 **Philippine National Bank**

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 **PNB**
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2017
ANNUAL REPORT

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Our Insurance Solutions

Fire and Natural Perils
Motor Car
Personal Accident
Engineering
Marine
Casualty
Surety

Our Mission

We are a dynamic company providing and continuously developing a wide range of highly innovative and superior products and services.

The needs of our customers, the welfare of our employees, the requirements of our shareholders, and the support of our business partners including our re-insurers, brokers and agents are our utmost concerns.

Our Vision

We will provide our shareholders with total returns superior to our peers, by building on our core capabilities. In doing so will be acknowledged as

- One of the leading non-life insurance companies in the Philippines;
- One of the "top 3" in leadership position in our chosen market segments;
- A company setting the standards others aspire to achieve;
- A company known for superb management of our business, in terms of execution, commitment and entrepreneurial drive.

About Us

PNB General Insurers Co., Inc. (the Company) is a subsidiary of Philippine National Bank (PNB or ultimate parent company). The Company was incorporated in the Philippines on December 29, 1965. PNB has 66% direct ownership in the company. PNB Holdings Corporation, a wholly owned subsidiary of PNB owns the remaining 34%. Both PNB Holdings Corp. and PNB are incorporated in the Philippines. The Company's principal place of business is 2nd Floor, PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City.

The Company is engaged in fire, marine, motor car, fidelity and surety, and all other kinds of non-life insurance business.

Message from the Chairman and the President



Felix Enrico R. Alfiler
Chairman

Perfecto M. Domingo
President
(appointed effective April 02, 2018)

We are pleased to announce that PNBGen performed well and sustained its profitability in 2017, delivering excellent results particularly with a return on equity (RoE) of 8.79% and combined ratio of 96.12%. As a result, PNBGen registered a net income of Php69.53 Million in 2017, higher than the Php66.50 Million (as restated) in 2016 by 4.56%. Total gross premiums written reached Php2.48 Billion, higher by 11.91% than what was produced in 2016. In 2017, PNBGen was ranked 9th, in terms of gross revenue, as against rank 10th in 2016.

Claims incurred, net commission and underwriting and general and administrative expenses were fairly low and were better than targets enabling PNBGen to register the lowest combined ratio among major insurers. This, despite slight increases in both claims and expense ratios due to lower net premiums earned.

PNBGen continued to efficiently manage its expenses that contributed on our results.

PNBGen's gross reinsurance results were also outstanding due to minimal claim incidents thereby, generating profits to its treaty reinsurer. Except for some earthquakes that occurred in different parts of the country, overall weather conditions throughout the year were relatively favourable.

The PNBGen's impressive result is a testament of its strategy launched four years ago aimed to recover from losses of prior years, through sustained profitability by addressing relevant issues that affect the very core of its operations. In an era of minimal interest rates and challenging investment environment, PNBGen leveled up on its capabilities, in terms of human resource and organizational capabilities to deliver solid and consistent underwriting results. As what we had affirmed more than a year ago, our past difficulties no longer impacted our performance in 2017 due to the remedies which were undertaken back then. Chief among these were the review of our reserves and the efficient claims settlement, our decision to stay away from businesses with higher than normal acquisition costs, review of our long outstanding receivables and payables, and partnering with highly secured reinsurance markets.

Being one of the known companies in its chosen segment, PNBGen continues to strive harder to become one of the most preferred non-life insurance companies in the Philippines.

As we move forward, PNBGen will execute its strategic priorities in the coming years to achieve stable and profitable growth. We will focus on the retail market through the further development of group business and the different distribution channels. We will also create products to cater to the needs of our clients and strengthen relationship with our intermediaries. We will put emphasis in improving customer service through the use of technology and enhancement of our internal processes. Our people are our greatest assets and we will continuously provide them training opportunities.

In behalf of the Board of Directors, allow us to thank you, our valued customers for your continued trust and confidence to the company. Your patronage is what drives and inspires every employee, the Management, the Board of Directors and the parent Bank to improve more and work harder to provide you the best quality service. We also thank all our business partners who have been loyal and have stayed with us over the years.

Financial Highlights

Key facts and figures
as of 31 December 2017
in Philippine Peso

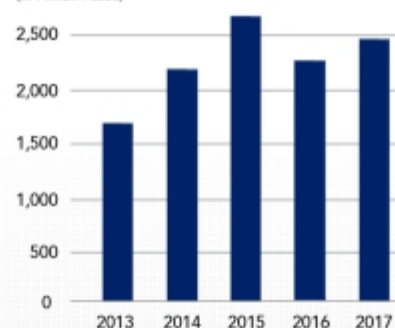
916_M
Equity

2.48_B
Gross Premium Written

853_M
Gross Underwriting Income

(In Million Pesos)	2017	2016	2015	2014	2013
Gross Premiums Written	2,485	2,220	2,581	2,170	1,607
Net Underwriting Income	232	246	15	240	(997)
Claims Incurred	319	297	385	111	1,280
Net Income	70	67	(473)	5	(868)
Investments	1,356	928	975	1,107	476
Total Assets	7,637	7,071	7,396	8,037	7,666
Equity	916	662	597	1,075	434
Paid-up Capital	913	913	913	913	313

Gross Premiums Written
(In Million Pesos)



Operational Highlights

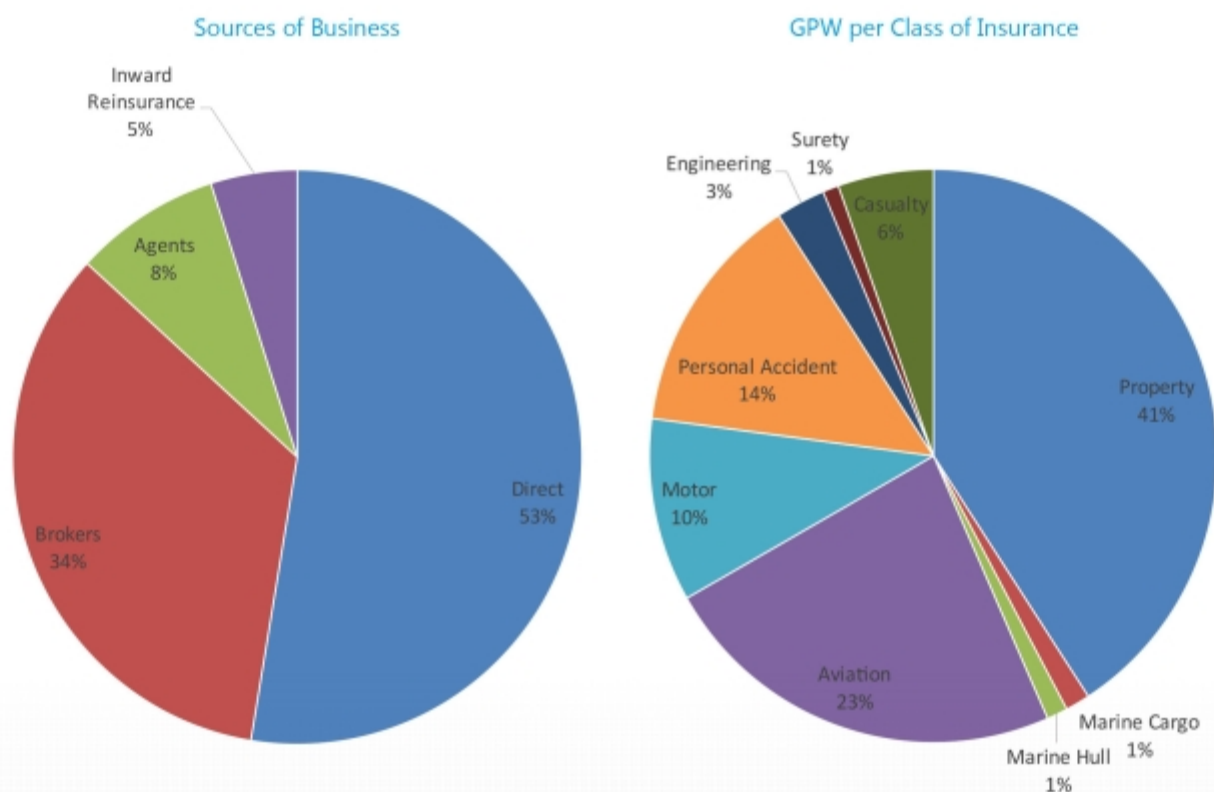
PNBGen improved its risk-based capital (RBC) position and exceeded bottom line expectations in 2017. RBC ratio increased to 262%, significantly higher than the minimum regulatory requirement of 100% with available Total Capital of Php850 Million over RBC Requirement of Php324 Million.

Revenues

Gross premiums written (GPW) reached Php2.48 Billion surpassing the budget of Php2.44 Billion by Php42 Million or 2%. As a result, PNBGen ranked 9th in the industry in terms of GPW and delivered impressive results of combined ratio of 96.12% and 8.79% return-on-equity.

The strong showing was primarily due to target marketing – selecting specific accounts and appropriate distribution channels to gain access and generate revenues, and increased work efficiencies by controlling both business acquisition costs and general expenses.

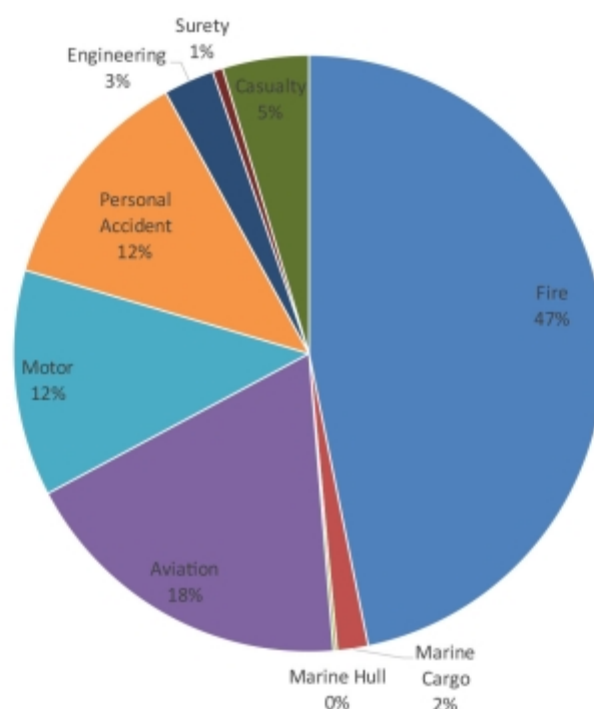
In 2017, 53% of PNBGen's GPW came from LT/PNB Group which included Philippine Airlines. The remaining 42% came from open-market segment including the 5% inward facultative reinsurance business. Broker-referred business accounted for 34% of total GPW.



With respect to lines of business, Property premiums amounted to 47% of total GPW, Aviation reached almost 18% largely due to Philippine Airlines, Personal Accident exceeded 12% whereas Motor Car is at 12%. Other lines of business accounted for the balance of 11% of total GPW. The above distribution of GPW was aligned to the targeted portfolio mix for the year.

Property and Engineering benefited from the robust economy and generated premiums from the power and energy sector, property development, infrastructures and manufacturing. Motor Car premiums grew by 4% were influenced by the continued aggressive growth in car sales and auto loans. Personal Accident premiums improved to 21% in 2017 due to increased Travel insurance from successful partnership with Philippine Airlines.

Target Portfolio Mix



Renewal premiums reached Php1.75 Billion in 2017 up from Php1.29 Billion in 2016. The amount of renewal premiums translated to 86% success ratio of conserving accounts for renewal compared to 87% in 2016. Its ability to protect existing portfolio improved after establishing a dedicated team responsible to manage business conservation. New business production hit Php744 Million, with the largest premium coming from Personal Accident totaling Php319 Million, followed by Property with Php195 Million and by Motor Car with Php116 Million. Travel Accident Insurance is expected to grow further once offline ticketing offices are included in the production flow.

Claims Settlement

The company settled 4,721 claims in 2017 with a total amount of Php411 Million down significantly from 4,374 claims with amount aggregating Php747 Million in 2016.

Net Claims Incurred in 2017 was a higher of Php320 Million compared to Php256 Million in 2016. With resulting overall loss ratio of 48.74%.

Managing Multiple Distribution Channels

PNBGen delivered GPW from across different channels. Direct business (i.e., no intermediary) was dominated by referrals from the parent Bank and other companies within the LT Group comprising 53% of the total portfolio. Major intermediaries like brokers and agents accounted for 42% underscoring the importance of PNBGen as a key player in the market. Inward facultative reinsurance business contributed the balance of 5% and helped re-establish the company's reputation in providing alternative reinsurance capacity to selected insurers.

The company's commission ratio improved to 15.92% primarily due to both portfolio mix and effective distribution channel management. The company continued to stay away from intermediaries that demand unreasonably high commission.

To maintain the company's competitiveness in the open-market business, sales incentive programs to top producers continued to be utilized with extremely encouraging results. Our main incentive scheme delivered over Php525 Million in collected premiums in 2017.

Cost Management and Investment Income

Expense ratio was at 31.45%, lower than budget of 39.85% and better than last year's 36.82% due to savings in general expenses amounting to almost Php53 Million or 20% while Investment and Other Income went up to Php54.11 Million against Php38.17 in 2016.

Overall combined ratio was an excellent 96.12% as PNBGen outperformed the competition in 2017 while in 2016 was at 90.72%.

Board of Directors

Felix Enrico R. Alfiler Chairman

Bachelor of Science and Masters in Statistics, University of the Philippines
Vice Chairman and Independent Director, Philippine National Bank
Independent Director, PNB International Investments Corporation, U.S.A. (PNB IIC), PNB Savings Bank
Chairman and Independent Director PNBRCI Holding Company, Ltd., Canada

Previous Positions

Independent Director of PNB-IBJL Leasing and Finance Corporation
Senior Advisor to the World Bank Group Executive Board in Washington, D.C.
Special Assistant to the Philippine Secretary of Finance for International Operations and Privatization
Director of the BSP
Assistant to the Governor of the Central Bank of the Philippines
Senior Advisor to the Executive Director at the International Monetary Fund
Associate Director at the Central Bank
Head of the Technical Group of the CB Open Market Committee
Monetary Policy Expert in the Economics Sub-Committee of the 1985-1986 Philippine Debt Negotiating Team which negotiated with over 400 private international creditors for the rescheduling of the Philippines' medium and long-term foreign debts
Advisor at Lazaro Bernardo Tiu and Associates, Inc.
President of Pilgrims (Asia Pacific) Advisors, Ltd.
President of the Cement Manufacturers Association of the Philippines (CeMAP)
Board Member of the Federation of Philippine Industries (FPI)
Vice President of the Philippine Product Safety and Quality Foundation, Inc.
Convenor for Fair Trade Alliance

Perfecto M. Domingo Vice Chairman

Master in Business Administration (units), Ateneo de Manila University
Bachelor of Science in Commerce Major in Accounting, Lyceum of the Philippines
Executive Development Program, Asian Institute of Management

Previous Positions

Management Consultant, BPI/MS Insurance Corporation
Senior Vice President, MSIG Holdings (Asia) Pte, Ltd, Singapore
Senior Business Director, BPI/MS Insurance Corporation
Director, FGU Insurance Corporation
President and Chairman of the Board, Philippine Machinery Management and Services Corporation
Executive Vice President and Chief Operating Officer, FEB Mitsui Marine Insurance Corporation

Joseph T. Chua
Director

AB Economics/BS Business Management (Double Degree), De La Salle University MBA, Business Administration/International Finance, University of Southern California
Chairman, Boracay Tubi System Inc., Cavite Business Resources Inc., J.F. Rubber Philippines
Director, President & COO, MacroAsia Corporation
Director & President, MacroAsia Air Taxi Services, MacroAsia Airport Services Corporation, MacroAsia Catering Services, Inc.
Director, EVP-COO, Eton Properties Philippines, Inc.
Director, Air Philippines Corporation, Belton Communities Inc., Bulawan Mining, Eton City Inc., First Homes Inc., Lufthansa Technik Philippines Inc., PAL Holdings Inc., Philippine Airlines Inc., PNB Management and Development Corp.
President, Goodwind Development Corporation (Guam), MacroAsia Mining Corporation, MacroAsia Properties Development Corporation, Watergy Business Solutions, Inc.
Board Advisor, Philippine National Bank
Member, Management Association of the Philippines, Philippine Chamber of Commerce and Industry, Chamber of Mines of the Philippines, German Philippine Chamber of Commerce and Rubber Association of the Philippines

Previous Positions

Chairman, MacroAsia Air Taxi Services, MacroAsia Mining Corporation, MacroAsia Properties Development Corporation, Watergy Business Solutions, Inc.
Director, Philippine National Bank
Managing Director, Goodwind Development Corporation (Guam)
Management Trainee, Bank of the Orient

Herminio Angel E. Disini, Jr.
Director

Bachelor of Arts in Management, Webster University, Vienna
Director, Filgate Insurance Agency, Inc.
Director, Asia Development Group, Hong Kong

Previous Positions

Marketing Director, Interbrokers, Inc.
Finance Director, Gira Reinsurance Brokers Inc.
Managing Director, Sara Aquabest Sdn. Bhd.
Vice President, Axis Aquaculture Inc.
Manager, Prisma Trading GMBH, Vienna, Austria

Reynaldo P. Palmiery
Director

Bachelor of Arts in Economics, University of the Philippines
Master of Arts in Development Economics, Williams College, Massachusetts, USA
Management Development Program, Asian Institute of Management
Chairman, Board of Directors, Lucky Emerald Resources and Development Corporation (FAMILY CORP)

Previous Positions

Member, Board of Directors, PNB Life Insurance Company
Member, Board of Trustees, Government Service Insurance Commission
Senior Executive Vice President and COO, Government Service Insurance System Corp.
Vice Chairman, National Reinsurance Corporation
President and CEO, GSIS Family Bank
Deputy Administrator, Social Security System
Senior Vice President, Allied Banking Corporation
Member, Board of Directors/Trustees of Equitable Banking Corporation, PCIB Leasing & Finance Corporation, PCIB Savings Bank, National Housing Corporation, Angeles University Medical Center Foundation
Representative of the Philippine Government to the World Bank (as Assistant to the Executive Director) in Washington D.C., U.S.A.

Cielo M. Salgado
Director

BS in Management, Assumption College
Master in Economics, Ateneo de Manila University
Doctor of Philosophy in Economics, University of Sto. Tomas
President & Director, PNB Holdings Corporation

Previous Positions

PNB Advisor
Director, Philippine National Bank, PNB Remittance Center, Inc., PNB International Investment Corporation, Allied Savings
Chairperson, National Service Corporation, PNB Investment Limited, PNB Remittance Company Canada, PNB General Insurers Co., Inc.,
Elected Chairman, Philnabank Club
Elected President & Chairperson, PNB Savings, Loans Association
Retired as PNB Vice President after serving the Bank for 22 years
Former Vice Governor of Pampanga

Atty. Janette Q. Adamos
Corporate Secretary

Bachelor of Arts in Broadcast Communication, University of the Philippines
Bachelor of Laws, University of the Philippines
Head, Foreclosure Department, Legal Group, Philippine National Bank

Management Team

PRESIDENT

Perfecto M. Domingo

CHIEF FINANCIAL OFFICER

Ferdinand F. Cotoco - Finance and Services Group

FIRST VICE PRESIDENT

Felixberto C. Borja - Claims Group

SENIOR ASSISTANT VICE PRESIDENTS

Oliver R. David - Collection Division

Enrico K. Marasigan - PNB & Affiliates, PAL & LTG Div. and Provincial Branches Div.

Rona T. Ople - Human Resource Management Division

ASSISTANT VICE PRESIDENTS

Romeo O. Bello II - Division 2, Underwriting Group

Enrique S. Claravall - Treasury Division

Ritchie L. Dones - Division 1, Underwriting Group

Clarisa G. Labog - Controllership Division

Nelson D. Mitra - Brokers Division

Leila U. Patag - Controllership Division

Corporate Governance

PNBGen adheres to the highest principles of good corporate governance particularly guided by the professionalism and stewardship of its Board of Directors, management team, other executives and employees. This adherence is embodied in the company's Code of Conduct, the Revised Corporate Governance Manual and corresponding Corporate Governance Committee Charter.

The Company subscribes to the good governance philosophy of fairness in acting upon any or all claims, accountability in the performance of its corporate functions, transparency and integrity in dealing with its clients, investors, stockholders and other stakeholders, including the corporate insurance industry environment within which it operates. The creation of a Corporate Governance Committee ensures the ability of the company to achieve a balanced mix of profitability for the benefit of its shareholders while maintaining sustainability.

A risk-based approach is adopted to monitor PNB Gen's internal control environment by the establishment of the Company's Board Audit and Compliance Committee and an Internal Audit Division consistent with generally accepted principles of a sound enterprise wide risk-management policy.

To further enhance the Company's insurance portfolio risk monitoring a Risk Oversight Committee is created to oversee the processes and policies duly approved by the Board and implemented by its management, designed to identify potential events that may affect the company and to assist in managing risks to be within its risk appetite, thereby providing reasonable assurance to enable the Company to achieve its business objectives and maximize stockholder value.

The Company has documented the relationship between its good corporate governance objectives and business procedures in manuals duly approved by the respective management committees and its Board. These manuals are subject to periodic review and accordingly updated to be consistent with new laws and regulations and conform in general to international best practices of the insurance industry.

PNBGen is managed through a properly established organizational structure whereby the Board generally approves the recommendations of management, in turn, management implements and the respective committees and ultimately the Board monitor results.

Compliance

A Compliance Officer assists the Board of Directors down to the lowest employee in managing its compliance risk.

Compliance risk is the risk of legal or regulatory sanctions, financial loss, or loss to the reputation PNBGen may suffer as a result of failure to comply with all applicable laws, regulations, code of conduct and standards of good practice. Compliance risk is also considered an integrity risk because the Company's reputation is closely connected with its adherence to Principles of good governance like integrity and fair dealing.

Compliance risk (also considered as a regulatory risk) covers the potential for the Company to suffer a financial loss from revisions of laws, tax, or other government regulations. It is an important qualitative risk which is monitored and managed by the Compliance function.

PNBGen endeavors to create a culture of compliance with the duty to adhere to the regulations.

The enhanced and proactive compliance system put into place by PNBGen is found to be adequately sound.

Financial Statements



Independent Auditor's Report

The Board of Directors
PNB General Insurers Company, Incorporated

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PNB General Insurers Company, Incorporated (a subsidiary of Philippine National Bank) [the Company], which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company 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 (PFRSs).

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on the Supplementary Information Required under Revenue Regulation No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulation No. 15-2010 in Note 28 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of PNB General Insurers Company, Incorporated. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Dyale S. Garcia

Partner

CPA Certificate No. 0097907

SEC Accreditation No. 1285-AR-1 (Group A),

May 12, 2016, valid until May 12, 2019

Tax Identification No. 201-960-347

BIR Accreditation No. 08-001998-102-2015,

November 25, 2015, valid until November 24, 2018

PTR No. 6621265, January 9, 2018, Makati City

February 23, 2018

Statements of Financial Position

	December 31, 2017	December 31, 2016 (As Restated, Note 2)	January 1, 2016 (As Restated, Note 2)
ASSETS			
Cash and Cash Equivalents (Notes 5 and 23)	₱267,799,025	₱406,830,011	₱379,022,531
Insurance Receivables - net (Note 6)	1,307,493,365	1,253,610,994	1,366,498,905
Financial Assets (Notes 7 and 23)			
Available-for-sale (AFS) financial assets	1,355,609,443	928,027,621	974,698,569
Loans and receivables - net	18,496,320	13,843,365	13,476,546
Accrued Interests (Note 8)	9,415,099	7,207,917	4,106,449
Reinsurance Assets (Notes 2, 9 and 12)	4,353,314,595	4,187,260,698	4,355,500,180
Deferred Acquisition Costs (Note 2 and 10)	65,494,955	66,058,672	59,431,048
Property and Equipment - net (Note 11)	15,878,880	14,496,573	12,275,060
Intangible Asset - net (Note 11)	12,037,977	64,577	117,777
Deferred Tax Assets - net (Notes 2 and 21)	35,242,623	31,327,487	23,762,023
Other Assets (Note 11)	196,628,685	161,842,649	206,892,656
TOTAL ASSETS	₱7,637,410,967	₱7,070,570,564	₱7,395,781,744
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities (Notes 2 and 12)	₱5,297,756,944	₱5,148,130,750	₱5,463,515,678
Insurance payables (Note 13)	862,759,103	729,560,407	737,610,675
Deferred reinsurance commissions (Notes 2 and 10)	27,251,410	20,539,351	9,393,247
Accounts payable and accrued expenses (Note 14)	515,539,466	482,963,075	555,518,250
Net pension liability (Note 20)	18,252,725	27,445,600	33,023,227
Total Liabilities	6,721,559,648	6,408,639,183	6,799,061,077
Equity			
Capital stock (Note 15)	912,600,000	912,600,000	912,600,000
Contingency surplus (Note 15)	200,000,000	—	—
Contributed surplus	906,000	906,000	906,000
Revaluation reserve on AFS financial assets (Note 7)	(41,808,543)	(18,520,219)	(12,092,811)
Remeasurement reserve on defined benefit obligation (Note 20)	(19,017,220)	(26,690,964)	(31,833,291)
Deficit	(136,828,918)	(206,363,436)	(272,859,231)
Total Equity	915,851,319	661,931,381	596,720,667
TOTAL LIABILITIES AND EQUITY	₱7,637,410,967	₱7,070,570,564	₱7,395,781,744

See accompanying Notes to Financial Statements.

Statements of Income

	Years Ended December 31	
	2017	2016 (As Restated, Note 2)
Gross earned premiums	₱2,294,210,078	₱2,349,011,290
Reinsurers' share of gross earned premiums	(1,638,808,576)	(1,723,156,779)
Net earned premiums (Notes 2, 12, 16 and 23)	655,401,502	625,854,511
Commission income (Notes 2 and 10)	174,246,684	141,588,006
Investment and other income (Notes 5, 7 and 17)	54,110,603	38,169,728
Reversal of allowance for impairment losses - net (Notes 6 and 7)	19,407,538	—
Gain on sale of AFS financial assets (Note 7)	—	19,098,869
Foreign exchange gains - net	—	1,515,773
Other underwriting income	23,469,637	21,477,870
Other income	271,234,462	221,850,246
Total income	926,635,964	847,704,757
Gross insurance contract benefits and claims paid	428,223,828	787,557,549
Reinsurers' share of gross insurance contract benefits and claims paid	(86,836,002)	(304,381,628)
Gross change in insurance contract liabilities	(40,906,738)	(186,760,099)
Reinsurers' share of change in insurance contract liabilities	18,991,828	164,576
Net benefits and claims (Notes 2, 12, 18 and 23)	319,472,916	296,580,398
Operating expenses (Notes 19, 20, 23 and 26)	225,561,695	233,023,322
Commission expense (Notes 2 and 10)	136,285,123	127,915,131
Other underwriting expenses	165,753,704	118,291,492
Provision for impairment losses - net (Note 6)	—	1,432
Foreign exchange losses - net	2,537,460	—
Other expenses	530,137,982	479,231,377
Total benefits, claims and other expenses	849,610,898	775,811,775
INCOME BEFORE INCOME TAX	77,025,066	71,892,982
PROVISION FOR INCOME TAX (Note 21)	7,490,548	5,397,187
NET INCOME	₱69,534,518	₱66,495,795

See accompanying Notes to Financial Statements.

Statements of Comprehensive Income

	Years Ended December 31	
		2016
	2017	(As Restated, Note 2)
NET INCOME	P69,534,518	P66,495,795
OTHER COMPREHENSIVE LOSS		
<i>To be reclassified to profit or loss in subsequent periods:</i>		
Changes in revaluation reserve on AFS financial assets (Note 7)	(23,318,324)	12,671,461
Valuation gains realized through profit or loss (Note 7)	–	(19,098,869)
Impairment loss charged to profit or loss (Note 7)	30,000	–
	(23,288,324)	(6,427,408)
<i>Not to be not reclassified to profit and loss in subsequent periods:</i>		
Remeasurement gains on defined benefit obligation (Note 20)	10,962,491	7,346,182
Income tax effect (Note 21)	(3,288,747)	(2,203,855)
	7,673,744	5,142,327
	(15,674,580)	(1,285,081)
TOTAL COMPREHENSIVE INCOME	P53,859,938	P65,210,714

See accompanying Notes to Financial Statements.

Statements of Changes in Equity

For the years ended 31 December 2017 and 2016

	Capital Stock (Note 15)	Contingency Surplus (Note 15)	Contributed Surplus	Revaluation Loss Reserve on AFS Assets (Note 7)	Remeasurement Losses on Defined Benefit Obligation (Note 20)	Deficit	Total
BALANCES AS AT JANUARY 1, 2016, AS PREVIOUSLY REPORTED	₱912,600,000	₱—	₱906,000	(₱12,092,811)	(₱31,833,291)	(₱313,080,843)	₱556,499,055
Effects of change in accounting policies (Note 2)	—	—	—	—	—	40,221,612	40,221,612
BALANCES AS AT JANUARY 1, 2016, AS RESTATED	912,600,000	—	906,000	(12,092,811)	(31,833,291)	(272,859,231)	596,720,667
Net income for the year, as previously reported	—	—	—	—	—	110,902,707	110,902,707
Other comprehensive income (loss)	—	—	—	(6,427,408)	5,142,327	—	(1,285,081)
Total comprehensive income, as previously reported	—	—	—	(6,427,408)	5,142,327	110,902,707	109,617,626
Effects of changes in accounting policies (Note 2)	—	—	—	—	—	(44,406,912)	(44,406,912)
Total comprehensive income, as restated	—	—	—	(6,427,408)	5,142,327	66,495,795	65,210,714
BALANCES AS AT DECEMBER 31, 2016, AS RESTATED	₱912,600,000	₱—	₱906,000	(₱18,520,219)	(₱26,690,964)	(₱206,363,436)	₱661,931,381
BALANCES AS AT DECEMBER 31, 2016, AS PREVIOUSLY REPORTED	₱912,600,000	₱—	₱906,000	(₱18,520,219)	(₱26,690,964)	(₱202,178,136)	₱666,116,681
Effects of change in accounting policies (Note 2)	—	—	—	—	—	(4,185,300)	(4,185,300)
BALANCES AS AT DECEMBER 31, 2016, AS RESTATED	912,600,000	—	906,000	(18,520,219)	(26,690,964)	(206,363,436)	661,931,381
Net income for the year	—	—	—	—	—	69,534,518	69,534,518
Other comprehensive income (loss)	—	—	—	(23,288,324)	7,673,744	—	(15,614,580)
Total comprehensive income	—	—	—	(23,288,324)	7,673,744	69,534,518	53,919,938
Capital infusion (Note 15)	—	200,000,000	—	—	—	—	200,000,000
BALANCES AS AT DECEMBER 31, 2017	₱912,600,000	₱200,000,000	₱906,000	(₱41,808,543)	(₱19,017,220)	(₱136,828,918)	₱915,851,319

See accompanying Notes to Financial Statements.

Statements of Cash Flows

	Years Ended December 31	
	2017	2016 (As Restated, Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱77,025,066	₱71,892,982
Adjustments for:		
Interest income (Note 17)	(52,685,084)	(35,253,709)
Movement in net pension liability (Note 20)	8,611,319	9,280,746
Depreciation and amortization (Notes 11 and 19)	5,376,764	5,075,565
Unrealized foreign exchange losses	2,567,530	2,897,563
Impairment losses on AFS financial assets (Note 7)	30,000	—
Dividend income (Note 17)	—	(2,707,169)
Gain on sale of AFS financial assets (Note 7)	—	(19,098,869)
Operating income before changes in working capital	40,925,595	32,087,109
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Insurance receivables	(56,606,983)	109,124,224
Loans and receivables	(4,652,955)	(366,819)
Reinsurance assets	(166,053,897)	168,239,482
Deferred acquisition costs	563,717	(6,627,624)
Other assets	(635,610)	75,431,717
Increase (decrease) in:		
Insurance contract liabilities	149,626,194	(315,384,928)
Insurance payables	133,966,383	(7,183,905)
Accounts payable and accrued expenses	32,576,391	(72,555,175)
Deferred reinsurance commissions	6,712,059	11,146,104
Cash from operations	136,420,894	(6,089,815)
Contributions to pension plan (Note 20)	(6,841,703)	(7,512,191)
Income taxes paid, including final tax and creditable withholding taxes	(48,844,857)	(45,548,215)
Net cash from (used in) operating activities	80,734,334	(59,150,221)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	57,070,935	60,489,577
Proceeds from sale/maturities of:		
AFS financial assets (Note 7)	90,000,000	1,075,241,301
Acquisitions of:		
AFS financial assets (Note 7)	(547,493,179)	(1,044,236,228)
Property and equipment (Note 11)	2,076,788	3,288,613
Property and equipment (Note 11)	(8,809,259)	(10,532,492)
Intangible asset (Note 11)	(12,000,000)	—
Dividends received	—	2,707,169
Net cash from (used in) investing activities	(419,154,715)	86,957,940

(Forward)

	Years Ended December 31	
	2017	2016 (As Restated, Note 2)
CASH FLOWS FROM FINANCING ACTIVITY		
Capital infusion (Note 15)	₱200,000,000	₱—
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(610,605)	(239)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(139,030,986)	27,807,480
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	406,830,011	379,022,531
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	₱267,799,025	₱406,830,011

See accompanying Notes to Financial Statements.

Notes to Financial Statements

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

Corporate Information

PNB General Insurers Company, Incorporated (the Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on December 29, 1965 to engage in fire, aviation, motor car, marine, engineering, accident, surety and casualty insurance. On August 29, 2014, the SEC approved the Company's Amended Articles of Incorporation extending its corporate term for another fifty (50) years after December 29, 2015.

The Company is a subsidiary of Philippine National Bank (PNB or ultimate parent company). PNB has 66% direct ownership in the Company. PNB Holdings Corporation (PNB Holdings), a wholly owned subsidiary of PNB owns the remaining 34%. Both PNB and PNB Holdings are incorporated in the Philippines.

The Company's principal place of business is 2nd Floor, PNB Financial Center, Pres. Diosdado Macapagal Boulevard, Pasay City.

Authorization for the Issuance of the Financial Statements

The accompanying financial statements of the Company were authorized for issue by the Board of Directors (BOD) during its meeting held on February 23, 2018.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The accompanying financial statements have been prepared using the historical cost except for AFS financial assets which have been measured at fair value. The Company's presentation and functional currency is the Philippine peso (₱). All amounts are rounded off to the nearest peso, unless otherwise indicated.

The Company presents its statements of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date and more than 12 months after the reported date is presented in Note 27.

The financial statements provide comparative information in respect of the previous period. In addition, the Company 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 restatement or a reclassification of items in the financial statements. An additional statement of financial position as at January 1, 2016 is presented in these financial statements due to the retrospective application of certain accounting policies (see Changes in Accounting Policies and Disclosures).

Statement of Compliance

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to existing PFRS and Philippine Accounting Standards (PAS) effective January 1, 2017. Adoption of these pronouncements did not have any significant impact to the Company's financial position and financial performance:

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

New valuation standard for non-life policy reserves

The new valuation standards for non-life policy reserves were adopted by the Company retrospectively in accordance with Circular Letter (CL) No. 2016-67, *Valuation Standards for Non-Life Insurance Policy Reserves* issued by the Philippine Insurance Commission (IC) which became effective on January 1, 2017 pursuant to CL No. 2016-69, *Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves, and Amended Risk-Based Capital (RBC2) Framework*.

The adoption of CL No. 2016-67 introduced, among others, changes in the valuation method for claims incurred but not reported (IBNR) and use of 24th method for the computation of policy reserves for marine cargo business. Some of the key changes relevant to the Company include the following:

a. Premium liabilities

Under the new valuation standards, premium liabilities for each class of business shall be determined as the higher of unearned premium reserves (UPR) and unexpired risk reserves (URR). UPR shall be calculated based on the 24th method for all classes of business, including marine cargo. This means that for policies written with term of less than one (1) year or more than one (1) year, the UPR shall consider the actual unearned premium from the date of valuation to the date of termination of the policy. URR, on the other hand, shall be calculated as the best estimate of future claims, commissions and expenses for all classes of business, with computed Margin of Adverse Deviation (MfAD). This best estimate relates to expected future claim payments and related expenses to be incurred after the valuation date arising from future events.

Pursuant to CL No. 2016-69, the Company is not required to compute for URR in 2017 and is allowed to set-up as premium liabilities the UPR based on 24th method for all classes of business, including marine cargo. Starting 2018, the premiums liabilities shall be determined in accordance with the new valuation standards.

Prior to the adoption of the new valuation standards, the Company computes for UPR based on the 24th method for all classes of business. Provided that, for marine cargo business, the UPR is equal to the last two months of premiums written.

b. Claims liabilities

Under the new valuation standards, claims liabilities for both direct and assumed treaty and reinsurance businesses shall be calculated as the sum of outstanding claims reserves, claims handling expense and claims IBNR, with computed MfAD. Claims IBNR shall be calculated based on standard actuarial projection techniques or combination of such techniques, such as but not limited to the chain ladder method, expected loss ratio approach and Bornhuetter-Ferguson method. Provision for claims handling expense covering the estimated expenses of settling all outstanding claims, both reported and unreported, as of valuation date shall also be computed. These valuations are to be performed by an actuarial expert duly accredited by the IC.

MfAD considers the variability of claims experience within a class of business and allows for uncertainty of the best estimate of the policy reserves. Pursuant to CL No. 2016-69, the Company is allowed to set the MfAD to zero (0) in 2017. Starting 2018, MfAD shall also be computed based on standard actuarial projection techniques to bring the actuarial estimate of the claims liabilities at the 75th percentile level of sufficiency.

Prior to the adoption of the new valuation standards, the Company computes for claims IBNR based on the estimated ultimate cost of claims, including claims handling costs and reduction for the expected value of salvage and other recoveries. Provision is computed using the Company's past claims development experience which is used to project future claims development after separately considering large claims.

On January 1, 2017, the Company adopted the computation of UPR based on the 24th method for all classes of business, including marine cargo and the actuarial valuation method for the computation of provision for claims IBNR and claims handling expense, retrospectively. Pursuant to CL No. 2017-15, *Regulatory Requirements and Actions for the New Regulatory Framework*, the net effects of all transition adjustments shall be charged to retained earnings on the transition date. The Company's transition date is January 1, 2016 and the net effects of the restatement adjustments on the affected accounts are as follows:

Statement of Financial Position as at December 31, 2016:

	As Previously Reported	Restatement Adjustments Increase (Decrease)	As Restated
Reinsurance assets	₱3,996,078,639	₱191,182,059	₱4,187,260,698
Deferred acquisition cost	64,512,256	1,546,416	66,058,672
Deferred income tax assets - net	31,513,137	(185,650)	31,327,487
Insurance contract liabilities	4,952,330,207	195,800,543	5,148,130,750
Deferred reinsurance commissions	19,611,769	927,582	20,539,351
Retained earnings	(202,178,136)	(4,185,300)	(206,363,436)

Statement of Financial Position as at January 1, 2016:

	As Previously Reported	Restatement Adjustments Increase (Decrease)	As Restated
Reinsurance assets	₱4,008,924,003	₱346,576,177	₱4,355,500,180
Deferred acquisition cost	59,449,901	(18,853)	59,431,048
Deferred income tax assets - net	23,756,367	5,656	23,762,023
Insurance contract liabilities	5,157,174,310	306,341,368	5,463,515,678
Retained earnings	(313,080,843)	40,221,612	(272,859,231)

Statement of Income for the Year Ended December 31, 2016:

	As Previously Reported	Restatement Adjustments Increase (Decrease)	As Restated
Gross earned premiums	₱2,356,179,184	(₱7,167,894)	₱2,349,011,290
Reinsurers' share of gross earned premiums	(1,726,353,642)	3,196,863	(1,723,156,779)
Commission income	142,515,588	(927,582)	141,588,006
Gross change in insurance contract liabilities	69,051,379	117,708,719	186,760,099
Reinsurers' share of change in insurance contract liabilities	158,426,405	(158,590,981)	(164,576)
Commission expense	(129,480,400)	1,565,269	(127,915,131)
Benefit from deferred income tax	9,960,625	(191,306)	9,769,319
Net income	110,902,707	(44,406,912)	66,495,795

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

The restatement adjustments did not have significant impact on the statement of cash flow for the year ended December 31, 2016.

Standards Issued but Not yet Effective

The Company will adopt, where applicable, the following standards, amendments to existing standards and interpretations when these become effective.

Effective beginning on or after January 1, 2018

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

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The Company has assessed that the adoption of these amendments will not have any impact on the financial statements.

- *PFRS 9, Financial Instruments*

PFRS 9 is required to be applied on a retrospective basis with certain exceptions. As permitted, the Company will not restate prior period comparative financial statements when the Company adopts the requirements of the new standard. Restatements and differences in the carrying amounts of financial instruments arising from the adoption of PFRS 9 will be recognized in the 2018 opening balances of retained earnings and other comprehensive income as if the Company had always applied PFRS 9.

In the period of initial application, the requirements of PFRS 9 on the classification and measurement of financial assets and on the recognition of expected credit losses will have an impact on the Company's financial statements. The 2018 opening balances of retained earnings and other comprehensive income in the Company's statement of financial position are expected to change as a result of applying the requirements of PFRS 9's on classification and measurement of financial assets. This change will result from reclassifications of financial assets depending on the Company's application of its business models and its assessment of the financial assets' cash flow characteristics. The balances of retained earnings and other comprehensive income in the Company's statement of financial position as of January 1, 2018, the initial adoption date, are also expected to change as a result of applying the requirements of PFRS 9 on the recognition of expected credit losses. This change depends on whether there have been significant increases in the credit risk of the Company's financial assets since initial recognition and on the Company's evaluation of factors relevant to the measurement of expected credit losses such as a range of possible outcomes and information about past events, current conditions and forecasts of future economic conditions.

In 2018, the requirements of PFRS 9 will have an impact on the Company's financial statements depending on certain factors such as the financial assets' corresponding business models, cash flow characteristics, and changes in credit risks. In the period of initial application, the requirements of PFRS 9 on the classification and measurement of financial liabilities and on the application of hedge accounting are not expected to have an impact on the Company's financial statements. The Company is still completing its assessment of the impact of PFRS 9 in 2018. The potential key changes to the Company's accounting policies resulting from the adoption of PFRS 9 are described below.

Classification and measurement

The classification and measurement provisions of PFRS 9 require that all debt financial assets that do not meet the "solely payment of principal and interest" (SPPI) test, including those that contain embedded derivatives, shall be classified at initial recognition as at fair value through profit or loss (FVTPL). The intent of the SPPI test is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity linked pay-outs, are measured at FVTPL. Subsequent measurement of instruments classified as FVTPL under PFRS 9 operates in a similar manner to financial instruments held for trading under PAS 39, *Financial Instruments: Recognition and Measurement*.

For debt financial assets that meet the SPPI test, classification at initial recognition will be determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "held for trading" or "fair value" basis will be classified as at FVTPL. Debt instruments that are managed on a "hold to collect and for sale" basis will be classified as at fair value through other comprehensive income (FVOCI) for debt. Debt instruments that are managed on a "hold to collect" basis will be classified as at amortized cost.

Subsequent measurement of instruments classified as at FVOCI and amortized cost classifications under PFRS 9 operate in a similar manner to AFS financial assets for debt financial assets and loans and receivables, respectively, under existing PAS 39, except for the impairment provisions. For those debt financial assets that would otherwise be classified as at FVOCI or amortized cost, an irrevocable designation can be made at initial recognition to instead measure the debt instrument at FVTPL under the fair value option (FVO) if doing so eliminates or significantly reduces an accounting mismatch.

All equity financial assets are required to be classified at initial recognition as at FVTPL unless an irrevocable designation is made to classify the instrument as at FVOCI for equities. Unlike AFS for equity securities under PAS 39, the FVOCI for equities category results in all realized and unrealized gains and losses being recognized in other comprehensive income with no recycling to profit and loss. Only dividends will continue to be recognized in profit and loss.

The classification and measurement of financial liabilities remain essentially unchanged from the current PAS 39 requirements, except that changes in fair value of FVO liabilities attributable to changes in own credit risk are to be presented in OCI, rather than profit and loss. Derivatives will continue to be measured at FVTPL under PFRS 9.

Impairment

The new impairment guidance sets out an expected credit loss (ECL) model applicable to all debt instrument financial assets classified as amortized cost and FVOCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVTPL.

Expected credit loss methodology

The application of ECL will significantly change the Company's credit loss methodology and models. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances will be measured at amounts equal to either:

(i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition or when there is objective evidence of impairment. This compares to the present incurred loss model that incorporates a single best estimate, the time value of money and information about past events and current conditions and which recognizes lifetime credit losses when there is objective evidence of impairment and also allowances for incurred but not identified credit losses.

Stage migration and significant increase in credit risk

Financial instruments subject to the ECL methodology are categorized into three stages:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. Entities are required to recognize 12-month ECL for Stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. Entities are required to recognize lifetime ECL for Stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then entities shall revert to recognizing 12 months of ECL. In contrast to Stage 1 and Stage 2, inherent within the incurred loss methodology under PAS 39, allowances are provided for non-impaired financial instruments for credit losses that are incurred but not yet identified.
- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial instrument or a portfolio of financial instruments. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the current requirements under PAS 39 for impaired financial instruments.

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

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The Company has assessed that the adoption of these amendments will not have any impact on the financial statements considering that the Company plans to adopt PFRS 9 in 2018.

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

The Company has assessed that the adoption of this standard will not have any impact on the financial statements.

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

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

The Company has assessed that the adoption of these amendments will not have any impact on the financial statements.

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

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

The Company has assessed that the adoption of these amendments will not have any impact on the financial statements.

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

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Company has assessed that the adoption of these amendments will not have any impact on the financial statements.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Company is still assessing the potential impact of adopting amendments to PFRS 9 in 2019.

- PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Company is currently assessing the impact of adopting PFRS 16.

The Company is currently assessing the potential impact of adopting PFRS 16 in 2019.

- *Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures*

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Company has assessed that the adoption of these amendments will not have any impact on the financial statements.

- *Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Company is currently assessing the potential impact of adopting this interpretation in 2019.

Deferred effectivity

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

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Company has assessed that the adoption of these amendments will not have any impact on the financial statements.

The Company continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2017 on the Company's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the financial statements when these amendments are adopted.

3. Summary of Significant Accounting Policies

Product Classification

Insurance contracts are defined as contracts under which the Company (the insurer) accepts 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 policyholder. As a general guideline, the Company defines significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer 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 of price or rates, a credit rating or credit index or other variable. Investment contracts mainly transfer financial risk but can also transfer insignificant insurance risk.

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 are extinguished or has expired. Investment contracts can however be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Fair Value Measurement

The Company measures financial instruments such as AFS financial assets at fair value at each reporting date.

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- 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 financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting date.

For the purposes of fair value disclosure, the Company has determined classes of assets and liabilities on the basis of nature, characteristics and risks of the asset or liability and the level of fair value hierarchy.

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 maturity of three months or less from the date of placement and that are subject to an insignificant risk of changes in value.

Insurance Receivables

Insurance receivables are recognized upon issuance of the policy and measured on initial recognition at the fair value of the amount receivable for the period of coverage.

Subsequent to initial recognition, insurance receivables are measured at amortized cost less allowance for impairment. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the profit or loss.

Insurance receivables are derecognized following the derecognition criteria of financial assets.

Financial Instruments

Date of recognition

Financial instruments are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial recognition of financial instruments

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in the case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs.

The Company classifies its financial assets as financial assets at FVPL, AFS financial assets, loans and receivables and held-to-maturity investments (HTM). Financial liabilities are classified as other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every end of the reporting date.

As of December 31, 2017 and 2016, the Company's financial instruments include AFS financial assets, loans and receivables and other financial liabilities.

"Day 1" difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where an unobservable data is used, the difference between the transaction price and model value is only recognized in profit or loss 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" difference amount.

AFS financial assets

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

After initial measurement, AFS financial assets are subsequently measured at fair value. 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 profit or loss. Interest earned on holding AFS debt securities are reported as interest income using the effective interest method. Dividends earned on holding AFS equity securities are recognized in the profit or loss as dividend income when the right to receive the payment has been established. Unrealized gains and losses arising from the fair valuation of AFS financial assets are reported in the equity section of the statement of financial position. Losses arising from impairment of such investments are recognized in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS or financial assets at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Amortization is included in the interest income in profit or loss. Losses arising from impairment of such loans and receivables are recognized in profit or loss.

As of December 31, 2017 and 2016, the Company's loans and receivables include cash and cash equivalents, insurance receivables and other loans and receivables, including accrued interest.

Other financial liabilities

Other financial assets pertain to issued financial instruments or their components, which are not held for trading or designated as FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. This includes investment contracts which mainly transfer financial risk and has no or insignificant insurance risk.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

As of December 31, 2017 and 2016, the Company's other financial liabilities include insurance contract liabilities, insurance payables, accounts payable and accrued expenses that meet the above definition (other than liabilities covered by other accounting standards, such as provisions, pension liability and income tax payable).

Classification of financial instruments between debt and equity

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interests, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

A financial instrument is classified as debt if it has 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 Company; or
- if the Company 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.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counter parties.

Impairment of Financial Assets

The Company assesses at every end of the reporting date whether a financial asset or a 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 an 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. Objective 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 measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

AFS financial assets carried at fair value

In case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. 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 profit or loss is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS, 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 interest income in profit or loss. 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 profit or loss, the impairment loss is reversed through profit or loss.

Loans and receivables

For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss shall be recognized in profit or loss.

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 profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the date of reversal.

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the 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 Company has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial liability

A financial liability is derecognized when the obligation under the liability is 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 liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Reinsurance

The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. Any impairment loss is charged against profit or loss.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

The Company also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses 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 ceding companies, which are included under “Insurance payables” in the statement of financial position. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

When the Company enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Company initially recognizes a liability at transaction price. Subsequent to initial recognition, the portion of the amount initially recognized as a liability which is presented as “Insurance payables” in the statement of financial position will be withheld and recognized as “Funds held for reinsurers,” which is also included as part of the “Insurance payables” in the statement of financial position. The amount withheld is generally released after a year.

Deferred Acquisition Costs

Commission and other acquisition costs incurred during the reporting period that vary with and are related to securing new insurance contracts or renewing existing insurance contracts, but which relates to subsequent reporting periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as expense when incurred.

Subsequent to initial recognition, these costs are amortized using the 24th method. Amortization is charged to profit or loss. The unamortized acquisition costs are shown as “Deferred acquisition costs” in the statement of financial position. Reinsurance commissions are also deferred and shown in the statement of financial position as “Deferred reinsurance commissions”, subject to the same amortization method as the related acquisition costs.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and any impairment loss is charged to profit or loss. Deferred acquisition costs are derecognized when the related contracts are either settled or disposed of.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

	Years
Furniture, fixtures and equipment	5
Electronic data processing equipment	3
Transportation equipment	5

Leasehold improvements are amortized over the estimated useful life of the improvement or the term of the lease, whichever is shorter. The estimated useful life of the improvement is five years and the improvements are amortized over the term of the lease.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The estimated useful lives and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is credited or charged against current operations.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

Creditable Withholding Taxes

Creditable withholding pertains to the taxes paid by the Company that is withheld by its counterparty for the payment of its expenses and other purchases. Creditable withholding taxes are recorded at cost as "Other assets" in the statement of financial position.

At each end of the tax reporting deadline, creditable withholding taxes may either be offset against future income tax payable or be claimed as a refund from taxation authorities at the option of the Company. If creditable withholding taxes are claimed as a refund, these will be recorded as a receivable under "Loans and receivables" in the statement of financial position.

At each end of the reporting period, an assessment for impairment is performed as to the recoverability of creditable withholding taxes. If any indication of impairment exists, the Company makes an estimate of the asset's recoverable amount. The Company provides for unrecoverable creditable withholding taxes through a valuation account. Factors which primarily affect the recoverability of these assets include the completeness of the supporting documentation (certificates of creditable tax withheld at source subject to rules on Philippine income taxation). A review to determine the adequacy of allowance is made by the Company on a continuing basis year on year.

Intangible Asset

Intangible asset acquired separately is measured on initial recognition at cost. Following initial recognition, intangible asset is carried at cost less any accumulated amortization and any accumulated impairment loss. The estimated useful life of intangible asset with finite life is assessed at the individual asset level. Intangible asset with finite life is amortized over its estimated useful life of five years. Periods and method of amortization for intangible asset with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

Gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in profit or loss when the asset is derecognized.

Impairment of Nonfinancial Assets

At each reporting date, the Company assesses whether there is any indication that its nonfinancial assets including property and equipment, intangible asset and other assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) 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 the risks specific to the asset (or cash generating unit). Any impairment loss is charged against profit or loss in the year in which it arises. 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 asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the

depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Insurance Contract Liabilities

Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

Claims provisions and IBNR losses

Outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of each reporting date. The liability is not discounted for the time value of money.

Claims IBNR pertains to amount provided for claim events that have occurred but have not been reported to the Company as of the reporting date. The provision for claims IBNR at each reporting date is calculated by an independent actuary accredited by the IC using standard actuarial projection techniques (or combination of such techniques), including but not limited to the chain ladder method, the expected loss ratio approach, and the Bornhuetter-Ferguson method. The actuary determines the appropriateness of the method used by considering the characteristics of the Company's claims data and other factors such as maturity of the business, large losses arising from significant past events, operational changes in claims and underwriting processes and external conditions.

Provision for claims handling expenses is also calculated by the actuary to cover estimated expenses of settling all claims, both reported and unreported, outstanding as of the reporting date.

Provision for unearned premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at the reporting date are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in statement of financial position. The change in the provision for unearned premiums is taken to profit or loss in the order that revenue is recognized over the period of risk. Further, provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Pension Cost

Net defined 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 (if any), 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.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service cost, past service cost and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit 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 other comprehensive income 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 Company, nor can they be paid directly to the Company. 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 Company'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.

Value-added Tax (VAT)

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

Equity

Capital stock

Capital stock represents the value of shares that have been issued at par. The transaction costs incurred as a necessary part of completing an equity transaction are accounted for as part of the transaction and are deducted first from additional paid-in capital and then from retained earnings, net of any related tax benefit.

Contributed surplus

This represents the original contribution of the stockholders of the Company as provided under the Insurance Code.

Contingency surplus

Contingency surplus represents additional contribution to cover the Company's deficiency in margin of solvency and capital requirements in accordance with the guidelines of the IC. The amount can only be withdrawn upon approval of the IC.

Retained earnings

Retained earnings represent the cumulative balance of net income or loss of the Company, effects of any change in accounting policy and other adjustment affecting the account such as dividend distributions.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Premiums revenue

Gross insurance written premiums comprise the total premiums receivable for the whole cover period provided by contracts entered into during the reporting period. Premiums include any adjustments arising in the reporting period for premiums receivable in respect of business written in prior periods. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as provision for unearned premiums and presented as part of “Insurance contract liabilities” in the statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at reporting date are accounted for as deferred reinsurance premiums shown as part of “Reinsurance assets” in the statement of financial position. The net changes in these accounts between reporting dates are credited to or charged against profit or loss for the year.

Commission income

Reinsurance commissions are recognized as revenue over the period of the contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as “Deferred reinsurance commissions” in the statement of financial position.

Interest income

Interest income is recognized as it accrues, taking into account the effective interest rate of the asset, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are integral part of the effective interest rate, but not future credit losses.

Dividend income

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

Other underwriting income

Other underwriting income pertains to income other than premiums but related to the issuance of policy. These are recognized as income when earned.

Expense Recognition

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

Benefits and claims

Benefits and claims consists of benefits and claims paid to policyholders, which includes changes in the valuation of insurance contract liabilities, except for changes in the provision for unearned

premiums which are recorded in net earned premiums. It further includes internal and external claims handling cost that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered and are offset against related claims. Insurance claims are recorded on the basis of notifications received.

Operating expenses

Operating expenses constitute costs of administering the business. These are recognized as expense when incurred.

Commission expense

Commissions are recognized as expense over the period of the contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as “Deferred acquisition cost” in the statement of financial position.

Other underwriting expenses

Other underwriting expenses are fees incurred by the Company in relation to the issuance of policy. These are recognized as expense when incurred.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

- There is a change in contractual terms, other than a renewal or extension of the arrangement;
- A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- There is a change in the determination of whether fulfilment is dependent on a specified asset; or
- There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a, c or d above, and at the date of renewal or extension period for scenario b.

Company as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments are recognized as an expense in profit or loss on a straight-line basis while the variable rent is recognized as an expense based on terms of the lease contract.

Income Taxes

Income tax for the year consists of current and deferred tax. Income tax is determined in accordance with Philippine tax laws. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income.

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 are enacted or substantially enacted at the reporting date.

Current income tax for current and prior periods, shall, to the extent unpaid, be recognized as a liability in the statement of financial position. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognized as an asset in the statement of financial position.

Deferred income tax

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of 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, with certain exceptions. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carry forward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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 taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are applicable 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 substantially enacted at the reporting date. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged against or credited to profit or loss for the period.

Deferred income tax relating to items recognized in other comprehensive income is also recognized in other comprehensive income and not in profit or loss.

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

Foreign Currency Transactions and Translations

Transactions in foreign currencies are initially recorded in Philippine peso at exchange rate at the date of the transaction. Outstanding foreign currency denominated monetary assets and liabilities are retranslated at the closing exchange rate at the reporting date. Outstanding foreign currency denominated nonmonetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the initial transaction and are not subsequently restated. Outstanding foreign currency denominated nonmonetary items measured at fair value are translated using the exchange rate at the date when the fair value was determined. All foreign exchange differences are taken to profit or loss, except where it relates to equity securities where gains or losses are recognized directly in other comprehensive income.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain and the expense relating to any provision is presented in profit or loss net of any reimbursement. 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 assessment 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 a borrowing cost.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefit is probable. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in profit or loss.

Events After the Reporting Date

Any post year-end event up to the date of approval of the BOD of the financial statements that provides additional information about the Company's financial position at the end of the reporting date (adjusting event) is reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the notes to the financial statements when material.

4. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations which have the most significant effect on the amounts recognized in the financial statements. The judgments are based upon management's evaluation of relevant facts and circumstances as of the reporting date.

Product classification

The Company has determined that the insurance policies it issues have significant insurance risks and therefore meet the definition of insurance contracts and should be accounted for as such.

Operating leases - Company as a lessee

The Company has entered into property lease agreements for its operations. The Company has determined, based on evaluation of the terms and conditions that the lessor retains all the significant risks and rewards of ownership of these properties. Accordingly, these agreements are accounted for as operating leases (see Note 26).

Estimates and Assumptions

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 within the next financial year are disclosed below.

Valuation of insurance contracts

Estimates have to be made both for the expected ultimate cost of claims reported at reporting date and for the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty. Nonlife liabilities are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

In addition to the use of loss development triangles per class of business as basis for projection of future claims, the independent actuary also considers the information gathered from the Company's Underwriting and Claims Departments in the actuarial computation of the policy reserves including claims IBNR and ultimate cost of claims handling expense. This information include, among others, large loss experience, concerns and uncertainties, operational changes in claims and underwriting processes, and external conditions such as market outlook, inflation and current catastrophes.

The carrying values of provisions for claims reported and claims IBNR gross of reinsurance amounted to ₱4,024,478,435 and ₱4,065,385,173 as of December 31, 2017 and 2016, respectively (see Note 12).

Fair values of AFS financial assets

The Company carries its AFS financial assets at fair value, which requires extensive use of accounting estimates and judgments. Fair value determinations for financial assets and liabilities are based generally on listed or quoted market prices. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time.

The carrying values of AFS financial assets amounted to ₱1,355,609,443 and ₱928,027,621 as of December 31, 2017 and 2016, respectively (see Note 7).

Impairment of financial assets

The Company treats AFS equity securities as impaired when there has been a significant or prolonged decline in the fair value below cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Company considers decline in fair value of at least 20% as significant while a decline in fair value of at least six months as prolonged. In addition, the Company evaluates other factors, including normal volatility in share

price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may also be appropriate when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, changes in technology and operational and financing cash flows.

In the case of AFS debt securities, impairment is assessed based on the same criteria as financial assets at amortized cost. 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 profit or loss, is transferred from equity to profit or loss. 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 interest income in profit or loss. 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 profit or loss, the impairment loss is reversed through profit or loss.

The Company recognized impairment loss on its AFS equity securities amounting to ₱30,000 in 2017 (nil in 2016) [Note 7]. The Company did not recognize impairment loss on its AFS debt securities in 2017 and 2016.

The Company reviews its loans and receivables at each reporting date to assess whether an allowance for impairment should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to age of balances, financial status of counterparties, payment behavior and known market factors. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a regular basis.

The carrying values of insurance receivables amounted to ₱1,307,493,365 and ₱1,253,610,994 as of December 31, 2017 and 2016, respectively. The allowance for impairment losses amounted to ₱222,071,500 and ₱241,476,237 as of December 31, 2017 and 2016, respectively (see Note 6).

The carrying values of loans and receivables amounted to ₱18,496,320 and ₱13,843,365 as of December 31, 2017 and 2016, respectively. The allowance for impairment losses amounted to ₱2,909,259 and ₱2,942,060 as of December 31, 2017 and 2016, respectively (see Note 7).

Impairment of nonfinancial assets

The Company assesses impairment on property and equipment, intangible assets and other assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

The carrying values of property and equipment, intangible assets and other assets amounted to ₱224,545,542 and ₱176,403,799 as of December 31, 2017 and 2016, respectively (see Note 11). The allowance for impairment losses on prepayments amounted to ₱1,800,000 as of December 31, 2017 and 2016.

Recognition of deferred tax income assets

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which these can be utilized. Significant management judgment is required to determine the amount of deferred income tax assets that can be recognized. These assets are periodically reviewed for realization. Periodic reviews cover the nature and amount of deferred income and expense items, expected timing when assets will be used or liabilities will be required to be reported, reliability of historical profitability of businesses expected to provide future earnings and tax planning strategies which can be utilized to increase the likelihood that tax assets will be realized.

As of December 31, 2017 and 2016, gross deferred income tax assets recognized amounted to ₱57,565,530 and ₱54,455,959, respectively (see Note 21).

Estimate of pension obligation

The determination of pension obligation is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

In determining the appropriate discount rate, management considers the interest rate of government bonds. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of each end of the reporting date. In accordance with PAS 19, actual results that differ from the Company's assumptions are recognized immediately in other comprehensive income in the period in which they arise. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation.

As of December 31, 2017 and 2016, net pension liability amounted to ₱18,252,725 and ₱27,445,600, respectively (see Note 20).

5. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	₱654,114	₱311,628
Cash in banks (Note 23)	186,862,126	105,516,049
Cash equivalents (Note 23)	80,282,785	301,002,334
	₱267,799,025	₱406,830,011

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents consist of short-term Philippine Peso cash placements with PNB and other banks which earn at the rates ranging from 0.88 % to 2.60% and 0.025% to 2.25% in 2017 and 2016, respectively.

Interest income from cash in banks and cash equivalents amounted to ₱1,002,271 and ₱2,031,580 in 2017 and 2016, respectively (see Note 17).

6. Insurance Receivables - net

This account consists of:

	2017	2016
Premiums receivable	₱1,183,395,546	₱1,078,739,328
Reinsurance recoverable on paid losses	305,019,999	354,089,133
Due from ceding companies	41,149,320	62,258,770
	1,529,564,865	1,495,087,231
Less allowance for impairment losses	222,071,500	241,476,237
	₱1,307,493,365	₱1,253,610,994

The aging analysis of insurance receivables as of December 31 follows:

	2017					Total
	Less than 30 Days	31 to 60 Days	61 to 120 Days	121 to 180 Days	More than 180 Days	
Premiums receivable	₱836,568,186	₱84,269,854	₱82,338,670	₱44,562,720	₱135,656,116	₱1,183,395,546
Reinsurance recoverable on paid losses	54,589,395	2,738,280	5,129,314	2,296,569	240,266,441	305,019,999
Due from ceding companies	4,168,771	1,385,561	8,347,157	7,438,136	19,809,695	41,149,320
	₱895,326,352	₱88,393,695	₱95,815,141	₱54,297,425	₱395,732,252	₱1,529,564,865

	2016					Total
	Less than 30 Days	31 to 60 Days	61 to 120 Days	121 to 180 Days	More than 180 Days	
Premiums receivable	₱682,245,719	₱92,606,612	₱100,877,522	₱32,559,220	₱170,450,255	₱1,078,739,328
Reinsurance recoverable on paid losses	59,781,843	4,931,243	9,736,308	46,014,664	233,625,075	354,089,133
Due from ceding companies	20,007,782	1,727,249	11,529,675	6,922,514	22,071,550	62,258,770
	₱762,035,344	₱99,265,104	₱122,143,505	₱85,496,398	₱426,146,880	₱1,495,087,231

The reconciliation of the changes in allowance for impairment losses on insurance receivable as of December 31 follows:

	2017			Total
	Premiums Receivable	Reinsurance Recoverable on Paid Losses	Due from Ceding Companies	
At January 1	₱93,628,620	₱137,677,185	₱10,170,432	₱241,476,237
Provisions	—	—	818,009	818,009
Reversal of allowance	(20,025,568)	—	(197,178)	(20,222,746)
At December 31	₱73,603,052	₱137,677,185	₱10,791,263	₱222,071,500
Individually impaired	₱26,799,079	₱135,510,143	₱9,483,292	₱171,792,514
Collectively impaired	46,803,973	2,167,042	1,307,971	50,278,986
	₱73,603,052	₱137,677,185	₱10,791,263	₱222,071,500

	2016			Total
	Premiums Receivable	Reinsurance Recoverable on Paid Losses	Due from Ceding Companies	
At January 1	₱93,628,620	₱137,677,185	₱10,169,000	₱241,474,805
Provisions	—	—	1,432	1,432
At December 31	₱93,628,620	₱137,677,185	₱10,170,432	₱241,476,237
Individually impaired	₱26,891,866	₱135,510,143	₱9,005,284	₱171,407,293
Collectively impaired	66,736,754	2,167,042	1,165,148	70,068,944
	₱93,628,620	₱137,677,185	₱10,170,432	₱241,476,237

7. Financial Assets

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

	2017	2016
AFS financial assets	₱1,355,609,443	₱928,027,621
Loans and receivables - net	18,496,320	13,843,365
	₱1,374,105,763	₱941,870,986

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

a) AFS financial assets

	2017	2016
Quoted securities - at fair value and at local currency		
Government debt securities	₱1,103,351,180	₱654,382,706
Private debt securities	250,439,150	272,090,099
Quoted equity securities		
Money market fund	1,300,151	1,280,854
Listed common shares	18,962	18,962
Club shares	500,000	255,000
	₱1,355,609,443	₱928,027,621

The costs or amortized costs of AFS financial assets as of December 31 follows:

	2017	2016
Quoted securities - at cost or amortized cost and at local currency		
Government debt securities	₱1,125,772,603	₱672,909,397
Private debt securities	270,127,039	272,090,099
Quoted equity securities		
Money market fund	1,276,844	1,276,844
Listed common shares	16,500	16,500
Club shares	225,000	255,000
	₱1,397,417,986	₱946,547,840

The movements in the carrying values of AFS financial assets as of December 31 follows:

	2017	2016
At January 1	₱928,027,621	₱974,698,569
Additions	547,493,179	1,044,236,228
Maturities	(90,000,000)	(1,075,241,301)
Amortization of premium (Note 17)	(6,593,033)	(28,337,336)
Fair value gains (losses)	(23,318,324)	12,671,461
At December 31	₱1,355,609,443	₱928,027,621

As of December 31, 2017 and 2016, government securities amounting to ₱140,000,000 and ₱65,000,000, respectively, are deposited with the IC in accordance with the provision of the Insurance Code as security for the benefit of policyholders and creditors of the Company.

The rollforward of revaluation reserve on AFS financial assets follows:

	2017	2016
At January 1	₱18,520,219	₱12,092,811
Changes in revaluation reserve recognized in other comprehensive income	23,318,324	(12,671,461)
Fair value gains (losses) realized through profit or loss:		
Impairment loss	(30,000)	—
Gain on sale of AFS financial assets	—	19,098,869
December 31	₱41,808,543	₱18,520,219

b) Loans and receivables

	2017	2016
Accounts receivable	₱12,612,040	₱4,593,006
General purpose loans	4,607,121	4,877,271
Mortgage loans	3,678,377	4,375,291
Short-term investments (Note 23)	508,041	2,435,357
Long-term investment (Note 23)	—	504,500
	21,405,579	16,785,425
Less allowance for impairment losses	2,909,259	2,942,060
	₱18,496,320	₱13,843,365

Accounts receivable pertains to employee's cash advances, insurance premiums receivable from its employees and receivables which are endorsed to the legal department. Accounts receivable are all due within one year.

The aging analysis of accounts receivable as of December 31 follows:

	Less than 30 Days	31 to 60 Days	61 to 120 Days	121 to 180 Days	More than 180 Days	Total
2017	₱5,240,602	₱205,240	₱2,708,020	₱786,304	₱3,671,874	₱12,612,040
2016	464,584	44,310	300,725	12,700	3,770,687	4,593,006

The Company provided allowance for impairment losses for accounts receivable amounting to ₱2,909,259 and ₱2,942,060 as of December 31, 2017 and 2016, respectively. The reconciliation of changes in allowance for impairment losses on accounts receivable as of December 31 follows:

	2017	2016
January 1	₱2,942,060	₱2,942,060
Reversal of allowance	(32,801)	—
December 31	₱2,909,259	₱2,942,060

Mortgage and general purpose loans earn interest that ranges from 3.00% to 8.00% per annum in 2017 and 3.00% to 7.00% per annum in 2016. Maturities of loans ranges from 1 to 25 years in 2017 and 2016. Interest income from mortgage and general purpose loans amounted to ₱369,655 and ₱450,531 in 2017 and 2016, respectively (see Note 17). No impairment loss was recognized for mortgage loans and general purpose loans in 2017 and 2016.

Short-term and long-term investments consist of risk-free high yielding financial instruments such as time deposits and special deposit accounts. Short-term investments have terms of more than 90 days but less than 360 days with interest rates of 0.88% to 1.50% in 2017 and 0.09% to 2.30% in 2016. Interest income from short-term investments amounted to ₱4,615,394 and ₱3,380,399 in 2017 and 2016, respectively (see Note 17).

8. Accrued Interests

This account consists of accrued interest income from:

	2017	2016
Cash and cash equivalents	₱92,545	₱263,363
AFS financial assets	9,322,554	6,944,554
	₱9,415,099	₱7,207,917

9. Reinsurance Assets

This account consists of:

	2017	2016 (As Restated, Note 2)
Reinsurance recoverable on unpaid losses (Note 12)	₱3,537,256,171	₱3,556,247,999
Deferred reinsurance premiums (Note 12)	816,058,424	631,012,699
	₱4,353,314,595	₱4,187,260,698

10. Deferred Acquisition Costs and Deferred Reinsurance Commissions

The rollforward analysis of deferred acquisition costs follows:

	2017	2016 (As Restated, Note 2)
At January 1	₱66,058,672	₱59,431,048
Cost deferred during the year	135,721,406	134,542,755
Cost incurred during the year	(136,285,123)	(127,915,131)
At December 31	₱65,494,955	₱66,058,672

The rollforward analysis of deferred reinsurance commissions follows:

	2017	2016 (As Restated, Note 2)
At January 1	₱20,539,351	₱9,393,247
Income deferred during the year	180,958,743	152,734,110
Income earned during the year	(174,246,684)	(141,588,006)
At December 31	₱27,251,410	₱20,539,351

11. Nonfinancial Assets

a) Property and equipment - net

The roll forward analysis of property and equipment follows:

	2017				
	Furniture, Fixtures and Equipment	Electronic Data Processing Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost					
At January 1	P7,436,461	P15,787,547	P18,283,849	P5,492,314	P47,000,171
Additions	P672,037	P4,464,029	P2,856,250	P816,943	P8,809,259
Disposals	—	—	(4,070,988)	(286,434)	(4,357,422)
At December 31	8,108,498	20,251,576	17,069,111	6,022,823	51,452,008
Accumulated Depreciation and Amortization					
At January 1	4,753,220	13,448,917	9,365,589	4,935,872	32,503,598
Depreciation and amortization (Note 19)	913,692	2,077,855	1,890,812	467,805	5,350,164
Disposals	—	—	(1,994,200)	(286,434)	(2,280,634)
At December 31	5,666,912	15,526,772	9,262,201	5,117,243	35,573,128
Net Book Value	P2,441,586	P4,724,804	P7,806,910	P905,580	P15,878,880

	2016				
	Furniture, Fixtures and Equipment	Electronic Data Processing Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost					
At January 1	P6,260,635	P14,612,461	P13,624,784	P5,432,740	P39,930,620
Additions	1,175,826	1,175,086	8,122,006	59,574	10,532,492
Disposals	—	—	(3,462,941)	—	(3,462,941)
At December 31	7,436,461	15,787,547	18,283,849	5,492,314	47,000,171
Accumulated Depreciation and Amortization					
At January 1	3,999,591	12,133,583	7,595,716	3,926,671	27,655,561
Depreciation and amortization (Note 19)	753,629	1,315,334	1,944,201	1,009,201	5,022,365
Disposals	—	—	(174,328)	—	(174,328)
At December 31	4,753,220	13,448,917	9,365,589	4,935,872	32,503,598
Net Book Value	P2,683,241	P2,338,630	P8,918,260	P556,442	P14,496,573

In 2017 and 2016, the Company disposed property and equipment at selling prices equal to their book values amounting to P2,076,788 and P3,288,613, respectively. Cost of fully depreciated property and equipment still being used amounted to P23,239,078 and P20,361,089 as of December 31, 2017 and 2016, respectively.

b) Intangible asset - net

The rollforward analysis of intangible asset follows:

	2017	2016
Cost		
At January 1	P10,257,600	P10,257,600
Additions	12,000,000	—
At December 31	22,257,600	10,257,600
Accumulated Amortization		
At January 1	10,193,023	10,139,823
Amortization (Note 19)	26,600	53,200
At December 31	10,219,623	10,193,023
Net Book Value	P12,037,977	P64,577

The intangible asset as of December 31, 2016 pertains to the Company's system which was acquired in 2010. In 2017, the Company upgraded its system to web-based which is expected to go live in May 2018. Total costs incurred amounted to ₱12 million which were capitalized as part of intangible asset as of December 31, 2017.

c. Other Assets

This account consists of:

	2017	2016
Creditable withholding taxes	₱168,915,383	₱134,764,957
Deferred input VAT	5,985,080	5,821,659
Input VAT	6,388,668	4,090,128
Documentary stamps fund	2,910,354	3,693,950
Prepayments and others - net of allowance of ₱1,800,000 in 2017 and 2016	12,429,200	13,471,955
	₱196,628,685	₱161,842,649

12. Insurance Contract Liabilities

Insurance contract liabilities may be analyzed as follows:

	2017			2016 (As Restated, Note 2)		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net
Provision for claims reported	₱3,770,532,435	₱3,325,335,171	₱445,197,264	₱3,822,476,173	₱3,370,468,999	₱452,007,174
Provision for claims IBNR	253,946,000	211,921,000	42,025,000	242,909,000	185,779,000	57,130,000
Total provision for claims reported and claims IBNR	4,024,478,435	3,537,256,171	487,222,264	4,065,385,173	3,556,247,999	509,137,174
Provision for unearned premiums	1,273,278,509	816,058,424	457,220,085	1,082,745,577	631,012,699	451,732,878
	₱5,297,756,944	₱4,353,314,595	₱944,442,349	₱5,148,130,750	₱4,187,260,698	₱960,870,052

The movements of total provision for claims reported and claims IBNR follows:

	2017			2016 (As Restated, Note 2)		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net
At January 1	₱4,065,385,173	₱3,556,247,999	₱509,137,174	₱4,252,145,272	₱3,556,412,575	₱695,732,697
Claims incurred during the year	376,280,090	41,702,174	334,577,916	733,149,450	468,242,052	264,907,398
Claims paid during the year (Note 18)	(428,223,828)	(86,836,002)	(341,387,826)	(787,557,549)	(304,381,628)	(483,175,921)
Increase (decrease) in IBNR (Note 18)	11,037,000	26,142,000	(15,105,000)	(132,352,000)	(164,025,000)	31,673,000
At December 31	₱4,024,478,435	₱3,537,256,171	₱487,222,264	₱4,065,385,173	₱3,556,247,999	₱509,137,174

The movements of provision for unearned premiums follows:

	2017			2016 (As Restated, Note 2)		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net
At January 1	₱1,082,745,577	₱631,012,699	₱451,732,878	₱1,211,370,406	₱799,087,605	₱412,282,801
Premiums written during the year (Note 16)	2,484,743,010	1,823,854,301	660,888,709	2,220,386,461	1,555,081,873	665,304,588
Premiums earned during the year (Note 16)	(2,294,210,078)	(1,638,808,576)	(655,401,502)	(2,349,011,290)	(1,723,156,779)	(625,854,511)
At December 31	₱1,273,278,509	₱816,058,424	₱457,220,085	₱1,082,745,577	₱631,012,699	₱451,732,878

13. Insurance Payables

This account consists of:

	2017	2016
Premiums due to reinsurers	₱862,759,103	₱729,524,456
Funds held for reinsurers	–	35,951
	₱862,759,103	₱729,560,407

The rollforward analysis of premiums due to reinsurers follows:

	2017	2016
At January 1	₱729,524,456	₱736,960,880
Arising during the year	1,447,140,114	919,258,173
Paid	(1,313,905,467)	(926,694,597)
At December 31	₱862,759,103	₱729,524,456

The rollforward analysis of funds held for reinsurers follows:

	2017	2016
At January 1	₱35,951	₱649,795
Arising during the year	179,439	117,561
Utilized	(215,390)	(731,405)
At December 31	₱–	₱35,951

Interest expense on fund held for reinsurers amounted to ₱42,006 in 2017 and ₱11,881 in 2016.

14. Accounts Payable and Accrued Expenses

This account consists of:

	2017	2016
Accounts payable	₱155,789,844	₱123,948,903
Deferred output VAT	133,299,952	111,670,441
Commissions payable	74,870,499	94,617,562
Accrued expenses	67,914,936	34,891,020
Premium deposits	44,799,398	73,903,831
Taxes payable	38,864,837	43,931,318
	₱515,539,466	₱482,963,075

Accounts payable pertains to bonds collateral and various unpaid invoices from suppliers.

Deferred output VAT pertains to output VAT for premiums and commissions not yet collected.

Commissions payable are unpaid commissions on the Company's direct business, payable to agents and brokers which are due upon the collection of the related premiums receivable.

Accrued expenses comprise of contingent profit commission, employee benefits, service fees, utilities and other expenses accrued as of the reporting date which are due within one year.

Premium deposits pertains to collections from of policyholders which were received but were not yet properly applied due to incomplete reference.

Taxes payable consist of output VAT, documentary stamps, withholding taxes and other taxes which are due within one year.

15. Equity

Capital stock

The details of capital stock follows:

	2017	2016
Capital stock - 100 par value per share		
Authorized - 10,000,000 common shares	₱1,000,000,000	₱1,000,000,000
Issued and outstanding - 9,126,000 common shares	912,600,000	912,600,000

Contingency surplus

This represents contributions of the shareholders in order to comply with the capital requirements of the Insurance Code.

In compliance with the minimum networth requirement, on November 25, 2016, the BOD of PNB approved the infusion of additional cash amounting to ₱200,000,000 (see Note 22).

On December 28, 2016, the Bangko Sentral ng Pilipinas approved PNB's request to infuse additional capital to the Company.

On January 12, 2017, the Company received the capital infusion in cash.

16. Net Earned Premiums

Net earned premiums on insurance contracts consist of:

	2017	2016 (As Restated, Note 2)
Gross premiums written		
Direct	₱2,362,760,703	₱2,068,948,858
Assumed	121,982,307	151,437,603
Total gross premiums written (Note 12)	2,484,743,010	2,220,386,461
Gross change in provision for unearned premiums	(190,532,932)	128,624,829
Total gross earned premiums (Note 12)	2,294,210,078	2,349,011,290
Reinsurers' share of gross premiums written:		
Direct	1,400,734,799	1,142,778,662
Assumed	423,119,502	412,303,211
Total reinsurers' share of gross premiums written (Note 12)	1,823,854,301	1,555,081,873
Reinsurers' share of gross change in provision for unearned premiums	(185,045,725)	168,074,906
Total reinsurers' share of gross earned premiums (Note 12)	1,638,808,576	1,723,156,779
	₱655,401,502	₱625,854,511

17. Investment and Other Income

This account consists of:

	2017	2016
Interest income:		
AFS financial assets (Note 7)	P46,697,764	P29,391,199
Short-term investments (Note 7)	4,615,394	3,380,399
Cash and cash equivalents (Note 5)	1,002,271	2,031,580
Mortgage loans and general purpose loans (Note 7)	369,655	450,531
Dividend income	–	2,707,169
Other income	1,425,519	208,850
	P54,110,603	P38,169,728

18. Net Insurance Benefits and Claims

Gross insurance contract benefits and claims paid follows:

	2017	2016
Direct	P387,816,134	P656,135,059
Assumed	40,407,694	131,422,490
	P428,223,828	P787,557,549

Reinsurers' share of gross insurance contract benefits and claims paid follows:

	2017	2016
Direct	P10,386,307	P117,013,346
Assumed	76,449,695	187,368,282
	P86,836,002	P304,381,628

Gross change in insurance contract liabilities follows:

	2017	2016 (As Restated, Note 2)
Direct	P80,965,901	P267,924,927
Assumed	(29,022,163)	(213,516,828)
Provision for claims IBNR	(11,037,000)	132,352,000
	P40,906,738	P186,760,099

Reinsurers' share of gross change in insurance contract liabilities follow:

	2017	2016 (As Restated, Note 2)
Direct	(P101,407,728)	(P191,961,187)
Assumed	146,541,556	28,100,763
Provision for claims IBNR	(26,142,000)	164,025,000
	P18,991,828	P164,576

19. Operating Expenses

This account consists of:

	2017	2016
Salaries, wages and allowances (Note 23)	₱121,738,581	₱135,597,468
Employee benefits	19,300,856	23,746,225
Rent expense (Notes 23 and 26)	17,819,700	15,211,630
Office supplies	15,170,806	14,456,790
Net benefit cost (Notes 20 and 23)	8,611,319	9,280,746
Marketing and promotions	7,639,518	6,889,103
Depreciation and amortization (Note 11)	5,376,764	5,075,565
Professional fees	4,308,095	3,338,303
Taxes, licenses and fees	3,053,412	1,616,424
Communication	3,014,208	3,632,427
Entertainment, amusement and recreation	2,686,469	976,078
Transportation and travel	2,476,991	2,266,150
Light and water expense	509,539	593,348
Repairs and maintenance	369,847	379,885
Miscellaneous	13,485,590	9,963,180
	₱225,561,695	₱233,023,322

20. Pension Cost

The Company has a funded defined benefit plan, covering substantially all of its employees, which requires contribution to be made to administered funds. The plan is administered by a local bank as trustee.

The tables in the next page summarize the components of net pension expense recognized in the statements of income under “Operating expenses”, “Remeasurement loss on defined benefit obligation” recognized in the statements of comprehensive income and the unfunded status and amounts recognized in the statements of financial position for the plan.

	Net benefit cost in statement of income				Remeasurements in other comprehensive income				
	At January 1	Current service cost	Net interest	Subtotal (Note 19)	Benefits paid	Loss from plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from changes in experience adjustments	At December 31
Present value of defined benefit obligation	¥59,358,587	¥7,184,147	¥3,086,647	¥10,270,794	¥-	¥-	(¥4,051,285)	(¥6,648,436)	¥58,929,660
Fair value of plan assets	(31,912,987)	-	(1,659,475)	(1,659,475)	-	(262,770)	-	-	(40,676,935)
	¥27,445,600	¥7,184,147	¥1,427,172	¥8,611,319	¥-	(¥262,770)	(¥4,051,285)	(¥6,648,436)	¥18,252,725

	Net benefit cost in statement of income			Remeasurements in other comprehensive income				At			
	At January 1	Current service cost	Net interest	Subtotal (Note 19)	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from changes in experience adjustments	Subtotal	Contributions	December 31
Present value of defined benefit obligation	¥57,704,920	¥7,685,724	¥2,787,148	¥10,472,872	(¥797,745)	¥—	(¥2,188,667)	(¥5,832,793)	(¥8,021,460)	¥—	¥59,358,587
Fair value of plan assets	(24,681,693)	—	(1,192,126)	(1,192,126)	797,745	675,278	—	—	675,278	(7,512,191)	(31,912,987)
	¥33,023,227	¥7,685,724	¥1,595,022	¥9,280,746	¥—	¥675,278	(¥2,188,667)	(¥5,832,793)	(¥7,346,182)	(¥7,512,191)	¥27,445,600

Details of accumulated remeasurement loss on defined benefit plan as of December 31 follows:

	2017	2016
At January 1	₱38,129,948	₱45,476,130
Remeasurement loss recognized in other comprehensive income during the year	10,962,491	7,346,182
	27,167,457	38,129,948
Income tax effect (Note 21)	8,150,237	11,438,984
At December 31	₱19,017,220	₱26,690,964

The distribution of the plan assets follows:

	2017	2016
Cash	₱22,477,400	₱19,568,462
Investments in debt securities	18,229,114	12,364,941
Liabilities	(29,579)	(20,416)
	₱40,676,935	₱31,912,987

The carrying values of the retirement plan assets approximates their fair values as of December 31, 2017 and 2016.

The actual return on plan assets amounted to ₱1,922,245 and ₱516,848 in 2017 and 2016, respectively. The Company expects to contribute ₱26,305,873 to its defined benefit plan in 2018.

The net benefit cost and the present value of defined benefit obligation are determined using actuarial valuations. The Company's latest actuarial valuation is as of December 31, 2017. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension obligation for the Company's plan are shown below:

	2017	2016
Discount rate	5.91%	5.20%
Salary increase rate	7.00%	7.00%
Average years of service	6.41	6.38

The discount rates used were based on approximated zero- coupon yield of government bonds with remaining period to maturity approximating the estimated average duration of benefit payment. The average duration of the defined benefit obligation is estimated to be 15 years and 18 years for 2017 and 2016, respectively.

To approximate the zero-coupon yield for a given period to maturity, the prevailing yields of coupon-paying government bonds with the same period to maturity, as published by the Philippine Dealing Exchange (PDEX), was simply adopted. This approximation method is based on the principle that zero-coupon bond yields could be higher or lower than the coupon-paying bond yields depending on interest rate outlook and investors' liquidity requirements as shown by a study of actual market transactions and thus, such rates should be close on the average. All other popular methods produce results consistently lower or higher than the coupon-paying yields given a normal yield curve.

The salary increase rates take into consideration the prevailing inflation rate and company policy.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

	Change in variables	Increase (decrease) in present value of defined benefit obligation	
		2017	2016
Discount rate	+1.00%	(P5,054,577)	(P5,341,159)
	(1.00%)	5,929,152	6,374,891
Salary increase rate	+1.00%	5,749,957	6,081,194
	(1.00%)	(5,048,158)	(5,272,015)

There were no changes from the previous period in the methods and assumptions used in preparing the sensitivity analysis.

Below is the maturity profile of the undiscounted benefit payments as of December 31:

	2017	2016
Less than one year	P2,293,940	P2,679,959
More than one year to five years	13,315,821	11,006,839
More than five years to ten years	29,205,289	25,127,265
More than ten years to fifteen years	33,098,987	30,845,865
More than fifteen to twenty years	151,858,637	152,207,911

21. Income Tax

- a. The Company's provision for (benefit from) income tax consists of:

	2017	2016 (As Restated, Note 2)
Final	P11,808,249	P9,965,014
Current	2,886,182	5,201,492
Deferred	(7,203,883)	(9,769,319)
	P7,490,548	P5,397,187

The current provision for income tax represents MCIT in 2017 and 2016.

- b. The components of the Company's net deferred income tax assets follows:

	2017	2016 (As Restated, Note 2)
Deferred income tax assets through profit or loss:		
Allowance for impairment losses	P21,763,905	P21,763,905
Excess of net provision for unearned premiums per books over tax basis	9,447,456	7,498,151
Deferred reinsurance commissions	8,175,423	6,161,806

(Forward)

	2017	2016 (As Restated, Note 2)
Excess MCIT	₱8,087,674	₱5,201,492
Unamortized pension cost	1,170,576	1,522,352
Unrealized foreign exchange losses	770,259	869,269
	49,415,293	43,016,975
Deferred income tax assets through other comprehensive income:		
Remeasurement loss on defined benefit obligation	8,150,237	11,438,984
	57,565,530	54,455,959
Deferred income tax liabilities through profit or loss:		
Deferred acquisition costs	(19,648,487)	(19,817,602)
Net pension liability	(2,674,420)	(3,310,870)
	(22,322,907)	(23,128,472)
	₱35,242,623	₱31,327,487

- c. The table below shows the temporary differences for which no deferred income tax assets have been set up because the Company believes that there will be no future taxable profit against which the benefit from these can be utilized.

	2017	2016 (As Restated, Note 2)
NOLCO	₱260,537,398	₱430,886,814
Provision for claims IBNR - net	42,025,000	57,130,000
Provision for claim handling expense - net	18,247,353	21,134,272
Allowance for impairment losses:		
Insurance receivable	149,525,150	168,929,887
Loans and receivables	2,909,259	2,942,060
Impairment loss on AFS financial assets	30,000	—
Prepayments	1,800,000	1,800,000
Accruals	132,710,077	81,303,874

- d. Details of NOLCO and MCIT as of December 31 follows:

Year Incurred	Year Expiring	NOLCO		MCIT	
		2017	2016	2017	2016
2017	2020	₱—	₱—	₱2,886,182	₱—
2016	2019	—	—	5,201,492	5,201,492
2015	2018	260,537,398	260,537,398	—	—
2014	2017	—	170,349,416	—	—
		₱260,537,398	₱430,886,814	₱8,087,674	₱5,201,492

The movements in NOLCO and MCIT as of December 31 are as follows:

	NOLCO		MCIT	
	2017	2016	2017	2016
Beginning balances	₱430,886,814	₱1,368,272,849	₱5,201,492	₱5,201,492
Additions	–	–	2,886,182	–
Application	(55,875,514)	(157,950,712)	–	–
Expiration	(114,473,902)	(779,435,323)	–	–
Ending balances	₱260,537,398	₱430,886,814	₱8,087,674	₱5,201,492

e. The reconciliation of the statutory income tax rate to effective income tax rate is as follows:

	2017	2016 (As Restated, Note 2)
Statutory income tax rate	₱23,107,520	₱21,567,895
Add (deduct) tax effects of:		
Application of NOLCO	(16,762,654)	(47,385,214)
Interest income already subjected to final tax	(5,864,290)	(8,977,140)
Temporary deductible differences for which no deferred tax asset is recognized	4,202,024	37,847,150
Amortization of premium	1,977,910	8,501,201
Nondeductible expenses	830,038	385,107
Nontaxable income from gain on sale of AFS	–	(5,729,661)
Dividend income exempt from tax	–	(812,151)
Effective income tax rate	₱7,490,548	₱5,397,187

f. 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 laws 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.

22. Management of Capital, Insurance and Financial Risks

Regulatory Framework

Regulators are interested in protecting the rights of the policy holders and maintain close vigil to ensure that the Company is satisfactorily managing the affairs for their benefit. At the same time, the regulators are also ensuring that the Company maintains appropriate solvency position to meet liabilities arising from claims and that the risks are at acceptable levels.

The operations of the Company are 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., minimum statutory network and risk-based capital requirements).

Capital Management Framework

The primary objective of the Company's capital management is aligned with the statutory requirements imposed by the IC for non-life insurance companies.

The Company's Compliance Unit is tasked with the responsibility of ensuring compliance with externally imposed capital requirements.

Minimum Statutory Networth

On August 5, 2013, the President of the Philippines approved RA No. 10607, known as the "New Insurance Code", which provides the new capitalization requirements for all existing insurance companies based on networth on a staggered basis starting June 30, 2013 up to December 31, 2022.

On January 13, 2015, the IC issued CL No. 2015-02-A, *Minimum Capitalization Requirements Under Sections 194, 197, 200 and 289 of Republic Act 10607 (The Amended Insurance Code)*, which provides for the clarification of minimum capital requirements under Sections 194, 197, 200 and 289 of the New Insurance Code. Under the said circular, non-life insurance companies duly licensed by the IC must have a networth of at least ₱250,000,000 by December 31, 2013. The minimum networth of the said companies shall increase to the following amounts:

Compliance Date	Minimum Networth
December 31, 2016	₱550,000,000
December 31, 2019	900,000,000
December 31, 2022	1,300,000,000

The said circular supersedes Department Order Nos. 27-06 and 15-2012 and CL Nos. 22-2008 and 26-2008.

As of December 31, 2017 and 2016, the Company's estimated statutory networth amounted to ₱592,282,856 and ₱484,305,286, respectively. In compliance with the minimum networth requirement, the BOD of PNB approved the infusion of additional cash amounting to ₱200,000,000 on November 25, 2016 (see Note 15).

The final amount of networth can be determined only after the accounts of the Company have been examined by the IC. The minimum networth requirement must remain unimpaired for the continuance of the license.

Risk-based Capital (RBC) Requirements

For purposes of the December 31, 2017 and 2016 financial reporting, the Company determined its compliance with the RBC requirements of the IC based on the provisions of CL No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework*, and IMC No. 7-2006, *Compliance to IC Requirements*, respectively. These circulars provide RBC frameworks for non-life insurance companies in order to establish the required amounts of capital to be maintained in relation to investment and insurance risks. A non-life insurance company is required to maintain a minimum RBC ratio of 100% and not fail the trend test on a yearly basis. Failure to meet the minimum RBC ratio shall subject the insurance company to corresponding regulatory intervention which has been defined at various levels.

Pursuant to CL No. 2017-15, effective January 1, 2017, non-life insurance companies are required to maintain minimum the RBC2 requirement as prescribed under CL No. 2016-68. Under the RBC2 framework, the RBC2 ratio shall be calculated as total available capital divided by the RBC2 requirement. The following table shows the estimated RBC2 ratio as of December 31, 2017 as determined by the Company based on the RBC2 framework:

Total available capital	₱850,391,281
RBC2 requirement	324,087,312
RBC2 ratio	262%

The total available capital shall be the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and determinations. Tier 1 capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis. This capital is considered to be the highest quality capital available to the insurer. Tier 2 Capital does not have the same high quality characteristics of Tier 1 capital, but can provide an additional buffer to the insurer. Tier 2 capital shall not exceed 50% of Tier 1 Capital. The RBC2 requirement shall be the capital that is required to be held in order to cover the risks an insurance company is exposed to and shall be computed using the formula as prescribed under CL No. 2016-68.

Pursuant to IMC No. 7-2006, the RBC ratio under the old framework shall be calculated as networth divided by the RBC requirement. The following table shows the estimated RBC ratio as of December 31, 2016 as determined by the Company based on the old RBC framework:

Networth	₱616,009,165
RBC requirement	855,324,930
RBC ratio	72%

Networth shall include paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of networth only to the extent authorized by the IC. The RBC requirement shall be computed using the formula prescribed under IMC No. 7-2006.

The final amount of the RBC ratios can only be determined after the accounts of the Company have been examined by the IC.

If the Company failed to meet the minimum required statutory networth and RBC requirements, the IC is authorized to suspend or revoke all certificates of authority granted to the Company, its officers and agents, and no new business shall be borne by and for the Company until its authority is restored by the IC.

Financial Reporting Framework

CL No. 2016-65 prescribes the new financial reporting framework (FRF) that is used for the statutory quarterly and annual reporting effective January 1, 2017. This includes rules and regulations concerning Titles III and IV of Chapter III of the New Insurance Code and all other accounts not discussed in the New Insurance Code but are used in accounting of insurance and reinsurance companies.

The new FRF includes the economic valuation of assets and liabilities based on internationally accepted accounting, actuarial and insurance core principles which requires quarterly and annual reporting of networth to the IC.

Insurance Risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, when actual benefits paid are greater than originally estimated and subsequent development of long-term claims.

The Company principally issues the following types of general insurance contracts: fire, motor car, accident, casualty, marine, aviation, engineering and surety. Risks under general insurance policies usually cover a twelve-month duration. The most significant risks arise from climate changes, natural disasters and terrorist activities. These risks vary significantly in relation to the

location of the risk insured by the Company, type of risk insured and by industry. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

The Company's risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing claims in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, for example hurricanes, earthquakes and flood damages.

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a predetermined maximum amount based on the Company's risk appetite as decided by management.

The following table sets out the concentration of the claims liabilities by type of contract:

	2017		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Fire	₱3,813,123,864	₱3,407,788,420	₱405,335,444
Motorcar	47,019,723	9,219,614	37,800,109
Engineering	26,942,739	8,660,801	18,281,938
Casualty	35,761,504	22,130,426	13,631,078
Accident	20,139,331	15,119,540	5,019,791
Marine	19,510,252	15,006,203	4,504,049
Surety	54,182,022	51,532,167	2,649,855
Aviation	7,799,000	7,799,000	—
	₱4,024,478,435	₱3,537,256,171	₱487,222,264

	2016		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Fire	₱3,845,059,240	₱3,476,487,119	₱368,572,121
Motorcar	57,270,583	7,607,000	49,663,583
Engineering	43,116,669	5,191,768	37,924,901
Casualty	46,725,997	13,120,855	33,605,142
Accident	27,812,558	11,236,233	16,576,325
Marine	6,464,813	4,330,007	2,134,806
Surety	38,920,313	38,260,167	660,146
Aviation	15,000	14,850	150
	₱4,065,385,173	₱3,556,247,999	₱509,137,174

Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claims handling costs, and number of claims for each accident year. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Sensitivities

The general insurance claims provision is sensitive to the Company's key assumptions. The sensitivity of certain assumptions such as legislative change and uncertainty in the estimation process, among others, is not possible to quantify. As a result, the final liabilities may change as a result of succeeding developments. Differences from recomputation of the final liabilities are taken up in subsequent financial statements.

The sensitivity analysis below is performed for a reasonably possible movement in key assumptions with all other assumptions held constant. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis.

	2017		
	Change in Assumptions	Increase on Net Liabilities	Decrease on Profit Before Tax
Average claim cost	+8%	₱27,959,985	(₱28,043,865)
Average number of claims	+2%	6,471,351	(6,471,351)
	2016		
	Change in Assumptions	Increase on Net Liabilities	Decrease on Profit Before Tax
Average claim cost	+12%	₱40,359,094	(₱40,359,094)
Average number of claims	+11%	25,560,874	(25,560,874)

The average claim costs and number of claims are based on the Company's claims development experience.

Claims Development Tables

The tables in the next page show the development of claims over a period of time. These reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

The Company aims to maintain strong reserves in respect of its general insurance in order to protect against adverse future claims experience and development. As claims develop and ultimate costs of claims become more certain, the absence of adverse claims experience will then result in a release of reserves from earlier accident years.

Gross Insurance Contract Liabilities as of December 31, 2017:

Accident year	2002 & prior	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
Estimate of ultimate claim costs:																	
At the end of accident year:																	
One year later	947,890,416	916,905,125	923,960,969	948,226,674	930,820,039	928,418,120	922,977,066	981,636,125	987,923,571	945,284,772	913,637,007	936,608,246	917,676,232	911,664,150	949,319,182	949,034,647	96,930,634.67
Two years later	439,246,448	147,022,267	160,369,654	76,852,185	290,840,125	197,427,892	845,048,043	886,486,262	870,997,346	672,115,735	1,723,429,213	3,753,775,304	628,849,101	981,843,087	257,152,922	257,152,922	1,195,631,753
Three years later	394,388,208	126,653,889	92,861,318	55,621,621	256,638,835	182,529,123	788,044,754	1,014,812,195	512,510,170	566,486,846	1,361,698,515	3,560,004,485	1,291,891,865	1,015,631,753			988,024,498
Four years later	380,739,246	97,210,321	92,602,457	52,440,602	202,096,369	185,257,149	647,738,725	1,156,509,641	320,324,852	541,274,143	1,366,970,740	3,581,744,012	988,024,498				3,845,660,635
Five years later	352,542,444	89,691,259	92,570,643	74,689,256	186,107,402	175,309,022	642,580,785	1,125,470,346	473,071,350	598,127,784	1,341,974,845	3,845,660,635					1,321,680,149
Six years later	337,419,486	89,691,259	92,570,643	74,689,256	186,107,402	175,309,022	642,580,785	1,125,470,346	473,071,350	598,127,784	1,341,974,845						1,321,680,149
Seven years later	337,419,486	89,691,259	92,570,643	74,689,256	186,107,402	175,309,022	642,580,785	1,125,470,346	473,071,350	598,127,784	1,341,974,845						1,321,680,149
Eight years later	337,419,486	89,691,259	92,570,643	74,689,256	186,107,402	175,309,022	642,580,785	1,125,470,346	473,071,350	598,127,784	1,341,974,845						1,321,680,149
Nine years later	337,419,486	89,691,259	92,570,643	74,689,256	186,107,402	175,309,022	642,580,785	1,125,470,346	473,071,350	598,127,784	1,341,974,845						1,321,680,149
Ten years later	337,419,486	89,691,259	92,570,643	74,689,256	186,107,402	175,309,022	642,580,785	1,125,470,346	473,071,350	598,127,784	1,341,974,845						1,321,680,149
Eleven years later	337,419,486	89,691,259	92,570,643	74,689,256	186,107,402	175,309,022	642,580,785	1,125,470,346	473,071,350	598,127,784	1,341,974,845						1,321,680,149
Twelve years later	337,419,486	89,691,259	92,570,643	74,689,256	186,107,402	175,309,022	642,580,785	1,125,470,346	473,071,350	598,127,784	1,341,974,845						1,321,680,149
Thirteen years later	337,419,486	89,691,259	92,570,643	74,689,256	186,107,402	175,309,022	642,580,785	1,125,470,346	473,071,350	598,127,784	1,341,974,845						1,321,680,149
Fourteen years later	337,419,486	89,691,259	92,570,643	74,689,256	186,107,402	175,309,022	642,580,785	1,125,470,346	473,071,350	598,127,784	1,341,974,845						1,321,680,149
Fifteen years later	337,419,486	89,691,259	92,570,643	74,689,256	186,107,402	175,309,022	642,580,785	1,125,470,346	473,071,350	598,127,784	1,341,974,845						1,321,680,149
Current estimate of cumulative claims	462,156,462	89,691,259	92,570,643	74,689,256	186,107,402	175,309,022	642,580,785	1,125,470,346	473,071,350	598,127,784	1,341,974,845						462,156,462
Unearned premium in claims	462,156,462	89,691,259	92,570,643	74,689,256	186,107,402	175,309,022	642,580,785	1,125,470,346	473,071,350	598,127,784	1,341,974,845						462,156,462
Total gross insurance contract liabilities in the statement of financial position	462,156,462	89,691,259	92,570,643	74,689,256	186,107,402	175,309,022	642,580,785	1,125,470,346	473,071,350	598,127,784	1,341,974,845						462,156,462

Net Insurance Contract Liabilities as of December 31, 2017:

Accident year	2002 & prior	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
Estimate of ultimate claim costs:																	
At the end of accident year:																	
One year later	912,542,294	948,534,862	941,035,196	962,030,420	979,735,159	932,988,942	912,337,169	918,272,485	911,601,019	917,861,808	925,346,302	911,112,156	925,346,302	936,856,017	936,232,968	938,753,650	938,753,650
Two years later	99,481,758	45,688,243	34,836,443	29,248,837	65,532,145	52,094,680	129,607,987	181,608,445	95,485,357	157,513,241	262,606,672	1,014,908,445	402,437,367	394,654,795	398,890,711	398,890,711	398,890,711
Three years later	77,031,223	42,841,624	28,656,889	18,241,587	40,840,449	48,003,672	101,735,189	96,650,838	84,185,614	179,799,648	223,824,365	858,590,820	345,366,378	385,680,604			101,229,175
Four years later	76,438,999	15,982,250	21,214,512	17,188,580	44,846,028	47,664,817	88,580,466	101,754,575	79,411,914	142,158,712	217,406,739	862,543,817	181,225,179				1,164,162,901
Five years later	39,352,122	11,511,358	20,279,986	16,571,438	44,888,454	42,392,530	78,286,273	104,807,539	79,183,732	130,757,195	194,142,901						130,903,237
Six years later	29,345,275	8,910,825	20,279,986	16,571,438	44,888,454	42,392,530	78,286,273	104,807,539	79,183,732	130,757,195	194,142,901						130,903,237
Seven years later	47,588,687	8,910,825	20,279,986	16,571,438	44,888,454	42,392,530	78,286,273	104,807,539	79,183,732	130,757,195	194,142,901						130,903,237
Eight years later	47,588,687	8,910,825	20,279,986	16,571,438	44,888,454	42,392,530	78,286,273	104,807,539	79,183,732	130,757,195	194,142,901						130,903,237
Nine years later	47,588,687	8,910,825	20,279,986	16,571,438	44,888,454	42,392,530	78,286,273	104,807,539	79,183,732	130,757,195	194,142,901						130,903,237
Ten years later	52,161,238	8,838,368	20,648,988	15,575,280	45,971,205	42,045,389	89,830,448	127,453,887									127,453,887
Eleven years later	52,161,238	8,838,368	20,648,988	15,575,280	45,971,205	42,045,389	89,830,448	127,453,887									127,453,887
Twelve years later	40,707,219	8,838,368	20,648,988	15,575,280	45,971,205	42,045,389	89,830,448	127,453,887									127,453,887
Thirteen years later	40,707,219	8,838,368	20,648,988	15,575,280	45,971,205	42,045,389	89,830,448	127,453,887									127,453,887
Fourteen years later	40,707,219	8,838,368	20,648,988	15,575,280	45,971,205	42,045,389	89,830,448	127,453,887									127,453,887
Fifteen years later	40,707,219	8,838,368	20,648,988	15,575,280	45,971,205	42,045,389	89,830,448	127,453,887									127,453,887
Current estimate of cumulative claims	51,703,977	8,789,897	20,031,428	15,575,280	45,903,742	41,985,417	89,830,448	127,453,887									127,453,887
Unearned premium in claims	51,703,977	8,789,897	20,031,428	15,575,280	45,903,742	41,985,417	89,830,448	127,453,887									127,453,887
Total gross insurance contract liabilities in the statement of financial position	51,703,977	8,789,897	20,031,428	15,575,280	45,903,742	41,985,417	89,830,448	127,453,887									127,453,887

Fair Value of Financial Instruments

Due to the short-term nature of cash and cash equivalents, insurance receivables, short-term loans and other receivables, accrued interest, insurance payables, accounts payable and accrued expenses, the fair values approximates the carrying values as of reporting date.

The methods and assumptions used by the Company in estimating the fair values of its financial instruments are:

The fair values of AFS financial assets that are actively traded in organized financial markets are determined by reference to quoted market bid prices at the close of business at the reporting date.

The fair values of the mortgage loans are estimated using the discounted cash flow technique that makes use of risk-free interest rates of 10-year government bonds. Discount rates used as of December 31, 2017 and 2016 ranges from 0.75% to 9.0%. The fair values of mortgage loans amounted to ₱2,945,820 and ₱3,330,487 as of December 31, 2017 and 2016, respectively.

Fair Value Hierarchy

The Company classifies its financial assets at fair value as follows:

	2017			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets measured at fair value:				
AFS financial assets at local currency				
Government debt securities	₱783,062,983	₱320,288,197	₱—	₱1,103,351,180
Private debt securities	250,439,150	—	—	250,439,150
Money market fund	1,300,151	—	—	1,300,151
Listed common shares	18,962	—	—	18,962
Club shares	500,000	—	—	500,000
	1,035,321,246	320,288,197	—	1,355,609,443
Assets for which fair values are disclosed - Mortgage loans	—	2,945,820	—	2,945,820
	₱1,035,321,246	₱323,234,017	₱—	₱1,358,555,263
	2016			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets measured at fair value:				
AFS financial assets at local currency				
Government debt securities	₱389,712,195	₱264,670,511	₱—	₱654,382,706
Private debt securities	272,090,099	—	—	272,090,099
Money market fund	1,280,854	—	—	1,280,854
Listed common shares	18,962	—	—	18,962
Club shares	255,000	—	—	255,000
	663,357,110	264,670,511	—	928,027,621
Assets for which fair values are disclosed - Mortgage loans	—	3,330,487	—	3,330,487
	₱663,357,110	₱268,000,998	₱—	₱931,358,108

In 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Financial Risk

The Company is exposed to financial risks through its financial assets, financial liabilities and insurance liabilities. In particular, the key financial risk that the Company is exposed to is when the 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.

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.

The Company manages the level of credit risk it accepts through a comprehensive credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company; setting up of exposure limits by each counterparty or group of counterparties; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collateral and guarantees; reporting of credit risk exposures; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus, a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements. The Company selects only domestic and foreign companies with strong financial standing and excellent track records which are allowed to participate in the Company's reinsurance programs.

In respect of investment securities, the Company limits its exposure by setting maximum limits of portfolio securities with a single issuer or group of issuers. The Company also makes use of institutions with high credit worthiness.

The Company sets the maximum amounts and limits that may be advanced to or placed with individual corporate counterparties which are set by reference to their long-term ratings.

The Investment Committee determines the investment placements of the Company which is being implemented by the Treasury Division. The Collection Division enforces the strict collection of insurance balance receivable balances and ensures that set policies on credit term arrangements are complied with. If necessary, offsetting of receivables against payables are effected on reinsurance accounts.

With respect to credit risk arising from its financial assets, which comprise of AFS financial assets and loans and receivables, the Company's maximum exposure is equal to the carrying amounts of these financial assets.

The tables below provide information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties.

2017				
	Neither Past Due nor Impaired		Past Due or Impaired	Total
	Investment Grade	Non-investment Grade Satisfactory		
Financial assets				
AFS financial assets				
Government debt securities	₱1,103,351,180	₱—	₱—	₱1,103,351,180
Private debt securities	250,439,150	—	—	250,439,150
Equity securities	1,819,113	—	—	1,819,113
Loans and receivables				
Cash and cash equivalents*	267,144,911	—	—	267,144,911
Insurance receivables				
Premiums receivable	—	980,852,299	202,543,247	1,183,395,546
Reinsurance recoverable on paid losses	—	62,456,989	242,563,010	305,019,999
Due from ceding companies	—	13,901,489	27,247,831	41,149,320
Other loans and receivables				
Accounts receivables	—	9,702,781	2,909,259	12,612,040
General purpose loans	—	4,607,121	—	4,607,121
Mortgage loans	—	3,678,377	—	3,678,377
Short-term investments	508,041	—	—	508,041
Accrued interests	9,415,099	—	—	9,415,099
Total financial assets	₱1,632,677,494	₱1,075,199,056	₱475,263,347	₱3,183,139,897

*Excluding cash on hand amounting to ₱654,114.

2016				
	Neither Past Due nor Impaired		Past Due or Impaired	Total
	Investment Grade	Non-investment Grade Satisfactory		
Financial assets				
AFS financial assets				
Government debt securities	₱654,382,706	₱—	₱—	₱654,382,706
Private debt securities	272,090,099	—	—	272,090,099
Equity securities	1,554,816	—	—	1,554,816
Loans and receivables				
Cash and cash equivalents*	406,518,383	—	—	406,518,383
Insurance receivables				
Premiums receivable	—	844,335,349	234,403,979	1,078,739,328
Reinsurance recoverable on paid losses	—	74,449,394	279,639,739	354,089,133
Due from ceding companies	—	33,264,706	28,994,064	62,258,770
Other loans and receivables				
General purpose loans	—	4,877,271	—	4,877,271
Accounts receivables	—	1,134,656	3,458,350	4,593,006
Mortgage loans	—	4,375,291	—	4,375,291
Short-term investments	2,435,357	—	—	2,435,357
Long-term investment	504,500	—	—	504,500
Accrued interests	7,207,917	—	—	7,207,917
Total financial assets	₱1,344,693,778	₱962,436,667	₱546,496,132	₱2,853,626,577

*Excluding cash on hand amounting to ₱311,628.

The Company uses a credit rating concept based on the borrowers' and related parties' credit worthiness. Investment grade is the rating given to borrowers or related parties who have strong capacity to meet their obligations. Non-investment grade satisfactory pertains to the rating of

borrowers and related parties whose outstanding obligations are within the acceptable age group. Past due or impaired pertains to financial assets that were subjected to individual and collective impairment testing which may show impairment loss.

The Company's cash and cash equivalents are short-term placements and cash funds invested or deposited in local universal and commercial banks belonging to the top banks in the Philippines in terms of resources and profitability.

The tables below show the aging analysis of financial assets that are past due but are not impaired.

	2017				Total Past Due But Not Impaired	Past Due and Impaired	Total
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days			
Loans and receivables							
Insurance receivables							
Premiums receivable	P21,466,210	P29,548,131	P14,182,235	P62,974,254	P128,170,830	P74,372,417	P202,543,247
Reinsurance recoverable on paid losses	1,338,082	958,486	239,414	102,207,020	104,743,002	137,820,008	242,563,010
Due from ceding companies	2,948,050	4,490,086	2,246,276	7,684,344	17,368,756	9,879,075	27,247,831
Accounts receivables	—	—	—	—	—	2,909,289	2,909,289
	P25,752,342	P34,996,703	P16,667,925	P172,865,618	P250,282,588	P224,980,759	P475,263,347

	2016				Total Past Due But Not Impaired	Past Due and Impaired	Total
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days			
Loans and receivables							
Insurance receivables							
Premiums receivable	P31,672,219	P8,221,197	P22,567,626	P78,314,317	P140,775,359	P93,628,620	P234,403,979
Reinsurance recoverable on paid losses	39,689,141	6,325,523	17,852,220	78,095,670	141,962,554	137,677,185	279,639,739
Due from ceding companies	3,267,415	3,649,411	1,232,512	10,674,294	18,823,632	10,170,432	28,994,064
Accounts receivables	—	—	—	516,290	516,290	2,942,060	3,458,350
	P74,628,775	P18,196,131	P41,652,358	P167,600,571	P302,077,835	P244,418,297	P546,496,132

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

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The Company's funding requirements are being monitored by the Treasury Division. Disbursements entailing huge amounts are coursed through the Treasury Division which ensures that all disbursements are properly funded. Free funds are invested in government securities or placed in time deposits as overseen by the Investment Committee.

The tables in the next page summarize the maturity profile of the financial assets and liabilities of the Company using undiscounted contractual maturities based on remaining contractual obligations, or on the estimated timing of net cash outflows.

	2017					
	Up to a Year*	1-3 Years	3-5 Years	Over 5 Years	No Term	Total
Financial assets						
AFS financial assets						
Debt securities	₱280,490,429	₱531,623,287	₱433,163,112	₱108,513,502	₱—	₱1,353,790,330
Equity securities	—	—	—	—	1,819,113	1,819,113
Loans and receivables						
Cash and cash equivalents	267,799,025	—	—	—	—	267,799,025
Insurance receivables	1,307,493,365	—	—	—	—	1,307,493,365
Other loans and receivables						
Accounts receivables	9,702,781	—	—	—	—	9,702,781
General purpose loans	1,026,376	3,580,745	—	—	—	4,607,121
Mortgage loans	—	522,713	1,099,145	2,056,519	—	3,678,377
Short-term investments	508,041	—	—	—	—	508,041
Accrued interests	9,415,099	—	—	—	—	9,415,099
Total financial assets	1,876,435,116	535,726,745	434,262,257	110,570,021	1,819,113	2,958,813,252
Other financial liabilities						
Total provision for claims reported and claims IBNR	4,024,478,435	—	—	—	—	4,024,478,435
Insurance payables	862,759,103	—	—	—	—	862,759,103
Accounts payable and accrued expenses**	343,374,677	—	—	—	—	343,374,677
Total financial liabilities	5,230,612,215	—	—	—	—	5,230,612,215
Liquidity position (gap)	(₱3,541,177,099)	₱535,726,745	₱434,262,257	₱110,570,021	₱1,819,113	(₱2,271,798,963)

*Up to a year are all commitments which are either due within the time frame or are payable on demand.

**Excluding taxes payable amounting to ₱172,164,789.

	2016					
	Up to a Year*	1-3 Years	3-5 Years	Over 5 Years	No Term	Total
Financial assets						
AFS financial assets						
Debt securities	₱—	₱149,556,797	₱330,902,179	₱446,013,829	₱—	₱926,472,805
Equity securities	—	—	—	—	1,554,816	1,554,816
Loans and receivables						
Cash and cash equivalents	406,830,011	—	—	—	—	406,830,011
Insurance receivables	1,253,610,994	—	—	—	—	1,253,610,994
Other loans and receivables						
General purpose loans	3,106,176	1,771,095	—	—	—	4,877,271
Mortgage loans	676,089	1,808,099	706,045	1,185,058	—	4,375,291
Short-term investments	2,435,357	—	—	—	—	2,435,357
Accounts receivables	1,650,946	—	—	—	—	1,650,946
Long-term investments	504,500	—	—	—	—	504,500
Accrued interests	7,207,917	—	—	—	—	7,207,917
Total financial assets	1,676,021,990	153,135,991	331,608,224	447,198,887	1,554,816	2,609,519,908
Other financial liabilities						
Total provision for claims reported and claims IBNR	4,065,385,173	—	—	—	—	4,065,385,173
Insurance payables	729,560,407	—	—	—	—	729,560,407
Accounts payable and accrued expenses**	327,361,316	—	—	—	—	327,361,316
Total financial liabilities	5,122,306,896	—	—	—	—	5,122,306,896
Liquidity position (gap)	(₱3,446,284,906)	₱153,135,991	₱331,608,224	₱447,198,887	₱1,554,816	(₱2,512,786,988)

*Up to a year are all commitments which are either due within the time frame or are payable on demand.

**Excluding taxes payable amounting to ₱155,601,759.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of foreign exchange rate (currency risk) and market interest rate (interest rate risk).

The following policies and procedures are in place to mitigate the Company's exposure to market risk:

- The Company's market risk policy sets out the assessment and determination of what constitutes market risk for the Company. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- The Company considers asset allocation and portfolio limit structure.
- The Company considers stipulated diversification benchmarks by type of instrument.

Currency risk

The Company's principal transactions are carried out in Philippine peso and its foreign exchange risk arises primarily with respect to the US dollar. The Company's financial assets are primarily denominated in the same currency as the related insurance contracts, which mitigate the foreign exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than those in which the insurance contracts are expected to be settled.

The following table show the details of the Company's foreign currency-denominated monetary assets and their Philippine peso equivalents.

	2017		2016	
	In US Dollar	In Philippine Peso	In US Dollar	In Philippine Peso
Financial assets				
Cash and cash equivalent	\$1,849,677	₱92,354,352	\$32,724	₱1,627,053
Insurance receivables	15,190,494	758,461,388	11,520,288	572,788,693
	17,040,171	850,815,740	11,553,012	574,415,746
Financial liability				
Insurance payables	(12,973,433)	(647,763,524)	(9,566,214)	(475,632,141)
	\$4,066,738	₱203,052,216	\$1,986,798	₱98,783,605

The foreign exchange rates used in converting the monetary assets and liabilities are ₱49.93 and ₱49.72 per US\$ 1 in 2017 and 2016, respectively.

The following table shows the effect of the increase or decrease in applicable foreign exchange rates as follows:

Currency	2017		2016	
	Change in Rate	Change in Rate	Change in Rate	Impact on Income Before Tax
US Dollar	+0.16%	₱329,940	+44%	₱435,439
	-0.16%	(329,940)	-44%	(435,439)

Reasonably possible movements in foreign exchange rates are computed based on average percentage changes in closing rate for 5 years.

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value risk. The Company's fixed rate investments and receivables are exposed to fair value risk.

The Company's market risk policy requires it to manage the maturities of interest-bearing financial assets and financial liabilities.

The tables below show the information relating to the Company's financial instruments that are exposed to fair value interest rate risk presented by maturity profile.

2017						
	Interest Rates (%)	Within One Year	1-3 Years	3-5 Years	Over 5 Years	Total
Financial assets						
AFS financial assets						
Debt securities	3.00 to 8.45	P280,490,429	P531,623,287	P433,163,112	P108,513,502	P1,353,790,330
Loans and receivables						
Cash in banks and cash equivalents	0.88 to 2.60	267,144,911	—	—	—	267,144,911
General purpose loans	3.00 to 8.00	1,026,376	3,580,745	—	—	4,607,121
Mortgage loans	3.00 to 8.00	—	522,713	1,099,145	2,056,519	3,678,377
Short-term investments	0.88 to 1.50	508,041	—	—	—	508,041
Total financial assets		P549,169,757	P535,726,745	P434,262,257	P110,570,021	P1,629,728,780
2016						
	Interest Rates (%)	Within One Year	1-3 Years	3-5 Years	Over 5 Years	Total
Financial assets						
AFS financial assets						
Debt securities	1.63 to 8.00	P—	P149,556,797	P330,902,179	P446,013,829	P926,472,805
Loans and receivables						
Cash in banks and cash equivalents	0.03 to 2.25	406,518,383	—	—	—	406,518,383
General purpose loans	3.00 to 7.00	3,106,176	1,771,095	—	—	4,877,271
Mortgage loans	3.00 to 7.00	676,089	1,808,099	706,045	1,185,058	4,375,291
Short-term investments	0.09 to 2.30	2,435,357	—	—	—	2,435,357
Long-term investment	8.75	504,500	—	—	—	504,500
Total financial assets		P413,240,505	P153,135,991	P331,608,224	P447,198,887	P1,345,183,607
Other financial liabilities						
Funds held for reinsurers	4.00	P35,951	P—	P—	P—	P35,951

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity (of adjustments on revaluing fixed rate AFS financial asset). The correlation of variables will have significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

2017			2016	
	Change in Rate	Increase (Decrease) on Equity	Change in rate	Increase (Decrease) on Equity
Currency				
Peso	+3%	(P81,066,534)	+4%	P45,658,660
	-3%	81,066,534	-4%	(45,658,660)

The reasonably possible movements in interest rates are computed based on the percentage changes in weighted average yield rates.

23. Related Party Transactions

Parties are considered to be related if one has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

In the ordinary course of business, the Company engages in transactions with its ultimate parent company and other related parties. The Company believes that the terms of these transactions are comparable with those available from unrelated parties.

Transactions with related parties consist mainly of the following activities:

Category	2017		2016		Terms and Conditions
	Amount	Outstanding Receivable (Payable)	Amount	Outstanding Receivable (Payable)	
Stockholder					
PNB					
Lease (a)	₱15,750,746	(₱740,505)	₱14,951,944	(₱372,436)	(i)
Premiums (c)	15,091	2,689,084	29,861,962	9,483,651	(iii)
Claims (c)	5,503,047	(4,270,999)	9,268,213	(2,272,027)	(iv)
Other related parties					
Premiums (c)					(iii)
Philippine Airlines	792,923,457	502,737,520	592,199,829	393,377,569	
Victorias Milling	2,396,880	(75,141)	3,215,688	4,439,147	
Fortune Tobacco Corp	—	—	—	1,678,168	
Eton Properties, Inc.	909,831	1,153,417	1,283,889	469,606	
Asia Brewery Inc.	2,570,402	293,878	522,188	21,595	
Interbev Philippines Inc.	67,786	79,047	22,595	—	
North Belton Communities Inc.	—	266,009	—	266,009	
Tanduay Distillers Inc.	—	26,132	1,142,348	26,132	
Claims (c)					(iv)
Philippine Airlines	6,081,174	(1,521,742)	469,454	(4,820,042)	
Victorias Milling Company	(2,204,613)	(66,000)	1,159,823	(2,240,000)	
Eton Properties, Inc.	(5,000)	(17,584)	4,421	(16,274)	
Asia Brewery Inc.	320,000	(320,000)	—	—	
Reinsurance (c)					(iv)
Alliedbankers Insurance					
Recoveries from reinsurance	7,144,293	259,061	2,115,017	1,110,633	
Reinsurance premiums	264,691	1,607,615	1,299,151	2,175,881	
	₱502,099,792		₱403,327,612		

- (i) Interest-bearing, 30 to 60 days, unsecured, no impairment.
(ii) Non-interest-bearing, due and demandable, unsecured, no impairment.
(iii) Non-interest bearing, 30 to 60 days, unsecured, no impairment.
(iv) Non-interest-bearing, due and demandable, unsecured.

- a. The company leases its office and parking spaces from PNB (see Note 26). The Company also insures the ultimate parent company's premises, branch offices and other properties.
- b. As of December 31, 2017 and 2016, the Company maintains savings and current accounts and short-term deposits with PNB and Allied Banking Corporation, an affiliate, as follows:

	2017	2016
Savings account	₱116,652,163	₱44,775,295
Current account	66,040,208	37,877,938
Time deposit	40,282,785	301,002,334
	₱222,975,156	₱383,655,567

The Company's retirement fund with fund value of ₱40,676,935 and ₱31,912,987 as of December 31, 2017 and 2016, respectively, is being managed by PNB Trust Banking Group, a related party under common control of PNB (see Note 20).

- c. The Company sells nonlife insurance products to PNB and its affiliates under common control of Lucio Tan Group which are based on terms similar to those offered to third parties.

- d. The summary of compensation and benefits paid to the Company's key management personnel, which include key officers, follows:

	2017	2016
Salaries and other short-term employee benefits	₱12,411,549	₱17,699,860
Post-employment benefits	934,635	1,423,874
	₱13,346,184	₱19,123,734

24. Reconciliation of Net Income Under PFRS to Statutory Net Income

The reconciliation of net income under PFRS to statutory net income follows:

	2017	2016 (As Restated, Note 2)
Net income under PFRS	₱69,534,518	₱66,495,795
Add (deduct):		
Deferred acquisition costs	563,717	(6,627,624)
Deferred reinsurance commission	6,712,059	11,146,104
Provision for unearned premiums - net	5,487,207	39,450,077
Provision for claims IBNR - net	(15,105,000)	31,673,000
Tax effect of PFRS adjustments	(702,605)	22,692,467
Statutory net income	₱66,489,896	₱164,829,819

25. Contingent Liabilities

The Company 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. Related risks have been analyzed as to likelihood of occurrence. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position. It is possible, however, that the results of operations could be materially affected by changes in the estimates.

26. Lease Commitments

The Company entered into a lease agreement for its office space with PNB commencing on January 1, 2016 and terminating on December 31, 2016. The stipulated monthly rent amounted to ₱1,055,084, subject to escalation rates ranging from 5% to 10% annually.

The lease agreement was renewed for three (3) years commencing on January 1, 2017 with termination date on December 31, 2019. The stipulated monthly rent amounted to ₱1,107,838, subject to escalation rates ranging from 5% to 10% annually.

The Company also has several lease agreements with PNB and other third party lessors covering its branch offices for periods ranging from one (1) to five (5) years with termination dates ranging from March 31, 2017 to December 31, 2020. These lease contracts are noncancellable and renewable upon mutual agreement of the Company and the lessors.

Rent expense charged against operations amounted to ₱17,819,700 and ₱15,211,630 in 2017 and 2016, respectively (see Note 19).

As of December 31, 2017 and 2016, the future minimum lease payments under these operating leases follows:

	2017	2016
Within one year	₱16,538,283	₱14,951,944
After one year but not more than five years	19,304,014	5,486,581
	₱35,842,297	₱20,438,525

27. Maturity Analysis of Assets and Liabilities

The tables below show the Company's assets and liabilities analyzed according to when they are expected to be recovered, settled or reversed.

	2017		
	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	₱267,799,025	₱—	₱267,799,025
Insurance receivables - net	1,307,493,365	—	1,307,493,365
Financial assets			
AFS financial assets	280,490,429	1,075,119,014	1,355,609,443
Loans and receivables - net	10,210,822	8,285,498	18,496,320
Accrued interests	9,415,099	—	9,415,099
Reinsurance assets	4,353,314,595	—	4,353,314,595
Deferred acquisition costs	65,494,955	—	65,494,955
Property and equipment - net	—	15,878,880	15,878,880
Intangible asset - net	—	12,037,977	12,037,977
Deferred income tax assets - net	—	35,242,623	35,242,623
Other assets	27,713,302	168,915,383	196,628,685
Total Assets	₱6,321,931,592	₱1,315,479,375	₱7,637,410,967
Liabilities			
Insurance contract liabilities	₱5,297,756,944	₱—	₱5,297,756,944
Insurance payables	862,759,103	—	862,759,103
Deferred reinsurance commissions	27,251,410	—	27,251,410
Accounts payable and accrued expenses	515,539,466	—	515,539,466
Net pension liability	—	18,252,725	18,252,725
Total Liabilities	₱6,703,306,923	₱18,252,725	₱6,721,559,648

	2016		
	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	₱406,830,011	₱—	₱406,830,011
Insurance receivables - net	1,253,610,994	—	1,253,610,994
Financial assets			
AFS financial assets	—	928,027,621	928,027,621
Loans and receivables - net	4,590,803	9,252,562	13,843,365
Accrued interests	7,207,917	—	7,207,917
Reinsurance assets	4,187,260,698	—	4,187,260,698
Deferred acquisition costs	66,058,672	—	66,058,672
Property and equipment - net	—	14,496,573	14,496,573
Intangible asset - net	—	64,577	64,577
Deferred income tax assets - net	—	31,327,487	31,327,487
Other assets	27,077,692	134,764,957	161,842,649
Total Assets	₱5,952,636,787	₱1,117,933,777	₱7,070,570,564

(Forward)

	2016		Total
	Less than 12 months	Over 12 months	
Liabilities			
Insurance contract liabilities	₱5,148,130,750	₱–	₱5,148,130,750
Insurance payables	729,560,407	–	729,560,407
Deferred reinsurance commissions	20,539,351	–	20,539,351
Accounts payable and accrued expenses	482,963,075	–	482,963,075
Net pension liability	–	27,445,600	27,445,600
Total Liabilities	₱6,381,193,583	₱27,445,600	₱6,408,639,183

28. Supplementary Information Required Under Revenue Regulations No. 15-2010

In compliance with the requirements set forth by Revenue Regulations No 15-2010 issued by the Philippine Bureau of Internal Revenue (BIR) hereunder are the information on taxes and licenses fees paid or accrued during the taxable year 2017.

VAT

The Company is a VAT-registered entity with VAT output tax declarations for premiums, commissions and other miscellaneous collections as follows:

	Amount	Output VAT
Vatable sales	₱1,785,572,970	₱214,268,756
VAT-exempt sales	345,253,911	–
VAT zero-rated sales	135,415,497	–
	₱2,266,242,378	₱214,268,756

“VAT zero-rated sales” pertains to gross receipts/collections on premiums from contracts issued to PEZA entities of which are entitled to VAT zero-rating under Section 108(B)(7) of the 1997 Tax Code. On the other hand, “Vatable sales” pertains to gross receipts/collections from issuance of policy from other sources.

The Company has VAT-exempt sales/receipts from contracts issued to individuals with personal accident contracts of which are entitled to VAT exemption under Section 109 of the 1997 Tax Code.

The amount of VAT-input taxes claimed are broken down as follows:

Beginning balance	₱4,090,128
Domestic purchases/payments for:	
Services lodged under other accounts	46,448,213
Capital goods subject to amortization	810,625
Capital goods not subject to amortization	269,495
Goods other than for resale	606,341
	52,224,802
Claims against output VAT	(45,836,134)
Ending balance	₱6,388,668

Other Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees. Details of other taxes and licenses in 2017 follow:

Local	
License and permit fees	₱188,704
Community taxes	24,938
	<u>213,642</u>
National	
Documentary stamp taxes	2,682,955
Fines and penalties	2,500
Licenses and permit fees	154,315
	<u>2,839,770</u>
	<u>₱3,053,412</u>

The Company did not incur any excise tax in 2017.

The Company has taxes relating to nonlife insurance policies that has been passed on to the policyholders and are not recognized in the statement of income. Details of these taxes in 2017 follow:

DST on:	
DS110-Policies of insurance upon property	₱251,307,786
DS111-Fidelity bonds	2,696,017
DS109-Accident and health	68,035
DS114-CTPL	58,560
Fire service tax	9,765,318
Local government tax	7,928,812
Premium tax	6,521,715
	<u>₱278,346,243</u>

Withholding Taxes

Details of withholding taxes in 2017 are as follow:

Withholding taxes on compensation and benefits	₱22,117,054
Expanded withholding taxes	22,381,136
	<u>₱44,498,190</u>

Fringe Benefits taxes

Details of fringe benefits taxes in 2017 follow:

Carplan	₱283,335
Mortgage	25,031
Other loans	80,050
	<u>₱388,416</u>

Tax Contingencies

As of December 31, 2017, there are no outstanding assessments and tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR.

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