The Insular Life Assurance Company, Ltd. and Subsidiaries

(A Domestic Mutual Life Insurance Company)

Consolidated Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report

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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.

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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.

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

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.

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

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 (Note 28)	**(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 Non-controlling Interest (Note 28)	Total
BALANCES AT DECEMBER 31, 2015, as previously reported	**₱2,693,114,649**	**₱106,020,601**	**(₱1,275,049,049)**	**₱34,644,560**	**₱25,172,295**	**₱304,954,486**	**₱3,226,537**	**₱–**	**₱250,000,000**	**₱21,425,758,016**	**₱23,567,842,095**	**₱151,650,745**	**₱23,719,492,840**
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)**	**₱550,000,000**	**₱20,910,213,218**	**₱32,591,517,118**	**₱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**	**₱–**	**₱550,000,000**	**₱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.

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

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 Financial Statements.

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

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:

Category	Year	Amount of transaction during the year	Outstanding Balance: Due From	Outstanding Balance: Due to	Outstanding Balance: 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 Term Loan	**2017**	**2,766,667**	**1,416,667**	–	–	**unsecured; unguaranteed;**
	2016	150,000	150,000	–	–	**no impairment**
Common Overhead	**2017**	**10,433,569**	**-**	–	–	**30-day; noninterest-**
	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 Revenue	**2017**	**2,110,190**	–	–	–	
	2016	2,310,298	–	–	–	
Leasehold Improvement	**2017**	–	–	–	–	**30-day; noninterest-**
	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 Revenue	**2017**	**66,119,356**	–	–	–	
	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 during the year (Note 10)	**2017**	**1,000,000,000**	–	–	**976,089,686**	**noninterest bearing; settled**
	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

Financial performance	Years Ended December 31 **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.*

Cash flows	Years Ended December 31 **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.