the Company's External Auditor seeking appointment or re-appointment; summary of resolutions adopted including results of the votes; opportunity for Members and other attendees to inquire or raise their concerns; and record of responses to the questions, and comments raised in the floor during the Meeting. A copy of the latest Minutes is available in the Company website.

The Company recognizes the right of our Members to participate in decision-making concerning fundamental changes in the Company. Examples of such fundamental change could be mergers, acquisitions, and/or takeover requiring Members' approval, where the Board shall appoint an independent party to evaluate the fairness of all aspects of the transaction, including its transaction price.

EQUITABLE TREATMENT OF MEMBERS

Disclosure and Release of the Notice of the 2017 AMM

The Company encourages all Members to attend all Members' meetings, whether regular or special. The Notice of the 2017 AMM ("Notice"), which was published in English, beginning 26 April 2017 and with no bundled agenda items, provides the following information:

- Details and rationale of each of the Agenda, including identification of Sycip, Gorres Velayo and Company as the External Auditor seeking re-appointment and proposed resolutions for Agenda items;
- Voting and vote tabulation procedures;
- A summary of acts and resolutions approved by the Board and the Executive Board Committee since the date of last Members' meeting;
- Profiles of Trustees for election/re-election (including age, academic qualifications, date of first appointment, experience, and directorships in listed and non-listed companies); and
- Proxy form.

The Notice ensures that Members and other Stakeholders are equipped with all the relevant information about the meeting before the AMM is conducted. The Company also facilitates participation of Members who cannot attend the meeting by enclosing a proxy form in the Notice.

Some members of the Board of Trustees getting down to business.

STAKEHOLDER RELATIONS

An essential part of our corporate governance framework is taking care of our Customers, Employees, Agents, Suppliers, Contractors, and the community ("Stakeholders"). We see them as our partners in the achievement of our goals and that is why we strive to provide avenues for their well-being, growth, and protection.

Members' and Customers' Welfare
Our mission statement stipulates that we provide a full range of high-value insurance products and other related services that empower families to attain financial security and fulfill their dreams, thus helping build a stronger Philippines. We enable our professional customer-oriented employee and agency force to render service of highest quality. We operate with excellence at all times to optimize Stakeholder value and continuously pursue strategic opportunities to achieve sustained growth. In 2017, we 1) launched financial literacy gameplay; 2) implemented an end-to-end policy servicing in the Company's Customer Portal; 3) conducted Annual Members' Meeting; and 4) expanded the Company's E-Commerce platform.

Filipino Sheroes
The Company partnered with the International Finance Corporation (IFC), a member of the World Bank Group, to educate and offer risk-mitigating solutions to the relatively untapped women segment of the Philippines. We are the only Asian partner of IFC to take on this undertaking to expand the Company's reach to the uninsured and underserved population of women dubbed as "Filipino Sheroes".

Agents
Our Sales Agents are our ambassadors in providing full range of high-value insurance products and in rendering service of the highest quality. In this regard, we 1) implemented an automated application and underwriting system; 2) rolled out E-Commerce platform; 3) launched comprehensive Agency training courses; and 4) simplified compensation program.

Suppliers, Contractors, and Third Party Providers
The Company engages, from time to time, the services of Suppliers, Contractors, and other Third Party providers as needed in its operations. For the Company to continue to provide quality products and services, we look for Suppliers, Contractors, and Third Party providers who are competent to render services with the same level of integrity and commitment to corporate governance. It is the policy of the Company that we regularly conduct 1) regular review, selection, and accreditation of Suppliers, Contractors and Third Party providers; 2) participation only of accredited Suppliers, Contractors and Third Party providers in the Company's bidding process; 3) selection of winning bidder using pre-established set of criteria and 4) disclosure of their related party relationship pursuant to the Company's Related Party Transactions (RPT) policy.

Employees
Employees are among the most important assets of the Company. The Company promotes a culture where health and safety are integral part of every business decision. To this end, it is the policy of the Company to promote employee health, safety, and welfare. Some of the activities we provide for our employees include provision for medical and dental facilities; employee sport tournament; organize fitness and cultural upliftment classes; periodic townhall meetings; weekly publishing of Insular Life newsletter; launch of digital attendance management system; innovation session; regular health bulletins; and involvement in regular earthquake and fire drills. Other activities and information about our employees are disclosed in the ***People and Talent* section** of this Report.

Creditor's Rights
It is the policy of the Company to protect our Creditor's rights. We make sure that we comply with all regulatory requirements on capitalization, Risk-Based Capital framework (RBC 2), solvency, liquidity, and other similar requirements. Also, for purposes of transparency, the true financial condition of the Company is timely and fully disclosed through quarterly reports to the Insurance Commission (IC) and submission of annual Audited Financial Statements (AFS) to the Securities and Exchange Commission (SEC). We upload the Company's AFS in our website.

Currently, the Company has no Creditor. In the event that we enter into a loan agreement where the Company is a Borrower, the same shall be referred to the Board for approval. All our legal obligations and commitments under the loan agreement shall be monitored and complied with, subject to regulatory requirements.

As a Creditor, we conduct proper screening of prospective borrowers, accurate and complete loan documentation, accurate and complete recording of loan repayments, and observance of legal and regulatory reporting on the same. We conduct collection activities without abuses and deceptive practices while enforcing our rights.

Community and Environment
It is the Company's policy to conduct its business in a sustainable and environment-friendly way. In 2017, we implemented a paperless insurance application and underwriting system, we unveiled a newly-renovated *Leadership in Energy and Environmental Design* (LEED) - certified building, we participated in *2017 World Bamboo Day* and sponsored disaster-resilient classrooms. Other activities and information are disclosed in the ***Corporate Social Responsibility*** section of this report.

Anti-Corruption Programs and Procedures

The Company's Anti- Corruption Program is embodied in the following policies:

Code of Conduct and Manual on Corporate Governance

The Company's core code of ethics is embedded in two principal documents - the Manual on Corporate Governance, and the Code of Conduct - which Trustees and employees comply with. Their compliance to these documents is measured as part of their respective annual performance appraisals. As part of Insular Life, they must comply with applicable laws, rules and Company policies. All Trustees and employees are also required to disclose any potential or actual conflict of interest, as well as Related Party relationships in transactions with the Company. Compliance to these documents is included in their respective annual performance assessments.

Anti-Corruption Policy

The Company has an Anti-corruption Policy that expresses strict prohibition of any business engagement that may tarnish our reputation, including especially an act constituting bribery or corruption:

Expanded Whistleblowing Policy

Any concerns and/or complaints about possible violation of rights may be reported through any of the Company's whistleblowing platforms. The report may be about the organization, its people, and its operations. Those who report to the Company in good faith of a suspected violation of law (including bribery or corruption, fraud) or breach of Company policy are protected from any form of retaliation.

Reports or concerns from stakeholders or the public may be addressed to the Company's Compliance Officer, Atty. Renato S. de Jesus, through the following contact information:

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

In 2017, the Board has approved additional Whistleblowing platforms (i.e., allowing a report to be submitted to the Head of Internal Audit, establishing a dedicated email address at inlifergovernance@insular.com.ph, and a separate voice mailbox number). The move was done to provide additional means to accommodate feedback and other reports from other Stakeholders.

The Whistleblower (who may be an employee, Agent, Trustee, Member, Supplier, or other Stakeholder) may keep his or her identity anonymous. All reports received in good faith shall be kept confidential and will be protected from any form of retaliatory action, in accordance with the Company's Whistleblowing Policy.

DISCLOSURE AND TRANSPARENCY

Performance Indicators and Disclosures

Financial	*Non-Financial*
▪ *Financial Condition;* ▪ *Performance of Fund Values.*	▪ *Customer satisfaction;* ▪ *Talent Acquisition;* ▪ *Regulatory Compliance;* ▪ *Operational Efficiency;* ▪ *Corporate Social Responsibility (CSR) capability*

Medium of Communication

The Company practices transparency in disclosing corporate matters affecting Stakeholders. Information relating to corporate events, programs, and people are timely and accurately reported in the Company website on a quarterly or a more frequent basis, as may be necessary. These are also published in newspapers of general circulation and other media the Company may deem appropriate. The Company provides Customer and Agent Portals for Members and Agents, respectively, for easy and secure access to policy information and services. The Company also utilizes print and visual media, media briefings/press conferences and social media platforms to ensure wide public reach of all relevant information.

Key Risks

The Company believes that prudent risk management hinges on effective risk metrics for the proper risk identification and quantification of our exposure to such risks. To this end, the Company has identified key risks (strategic, operations, legal and regulatory compliance, reputational, and financial risks) which are carefully studied, defined, and managed.

The Board has the ultimate responsibility for the Company's risk management and material controls. The Board, through its various Committees, monitors and evaluates the Company's total risk management systems and advises Management in the installation of appropriate control mechanisms. These controls are regularly audited to check their effectiveness and reliability. The Board reviewed the Company's internal controls and Risk Management systems and found the same to be generally sufficient and adequate. The Company's Risk Management systems are complemented by the Management and employees' deep commitment to sustain a dynamic and transparent compliance environment.

Related Party Transactions Policy

The Company's policy on Related Party Transactions (RPT) ensures that all transactions of the Company with a Related Party are conducted fairly, at arm's length, and in the best interest of the Company and its Stakeholders. The Related Party Transactions Board Committee ("RPT Board Committee") is composed of all Independent, Non-executive Trustees. They are tasked to review RPTs that are material in nature. Decisions based on their review are reported to the Board. The Board ultimately has the responsibility of ensuring that all approved material RPTs are soundly and prudently managed, with integrity and in compliance with applicable laws, rules, and regulations. Prior to the approval of the Board on the creation of a separate RPT Board Committee based on the Insurance Commission's (IC) Circular Letter No. 2017-29, the Audit & Risk Management Committee (ARMC) handled the review and evaluation of transactions to ensure that they are conducted fairly, at arm's length, and in the best interest of the Company and its Stakeholders.

The names, relationship, nature, and value of RPTs for the financial year 2017 are disclosed in the ***Notes to the Consolidated Statements*** ("Notes") in this Annual Report. There is no RPT that can be classified as financial assistance to entities other than wholly owned subsidiaries of the Company. In case of Material RPTs, these are reported to the IC and reflected in the Annual Report.

Conflict of Interest

It is the Company's policy to ensure that any Trustee or Officer declare potential or actual conflict of interest, and must abstain and/or inhibit themselves from participating in any material discussion or approval of the same. All Trustees and Officers are required to disclose any conflict of interest as part of their respective annual performance assessments.

Timely disclosure of Annual/Financial Reports

The 2016 Annual Report, which also contained the Consolidated Audited Financial Statements was published in the Company website on 27 April 2017, or one hundred seventeen (117) days after end of financial year.

Dividend Policy

As members of a non-stock mutual life insurance corporation, qualified Policyholders receive policy dividends as return of their premiums paid. The Company allocates and pays policy dividends, as and when they are declared, and in such amounts as approved by the Board of Trustees. The amount of policy dividends is determined on the basis of a three-factor formula which calculates the Company's performance vis-a-vis assumptions on investment income, mortality, and expense loading, taking into consideration regulatory requirements and the Company's capital and future operating needs. The provision for policy dividends for 2017 is ₱197,393,043.39.

Audit

The Company has an Internal Audit Staff headed by First Vice President, Ms. Maria Rosa Aurora D. Cacanando. The Internal Audit Staff reviews the Company's internal control system and has direct reporting line to the Board's Audit & Risk Management Committee (ARMC) and to the Chairman of the Board.

To complement internal audit, the Company also availed itself of the services of an External Auditor to ensure independent review of the Corporation's Financial Statements.

The ARMC is primarily responsible for the recommendation of the appointment/re-appointment and removal of external auditors. During the 2017 AMM, SGV was re-appointed as the Company's External Auditor based on the recommendation of Mr. Luis Y. Benitez, Jr. as the Chairman of the ARMC.

Audit and Non-Audit Fees

The audit fees paid for SGV's 2017-2018 services rendered to the Company amounted to ₱3,228,330, excluding out-of-pocket expenses and Value Added Tax (VAT). The non-audit fees do not exceed the audit fees. In fact, no non-audit service was performed by SGV in 2017.

Remuneration Matters

Board Compensation Policy and Procedures

Executive Trustees are Members of the Board who are also Executives of the Company. Executive Trustees (including the Chief Executive Officer) are compensated for their services rendered as such Executives and do not receive any compensation for their attendance in Board and Board Committee Meetings. The Personnel and Compensation Board Committee is responsible for reviewing and recommending to the Board the compensation and remuneration packages for Executive Trustees (including the CEO) and Senior Management (collectively called "Key Management Personnel"). The amount of compensation received by Key Management Personnel is disclosed in the ***Notes to the Financial Statements*** Section of this Report.

Non-executive Trustees receive an annual compensation of ₱25,000.00 for their membership to the Board and to the Executive Board Committee. They also receive Per Diem of ₱30,000.00 for each Board and Board Committee meetings that they attend. The Chairman of the Board receives twice the amount of Per Diem received by a Non-executive Trustee for his attendance in Board Meetings. The table below summarizes the compensation of each Non-executive Trustee for the year 2017:

Name of Trustee	Per Diem Paid (in PHP) in Board and Committee Meetings (from January – December 2017)
NON-EXECUTIVE	
Marietta C. Gorrez	₱415,000.00
SUB-TOTAL	₱415,000.00
INDEPENDENT, NON-EXECUTIVE	
Luis Y. Benitez Jr.	₱745,000.00
Delfin L. Lazaro	₱680,000.00
Luis C. la Ó (Chairman of the Board)	₱1,010,000.00
Francisco Ed. Lim	₱980,000.00
Nico Jose S. Nolledo	₱415,000.00
SUB-TOTAL	₱3,830,000.00
GRAND TOTAL	₱4,245,000.00

RESPONSIBILITIES OF THE BOARD

Roles and Responsibilities

A well – governed corporation begins with a well-governed Board. Insular Life's Board of Trustees performs its roles and responsibilities diligently for the good of the Company and its Stakeholders. Some of their roles include:

- To install process of selection of the Board of Trustees and Management;
- To determine and regularly review the purpose, vision, mission, core values, corporate objectives, and specific strategies and implementation or action plans to support the same;
- To identify key performance indicators, and establish performance standards for the monitoring of the attainment of the corporate objectives;
- To identify stakeholders and formulate a clear communication policy;
- To make rules for internal regulations;
- To present a balanced and understandable assessment of the Company's position and prospects;
- To determine the manner and conditions under which employees may be granted pension retirement, gratuity, life insurance, and other benefits;
- To ensure compliance with all relevant laws, rules, regulations, and codes of best business practices;
- To settle any doubts that may arise relative to the interpretation of the By-Laws and supply any omissions, reporting thereon to the Members' meeting for such action as it may see fit;
- To properly discharge Board functions through regular and special meetings; and
- To assess its own effectiveness in fulfilling its responsibilities.

Annually, the Board conducts an assessment of its overall performance based on the aforementioned criteria.

The Board's roles and responsibilities are found in the Company's By-Laws and Manual on Corporate Governance. These documents are also available in the Company's website.

Board Composition and Diversity

The Board of Trustees occupies a crucial role in the Company's corporate governance framework. Thus, the Company's Succession Planning ensures continuity and seamless transition, as provided in the Company's By-Laws and in the Manual on Corporate Governance. The Nominations Committee (NomCom) undertakes the process of identifying the qualities that must be possessed by a candidate which must be aligned with the Company's strategic directions. The Committee ensures that all the Trustees possess relevant competence and experience for the Board and Board Committee membership.

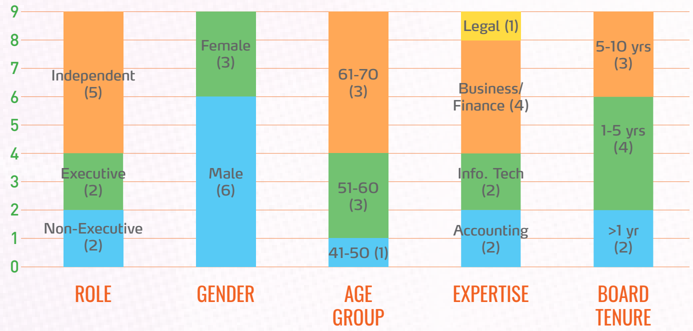
The Board is divided into three classes with three (3) Trustees in each class. Each Trustee is elected individually to serve for a term of three years or until the election and qualification of their successors, in accordance with the Company's By-Laws.

Board Selection and Appointment Process

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

1) A member of the Company;
2) A Filipino citizen;
3) A resident of the Philippines;
4) With qualifications that are aligned with the strategic directions of the Company; and
5) Has none of the prescribed disqualifications enumerated in the Company's By-Laws.

Apart from these qualifications, the selection of a Trustee is not restricted to age, race, gender or religious belief. We promote and encourage diversity at all levels of the organization to ensure dynamic conversations and broad spectrum of perspectives and expertise.



The Company uses professional search firms and other external sources and public databases when looking for qualified candidates for the Board, if necessary. In selecting a Trustee, the Company adheres to the provisions of its By-Laws and Manual of Corporate Governance. The Nominations Committee is tasked to ensure the conduct of the following:

Activity	Date of Completion	
	For 2017 AMM	For 2018 AMM
Announcement of acceptance of nominations for the position of a Trustee as published in newspapers of general circulation	Published in The Philippine Star and Pilipino Star NGAYON on 16 December 2016	Published in The Philippine Star and Pilipino Star NGAYON on 08 December 2017
Acceptance by the NomCom of Candidates' names as nominated by a Member or as endorsed by a Search Firm	January 2017	January 2018
Endorsement of Candidates' names to the Board	On or before 25 January 2017	On or before 24 January 2018
Individual election/re-election of Trustees during the Annual Members' Meeting (AMM)	24 May 2017	23 May 2018
Annual assessment of the performance of the Committee	10 December 2016	08 December 2017

The Board of Trustees

The nine (9) members of the Board of Trustees were elected for their competence, experience, expertise, and unquestionable integrity. All Trustees are experts in their respective fields and possess all the qualifications as set in the Company's By-Laws and the Manual on Corporate Governance (MCG).

All trustees have complied with the fit and proper requirements and corporate governance trainings within the prescribed timeframe. They are required to disclose to the Corporate Secretary any significant change in their commitments and relationships outside Insular Life.

Board Independence

The Board has five (5) Independent, Non-executive Trustees who comprise more than fifty percent (50%) of the Board. All of them are independent of Management and free from any business or other relationships which could materially interfere with their exercise of independent judgment in carrying out their responsibilities. One of the Independent Trustees, Mr. Luis Y. Benitez Jr., is a *Certified Public Accountant*. None of the Independent, Non-executive Trustees occupies more than five (5) board seats in Publicly Listed Companies (PLCs). In the case of Executive Trustees, none of them occupy seats in more than two (2) PLCs.

Chairman of the Board

In 2017, the Board of Trustees was led by Independent, Non-executive Chairman of the Board, Mr. Luis C. la Ó. As an Independent Trustee, he exercises the functions of his office independently from management and is free from any interest, any business or other relationships that could interfere with his independent judgment. His roles and responsibilities as Chairman of the Board are stated in the Company's By-Laws and Manual on Corporate Governance (MCG). His detailed profile is available under the **Credentials Section** of this Report.

Orientation for New Trustees

The Board sets the tone of the corporate governance framework of the Company. For the framework to be both effective and relevant, the Board must constantly be informed of the latest information on corporate governance rules and best practices. The Chairman of the Board, together with the CEO, President and COO, senior executives and the Corporate Secretary, conducts an orientation for new Trustees. As part of the orientation program, new Trustees are provided with key corporate documents and information (i.e., Board Kit) and are briefed about relevant corporate policies and corporate governance program of the Company.

2017 Corporate Governance Seminar

The Company encourages its Board to attend on-going or continuous professional educational programs. Apart from the individual trainings and seminars attended by Trustees, the Company also provided an orientation on "Advanced Corporate Governance Program" on 23 November 2017, with speakers from the Institute of Corporate Directors (ICD). This half-day event discussed the following: "The Dragonfly perspective"

Table of Board and Board Committee Attendance
from January - December 2017

Name of Trustee[1]	Regular/ Special Board Meetings	Committee Meetings						
		Executive	Audit and Risk Management	Finance, Budget and Investment	Governance	Information, Technology, & Innovation	Nominations	Personnel and Compensation
Executive								
Nina D. Aguas	8/8	8/8	3/3	8/8				
Mona Lisa B. dela Cruz	7/8	7/8				1/1	3/3	1/2
Jesus Alfonso G. Hofileña (Trustee until 10 November 2017)	6/6			4/4		1/1		
Non-Executive								
Marietta C. Gorrez	8/8		2/2					
Independent, Non-Executive								
Luis Y. Benitez Jr.	8/8		5/5	4/4	4/4			3/3
Delfin L. Lazaro (Trustee until 31 December 2017)	7/8	6/8	4/5		4/4			3/3
Luis C. la Ó (Chairman of the Board)	8/8	8/8		8/8				3/3
Francisco Ed. Lim	8/8	8/8	3/3	8/8	4/4		3/3	
Nico Jose S. Nolledo	7/8		2/3			1/1	3/3	
Number of Committee Meetings held	**8**	**8**	**5**	**8**	**4**	**1**	**3**	**3**

[1]Memberships of the Board of Trustees in the Committees have changed during the year due to the Organizational Board Meeting after the 2017 AMM. The attendance table reflects each Trustee's attendance for calendar year 2017.

by Mr. Ricardo Jacinto, "Corporate Governance Regulatory Perspectives" by Mr. Roberto Bascon and "Leading Change and Strategy Focused" by Ms. Ida Tiongson. The Insular Life Board of Trustees was joined by its senior management and the officers of its Subsidiaries.

Board Committees

The Board has eight (8) Board Committees that are delegated specific roles, responsibilities, and authorities through their respective Board Charters. These are 1) Executive; 2) Audit and Risk Management; 3) Finance, Budget and Investment; 4) Governance; 5) Information, Technology, & Innovation; 6) Nominations; 7) Personnel and Compensation and 8) Related Party Transactions (RPT) Committee. The RPT Committee was formed in 2017 as part of the Company's RPT Policy pursuant to the Insurance Commission's Circular Letter 2017-29.

An annual conduct of performance assessment of each of the Board Committees ensures that they perform to the highest of their abilities. The criteria for such assessment is measured by their performance of all roles and responsibilities as indicated in their respective Board Charters. The Board Charters are available in the Manual on Corporate Governance and in the Company website.

Board Meetings and Attendance

A basic requirement of a responsible Board is the conduct of regular meetings. To ensure that each member has sufficient knowledge of the Board and Committee agenda, schedules of Board and Committee meetings for the succeeding year is set before the end of the preceding year. The Corporate Secretary, Atty. Renato S. de Jesus, plays a significant role in supporting the Board as it discharges its responsibilities. He ensures that the Board is informed of the agenda, including relevant papers and other documents, five (5) business days before the date of the meeting.

The Non-executive Trustees met during the year to review corporate strategic matters without any of the Executive Trustees present. Aside from lively discussions during the Board and Board Committee meetings, the Company also provides opportunities for continuous learning and development for Trustees to keep them abreast of local and international trends and issues. The trainings and other conferences attended by our Trustees may be found in the **Credentials** Section of this Report.

Annual Board Performance Assessment

The Office of the Corporate Secretary is responsible for the conduct of an annual performance evaluation of the Board, the Trustees, and the Board Committees. Each Trustee assesses the performance of the Board as 1) a collegial body, 2) as an individual member, and 3) as a member of the Board Committees in which they belong. Some of the criteria for assessment include the accomplishment of the Board of its requisite roles and responsibilities, the judicious and professional conduct of the Trustees, and the assistance and advisory duties of each Board Committee on matters of its expertise. Aside from the objective assessments, the Trustees are given opportunities to provide ideas and suggestions on how to further enhance Board, Committee or their individual performances, and to write the same in the assessment forms. The Board has completed their annual assessments (i.e., as a collegial body, as a member, and as a Board Committee member) on December 2017.

The Personnel and Compensation Committee reviews and evaluates the performance and appropriate compensation of the President and CEO, and other senior management. The results of the evaluation are submitted to the Board for their approval. The results of the assessment demonstrate the Board's effectiveness and competence and how each Trustee is fully committed to the achievement of the Company's mission and vision for the interest of the Stakeholders.

Table of Board Committee Membership
as of 01 January 2018

Committee	Chairman	Vice Chairman	Member/s
Executive	Mona Lisa B. dela Cruz	Luis C. la Ó (Independent)	Nina D. Aguas Francisco Ed. Lim (Independent) Justo A. Ortiz
Audit and Risk Management	Luis Y. Benitez Jr. (Independent)	Gil B. Genio (Independent)	Marietta C. Gorrez
Finance, Budget and Investment	Luis C. la Ó (Independent)	Nina D. Aguas	Gil B. Genio (Independent) Francisco Ed. Lim (Independent) Justo A. Ortiz
Governance	Francisco Ed. Lim (Independent)	Luis Y. Benitez Jr. (Independent)	Luis C. la Ó (Independent)
Information, Technology, & Innovation	Gil B. Genio (Independent)	Nico Jose S. Nolledo (Independent)	Marietta C. Gorrez
Nominations	Luis Y. Benitez Jr. (Independent)	Gil B. Genio (Independent)	Nico Jose S. Nolledo (Independent)
Personnel and Compensation	Nina D. Aguas	Luis C. la Ó (Independent)	Luis Y. Benitez Jr. (Independent)
Related Party Transaction	Luis Y. Benitez Jr. (Independent)	Nico Jose S. Nolledo (Independent)	Francisco Ed. Lim (Independent)

Subsidiaries' and Affiliate's Performance Highlights

Insular Health Care, Inc.

Insular Health Care, Inc. (IHCI) is one of the top ten Health Maintenance Organizations (HMOs) in the Philippines in terms of capitalization, comprehensive healthcare packages, and service delivery.

IHCI offers one of the industry's most comprehensive healthcare programs in the market with the flexibility to meet specific needs of its members. As of end of 2017, it has a provider network of 2,868 hospitals, outpatient facilities, and dental clinics nationwide and 28,886 doctors and medical specialists.

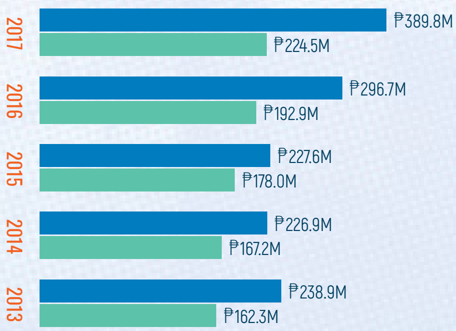
IHCI maintains a dynamic website with an online application, a rate calculator that computes membership fees for individual and family accounts, and payment facilities. Also available in the website are the on-going sales promos, Body Mass Index (BMI) calculator, medical articles and agent application facility. IHCI also utilizes Short Messaging System broadcast facility and email blast to communicate with members. It is also active in the different social media platforms such as Facebook, Instagram, Twitter and LinkedIn.

IHCI has embarked into a new system development initiative called ISystem. It's an integrated end-to-end process automation that aims to complement the growing volume of membership and reinforce the service delivery level of the company. This translates to more efficient and expeditious transactions and even provides more online services such as corporate account franchising, channel accreditation, etc.

As of end of 2017, IHCI registered a 31% growth in gross revenues and 24% increase in membership base versus end of 2016.

2017 Highlights

- Gross Revenues stood at ₱389.8 million
- Net Profit After Taxes of ₱30.8 million
- Total Assets stood at ₱461.2 million
- Total Stockholders' Equity was at ₱224.5 million
- Retained Earnings posted at ₱127 million
- Return on Equity stood at 15%



LEGEND:

- Gross Revenues (in million pesos)
- Stockholders' Equity (in million pesos)

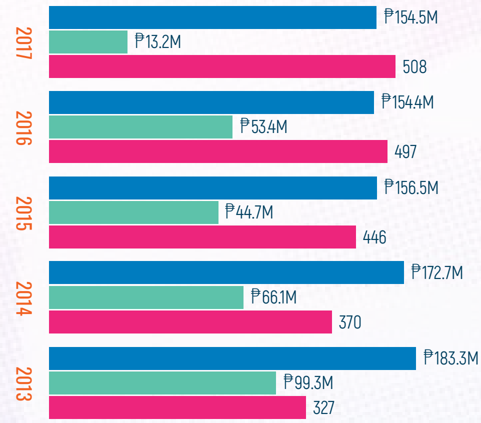
Home Credit Mutual Building and Loan Association, Inc.

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

In 2017 Insular Home Credit continued its growth in mortgage lending for first time homeowners, more than doubling the prior year's mortgage receivables. IHC is presently committed to serving all of its members, with exemplary customer service on all its services offered.

2017 Financial Highlights

- Cash and Cash Equivalents: ₱13.2 million
- Total Assets: ₱245.7 million
- Total Equity: ₱123.4 million
- Total otal Mortgage and Rent to Own: ₱184.4 million
- New Members: 1,067
- Total issued & outstanding preferred B equity shares: 154,561,744



LEGEND:
- Member's Equity (in million pesos)
- Cash Investments (in million pesos)
- Accredited Companies

MAPFRE INSULAR Insurance Corporation

MAPFRE INSULAR is a leading non-life insurer in the country and ranks among the top 10 in terms of earned premiums, net premiums written and investment income. The company is also one the highest capitalized and most solvent non-life insurer in the country. The company was formed out of the alliance between MAPFRE, a leading insurance company in Spain with more than 37 million clients worldwide and business activity in more than 100 countries and Insular Life Assurance Co., Ltd, the Philippines' largest Filipino-owned life insurer.

MAPFRE INSULAR continued to advance its efforts towards comprehensive transformation pioneered in 2015. The company remained in position on achieving sustainable growth guided by the hallmarks of solvency, integrity, innovation, and exceptional quality of service that are the standard in the global MAPFRE Group.

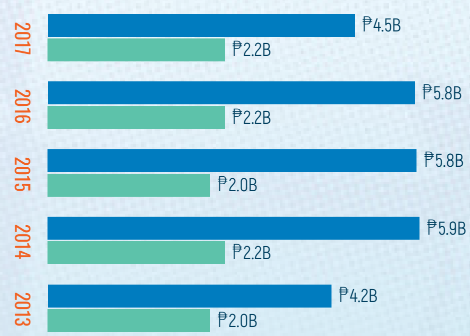
In 2017, MAPFRE INSULAR carried out significant changes in its operations and administration. The company ventured into the creation of its affinity channel and adopted the MAPFRE global business model: Delegado and Direct Office. These efforts helped the company post a modest growth of 1.1% in sales or ₱2.238 billion gross premiums written in 2017.

The company maintained adherence to MAPFRE values in achieving its objective, continually invested in technology, tightened technical controls, and augmented people skills. These directed the company to turn back from risky practices while promoting welfare of the customers. The Operations group implemented centralized claims handling, reinforced fraud prevention through creation of a dedicated unit and definition of business rules, concentrated repair shops in strategic locations, augmented skills of technical people through series of trainings.

Furthermore, MAPFRE INSULAR sustained its investment portfolio management and generated investment income of ₱131.4 million for the year, a 5% growth from 2016. Consolidated efforts from MAPFRE INSULAR's commercial, operations and administration contributed to a recorded Net Income of ₱11.8 million.
Key unaudited financial and solvency indicators that demonstrate the strength of MAPFRE INSULAR as one of the most relevant insurance companies in the country:

2017 Financial Highlights

- Total Assets: ₱4.53 billion
- Net Worth: ₱1.12 billion
- Cash and Financial Investments: ₱1.54 billion
- Risk Based Capital Ratio: 179%
- Gross Premiums Written: ₱2.238 billion



LEGEND:
- Assets
- Gross Premiums Written

InLifers gather around for a posterity shot during the Company's 107th anniversary celebrations.

PEOPLE AND TALENT:

Keeping InLifers for Good

InLifers make us a 100% Filipino-owned insurance powerhouse today. Our employees lay the groundwork and tirelessly persevere for our 107-year legacy to endure.

In 2017, InLifers rode the waves of change without losing sight of the loyalty, pride, and motivation that make them a league of their own.

Digitalizing employee experience

During the year, we embarked on digital initiatives to improve our employee engagement and talent development in the Company.

One of these digital initiatives is I-CON (Innovate, Communicate, Optimize, and Navigate), our uniquely branded human capital management system. I-CON helps fulfill our vision to become a high-performance organization and ensure we have a single system across all touch points. The single platform allows us to leverage the power of data by mining employee information and real-time HR insights that would aid management's decision.

Using I-CON is a significant step towards achieving our aspiration to become the first fully digital insurance company in the Philippines. This comprehensive and centralized HR system helps the organization overcome challenges in these areas:

- Using 201 files for greater decision-making;
- Facilitating a single way of administering employee benefits;
- Providing accurate references for employee development; and
- Streamlining processes and reducing paperwork in personnel matters.

Since it was rolled out in the fourth quarter of 2017 across our offices in Luzon, Visayas, and Mindanao, I-CON has already started to benefit nearly 800 InLifers. Key to the high adoption rates was the unwavering support of our business group heads to adopt and promote the system to their teams.

From launching I-CON's base system with HR modules such as HR Foundation, Employee Life Cycle, and Workforce Administration, we have expanded the use and adoption of the system. We are now integrating other key HR functions such as performance management, training management, talent acquisition, succession, and compensation planning into the system.

While embarking on a digital transformation journey with InLifers, we have also started to introduce a new e-learning experience in partnership with agency training.

Getting the Right People and Skills

We believe in creating the conditions in which our employees can offer their capability and full potential to serve our policyholders better and help InLife sustain its success. This is why we rolled out several fresh initiatives in 2017 so our employees can feel more pride and loyalty, not just about working for the organization, but also for being a great advocate of "InLife for Good" to our policyholders, agents, and other stakeholders.

In 2017, in addition to hosting annual sports activities and supporting interest clubs, we also provided more avenues for InLifers to bond with their teams. These include reviving a long-held tradition of celebrating Mother's Day and Father's Day in our offices, and holding frequent town hall meetings so our senior management can share InLife's vision and goals for the year ahead. Our employees' creativity and collaborative spirit came to fore during the Company-sponsored Trick or Treat event, in which children of our employees were treated with loot bags, film showing and magic show. We continued to support activities on information awareness, productivity, and other events organized by our employee associations.

Aside from these internal activities for and by InLifers, we have also trained our sights in helping the organization face the future with anticipation, fully aware that there will be brand new challenges lurking ahead.

We know that facing these challenges will require us to cultivate and acquire brand-new skillsets and fresh competencies and because of this, we have strengthened our bench by onboarding several C-Level executives.

Thus, we hired C-level executives for the positions of Chief Strategy Officer, Chief Bancassurance Executive, Chief Information Security Officer, Head for Innovation and a new Human Resource Division (HRD) Head.

In 2017, we also began our annual participation in an industry survey to better gauge if the employee compensation package and benefits we offer are at par with the local market. The survey also deepens our insights into the talent marketplace and keeps us abreast of the best HR practices.

> "We believe in creating the conditions in which our employees can offer their capability and full potential to serve our policyholders better and help InLife sustain its success."

“InLife considers the pride, passion, and commitment our people contribute to our success. “

Rewarding Performance

The Company provides comprehensive and industry-competitive benefits and packages to all employees. On top of these, it also affords its employees variable bonuses which are determined by Management upon attainment of the yearly Corporate Performance Index. It is likewise the policy of the Company to reward and compensate performance beyond short-term performance measures. It has programs such as housing loans, higher education scholarships, service rewards, and retirement benefits.

Promoting Wellness at the Workplace

We continuously espouse a culture where wellness, health and safety are of paramount importance. This is why we actively support sports tournaments, organize fitness classes, and regularly promote health, safety, and welfare initiatives in our various offices. We also held a month long wellness campaign – called Healthy Month Celebration – which included activities on proper diet, financial planning, physical exercises, and positive thinking and attitude.

Talent Development

Senior officers attended an annual strategic planning conference and Corporate Governance Seminar. We also provide regular trainings for technical and professional development. For Key Executives, Inlife follows the Executive

“Trick or Treat” with a twist. Instead of harrowing costumes, InLifers dressed to entertain guests during the Company’s Halloween celebrations.

Development Program while other employees are provided with trainings and other technical skills development courses depending on the requirements of their functions.

Sparking Volunteerism

We have a workforce that is 800-strong nationwide, almost 70 percent of whom are under 40 years old.

In order to be the employer of choice, InLife must offer more than competitive compensation and benefits. This is why engaging our InLifers to be a "force for good" involves providing non-tangible benefits such as sharing our core values and engaging them in community outreach activities through our corporate social responsibility (CSR) arm, the Insular Foundation.

We also allow, and in fact, encourage our employees to join and take part in industry or other professional organizations as this will further hone their interpersonal skills, widen their network among peers, and help them take charge of their own personal and professional growth.

InLife considers the pride, passion, and commitment our people contribute to our success. This is why we focus on delivering an employee experience where InLifers feel strongly connected to the organization and are able to do what they do best each day.

While we are increasingly facing competition for talent and other external threats, these challenges only further embolden us to pursue our ambition to be a great place to work in. In the coming years, we plan to unveil a program that rewards positive employee behaviors instead of using traditional rewards metrics such as employee attendance. We will also embark on initiatives that will further spark innovation in our workplace.

PARTICIPATION OF INSULAR LIFE EMPLOYEES IN VARIOUS EXTERNAL PROFESSIONAL ORGANIZATIONS

Name of InLife Employee	Designation and Organization
Maria Teresa L. Cruz	President, IT Interaction Philippines, Inc.
Atty. Renato S. De Jesus	Ethics Committee Chairman, Philippine Life Insurance Association, Inc. (PLIA)
Mylene C. Padilla	Member, Finance & Investment Committee, Philippine Life Insurance Association, Inc. (PLIA)
Enrico L. Cordoba	Member, Asean Free Trade Agreement Committee, Philippine Life Insurance Association, Inc. (PLIA)
Diana Rose A. Tagra	Member, Medical Information Database Committee, Philippine Life Insurance Association, Inc. (PLIA)
Jesselyn V. Ocampo	Vice President, Actuarial Society of the Philippines
Dr. Elanor G. Tañada	Board Member, Philippine Society of Insurance Medicine
Ana Maria R. Soriano	Education Committee Member, League of Corporate Foundations
Tricci Rose A. Sadian	Company Representative, Sports & Social Committee, Philippine Life Insurance Association, Inc. (PLIA)
Dr. Vilma A. Gorgonia	Treasurer, Philippine Society of Insurance Medicine
Lisa Marie D. Agranzamendez	Member, Education Committee, Philippine Life Insurance Association, Inc. (PLIA)
Gerald B. Kim	Company Representative, Disaster Risk Reduction & Management Team, Philippine Life Insurance Association, Inc. (PLIA)
Maria Louisa T. Penuliar	Board Member, Home Office Life Underwriters Association of the Philippines (HOLUAP)
Mia L. Gonzales	Secretary, Association of Service Professionals in Life Insurance (ASPLI)

Past and present scholars join a fun-filled learning experience at the 2nd Gold Eagle Leadership Forum.

Sharing INLIFE with the Filipino

2017 CSR REPORT

Insular Life is at the forefront of the industry as a leading provider of financial products to the Filipinos.

Moreover, our operation is also marked by the impact it has created on the lives of our countrymen through the various initiatives we have instituted in our corporate social responsibility programs.

We believe that doing well in business – as we have been – and creating a deeper effect in the communities that we serve go hand-in-hand and a complimentary activity of a truly successful organization.

Even as we continue to find ways to serve our people through our products and services, we have also strengthened our services through the Insular Foundation and our army of employee volunteers.

CSR Highlights – Insular Foundation

In 2017, we are proud to report that the Philippine Council for NGO Certification (PCNC) has granted Insular Foundation with the "donee" status.

To be recognized as a donee by the PCNC is an affirmation of our organization's good governance in managing and administering our various activities, particularly the Foundation's flagship programs such as scholarship grants to poor but highly deserving students.

Gold Eagle College Scholarship Grant

This year, we resumed giving out Gold Eagle medals to 500 valedictorians of partner high schools. Recipients of the medals are eligible to vie for a slot to the Gold Eagle College Scholarship Grant.

Every year, the Foundation allots 10 new scholarship grants for students enrolled in the College of Education and two grants for students enrolled in the College of Mathematics at the University of the Philippines – Diliman (UPD) Campus.

Aside from UPD scholars, another three scholars from the five other State Universities in the provinces are given college scholarship grants for their students taking up education courses.

This scholarship grant covers tuition, miscellaneous fee, book allowance, board and lodging and stipend. Through this scholarship, the Foundation aims to encourage academically gifted individuals to pursue a teaching profession so that they can help improve the quality of education for the next generation of Filipinos.

To date, the Foundation supports 66 scholars enrolled in various partner state colleges and universities namely: University of the Philippines-Diliman, Aurora State College of Technology, Benguet State University, Bohol Island State University, Central Mindanao University and Davao Oriental State College of Science and Technology.

	Name of Scholar	Course	Honor
1	Vargas, Moira D.	Secondary/ CA-English	Cum Laude
2	Pasia, Arnel Joseph I.	Secondary/ Biology	Magna Cum Laude
3	Olaivar, Claire Marie G.	Elementary/ SPED	Magna Cum Laude

College Scholarship for Employee Dependents

College Scholarship Grants are also extended to qualified children of our employees. We are proud to report that our employee-dependent scholars are all in good standing and are expected to hurdle their college education with flying colors.

An employee-dependent scholar may choose whatever course he or she desires and each receive a tuition subsidy of ₱50,000 per term and book allowances of up to ₱12,000 per year.

In 2017, we have added six new well-deserving employee-dependent scholars, for a total of 16 Company scholars still in their various stage of schooling. So far, Insular Life has helped 55 dependent scholars who are now gainfully employed both here and abroad.

High-flying Gold Eagle 2017 graduates Arnel Joseph I. Pasia (Magna Cum Laude) and Moira Vargas (Cum Laude) are flanked by Foundation officers Mr. Jess Hofileña and Ms. Mona Lisa B. dela Cruz.

Gold Eagle Leadership Forum

Our scholars also get a continuing support from the Foundation in the form a biennial leadership forum.

Called the Gold Eagle Leadership Summit, the forum attracted thirty-one Gold Eagle current and alumni scholars October. During these events, we invite renowned speakers and past scholars to share their life-story and path to success.

During the second Gold Eagle Leadership Forum held at the re-opened and refurbished Insular Makati building, the invited speakers were Mr. Jayson Lo, a motivational speaker and book author, Department of Education Undersecretary Lorna Dino, Math and Education alumni scholars – Mr. Paul Dolores and Ms. Joyce Narsico.

Disaster-proof School Buildings

It's not just the pupils who get a much needed help from InLife.

Through the Foundation's "Adopt-A- School Program", two one-storey disaster resilient school buildings with three classrooms each were constructed and donated for the students of San Jose Central School and San Jose Technical High School in San Jose, Northern Samar.

Claire Marie Olaivar (Magna Cum Laude) with Ms. Nina D. Aguas.

Employee volunteers lend a hand to plant trees in Rizal province, during the World Bamboo Day.

These school buildings were the first disaster-resilient classrooms to be built in one of the poorest municipalities in the province of Northern Samar.

Adopt-A-School is InLife's response to the government's call for help from the private sector to assist solve the backlog in the construction of public school buildings particularly in poverty-stricken provinces.

Storybooks, Workshops

The Foundation's work does not stop at students and pupils, or the physical construction of school buildings. Our work includes the strengthening of the foundation of our teachers' pedagogical abilities, by conducting workshops specific to their needs.

This year, thirty-six public school teachers in San Jose Elementary School and San Fernando Central Elementary School in Tacloban City benefitted from the storytelling workshop sponsored by the Foundation.

At the end of the workshop, the teachers received 1,800 pieces of Insular storybooks for them to use in their classes. The workshop is a follow-up activity of the Foundation two years after the donation of the classroom building in San Jose Elementary School.

The Foundation also reached out to Epifanio Delos Santos Elementary School for the donation of 200 pieces of Insular storybooks as a response to their school's appeal for help in sourcing out good books for their library. The storybooks benefitted 1,500 Grade 1 to Grade 3 children from depressed areas in Manila.

Modern Instructional Materials

Following the successful launch of the Estudyantipid Episode 1 in 2016, the Foundation signed another agreement with the Knowledge Channel Foundation.

This agreement was for the production of the two episodes of financial literacy video episodes which will be used by public school teachers nationwide in teaching Grade 9, Araling Panlipunan subject, was bankrolled by a ₱1 million grant from the Foundation.

The two episodes will talk about savings, consumption and how to be a wise saver.

Through these efforts, we hope to realize a strong Philippines by producing graduates who are knowledgeable, by engaging teachers who are inspired and competent, and by ensuring that the student's learning environment is safe and secure.

Response to the Marawi Crisis

Aside from the tangible accomplishments in our advocacy on education, special efforts were likewise extended by the Company to bring relief to the Marawi City crisis. In fact, InLife and its employee volunteers were among the very first in the private sector to mobilize and to come to aid those affected by the crisis in Marawi.

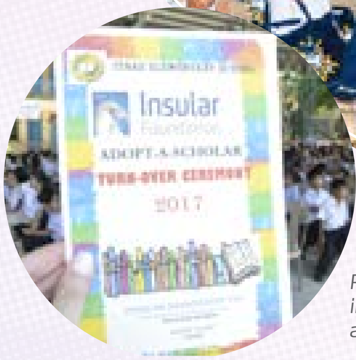
Adopt-A-Marawi Soldier Fund Drive

Insular Foundation donated 817 sets of hygiene kits to the Civil Military Operations Group (CMOG) of the Philippine Army for the use of the soldiers fighting the war in Marawi City. A total of ₱407,000.00 worth of out-of-pocket cash donations was generated from 128 Insular officers and employees through the Adopt-A-Soldier Fund Drive, launched by the Foundation.

Donation to the Save the Children

The Foundation extended educational help to the school children of Marawi in the amount of ₱220,000 through the

Turnover of two disaster-resilient school buildings in Northern Samar.



Pupils of Itaas Elementary School in Muntinlupa City, receive books and other educational materials.

Save the Children Foundation. The donation was used to buy 100 school kits, build Learning Space, plus teaching materials for the teachers.

Visit to the Marawi Soldiers

Forty-five Insular volunteers and Gawad Kalinga kids of GK Marcelo Village in Manggahan, Paranaque City visited Manila Naval Hospital in September at the Fort Bonifacio, Taguig City to give cheers and uplift the morale of the wounded soldiers confined at the hospital.

Employee Volunteerism

Adopt-A-Scholar Program

While the Company is at the forefront of social responsibility, its employees, too, are in tune with the needs of others.

This is because our own employees themselves are empowered by InLife to share their blessings with those in need – especially elementary pupils through the company's "Adopt-A-Scholar Program" and other volunteer projects – either in the realm of education or other worthy causes such as environment preservation and healthcare.

Moreover, "Adopt-A-Scholar" is a direct materials assistance provided by employees to Grades 1-6 pupils of InLife's partner schools.

Under this program, employees of Inlife provide much needed school supplies to government school pupils to ensure that they have the necessary materials for their studies. The lack of school materials is one of the many cited causes of dropouts among very poor pupils.

In 2017, 76 scholars finished Grade 6 at Muntinlupa Itaas Elementary School-Main. The Foundation feted them to a graduation salu-salo together with their Adopt Insular employee sponsors. The subsequent batch of the Adopt-A-Scholar Program for the School Year 2017-2018 was also launched wherein 140 Grade 1 pupils were adopted by 72 employees as their scholars.

Values formation classes at GK

A big part of InLife's program is the cultivation of a strong, self-less employee, by supporting employee volunteers who render acts of service.

Thus, every third Saturday of the month, InLife employee volunteers extend their time and talents to the Gawad Kalinga kids at the Marcelo Village in Paranaque City to teach them value formation activities.

There are 65 GK youngsters, ages 6-12, who belong to the group called "Sagip Kids" that benefit from the values education sessions planned and conducted by 37 Insular active volunteers.

Aside from the monthly meetings in the GK Activity Center, our employee volunteers also joined other such activities as the World Bamboo Day, Red Cross Million Volunteer Run and Christmas Party at the Pediatrics Cancer Ward of the Philippine General Hospital.

Ms. Mona Lisa B. dela Cruz leads the donation of hygiene materials to help our soldiers in Marawi.

INLIFE and Ian Neo: Partners for Good

In the cutthroat world of banana exports, it's hard to find a steady partner who is willing to invest in he future. While it is one of the country's major agricultural exports, the banana sector has been plagued with uncertainty: diseases, climate change, and stiff competition from Latin America and other markets, to name a few.

This is why 38-year old banana exporter Ian Neo has reason to thank his lucky stars.

"Having an insurance policy makes me confident that my hard-earned money and my family's future are all in good hands."

In 2001, the management accounting graduate from Tagum, Davao del Norte got ₱200,000 from his father to bankroll his food manufacturing business in the major banana-growing region of Southern Philippines. He rented a small warehouse, hired 62 workers, and started a factory that makes banana chips from high-quality Cardava banana which grows in Mindanao's fertile soils and processed free of GMO and artificial additives.

"We started small. I put everything together with the intention of growing it as a family business," says Ian, who has always possessed an entrepreneurial mind. As early as 16 years old, he already ran his own computer shop and an electronics repair shop, and had his first taste of failure that served him valuable lessons to this day. "I let somebody I trusted manage it. The venture failed because I didn't have time to be involved in day-to-day transactions. It taught me to be hands-on, be involved and committed for things to go smoothly," he adds.

Looking back, Ian says trust has been key to the success of his nearly two-decade old Four Seasons Fruits Corporation (FSFC).

His wife and business partner, Len, serves as the company's chief financial officer. He also counts his stable of

Ian's flouring factory of Banana Chips in Tagum City.

employees, whom he treats as family, as his partners in growth. To date they now employ 1,300 workers. "I involve them in many things and make them feel they belong here. It's been really helpful so far as they come up with great ideas and contribute to our collective wins," he explains.

Investing in these relationships has enabled FSFC to enjoy a loyal clientele and bring its array of products to Europe, the United States, Russia, Canada, and Asia. The company plans to expand and acquire three additional factories in Mindanao, including one each in South Cotabato and Davao Oriental.

It's about peace of mind

To secure his and his family's future, Ian puts his trust in Insular Life. At 29, he bought his first policy: I-Assure Max 5 for financial protection and competitive yields for his hard-earned money. As he progressed in life, he bought more life insurance policies from Insular Life for himself and for his wife. He also invested in insurance policies for the educational needs of their two kids, 5-year-old Lance and 3-year-old Ceana.

"Insular Life secures the unsecured side of my life which gives me peace of mind and security for my family," he says.

"Having an insurance policy makes me confident that my hard-earned money and my family's future are all in good hands. Early investing truly improves one's personal capacity to save and plan better for what's ahead," he adds.

In life and in business, Ian believes everything starts with a great idea and a decision to make things happen. "Implement that idea and focus on it. Gain momentum and never give up. The trials and failures are all part of the game, giving you a great foundation."

Ian with his children and wife: Lance, Ceana and Len.

Corporate Sales Division:

Winning for InLife, Securing More Lives

Insurance is often intertwined with the state of the economy and society that any noticeable change in either will greatly impact the insurance sector. Insular Life's Corporate Sales Division (CSD), which exceeded its annual target after nine long years, mirrors this.

The Division handles the corporate, employee (more popularly known as Worksite), and OFW markets of InLife.

"No matter the shifting market conditions, we saw business and employee insurance packages on an upward trend – something that reflected in our ability to meet our annual target by 132 percent in 2017," said CSD Head and First Vice President Carlito V. Lucas.

Stellar performance

During the year, the Division brought in ₱548 million in total first-year premiums, beating its year-ago performance of ₱338 million, a 62-percent growth. Its core business of group insurance has a far more colorful story to tell: total first-year premiums surged 227 percent to ₱337 million from ₱103 million in 2016.

"We attribute this stellar performance mainly to the commitment exemplified by our employees, as guided by their team leaders. We continually inculcate a culture of excellence in our ranks, each motivated to perform at his or her best," said Mr. Lucas, who highlighted CSD's synergy with Corporate Accounts Division (CAD) and Corporate Technical Department (CTD) to make things happen.

> "Our 107-year history and long track record of service make us a force to reckon with in group insurance, no matter the changing tides."

CSD's joyful Christmas party celebrations.

CSD Head Lito Lucas (seated, front) and his team leaders (L-R): Jane Gonzales, Gary Orcine, Abigail Jacinto, and Archie Francisco.

2017 was a banner for CSD, as a result ofseveral initiatives: Closely monitoring its sales outlook to assure first-year premiums collection;

- Forging strategic partnerships with distribution partners such as the agency force, insurance brokers, and direct marketing allies;
- Closing high-value accounts;
- Creating the Group Market Development Unit for enhanced marketing and focused process improvements; and
- Implementing activity metrics to ensure the greater efficiency of account executives.

CSD's production offered a boost to InLife's growth, particularly in Multiple Pay Policies (MPP), which accounted for nearly all of its closed businesses in 2017. MPPs amounted to ₱428 million, with a 33-percent share of InLife's total MPP first-year premiums. In terms of annual FYP, the division generated ₱548 million, which is nearly 10 percent of the Agency Distribution Channel's ₱5.5B production for the year.

Changing tides

Apart from addressing organizational changes and strengthening ties from within, the Division also grappled with external factors. Among these were the constantly evolving local business environment and disruptive technologies.

While wellness incentives have been available to employees for several years now, Mr. Lucas said perks with long-term benefits such as group life insurance are now generating interest among companies, especially to those who compete to attract and retain their best talents.

"A secure future and financial help at a time of need will always be hot-button issues in the workforce, and we're glad to be the employers' provider of choice in this critical aspect. We also protect more people in a single-policy transaction," he added. "Our 107-year history and long track record of service make us a force to reckon with in group insurance, no matter the changing tides."

His division – formerly known as Group Marketing Division – has lofty growth prospects on the horizon that echo and reinforce InLife's aspiration of becoming No. 1 in the local insurance industry by 2022.

"Nothing is impossible with focus and determination. At a time when the Company needed to bring in the desired results from new business premiums, we attained 108 percent of our annual goal and broke our own record since 2008. It's something we're keen on replicating in 2018 and in the years to come," Mr. Lucas said.

Board of Trustees

Luis Y. Benitez, Jr.
Independent Trustee

Luis C. la Ó
Vice Chairman

Mona Lisa B. dela Cruz
Trustee

Nina D. Aguas
Executive Chairman

Justo Antonio Ortiz
Trustee

Nico Jose S. Nolledo
Independent Trustee

Gil B. Genio
Independent Trustee

Marietta C. Gorrez
Trustee

Francisco Ed. Lim
Independent Trustee

Board of Trustees

Nina D. Aguas
Executive Chairman

Members:
Mona Lisa B. dela Cruz
Gil B. Genio
Marietta C. Gorrez
Francisco Ed. Lim
Nico Jose S. Nolledo
Justo Antonio Ortiz

Luis C. la Ó
Vice Chairman

Executive Committee:
Mona Lisa B. dela Cruz - *Chairman*
Luis C. la Ó - *Vice Chairman*
Nina D. Aguas - *Member*
Francisco Ed. Lim - *Member*
Justo Antonio Ortiz - *Member*

CREDENTIALS

As of 23 April 2018

Nina D. Aguas

Date of First Appointment: 24 May 2015

Nina currently sits as the Company's Executive Chairman of the Board effective 01 January 2018. She is the Chairman of the *Personnel and Compensation* Board Committee and Vice-Chairman of *Finance, Budget and Investment* Board Committee. She is also a member of the Executive Board Committee. She previously served as the Chief Executive Officer (CEO) of the Company from January 2016 to December 2017. She is 65 years old and a Filipino citizen.

Directorships and Experience:
Nina sits as the Chairman of the Board of the following Insular Life subsidiaries: Insular Health Care, Inc., Home Credit Mutual Building & Loan Association, Insular Life Management & Development Corporation (ILMADECO), Insular Life Property Holdings, Inc., Insular Investment Corporation, and the Insular Foundation, Inc. Apart from these roles in the Insular Group, she is also a Director of the following companies: Union Bank of the Philippines (a Publicly Listed Company) and Pilipinas Shell Petroleum Corporation (a Publicly Listed Company). She is on the Board of Philippine Life Insurance Association (PLIA).

Most recently, she was appointed member of the World Bank Group's Advisory Council on Gender and Development to serve from 2018 to 2019. Prior to joining Insular Life, Nina held various Senior Management positions with multinational financial institutions across Asia and the United States. She was a former Director, President and CEO of the Philippine Bank of Communications (PBCOM). She was also a former Director of MAPFRE INSULAR. Before that, she was a Managing Director and Head of Private Bank - Asia Pacific and Managing Director and Retail Banking Head- Asia Pacific of the Australia and New Zealand (ANZ) Banking Group, Ltd. (ANZ Group). Prior to her ANZ stint, she also held various critical management positions under the Citibank Group, namely, as Managing Director and Head of Corporate Center Compliance In New York; as Country Business Manager of Global Consumer Group in the Philippines; as Regional Head of Audit and Risk in Asia Pacific; and as Regional Head, Quality and Re-Engineering of Asia Pacific. She is a recipient of the *2013 Filipina Women Network (FWN) 100 Most Influential Filipina Women Leaders in the World™*.

Academic Qualifications:
Nina received her Bachelor of Science degree in Commerce, major in Accounting, from the University of Santo Tomas. She is a *Certified Public Accountant*.

Recent Seminars attended:
In 2017, Nina attended the following seminars and conferences: *Advanced Corporate Governance Training Program* by the Institute of Corporate Directors (ICD) in Metro Manila, Philippines; *2017 International Finance Corporation (IFC) Insurance Conference* in New York, USA; and *17th Asia CEO Insurance Summit* in Singapore.

Luis Y. Benitez, Jr.

Date of First Appointment: 24 January 2016

Louie is an Independent, Non-executive Trustee of the Company. He is the Chairman of the following Board Committees: *Audit and Risk Management, Nominations, and Related Party Transactions*. He is also the Vice-Chairman of *Governance* Committee. He is 70 years old and a Filipino citizen.

Directorships and Experience:
Louie is an Independent Director of ISM Communications Corporation (Publicly Listed Company) and Banco Rodriguez. He was a former Vice Chairman, Senior Partner and Head of Audit Division of Sycip, Gorres, Velayo and Company (SGV and Co).

Academic Qualifications:
He received his Bachelor of Science degree in Business Administration, major in Accounting, from the University of the Philippines. He has a Master's degree in Business

Administration from the Stern School of Business of New York University. He is also a graduate of the Pacific Rim Bankers Program from University of Washington. He is a *Certified Public Accountant*.

Recent Seminars attended:
In 2017, Louie attended an *Advanced Corporate Governance Training Program* by the Institute of Corporate Directors (ICD) in Metro Manila, Philippines.

Mona Lisa B. dela Cruz

Date of First Appointment: 27 January 2011

Lisa is an Executive Trustee and is the President and Chief Executive Officer (CEO) of the Company effective 01 January 2018. As the CEO, she is also the Chairman of the Board's Executive Committee. She is 60 years old and a Filipino citizen.

Directorships and Experience:
Lisa sits in the Board of the following: Chairman of ILAC General Insurance Agency, Inc. and Insular Life Employees' Retirement Fund; Vice-Chairman of Insular Health Care, Inc., Home Credit Mutual Building & Loan Association, Insular Life Property Holdings, Inc., Insular Foundation, Inc. and Insular Life Management & Development Corporation (ILMADECO); and member of the Board of Insular Investment Corporation. Outside of the Insular Life Group, she is a Director of MAPFRE INSULAR Insurance Corporation and Pilipinas Shell Petroleum Corporation (a Publicly Listed Company). She is a recipient of the 2016 Filipina Women Network's (FWN's) *100 Most Influential Filipina Women Leaders in the World ™*. She is also a *University of the Philippines Alumni Association (UPAA) Distinguished Alumni* Awardee in *Financial Management Excellence*.

Academic Qualifications:
She earned her Bachelor of Science degree in Statistics (cum laude) from the University of the Philippines. She finished her Master of Science degree in Mathematics, major in Actuarial Science, from University of Michigan. She is a Fellow of the Actuarial Society of the Philippines and an Associate of Society of Actuaries (USA).

Recent Seminars attended:
In 2017, Lisa attended the following seminars and conferences: *Advanced Corporate Governance Training Program* by the Institute of Corporate Directors (ICD) in Metro Manila, Philippines; *28th Pacific Insurance Conference* in Hong Kong; *Actuarial Society of the Philippines 58th Annual Convention* in Albay, Philippines; 2017 Filipina Women's Network (FWN) Summit in Toronto, Canada; 2017 LIMRA Annual Meeting in Maryland, USA; *ASEAN Women's Business Conference and Related Meetings* in Manila, Philippines; *Asia Pacific Life Insurance Congress* (APLIC) in Kuala Lumpur, Malaysia; *12th ASEAN Finance Ministers Investors Seminar* (AFMIS) in Cebu, Philippines; and the *17th ASIA CEO Insurance Summit* in Singapore.

Gil B. Genio

Date of First Appointment: 01 January 2018

Gil is an Independent, Non-executive Trustee of the Company. He is the Chairman of the *Information, Technology, & Innovation* Committee and the Vice Chairman of *Audit and Risk Management and Nominations* Board Committees. He is 58 years old and a Filipino citizen.

Directorships and Experience:
Gil is Globe *Telecom*'s Chief Technology and Information Officer (CTIO) and Chief Strategy Officer (CSO). He is the Chief Executive Officer (CEO) of *Globe Capital Venture Holdings* and holds directorships in a number of subsidiaries and affiliates under Globe. He is also a Managing Director at Ayala Corporation (a Publicly Listed Company). He previously worked with *Citibank* in the Philippines, Singapore, Japan and Hong Kong, with functions in financial control, risk management, product development, and audit and market risk management. He also served in a variety of industry associations. His past affiliations include being Vice Chairman and Chairman of the GSM Association Asia Pacific (GSMA AP); member of the Advisory Board for Mobile World Capital Barcelona; member of the Board of Trustees of the IT and Business Process Association of the Philippines (iBPAP).

Academic Qualifications:
Gil obtained his Master's Degree in Business Management, *with distinction*, from the Asian Institute of Management. He is a graduate of Bachelor of Science degree in Physics, *magna cum laude*, from the University of the Philippines.

Recent Seminars attended:
In 2017, Gil attended an *Annual Corporate Governance Training Program* by the Institute of Corporate Directors (ICD) in Metro Manila, Philippines; *Leaders' Purpose Workshop* in Metro Manila, Philippines and Purpose Workshop: *Thank You and Next Steps* in Metro Manila, Philippines; *Strata Data Conference* in London, United Kingdom; *Corporate Governance and Risk Management Forum* in Metro Manila, Philippines. He also had numerous speaking engagements in various seminars and conferences, namely: *Telecom Infrastructure "Building a Digital Nation"*, in Metro Manila, Philippines; *Security in the Digital Transformation Era- 2018 Internet Security Officers Group Conference* in Metro Manila, Philippines; *2018 Philippine Business Conference "Mobile Driving Business Growth and Productivity"* in Metro Manila, Philippines; and served as a Panelist in *2018 International Business Process Management (BPM) Conference* in Metro Manila, Philippines.

Marietta C. Gorrez

Date of First Appointment: 27 January 2011

Mayette is a Non-executive Trustee of the Company. She is a member of the following Board Committees: *Audit and Risk*

Management and *Information, Technology, & Innovation*. She is 64 years old and a Filipino citizen.

Directorships and Experience:
Mayette currently holds Directorships/Trusteeships in the following companies: Insular Health Care, Inc.; Foundation for Professional Training, Inc.; and Alliance for the Family Foundation of the Philippines, Inc. She was a former Senior Vice President of Insular Life and headed the following Groups: Business Support Group, Sales Operations Group, Corporate Operations Group, and Administrative Operations Group. She was also a former President of ILAC General Insurance Agency, Inc. She served as Director and Treasurer of Insular Investment Corporation and previously held Directorships of Insular Life Management & Development Corporation (ILMADECO), Insular Life Property Holdings, Inc., Insular Life Employees' Retirement Fund, and Home Credit Mutual Building & Loan Association, Inc. She was also a former Trustee of Insular Foundation, Inc. She is a Professional Executive/Career/Life Coach & member of International Coach Federation and the President-elect and member of the Board of International Coach Federation - Philippines Chapter.

Academic Qualifications:
She obtained her Bachelor of Science degree in Mathematics from the University of Santo Tomas. She holds a Master's degree in Business Administration from De La Salle University and is a candidate for Master's degree in Business Economics from University of Asia & the Pacific. She is also a graduate of Top Management Program of the Asian Institute of Management. She is a *Registered Financial Consultant (RFC)* and *Registered Estate Planner* of the International Association of Registered Financial Consultants (IARFC). She is a Fellow of Life Management Institute of Life Office Management Association (LOMA).

Recent Seminars attended:
In 2017, Mayette attended an *Advanced Corporate Governance Training Program* by the Institute of Corporate Directors (ICD) in Metro Manila, Philippines.

Luis C. la Ó

Date of First Appointment: 22 January 2015

Louie is the Vice-Chairman of the Board and an Independent, Non-executive Trustee of the Company. He is the Chairman of *Finance, Budget and Investment* Board Committee. He currently sits as the Vice-Chairman of the *Executive* and *Personnel and Compensation* Board Committees. He is also a member of the *Governance* Board Committee. He is 70 years old and is a Filipino citizen.

Directorships and Experience:
Louie previously served as the Board Chairman of Insular Life from August 2016 to December 2017. He was also a former Chairman of the Board of MAPFRE INSULAR Insurance Corporation, from which he now sits as its Vice-Chairman. He previously occupied the following management roles: Regional Vice President for Asia of the MAPFRE Group-Spain, President of Provident Insurance Corporation of the Soriano Group, and Senior Vice President of Universal Reinsurance Corporation of the Ayala Group.

Academic Qualifications:
Louie is a graduate of Bachelor of Science degree in Management at Ateneo de Manila University. He completed his Master's degree in Business Management from De La Salle University. He also finished a course on general Insurance from the College of Insurance, Chartered Institute of London, United Kingdom.

Recent Seminars attended:
In 2017, Louie attended the *Advanced Corporate Governance Training Program* by the Institute of Corporate Directors (ICD) in Metro Manila, Philippines.

Francisco Ed. Lim

Date of First Appointment: 27 January 2011

Francis is an Independent, Non-executive Trustee of the Company. He currently sits as the Chairman of the *Governance Board* Committee and a member of the following Board Committees: Executive; *Finance, Budget and Investment;* and *Related Party Transaction*. He is 62 years old and a Filipino citizen.

Directorships and Experience:
Francis is a Senior Partner and member of the Special Committee and Executive Committee of the Angara Concepcion Regala & Cruz Law (ACCRA LAW) Offices. He is the President of Shareholders' Association of the Philippines (SharePHIL). He is an Independent Director of the following companies: Energy Development Corporation (a Publicly Listed Company), Rural Bank of Pamplona, Producers Savings Bank, Corporation, and Tower Development Bank, Inc.; while he is a Director of Union Bank of the Philippines (a Publicly Listed Company). He is also a Trustee of Judicial Reform Initiative, Inc., CIBI Foundation, Inc., and FINEX Research & Development Foundation, Inc. He sits as the Chairman of Committees of the following Associations: National Competitiveness Committee of the *Management Association of the Philippines* and Judicial System Working Group of the *National Competitiveness Council*. He is a Co-Chairperson of the Sub-Committee of the Philippine Supreme Court on E-Commerce Law and member of the Philippine Supreme Court Sub-Committee on Commercial Courts. He is a Professorial Lecturer at the Philippine Judicial Academy and a Law Professor at the School of Law, Ateneo de Manila University and School of Law of San Beda University. He is a Philippine Contributor to the Compliance Complete (Thomson Reuters International online publication) and a Columnist (Point of Law) in Philippine Daily Inquirer. He was a former President and Chief Executive Officer of the Philippine Stock Exchange, Inc. and Securities Clearing Corporation of the Philippines. He previously served as Chairman of the Philippine Stock Exchange Foundation, Inc. and Capital Market Development

Center, Inc. He was also a former Director of The Philippine Stock Exchange, Inc., Securities Clearing Corporation of the Philippines, and Philippine Dealing & Exchange Corporation. He also previously served as a Trustee of Securities Investors Protection Fund. He was a former member of the Capital Market Development Council. He is a member of the Financial Executive Institute of the Philippines.

Francis has received numerous awards and accolades during his professional career. Among his most recent awards are: *Commended External Counsel of the Year 2016* by In-House Community Counsels; *Punong Gabay Award* from the Philippine Council of Deans and Educators (PCDEB); *Professorial Chair in Commercial Law* from the Philippine Supreme Court, Philippine Judicial Academy and the Metrobank Foundation, Inc.; *Advocacy Management and Shareholder Rights Advocacy Awards* from BizNewsAsia; *Certificate of Commendation* from the Supreme Court of the Philippines; *Outstanding Alumnus*, San Jacinto Seminary and San Jacinto Seminary Alumni Association and *Certificate of Appreciation* from Capital Market Institute of the Philippines.

Academic Qualifications:
Francis earned his Bachelor of Arts, *cum laude*, and Bachelor of Philosophy, *magna cum laude*, degrees from University of Santo Tomas. He finished his Bachelor of Laws (Second Honors) degree from the Ateneo de Manila University. He then graduated with Master of Laws from the University of Pennsylvania, USA. He is a member of the Integrated Bar of the Philippines, Philippine Bar Association, New York State Bar Association and the American Bar Association. He is a Fellow of the Institute of Corporate Directors (ICD).

Recent Seminars attended:
In 2017, Francis attended an *Annual Corporate Governance Training Program* by the Institute of Corporate Directors (ICD) in Metro Manila, Philippines.

Nico Jose S. Nolledo

Date of First Appointment: 22 January 2015

Nix is an Independent, Non-executive Trustee of the Company. He sits as the Vice-Chairman of *Information, Technology, & Innovation* and *Related Party Transaction* Board Committees. He is also a member of the Nominations Board Committee. He is 41 years old and a Filipino citizen.

Directorships and Experience:
Nix is the Chairman and CEO of Xurpas (Philippines). He is also Chairman of Eden Holdings (Singapore). He is a member of the Entrepreneurs' Organization (EO) - Philippine Chapter. He is the Founder and CEO of PinoyExchange. He currently sits as a Director of the following companies: Xurpas Inc. (a Publicly Listed Company), Eden Holdings (Singapore) and Rappler Philippines. He is an awardee of the following prestigious titles: 2015 Ernst and Young (EY) Entrepreneur of the Year, 2015 The Outstanding Young Men (TOYM) and Endeavor Entrepreneur.

Academic Qualifications:
He received his Bachelor of Science degree in Management from the Ateneo de Manila University.

Recent Seminars attended:
In 2017, Nix attended and also had several speaking engagements in the following conferences and seminars: *Global Mobile Game Confederations (GMGC) Manila* in Metro Manila, Philippines; *Google Innovation Workshop for Cebu Pacific* in Metro Manila, Philippines; UBP Leaders' *Learning Circle: "ST2 Start-UP and Straight Through"* in Metro Manila, Philippines; *Citibank Managers and Execs talk: Application Development and Business Models* in Metro Manila, Philippines; and *AWS Executive Insights* in Batangas, Philippines.

Justo Antonio Ortiz

Date of First Appointment: 23 November 2017

Tito is a Non-executive Trustee of the Company. He is a member of the following Board Committees: *Executive* and *Finance, Budget and Investment*. He is 60 years old and a Filipino citizen.

Directorships and Experience:
Tito is the Chairman of the Board of Union Bank of the Philippines or UBP (a Publicly Listed Company). He is also the Chairman of Union Properties, Inc. and Philippine Payments Management Inc. (PPMI) and a Director of Aboitiz Equity Ventures (a Publicly Listed Company). Prior to joining UBP, he was with Citibank as Managing Partner for Global Finance and Country Executive for Investment Banking.

Academic Qualifications:
Tito is a graduate of Bachelor of Arts in Economics - Honors Program, *magna cum laude*, from the Ateneo de Manila University. He was also conferred the degree of Doctor in Humanities - *Honoris Causa*, by the University of Santo Tomas (UST).

Recent Seminars attended:
In 2017, Tito attended the following seminars and conferences: *Fintech Asia Pacific Conference* in Singapore, Singapore; UBP Leaders' Learning Circle: *"Leadership Transformation: the Role of Leaders in a Transforming and a Customer-Centric Organization"* in Manila, Philippines; *Asian Carriers Conference* in Cebu, Philippines; *The Aboitiz Way Executive Presentation*, Metro Manila, Philippines, *UBP Leaders' Learning Circle: "Human Side of Digital Transformation*" in Metro Manila, Philippines; *UBP Leaders' Learning Circle: "ST2 Start-UP and Straight Through"* in Metro Manila, Philippines; *Mobile World Congress 2017* in Barcelona, Spain; UBP Leaders' Learning Circle: *UnionBank Digital Day*, in Metro Manila Philippines; and *Aboitiz Group Leadership Conference* in Metro Manila, Philippines.

Senior Management Team

as of April 2018

From left to right:

Raoul Antonio E. Littaua, Senior Executive Vice President and Head of Agency Distribution Group
Nina D. Aguas, Executive Chairman of the Board
Omar T. Cruz, Senior Executive Vice President, Chief Bancassurance Executive and Head of Bancassurance Operations Group
Mona Lisa B. dela Cruz, President and Chief Executive Officer
Ma. Edita C. Elicaño, Executive Vice President, Chief Actuary, and Head of Administrative Operations Group

Senior Vice Presidents

as of April 2018

Ramon M. Cabrera
Head of General Agency Channel

Renato S. De Jesus
Compliance Officer, Corporate Secretary, and Head of Legal & Corporate Services Division

Maria Teresa L. Cruz
Head of Information Services Division

Amelita F. Tamayo
Chief Marketing Executive, and
Head of Marketing Division

Noel Andres M. Perdigon
Chief Information Security Officer

Maria Noemi G. Azura
Chief Strategy Officer and Head
of Strategy & Innovation Division,
Seconded as President and CEO
of Insular Health Care, Inc.

First Vice Presidents

as of April 2018

From left to right, top to bottom:

Hector A. Caunan, Head of Real Property Division | **Jocelyn B. Reyes**, Head of Policyholders Services Division | **Alijeffty C. Gonzales**, Head of Territory 1 – Agency Distribution Group | **Carlito V. Lucas**, Head of Corporate Sales Division | **Mylene C. Padilla**, Corporate Treasurer, and Head of Finance Division | **Melvin J. Esteban**, Chief Learning Officer, and Head of Agency Training & Education Department

Vera Victoria C. Morales, Head of Investment Management Division | **Percival Cirilo S. Flores**, Head of Business Analytics & Strategy Management – Bancassurance | **Florian C. De Leon**, Head of Human Resources Division | **Mundece L. Lu**, Head of Territory 2 - Agency Distribution Group | **Maria Rosa Aurora D. Cacanando**, Head of Audit Staff (Internal Audit) | **Enrico L. Cordoba**, Chief Risk Officer and Head of Corporate Planning Staff

VICE PRESIDENTS

Geraldine B. Alvarez
Alan Joseph S. Amador
Lorenzo Luis Liborio B. Gallardo II
Jesselyn V. Ocampo
Henry A. Pagulayan
Dominique C. Soliven
Diana Rose A. Tagra
Eleanor G. Tañada, M.D.

SENIOR ASSISTANT VICE PRESIDENTS

Reynaldo R. Aldaba
Arnaldo I. Aquino
Johanna C. Coronado
Corazon S. Cruz
Peter Paul E. Esporlas
Ma. Carmela D. Francisco
Laarni F. Garraton*
Gwendolyn D. Kelley
Jose A. Padilla
Geraldine G. Pascual
Tricci Rose A. Sadian
Ana Maria R. Soriano
Ruth R. Velasco

ASSISTANT VICE PRESIDENTS

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

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


inlife
for good

THE INSULAR LIFE ASSURANCE COMPANY, LTD.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **The Insular Life Assurance Co., Ltd. and Subsidiaries** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as Management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

SyCip Gorres Velayo & Co., the independent auditor appointed by the members, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the members, has expressed its opinion on the fairness of presentation upon completion of such audit.

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

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

Signed this 22nd day of March 2018

THE INSULAR LIFE ASSURANCE COMPANY, LTD.

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of The Insular Life Assurance Company, Ltd. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

SYCIP GORRES VELAYO & CO.

Djole S. Garcia

Djole S. Garcia
Partner
CPA Certificate No. 0097907
SEC Accreditation No. 1285-AR-1 (Group A),
May 12, 2016, valid until May 12, 2019
Tax Identification No. 201-960-347
BIR Accreditation No. 08-001998-102-2015,
November 25, 2015, valid until November 24, 2018
PTR No. 6621265, January 9, 2018, Makati City

March 22, 2018

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31		
	2017	2016, As restated	January 1, 2016, As restated
ASSETS			
Cash and Cash Equivalents (Note 4)	**₱4,965,844,081**	₱7,864,611,077	₱7,108,300,822
Short-term Investments	-	-	33,368,707
Insurance Receivables (Note 5)	**202,310,731**	170,303,275	194,828,272
Financial Assets (Note 6)			
Fair value through profit or loss	**32,032,608,958**	27,022,555,883	23,391,812,135
Available-for-sale	**40,174,640,331**	38,365,111,789	19,095,651,957
Held-to-maturity	**22,345,223,102**	22,508,340,753	24,011,422,748
Loans and receivables	**15,845,510,163**	15,590,030,880	15,400,243,514
Investments Associates (Note 7)	**10,343,606,515**	9,117,892,365	7,976,569,117
Investment Properties (Note 8)	**7,905,810,966**	8,117,694,965	8,315,642,146
Property and Equipment (Note 9)	**809,584,589**	285,888,862	307,597,514
Retirement Benefits Asset (Note 24)	**86,559,091**	1,076,542	91,962,985
Deferred Income Tax Assets - net (Note 25)	**76,037,920**	559,980,063	156,424,031
Other Assets (Notes 10)	**1,114,026,816**	188,632,339	208,787,825
TOTAL ASSETS	**₱135,901,763,263**	₱129,792,118,793	₱106,292,611,773
LIABILITIES AND MEMBERS' EQUITY			
Liabilities			
Legal policy reserves (Note 11)	**₱62,373,012,796**	₱65,063,542,652	₱61,396,998,861
Derivative liability (Note 12)	**35,908,235**	34,807,709	25,859,311
Other insurance liabilities (Note 13)	**34,986,288,845**	30,176,499,941	26,521,198,207
Accrued expenses and other liabilities (Note 14)	**1,972,692,075**	1,482,309,199	1,491,635,662
Retirement benefits liability (Note 24)	**2,806,221**	288,880,645	5,387,341
Deferred income tax liabilities - net (Note 25)	**175,599**	159,672	105,689
Total Liabilities	**99,370,883,771**	97,046,199,818	89,441,185,071
Members' Equity			
Equity attributable to Parent Company			
Reserve for fluctuation in available-for-sale financial assets:			
Attributable to the Group (Note 6):			
Equity securities	**13,274,398,716**	15,143,705,534	2,693,114,649
Debt securities	**(891,821,933)**	(408,022,516)	106,020,601
Attributable to associates (Note 7)	**(1,095,816,422)**	(1,325,628,658)	(1,275,049,049)
	11,286,760,361	13,410,054,360	1,524,086,201
Cumulative re-measurement gains (losses) on defined benefit plan:			
Attributable to the Group (Note 24)	**(149,947,897)**	(187,205,885)	34,644,560
Attributable to the associates (Note 7)	**(35,286,041)**	(31,352,232)	25,172,295
	(185,233,938)	(218,558,117)	59,816,855
Premium on deemed disposal of investment in an associate (Note 7)	**304,954,486**	304,954,486	304,954,486
Share in surplus reserves of a subsidiary	**3,226,537**	3,226,537	3,226,537
Cumulative remeasurement on life insurance reserves (Note 11)	**(1,322,782,057)**	(2,368,373,366)	(2,141,047,910)
Retained earnings/losses (Notes 15 and 33):			
Appropriated	**550,000,000**	550,000,000	250,000,000
Unappropriated	**25,739,386,092**	20,910,213,218	16,698,739,788
Equity attributable to Parent Company	**36,376,311,481**	32,591,517,118	16,699,775,957
Equity attributable to Non-controlling Interests (Note 28)	**154,568,011**	154,401,857	151,650,745
Total Members' Equity	**36,530,879,492**	32,745,918,975	16,851,426,702
TOTAL LIABILITIES AND MEMBERS' EQUITY	**₱135,901,763,263**	₱129,792,118,793	₱106,292,611,773

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31	
	2017	2016
REVENUE		
Insurance Revenue (Note 16)		
Gross earned premiums on insurance contracts	**₱12,452,751,342**	₱13,138,576,490
Reinsurers' share of premiums on insurance contracts	**(233,571,026)**	(209,543,054)
Net Insurance Revenue	**12,219,180,316**	12,929,033,436
Operating Revenue		
Investment income (Note 17)	**4,455,267,192**	4,356,615,979
Equity in net earnings of associates (Note 7)	**1,325,871,193**	1,505,823,807
Net realized gains (Note 18)	**841,112,461**	5,215,694,021
Rental income (Notes 8 and 27)	**428,126,462**	336,690,470
Foreign exchange gain - net (Note 32)	-	180,964,172
Other income (Note 29)	**457,239,952**	382,032,363
Total Operating Revenue	**7,507,617,260**	11,977,820,812
Total Revenue	**19,726,797,576**	24,906,854,248
INSURANCE BENEFITS OPERATING EXPENSES		
Insurance Benefits Expenses (Note 19)		
Gross benefits and claims on insurance contracts	**11,597,723,035**	12,721,541,901
Reinsurers' share of benefits and claims on insurance contracts	**(29,271,877)**	(89,513,715)
Net change in (Note 11):		
Legal policy reserves	**(1,183,552,082)**	3,348,430,726
Reinsurers' share in legal policy reserves	**(13,275,905)**	(6,637,585)
Net Insurance Benefits Expenses	**10,371,623,171**	15,973,821,327
Operating Expenses		
General insurance expenses (Note 20)	**1,936,625,169**	1,973,299,407
Commissions and other acquisition expenses	**1,571,092,910**	1,211,580,719
Investment expenses (Note 21)	**168,731,544**	315,285,040
Other losses (Note 22)	**45,043,804**	169,790,742
Total Operating Expenses	**3,721,493,427**	3,669,955,908
Total Insurance Benefits and Operating Expenses	**14,093,116,598**	19,643,777,235
INCOME BEFORE INCOME TAX	**5,633,680,978**	5,263,077,013
PROVISION FOR INCOME TAX (Note 25)	**599,760,605**	330,004,007
NET INCOME	**₱5,033,920,373**	₱4,933,073,006
ATTRIBUTABLE TO:		
Parent Company	**₱5,033,927,307**	₱4,933,074,833
Non-controlling Interest	**(6,934)**	(1,827)
NET INCOME	**₱5,033,920,373**	₱4,933,073,006

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016, As restated
NET INCOME	**₱5,033,920,373**	₱4,933,073,006
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive items to be reclassified to profit or loss in subsequent periods:		
Increase (decrease) in value of available-for-sale equity securities (Note 6)	**(1,183,514,017)**	15,511,384,608
Consequential deferred income tax impact (Note 25)	**16,285,488**	85,560,874
	(1,167,228,529)	15,596,945,482
Valuation gains realized through profit or loss:		
Gain on sale (Note 6)	**(743,803,105)**	(3,315,951,339)
Impairment (Notes 6 and 22)	**41,724,816**	169,596,742
	(702,078,289)	(3,146,354,597)
Decrease in value of available-for-sale debt securities (Notes 6 and 28)	**(479,191,105)**	(509,653,637)
Consequential deferred income tax impact (Note 25)	**(1,060,640)**	-
	(480,251,745)	(509,653,637)
Valuation gains realized through profit or loss (Notes 6)	**(3,547,799)**	(4,389,561)
Increase (decrease) in value of available-for-sale equity securities attributable to associates (Notes 6 and 7)	**229,812,236**	(50,579,609)
	(2,123,294,126)	11,885,968,078
Other comprehensive items not to be reclassified to profit or loss in subsequent periods:		
Re-measurement gains (losses) on defined benefit plan (Note 24)	**53,023,104**	(316,653,346)
Consequential deferred income tax impact (Note 25)	**(15,764,927)**	94,802,644
	37,258,177	(221,850,702)
Re-measurement gains (losses) on life insurance reserves (Note 11)	**1,493,701,869**	(324,750,650)
Consequential deferred income tax impact (Note 25)	**(448,110,560)**	97,425,194
	1,045,591,309	(227,325,456)
Re-measurement losses on defined benefit pension plan attributable to associates (Note 7)	**(3,933,809)**	(56,524,527)
	1,078,915,677	(505,700,685)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**(1,044,378,449)**	11,380,267,393
TOTAL COMPREHENSIVE INCOME	**₱3,989,541,924**	₱16,313,340,399
ATTRIBUTABLE TO:		
Parent Company	**₱3,989,548,796**	₱16,313,342,564
Non-controlling Interest	**(6,872)**	(2,165)
TOTAL COMPREHENSIVE INCOME	**₱3,989,541,924**	₱16,313,340,399

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Equity Attributable to Group Company												
	Reserve for Fluctuation in Available-for-Sale Financial Assets				Cumulative Re-measurement Gain (losses) on Defined Benefit Plan				Retained Earnings (Notes 15 and 33)				
	Attributable to the Parent Company												
	Equity Securities (Note 6)	Debt Securities (Note 6)	Attributable to the Associates (Note 7)	Attributable to the Parent (Note 24)	Attributable to the Associates (Note 7)	Premium on Deemed Disposal of Investment in and Associate (Note 7)	Share in Surplus Reserves of Subsidiary	Cumulative Re-measurement Gains (Losses) on Life Insurance Reserves (Note 11)	Appropriated	Unappropriated	Total	Equity Attributable to Noncontrolling Interest (Note 28)	Total
BALANCES AT DECEMBER 31, 2015, as previously reported	**₱2,693,114,649**	**₱106,020,601**	**(₱275,049,049)**	**₱34,644,560**	**₱25,172,295**	**₱304,954,486**	**₱3,226,537**	**₱–**	**₱250,000,000**	**₱21,425,758,016**	**₱23,567,842,095**	**₱151,650,745**	**₱23,719,492,840**
Retrospective adjustment (Notes 2 and 11)	–	–	–	–	–	–	–	(2,141,047,910)	–	(4,727,018,228)	(6,868,066,138)		(6,868,066,138)
BALANCES AT DECEMBER 31, 2015, as restated	**2,693,114,649**	**106,020,601**	**(1,275,049,049)**	**34,644,560**	**25,172,295**	**304,954,486**	**3,226,537**	**(2,141,047,910)**	**250,000,000**	**16,698,739,788**	**16,699,775,957**	**151,650,745**	**16,851,426,702**
Total comprehensive income (loss)	12,450,590,885	(514,043,117)	(50,579,609)	(221,850,445)	(56,524,527)	-	-	(227,325,456)	-	4,933,074,833	16,313,342,564	(2,165)	16,313,340,399
Additional appropriation and other charges (Note 15)	-	-	-	-	-	-	-	-	300,000,000	(712,900,000)	(412,900,000)	-	(412,900,000)
Net increase in preferred shares	-	-	-	-	-	-	-	-	-	-	-	2,753,277	2,753,277
Dividends to members (Note 28)	-	-	-	-	-	-	-	-	-	(8,701,403)	(8,701,403)	-	(8,701,403)
BALANCES AT DECEMBER 31, 2016, as restated	**₱15,143,705,534**	**(₱408,022,516)**	**(₱1,325,628,658)**	**(₱187,205,885)**	**(₱31,352,232)**	**₱304,954,486**	**₱3,226,537**	**(₱2,368,373,366)**	**₱550,000,00**	**₱20,910,213,218**	**₱32,591,517,11**	**₱154,401,857**	**₱32,745,918,975**
BALANCES AT DECEMBER 31, 2016, as previously reported	**₱15,143,705,534**	**(₱408,022,516)**	**(₱1,325,628,658)**	**(₱187,205,885)**	**(₱31,352,232)**	**₱304,954,486**	**₱3,226,537**	**(₱2,368,373,366)**	**₱550,000,00**	**₱26,050,131,447**	**₱40,099,808,713**	**₱154,401,857**	**₱40,254,210,570**
Retrospective adjustment (Notes 2 and 11)	-	-	-	-	-	-	-	(2,368,373,366)	-	(5,139,918,229)	(7,508,291,595)	-	(7,508,291,595)
BALANCES AT DECEMBER 31, 2016, as restated	15,143,705,534	(408,022,516)	(1,325,628,658)	(187,205,885)	(31,352,232)	304,954,486	3,226,537	(2,368,373,366)	550,000,000	20,910,213,218	32,591,517,118	154,401,857	32,745,918,975
Total comprehensive income (loss)	(1,869,306,818)	(483,799,417)	229,812,236	37,257,988	(3,933,809)	-	-	1,045,591,309	-	5,033,927,307	3,989,548,796	(6,872)	3,989,541,924
Additional appropriation and other charges (Note 15)	-	-	-	-	-	-	-	-	-	(198,057,036)	(198,057,036)	-	(198,057,036)
Dividends to members (Note 28)	-	-	-	-	-	-	-	-	-	(6,697,397)	(6,697,397)	-	(6,697,397)
Net decrease in preferred shares	-	-	-	-	-	-	-			-	-	173,026	173,026
BALANCES AT DECEMBER 31, 2017	**₱13,274,398,716**	**(₱891,821,933)**	**(₱1,095,816,422)**	**(₱149,947,897)**	**(₱35,286,041)**	**₱304,954,486**	**₱3,226,537**	**(₱1,322,782,057)**	**₱550,000,000**	**₱25,739,386,092**	**₱36,376,311,481**	**₱154,568,011**	**₱36,530,879,492**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱5,633,680,978**	₱5,263,077,013
Adjustments for:		
Interest income (Note 17)	**(3,512,421,276)**	(3,282,040,575)
Fair value gain on financial assets through profit or loss and derivative loss (Notes 6 and 12)	**(2,870,573,677)**	(114,942,924)
Equity in net earnings of associates (Note 7)	**(1,325,871,193)**	(1,505,823,807)
Net change in legal policy reserves (Note 19)	**(1,196,827,987)**	3,341,793,141
Dividend income (Note 17)	**(790,944,163)**	(1,003,914,339)
Interest expense	**335,926,914**	365,211,927
Net realized gain on disposals of (Note 18):		
Available-for-sale financial assets (Note 6)	**(747,350,904)**	(3,320,340,900)
Investment properties	**(96,509,817)**	(1,897,026,830)
Foreclosed properties	**(800,540)**	(1,190,852)
Depreciation and amortization of:		
Investment properties (Note 8)	**157,210,595**	158,047,333
Property and equipment and computer (Notes 9 and 10)	**99,435,596**	101,795,529
Net changes in retirement benefits asset or liability (Note 24)	**(318,533,868)**	57,726,400
Impairment loss on:		
Available-for-sale equity securities (Notes 6 and 22)	**41,724,816**	169,596,742
Investment properties (Notes 8 and 22)	**628,867**	194,000
Foreign exchange gain - net	**(3,550,976)**	(221,735,737)
Operating loss before working capital changes	**(4,594,776,635)**	(1,889,573,879)
Changes in operating assets and liabilities:		
Net decrease (increase) in:		
Loans and receivables	**(98,880,285)**	(142,782,557)
Insurance receivables	**(32,007,456)**	24,524,997
Short term investments	**–**	33,368,707
Other assets	**(956,312,540)**	(16,977,447)
Net increase (decrease) in:		
Other insurance liabilities	**4,811,792,910**	3,994,862,103
Accrued expenses and other liabilities	**479,762,002**	(235,171,862)
Net cash generated (used in) from operations	**(390,422,004)**	1,768,250,062
Income taxes paid	**(655,269,381)**	(1,005,682,697)
Net cash from (used in) operating activities	**(1,045,691,385)**	762,567,365

(Forward)

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	**₱3,488,838,340**	₱3,252,548,863
Net changes in financial assets at fair value through profit or loss - net (Note 6)	**(2,129,078,304)**	(3,506,852,426)
Proceeds from disposals and/or maturities of:		
Available-for-sale financial assets (Note 6)	**1,973,862,116**	5,592,206,871
Held-to-maturity financial assets (Note 6)	**213,467,250**	1,541,845,355
Investment properties	**235,821,218**	2,528,588,447
Property and equipment	**18,285,170**	3,086,822
Dividends received	**1,116,979,633**	1,261,310,762
Additional investments in:		
Available-for-sale financial assets (Note 6)	**(5,481,336,567)**	(9,252,167,008)
Property and equipment and computer software (Notes 9 and 10)	**(97,202,388)**	(46,385,435)
Held-to-maturity financial assets (Note 6)	**(58,678,480)**	(7,978,058)
Investment properties (Note 8)	**(597,762,367)**	(590,664,917)
Net cash from (used in) investing activities	**(1,316,804,379)**	775,539,276
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of dividends to members	**(206,758,439)**	(463,318,529)
Interest paid to members	**(335,926,914)**	(365,211,927)
Redemption of preferred shares (Note 28)	**(64,724,438)**	(74,315,167)
Issuances of preferred shares (Note 28)	**64,897,464**	77,068,444
Cash used in financing activities	**(542,512,327)**	(825,777,179)
NET FOREIGN EXCHANGE GAINS	**6,241,095**	43,980,793
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(2,898,766,996)**	756,310,255
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**7,864,611,077**	7,108,300,822
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱4,965,844,081**	₱7,864,611,077

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1.1. Corporate Information

The Insular Life Assurance Company, Ltd. (the "Parent Company"), a mutual life insurance company primarily engaged in the life insurance business, was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on November 25, 1910. The Parent Company will be celebrating its 108th year anniversary on November 25, 2018. On November 12, 2010, the SEC approved the amendment of the Company's Article of Incorporation to extend its corporate term for another 50 years or until November 26, 2060.

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

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

1.2. Authorization for Issuance of the Financial Statements

The consolidated financial statements of the Group were approved and authorized for issuance by the Board of Trustees (BOT) on March 22, 2018.

2. Summary of Significant Accounting and Financial Reporting Policies

2.1. Statement of Compliance

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

2.2. Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value. Investment properties are stated at deemed cost based on their fair values as of January 1, 2004.

The financial statements are presented in Philippine Peso (Peso), which is the Group's functional and presentation currency. All amounts were rounded to the nearest Peso, except when otherwise indicated.

The financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective statement, or a reclassification of items in the financial statements. An additional statement of financial position as at January 1, 2016 is presented in the financial statements due to retrospective restatement of an accounting policy (Note 2).

2.3. Changes in Accounting Policies

2.3.1. New Standards and Interpretations Issued and Effective as at January 1, 2017

The accounting policies adopted are consistent with those of the previous financial year except the following amendments to existing PFRS that became effective beginning January 1, 2017 and which did not have significant impact on the Group's consolidated financial statements.

a. Amendment to PFRS 12, *Disclosure of Interest in Other Entities* - Clarification of the Scope of the Standard (Part of Annual Improvements to PFRS 2014-2016 Cycle)
b. Amendments to PAS 7, *Statement of Cash Flows* - Disclosure Initiative
c. Amendments to PAS 12, *Income Taxes* - Recognition of Deferred Tax Assets for Unrealized Losses

2.3.2. Standards Issued but Not Yet Effective

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

(a) *Effective beginning on or after January 1, 2018*

- Amendments to PAS 28, *Investments in Associates and Joint Ventures* - Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRS 2014 - 2016 Cycle)

- Amendments to PAS 40, *Investment Property* - Transfers of Investment Property

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

- Amendments to PFRS 2, *Share-based Payment* - Classification and Measurement of Share-based Payment Transactions

- PFRS 15, *Revenue from Contracts with Customers*

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

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

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

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

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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

(b) Effective beginning on or after January 1, 2019

- PFRS 16*, Leases*

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

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

(c) *Deferred effectivity*

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

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

2.3.3. Restatement

The Insurance Commission (IC) Circular Letter (CL) No. 2016-66, *Valuation Standards for Life Insurance Policy Reserves*, requires the Group to account for the legal policy reserves using Gross Premium Valuation method, which represents the sum of the present values of future benefits (including death, surrender, maturity, survivorship, dividends) and expenses (commissions, policy taxes, operational expenses), less the present value of future gross premiums arising from the policy discounted at the appropriate risk-free discount rate for policies with coverages beyond one year. In accordance with the IC CL No. 2016-69, the change is effective January 1, 2017. As the change in valuation methodology is considered a change in accounting policy, the change shall be effected retrospectively. Accordingly, in 2017, the Group restated its prior year financial statements as fully described below.

Consolidated Statement of Financial Position as at December 31, 2016

	Balance, as previously presented	Prior period adjustments Increase (decrease)	Balance, as restated
Legal policy reserves	₱56,316,933,902	₱8,746,608,750	₱65,063,542,652
Other insurance liabilities	30,399,799,941	(223,300,000)	30,176,499,941
Cumulative re-measurement losses on life insurance reserves	–	(2,368,373,366)	(2,368,373,366)
Unappropriated retained earnings	26,050,131,447	(5,139,918,229)	20,910,213,218
Deferred income tax asset (liabilities) – net	455,037,093	1,015,017,156	559,980,063

Consolidated Statement of Financial Position as at January 1, 2016

	Balance, as previously presented	Prior period adjustments Increase (decrease)	Balance, as restated
Legal policy reserves	₱52,677,297,519	₱8,719,701,342	₱61,396,998,861
Other insurance liabilities	27,157,398,207	(636,200,000)	26,521,198,207
Cumulative re-measurement losses on life insurance reserves	–	(2,141,047,910)	(2,141,047,910)
Unappropriated retained earnings	21,425,758,016	(4,727,018,228)	16,698,739,788
Deferred income tax asset (liabilities) - net	(761,167,931)	917,591,962	156,424,031

Impact on the Consolidated Statement of Income and Comprehensive Income for the Year Ended December 31, 2016

The restatement has no significant impact in the consolidated statement of income for the year ended December 31, 2016. Remeasurement losses in life insurance reserves recognized in other comprehensive income amounted to ₱227,325,456.

Impact on the Consolidated Statement of Cash Flows for the Year Ended December 31, 2016

Prior period adjustments did not have significant impact in the consolidated statement of cash flow for the year ended December 31, 2016.

For other details, refer to Notes 3 and 11.

2.4. Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its associates as at December 31, 2017 and 2016.

Specifically, the Group controls an investee if and only if it has:

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

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

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

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

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

	Percentage of Ownership	
	2017	2016
Insular Investment Corporation (IIC)	**100.00**	100.00
IITC Properties, Inc.	**100.00***	100.00*
Insular Property Ventures, Inc.	**100.00***	100.00*
Insular Health Care Incorporated (I-Care)	**100.00**	100.00
Insular Life Management and Development Corporation (ILMADECO)	**100.00**	100.00
ILAC General Insurance Agency, Inc. (ILAC-Gen)	**100.00****	100.00**
Insular Life Property Holdings, Inc. (ILPHI)	**100.00**	100.00
Home Credit Mutual Building & Loan Association, Inc. (Home Credit)	**99.96**	99.96

**Represents the Company's ownership through IIC*

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

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

The financial statements of the subsidiaries are prepared for the same reporting years as the Group, except for ILMADECO which was presented as at and for the years ended March 31, 2017 and 2016, using consistent accounting principles and policies.

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

2.5. Non-controlling Interest

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

2.6. Fair Value Measurement

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

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

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

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

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

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

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

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

- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

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

2.7. Cash and Cash Equivalents

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

2.8. Short Term Investments

Short-term investments represent investments not held for the purpose of meeting short-term cash commitments and restricted margin accounts with maturity of more than 90 days but less than one year. There were no short-term investments as of December 31, 2017 and 2016.

2.9. Financial Instruments

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

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

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

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

2.9.1. *Financial Assets*

(a) Financial Assets at FVPL

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

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

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

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

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

As of December 31, 2017 and 2016, the Group's financial assets at FVPL presented in the separate financial statements of VUL funds amounting to ₱28,037,239,008 and ₱23,027,768,573, respectively, are designated at FVPL by management at initial recognition (Note 6). These financial assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis in accordance with a documented investment strategy. The Group manages these financial assets in accordance with the investment strategy and valuation provisions of the Variable Unit-Linked (VUL) insurance contracts. Likewise, this is consistent with the valuation basis of the reserve for policies held by the policyholders. These financial assets consist primarily of quoted government and corporate debt securities with fixed interest rates, quoted equity securities, and structured notes.

The Group also has investments in quoted preferred equity shares amounting to ₱3,995,369,950 and ₱3,994,787,310 as of December 31, 2017 and 2016, respectively, which are designated as at FVPL (Note 6).

(b) HTM Financial Assets

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

As of December 31, 2017 and 2016, the Group's HTM financial assets consist of quoted government and corporate debt securities with fixed interest rates (Note 6).

(c) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost. The amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount.

This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums and discounts. Gains and losses are recognized in the statements of income when the financial assets are derecognized, impaired, or amortized.

As of December 31, 2017 and 2016, the Group's loans and receivables consist of cash equivalents, short-term investments, term loans, policy loans, accounts receivable, interest receivable, housing loans, mortgage loans, car financing loans, finance leases, stock loans, due from agents, insurance receivables, and other receivables (Notes 6).

(d) AFS Financial Assets

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

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

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

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

As of December 31, 2017 and 2016, the Group's AFS financial assets consist of quoted government and corporate debt securities with fixed interest rates, and quoted and unquoted equity securities (Note 6).

2.9.2. *Financial Liabilities*

Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder 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 payment 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 statements of income when the financial liabilities are derecognized, impaired, or amortized.

As of December 31, 2017 and 2016, the Group's other financial liabilities consist of accrued expenses and other liabilities except for taxes payable (Note 14).

2.9.3. *Derivative financial instruments*

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

As of December 31, 2017 and 2016, the Group has cross-currency swaps (CCS) wherein derivative liability amounted to ₱35,908,235 and ₱34,807,709, respectively (Note 12).

2.9.4. *Embedded Derivatives*

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

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

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

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

As of December 31, 2017 and 2016, the Group has no embedded derivatives requiring bifurcation.

2.9.5. *Day 1 gain or loss*

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (Day 1 gain or loss) in the consolidated statements 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 statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the Day 1 amount.

2.9.6. *Offsetting of Financial Instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position 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 statements of financial position.

2.10. Classification of Financial Instruments Between Debt and Equity

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

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

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

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

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

2.11. Derecognition of Financial Instruments

2.11.1 *Financial Assets*

A financial asset is derecognized when:

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

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

2.11.2 *Financial Liabilities*

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

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

2.12. Impairment of Financial Assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default, or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.12.1 *Financial Assets Carried at Amortized Cost*

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Company about loss events such as but not limited to significant financial difficulty of the counterparty, 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 statements of income to the extent that the carrying value of the financial asset does not exceed its amortized cost at the reversal date.

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

2.12.2. *AFS Financial Assets*

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

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

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

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

2.12.3. *Financial Assets Carried at Cost*

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

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

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

	Percentage of Ownership	
	2017	2016
PPI Prime Ventures, Inc. (PPVI)	**30.00**	30.00
Mapfre Insular Insurance Corporation (MIIC)	**25.00**	25.00
Union Bank of the Philippines (UBP)	**16.21**	16.21

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

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

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

2.14. Investment Properties

Investment properties consist of land, buildings, and improvements owned by the Group that are primarily leased to others or held for capital appreciation or both. Investment properties are stated at cost, including transaction costs, less accumulated depreciation and amortization and any impairment in value. Investment properties outstanding as of January 1, 2004 were stated at deemed cost based on their fair value as of that date. Depreciation of depreciable investment properties is computed on a straight-line method over the estimated useful life of the properties (i.e., 40 years for buildings and 20 years for building improvements for the Parent and 19 to 38 years for Home Credit).

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

The investment properties' use, estimated useful life, and method of depreciation and amortization are reviewed on a regular basis 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 or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

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

2.15. Property and Equipment

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

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

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

The EUL of property and equipment of the Company follows:

	Years
Buildings	40
Building equipment	25
Furniture, fixtures, and equipment	3-10
Electronic and data processing equipment	2-5
Transportation equipment	2-6

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 reporting date.

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

2.16. Computer Software

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

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

2.17. 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 non-financial asset may be impaired.

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

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

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

2.18. Retained Earnings

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

2.19. Insurance Contracts

2.19.1. *Product Classification*

(a) Insurance and Investment Contracts

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

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

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

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

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

(b) Variable Unit-Linked (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 reporting date, this liability is computed on the basis of the number of units allocated to the policyholders multiplied by the unit price of the underlying investment funds.

The fund assets and liabilities are separately administered by, under Separate Funds by the Parent Company's trustee, a third party multinational bank accredited by the Bangko Sentral ng Pilipinas (BSP). The fund assets are designated as financial assets at FVPL and are valued on a basis consistent with the measurement basis in the consolidated statements of financial position. The fund liabilities are included in "Members' deposits and other funds on deposit" under "Other insurance liabilities" (Note 13).

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

2.19.2. *Recognition and Measurement*

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

(b) Reinsurance Assets

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

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

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

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

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

(c) Legal Policy Reserves

The legal policy reserves beginning January 1, 2017 are calculated based on recent regulations. For traditional policies with coverages beyond one year, the liability is calculated based on the Gross Premium Valuation method and is the sum of the present values of future benefits (including death, surrender, maturity, survivorship, dividends) and expenses (commissions, policy taxes, operational expenses), less the present value of future gross premiums arising from the policy discounted at the appropriate risk-free discount rate for policies with coverages beyond one year. These expected future cash flows are determined using best estimate assumptions with due regard to significant recent experience and margin for adverse deviation from the expected experience mandated by recent regulations.

For policies with coverages one year or less and for the risk portion of variable unit-linked policies, unearned premium reserves method is used.

The new reserve valuation methodology, projecting all future cashflows that go with a policy and with margins for adverse deviation is deemed to result to acceptable sufficient levels of reserves per regulations. Thus, the new reserve valuation methodology is deemed to satisfy provisions of determining reserves sufficiency level under 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 reporting 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 reporting date. The Group develops estimates for IBNR taking into considerations the Group's prior experience.

(f) Reserve for dividends to Members
Based on recent regulations, dividends distributable to members projected in future years are already included in the legal policy reserves. Movements in the legal policy reserves, which now include provisions for projected future dividends, due to the change in the risk-free discount rates used are charged to OCI and others are charged to operations.

2.20. Operating Revenue

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

2.20.1. *Interest Income*

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

Interest income on policy loans is earned over the term of the loan, normally over one year. The unearned portion of the interest on policy loans deducted in advance is presented as a contra asset in "Policy loans" under "Loans receivables."

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

2.20.2. *Dividend Income*

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

2.20.3. *Rental Income*

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

2.20.4. *Service income*

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

2.20.5. *Underwriting and arrangement fees*

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

2.20.6. *Trading gains and losses*

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

2.20.7. *Membership fees*

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

2.20.8. *Management Fees*

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

2.21. Operating Expenses

Operating expenses are charged to operations when incurred.

2.22. Pension Benefit Costs

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

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

Pension benefit costs comprise the following:

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

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

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

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

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

If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

2.23. 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 payments are recognized as an expense in the statements of income on a straight-line basis over the lease term.

2.24. 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.

Foreign exchange gains are presented in the statement of income under "Operating revenue," and foreign exchange losses are presented as "Other losses" under "Operating expenses."

2.25. Income tax

2.25.1. *Final Tax*

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

2.25.2. *Current Income Tax*

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

2.25.3. *Deferred Income Tax*

Deferred income tax is provided, using balance sheet liability method, on all temporary differences at the reporting 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, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, net operating loss carry-over (NOLCO), and excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT), can be utilized.

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

The carrying amount of deferred income tax assets is reviewed at each reporting 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.

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 reporting date.

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

2.26. 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 reporting date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

2.27. Contingencies

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

2.28. Events After the Reporting date

Post year-end events that provide additional information about the Group's position at the reporting 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 reporting 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 reporting date, the actual outcome may differ from these estimates, possibly significantly. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable. Judgments and estimates are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1. Judgements

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

3.1.1. *Product classification*

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

3.1.2. *Classification of financial instruments*

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

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

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

3.1.3. *Determination of existence of significant influence*

The Group's 16.21% equity investment in UBP as of December 31, 2017 and 2016 is classified as an associate as the Group has established that it has significant influence over UBP through active participation of all the representatives of the Group's BOT in the working committees of UBP (Note 7).

3.1.4. *Evaluation of control*

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

3.1.5. *Distinction between property and equipment and investment property*

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

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

In 2017, there was a net reclassification of investment properties to property and equipment costing ₱574,721,071 (nil in 2016) with carrying value of ₱513,296,043 (Notes 8 and 9).

3.1.6. *Classification of Leases*

(a) Group as lessor

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

(b) Group as lessee

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

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

3.1.9 *Distinction between debt and equity instrument*

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

Preferred shares classified as equity amounted to ₱154,561,744 and ₱154,388,718, as of December 31, 2017 and 2016, respectively (Note 28).

3.2. Estimates

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

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

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

- Recent transaction price between market participants; and
- Adjusted net asset method.

The use of a different pricing models and assumptions could produce materially different estimates of fair values. The carrying value of the unquoted AFS equity securities referred to above amounted to ₱15,586,606, and ₱32,730,339 as of December 31, 2017 and 2016, respectively (Note 31). Discussion of each method used by the Group to value its unquoted AFS equity securities is disclosed in Note 31.

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

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

The carrying value of the Group's loans and receivables, excluding cash and cash equivalents, amounted to ₱15,845,510,163 and ₱15,590,030,880 as of December 31, 2017 and 2016, respectively (Notes 6). Allowance for impairment on loans and receivables amounted to ₱22,676,040 and ₱23,846,515 as of December 31, 2017 and 2016, respectively (Note 6). Unearned interest income on policy loans amounted to ₱297,533,074 and ₱303,620,981 as of December 31, 2017 and 2016, respectively (Note 6).

The carrying value of the Group's AFS debt securities amounted to ₱17,767,214,780 and ₱14,173,854,450 as of December 31, 2017 and 2016, respectively (Note 6); while the carrying value of the Group's HTM financial assets amounted to ₱22,345,223,102 and ₱22,508,340,753 as of December 31, 2017 and 2016, respectively (Note 6). In 2017 and 2016, the Group did not recognize any impairment loss on AFS debt securities and HTM financial assets.

3.2.3. *Impairment of AFS equity securities*

The Group determines AFS equity securities as impaired when there has been a significant or prolonged decline in the fair value of the financial assets below its cost or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgment. The Group treats "significant" generally as 30% or more of the original cost of investment and "prolonged" as greater than 24 months.

The carrying value of the Group's AFS equity securities amounted to ₱22,407,425,551 and ₱24,191,257,339 as of December 31, 2017 and 2016, respectively (Note 6).

Impairment loss on AFS equity securities amounted to ₱41,724,816 and ₱169,596,742 in 2017 and 2016, respectively (Notes 6 and 22).

3.2.4. *Determination of fair values of investment properties*

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

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

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

Land

- Physical characteristics of land such as, shape and terrain, elevation and depth, and number of frontage;
- Proximity to commercial areas and important landmarks;
- Availability of essential services such as, electricity, water, telecommunication;
- Neighborhood and social environment; and
- Corner influence.

Building and Improvements

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

Other factors

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

There have been no changes in the valuation technique used by the external appraisers in determining the fair values of investment properties. The total fair value of investment properties amounted to ₱12,469,972,563 and ₱11,119,723,182 as of December 31, 2017 and 2016, respectively (Note 8).

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

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

The carrying value of depreciable investment properties, property and equipment, and computer software, net of accumulated depreciation and amortization, amounted to ₱3,929,842,983 (Note 8), ₱269,930,412 (Note 9), and ₱53,739,287 (Note 10), respectively, as of December 31, 2017 and ₱3,625,330,449 (Note 8), ₱269,432,905 (Note 9), and ₱84,657,350 (Note 10), respectively, as of December 31, 2016.

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

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

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

The carrying value of the Group's nonfinancial assets amounted to ₱20,173,028,886 and ₱17,710,108,531 as of December 31, 2017 and 2016, respectively (Notes 7, 8, 9, and 10).

3.2.7. *Adequacy of legal policy reserves*
In determining legal policy reserves, best estimates are made as to the policy expense, expected number of deaths, illness, or injury, and also on the number of withdrawing or lapsing policies for each of the years in which the Company is exposed to risk.

These estimates are based on expense, mortality and morbidity, and persistency assumptions based on the Company's actual experience from its latest studies. The estimated number of deaths, illness, or injury and withdrawing or lapsing policies determine 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.

Inclusive in the amount of calculated legal policy reserves are the non-guarantee benefits or the policy dividends. Mortality and lapse assumptions are also factored in the computation of the value of these benefits.

Effective January 1, 2017, the IC issued CL Nos. 2016-66 and 2016-69 changing the valuation of legal policy reserves from Net Premiums Valuation to Gross Premiums Valuation. Consequently, this change in valuation methodology is considered a change in accounting policy warranting retrospective application pursuant to the relevant IC regulation and in accordance with PAS 8 on *Accounting Policies, Changes in Accounting Estimates and Errors* (Note 2).

In accordance to recent new regulations, the interest rate used to discount these future cash flows are based on the risk-free discount rate, which are obtained from the following sources:

(i) For Philippine Peso policies: PDST-R2 rates;
(ii) For US Dollar policies: International Yield Curve (IYC) from Bloomberg.

These yield curve and risk-free discount rates are provided by the IC.

Such recent new regulations also mandate provision for Margins for Adverse Deviations (MfAD) to be applied to the above assumptions. As prescribed by IC, the fixed MfAD are subject to a minimum of:

(i) Interest: +/- 10% of discount rate;
(ii) Expense: 10% of best estimate expense;
(iii) Other assumptions including but not limited to mortality, morbidity, lapse and conversion: +/- 10% of best estimate assumptions.

The sign (positive or negative) of MfAD for mortality, lapse and interest assumptions are tested by product at the time of valuation. The sign that give higher reserves for a product is used in calculation of the liability.

The new IC regulations aim to mandate companies to provide for a sufficient level of policy reserves.

The carrying value of legal policy reserves amounted to ₱62,373,012,796 and ₱65,063,542,652 (as restated) as of December 31, 2017 and 2016, respectively (Note 11). The opening balance of the earliest period presented was restated accordingly. Legal policy reserves as of January 1, 2016 amounted to ₱61,396,998,861, as restated (Note 2).

3.2.8. *Estimation of IBNR claims*

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

Total IBNR claims included under "Claims pending settlement" within "Other insurance liabilities" in the statment of financial position amounted to ₱91,655,954 and ₱76,443,290 as of December 31, 2017 and 2016, respectively (Note 13).

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

Net retirement benefits asset amounted to ₱86,559,091 and ₱1,076,542 as of December 31, 2017 and 2016, respectively (Note 24). Net retirement benefits liability amounted ₱2,806,221 and ₱288,880,645 as of December 31, 2017 and 2016, respectively (Note 24).

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

The Group did not recognize deferred income tax assets on NOLCO and excess of MCIT over RCIT, totaling ₱2,260,799,018 in 2017 and ₱3,311,963,843 in 2016 (Note 25).

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

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

4. Cash and Cash Equivalents

	2017	2016
Cash on hand	**₱1,189,388**	₱396,757
Cash in banks	**626,547,445**	548,909,948
Cash equivalents in commercial banks	**4,338,107,248**	7,315,304,372
	₱4,965,844,081	₱7,864,611,077

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

Cash equivalents earn interest at rates ranging from 0.30% to 4.13% and 0.30% to 2.75% in 2017 and 2016, respectively.

5. Insurance Receivables

	2017	2016
Due premiums	**₱198,500,629**	₱165,150,543
Reinsurance assets	**3,810,102**	5,152,732
	₱202,310,731	₱170,303,275

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

6. Financial Assets

The Company's financial assets, excluding cash and cash equivalents, are summarized by measurement categories below:

	2017	2016
Financial assets at FVPL	**₱32,032,608,958**	₱27,022,555,883
AFS financial assets	**40,174,640,331**	38,365,111,789
HTM financial assets	**22,345,223,102**	22,508,340,753
Loans and receivables	**15,845,510,163**	15,590,030,880
	₱110,397,982,554	₱103,486,039,305

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

6.1. Financial Assets at FVPL

	2017	2016
Equity securities - quoted	**₱3,995,369,950**	₱3,994,787,310
Under separate fund:		
Traditional VULs:		
Cash and cash equivalents	**2,836,742,122**	2,981,555,219
Equity securities - quoted*	**18,791,738,886**	14,073,469,362
Debt securities - quoted		
Government:		
Local currency	**1,821,846,029**	1,320,969,283
Foreign currency	**2,517,351,149**	2,557,421,911
Corporate:		
Local currency	**145,353,726**	112,074,589
Foreign currency	**135,357,725**	135,770,611
Other receivables	**136,793,924**	87,953,997
Other payables	**(297,311,366)**	(103,395,730)
Structured VULs:		
Local currency	**702,944,015**	667,239,570
Foreign currency	**1,246,422,798**	1,194,709,761
	₱32,032,608,958	₱27,022,555,883

**Includes investment in Unit Investment Trust Fund (UITF) amounting to ₱398,561,064 as of December 31, 2017 and nil as of December 31, 2016.*

Quoted equity securities represent preferred shares listed in the stock exchange. Fair value gain (loss) on these equity securities amounted to ₱582,640 and (₱17,829,540) in 2017 and 2016, respectively.

Fair value gain (loss) from FVPL financial assets presented in the separate financial statements of VUL funds (i.e., inclusive of fair value gains and losses attributable to the Company and the policy holders) amounted to ₱2,880,392,131 and ₱141,720,862 in 2017 and 2016, respectively. These financial assets are designated as FVPL in accordance with the investment strategy and valuation provisions of the VUL insurance contracts. Likewise, this is consistent with the valuation basis of the reserve for policies held by the policyholders.

The financial asset at FVPL under separate fund is comprised of:

Traditional VULs

Cash and cash equivalents

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

Equity securities

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

Government debt securities

In 2017 and 2016, interest rate ranges of government debt securities under FVPL are 2.13% to 7.88% and 3.70% to 10.63% for peso and dollar bonds, respectively.

Corporate debt securities

Corporate debt securities include bonds issued by reputable counterparties. In 2017, interest range for peso corporate debt securities under FVPL is 5.05% to 6.10% (6.10% in 2016). Interest range for dollar bonds is 4.25% to 7.25% for both in 2017 and 2016.

Other receivables

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

Other payables

Other payables are comprised of custodial fee, fund administration fee, professional fees, and taxes that remain unpaid as of yearend.

Structured VULs

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

6.2. AFS Financial Assets

	2017	2016
Equity securities:		
Quoted	**₱22,388,131,569**	₱23,747,346,679
Unquoted	**19,293,982**	443,910,660
	22,407,425,551	24,191,257,339

(Forward)

	2017	2016
Debt securities:		
Quoted:		
Government:		
Local currency	**₱10,625,852,326**	₱8,371,444,010
Foreign currency	**961,368,389**	937,455,298
Corporate:		
Local currency	**5,893,252,827**	4,831,787,154
Foreign currency	**286,741,238**	33,167,988
	17,767,214,780	14,173,854,450
	₱40,174,640,331	₱38,365,111,789

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

The movement in reserve for fluctuation in value of AFS financial assets as of December 31 follows:

	2017	2016
Equity securities:		
Attributable to the Parent Company:		
Beginning balance	**₱15,143,705,534**	₱2,693,114,649
Valuation losses taken directly to OCI (net of consequential deferred income tax impact)	**(1,167,228,529)**	15,596,945,482
Valuation gains realized through profit or loss:		
Gain on sale	**(743,803,105)**	(3,315,951,339)
Impairment loss (Note 22)	**41,724,816**	169,596,742
Ending balance	**13,274,398,716**	15,143,705,534
Attributable to the associates:		
Beginning balance	**(1,325,628,658)**	(1,275,049,049)
Increase (decrease) in value of AFS equity securities attributable to associates, net of tax (Note 7)	**229,812,236**	(50,579,609)
Ending balance	**(1,095,816,422)**	(1,325,628,658)
	₱12,178,582,294	₱13,818,076,876

	2017	2016
Debt securities:		
Attributable to the Parent Company:		
Beginning balance	**(₱408,022,516)**	₱106,020,601
Valuation gains taken directly to OCI (net of consequential deferred income tax impact)	**(480,251,618)**	(509,653,556)
Valuation gains realized through profit or loss	**(3,547,799)**	(4,389,561)
Ending balance	**(₱891,821,933)**	(₱408,022,516)

6.3. HTM Financial Assets

The details of HTM financial assets carried at amortized cost as of December 31, with information on fair value is presented on the next page.

	2017		2016	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Government:				
Local currency	**₱14,389,383,053**	**₱16,948,204,515**	₱14,380,214,568	₱17,833,553,615
Foreign currency	**16,097,714**	**21,345,078**	16,114,009	23,066,373
Corporate:				
Local currency	**7,692,000,000**	**7,755,822,474**	7,838,411,277	8,036,127,923
Foreign currency	**247,742,335**	**255,698,118**	273,600,899	282,294,854
	₱22,345,223,102	**₱24,981,070,185**	₱22,508,340,753	₱26,175,042,765

6.4. Loans and Receivables

	2017	2016
Term loans	**₱7,837,759,412**	₱7,910,880,882
Policy loans, net of unearned interest income	**5,349,584,206**	5,424,707,120
Accounts receivable	**1,462,228,404**	1,161,738,200
Interest receivable	**544,782,209**	478,999,419
Housing loans	**145,913,064**	143,732,522
Mortgage loans	**173,992,219**	88,023,874
Car financing loans	**39,941,820**	37,157,110
Finance leases	**28,064,989**	32,822,951
Stock loans	**15,409,087**	24,473,625
Due from agents	**6,266,138**	7,841,709
Others	**264,244,655**	303,499,983
	15,868,186,203	15,613,877,395
Allowance for impairment loss (Note 32)	**22,676,040**	23,846,515
	₱15,845,510,163	₱15,590,030,880

The classes of loans and receivables of the Company follow:

- Term loans pertain to investments in fixed-rate loans of corporate borrowers with terms ranging from 2 to 15 years in 2017 and 7 to 15 years in 2016. Interest rates range from 3.00% to 10.35% both in 2017 and 2016.

- Policy loans pertain to loans granted to policyholders. The loan is issued with the cash surrender value of the policyholder’s insurance policy as collateral. Interest rates on policy loans range from 6% to 10% in both 2017 and 2016. Details of policy loans as of December 31 follow:

	2017	2016
Policy Loans - Gross	**₱5,647,117,280**	₱5,728,328,101
Unearned interest income	**(297,533,074)**	(303,620,981)
Policy Loans - Net	**₱5,349,584,206**	₱5,424,707,120

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

- Interest receivable pertains to accrued interest arising from investments in debt securities, cash equivalents, term loans, housing loans, mortgage loans and other receivables with interest rates ranging from 0.30% to 13.75% in 2017 and 2016.

- 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.

- 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.

- 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 10.50% for both 2017 and 2016.

- Finance leases pertain to real estate mortgages which are collectible over a period of 5 to 25 years at an annual interest of 8% to 18% in 2017, and over a period of 5 to 25 years at an annual interest of 7% to 18% in 2016.

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

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

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

	2017	2016
Housing loans	**₱168,282,754**	₱167,074,532
Less unamortized deferred interest income	**22,369,690**	23,342,010
	145,913,064	143,732,522
Car financing loans	**46,996,800**	43,138,280
Less unamortized deferred interest income	**7,054,980**	5,981,170
	39,941,820	37,157,110
	₱185,854,884	₱180,889,632

The amortization of deferred interest income amounting to ₱3,743,732 and ₱4,644,138 in 2017 and 2016, respectively, is recognized as part of interest on loans and receivables included under “Investment income” in the statements of income (Note 17).

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

	2017						
	Accounts receivable	**Mortgage loans**	**Finance Leases**	**Stock Loans**	**Due from agents**	**Others**	**Total**
Beginning balances	**₱14,539,353**	**₱412,517**	**₱352,614**	**₱2,838,909**	**₱4,352,635**	**₱1,350,487**	**₱23,846,515**
Provision (reversal) for the year	**590,286**	**523,811**	**–**	**1,225,565**	**4,836**	**882,177**	**3,226,675**
Write-off/recoveries	**(503,992)**	**–**	**(252,913)**	**(2,066,000)**	**(1,574,245)**	**–**	**(4,397,150)**
Ending balances	**₱14,625,647**	**₱936,328**	**₱99,701**	**₱1,998,474**	**₱2,783,226**	**₱2,232,664**	**₱22,676,040**

	2016						
	Accounts receivable	Mortgage loans	Finance Leases	Stock Loans	Due from agents	Others	Total
Beginning balances	₱17,500,596	₱1,394,669	₱622,006	₱2,283,457	₱7,696,124	₱1,936,243	₱31,433,095
Provision (reversal) for the year	(2,881,552)	(982,152)	(269,392)	555,452	232,770	415,823	(2,929,051)
Write-off/recoveries	(79,691)	–	–	–	(3,576,259)	(1,001,579)	(4,657,529)
Ending balances	₱14,539,353	₱412,517	₱352,614	₱2,838,909	₱4,352,635	₱1,350,487	₱23,846,515

The balances in the previous page were identified by the Company using the individual and collective impairment assessment.

The movements in carrying values of financial assets, excluding loans and receivables, are presented below:

	2017				
			AFS		
	FVPL	**HTM**	**Equity Securities**	**Debt Securities**	**Total**
Beginning balances	**₱27,022,555,883**	**₱22,508,340,753**	**₱24,191,257,339**	**₱14,173,854,450**	**₱87,896,008,425**
Acquisitions	**4,659,219,393**	**58,678,480**	**1,243,544,339**	**4,237,792,228**	**10,199,234,440**
Fair value gain (loss)	**2,871,674,203**	**–**	**(1,141,789,195)**	**(479,191,105)**	**1,250,693,903**
Disposal/maturities	**(2,530,141,089)**	**(213,467,250)**	**(1,843,862,116)**	**(130,000,000)**	**(4,717,470,455)**
Foreign exchange adjustments	**9,300,568**	**1,018,346**	**–**	**(2,388,156)**	**7,930,758**
Impairment loss (Note 22)	**–**	**–**	**(41,724,816)**	**–**	**(41,724,816)**
Net discount (premium) amortization	**–**	**(9,347,227)**	**–**	**(32,852,637)**	**(42,199,864)**
Ending balances	**₱32,032,608,958**	**₱22,345,223,102**	**₱22,407,425,551**	**₱17,767,214,780**	**₱94,552,472,391**

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

As of December 31, 2017 and 2016, government securities under HTM financial assets totaling ₱75,000,000 are deposited with the IC in accordance with the provision of the Code as security for the benefit of policyholders and creditors of the Company.

Reclassification from AFS Financial Assets to HTM Financial Assets

On September 15, 2008, the Parent Company 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 Parent Company expects to recover interests from the debt securities at an effective interest of 10.41%.

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

There were no reclassifications made in 2017 and 2016.

As of December 31, 2017 and 2016, the carrying values of the debt securities reclassified in 2010 and 2008 had the debt securities not been reclassified to HTM financial assets follow:

	2017	2016
Beginning balance	**₱339,200,803**	₱360,586,439
Fair value loss	**(12,216,719)**	(14,931,589)
Amortization	**(6,990,494)**	(6,454,047)
Ending balance	**₱319,993,590**	₱339,200,803

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

	2017	2016
Beginning balance	**₱302,378,211**	₱308,832,258
Amortization	**(6,990,494)**	(6,454,047)
Ending balance	**₱295,387,717**	₱302,378,211

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

	2017	2016
Beginning balance	**₱40,793,670**	₱44,002,900
Amortization	**(3,547,798)**	(3,209,230)
Ending balance	**₱37,245,872**	₱40,793,670

7. **Investments in Associates**

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

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

The movement of investment in associates follows:

	December 31, 2017			
	PPVI	MIIC	UBP	Total
Acquisition Cost				
Beginning Balance	₱4,500,000	₱224,848,654	₱1,506,193,436	₱1,735,542,090
Accumulated equity in net earnings				
Beginning Balance	(935,719)	131,093,034	8,304,219,364	8,434,376,679
Equity in net earnings (losses) for the year	(10,658)	2,942,332	1,322,939,519	1,325,871,193
Dividends (Note 26)	–	–	(326,035,470)	(326,035,470)
Ending balance	(946,377)	134,035,366	9,301,123,413	9,434,212,402
Equity in reserve for fluctuation in AFS				
Beginning balance	–	9,576,554	(1,335,205,212)	(1,325,628,658)
Share in net movement of reserve for fluctuation in AFS financial assets of the associates during the year (Note 6)	–	(19,118,339)	248,930,575	229,812,236
Ending balance	–	(9,541,785)	(1,086,274,637)	(1,095,816,422)
Equity in reserve for re-measurement gains in defined benefit pension plan				
Beginning balance	–	4,430,562	(35,782,794)	(31,352,232)
Share in net movement of reserve for re-measurement gains (losses) on defined benefit plan	–	1,848,351	(5,782,160)	(3,933,809)
Ending balance	–	6,278,913	(41,564,954)	(35,286,041)
Premium on deemed disposal of investment in associate	–	–	304,954,486	304,954,486
	₱3,553,623	₱355,621,148	₱9,984,431,744	₱10,343,606,515

	December 31, 2016			
	PPVI	MIIC	UBP	Total
Acquisition Cost				
Beginning Balance	₱4,500,000	₱224,848,654	₱1,506,193,436	₱1,735,542,090
Accumulated equity in net earnings				
Beginning Balance	(817,701)	171,132,761	7,015,634,235	7,185,949,295
Equity in net earnings (losses) for the year	(118,018)	(40,039,727)	1,545,981,552	1,505,823,807
Dividends (Note 26)	–	–	(257,396,423)	(257,396,423)
Ending balance	(935,719)	131,093,034	8,304,219,364	8,434,376,679
Equity in reserve for fluctuation in AFS				
Beginning balance	–	15,965,155	(1,291,014,204)	(1,275,049,049)
Share in net movement of reserve for fluctuation in AFS financial assets of the associates during the year (Note 6)	–	(6,388,601)	(44,191,008)	(50,579,609)
Ending balance	–	9,576,554	(1,335,205,212)	(1,325,628,658)
Equity in reserve for re-measurement gains in defined benefit pension plan				
Beginning balance	–	1,124,439	24,047,856	25,172,295
Share in net movement of reserve for re-measurement gains (losses) on defined benefit plan	–	3,306,123	(59,830,650)	(56,524,527)
Ending balance	–	4,430,562	(35,782,794)	(31,352,232)
Premium on deemed disposal of investment in associate	–	–	304,954,486	304,954,486
	₱3,564,281	₱369,948,804	₱8,744,379,280	₱9,117,892,365

The shares of stock of UBP are traded in the local stock market. The fair value of the Group's interest in the equity securities of UBP amounted to ₱9,984,431,744 (i.e., ₱58.19 per share) and ₱8,744,379,280 (i.e., ₱50.96 per share) as of December 31, 2017 and 2016, respectively.

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

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

Financial position

	December 31, 2017		
	PPVI	**MIIC**	**UBP**
Cash and cash equivalent	**₱715,059**	**₱191,658,006**	**₱6,633,237,000**
Short term investments	**26,654,067**	**–**	**–**
Fair value through profit or loss	**–**	**–**	**366,896,000**
AFS financial assets	**–**	**1,347,692,874**	**162,284,647,000**
Loans and receivables	**31,466,980**	**781,553,291**	**406,625,145,000**
Investment properties	**–**	**15,281,346**	**7,346,582,000**
Property plant and equipment	**–**	**217,367,082**	**3,765,796,000**
Other assets	**–**	**1,770,488,820**	**22,712,459,000**
Deferred tax asset	**–**	**205,774,001**	**–**
Accounts payable	**(44,403,582)**	**(437,920,216)**	**–**
Deferred tax liability	**(51,381)**	**–**	**–**
Other liabilities	**(2,535,728)**	**(2,970,603,302)**	**(548,124,783,000)**
Equity	**₱11,845,415**	**₱1,121,291,902**	**₱61,609,979,000**

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

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

Financial performance

	December 31, 2017		
	PPVI	**MIIC**	**UBP**
Revenue	**₱512,650**	**₱1,462,168,086**	**₱24,586,366,000**
Direct costs	**–**	**(1,068,422,403)**	**(6,945,790,000)**
Operating expenses	**(445,646)**	**(488,061,233)**	**(13,758,013,000)**
Other income	**–**	**139,179,362**	**7,418,454,000**
Impairment losses	**–**	**–**	**(875,587,000)**
Profit before tax	**67,004**	**44,863,812**	**10,425,430,000**
Income tax (expense) benefit	**(102,530)**	**(33,094,485)**	**(2,266,080,000)**
Net profit (loss) for the year	**(₱35,526)**	**₱11,769,327**	**₱8,159,350,000**
Group share in the net profit (loss) of the associate	**(₱10,658)**	**₱2,942,332**	**₱1,322,939,519**

	December 31, 2016		
	PPVI	MIIC	UBP
Revenue	₱557,155	₱1,596,526,182	₱20,105,820,000
Direct costs	–	(1,176,671,976)	(5,274,441,000)
Operating expenses	(839,117)	(769,331,360)	(12,030,651,000)
Other income	–	126,961,050	10,246,075,000
Impairment losses	–	–	(1,594,120,000)
Profit before tax	(281,962)	(222,516,104)	11,452,683,000
Income tax (expense) benefit	(111,431)	62,357,197	(1,909,587,000)
Net profit (loss) for the year	(₱393,393)	(₱160,158,907)	₱9,543,096,000
Group share in the net profit (loss of the associate	(₱118,018)	(₱40,039,727)	₱1,545,981,552

The associates have no contingent liabilities or capital commitments as of December 31, 2017 and 2016. PPVI is not subject to restrictions (i.e., whether through legal, contractual, or discretionary restrictions) as to the use or transfer of their assets or settlement of liabilities as of December 31, 2017 and 2016.

BSP, UBP's lead regulator, sets and monitors the capital requirements of UBP. In implementing current capital requirements, the BSP requires UBP to maintain a minimum capital amount and a prescribed ratio of qualifying capital to risk-weighted assets, known as the "capital adequacy ratio." Risk-weighted assets is the aggregate value of assets weighted by credit risk, market risk, and operational risk, based on BSP-prescribed formula provided under its circulars. These, among others, may impose significant restrictions as to the use or transfer of assets or the settlement of liabilities as of December 31, 2017 and 2016.

8. Investment Properties

The movement in carrying amount of investment properties follows:

	2017		
	Land	**Building and Improvements**	**Total**
Costs			
Beginning balances	**₱4,647,876,307**	**₱4,990,176,978**	**₱9,638,053,285**
Additions	**1,623,600**	**596,138,767**	**597,762,367**
Reclassification (Note 9)	**(391,686,407)**	**(183,034,664)**	**(574,721,071)**
Disposals	**(126,333,725)**	**(190,184,698)**	**(316,518,423)**
Ending balances	**4,131,479,775**	**5,213,096,383**	**9,344,576,158**
Accumulated Depreciation and Impairment Loss			
Beginning balances	**155,511,791**	**1,364,846,529**	**1,520,358,320**
Depreciation and amortization (Note 20)	**–**	**157,210,595**	**157,210,595**
Reclassification (Note 9)	**–**	**(61,425,028)**	**(61,425,028)**
Impairment loss (Note 22)	**–**	**628,867**	**628,867**
Disposals	**–**	**(178,007,562)**	**(178,007,562)**
Ending balances	**155,511,791**	**1,283,253,401**	**1,438,765,192**
Net Book Values	**₱3,975,967,984**	**₱3,929,842,982**	**₱7,905,810,966**

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

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

As of December 31, 2017 and 2016, the balance of retained earnings includes the remaining balance of the deemed cost adjustment amounting to ₱3,384,913,056 and ₱3,442,850,563, respectively, related to certain investment properties which arose when the Group transitioned to PFRS in 2005. This amount has yet to be absorbed through additional depreciation in profit or loss in the case of depreciable assets and through sale in the case of land.

The total fair value of the investment properties amounted to ₱12,469,972,563 and ₱11,119,723,182 as of December 31, 2017 and 2016, respectively, based on various independent appraisers' valuation and the Group's in-house valuation (less than 1% of the total investment properties).

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

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

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

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

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

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

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

	2017	2016
Rental income (Note 27)	**₱428,126,462**	₱336,690,470
Direct operating expenses (Note 21)	**140,987,726**	135,383,840
Indirect operating expenses (Note 21)	**23,810,580**	93,254,734

Future minimum lease rentals receivable under non-cancellable operating leases are disclosed in Note 27.

9. Property and Equipment

The movement in carrying amount of investment properties follows:

	2017					
	Land and Buildings	**Furniture Fixtures and Equipment**	**Electronic and Data Processing Equipment**	**Transportation Equipment**	**Building Improvements**	**Total**
Costs						
Beginning balances	**₱137,469,796**	**₱226,010,149**	**₱142,598,526**	**₱86,595,937**	**₱92,348,580**	**₱685,022,988**
Additions	**479,152**	**21,241,962**	**30,589,303**	**33,275,392**	**3,563,698**	**89,149,507**
Retirements/disposals	**(13,546,656)**	**(1,008,218)**	**(4,578,407)**	**(22,413,582)**	**–**	**(41,546,863)**
Reclassification (Note 8)	**574,721,071**	**–**	**–**	**–**	**–**	**574,721,071**
Ending balances	**699,123,363**	**246,243,893**	**168,609,422**	**97,457,747**	**95,912,278**	**1,307,346,703**
Accumulated Depreciation and Amortization						
Beginning balances	**58,702,019**	**111,017,450**	**100,833,725**	**53,619,820**	**74,961,112**	**399,134,126**
Depreciation and amortization (Note 20)	**1,805,454**	**15,435,605**	**20,136,938**	**17,147,833**	**5,938,823**	**60,464,653**
Reclassification (Note 8)	**61,425,028**	**–**	**–**	**–**	**–**	**61,425,028**
Retirements/disposals	**(1,463,324)**	**(874,661)**	**(4,418,900)**	**(16,504,808)**	**–**	**(23,261,693)**
Ending balances	**120,469,177**	**125,578,394**	**116,551,763**	**54,262,845**	**80,899,935**	**497,762,114**
Net Book Values	**₱578,654,186**	**₱120,665,499**	**₱52,057,659**	**₱43,194,902**	**₱15,012,343**	**₱809,584,589**

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

The cost of fully depreciated property and equipment that are still in use in the Group's operations amounted to ₱322,317,589 and ₱180,199,379 as of December 31, 2017 and 2016, respectively.

Construction in progress reported as part of land and buildings above amounted to ₱701,750,719 as of December 31, 2016 (nil as of December 31, 2017).

10. Other Assets

	2017	2016
Prepaid expenses (Note 26)	**₱1,022,633,671**	₱56,019,965
Computer software	**53,739,288**	84,657,350
Others	**37,653,857**	47,955,024
	₱1,114,026,816	₱188,632,339

Computer Software

The movement in the carrying amount of computer software follows:

	2017	2016
Cost		
Beginning balance	**₱238,689,237**	₱236,361,183
Additions	**8,052,881**	2,328,054
Ending balance	**246,742,118**	238,689,237

(Forward)

	2017	2016
Accumulated Amortization		
Beginning balance	**₱154,031,887**	₱114,915,569
Amortization (Note 20)	**38,970,943**	39,116,318
Ending balance	**193,002,830**	154,031,887
Net Book Value	**₱53,739,288**	₱84,657,350

Others

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

11. **Legal Policy Reserves**

	December 31, 2017		
	Legal policy reserves	**Reinsurers' share of liabilities**	**Net**
Aggregate reserves for:			
Ordinary life policies	**₱59,960,504,871**	**₱73,317,793**	**₱59,887,187,078**
Group life policies	**1,994,886,201**	**–**	**1,994,886,201**
Accident and health policies	**30,532,311**	**511,758**	**30,020,553**
Unit-linked policies	**488,923,402**	**28,004,438**	**460,918,964**
	₱62,474,846,785	**₱101,833,989**	**₱62,373,012,796**

	December 31, 2016, As restated		
	Legal policy reserves	Reinsurers' share of liabilities	Net
Aggregate reserves for:			
Ordinary life policies	₱62,811,342,131	₱72,839,546	₱62,738,502,585
Group life policies	1,581,397,941	–	1,581,397,941
Accident and health policies	36,821,379	692,529	36,128,850
Unit-linked policies	722,539,285	15,026,009	707,513,276
	₱65,152,100,736	₱88,558,084	₱65,063,542,652

	January 1, 2016, As restated		
	Legal policy reserves	Reinsurers' share of liabilities	Net
Aggregate reserves for:			
Ordinary life policies	₱59,387,274,962	₱71,236,259	₱59,316,038,703
Group life policies	1,439,504,918	–	1,439,504,918
Accident and health policies	37,365,852	440,879	36,924,973
Unit-linked policies	614,773,628	10,243,361	604,530,267
	₱61,478,919,360	₱81,920,499	₱61,396,998,861

Movement of insurance contract liabilities is as follows:

	2017	2016
Beginning balance	**₱65,063,542,652**	₱61,396,998,861
Remeasurement (gains) losses on reserves recognized in OCI (gross of consequential deferred income tax impact)	**(1,493,701,869)**	324,750,650
Increase (decrease) in reserves recognized in profit or loss	**(1,196,827,987)**	3,341,793,141
Ending balance	**₱62,373,012,796**	₱65,063,542,652

As discussed under Note 2, legal policy reserves reflect the statutory reserves calculated based on the Gross Premium Valuation method.

12. Derivative Liability

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

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

Derivative liability amounted to ₱35,908,235 and ₱34,807,709 as of the year ended December 31, 2017 and 2016, respectively. Derivative loss amounted to ₱1,100,526 and ₱8,948,398 for the year ended December 31, 2017 and 2016, respectively.

13. Other Insurance Liabilities

	December 31		
	2017	2016, As restated	January 1, 2016, As restated
Members' deposits and other funds on deposit	**₱32,899,788,066**	₱28,308,775,507	₱24,797,492,775
Claims pending settlement	**2,079,797,473**	1,859,741,059	1,716,718,790
Reserve for dividends to members	**6,703,306**	7,983,375	6,986,642
	₱34,986,288,845	₱30,176,499,941	₱26,521,198,207

Members' deposits and other funds on deposit mainly consist of: (1) dividends accumulated on the account of policyholders; (2) net asset value of variable unit link placements subscribed by the variable unit link policyholders; and (3) premium payments received in advance from policyholders.

Reserve for dividends to members pertains to cash dividends declared during the year due to policyholders.

The liabilities are not subjected to covenants and warranties.

14. **Accrued Expenses and Other Liabilities**

	2017	2016
Accounts payable	**₱1,045,157,755**	₱660,221,117
Accrued employee benefits	**455,849,732**	489,551,831
Remittances not yet allocated	**150,253,836**	85,203,674
Commissions payable	**117,716,506**	88,050,296
Taxes payable	**84,637,350**	61,242,921
General expenses due and accrued	**78,008,747**	61,053,700
Others	**41,068,149**	36,985,660
	₱1,972,692,075	₱1,482,309,199

The classes of other liabilities of the Group follow:

- Accrued employee benefits pertain to various unpaid short term employee benefits such as vacation leave, sick leave, service awards, and other benefits offered by the Group to its employees.

- Accounts payable pertain to amounts due to contractors and suppliers.

- Remittances not yet allocated pertain to new business deposits with pending underwriting requirements and collections from policyholders unapplied to their corresponding receivable set-up as of reporting date.

15. **Members' Equity**

On November 24, 2016, the Board of Trustees appropriated ₱300,000,000 out of its retained earnings as of December 31, 2016, in compliance with increased networth, as required under the IC CL no. 2017-14, *Minimum Members' Equity Requirements for Mutual Companies* and Amended Insurance Code.

Charges to retained earnings related to policyholders' dividends amounted to ₱198,057,036 and ₱412,900,000 in 2017 and 2016, respectively.

16. **Insurance Revenue**

	2017	2016
Life insurance contracts	**₱3,954,518,452**	₱4,235,992,203
VUL insurance contracts	**7,925,348,231**	8,439,947,243
Accident and health contracts	**572,884,659**	462,637,044
Gross earned premiums on insurance contracts	**12,452,751,342**	13,138,576,490
Reinsurers' share of premiums on insurance contracts	**(233,571,026)**	(209,543,054)
	₱12,219,180,316	₱12,929,033,436

17. **Investment Income**

	2017	2016
Interest income on:		
HTM financial assets	**₱1,557,735,755**	₱1,651,923,907
Loans and receivables	**1,211,634,676**	1,236,894,462
AFS financial assets	**741,215,943**	391,347,852
Others	**1,834,902**	1,874,354
Dividend income	**790,944,163**	1,003,914,339
Trading gains from financial assets at FVPL	**151,901,753**	70,661,065
	₱4,455,267,192	₱4,356,615,979

18. **Net Realized Gains**

	2017	2016
Net realized gains		
Disposal of AFS financial assets	**₱743,802,104**	₱3,317,476,339
Disposal of investment properties	**96,509,817**	1,897,026,830
Foreclosure of properties	**800,540**	1,190,852
	₱841,112,461	₱5,215,694,021

19. **Insurance Benefits Expenses**

	2017	2016
VUL funds allocation	**₱6,512,711,711**	₱6,810,474,181
Maturities	**2,387,824,753**	2,899,578,617
Death and hospitalization benefits	**1,398,170,963**	1,206,393,748
Surrenders	**819,255,493**	689,263,895
Interest on policy and contract funds	**335,926,914**	365,211,927
Payments on supplementary contracts	**289,616,051**	298,885,565
Increase (decrease) in reserve for supplementary contracts	**(107,135,741)**	108,964,147
Others	**(38,647,109)**	342,769,821
Total gross benefits and claims on insurance contracts	**11,597,723,035**	12,721,541,901
Reinsurers' share of benefits and claims on insurance contracts	**(29,271,877)**	(89,513,715)
Net change in:		
Legal policy reserves	**(1,183,552,082)**	3,348,430,726
Reinsurers' share in legal policy reserves	**(13,275,905)**	(6,637,585)
	₱10,371,623,171	₱15,973,821,327

Details of net change in legal policy reserves follows:

	2017		
	Gross Change In Legal Policy Reserves	**Reinsurers' Share of Change in Legal Policy Reserves**	**Net**
Life insurance contracts	**(₱964,962,212)**	**₱297,476**	**(₱965,259,688)**
VUL insurance contracts	**(218,589,870)**	**12,978,429**	**(231,568,299)**
	(₱1,183,552,082)	**₱13,275,905**	**(₱1,196,827,987)**

	2016		
	Gross Change In Legal Policy Reserves	Reinsurers' Share of Change in Legal Policy Reserves	Net
Life insurance contracts	₱3,245,447,721	₱1,854,937	₱3,243,592,784
VUL insurance contracts	102,983,005	4,782,648	98,200,357
	₱3,348,430,726	₱6,637,585	₱3,341,793,141

Changes presented in the table above pertain to changes due to impact of assumptions and portfolio movements. Any impact of change in discount rates is not reflected.

20. General Insurance Expenses

	2017	2016
Personnel (Notes 23 and 24)	**₱1,152,469,196**	₱1,024,477,620
Depreciation and amortization (Notes 8, 9, and 10)	**256,646,191**	259,842,862
Marketing, advertising, and promotion	**157,193,085**	160,856,589
Outside services	**136,550,891**	255,117,966
Transportation and communication	**52,031,083**	52,903,907
Repairs and maintenance	**49,399,769**	40,813,203
Rent (Note 27)	**23,832,263**	22,804,824
Printing and supplies	**21,801,054**	21,557,108
Training	**14,196,577**	17,061,252
Utilities	**11,651,882**	11,394,816
Others	**60,853,178**	106,469,260
	₱1,936,625,169	₱1,973,299,407

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

21. Investment Expenses

	2017	2016
Real estate expenses (Note 8)	**₱164,798,306**	₱228,638,574
Investment management expenses	**3,933,238**	86,646,466
	₱168,731,544	₱315,285,040

22. **Other Losses**

	2017	2016
Impairment loss on:		
AFS equity securities (Note 6)	**₱41,724,816**	₱169,596,742
Investment properties (Note 8)	**628,867**	194,000
Foreign exchange loss	**2,690,121**	–
	₱45,043,804	₱169,790,742

23. **Personnel Expenses**

	2017	2016
Salaries and bonuses	**₱894,773,217**	₱802,186,009
Employee benefits	**157,985,443**	159,565,211
Retirement benefits expense (Note 24)	**99,710,536**	62,726,400
	₱1,152,469,196	₱1,024,477,620

24. **Retirement benefits**

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

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

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

1) Control and administration of the retirement plan for the accomplishment of the purpose for which the Fund is intended in accordance with the plan; and

2) Receive and hold title to and ownership of the fund to be held in trust for the best interest of the parties affected thereby in accordance with and for all the uses and purposes as stated in the plan and in the declaration of trust (with all the powers and duties as stated in the declaration of trust).

The latest actuarial valuation of the defined benefit plans of the Parent Company, I-Care, and Home Credit was as of December 31, 2017.

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

The tables below summarize the components of retirement benefits cost recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated statements of financial position for the retirement plan.

a. Retirement benefits expenses recognized in the statements of income follow:

	2017			
		Subsidiaries		
	Parent Company	**I-Care**	**Home Credit**	**Total**
Current service cost	**₱82,632,465**	**₱1,887,319**	**₱536,678**	**₱2,423,997**
Settlement loss	**–**	**–**	**481,780**	**481,780**
Net interest cost	**14,008,742**	**127,678**	**35,874**	**163,552**
Net retirement benefits expense	**₱96,641,207**	**₱2,014,997**	**₱1,054,332**	**₱3,069,329**

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

b. Movements in the net retirement assets (liabilities) recognized in the statements of financial position follow:

	2017				
		Subsidiaries			
	Parent Company	**IIC**	**I-Care**	**Home Credit**	**Total**
Present value of defined benefit obligation	**₱1,227,372,958**	**₱–**	**₱24,708,307**	**₱3,195,196**	**₱27,903,503**
Fair value of plan assets	**1,312,855,507**	**1,076,542**	**22,483,069**	**2,614,213**	**26,173,824**
Retirement benefits liability (asset)	**(₱85,482,549)**	**(₱1,076,542)**	**₱2,225,238**	**₱580,983**	**₱1,729,679**

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

The net retirement benefits asset as of December 31, 2017 and 2016 amounted to ₱86,559,091 and ₱1,076,542, respectively. The net retirement liability as of December 31, 2017 and 2016 amounted to ₱2,806,221 and ₱288,880,645, respectively.

c. Cumulative amount of remeasurement losses (gains) recognized as OCI as of December 31, 2017 as follows:

	2017				
		Subsidiaries			
	Parent Company	**IIC**	**I-Care**	**Home Credit**	**Total**
Beginning balances	**₱179,336,191**	**(₱30,897)**	**₱5,375,640**	**₱2,525,960**	**₱7,870,703**
Actuarial loss	**(58,068,088)**	**–**	**(1,022,160)**	**(542,244)**	**(1,564,404)**
Losses sustained by plan assets excluding amount included in net interest cost	**5,787,298**	**–**	**753,193**	**68,897**	**822,090**
Actuarial gain, gross of deferred income tax consequences	**(52,280,790)**	**–**	**(268,967)**	**(473,347)**	**(742,314)**
Income tax effect	**15,684,237**	**–**	**80,690**	**–**	**80,690**
	(36,596,553)	**–**	**(188,277)**	**(473,347)**	**(661,624)**
	₱142,739,638	**(₱30,897)**	**₱5,187,363**	**₱2,052,613**	**₱7,209,079**

	2016				
		Subsidiaries			
	Parent Company	IIC	I-Care	Home Credit	Total
Beginning balances	(₱41,842,554)	(₱30,897)	₱5,348,214	₱1,881,428	₱7,198,745
Actuarial loss	275,100,321	–	446,370	494,864	941,234
Losses sustained by plan assets excluding amount included in net interest cost	40,869,315	–	(407,190)	149,668	(257,522)
Actuarial loss, gross of deferred income tax consequences	315,969,636	–	39,180	644,532	683,712
Income tax effect	(94,790,891)	–	(11,754)	–	(11,754)
	221,178,745	–	27,426	644,532	671,958
	₱179,336,191	(₱30,897)	₱5,375,640	₱2,525,960	₱7,870,703

d. Movements in the net retirement benefits liability (asset) during the years ended:

	2017				
		Subsidiaries			
	Parent Company	**IIC**	**I-Care**	**Home Credit**	**Total**
Beginning balances	**₱285,616,154**	**(₱1,076,542)**	**₱2,479,209**	**₱785,282**	**₱2,187,949**
Pension benefits expense	**96,641,207**	**–**	**2,014,997**	**1,054,332**	**3,069,329**
Actuarial contributions	**(415,459,120)**	**–**	**(2,000,000)**	**(785,284)**	**(2,785,284)**
Re-measurements recognized in OCI	**(52,280,790)**	**–**	**(268,968)**	**(473,347)**	**(742,315)**
Ending balances	**(₱85,482,549)**	**(₱1,076,542)**	**₱2,225,238**	**₱580,983**	**₱1,729,679**

	2016				
		Subsidiaries			
	Parent Company	IIC	I-Care	Home Credit	Total
Beginning balances	(₱90,543,746)	(₱1,076,542)	₱5,387,341	(₱342,698)	₱3,968,101
Pension benefits expense	60,190,264	–	2,052,688	483,448	2,536,136
Actuarial contributions	–	–	(5,000,000)	–	(5,000,000)
Re-measurements recognized in OCI	315,969,636	–	39,180	644,532	683,712
Ending balances	₱285,616,154	(₱1,076,542)	₱2,479,209	₱785,282	₱2,187,949

e. Changes in the present value of defined benefit obligation follow:

	2017			
		Subsidiaries		
	Parent Company	**I-Care**	**Home Credit**	**Total**
Beginning balances	**₱1,175,711,773**	**₱23,674,502**	**₱3,772,675**	**₱27,447,177**
Current service cost	**82,632,465**	**1,887,319**	**536,678**	**2,423,997**
Interest cost	**59,579,189**	**1,219,237**	**189,725**	**1,408,962**
Benefits paid	**(32,482,381)**	**(1,050,591)**	**(1,243,418)**	**(2,294,009)**
Settlement loss	**–**	**–**	**481,780**	**481,780**
Actuarial loss (gain) due to:				
Changes in financial assumptions	**62,555,527**	**(1,557,323)**	**(217,039)**	**(1,774,362)**
Demographic adjustments	**12,229,201**	**–**	**–**	**–**
Experience adjustments	**(132,852,816)**	**535,163**	**(325,205)**	**209,958**
Ending balances	**₱1,227,372,958**	**₱24,708,307**	**₱3,195,196**	**₱27,903,503**

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

f. Changes in the fair value of net plan assets follow:

	2017				
		Subsidiaries			
	Parent Company	**IIC**	**I-Care**	**Home Credit**	**Total**
Beginning balances	**₱890,095,619**	**₱1,076,542**	**₱21,195,294**	**₱2,987,392**	**₱25,259,228**
Interest income	**45,570,447**	**–**	**1,091,559**	**153,851**	**1,245,410**
Actual return (loss) excluding amount recognized in net interest cost	**(5,787,298)**	**–**	**(753,193)**	**(68,897)**	**(822,090)**
Actuarial contribution	**415,459,120**	**–**	**2,000,000**	**785,284**	**2,785,284**
Benefits paid	**(32,482,381)**	**–**	**(1,050,591)**	**(1,243,418)**	**(2,294,009)**
Ending balances	**₱1,312,855,507**	**₱1,076,542**	**₱22,483,069**	**₱2,614,212**	**₱26,173,823**

	2016				
		Subsidiaries			
	Parent Company	IIC	I-Care	Home Credit	Total
Beginning balances	₱1,024,894,218	₱1,076,542	₱16,255,222	₱4,669,783	₱22,001,547
Interest income	51,135,960	–	820,891	223,216	1,044,107
Actual return (loss) excluding amount recognized in net interest cost	(40,869,315)	–	407,190	(149,668)	257,522
Actuarial contribution	–	–	5,000,000	–	5,000,000
Benefits paid	(145,065,244)	–	(1,288,009)	(1,755,939)	(3,043,948)
Ending balances	₱890,095,619	₱1,076,542	₱21,195,294	₱2,987,392	₱25,259,228

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

	2017	2016
Loans and receivable:		
Cash and cash equivalents	**7%**	7%
Receivables	**10%**	14%
	17%	21%
Equity securities:		
Food, beverage, and tobacco	**5%**	8%
Telecommunications	**5%**	6%
Others	**1%**	2%
	11%	16%
Debt securities:		
Government debt securities	**66%**	53%
Investment grade	**6%**	10%
	72%	63%
	100%	100%

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

	2017		
	Subsidiaries		
	IIC	**I-Care**	**Home Credit**
Cash and cash equivalents	**86.73%**	**98.00%**	**77.05%**
Investments in debt and equity securities	**13.27%**	**2.00%**	**22.95%**
	100.00%	**100.00%**	**100.00%**

	2016		
	Subsidiaries		
	IIC	I-Care	Home Credit
Cash and cash equivalents	86.73%	99.00%	32.74%
Investments in debt and equity securities	13.27%	1.00%	67.26%
	100.00%	100.00%	100.00%

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

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

The tables in the next page show the principal assumptions used in determining retirement benefits cost for the Group's plan.

	2017		
		Subsidiaries	
	Parent Company	**I-Care**	**Home Credit**
Discount rate*	**5.74%**	**5.15%**	**5.79%**
Future salary increases	**6.00%**	**5.00%**	**3.00%**
Mortality rate	**2017 PICM****	**1994 GAM*****	**1994 GAM*****
Disability rate	**1952 Disability Study, Period 2, Benefit 5**	**1952 Disability Study, Period 2, Benefit 5**	**1952 Disability Study, Period 2, Benefit 5**

* *This is the single weighted average discount rate which is based on bootstrapped PDEX PDST-R2 rates at various tenors as of December 29, 2017 and of December 29, 2016. Rates for intermediate durations were interpolated.*

** *Philippine Inter-Company Mortality*

*** *Group annuity mortality*

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

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

** *Group annuity mortality*

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

December 31, 2017:

		Subsidiaries	
	Parent Company	**I-Care**	**Home Credit**
Discount rate:			
Increase of 1%	**(₱98,467,001)**	**(₱2,704,893)**	**(₱301,852)**
Decrease of 1%	**116,070,120**	**3,175,942**	**346,649**
Salary increase rate:			
Increase of 1%	**116,359,497**	**3,167,401**	**354,803**
Decrease of 1%	**(100,089,405)**	**(2,737,775)**	**(315,910)**

December 31, 2016:

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

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

December 31, 2017:

	Parent Company		
	Normal Retirement	**Other than Normal Retirement**	**Total**
Less than 1 year	**₱25,132,097**	**₱46,666,705**	**₱71,798,802**
More than 1 year to 5 years	**178,518,651**	**246,330,706**	**424,849,357**
More than 5 years to 10 years	**281,866,863**	**362,574,682**	**644,441,545**
More than 10 years	**2,875,903,777**	**2,324,994,160**	**5,200,897,937**

	Subsidiaries		
	I-Care	**Home Credit**	**Total**
Less than 1 year	**₱1,095,800**	**₱84,238**	**₱1,180,038**
More than 1 year to 5 years	**6,600,535**	**1,432,913**	**8,033,448**
More than 5 years to 10 years	**8,254,413**	**2,901,524**	**11,155,937**
More than 10 years	**99,054,547**	**14,677,495**	**113,732,042**

December 31, 2016:

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

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

The Group has made a contribution to its defined benefit plan in 2017 amounting to ₱418,244,404 and expects to contribute ₱102,291,746 to its defined benefit plan in 2018.

25. Income Taxes

a. The components of provision for income tax follow:

	2017	2016
Current		
Final Tax	**₱499,077,854**	₱442,283,234
RCIT	**17,091,753**	13,404,282
MCIT	**48,364,557**	12,809
	564,534,164	455,700,325
Deferred	**35,226,441**	(125,696,318)
	₱599,760,605	₱330,004,007

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

	December 31		
	2017	2016, As restated	January 1, 2016, as restated
Tax effects of:			
Remeasurement on life insurance reserves	**₱566,906,596**	₱1,015,017,156	₱917,591,962
Unrealized foreign exchange loss	**227,533,833**	172,477,016	168,826,608
Accrued expenses not yet deductible	**241,959,252**	331,937,372	317,533,821
Unamortized past service cost contributions	**99,063,294**	12,885,635	15,635,784
Allowance for impairment on loans and receivables	**5,230,714**	5,888,026	8,047,130
Retirement benefit liability	**667,571**	86,428,608	1,616,203
Total deferred income tax assets	**1,141,361,260**	1,624,633,813	1,429,251,508
Tax effects of:			
Revaluation increment in investment properties	**(1,015,473,917)**	(1,032,855,169)	(1,124,912,974)
Retirement benefits asset	**(25,644,765)**	–	(27,163,124)
Accrued rent income	**(14,222,256)**	(6,591,331)	(9,983,255)
Reserve for fluctuation in AFS financial assets	**(9,982,402)**	(25,207,250)	(110,768,124)
Total deferred income tax liabilities	**(1,065,323,340)**	(1,064,653,750)	(1,272,827,477)
Net deferred income tax assets	**₱76,037,920**	₱559,980,063	₱156,424,031

The components of the Group's net deferred income tax liabilities follow:

	2017	2016, as restated	2015, as restated
Tax effects of:			
Unamortized past service cost contributions	**₱92,906**	₱143,034	₱195,553
Allowance for impairment on		59,087	60,967
loans and receivables	**53,815**	–	–
Unrealized foreign exchange loss	**643**	–	–
Accrued expenses not yet deductible	**–**	–	–
Total deferred income tax assets	**147,364**	202,121	256,520
Tax effects of:			
Retirement benefits asset	**(322,963)**	(322,963)	(322,963)
Unrealized foreign exchange gain	**–**	(38,830)	(35,838)
Reserve for fluctuation in AFS financial assets	**–**	–	(3,408)
Total deferred income tax liabilities	**(322,963)**	(361,793)	(362,209)
Net deferred income tax assets	**(₱175,599)**	(₱159,672)	(₱105,689)

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:

	2017	2016
NOLCO	**₱2,212,404,999**	₱3,288,958,170
Excess of MCIT over RCIT	**48,394,019**	23,005,673

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

Year Incurred	Expiration	January 1, 2017	Incurred	Applied	Expired	December 31, 2017
2014	2017	₱14,617,143	₱–	₱–	(₱14,617,143)	₱–
2015	2018	1,368,759,787	–	–	(1,064,201,957)	304,557,830
2016	2019	1,905,581,240	–	–	–	1,905,581,240
2017	2020	–	2,265,929	–	–	2,265,929
		₱3,288,958,170	₱2,265,929	₱–	(₱1,078,819,100)	₱2,212,404,999

e. The Company's unused excess of MCIT over RCIT follows:

Year Incurred	Expiration	January 1, 2017	Incurred	Applied	Expired	December 31, 2017
2014	2017	₱22,976,635	₱–	₱–	(₱22,976,635)	₱–
2015	2018	16,229	–	–	–	16,229
2016	2019	12,809	–	–	–	12,809
2017	2020	–	48,364,981	–	–	48,364,981
		₱23,005,673	₱48,364,981	₱–	(₱22,976,635)	₱48,394,019

f. The reconciliation of the provision for income tax at the statutory income tax rates to the provision for income tax shown in the statements of income is shown below.

	2017	2016
Provision for income tax at statutory income tax rates	**₱1,690,104,293**	₱1,578,923,104
Adjustments for:		
Equity in net earnings of an associate	**(397,761,358)**	(451,747,142)
Interests subjected to final tax at lower tax rates	**(193,730,985)**	(144,585,539)
Gain on sale of investments in AFS financial assets - net	**(222,895,379)**	(995,242,902)
Movement in NOLCO and excess MCIT over RCIT without deferred income tax asset set up and derecognition of deferred tax on NOLCO	**(270,900,169)**	571,858,215
Nontaxable income	**(146,358,550)**	(339,215,782)
Nontaxable expenses	**128,785,308**	59,076,829
Impairment losses on properties and AFS financial assets	**12,517,445**	50,937,224
Provision for income tax	**₱599,760,605**	₱330,004,007

Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the reporting date.

26. **Related Party transactions**

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

Transactions with related parties consist mainly of:

a. Lease of office spaces, cash advances, dividends, interests, and loans. The balances as of and for the years ended December 31, 2017 and 2016 are presented below:

			Outstanding Balance			
Category	Year	Amount of transaction during the year	Due From	Due to	Cash and investment Accounts	Terms and condition
Subsidiaries						
Term Loan	**2017**	**₱50,000,000**	**₱100,000,000**	**₱–**	**₱–**	**2 years; 3% interest per**
	2016	₱50,000,000	₱50,000,000	₱–	₱–	**annum;**
Interest on	**2017**	**2,766,667**	**1,416,667**	–	–	**unsecured; unguaranteed;**
Term Loan	2016	150,000	150,000	–	–	**no impairment**
Common	**2017**	**10,433,569**	-	–	–	**30-day; noninterest-**
Overhead	2016	10,099,732	-	–	–	**bearing; settled in cash;**
Rental Income	**2017**	**11,820,761**	**118,202**	–	–	**one to three-year lease**
	2016	8,543,502	293,523	–	–	**contract; 30-day; noninterest-bearing; settled in cash; unsecured, unguaranteed, no impairment**
Rental Deposits	**2017**	**585,073**	**34,600**	**1,792,421**	–	**noninterest-bearing; settled**
	2016	119,452	119,267	1,289,848	–	**in cash; unguaranteed; unsecured; no impairment**
Dividends	**2017**	**6,500,000**	–	–	–	**noninterest-bearing; settled**
	2016	29,500,000	10,000,000	–	–	**in cash; unguaranteed; unsecured; no impairment**
Insurance	**2017**	**2,110,190**	–	–	–	
Revenue	2016	2,310,298	–	–	–	
Leasehold	**2017**	–	–	–	–	**30-day; noninterest-**
Improvement	2016	527,077	–	–	–	**bearing; settled in cash; unguaranteed; unsecured; no impairment**
Director's Fee	**2017**	**280,000**	–	–	–	
	2016	80,000	–	–	–	
Salaries and compensation	**2017**	**3,365,350**	–	–	–	
	2016	790,877	–	–	–	
Association dues, utilities and others	**2017**	**3,900,193**	**294,521**	**131,660**	–	
	2016	4,359,966	212,887	118,159	–	
Associates						
MIIC						
Rental Income	**2017**	**3,434,104**	–	**312,810**	–	**30-day; noninterest-**
	2016	3,113,210	262,870	87,550	–	**bearing; unsecured; unguaranteed; settled in cash**
Rental Deposits	**2017**	**74,630**	-	**3,160,239**	–	**noninterest-bearing; settled**
	2016	187,595	16,972	3,085,609	–	**in cash; unguaranteed; unsecured; no impairment**
Insurance	**2017**	**66,119,356**	–	–	–	
Revenue	2016	32,790,629	–	–	–	
Director's Fee	**2017**	–	–	–	–	
	2016	845,595	–	–	–	
Association dues, utilities and others	**2017**	**1,322,659**	**361,244**	**57,843**	–	
	2016	1,569,181	871,132	16,942	–	
UBP						
Service Fee	**2017**	**80,668,633**	–	**12,008,942**	–	**noninterest-bearing;**
	2016	–	–	–	–	**unsecured; unguaranteed; settled in cash**
Access Fee, net of amortization	**2017**	**1,000,000,000**	–	–	**976,089,686**	**noninterest bearing; settled**
during the year (Note 10)	2016	–	–	–	–	**in cash**
(Forward)						
	2017	**₱10,576,397**	**₱–**	**₱5,279,397**	**₱–**	

Category	Year	Amount of transaction during the year	Outstanding Balance Due From	Due to	Cash and investment Accounts	Terms and condition
Distribution Expense	2016	₱–	₱–	₱–	₱–	**noninterest bearing; settled in cash; unguaranteed; unsecured; no impairment**
Rental Income	**2017**	**13,922,547**	–	**164,527**	–	**30-day; noninterest-bearing; unsecured; unguaranteed; settled in cash**
	2016	4,286,898	–	176,811	–	
Rental Deposits	**2017**	**3,055,918**	**7,500**	**16,534,600**	–	**noninterest-bearing; settled in cash; unguaranteed; unsecured; no impairment**
	2016	8,437,080	–	13,478,682	–	
Dividends	**2017**	**326,035,470**	–	–	–	**noninterest-bearing; settled in cash; unguaranteed; unsecured; no impairment**
	2016	257,396,424	–	–	–	
Insurance Revenue	**2017**	**111,040,221**	–	–	–	
	2016	22,286,759	–	–	–	
Interest income	**2017**	**41,933,966**	**1,869,568**	–	–	**noninterest bearing; settled in cash; unguaranteed; unsecured, no impairment**
	2016	51,159,642	4,127,184	–	–	
Saving and current accounts	**2017**	**(2,061,279,233)**	–	–	**753,678,258**	**interest-bearing, unguaranteed; unsecured; unrestricted**
	2016	661,906,596	–	–	2,814,957,491	
HTM Financial Assets	**2017**	–	–	–	**300,000,000**	**at 5.375% interest payable quarterly, 11 year note; unguaranteed; unsecured; no impairment**
	2016	–	–	–	300,000,000	
Director's Fee	**2017**	–	–	–	–	
	2016	5,576,000	–	–	–	
Association dues, utilities, and others	**2017**	**3,814,928**	**558,889**	**1,598,052**	–	
	2016	1,423,288	–	304,326	–	
Retirement plan						
Advances	**2017**	**32,482,381**	–	–	–	
	2016	145,065,244	–	–	–	
TOTAL	**2017**	**(₱275,036,220)**	**₱104,661,191**	**₱41,040,491**	**₱ 2,029,767,944**	
TOTAL	2016	₱1,302,525,045	₱66,053,835	₱18,557,927	₱ 3,114,957,491	

**The Company's subsidiaries are IIC, I-Care, ILMADECO, ILPHI and Home Credit.*

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

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

	2017	2016
Savings and current accounts	**₱403,988,448**	₱318,144,260
Special savings accounts	**349,689,811**	2,496,813,230
	₱753,678,259	₱2,814,957,490

c. In November 2014, the Company availed of the subordinated notes issued by UBP. These investments, classified as HTM financial assets, earned interests amounting to ₱16,125,000 in both 2017 and 2016. The carrying value and fair value of these subordinated notes amounted to ₱300,000,000 in both 2017 and 2016.

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

	2017	2016
Salaries and other short-term employee benefits	**₱284,953,227**	₱187,760,222
Post-employment and other long-term benefits	**31,422,464**	37,890,184
	₱316,375,691	₱225,650,406

e. On May 10, 2017, the Parent Company and UBP formally launched Union for Life, a unique bancassurance partnership, where UBP and its wholly-owned subsidiary, CitiSavings Bank, will distribute and sell the insurance products of the Parent Company to its bank clients.

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 non-cancelable operating leases follows:

	2017	2016
Within one year	**₱12,869,594**	₱15,144,133
After one year but not more than five years	**24,375,000**	26,859,713
More than five years	**2,051,332**	2,637,427
	₱39,295,926	₱44,641,273

Rent expense recognized in 2017 and 2016 amounted to ₱23,832,263 and ₱22,804,824, respectively (Note 20).

b. Operating lease commitments - the Group as lessor

The future minimum rentals receivable under non-cancelable operating leases follows:

	2017	2016
Within one year	**₱342,306,993**	₱233,245,344
After one year but not more than five years	**646,348,803**	523,426,995
	₱988,655,796	₱756,672,339

28. Group Information and Non-controlling Interest

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

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

Subsidiaries	Date of Incorporation	Nature of Business
IIC	September 5, 1989	Investment banking in the areas of corporate finance, money market, and securities underwriting
• IPI	May 31, 1994	Development and sale of real estate
• IPVI	May 31, 1994	*-do-*

(Forward)

Subsidiaries	Date of Incorporation	Nature of Business
I-Care	October 14, 1991	Provision of medical and managed care services and facilities to its members
ILMADECO	1987	Holding organization of ILACGA
• ILACGA	November 11, 2003	Provision of nonlife general insurance
ILPHI	March 23, 1998	Development and sale of real estate
Home Credit	April 1, 1932	Accumulation of savings of its stockholders and members and lending of funds to them under a housing program

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

The Parent Company is subject to statutory regulations on Risk-Based Capital (RBC2) and other externally imposed capital requirements (Note 33). All asset investments of the Parent Company require approval from the IC. The Parent Company submits annual financial statements to the IC to determine adequacy of the Parent Company's investments. IC classifies assets according to admitted and non-admitted assets for the purpose of calculating financial ratios that the Parent Company is required to maintain. These, among others, pose restrictions as to the use or transfer of assets within the Group, as well as, the settlement of liabilities as of December 31, 2017 and 2016.

The Parent Company is not subject (i.e., under guarantyship, suretyship, or other similar arrangements) to any contingent liability, or capital or purchase commitments as of December 31, 2017 and 2016.

The subsidiaries have no contingent liabilities (other than disclosed in Note 35) or capital commitments as of December 31, 2017 and 2016 and are not subject to restrictions (i.e., whether through legal, contractual, or discretionary restrictions) as to the use or transfer of their assets within the Group, or settlement of liabilities.

While IIC is subject to the minimum capital requirements imposed by SEC, the compliance with the said regulation does not pose significant restrictions as the use or transfer of assets within the Group or the settlement of liabilities as of December 31, 2017 and 2016.

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

	2017	2016
Preferred shareholders' interest:		
Beginning balance	**₱154,388,719**	₱151,635,442
Issuances during the year	**64,897,464**	77,068,444
Redemption during the year	**(64,724,438)**	(74,315,167)
	154,561,745	154,388,719
Common shareholders' interest		
Beginning balance	**13,138**	15,303
Share in the total comprehensive income during the year	**(6,872)**	(2,165)
	6,266	13,138
	₱154,568,011	₱154,401,857

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

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

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

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

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

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

Dividends declared to the preferred shareholders of Home credit amounted to ₱6,697,397 and ₱8,701,403 in 2017 and 2016, respectively.

The summarized financial information, before intercompany eliminations, of Home Credit as of and for the years ended December 31, 2017, 2016, and 2015 follows:

Financial position	**December 31, 2017**	December 31, 2016	December 31, 2015
Cash and cash equivalents	**₱13,214,339**	₱53,767,086	₱44,682,193
Loans and receivables	**200,467,407**	127,472,957	100,903,156
Available-for-sale investments	**18,301,137**	18,619,741	23,820,642
Property and equipment	**2,051,823**	3,217,703	3,541,857
Investment properties	**9,792,450**	10,781,882	10,467,342
Other assets	**1,828,646**	1,721,895	2,411,490
Total assets	**245,655,802**	215,581,264	185,826,680
Accounts payable and accrued expenses	**122,242,182**	68,463,020	27,004,385
Redeemable preferred capital contributions	**–**	–	–
Total liabilities	**122,242,182**	68,463,020	27,004,385
Total equity	**₱123,413,620**	₱147,118,244	₱158,822,295
Attributable to the Group	**(₱31,154,391)**	(₱7,283,613)	₱7,171,550
Attributable to NCI	**₱154,568,011**	₱154,401,857	₱151,650,745

	Years Ended December 31		
Financial performance	**2017**	2016	2015
Interest income	**₱20,464,436**	₱13,445,309	₱13,612,461
Interest expense	**(2,766,667)**	(150,000)	(378,547)
Net interest income	**17,697,769**	13,295,309	13,233,914
Service fees	**6,442,719**	11,808,013	9,969,284
Miscellaneous income	**3,788,447**	9,697,909	5,903,732
Total operating income	**27,928,935**	34,801,231	29,106,930
Operating expenses	**(45,263,930)**	(39,369,027)	(39,232,406)
Net income*	**(17,334,995)**	(4,567,796)	(10,125,476)
Other comprehensive income (loss)	**154,744**	(845,434)	1,808,365
Total comprehensive loss	**(₱17,180,251)**	(₱5,413,230)	(₱8,317,111)
Attributable to the Group	**(₱17,173,379)**	(₱5,411,065)	(₱8,313,784)
Attributable to NCI	**(₱6,872)**	(₱2,165)	(₱3,327)

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

	Years Ended December 31		
Cash flows	**2017**	2016	2015
Cash provided by (used in) operating activities	**(₱83,645,155)**	(₱40,222,376)	₱5,770,951
Cash provided by investing activities	**(133,221)**	5,505,391	12,325,202
Cash provided by (used in) financing activities	**43,225,629**	43,801,878	(39,595,031)
Net increase in cash and cash equivalents	**(₱40,552,747)**	₱9,084,893	(₱21,498,878)

29. Other Income

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

30. Financial Instruments

Set out below is a comparison of the carrying amounts and fair values of the Company's financial instruments as of December 31, 2017 and 2016.

	2017		2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS MEASURED AT FAIR VALUE				
Financial Assets at FVPL				
Equity securities - quoted	**₱3,995,369,950**	**₱3,995,369,950**	₱3,994,787,310	₱3,994,787,310
Under separate fund*:				
Traditional VULs:				
Equity securities - quoted	**18,791,738,886**	**18,791,738,886**	14,073,469,362	14,073,469,362
Debt securities - quoted:				
Government:				
Local currency	**1,821,846,029**	**1,821,846,029**	1,320,969,283	1,320,969,283
Foreign currency	**2,517,351,149**	**2,517,351,149**	2,557,421,911	2,557,421,911
Corporate:				
Local currency	**145,353,726**	**145,353,726**	112,074,589	112,074,589
Foreign currency	**135,357,725**	**135,357,725**	135,770,611	135,770,611

(Forward)

	2017		2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Structured VULs:**				
Local currency	**₱702,944,015**	**₱702,944,015**	₱667,239,570	₱667,239,570
Foreign currency	**1,246,422,798**	**1,246,422,798**	1,194,709,761	1,194,709,761
	29,356,384,278	**29,356,384,278**	24,056,442,397	24,056,442,397
AFS Financial Assets				
Equity securities:				
Quoted	**22,388,131,569**	**22,388,131,569**	23,747,346,679	23,747,346,679
Unquoted*	**19,293,982**	**19,293,982**	443,910,660	443,910,660
Debt securities - quoted				
Government:				
Local currency	**10,625,852,326**	**10,625,852,326**	8,371,444,010	8,371,444,010
Foreign currency	**961,368,389**	**961,368,389**	937,455,298	937,455,298
Corporate:				
Local currency	**5,893,252,827**	**5,893,252,827**	4,831,787,154	4,831,787,154
Foreign currency	**286,741,238**	**286,741,238**	33,167,988	33,167,988
	40,174,640,331	**40,174,640,331**	38,365,111,789	38,365,111,789
HTM Financial Assets				
Government:				
Local currency	**14,389,383,053**	**16,948,204,515**	14,380,214,568	17,833,553,615
Foreign currency	**16,097,714**	**21,345,078**	16,114,009	23,066,373
Corporate:				
Local currency	**7,692,000,000**	**7,755,822,474**	7,838,411,277	8,036,127,923
Foreign currency	**247,742,335**	**255,698,118**	273,600,899	282,294,854
	22,345,223,102	**24,981,070,185**	22,508,340,753	26,175,042,765
Loans and Receivables				
Term loans	**7,837,759,412**	**8,271,267,689**	7,910,880,882	8,557,053,740
Housing loans	**145,913,064**	**133,008,320**	143,732,522	131,258,773
Car financing loans	**39,941,820**	**39,747,048**	37,157,110	40,275,199
	8,023,614,296	**8,444,023,057**	8,091,770,514	8,728,587,712
TOTAL FINANCIAL ASSETS	**₱99,899,862,007**	**₱102,956,117,851**	₱93.071,665,453	₱97,325,184,663
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE				
Insurance Liabilities				
Legal policy reserves	**₱62,373,012,796**	**₱62,373,012,796**	₱65,063,542,652	₱65,063,542,652
Derivative Financial Instrument				
Derivative liability	**35,908,235**	**35,908,235**	34,807,709	34,807,709
TOTAL FINANCIAL LIABILITIES	**₱62,408,921,031**	**₱62,408,921,031**	₱65,098,350,361	₱65,098,350,361

**Includes club shares carried at cost as of December 31, 2017 and 2016.*
***Has corresponding liabilities that are equivalent to the fair values of these assets.*

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

- Cash and cash equivalents;
- Short term investments;
- Insurance receivable;
- Loans and receivable under “Financial assets” account including:
  - Policy loans;
  - Accounts receivable;
  - Interest receivable;
  - Mortgage loans;
  - Due from agents; and
  - Other receivables;
- Other insurance liabilities; and
- Accrued expenses and other liabilities excluding taxes and other payable to the government.

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

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

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

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

Term loans
The fair values of term loans are estimated using the discounted cash flow technique that makes use of market rates and credit spread. Market rates ranged from 2.60% to 5.57% and 2.87% to 4.85% in 2017 and 2016, respectively.

Housing and Car Financing Loans
The fair values of housing and car financing loans are estimated using the discounted cash flow technique that makes use of market rates ranging from 8.53% to 15.33% in 2017 and 7.95% to 14.89% in 2016. Credit risk is minimal for such types of secured lending instruments.

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

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

31. Fair Value Measurement

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

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

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

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

	2017			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS MEASURED AT FAIR VALUE				
Financial Assets at FVPL				
Equity securities - quoted	**₱3,995,369,950**	**₱–**	**₱–**	**₱3,995,369,950**
Under separate fund*:				
Traditional VULs:				
Equity securities - quoted	**18,791,738,886**	**–**	**–**	**18,791,738,886**
Debt securities - quoted				
Government:				
Local currency	**1,821,846,029**	**–**	**–**	**1,821,846,029**
Foreign currency	**2,517,351,149**	**–**	**–**	**2,517,351,149**
Corporate:				
Local currency	**145,353,726**	**–**	**–**	**145,353,726**
Foreign currency	**135,357,725**	**–**	**–**	**135,357,725**
Structured VULs:				
Local currency	**–**	**–**	**702,944,015**	**702,944,015**
Foreign currency	**–**	**–**	**1,246,422,798**	**1,246,422,798**
	27,407,017,465	**–**	**1,949,366,813**	**29,356,384,278**
AFS Financial Assets				
Equity securities:				
Quoted	**22,388,131,569**	**–**	**–**	**22,388,131,569**
Unquoted	**–**	**–**	**15,586,606**	**15,586,606**
Debt securities - quoted				
Government:				
Local currency	**10,625,852,326**	**–**	**–**	**10,625,852,326**
Foreign currency	**961,368,389**	**–**	**–**	**961,368,389**
Corporate:				
Local currency	**5,893,252,827**	**–**	**–**	**5,893,252,827**
Foreign currency	**286,741,238**	**–**	**–**	**286,741,238**
	40,155,346,349	**–**	**15,586,606**	**40,170,932,955**
HTM Financial Assets				
Government:				
Local currency	**16,948,204,515**	**–**	**–**	**16,948,204,515**
Foreign currency	**21,345,078**	**–**	**–**	**21,345,078**
Corporate:				
Local currency	**7,755,822,474**	**–**	**–**	**7,755,822,474**
Foreign currency	**255,698,118**	**–**	**–**	**255,698,118**
	24,981,070,185	**–**	**–**	**24,981,070,185**
Loans and receivables				
Term loans	**–**	**8,271,267,689**	**–**	**8,271,267,689**
Housing loans	**–**	**133,008,320**	**–**	**133,008,320**
Car financing loans	**–**	**39,747,048**	**–**	**39,747,048**
	–	**8,444,023,057**	**–**	**8,444,023,057**
TOTAL FINANCIAL ASSETS	**₱92,543,433,999**	**₱8,444,023,057**	**₱1,964,953,419**	**₱102,952,410,475**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE				
Derivative financial instrument	**₱–**	**₱35,908,235**	**₱–**	**₱35,908,235**

**Excluding cash and cash equivalents, other receivables and other payables*
***Excluding club and equity shares carried at cost*

	2016			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS MEASURED AT FAIR VALUE				
Financial Assets at FVPL				
Equity securities - quoted	₱3,994,787,310	₱–	₱–	₱3,994,787,310
Under separate fund*:				
Traditional VULs:				
Equity securities - quoted	14,073,469,362	–	–	14,073,469,362
Debt securities - quoted				
Government:				
Local currency	1,320,969,283	–	–	1,320,969,283
Foreign currency	2,557,421,911	–	–	2,557,421,911
Corporate:				
Local currency	112,074,589	–	–	112,074,589
Foreign currency	135,770,611	–	–	135,770,611
Structured VULs:				
Local currency	–	–	667,239,570	667,239,570
Foreign currency	–	–	1,194,709,761	1,194,709,761
	22,194,493,066	–	1,861,949,331	24,056,442,397
AFS Financial Assets				
Equity securities:				
Quoted	23,747,346,679	–	–	23,747,346,679
Unquoted	–	407,472,819	32,730,339	440,203,158
Debt securities - quoted				
Government:				
Local currency	8,350,954,180	20,489,830	–	8,371,444,010
Foreign currency	937,455,298	–	–	937,455,298
Corporate:				
Local currency	4,831,787,154	–	–	4,831,787,154
Foreign currency	33,167,988	–	–	33,167,988
	37,900,711,299	427,962,649	32,730,339	38,361,404,287
HTM Financial Assets				
Government:				
Local currency	17,833,553,615	–	–	17,833,553,615
Foreign currency	23,066,373	–	–	23,066,373
Corporate:				
Local currency	8,036,127,923	–	–	8,036,127,923
Foreign currency	282,294,854	–	–	282,294,854
	26,175,042,765	–	–	26,175,042,765
Loans and receivables				
Term loans	–	8,557,053,740	–	8,557,053,740
Housing loans	–	131,258,773	–	131,258,773
Car financing loans	–	40,275,199	–	40,275,199
	–	8,728,587,712	–	8,728,587,712
TOTAL FINANCIAL ASSETS	₱86,270,247,130	₱9,156,550,361	₱1,894,679,670	₱97,321,477,161
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE				
Derivative financial instrument	₱–	₱34,807,709	₱–	₱34,807,709

**Excluding cash and cash equivalents, other receivables and other payables*
***Excluding club and equity shares carried at cost*

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

	2017	2016
AFS financial assets:		
Beginning balance	**₱32,730,339**	₱808,132,792
Disposals	**–**	(387,701,227)
Fair value gain (loss)	**(17,143,733)**	19,771,593
Transfer to Level 2 fair value hierarchy	**–**	(407,472,819)
Ending balance	**₱15,586,606**	₱32,730,339

	2017	2016
Financial assets at FVPL:		
Peso		
Beginning balance	**₱667,239,570**	₱1,000,320,732
Disposals	**–**	(360,198,215)
Fair value gain	**35,704,445**	27,117,053
Ending balance	**702,944,015**	667,239,570
USD		
Beginning balance	**1,194,709,761**	1,112,094,805
Fair value gain	**48,966,679**	19,129,585
Foreign exchange adjustments	**2,746,358**	63,485,371
Ending balance	**1,246,422,798**	1,194,709,761
Total financial assets at FVPL	**₱1,949,366,813**	₱1,861,949,331

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

	2017	2016
Investment in a holding company	**₱15,586,606**	₱32,730,339
Investment in a healthcare company	**–**	407,472,819
	₱15,586,606	₱440,203,158

Investment in a healthcare company

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

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

In 2017, the Company sold out the remaining shares of stock of the healthcare company 62,563 shares at ₱6,513.00 per share.

Investment in a holding company

The Company has investments in a holding company's (the "investee-holding company") shares of stock which are not quoted in the market as of December 31, 2017 and 2016. The investee-holding company was valued using adjusted net asset method in 2017 and 2016 since majority of its net assets are carried at fair value.

The investee-holding company has no significant transactions in 2017. The management believe that the book value represents fair valuation considering that its financial statements have been prepared in accordance with PFRS and majority of its net assets are carried at fair value.

The analysis of the fair market value of the investee-holding company's shares below is performed for the reasonably possible movement in their book values with all other variables held constant, showing the impact on the other comprehensive income:

	Significant unobservable input	Level at yearend	Sensitivity of the input to fair value
2017	**Book value per share**	**₱620.56**	**5.00% increase (decrease) in the book value per share of the investee holding company would result in the decrease (increase) in fair value by ₱779,330.**
2016	Book value per share	₱1,303.00	4.99% increase (decrease) in the book value per share of the investee holding company would result in the decrease (increase) in fair value by ₱1,633,550.

Structured VULs

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

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

	Significant observable input other than quoted prices included within Level 1	Range level at yearend	Sensitivity of the input to fair value
2017	**ROP CDS level (3yrs-8yrs)**	**67 basis points**	**50 basis points increase or decrease in ROP CDS would result in the decrease and increase in market value of the note by ₱15,612,970 and ₱15,975,835, respectively.**

(Forward)

	Significant observable input other than quoted prices included within Level 1	Range level at yearend	Sensitivity of the input to fair value
2017	**USD IRS (3yrs-8yrs)**	**215-229 basis points**	**50 basis points increase or decrease in USD IRS would result in the decrease and increase in market value of the note by ₱17,668,485 and ₱18,056,722, respectively.**
	PHP IRS (1yr-6yrs)	**365-375 basis points**	**50 basis points increase or decrease in PHP IRS would result in the decrease and increase in market value of the note by ₱9,135,438 and ₱9,299,048, respectively.**
2016	ROP CDS level (1yr-7yrs)	110 basis points	50 basis points increase or decrease in ROP CDS would result in the decrease and increase in market value of the note by ₱18,834,358 and ₱19,359,842, respectively.
	USD IRS (1yr-7yrs)	167-214 basis points	50 basis points increase or decrease in USD IRS would result in the decrease and increase in market value of the note by ₱22,183,560 and ₱22,767,053, respectively.
	PHP IRS (1yr-7yrs)	345-365 basis points	50 basis points increase or decrease in PHP IRS would result in the decrease and increase in market value of the note by ₱12,258,041 and ₱12,532,393, respectively.

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

Peso denominated notes:

	Significant unobservable input	Range level at yearend	Sensitivity of the input to fair value
2017	**Bank CDS Level (1-7 years)**	**51-118 basis points**	**A 50 basis points increase (decrease) in CDS would result in the decrease and increase in fair value of the note by ₱9,135,438 and ₱9,299,048, respectively.**
2016	Bank CDS level (1-7 years)	51-118 basis points	A 50 basis points increase (decrease) in CDS would result in the decrease and increase in fair value of the note by ₱12,258,041 and ₱12,532,393, respectively.

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

Dollar denominated notes

	Significant unobservable input	Range level at yearend	Sensitivity of the input to fair value
2017	**ROP CDS Level (3-8 years)**	**55-120 basis points**	**50 basis points increase or decrease in ROP CDS would result in the decrease and increase in market value of the note by ₱17,668,485 and ₱18,056,722 respectively.**

	Significant unobservable input	Range level at yearend	Sensitivity of the input to fair value
2016	ROP CDS level (3-8 years)	55-120 basis points	50 basis points increase or decrease in ROP CDS would result in the decrease and increase in market value of the note by ₱22,183,560 and ₱22,767,053 respectively.

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

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

The Bank CDS level is based on the closes available CDS maturity of the counterparty matched to the remaining maturity of the structured notes. Further, the Bank CDS, is a proxy for the funding cost of the counterparty which is considered as a significant unobservable input.

The above estimates are based on assumptions that, if altered, can change the analysis expressed herein. This shall not constitute a representation or warranty as to future performance of the structured notes. Further, past performance is not indicative of future results.

32. Insurance and Financial Risk Management

The primary objective of the Group's risk and financial management framework is to protect the Group's policyholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognizes the critical importance of having efficient and effective risk management systems in place.

The Group has established a risk management function with clear terms of reference from the BOT, its committees, and the associated executive management committees. This is supplemented with a clear organizational structure with documented delegated authorities and responsibilities from the BOT to executive management committees and senior managers. Lastly, a group policy framework which sets out the risk profiles for the Group, risk management, control, and business conduct standards for the Group's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Group.

The BOT approves the Group risk management policies and meets regularly to approve any commercial, regulatory, and organizational requirements of such policies. These policies define the Group's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

32.1. Regulatory Framework

A substantial portion of the Group's long term insurance business comprises policies where the investment risk is borne by policyholders. Risk attributable to policyholders is actively managed keeping in view their investment objectives and constraints. IC, the Group's leading regulator, is interested in protecting the rights of the policyholders and maintains close vigil to ensure that the Group is satisfactorily managing its affairs for their benefit. At the same time, the IC is also interested in ensuring that the Group maintains an appropriate solvency position to meet liabilities arising from claims and that the risks are at acceptable levels.

The operations of the Group are also subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., capital adequacy) to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise.

32.2. Insurance Risk

The risk under an insurance contract is the possibility of occurrence of an insured event and uncertainty of the amount and timing of the resulting claim. The principal risk the Group faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. The risks associated with the life insurance contracts are underwriting risk and investment risk.

32.2.1. *Underwriting risk*

Underwriting risk represents the exposure to loss resulting from actual policy experience adversely deviating from assumptions made in the product pricing. Underwriting risks are brought about by a combination of the following:

- Mortality risk - risk of loss arising due to policyholder death experience being different than expected; and
- Morbidity risk - risk of loss arising due to policyholder health experience being different than expected.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategies and guidelines.

The business of the Group primarily comprises life insurance contracts. For contracts where death is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle, and natural disasters, thus resulting in earlier or more claims than expected.

These risks currently do not vary significantly in relation to the location of the risk insured by the Group while undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

There are no mitigating terms and conditions that reduce the insured risk accepted for contracts with fixed and guaranteed benefits and fixed future premiums.

The Group has an objective to control and minimize insurance risk and to reduce volatility of operating profits. The Group manages insurance risk through the following mechanism:

- 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, refuse to pay premiums, or avail of the guaranteed annuity option. Thus, the resultant insurance risk is subject to the policyholders' behavior and decisions.

The Group's concentration of insurance risk before and after reinsurance in relation to the type of insurance contract is as follows:

	2017	2016
Whole Life		
Gross	**₱92,107,078,066**	₱94,242,760,806
Net	**82,091,383,960**	83,763,411,175
Endowment		
Gross	**24,992,460,199**	26,125,723,763
Net	**23,308,985,645**	24,070,265,463
Term Insurance		
Gross	**7,578,250,273**	8,976,733,618
Net	**7,364,850,845**	8,680,849,604
Group Insurance		
Gross	**83,212,537,280**	81,861,042,717
Net	**59,923,598,078**	49,266,372,404
Variable Life		
Gross	**71,446,279,552**	55,281,496,621
Net	**58,989,386,073**	46,462,157,829
Total		
Gross	**₱279,336,605,370**	₱266,487,757,525
Net	**₱231,678,204,601**	₱212,243,056,475

32.2.2. Life Insurance Contracts

a. *Assumptions*

Material judgment is required in determining the liabilities and in the choice of assumptions relating to insurance contracts. Assumptions 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. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations. Assumptions are subject to the provisions of the Code and guidelines set forth by the IC.

b. *Terms*

Life insurance contracts offered by the Group mainly include whole life, endowments, term insurance, group insurance, and variable insurance.

Whole life and term insurance are conventional products where lump sum benefits are payable upon death of insured.

Endowment products are investments/savings products where lump sum benefits are payable after a fixed period or upon death before the period is completed.

Group insurance policies are yearly renewable life plan products issued to corporate accounts that provide the beneficiaries of the insured employee cash proceeds in the event of the employee's death.

Variable life products provide, in addition to life insurance coverage, living benefit where payments are linked to units of an investment fund set up by the Company from the premiums paid by the policyholders.

For legal policy reserves, the following assumptions are used:

a. Mortality and morbidity rates
Assumptions on mortality and morbidity are based on the Group's actual experience. Rates are differentiated by age, underwriting class and product 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. These are based on the risk-free discount rates prescribed by IC. An increase in discount rate would result in decrease in liability that needs to be set up to meet obligations to policyholders.

c. Expenses
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.

d. Lapses rates
Assumptions on lapse are based on the Group's actual experience. These are differentiated by product type, annual premium level and duration of the policy. Higher lapse rates on lapse-supported products would translate to a decrease in the reserves that needs to be set-up.

32.2.3. Reinsurance Contracts

a. Terms and Assumptions

The Group limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on excess share basis with retention limits varying by issue age and underwriting classification.

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligation to its policyholders. Thus, a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

Neither the Group is dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any reinsurance contract.

Sensitivities

The application of the MfAD in the assumptions ensure that the resulting legal policy reserves will be sufficient. The scenarios tested involved increasing and decreasing one type of assumption by the recommended minimum MfAD while retaining the others constant at the original base run results. The tabulation of results below shows 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 flows to changes on various assumptions.

The analysis below is performed for a reasonable possible movement in key assumptions with all other assumptions held constant on the statements of income and members' equity.

	% Change from Base Run	
Scenario	**2017**	**2016**
Base Run	**0.00%**	–
Expense: 10% more	**2.57%**	2.95%
Interest: 10% more of discount rate	**-7.25%**	–
Interest: 10% less of discount rate	**8.38%**	8.45%
Mortality: 10% more	**0.77%**	0.78%
Mortality: 10% less	**-0.82%**	-0.82%
Persistency: 10% more	**-0.25%**	-0.33%
Persistency: 10% less	**0.26%**	0.34%
Expense: 10% more + Mixed Mortality	**3.50%**	3.89%
Expense: 10% more + Mixed Mortality + Mixed Lapse	**3.92%**	4.40%
Expense: 10% more + Lapse + Mixed Mortality + Interest: less 10% of discount rate	–	13.25%
Expense: 10% more + Mixed Mortality + Mixed Lapse + Mixed Interest	**12.68%**	–

32.3. <u>Financial Risk</u>

The Group is exposed to financial risk through its financial assets, financial liabilities, insurance assets, and insurance liabilities. In particular, the key financial risk that the Group is exposed to is that proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk, and market risk.

These risks arise from open positions in interest rate, currency, and equity products, all of which are exposed to general and specific market movements.

The Group has guidelines and procedures on fixed and equity investments. On fixed investments, the Group has to place its investment portfolio in negotiable instruments that will give high-yield, low-risks return without sacrificing the IC and the Group's requirements. The IC requirements state that the investment in fixed instruments shall only come from financial institutions or corporate entities with acceptable ratings from PhilRatings, or at least the rank is within the top 15, in case of banks. Meanwhile, investment in negotiable instruments involving reserve and surplus investments shall follow the guidelines set by the Code (Note 31). On equity investments, the Group has to place its investment portfolio in equity market that will give high-yield, low-risks return taking into account the IC and Group's requirements.

32.3.1. *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Key areas where the Group is exposed to credit risk pertain to the amounts due from the following:

- Reinsurers in respect of unpaid claims;
- Reinsurers in respect of claims already paid;
- Financial assets at FVPL;
- HTM financial assets;
- Loans and receivables;
- AFS financial assets; and
- Counterparty bank default on CCS agreement.

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 presented on the next below:

	2017	2016
Housing loans	**₱102,948,059**	₱164,001,750
Mortgage loans	**195,653,816**	104,134,088
Finance leases	**27,965,288**	42,397,848
Stock loans	**13,410,613**	27,312,534
Total	**₱339,977,776**	₱337,846,220

Financial effect is the lower of the carrying value of the financial asset or the fair value of the collateral for each financial asset.

Collaterals obtained by the Group are investment properties upon default on mortgage loans and housing loans. The fair value of the collaterals obtained where the Group has the right by contract or custom to sell the assets amounted to ₱304,248,983 and ₱361,556,131 for housing loans and mortgage loans as of December 31, 2017 and 2016, respectively.

Risk Concentrations of the Maximum Exposure to Credit Risk

The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved by the Division Heads.

The following table analyses the Group's concentration of credit risk in the Group's debt securities portfolio by industrial distribution as percentage of total debt securities:

	2017	2016
Property	**32%**	31%
Holding firms	**24%**	25%
Electricity, energy, power, and water	**15%**	15%
Financial institutions	**10%**	10%
Telecommunications	**8%**	9%
Tollways operation and maintenance	**8%**	8%
Food, beverage, and tobacco	**2%**	1%
Others	**1%**	1%
Total	**100%**	100%

The Group did not have any significant concentration of credit risk with a single counterparty or group of counterparties, and geographical segments as of December 31, 2017 and 2016.

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

	2017			
	Neither past due nor impaired			
	Investment Grade	Non-investment Grade	Past due or impaired	Total
Insurance receivables:				
Due premiums	₱198,500,629	₱–	₱–	₱198,500,629
Reinsurance assets	–	3,810,102	–	3,810,102
	198,500,629	3,810,102	–	202,310,731
Financial assets at FVPL:				
Equity securities - quoted	3,995,369,950	–	–	3,995,369,950
Under separate fund:				
Traditional VULs:				
Cash and cash equivalents	2,836,742,122	–	–	2,836,742,122
Quoted equity securities	18,791,738,886	–	–	18,791,738,886
Quoted debt securities				
Government:				
Local currency	1,821,846,029	–	–	1,821,846,029
Foreign currency	2,517,351,149	–	–	2,517,351,149
Corporate:				
Local currency	145,353,726	–	–	145,353,726
Foreign currency	135,357,725	–	–	135,357,725
Other receivables	136,793,924	–	–	136,793,924
Structured VULs:				
Local currency	702,944,015	–	–	702,944,015
Foreign currency	1,246,422,798	–	–	1,246,422,798
	32,329,920,324	–	–	32,329,920,324
AFS financial assets:				
Equity securities:				
Quoted	22,388,131,569	–	–	22,388,131,569
Unquoted	19,293,982	–	–	19,293,982
Debt securities - fixed rates:				
Quoted:				
Government:				
Local currency	10,625,852,326	–	–	10,625,852,326
Foreign currency	961,368,389	–	–	961,368,389
Corporate:				
Local currency	5,893,252,827	–	–	₱5,893,252,827
Foreign currency	286,741,238	–	–	286,741,238
	40,174,640,331	–	–	40,174,640,331
HTM financial assets				
Government:				
Local currency	14,389,383,053	–	–	₱14,389,383,053
Foreign currency	16,097,714	–	–	16,097,714
Corporate:				
Local currency	7,692,000,000	–	–	7,692,000,000
Foreign currency	247,742,335	–	–	247,742,335
	22,345,223,102	–	–	22,345,223,102
Loans and receivables:				
Cash and cash equivalents*	4,964,654,693	–	–	4,964,654,693
Term loans	7,837,759,412	–	–	7,837,759,412
Policy loans	5,349,584,206	–	–	5,349,584,206
Accounts receivable	2,982,398	1,433,738,757	25,507,249	1,462,228,404
Interest receivable	544,782,209	–	–	544,782,209
Housing loans	145,913,064	–	–	145,913,064
Mortgage loans	80,938,333	20,479,230	72,574,656	173,992,219
Car financing loans	39,941,820	–	–	39,941,820
Finance leases	11,749,916	5,707,556	10,607,517	28,064,989
Stock loans	9,539,463	258,334	5,611,290	15,409,087
Due from agents	–	3,482,912	2,783,226	6,266,138
Others	1,653,517	235,828,779	26,762,359	264,244,655
	18,989,499,031	1,699,495,568	143,846,297	20,832,840,896
	₱114,037,783,417	₱1,703,305,670	₱143,846,297	₱115,884,935,384

**Excluding cash on hand as of December 31, 2017.*

	2016			
	Neither past due nor impaired			
	Investment Grade	Non-investment Grade	Past due or impaired	Total
Insurance receivables:				
Due premiums	₱165,150,543	₱–	₱–	₱165,150,543
Reinsurance assets	–	5,152,732	–	5,152,732
	165,150,543	5,152,732	–	170,303,275
Financial assets at FVPL:				
Equity securities - quoted	3,994,787,310	–	–	3,994,787,310
Under separate fund:				
Traditional VULs:				
Cash and cash equivalents	2,981,555,219	–	–	2,981,555,219
Quoted equity securities	14,073,469,362	–	–	14,073,469,362
Quoted debt securities				
Government:				
Local currency	1,320,969,283	–	–	1,320,969,283
Foreign currency	2,557,421,911	–	–	2,557,421,911
Corporate:				
Local currency	112,074,589	–	–	112,074,589
Foreign currency	135,770,611	–	–	135,770,611
Other receivables	87,953,997	–	–	87,953,997
Structured VULs:				
Local currency	667,239,570	–	–	667,239,570
Foreign currency	1,194,709,761	–	–	1,194,709,761
	27,125,951,613	–	–	27,125,951,613
AFS financial assets:				
Equity securities:				
Quoted	23,747,346,679	–	–	23,747,346,679
Unquoted	443,910,660	–	–	443,910,660
Debt securities - fixed rates:				
Quoted:				
Government:				
Local currency	8,371,444,010	–	–	8,371,444,010
Foreign currency	937,455,298	–	–	937,455,298
Corporate:				
Local currency	4,831,787,154	–	–	4,831,787,154
Foreign currency	33,167,988	–	–	33,167,988
	38,365,111,789	–	–	38,365,111,789
HTM financial assets				
Government:				
Local currency	14,380,214,568	–	–	14,380,214,568
Foreign currency	16,114,009	–	–	16,114,009
Corporate:				
Local currency	7,838,411,277	–	–	7,838,411,277
Foreign currency	273,600,899	–	–	273,600,899
	22,508,340,753	–	–	22,508,340,753
Loans and receivables:				
Cash and cash equivalents*	7,864,214,320	–	–	7,864,214,320
Term loans	7,910,880,882	–	–	7,910,880,882
Policy loans	5,424,707,120	–	–	5,424,707,120
Accounts receivable	4,836,064	1,133,538,280	23,363,856	1,161,738,200
Interest receivable	478,999,419	–	–	478,999,419
Housing loans	143,732,522	–	–	143,732,522
Mortgage loans	58,516,062	17,841,269	11,666,543	88,023,874
Car financing loans	37,157,110	–	–	37,157,110
Finance leases	15,014,523	8,707,350	9,101,078	32,822,951
Stock loans	18,087,562	1,082,856	5,303,206	24,473,624
Due from agents	–	3,489,074	4,352,635	7,841,709
Others	1,362,862	296,028,054	6,109,067	303,499,983
	21,957,508,446	1,460,686,883	59,896,385	23,478,091,714
	₱110,122,063,144	₱1,465,839,615	₱59,896,385	₱111,647,799,144

**Excluding cash on hand as of December 31, 2016.*

The Group uses a credit rating concept based on the borrowers' and counterparties' overall creditworthiness, as follows:

i. Investment grade - rating given to borrowers and counterparties who possess strong to very strong capacity to meet their obligations.

ii. Non-investment grade - rating given to borrowers and counterparties who possess above average capacity to meet their obligations.

The following tables provide the breakdown of past due financial assets as of December 31:

	2017					
	Past due but not impaired					
	Less than 30 days	**31 to 60 days**	**More than 60 days**	**Total**	**Past due and impaired**	**Total**
Loans and receivables:						
Accounts receivable	**₱5,196,971**	**₱914,352**	**₱4,770,279**	**₱10,881,602**	**₱14,625,647**	**₱25,507,249**
Mortgage loans	**51,915,363**	**11,706,257**	**8,016,708**	**71,638,328**	**936,328**	**72,574,656**
Finance leases	**2,974,041**	**2,650,348**	**4,883,427**	**10,507,816**	**99,701**	**10,607,517**
Stock loans	**1,919,679**	**1,003,387**	**689,750**	**3,612,816**	**1,998,474**	**5,611,290**
Due from agents	**–**	**–**	**–**	**–**	**2,783,226**	**2,783,226**
Others	**15,644,677**	**8,352,826**	**532,192**	**24,529,695**	**2,232,664**	**26,762,359**
	₱77,650,731	**₱24,627,170**	**₱18,892,356**	**₱121,170,257**	**₱22,676,040**	**₱143,846,297**

	2016					
	Past due but not impaired					
	Less than 30 days	31 to 60 days	More than 60 days	Total	Past due and impaired	Total
Loans and receivables:						
Accounts receivable	₱3,024,764	₱791,744	₱5,007,995	₱8,824,503	₱14,539,353	₱23,363,856
Mortgage loans	2,551,266	4,361,844	4,340,916	11,254,026	412,517	11,666,543
Finance leases	3,824,040	2,438,642	2,485,782	8,748,464	352,614	9,101,078
Stock loans	1,476,192	592,417	395,688	2,464,297	2,838,909	5,303,206
Due from agents	–	–	–	–	4,352,635	4,352,635
Others	2,785,408	722,209	1,250,964	4,758,581	1,350,486	6,109,067
	₱13,661,670	₱8,906,856	₱13,481,345	₱36,049,871	₱23,846,514	₱59,896,385

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

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

32.3.2. *Liquidity Risk*

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

The major liquidity risk confronting the Group is the matching of available cash resources in respect of claims arising from insurance contracts.

The Group manages liquidity through a group liquidity risk policy which determines what constitutes liquidity risk for the Group, specifies minimum proportion of funds to meet emergency calls, sets up contingency funding plans, specifies the sources of funding and the events that would trigger the plan, determines concentration of funding sources, reports of liquidity risk exposures and breaches to the monitoring authority, monitors compliance with liquidity risk policy, and reviews liquidity risk policy for pertinence and changing environment.

The amounts disclosed in the maturity analysis of financial assets used to manage liquidity, insurance liabilities, and financial liabilities of the Group are the contractual undiscounted cash flows based on the remaining period at the reporting date to their contractual maturities or expected repayment dates

The following tables provide the maturity analysis of financial assets and liabilities:

			2017		
	Up to a year	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
Financial assets:					
Cash and cash equivalents	**₱4,965,844,081**	**₱–**	**₱–**	**₱–**	**₱4,965,844,081**
Insurance Receivables	**202,310,731**	**–**	**–**	**–**	**202,310,731**
Financial assets at FVPL	**25,746,049,929**	**1,781,114,239**	**1,642,548,205**	**4,844,775,293**	**34,014,487,666**
AFS financial assets	**38,052,696,697**	**3,583,789,359**	**2,214,168,950**	**19,519,419,878**	**63,370,074,884**
HTM financial assets	**1,750,734,843**	**6,473,926,435**	**3,096,436,685**	**29,586,434,740**	**40,907,532,703**
Loans and receivables	**3,398,068,650**	**2,396,198,038**	**3,503,701,315**	**6,954,658,890**	**16,252,626,893**
Total financial assets	**74,115,704,931**	**14,235,028,071**	**10,456,855,155**	**60,905,288,801**	**159,712,876,958**
Financial liabilities:					
Insurance liabilities:					
Legal policy reserves	**3,579,113,495**	**4,949,410,300**	**4,236,578,466**	**49,607,910,535**	**62,373,012,796**
Derivative liability	**35,908,235**	**–**	**–**	**–**	**35,908,235**
Other insurance liabilities:					
Members' deposits and other funds on deposit	**26,167,183,778**	**814,058,501**	**972,642,451**	**4,945,903,336**	**32,899,788,066**
Claims pending settlement	**2,079,797,473**	**–**	**–**	**–**	**2,079,797,473**
Reserve for dividends to members	**6,703,306**	**–**	**–**	**–**	**6,703,306**
	28,253,684,557	**814,058,501**	**972,642,451**	**4,945,903,336**	**34,986,288,845**
Other financial liabilities:					
Accrued expenses and other liabilities:					
Accounts payable	**563,879,637**	**–**	**354,994,600**	**126,283,518**	**1,045,157,755**
Accrued employee benefits	**101,199,146**	**–**	**–**	**354,650,586**	**455,849,732**
Commissions payable	**117,716,506**	**–**	**–**	**–**	**117,716,506**
General expenses due and accrued	**78,008,747**	**–**	**–**	**–**	**78,008,747**
Others	**10,803,377**	**–**	**–**	**30,264,772**	**41,068,149**
	871,607,413	**–**	**354,994,600**	**511,198,876**	**1,737,800,889**
Total financial liabilities	**32,740,313,700**	**5,763,468,801**	**5,564,215,517**	**55,065,012,747**	**99,133,010,765**
Liquidity position	**₱41,375,391,231**	**₱8,471,559,270**	**₱4,892,639,638**	**₱5,840,276,054**	**₱60,579,866,193**

**Excluding unearned membership fees of I-Care amounting to ₱110,620,689*

	2016				
	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Financial assets:					
Cash and cash equivalents	₱7,864,611,077	₱–	₱–	₱–	₱7,864,611,077
Insurance Receivables	170,303,275	–	–	–	170,303,275
Financial assets at FVPL	21,290,236,184	1,166,858,303	1,863,807,663	4,905,991,760	29,226,893,910
AFS financial assets	37,792,469,612	2,387,347,320	1,827,404,170	17,508,733,434	59,515,954,536
HTM financial assets	1,927,689,819	4,007,848,252	5,797,225,490	30,791,887,077	42,524,650,638
Loans and receivables	1,851,485,916	1,314,925,617	3,443,763,524	9,164,225,860	15,774,400,917
Total financial assets	70,896,795,883	8,876,979,492	12,932,200,847	62,370,838,131	155,076,814,353
Financial liabilities:					
Insurance liabilities:					
Legal policy reserves	9,809,220,620	4,122,050,333	5,238,297,330	45,893,974,369	65,063,542,652
Derivative liability	34,807,709	–	–	–	34,807,709
Other insurance liabilities:					
Members' deposits and other funds on deposit	21,246,085,299	697,947,257	461,942,384	5,902,800,567	28,308,775,507
Claims pending settlement	1,859,741,059	–	–	–	1,859,741,059
Reserve for dividends to members	7,983,375	–	–	–	7,983,375
	23,113,809,733	697,947,257	461,942,384	5,902,800,567	30,176,499,941
Other financial liabilities:					
Accrued expenses and other liabilities:					
Accrued employee benefits	51,376,338	–	–	438,175,493	489,551,831
Accounts payable	660,221,117	–	–	–	660,221,117
General expenses due and accrued	61,053,700	–	–	–	61,053,700
Commissions payable	88,050,296	–	–	–	88,050,296
Others	36,985,660	–	–	–	36,985,660
	897,687,111	–	–	438,175,493	1,335,862,604
Total financial liabilities	33,855,525,173	4,819,997,590	5,700,239,714	52,234,950,429	96,610,712,906
Liquidity position	₱37,041,270,710	₱4,056,981,902	₱7,231,961,133	₱10,135,887,702	₱58,466,101,447

**Excluding unearned membership fees of I-Care amounting to ₱80,106,666*

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

32.3.3. *Market Risk*

Market risk is the risk of change in fair value of financial instruments from fluctuations in market interest rates (fair value interest rate risk), market prices (equity price risk), and foreign exchange rates (currency risk) whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The following policies and procedures are in place to mitigate the Group's exposure to market risk:

- 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.

a. *Fair Value Interest Rate Risk*

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group's fixed rate investments in particular are exposed to such risk.

The following tables show the information relating to the Company's exposure to fair value interest rate risk:

					2017			
					Maturity			
Fixed Rate Instruments	**Effective Interest Rate**	**In 1 year or less**	**More than 1 year but not 2 years**	**More than 2 years but not 3 years**	**More than 3 years but not 4 years**	**More than 4 years but not 5 years**	**More than 5 years**	**Total**
Financial assets at FVPL - debt securities								
Government:								
Local currency	**2.1% - 8.0%**	**₱49,855,822**	**₱91,600,538**	**₱201,549,027**	**₱160,285,135**	**₱197,889,896**	**₱1,120,665,611**	**₱1,821,846,029**
Foreign currency	**3.7% - 10.6%**	**–**	**97,870,595**	**70,751,273**	**68,155,926**	**–**	**2,280,573,355**	**2,517,351,149**
Corporate:								
Local currency	**5.0% - 6.1%**	**–**	**–**	**–**	**–**	**–**	**145,353,726**	**145,353,726**
Foreign currency	**4.3% - 7.3%**	**–**	**42,670,185**	**51,249,452**	**–**	**–**	**41,438,088**	**135,357,725**
Structured VULs:								
Local currency	**1.5%**	**–**	**281,415,515**	**–**	**421,528,500**	**–**	**–**	**702,944,015**
Foreign currency	**1.5% - 2.5%**	**–**	**278,993,437**	**146,354,267**	**364,329,567**	**456,745,527**	**–**	**1,246,422,798**
AFS debt securities:								
Quoted:								
Government:								
Local currency	**4.0% - 8.0%**	**–**	**1,048,269,493**	**1,006,031,349**	**–**	**154,211,276**	**8,417,340,208**	**10,625,852,326**
Foreign currency	**6.0% - 10%**	**–**	**–**	**–**	**–**	**–**	**961,368,389**	**961,368,389**
Corporate :								
Local currency	**3.9% - 5.3%**	**–**	**–**	**–**	**490,200,858**	**298,674,399**	**5,104,377,570**	**5,893,252,827**
Foreign currency	**5.1% - 7.3%**	**–**	**31,944,230**	**–**	**–**	**–**	**254,797,008**	**286,741,238**
		₱49,855,822	**₱1,872,763,993**	**₱1,475,935,368**	**₱1,504,499,986**	**₱1,107,521,098**	**₱18,325,913,955**	**₱24,336,490,222**

					2016			
					Maturity			
Fixed Rate Instruments	Effective Interest Rate	In 1 year or less	More than 1 year but not 2 years	More than 2 years but not 3 years	More than 3 years but not 4 years	More than 4 years but not 5 years	More than 5 years	Total
Financial assets at FVPL - debt securities								
Government:								
Local currency	2.0% - 8.0%	₱–	₱49,357,716	₱42,662,674	₱52,716,455	₱162,510,291	₱1,013,722,147	₱1,320,969,283
Foreign currency	4.0% - 11.0%	45,022,235	–	104,369,093	73,504,910	69,029,560	2,265,496,113	2,557,421,911
Corporate:								
Local currency	6%	–	–	–	–	–	112,074,589	112,074,589
Foreign currency	4.0% - 7.0%	–	–	44,345,127	50,701,166	–	40,724,318	135,770,611
Structured VULs:								
Local currency	2.0% - 4.0%	–	–	261,928,570	–	405,311,000	–	667,239,570
Foreign currency	1.0% - 4.0%	–	–	274,016,332	139,964,567	349,348,282	431,380,580	1,194,709,761
AFS debt securities:								
Quoted:								
Government:								
Local currency	4.0% - 9.0%	30,607,522	–	1,060,785,718	–	–	7,280,050,770	8,371,444,010
Foreign currency	6.0% - 10.0%	–	–	–	–	–	937,455,298	937,455,298
Corporate :								
Local currency	4.0% - 8.0%	101,322,852	–	–	150,365,720	345,257,538	4,234,841,-044	4,831,787,154
Foreign currency	7%	–	33,167,988	–	–	–	–	33,167,988
		₱176,952,609	₱82,525,704	₱1,788,107,514	₱467,252,818	₱1,331,456,671	₱16,315,744,859	₱20,162,040,175

The table in the next page provides 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.

		Changes in variable	Effect on income before tax	Effect on equity
2017	**USD**	**+ 25 basis points**	**(₱2,755,428)**	**(₱28,993,242)**
	PHP	**+ 25 basis points**	**(387,061)**	**(256,856,774)**
	USD	**- 25 basis points**	**2,844,447**	**30,282,049**
	PHP	**- 25 basis points**	**394,754**	**263,425,936**
2016	USD	+ 25 basis points	(₱2,837,401)	(₱26,725,832)
	PHP	+ 25 basis points	(570,266)	(227,982,662)
	USD	- 25 basis points	3,004,835	28,105,533
	PHP	- 25 basis points	583,025	234,133,588

The impact on the Company's equity already excludes the impact on transactions affecting profit or loss and deferred tax.

The use of +/-25 basis points is a reasonably possible change in the market value of the debt securities.

The following table provides the sensitivity analysis of the fair value of the CCS and its effect on income before income tax, and equity due to changes in interest rates as of December 31, 2017 and 2016, respectively.

	CCS Leg	Changes in variable	Effect on income before tax
2017	**Peso Interest Rate**	**Increase by 25 basis points**	**₱327,231**
	Peso Interest Rate	**Decrease by 25 basis points**	**308,552**
	USD Interest Rate	**Increase by 25 basis points**	**306,774**
	USD Interest Rate	**Decrease by 25 basis points**	**(329,011)**
2016	Peso Interest Rate	Increase by 25 basis points	₱866,045
	Peso Interest Rate	Decrease by 25 basis points	836,450
	USD Interest Rate	Increase by 25 basis points	833,712
	USD Interest Rate	Decrease by 25 basis points	(868,786)

b. *Equity Price Risk*

The Company's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, AFS financial 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 analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of financial assets whose fair values are recorded in the statements of income and statements of changes in members' equity).

	Change in PSEi index	Effect on income before tax	Effect on Equity
2017	**Increase by 5%**	**₱70,852,498**	**₱960,329,850**
	Decrease by 5%	**(70,852,498)**	**(960,329,850)**
2016	Increase by 5%	₱86,873,423	₱1,182,723,187
	Decrease by 5%	(86,873,423)	(1,182,723,187)

The impact on the Company's equity already excludes the impact on transactions affecting profit or loss and deferred tax.

Risk Concentrations of the Maximum Exposure to Equity Price Risk

The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each industry or sector.

The table below analyses the Company's concentration of equity price risk in the Company's equity portfolio by industrial distribution as percentage of total equity securities.

	2017	2016
Electricity, energy, power, and water	**32%**	28%
Financial institutions	**30%**	40%
Holding firms	**11%**	10%
Food, beverage, and tobacco	**8%**	7%
Property	**7%**	5%
Telecommunications	**4%**	4%
Others	**8%**	6%
Total	**100%**	100%

32.3.4. *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 Company's foreign currency-denominated assets and liability as of December 31 consist of the following:

	2017		2016	
	United States Dollar Value	**Peso Equivalent**	United States Dollar Value	Peso Equivalent
Assets				
Cash and cash equivalent	**$18,687,372**	**₱932,929,672**	$24,877,921	₱1,239,243,879
Financial assets at FVPL	**86,784,184**	**4,332,526,807**	84,550,601	4,211,719,065
AFS financial assets	**39,449,707**	**1,969,447,714**	33,150,179	1,651,309,867
HTM financial assets	**5,284,940**	**263,840,049**	5,816,050	289,714,899
	$150,206,203	**₱7,498,744,242**	$148,394,751	₱7,391,987,710
Liability				
Derivative liability	**$719,272**	**₱35,908,235**	$698,768	₱34,807,709
Legal policy reserves	**397,736**	**19,856,174**	418,285	20,836,031
	$1,117,008	**₱55,764,409**	$1,117,053	₱55,643,740

The foregoing United States Dollar amounts have been restated to their Peso equivalents using the exchange rate of ₱49.923 and ₱49.813 to US$1, as recommended by IC, as of December 31, 2017 and 2016, respectively. Net foreign exchange gain (loss) amounted to (₱2,690,121) in 2017 and ₱180,964,172 in 2016.

The analysis in the next page is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on income before tax (due to changes in fair value of currency sensitive monetary assets and liabilities).

	Change in USD – PHP exchange rate	Effect on income before tax
2017	**Increase by 4.03%**	**₱3,102,224,675**
	Decrease by 4.03%	**(3,102,224,675)**
2016	Increase by 2.68%	₱1,728,694,083
	Decrease by 2.68%	(1,728,694,083)

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

The table below provide the sensitivity analysis of the fair value of the CCS and its effect on income before income tax, and equity due to changes in foreign currency rates as of December 31, 2017 and 2016, respectively.

	Change in PSEi index	Effect on income before tax	Effect on Equity
2017	**Increase by 4.03%**	**(₱10,059,485)**	**(₱7,041,640)**
	Decrease by 4.03%	**10,059,485**	**7,041,640**
2016	Increase by 2.68%	(₱6,774,568)	(₱4,672,459)
	Decrease by 2.68%	6,774,568	4,672,459

33. Capital Management and Regulatory Requirements

33.1. Capital Management Framework

The Group manages its capital through its compliance with the statutory requirements on minimum members' equity. The Parent Company is also complying with the statutory regulations on Amended Risk-Based Capital (RBC2) Framework to measure the adequacy of its statutory surplus in relation to the risks inherent in its business. The RBC2 method involves developing a risk-adjusted target level of statutory surplus by applying certain factors to various asset, premium, and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. The target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations.

The Group considers its total retained earnings amounting to ₱26,289,386,092 and ₱21,460,213,218 as of December 31, 2017 and 2016 (as restated), respectively, as its capital.

The Group manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Group's activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to policyholders.

To ensure compliance with these externally imposed capital requirements, it is the Group's policy to monitor fixed capital requirements, and RBC2 requirements on a quarterly basis as part of Group's internal financial reporting process.

The Group and the Parent Company fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its objectives, policies, and processes from the previous year.

As of December 31, the estimated amount of nonadmitted assets of the Parent Company, as defined under the Code, which are included in the accompanying statements of financial position, follows:

	2017	2016
Property and equipment	**₱167,980,223**	₱153,564,336
Accounts receivable and other assets	**2,502,149,338**	1,236,281,081
	₱2,670,129,561	₱1,389,845,417

In 2016 audit, IC computed Parent Company's Capital and Minimum Members' Equity Requirement amounting to ₱550,000,000 and ₱43,380,618,078, respectively.

33.1.1. *Minimum Members' Equity Requirements*

IC CL No. 2017-14 provides for the minimum members' equity requirements for all mutual life insurance companies on a staggered basis for the years ended December 31, 2016 up to 2022. The term "Members' Equity/Owners' Equity" is equal to the total company assets minus total company liabilities which shall remain unimpaired at all times. The table below shows the amount of minimum total members' equity and schedule of compliance per IC CL No. 2017-14.

Minimum Total Members' Equity	Compliance Date
₱550,000,000	31 December 2016
990,000,000	31 December 2019
1,300,000,000	31 December 2022

As of December 31, 2017 and 2016, the Parent Company's members' equity is ₱40,983,411,773 and ₱36,364,643,617 (as restated), respectively.

33.1.2. *Amended Risk-Based Capital Requirements*

In December 2016, the IC issued Circular Letter No. 2016-68 on Amended Risk-Based Capital (RBC2) Framework adopting a three (3) pillar risk-based approach to solvency. Under Pillar 1, all insurance companies are required to maintain the minimum RBC ratio of 100% and not fail the Trend Test. Failure to meet the required minimum RBC Ratio based on quarterly and annual submissions shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as Total Available Capital divided by the RBC requirement. Total Available Capital shall include the Parent Company's paid-up capital, contributed and contingency surplus, and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of Total Available Capital only to the extent authorized by the IC.

As of December 31, 2017, the Parent Company's Capital Adequacy Ratio under RBC2 Framework is equivalent to 182% with Total Available Capital and RBC requirement amounting to ₱41,175,775,862 and ₱22,668,259,238, respectively. This is compliant with the minimum statutory requirement of 100%.

The final amount of the RBC ratio can be determined only after the accounts of the Parent Company has been examined by the IC specifically as to admitted and nonadmitted assets as defined under the Amended Insurance Code. Based on the result of the 2016 audit of IC, the Parent Company's RBC ratio under the old Insurance Memorandum Circular

No. 6-2006 as of December 31, 2016, was equivalent to 256% (i.e. with net worth and aggregate RBC requirement amounting to ₱43,380,618,078 and ₱16,971,379,591, respectively), which is in compliance with the required RBC ratio set forth by the Code.

34. Maturity Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recorded or settled:

	2017		
	Less than 12 months	**Over 12 months**	**Total**
ASSETS			
Cash and Cash Equivalents	**₱4,965,844,081**	**₱–**	**₱4,965,844,081**
Insurance Receivables	**202,310,731**	**–**	**202,310,731**
Financial Assets:			
Fair value through profit or loss	**25,513,189,331**	**6,519,419,627**	**32,032,608,958**
Available-for-sale	**22,406,722,550**	**17,767,917,781**	**40,174,640,331**
Held-to-maturity	**279,538,640**	**22,065,684,462**	**22,345,223,102**
Loans and receivables	**2,203,605,219**	**13,641,904,944**	**15,845,510,163**
Investments in Subsidiaries and Associates	**–**	**10,343,606,515**	**10,343,606,515**
Investment Properties	**–**	**7,905,810,966**	**7,905,810,966**
Property and Equipment	**–**	**809,584,589**	**809,584,589**
Retirement Benefits Asset	**–**	**86,559,091**	**86,559,091**
Deferred Income Tax Assets - net	**–**	**76,037,920**	**76,037,920**
Other Assets	**82,997,353**	**1,031,029,463**	**1,114,026,816**
Total assets	**₱55,654,207,905**	**₱80,247,555,358**	**₱135,901,763,263**
LIABILITIES			
Legal Policy Reserves	**₱3,579,113,495**	**₱58,793,899,301**	**₱62,373,012,796**
Derivative Liability	**35,908,235**	**–**	**35,908,235**
Other Insurance Liabilities	**28,253,684,557**	**6,732,604,288**	**34,986,288,845**
Accrued Expenses and Other Liabilities	**871,607,413**	**1,101,084,662**	**1,972,692,075**
Retirement Benefits Liability	**–**	**2,806,221**	**2,806,221**
Deferred Income Tax Liabilities - net	**–**	**175,599**	**175,599**
Total liabilities	**₱32,740,313,700**	**₱66,630,570,071**	**₱99,370,883,771**

	2016		
	Less than 12 months	Over 12 months	Total
ASSETS			
Cash and Cash Equivalents	₱7,864,611,077	₱–	₱7,864,611,077
Insurance Receivables	170,303,275	–	170,303,275
Financial Assets:			
Fair value through profit or loss	21,079,392,391	5,943,163,492	27,022,555,883
Available-for-sale	24,320,165,938	14,044,945,851	38,365,111,789
Held-to-maturity	428,549,683	22,079,791,070	22,508,340,753
Loans and receivables	1,610,984,253	13,979,046,627	15,590,030,880
Investments in Subsidiaries and Associates	–	9,117,892,365	9,117,892,365
Investment Properties	–	8,117,694,965	8,117,694,965
Property and Equipment	–	285,888,862	285,888,862
Retirement Benefits Asset	–	1,076,542	1,076,542
Deferred Income Tax Assets - net	–	559,980,063	559,980,063
Other Assets	40,743,218	147,889,121	188,632,339
Total assets	₱55,514,749,835	₱74,277,368,958	₱129,792,118,793
LIABILITIES			
Legal Policy Reserves	₱9,809,220,620	₱55,254,322,032	₱65,063,542,652
Derivative Liability	34,807,709	–	34,807,709
Other Insurance Liabilities	23,417,216,398	6,759,283,543	30,176,499,941
Accrued Expenses and Other Liabilities	146,247,394	1,336,061,804	1,482,309,198
Retirement Benefits Liability	–	288,880,645	288,880,645
Deferred Income Tax Liabilities - net	–	159,672	159,672
Total liabilities	₱33,407,492,121	₱63,638,707,696	₱97,046,199,817

35. Other Matters

IIC entered into certain pre-arranged 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 the Company that involves a complaint for specific performance and sum of money amounting to ₱90.0 million. As counterclaims, the Company 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.

The Company 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. The other party then appealed the case to the Court of Appeals on March 2, 2009.

On March 23, 2012, the Court of Appeals rendered a decision denying the other party's appeal. The Motion for Reconsideration filed by the other party was likewise denied by the Court of Appeals on June 27, 2012. The other party appealed the Court of Appeals' decision to the Supreme Court. Last February 11, 2013, the Supreme Court decided to reinstate the case before the Regional Trial Court (RTC) of Manila, Branch 28.

As of March 22, 2018, the case is still pending at the RTC Manila, Branch 28.

THE INSULAR GROUP OF COMPANIES

The Insular Life Assurance Company, Ltd.
Holding Company, life insurance underwriting

SUBSIDIARIES

Insular Health Care, Inc.
Health Maintenance Organization (HMO)

HomeCredit Mutual Building & Loan Association, Inc.
Mutual Building and Loan Association

Insular Investment Corporation (IIC)
Investment Banking

IIC SUBSIDIARIES:

Insular Property Ventures, Inc.
Residential/Commercial Development

IIC Properties, Inc.
Residential/Commercial Development

Insular Life Management and Development Corporation (ILMADECO)
Management Services

ILMADECO SUBSIDIARY:

ILAC General Insurance Agency, Inc.
General Agency

Insular Life Property Holdings, Inc.
Real Estate

AFFILIATES

Union Bank of the Philippines
Universal Banking

MAPFRE Insular Insurance Corporation
Non-life Insurance Underwriting

PPI Prime Venture, Inc.
Real Estate

SOCIAL COMMITMENT

Insular Foundation, Inc.
Corporate Social Responsibility

What is
INLIFE for Good?

Insular Life is Inlife!

To be Inlife is to be inspired. To be inspired means to be able to enjoy the present while taking charge for what tomorrow may bring.

In 2017 we celebrated our 107th anniversary, where we officially introduced our newest corporate tagline – Inlife for Good.

Inlife for good is more than a tagline. It is a mirror of what we stand for and what we do as an organization.

As we reflect on our role in the community, these past one hundred years of service have given us the perspective to look through our core and find that our business – that of securing lives, providing peace of mind and security to families over generations -- is inherently good for policyholders, the community, and our country.

We have always shared the bounty of our blessings, the joys of our success and the prosperity of our business to efforts that uplift the individual, the community and the nation, for the common good, for the higher good.

We recognize too, that as a Filipino company, we are here to stay; we are here to journey with our people no matter the circumstances, no matter the challenges, no matter the obstacles. We are here for good.

Insular Life, indeed, is Inlife for Good!

inlife
for good

THE INSULAR LIFE ASSURANCE COMPANY, LTD.

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YouTube:	www.youtube.com/Insularlifecomph